PROSPECTUS

4,600,000 Shares

Apple Computer, Inc.

COMMON STOCK

Of the 4,600,000 shares of Common Stock offered hereby, 4,000,000 shares are being sold by the Company and 600,000 outstanding shares are being sold by the Selling Shareholders as set forth under "Selling Shareholders". The Company will not receive any part of the proceeds from the sale of shares by the Selling Shareholders. Prior to this offering there has been no public market for the Common Stock. See "Underwriters" for a discussion of the factors to be considered in determining the public offering price.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRICE $22 A SHARE

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to Company(2)	Proceeds to Selling Shareholders
Per Share	$22.00	$1.30	$20.70	$20.70
Total(3)	$101,200,000	$5,980,000	$82,800,000	$12,420,000

(1) See "Underwriters" herein for information on indemnification provided by the Company and the Selling Shareholders.

(2) Before deduction of expenses payable by the Company estimated at $661,600.

(3) The Company has granted to the Underwriters an option, exercisable within 30 days of the date hereof, to purchase up to 400,000 additional shares at the price to public less underwriting discounts and commissions, for the purpose of covering over-allotments, if any. If the Underwriters exercise such option in full, the total price to public, underwriting discounts and commissions, and proceeds to Company will be $110,000,000, $6,500,000 and $91,080,000, respectively. See "Underwriters".

The shares are offered, subject to prior sale, when, as and if accepted by the Underwriters named herein and subject to approval of certain legal matters by Davis Polk & Wardwell, counsel for the Underwriters. It is expected that delivery of the certificates for the shares will be made on or about December 22, 1980 at the office of Morgan Stanley & Co. Incorporated, 55 Water Street, New York, N.Y., against payment therefor in New York funds.

MORGAN STANLEY & CO. ***HAMBRECHT & QUIST***
Incorporated

December 12, 1980

No person is authorized in connection with any offering made hereby to give any information or to make any representation other than as contained in this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, by the Selling Shareholders or by any Underwriter. This Prospectus is not an offer to sell, or a solicitation of any offer to buy, by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

Until March 12, 1981 (90 days after the commencement of the offering), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Prospectus.

THE COMPANY

Apple Computer, Inc. designs, develops, produces, markets and services microprocessor-based personal computer systems for individual use in solving computing problems commonly encountered in business, education, science, engineering and in the home. Products manufactured and distributed by Apple are sold in the United States and Canada through approximately 800 independent retail computer stores, and internationally through 21 independent distributors which resell to approximately 1,000 retail dealers. Apple's products are primarily serviced in the United States and Canada by approximately 700 of the retail stores and in other countries by independent retail dealers.

THE OFFERING

Security Offered	4,600,000 shares of Common Stock(1) 4,000,000 shares by the Company(1) 600,000 shares by the Selling Shareholders
Shares to be Outstanding	54,215,332 shares(1)
Use of Proceeds	To repay short-term bank debt and to increase working capital
NASDAQ symbol	AAPL

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	January 3, 1977 (inception) to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Income Statement Data:				
Revenues	$773,977	$7,883,486	$47,938,981	$117,901,543
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share(2)	Less than $.01	$.03	$.12	$.24
Shares used to calculate per share data(2)	16,640,000	31,544,000	43,620,000	48,412,000

	September 26, 1980 Actual	September 26, 1980 As Adjusted(1)(3)
Balance Sheet Data:		
Current assets	$54,106,215	$128,394,615
Current liabilities	37,780,128	29,930,128
Total assets	65,350,341	139,638,741
Non-current obligations under capital leases	670,673	670,673
Shareholders' equity	25,948,540	108,086,940

(1) Does not include up to 400,000 shares which may be sold by the Company to the Underwriters to cover over-allotments.

(2) The number of shares and all data presented on a per share basis in this Prospectus have been adjusted, except where otherwise indicated, to reflect stock splits. See Note 1 of Notes to Consolidated Financial Statements.

(3) Adjusted to reflect completion of the offering (assuming no exercise of the over-allotment option) and the anticipated use of proceeds by the Company.

THE COMPANY

Apple Computer, Inc. designs, develops, produces, markets and services microprocessor-based personal computer systems for individual use in solving computing problems commonly encountered in business, education, science, engineering and in the home.

The Company's principal product is the Apple II personal computer system. Apple II systems in typical configurations may be sold for suggested retail prices as low as $1,850 and up to $5,000 or more with the addition of memory and peripherals necessary to perform more complex computing tasks. As of October 31, 1980, Apple had sold approximately 131,000 Apple II computer mainframes. In May 1980 the Company announced the introduction of the Apple III, and commenced limited shipments to retail customers in late November 1980. See "Business—Products". The Apple III is intended for more sophisticated professional and business applications than the Apple II. Suggested retail pricing for Apple III systems ranges from $4,300 to up to $7,800.

In addition to the system and applications software developed by the Company, approximately 100 independent vendors have developed applications software for use in connection with Apple computers. The Company also offers peripheral equipment, some of which is manufactured by others, including video monitors, disk drives and printers. In addition, Apple computers can utilize many peripherals manufactured and marketed by other companies.

The Company's computer systems are distributed in the United States and in Canada by approximately 800 independent retail computer stores and internationally through 21 independent distributors which resell to approximately 1,000 retail outlets. Approximately 700 of the retail outlets located in the United States and Canada are also authorized to act as service centers for Apple products.

Apple was incorporated in California on January 3, 1977. Its principal offices are located at 10260 Bandley Drive, Cupertino, California 95014, and its telephone number at that address is (408) 996-1010. The Company's Standard Industrial Classification (SIC) code is 3573. Unless the context otherwise indicates, the terms "Apple" and "Company" as used herein refer to Apple Computer, Inc. and its subsidiaries.

USE OF PROCEEDS

The principal purposes of the offering are to increase the Company's equity capital base, to finance growth and to provide a public market for the Company's Common Stock. The net proceeds from the sale of the shares of Common Stock offered by the Company are estimated to be $82,138,400 (or $90,418,400 if the Underwriters' over-allotment option is exercised in full). Of such net proceeds, approximately $7,850,000 will be used to repay short-term bank indebtedness incurred for working capital purposes and the balance will be used primarily to finance accounts receivable and inventory and for other general corporate purposes, including capital expenditures. The Company anticipates that it will use the proceeds for these purposes over the next 15 months. Pending such uses, a portion of the proceeds may be invested in short-term money market obligations.

The Company's growth has resulted in increased working capital needs. The Company expects that its working capital needs will continue to increase in the future and may be accelerated depending upon such factors as the introduction of new products, the expansion of the market for its products and possible changes in distribution channels and methods for certain of its products. In order to finance these needs the Company may utilize its bank line of credit which expires in January 1981. The bank line currently provides for borrowings, under certain conditions, of up to $20,000,000. See Note 5 of Notes to Consolidated Financial Statements. The Company is currently in the process of renegotiating its existing bank line. Depending upon developments in the Company's business and upon capital market conditions, the Company may also finance its working capital needs through the sale of additional securities. The Company does not have any present plans for increased borrowings under its existing bank line or for sales of additional securities.

The Company estimates that its capital expenditures during the fiscal year ending September 25, 1981 will be approximately $11,000,000.

The Company will not receive any proceeds from the shares of Common Stock being sold by the Selling Shareholders.

CAPITALIZATION

The following table sets forth the capitalization of the Company at September 26, 1980 and as adjusted to give effect to the sale of the Common Stock offered hereby (assuming the over-allotment option is not exercised) and the application of the proceeds therefrom:

	Outstanding	As Adjusted
Short-term debt:		
Notes payable to bank(1)	$ 7,850,000	$ —
11% note due February 15, 1981(2)	1,250,000	1,250,000
Current obligations under capital leases	253,870	253,870
Total short-term debt	$ 9,353,870	$ 1,503,870
Non-current obligations under capital leases	$ 670,673	$ 670,673
Shareholders' equity:		
Preferred stock, 5,000,000 shares authorized, none outstanding or as adjusted	—	—
Common stock, 160,000,000 shares authorized, 48,396,928 shares outstanding; 52,396,928 shares as adjusted(3)	11,428,438	93,566,838
Common stock to be issued in business combination(4)	920,210	920,210
Retained earnings (1)	17,605,867	17,605,867
Less: Notes receivable from shareholders(5)	(4,005,975)	(4,005,975)
Total shareholders' equity	25,948,540	108,086,940
Total capitalization	$26,619,213	$108,757,613

(1) The notes are secured by a pledge of the Company's receivables and inventory. See Note 5 of Notes to Consolidated Financial Statements.

(2) See Note 2 of Notes to Consolidated Financial Statements.

(3) Excludes (i) 1,818,404 shares issued through November 30, 1980 upon exercise of stock options, (ii) 8,215,168 shares reserved for issuance at November 30, 1980 pursuant to options granted or to be granted under the Company's stock option plans and (iii) 1,000,000 shares reserved for issuance pursuant to the Company's Employee Stock Purchase Plan. See "Stock Option Plans" and "Employee Stock Purchase Plan" under "Management" and Note 8 of Notes to Consolidated Financial Statements.

(4) See Note 3 of Notes to Consolidated Financial Statements.

(5) See Note 8 of Notes to Consolidated Financial Statements.

See "Business—Property" and Notes 6 and 7 of Notes to Consolidated Financial Statements for information concerning the Company's obligations under leases.

DIVIDENDS

Apple has not paid any cash dividends on its Common Stock, and its Board of Directors intends to retain, for the foreseeable future, the Company's earnings for use in the development of the business. The Company's bank line of credit agreement prohibits it from declaring or paying dividends without the consent of the bank. See Note 5 of Notes to Consolidated Financial Statements.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have outstanding 54,215,332 shares of Common Stock (assuming no exercise of the over-allotment option) based upon shares outstanding at November 30, 1980. Of these shares, the 4,600,000 shares sold in the offering made hereby will be freely tradeable without restrictions or registration under the Securities Act of 1933, as amended (the "Act"). Of the remaining shares, approximately 7,138,164 shares were issued by the Company in reliance upon the "intrastate offering" exemption under the Act (the "Intrastate Shares") and approximately 42,477,168 shares were issued in private transactions in reliance upon the "private placement" exemption under the Act (the "Restricted Shares"). The Intrastate Shares may be generally sold to residents of the State of California in certain transactions at any time and in the open market at various times, in reliance upon Section 4(1) of the Act, following the nine-month period commencing upon Apple's registration under the Act of shares reserved for issuance under its stock option plans, which registration is described more fully below. Subject to the agreements with 18 officers, directors and major shareholders described below, 31,753,231 of the Restricted Shares will be eligible for sale in the open market in reliance upon Rule 144 under the Act beginning 90 days after the date of this Prospectus. In general, under Rule 144, a person (or persons whose shares are aggregated) who has beneficially owned his or her Restricted Shares for at least two years, including persons who may be deemed "affiliates" of the Company, as that term is defined under the Act, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Company's Common Stock (equal to approximately 542,153 shares) or the average weekly trading volume in the over-the-counter market during the four calendar weeks preceding such sale. A person who is deemed not to have been an affiliate of the Company at any time during the 90 days preceding a sale by such person, and who has beneficially owned his or her Restricted Shares for at least three years, would be entitled to sell such shares under Rule 144 without regard to the volume limitations described above. Furthermore, holders of an aggregate of 11,136,248 Restricted Shares (excluding 600,000 shares sold by the Selling Shareholders) are entitled to certain registration rights. See "Description of Securities—Outstanding Registration Rights".

The Company intends to file a registration statement under the Act to register the 9,215,168 shares of Common Stock reserved under the Company's stock option plans and Employee Stock Purchase Plan. Such registration statement is expected to be filed shortly after the date of this Prospectus and to become effective as promptly as practicable thereafter. Shares issued upon exercise of outstanding stock options after the effective date of such registration statement generally will be available for sale in the open market. As of November 30, 1980, options to purchase a total of 5,652,600 shares of Common Stock were outstanding under the stock option plans.

Subject to market conditions and other factors, the Company may file another registration statement on a date not less than four months after the date of this Prospectus covering the sale of such amount of the 7,138,164 Intrastate Shares as may be requested by the holders. However, the Company has agreed that the number of Intrastate Shares included in such registration statement will not exceed 500,000 shares without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist as to the amount and method of offering.

The Selling Shareholders have agreed that they will not, without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist, offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any of the Company's Common Stock owned by them upon completion of the offering (an aggregate of 3,775,816 shares) for a period of 90 days from the date of this Prospectus.

Eighteen officers, directors and major shareholders of the Company holding an aggregate of 32,026,443 shares of the Company's Common Stock have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist, they will not offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any shares of Common Stock for a period of nine months after the date of this Prospectus, except for sales occurring more than 90 days after the date of this Prospectus of amounts of Common Stock not exceeding 10% of the total number of shares of Common Stock held by the person for whose account such shares are sold on the date of this Prospectus at cash prices of not less than 150% of the public offering price of the shares offered hereby.

Prior to this offering, there has been no market for the Common Stock of the Company, and no precise predictions can be made of the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of the Common Stock of the Company in the public market could adversely affect prevailing market prices.

DILUTION

The net tangible book value of the Company at September 26, 1980 was $20,122,644, or $.42 per share. Without taking into account any changes in such net tangible book value after September 26, 1980, other than to give effect to the sale by the Company of 4,000,000 shares of Common Stock and the use of proceeds therefrom, the pro forma net tangible book value of the Company at September 26, 1980 would have been $102,261,044, or $1.95 per share. This represents an immediate increase in net tangible book value of $1.53 per share to existing shareholders and an immediate dilution of $20.05 per share to new investors. The following table illustrates the dilution of a new investor's equity in a share of Common Stock at September 26, 1980:

Public offering price(1)		$22.00
Net tangible book value, before offering(2)	$ .42	
Increase attributable to payments by new investors	1.53	
Pro forma net tangible book value, after offering		1.95
Dilution to new investors(3)		$20.05

(1) Offering price before deduction of underwriting discounts and commissions and offering expenses.

(2) Net tangible book value per share is determined by dividing the number of shares of Common Stock outstanding into the tangible net worth of the Company (tangible assets less liabilities).

(3) Dilution is determined by subtracting net tangible book value per share after the offering from the amount of cash paid by a new investor for a share of Common Stock.

The following table summarizes the number of shares purchased from the Company as of November 30, 1980, the total consideration paid and the average price per share paid by the investors purchasing new shares and by existing shareholders:

	Shares Purchased	Percent of Total Shares	Consideration Paid	Percent of Total Consideration Paid	Average Price Per Share
New investors	4,000,000	7.4%	$ 88,000,000	82.4%	$22.00
Existing shareholders	50,215,332	92.6	18,813,575	17.6	.37
	54,215,332	100.0%	$106,813,575	100.0%	1.97

The above calculations do not give effect to the exercise of the Underwriters' over-allotment option.

As of November 30, 1980, there were outstanding options to purchase 5,652,600 shares of Common Stock, of which options to purchase 481,688 shares were held by officers and directors of the Company or their affiliates. The exercise prices of the outstanding options ranged from $.09 to $8.00 per share with a weighted average price of $1.77 per share. For the life of the options, the holders thereof will have the opportunity to profit from a rise in the market price of the Company's Common Stock, with a resulting dilution in the interests of existing shareholders. The holders of these options may exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital by the sale of Common Stock on terms more favorable than those provided for in the options. See "Management—Stock Option Plans".

SELECTED FINANCIAL DATA

The following tables summarize certain selected consolidated financial data and are qualified in their entirety by the more detailed Consolidated Financial Statements included herein.

	January 3, 1977 (inception) to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Net sales	$ 773,977	$ 7,856,360	$47,867,186	$117,125,746
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share	Less than $.01	$.03	$.12	$.24
Common and common equivalent shares used in the calculation of earnings per share	16,640,000	31,544,000	43,620,000	48,412,000
Total assets	$ 555,482	$ 4,340,790	$21,170,979	$ 65,350,341
Non-current obligations under capital leases	$ —	$ —	$ 203,036	$ 670,673

The following table contains certain selected unaudited quarterly consolidated financial data which includes all adjustments which the management of the Company considers necessary for a fair presentation thereof.

	Three Months Ended December 28, 1979	Three Months Ended March 28, 1980	Three Months Ended June 27, 1980	Three Months Ended September 26, 1980
Net sales	$19,539,963	$23,549,425	$32,569,197	$41,467,161
Net income	$ 2,647,084	$ 2,787,351	$ 2,735,076	$ 3,528,472
Earnings per common and common equivalent share	$.056	$.058	$.056	$.071

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Apple has experienced significant increases in net sales and net income during each of its fiscal years, reflecting the growth in the personal computer market as well as continued market acceptance of Apple's products. The Company has not made significant changes in prices for its products during the fiscal years. In addition, economies of scale and certain production cost efficiencies have offset the effects of inflation.

Net sales in fiscal 1977 occurred primarily in the fourth fiscal quarter and consisted principally of sales of the basic Apple II mainframe computer. During the 1977 fiscal year marketing expenses consisted principally of advertising and product promotion expenditures in order to generate future sales.

The 1978 fiscal year was the Company's first full year of operations. During the fiscal year, the Company organized a product distribution network through the appointment of independent distributors. This expanded distribution system contributed significantly to the increase in sales. The expenses associated with developing this distribution network, together with increased advertising and product promotion expense, resulted in significant increases in marketing expenses. In fiscal 1978, research and development expenses increased substantially as the Company hired additional technical personnel and concentrated on the development of its Disk II Floppy Disk Subsystem and system software. In addition, advances in semiconductor technology enabled Apple to increase the memory capacity of its computer systems. These advances contributed to the development of new product applications during the year, and resulted in shifting the market for Apple's products away from the computer hobbyist.

Net sales in fiscal 1979 increased approximately five-fold over fiscal 1978, due to a number of factors. The availability of the Company's Disk II Floppy Disk Subsystem expanded the capabilities of Apple's personal computers to accomplish more useful applications, thus broadening the market for its products. Although the Company was not supplying a significant amount of applications software for use with its systems at this time, many other firms began to market software and peripheral products for use with the Apple II. In addition, in fiscal 1979 Apple introduced its products to the educational market, which contributed to the increased awareness of the personal computer. Cost of sales in fiscal 1979 increased to approximately 57% of net sales, primarily reflecting increased prices for certain semiconductor devices and increased staffing, training and support costs to manage expanded manufacturing facilities. Marketing expenses continued to be comprised primarily of advertising and promotion costs; however, marketing expenses decreased as a percentage of sales in fiscal 1979 to 8% of sales, compared to 16% of sales in fiscal 1978, principally due to the increased volume of business. Research and development activities in fiscal 1979 included the initial development expense for personal computer systems addressing new markets and applications and for new peripheral accessories.

Net sales in fiscal 1980 more than doubled that of fiscal 1979, reflecting the expansion of the Company's market to include use of Apple computers by persons without prior computer experience as well as by persons with such experience. Factors contributing to this expansion included the Company's introduction of its own software application packages and new peripheral devices to expand the computer's applications. Costs and expenses in fiscal 1980 were significantly affected by the termination of the Company's independent distribution arrangements and by the start-up of manufacturing facilities in Dallas, Texas and County Cork, Ireland. Apple's purchases of inventory from certain of the distributors which it had terminated during the year, which purchases were at costs higher than the Company's manufacturing costs, and certain other costs associated with such terminations increased costs and expenses by approximately 2.4% of fiscal 1980 net sales. Start-up costs for Apple's new manufacturing facilities increased costs and expenses by approximately .6% of net sales. Marketing expenses increased to approximately 10% of net sales compared to 8% of net sales in fiscal 1979, reflecting increases in advertising expenses and the added costs of the Company's establishing its own sales organization to serve the retail computer stores after termination of its distributors in March 1980. Such increased costs included the hiring of additional personnel and warehousing costs and sales commissions. Some of these costs were in addition to the warehousing costs and sales commissions paid to the former distributors during the start-up period. These costs of establishing the Company's regional distribution facilities were offset by the Company's ability to sell its products directly to retail dealers at prices which were higher than the Company had charged its former distributors. Apple anticipates that continued expenditures will be made to expand its sales organization to serve not only existing markets, but other markets as it introduces new product applications.

During fiscal 1980 the Company's quarterly results were affected by the aforementioned factors. The termination of the Company's distribution arrangements late in the second fiscal quarter also affected earnings for the subsequent two fiscal quarters and resulted in a shift in some sales from the second to the third quarter. The repurchase of inventory from the Company's former distributors and certain other costs associated therewith increased costs and expenses in the third and fourth fiscal quarters by 4.4% and 3.4% of net sales in such quarters, respectively. Start-up costs associated with new manufacturing facilities occurred principally in the fourth quarter. The Company's performance in the third and fourth quarters was also affected by costs associated with the development and introduction of the Apple III system, which will first be sold to retail customers in late November 1980.

Liquidity

The Company's ability to generate cash adequate to meet its needs ("liquidity") results from the sale of inventory and the collection of accounts receivable and periodic bank borrowings and the sale of Common Stock. The Company's liquidity is improved by the tax benefit recognized upon the exercise of employee stock options, because income taxes payable are reduced by approximately 50% of the difference between the option exercise prices and the fair value of the shares at the time of exercise. These sources of liquidity are reduced by the Company's payments of accounts payable, income taxes payable and, periodically, notes payable to banks.

The Company's accounts receivable have increased in each fiscal year, reflecting the growth in sales. During the 1980 fiscal year the Company improved its liquidity by reducing the number of days sales in accounts receivable, thereby increasing the availability of cash. This improvement resulted from the Company's domestic sale of products directly to the retail dealers. Such direct sales were on collection terms more favorable than the terms previously extended to distributors. However, there is no assurance that the Company will maintain these collection terms on a long-term basis as market factors and competitive conditions change.

During the 1980 fiscal year the Company's liquidity was negatively affected by an increase in inventory as a percentage of cost of sales resulting principally from increased levels of finished goods inventory. This increase was principally due to the Company's carrying finished goods inventories at its regional distribution centers for direct sales to its retail dealers. In addition, inventory levels increased as a result of the Company's purchasing materials and parts for production of the Apple III, which production commenced later than the Company's anticipated schedule due to certain technical difficulties. As production and sales of the Apple III increase, the level of manufacturing inventory for this product as a percentage of cost of sales is expected to decrease.

At September 26, 1980 the Company's material unused sources of liquidity consisted principally of approximately $2,000,000 of government securities and approximately $4,650,000 of currently available borrowings under its bank line of credit. See Note 5 of Notes to Consolidated Financial Statements. Except for the sale of Common Stock offered by this Prospectus, the Company does not anticipate a material change in the nature of its liquidity needs or available sources of liquidity.

Capital Resources

The Company's capital resource commitments at September 26, 1980 principally consisted of lease obligations and the Company's commitment to establish facilities in Ireland under an agreement with the Irish Development Authority. See Note 7 of Notes to Consolidated Financial Statements. The Company intends to finance these commitments from working capital generated from its internal and external sources of liquidity.

BUSINESS

Introduction

The Company designs, develops, produces, markets, and services microprocessor-based personal computer systems for individual use in a variety of computing applications. The Company's computer systems are generally composed of a computer mainframe and peripherals, operating software to control the system and applications software to solve problems. In addition, supplemental circuit boards and optional accessories can be added to enable the computer to perform additional or different tasks.

Computer systems powerful enough to solve meaningful computing problems but priced low enough to be used by one person resulted from significant technical and manufacturing advances within the semiconductor and magnetic memory industries over the past ten years. These advances included the development of increasingly powerful microprocessor and memory circuits and significant reductions in the cost of these circuits. Similar developments occurred in magnetic storage as costs per unit of storage declined and capacities increased both for floppy (flexible) and rigid disks.

These advances and the introduction of a growing number of applications software packages resulted in the development of markets and applications for personal computer systems. Penetration of these markets has and will continue to require effective product marketing and distribution as well as the continuing development of easy-to-use software.

In 1976, two of the Company's founders designed, developed and assembled the Apple I, a microprocessor-based computer consisting of a single printed circuit board. In April 1977 the Company introduced the Apple II computer mainframe which was similar to the Apple I but incorporated additional circuitry and a keyboard, and was packaged in a plastic housing. Although many of the early personal computers, including Apple's products, were purchased by hobbyists who were highly knowledgeable technicians, the Company believes that such purchases currently constitute a small and decreasing percentage of personal computer sales.

In 1978 and 1979, the Apple II was improved with the addition of a more powerful disk operating system which facilitated the use of optional floppy disk storage in place of less efficient cassette tape storage. These enhancements increased the power and speed of the Apple II and facilitated the development of applications software. Independent firms began supplying a variety of applications software and peripheral equipment for use with the Apple II, for such applications as small business accounting, text editing, portfolio analysis, laboratory data collection and teaching. The development of this software and equipment contributed to the growth of the low-cost personal computer market by increasing the variety of applications for which personal computers could be used. Today, the Company's systems are used by persons without prior computer experience as well as by persons with prior computer experience in business, education, scientific and engineering applications and, to a lesser extent, in the home.

In anticipation of market growth, in 1977 Apple commenced the development of a distribution network of independent regional distributors and local retail outlets. In 1980, Apple terminated its arrangements with its domestic distributors and commenced distribution of its products directly to retail stores in order to improve the management of the channels of distribution and to gain better access to end-users. See "Marketing" and "Litigation". Apple products are currently sold through approximately 800 independent retail outlets in the United States and Canada and internationally through 21 distributors which resell to approximately 1,000 retail dealers. Products are serviced in the United States and in Canada by approximately 700 of the retail stores and internationally by retail dealers.

Products

The Company's computer systems combine the Apple II mainframe or Apple III with a variety of software programs and peripheral accessories, depending upon the complexity of the system and the computing tasks to be performed.

Apple II

The Company's principal computer system is based on the Apple II computer mainframe, first introduced in 1977. Packaged in a five-inch high, 12-pound case are the basic units of a computer, including a microprocessor, random access main memory, read only control memory, a typewriter-style keyboard and a power supply. In addition, the Apple II system circuitry provides an interface with various external devices, including a video display and specialized input controls for games. The basic Apple II mainframe can provide output to a black and white or color video monitor (including a television set) and can display 40 characters per line or graphics in up to 16 colors. It can also generate sounds and music through a built-in speaker. The Apple II provides eight plug-in slots for optional circuit boards which control and interface with such peripheral devices as disk drives, printers and a graphics tablet. The Apple II can be furnished with main memory ranging from 16K bytes to 48K bytes (a byte is a unit of data, such as a letter or integer, and K is a symbol for approximately 1,000).

The suggested retail price of the Apple II mainframe ranges from $1,195 to $1,395, depending on main memory size. Complete Apple II systems, including various peripheral devices and software packages, typically range in suggested retail price from $1,850 to over $5,000. Apple sold approximately 570, 7,600, 35,100 and 78,100 Apple II computer mainframes during the period ended September 30, 1977 and during the fiscal years ended September 30, 1978, September 30, 1979 and September 26, 1980, respectively. As of October 31, 1980 the Company had sold approximately 131,000 Apple II computer mainframes.

Apple III

The Company announced the Apple III computer system in May 1980, with the first shipments originally scheduled for the summer of 1980. However, the Company encountered delays in meeting its production schedule, and demonstration units were first shipped to dealers in September 1980. Limited deliveries of Apple III to retail customers took place in late November 1980. The Apple III is intended for a range of applications requiring more computing speed and power than the Apple II and includes a number of features which are optional accessories for the Apple II, as well as other features not available on the Apple II. The Apple III incorporates a built-in disk drive as well as the circuitry to control up to three additional external disk drives. It offers built-in interface circuitry for both a thermal printer and a letter-quality impact printer, for an enhanced typewriter-style keyboard with a numeric key pad and for full upper and lower case display capability with a text display of 80 characters per line. Apple III is furnished with main memory capacity of 96K bytes and can be expanded to 128K bytes.

The Apple III is designed principally for business applications, including preparing detailed budgets, performing complex pricing analyses, long-term scheduling, calculating investment returns, maintaining mailing lists and word processing. The suggested retail prices for the Apple III computer system range from approximately $4,300 to over $7,800 depending upon main memory size and peripherals.

Due to the recent introduction of the Apple III, the utility of and market acceptance for the product have not yet been demonstrated by significant sales or end-user applications. In addition, the development of extensive applications packages for the Apple III might be required before the Company can expect to sell the product in significant volume.

Software

Of major importance to the usefulness, simplicity and flexibility of an Apple computer system is the availability of a variety of system software and applications packages.

System software is a set of programs supplied by Apple that enable the user to supervise the computer's resources. With these programs the user can maintain and manipulate files, execute existing programs and use programming languages to develop new applications. Programming languages enable the user to instruct the computer to perform specific tasks. Apple offers the user a variety of programming languages, each having advantages for particular applications. The programming languages offered for the Apple II include two versions of the popular BASIC (an easy-to-use beginners language), FORTRAN (useful for work in mathematics, engineering and the sciences), Pascal (generally used by professional computer programmers for complex programs) and PILOT (used for the development of computer-aided instruction in education). The Apple III has an improved operating system for faster data retrieval and storage and will initially offer the Apple Business BASIC programming language and, in April 1981, will offer Pascal. In addition, the Apple III has a special emulation capability which permits it to run most programs designed for the Apple II.

Applications packages are programs written in one of the programming languages and are designed to accomplish specific tasks, such as bookkeeping, text editing and financial modeling. Although some of these programs are designed and developed by Apple, the Company believes that most of the applications packages which are available for Apple's computers are developed independently and supplied by approximately 100 independent vendors.

Among the principal software packages for the Apple II developed and marketed directly by the Company are the following:

APPLE POST™	—a mailing list system for entering, editing, storing and printing names, addresses and telephone numbers which, when attached to a compatible printer, will also print mailing labels, addresses and telephone lists.
APPLE WRITER™	—a basic word processing system providing the capability to write, revise, edit and print text.
DOW JONES SERIES PORTFOLIO EVALUATOR	—assists in portfolio analysis by enabling the user to store stock portfolios and to access stock quotations and other information via telephone connection to the Dow Jones News Retrieval System.
SHELL GAMES	—various programs designed as educational aids.

The software packages for the Apple II developed by independent vendors and marketed by Apple under royalty agreements include:

APPLE PLOT™	—a system for preparing, revising and printing charts and graphs.
CASHIER™	—a small retail store management system designed to maintain customer/vendor files, monitor and order inventory and generate invoices and management reports.
CONTROLLER™	—an accounting system designed to maintain accounts receivable, accounts payable and general ledger records for a small business.

In addition, the Company believes that one of the applications packages frequently used with the Apple II, which is developed and marketed by an independent vendor, is a financial modeling system enabling a user to manipulate and express relationships between rows and columns of numbers in applications such as financial modeling and forecasting. A new version of this applications package is being marketed directly by the Company in connection with the Apple III.

Peripherals

Apple's computer systems are used with a variety of peripheral products such as video monitors, disk drives, printers and graphics tablets. Apple's computers incorporate standard interfaces permitting the use of peripherals designed and manufactured by others as well as those offered by Apple.

One of the principal peripheral accessories manufactured and offered by Apple is its Disk II Floppy Disk Subsystem, which increases the capability of the computer through the use of 5¼-inch flexible or floppy disks for data storage. The Disk II, introduced in June 1978, provides file memory capacity of up to 143K bytes of data, increases data retrieval speed and provides random access to stored data, permitting the computer system to accommodate many additional applications.

Other peripheral accessories manufactured and offered by Apple include a graphics tablet (to create and display pictorial information electronically, such as architectural renderings, schematics, mechanical shapes and fine arts), a thermal printer (used for quiet printing of text or graphics) and interface circuit boards (used to exchange data between Apple computers and other computers, printers or accessories). Apple also markets peripheral products including impact printers and video monitors manufactured by others.

Users of Apple computer systems also have a choice of a wide variety of other peripheral accessories designed and offered by independent companies. These peripherals include medium-speed printers for home and business applications requiring letter-quality output; modems which provide a data communications link utilizing a telephone network to access timesharing services, computerized bulletin boards or other computers; music synthesizers; and portable power units that allow Apple systems to be operated in automobiles and elsewhere.

Marketing

The first personal computers were sold principally by mail order to hobbyists. However, with the growth in the number of computer retail stores since 1976, most personal computers have been distributed through retail outlets, reflecting the economics of distributing and servicing a moderate cost product to a highly diverse market. The Company believes that the introduction of higher priced and more complex personal computers, such as the Apple III, may require the Company to expand its distribution channels or establish additional marketing arrangements, such as a direct sales force. Certain of these steps could involve significant investments and additional costs. See "Use of Proceeds". In addition, the development of an experienced and expanded marketing organization will require the addition of qualified personnel, who are in great demand.

Distribution Channels

Apple's products are sold in the United States and Canada through approximately 800 independent retail outlets. Sales to the retail stores are made directly by the Company's sales organization and through independent sales representatives on a commission basis. The retail outlets are generally computer stores which range from sole proprietorships to franchises of retail store chains. These stores typically handle a variety of computer-related products, including competitive computer systems. Approximately 210 of the retail outlets consist of franchised outlets of four independent retail chains. To a lesser extent, Apple also markets its products to end-users and original equipment manufacturers through its own direct sales force and through independent sales representatives.

Prior to March 1980, Apple distributed its products in the United States and Canada primarily through five independent distributors which purchased the products for resale to the retail outlets. The distributors also were responsible for warehousing products as well as selecting, training and monitoring the retail dealers. In February 1980, Apple elected to terminate these distribution arrangements and distribute its products from newly established Company-owned regional support centers directly to the retail stores. This decision was made in order to improve the Company's ability to ensure adequate inventory of products at the distribution centers, to assist in the direct training of the retail dealers and to gain better access to end-users of personal computers. See Notes 2 and 10 of Notes to Consolidated Financial Statements and "Litigation". However, there can be no assurance that this change will improve the distribution of the Company's products.

Apple's regional support centers are located in Sunnyvale and Irvine, California; Charlotte, North Carolina; and Dallas, Texas. The Company plans to establish additional support centers in Boston and Chicago and in Toronto, Canada during 1981. In addition to distributing Apple products to the retail stores, the regional centers also are responsible for warehousing Apple's products and providing credit, service training and service support. See "Service and Support".

The largest retail chain distributing Apple products during the 1980 fiscal year was ComputerLand with 108 franchised outlets offering Apple products in the United States. The Company has entered into a volume purchase agreement with ComputerLand, expiring on March 24, 1981, which is subject to automatic extension unless terminated upon 90 days notice by either party. Under the agreement, the Company sells its products directly to ComputerLand. ComputerLand resells such products to its franchised outlets and is responsible for centralized purchasing as well as selecting, training and monitoring its franchised dealers. Sales of Apple products to ComputerLand accounted for approximately 14% of the Company's net sales for the 1980 fiscal year. No other retail chain or store accounted for more than 3% of net sales during the 1980 fiscal year.

Retail dealers typically purchase the Company's products on an as-needed basis. The Company, in turn, currently ships to retailers shortly after order receipt. For this reason and because the nature of their business frequently results in retail dealers changing delivery schedules and order rates, the Company's backlog of orders as of any particular period may not be representative of the Company's actual sales for any succeeding period.

Prior to August 1980, foreign sales were made primarily to an independent distributor, Eurapple, located in the United States, under an agreement providing for exclusive rights to distribute Apple's products in certain foreign countries. Foreign sales were made by Eurapple to other independent distributors primarily located in Europe and, to a lesser extent, in the Far East, the Middle East, Australia, the Philippines and South Africa. In August 1980, Apple acquired Eurapple's distribution rights and currently sells its products directly to 21 independent foreign distributors. Sales to Eurapple in fiscal 1980 prior to such date accounted for approximately 17% of the Company's net sales for fiscal 1980. See Note 2 of Notes to Consolidated Financial Statements. The foreign distributors resell the products to approximately 1,000 retail dealers.

In September 1980 Apple established a center for sales, marketing, service, dealer training, warehousing and distribution in Zeist, Netherlands to serve the European market. In addition, the Company expects to manufacture a substantial portion of its products for sale in Europe at its recently opened facility in County Cork, Ireland.

During the 1979 and 1980 fiscal years, foreign sales of Apple's products, including sales in Canada, were approximately 24% and 25%, respectively, of net sales for such periods. Since August 1980 sales to the foreign distributors generally have been made in local currencies and are subject to the risks of exchange rate fluctuations. Restrictive tariff and export control policies are potential risks of foreign sales, but the Company has experienced no material problems to date.

The Company has not directly financed, rented, or leased any of its computer systems nor is any such program presently contemplated. The Company, however, has entered into agreements with ITT Diversified Credit Corporation ("ITT") and United States Leasing Corporation ("USLC") to provide inventory financing for retail dealers and third-party leasing arrangements for commercial end-user customers, respectively. The ITT agreement is terminable by the Company upon 10 days written notice to ITT and obligates the Company to repurchase factory-sealed Apple products from ITT in the event of certain defaults in the dealer's obligations. The USLC leasing plan offers commercial end-user customers three and four-year leases with fixed purchase options and permits users to add additional equipment to their leases. The agreement between the Company and USLC continues until October 31, 1981 and provides for automatic renewal for an additional one-year period unless terminated by either party. Both of the foregoing agreements were entered into by the Company in

June 1980 and, to date, only a small amount of the Company's products have been leased or financed under such agreements.

Service and Support

Apple's products are serviced in the United States and Canada by approximately 700 retail dealers and four Company-owned service centers. The authorized retail dealers are trained to replace and exchange most system components at the retail store. These dealers are required to enter into dealer service agreements pursuant to which they purchase service kits containing spare parts, components, manuals and diagnostic programs. Although certain of these dealers offer maintenance and service of entire systems, including peripheral products manufactured by others, the Company relies upon the manufacturers of such peripheral products (including any warranties offered by such manufacturers) for assistance in maintenance. The cost of this dealer service to the customer is set by the dealer for products not under warranty. To date, approximately 90% of all repair work and diagnostic testing on Apple products has been provided by dealers.

Company-performed service principally consists of more extensive repairs not provided by the authorized retail dealers. This service is performed at the four United States regional support centers and at Zeist, Netherlands using extensive diagnostic instrumentation and repair equipment.

Apple typically offers a 90-day full parts and labor warranty for its products and, since January 1980, has offered an extended limited warranty at a price of $195 for each year of coverage. Since January 1980, approximately 5% of the purchasers of Apple systems entered into extended service agreements. Liabilities under both warranty programs have been nominal to date; however, no assurance can be given that this trend will continue for existing as well as new and more complex systems which may be introduced to the market.

Although the Company currently anticipates utilizing its existing service procedures for its Apple III systems, such service, as well as service on future products, may require greater technical expertise than that currently used in dealer service and end-users of the Apple III and future products may require on-site service. In addition, the continued growth of Apple's distribution network will require the Company to establish other Company-owned service centers and to inventory spare parts in different geographic locations in order to provide prompt service and warranty repair. Such steps could involve significant investments and additional costs.

Advertising and Promotion

The expansion of the personal computer market will require a continued orientation effort directed at informing individuals of the means by which the computer may be utilized to enhance personal efficiency and productivity. Towards this end, the Company is committed to an extensive advertising and promotional effort. During the fiscal years ended September 30, 1978 and 1979 and September 26, 1980, the Company spent $573,000, $2,011,000 and $4,469,000, respectively, for advertising.

Apple supports the advertising campaigns of its retail dealers by reimbursing them for up to 3% of their dollar purchases from Apple for advertising costs actually incurred which comply with certain standards set by Apple. Apple also provides dealers, at its own expense, with a variety of support materials including point-of-sale posters, demonstration models and brochures. Sales seminars are also conducted to assist dealers in selling Apple products.

Apple advertises its products through radio commercials, newspaper advertisements, in business, professional, consumer and trade periodicals, and through participation in industry shows and seminars. The Company also promotes its products through direct mailings to retail dealers and end-users and through various Company publications including *The Apple Magazine*, each issue of which features a major product application area, such as finance, business, science or education.

Competition

The personal computer market is highly competitive and has been characterized by rapid technological advances in both hardware and software development, which have substantially increased the capabilities and applications of personal computers. The principal competitive factors in the personal computer market are product quality and reliability, relative price/performance, marketing and distribution capability, service and support, the availability of hardware and software accessories, corporate reputation, and ease of understanding and operation of the system. The Company believes it competes favorably with respect to all of these factors, however, the Company's reliance upon independent retail dealers for product distribution may not provide the market penetration of Radio Shack (a subsidiary of Tandy Corporation), which sells through a large number of company-owned retail stores and distribution outlets. In addition, Commodore International Ltd. has broader international retail distribution than the Company. The Company may also be at a competitive disadvantage because it purchases integrated circuits and other component parts utilized in its computers from outside vendors, while certain of its competitors manufacture such parts. In addition, a substantial portion of the peripheral equipment used with Apple's systems is purchased from outside vendors while certain competitors design and manufacture their own peripheral equipment.

Apple, Radio Shack and Commodore are believed to be the principal manufacturers of personal computers with system prices below $5,000, which category includes most Apple II systems. The Company believes that it has the second largest installed base of such systems in the United States. Apple experiences competition for its higher priced systems (which include the Apple III) from a number of concerns including Radio Shack, Cromemco Incorporated, North Star Computers, Inc., Ohio Scientific, Inc. and Vector Graphics Inc.

The Company expects intense competition from several substantially larger firms which have entered or are expected to enter the personal computer market, including Hewlett-Packard Company, IBM, Texas Instruments and various Japanese manufacturers, all of which have considerably greater financial, marketing, and technological resources than the Company. In addition, depending upon the successful completion of pending and proposed product development efforts, the Company anticipates competing more directly with the foregoing concerns and other large domestic and foreign manufacturing concerns, such as Xerox Corporation, Exxon Corporation and Wang Laboratories, Inc. in such areas as the office automation and information processing segments of the business and office market. No assurance can be given that the Company will have the financial resources, marketing, distribution and service capability, depth of key personnel, or technological knowledge to compete successfully in these markets.

Manufacturing

The Company's manufacturing operations consist principally of the purchase, assembly and test of the materials and components comprising its products at facilities located in Dallas, Texas; Cupertino, San Jose and Los Angeles, California; and, since October 1980, in County Cork, Ireland. The principal materials and components used in the production of Apple's products include semiconductors, plastic and metal parts, and certain electro-mechanical subassemblies purchased from independent suppliers. Although most are standard parts, certain items, such as metal and plastic parts and circuit boards are fabricated or assembled by independent vendors to Apple's specifications. In addition, Apple manufactures certain components such as disk drives and keyboards. Apple strives to qualify multiple sources of supply for all of its materials and subassemblies. Certain components, such as power supplies, integrated circuits and plastic housings are obtained from single sources, although the Company believes other sources for such parts are available. To date, the Company has not experienced any significant production problems or delays due to shortages in material or components.

Quality control and final system testing and inspection are performed by Apple at its production facilities. In the testing process, the Company utilizes its own computers with specialized software to perform diagnostic testing to isolate and identify defective components. As part of the final testing process, all systems are subjected to a four day continuous "burn-in" to provide assurance of electronic and mechanical functions.

Apple anticipates that as it develops more complex products it may be required to use custom integrated circuits. There can be no assurance that the required custom circuits will be readily available or available from more than one source.

FCC Regulation

In October 1979 and April 1980, the Federal Communications Commission ("FCC") adopted orders imposing radiofrequency emanation standards on computing equipment. The specifications set forth in those regulations are designed to reduce radiofrequency interference with communications, including television and radio reception. The regulations distinguish between computing devices marketed for use primarily in a commercial, industrial or business environment (designated Class A) and computing devices marketed for use primarily in a residential environment (designated Class B).

The Company believes that its Apple II system will be subject to regulations imposed on Class B devices. Personal computers classified as Class B devices which are manufactured after January 1, 1981 must be certificated as being in compliance with the FCC specifications for such devices and be appropriately labelled. The Company has completed the engineering design work to modify the Apple II system to comply with the regulations and has ordered the necessary parts to permit production of the redesigned system by the required January 1, 1981 date. Because the Company was uncertain as to its ability to meet this production schedule for the redesigned system, the Company filed a request with the FCC for a 90 day extension, which has been granted. If the Company is unable to meet its planned modification and production schedule within the extended period, the Company could be precluded from selling non-complying products in the United States until such modifications are completed. However, the Company does not believe this risk to be significant.

The Company has been advised that its Apple III computer systems will be classified as Class A devices. Class A devices first manufactured prior to October 1, 1981 must meet Class A specifications by October 1, 1983. All Class A devices first produced after October 1, 1981 must comply with Class A specifications at the time of their manufacture. Since the specifications for Class A devices are less strict than the equivalent standards for Class B devices, and since the time in which compliance must occur is longer, the Company expects the Apple III to satisfy applicable FCC specifications.

Research and Development

The personal computer industry is subject to rapid technological change, and the ability of the Company to operate successfully depends upon, among other things, its ability to adapt to such change. The Company maintains a continuing program of research and development. This program focuses upon the development of personal computer systems to address new markets and applications, the development of peripheral accessories and the development of software packages designed to further enhance the user's productivity.

During the fiscal years ended September 30, 1978 and 1979 and September 26, 1980, the Company spent approximately $600,000, $3,600,000, and $7,300,000, respectively, for research and product development. All of the Company's research and development costs are expensed as incurred.

Patents and Licenses

The Company currently holds four U.S. patents and has filed applications for four additional U.S. patents relating to certain aspects of the Company's computer and peripheral systems. The Company is also seeking patent protection in certain major foreign countries. However, the Company believes that the ownership of patents is not presently a significant factor in its business and that its success does not depend on the ownership of patents, but primarily on the innovative skills, technical competence and the marketing abilities of its personnel.

In addition, the Company has a registered trademark in the United States for "Apple", the Apple silhouette and the Apple color logo.

Because of the technological changes in the computer industry with current extensive patent coverage and the rapid rate of issuance of new patents, certain components of the Company's products may involve infringement of existing patents. If any such infringements do exist, the Company believes, based upon industry practice, that any necessary licenses or rights under patents may be obtained on terms which would not have a material adverse effect on the Company. The Company has entered into a patent cross-licensing agreement with Hewlett-Packard.

Litigation

In June 1980, High Technology, Inc., a former distributor of the Company's products which was terminated by the Company, filed an action against the Company in the United States District Court for the Eastern District of Missouri. High Technology's president and an affiliated company are also plaintiffs. The complaint alleges, among other things, violations of federal antitrust laws, breach of contract and tortious interference with contractual relationships. The complaint purports to state individual but overlapping claims, the largest of which is for $11,750,000 in damages, as well as alleging treble damages, punitive damages and claiming attorneys' fees and costs. The Company has denied the material allegations of the complaint and has counterclaimed for the amount due for goods sold and delivered by the Company to High Technology, for breach of the distributorship agreement between the Company and High Technology and for tortious interference with the Company's business relationships with dealers.

The Company is also a defendant in an action filed in May 1980 and currently pending in the United States District Court for the Western District of Washington brought by Omega Northwest, Inc., another terminated distributor of the Company's products. The complaint alleges breach of contract, violations of the Washington Franchise Investment Protection Act and state antitrust law and defamation. Omega seeks treble damages in an unspecified amount, equitable relief and attorneys' fees and costs. The Company has answered the complaint denying its material allegations and has counterclaimed for Omega's unpaid indebtedness to the Company and for fraud. The Company will be filing a motion to dismiss and for summary judgment on all but the defamation claim.

Discovery in both of these legal actions is at an early stage. Based upon the proceedings which have taken place to date and upon review of the Company's records, and discussion with Company personnel, the Company and its special litigation counsel, Fenwick, Stone, Davis & West, are of the opinion that there is no substantial likelihood that the plaintiffs in either case will establish a material liability of the Company on any of the claims asserted.

Employees

At September 26, 1980, the Company employed approximately 1,015 full time employees, including 198 in marketing and sales; 152 in research, product development and related engineering; 558 in manufacturing; and 107 in general management and administration.

Many of the Company's employees are highly skilled, and the Company's continued success will depend in part on its ability to attract and retain such employees, who are in great demand. At times the Company, along with most other computer manufacturers, experiences difficulty in hiring and retaining experienced personnel.

The Company has never had a work stoppage and no domestic employees are represented by a labor organization. The Company's production employees in County Cork, Ireland are represented by the Irish Transport and General Workers' Union. The Company considers its employee relations to be good.

Property

The following table sets forth information concerning the Company's principal facilities:

Location	Square Feet	Lease Expiration
Manufacturing		
Cupertino, CA (3 locations)	69,100	11/83 to 6/89
San Jose, CA	34,640	5/86
Sunnyvale, CA (2 locations)	46,717	3/81 to 6/85
Garden Grove, CA	20,680	8/84
Newbury Park, CA	6,490	8/83
Carrollton, TX	100,000	7/85
County Cork, Ireland	41,500	Owned
	321,127	
Distribution		
Sunnyvale, CA	31,000	12/82
Irvine, CA	31,645	8/86
Charlotte, NC	29,160	9/85
Carrollton, TX	39,388	7/85
Zeist, Netherlands	29,329	5/81
	160,522	
Administration and Research and Development		
Cupertino, CA (7 locations)	103,314	12/80 to 12/90
Cupertino, CA	3,000	Owned
	106,314	

In addition the Company leases facilities aggregating approximately 20,000 square feet for regional sales offices. See Note 7 of Notes to Consolidated Financial Statements for information regarding the Company's obligations under leases.

The Company has commenced expansion of its Ireland facility to include an additional 42,000 square feet of manufacturing space, with construction anticipated to be completed in July 1981. The Company also intends to lease additional office facilities aggregating approximately 130,000 square feet in Cupertino, California, which are currently under construction and anticipated to be completed in August 1981.

The Company presently utilizes approximately 60% of its manufacturing space capacity. Manufacturing and production operations utilize one work shift a day, five days a week. The Company believes that its existing facilities and equipment are well maintained, in good operating condition and adequate for its present level of operations.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of the Company and their ages are as follows:

Name	Position	Age
A. C. Markkula, Jr.	Chairman of the Board and Executive Vice President	38
Steven P. Jobs	Vice Chairman of the Board and Vice President	25
Michael M. Scott	President, Chief Executive Officer and Director	37
Ann S. Bowers	Vice President—Human Resources	42
Carl H. Carlson	Executive Vice President—Operations	52
Gene P. Carter	Vice President—Sales	46
John D. Couch	Vice President	33
Albert A. Eisenstat	Vice President, General Counsel and Secretary	50
Frederick M. Hoar	Vice President—Corporate Communications	54
Frederick Rodney Holt	Vice President	46
Thomas M. Whitney	Executive Vice President	41
Stephen G. Wozniak	Vice President	30
Kenneth R. Zerbe	Executive Vice President—Finance and Administration	45
Peter O. Crisp*	Director	48
Arthur Rock*	Director	54
Philip S. Schlein*	Director	46
Henry E. Singleton*	Director	63

*Member of Audit Committee and Compensation Committee.

All directors hold office until the annual meeting of shareholders of the Company next following their election, or until their successors have been elected and qualified. Officers serve at the discretion of the Board of Directors. Pursuant to the requirements of a common stock purchase agreement entered into by the Company in January 1978, Mr. Crisp was appointed as a director in substitution for Mr. Henry S. Smith in October 1980. See "Certain Transactions". The Company has entered into an employment agreement with Carl H. Carlson which expires in September 1981.

There are no family relationships between any directors or executive officers of the Company.

Mr. Markkula has been a director since March 1977 and has served as Chairman of the Board of Directors since May 1977. In addition, he served as Vice President—Marketing from May 1977 through June 1980, and was promoted to Executive Vice President in June 1980. From 1971 to December 1976, he was Marketing Manager at Intel Corporation, a manufacturer of integrated circuits.

Mr. Jobs, a co-founder of the Company, has served as Vice Chairman of the Board since August 1979 and as Vice President since May 1977, and has been a director since March 1977. Prior to that time, he worked as an engineer for two years with Atari, Inc., a computer games manufacturer.

Mr. Scott has served as President since May 1977 and as a director since January 1978. From 1972 to January 1977, he was a director of manufacturing at National Semiconductor Corporation, a manufacturer of integrated circuits and computers.

Ms. Bowers joined the Company in July 1980 as Vice President—Human Resources. From October 1976 through June 1980, she served as an independent personnel management consultant to high technology growth firms. Prior to that time she served as Director of Personnel at Intel Corporation for over six years.

Mr. Carlson joined the Company in September 1979 as Vice President—Operations and was promoted to Executive Vice President—Operations in June 1980. From September 1978 until his employment by the Company, he was President and a director of Basic Manufacturing, Inc., a subsidiary of BTI Computer Systems, a mini-computer manufacturer. Prior to that time, he was Vice President of Computer Automation, Inc., a manufacturer of mini-computers, for approximately three years.

Mr. Carter joined the Company in August 1977 as National Sales Manager and in December 1978 was elected Vice President—Sales. Prior to that time he was Director of Microprocessor Marketing at National Semiconductor Corporation.

Mr. Couch joined the Company as Product Manager in October 1978 and was promoted to Vice President in April 1979. For more than five years prior to that time he held various engineering management positions at Hewlett-Packard Company, a manufacturer of business computers, during which time he was responsible for software development for the HP-3000 family of computers.

Mr. Eisenstat joined the Company in July 1980 as Vice President and General Counsel and has also served as Secretary of the Company since September 1980. From December 1978 to July 1980, he was Senior Vice President of Bradford National Corporation, a computer services firm serving the banking, securities, and health care industries. From December 1974 through December 1978, he was Vice President and Corporate Counsel of Tymshare, Inc., an international computer timesharing and services company. In both of these positions, Mr. Eisenstat was responsible for legal and administrative duties.

Mr. Hoar joined the Company in July 1980 as Vice President—Corporate Communications. From March 1980 until his employment with the Company, he was Vice President—Public Affairs and Communications at Syntex Corporation, a pharmaceutical company. For more than five years prior to that time he was Vice President—Communications for Fairchild Camera & Instrument Corporation, a semiconductor manufacturer.

Mr. Holt joined the Company as an engineer in February 1977 and became Vice President—Engineering in March 1978. From January 1976 until January 1977, Mr. Holt was a senior project engineer with Atari, Inc. From January 1975 until January 1976, he was a senior project engineer for Coherent, Inc., a laser optics firm.

Dr. Whitney joined the Company in October 1978 as an Executive Vice President. From July 1974 to October 1978, he was Engineering Manager for various divisions of Hewlett-Packard Company. In this position, he was in charge of managing hardware and software products development.

Mr. Wozniak, a co-founder of the Company, has served as Vice President since March 1977, was Secretary of the Company from March 1977 to September 1980 and was a director of the Company from March 1977 to January 1978. Prior to that time, he had been an engineer for Hewlett-Packard Company for three years.

Mr. Zerbe joined the Company in April 1979 as Vice President—Finance and Administration, and served in that position until June 1980, at which time he was promoted to Executive Vice President—Finance and Administration. From April 1976 to April 1979, he was Senior Vice President of Finance and Administration for American Microsystems, Inc., a manufacturer of semiconductors. Prior to that time, he was Senior Vice President of Finance at Fisher and Porter Co., a manufacturer of electronic process instrumentation.

Mr. Crisp was appointed to the Board of Directors in October 1980. Since 1969, Mr. Crisp has been a general partner of Venrock Associates, a limited partnership that invests in technology-based companies. See "Certain Transactions". Mr. Crisp is also a director of Crum and Forster, Eastern Air Lines, Inc., Evans & Sutherland Computer Corp., Itek Corporation and Thermo Electron Corporation.

Mr. Rock was appointed to the Board of Directors in October 1980 and was one of the early investors in the Company. He has been the general partner of Arthur Rock & Associates, a venture capital concern, since 1969 and a limited partner of Hambrecht & Quist, one of the Representatives of the Underwriters, since January 1980. Mr. Rock is also a director of Intel Corporation and Teledyne, Inc. See "Certain Transactions" and "Underwriters".

Mr. Schlein was appointed to the Board of Directors in June 1979. He has been President and Chief Executive Officer of Macy's California, a division of R. H. Macy & Co., Inc. since January 1974. Mr. Schlein is also a director of that corporation.

Dr. Singleton was appointed to the Board of Directors in October 1978. He has been Chairman of the Board and Chief Executive Officer of Teledyne, Inc., an insurance and electronics company, for twenty years and also serves as a director of Unicoa Corp., a publicly-held subsidiary of Teledyne, Inc.

Remuneration

The following table sets forth certain information as to each of the five most highly compensated executive officers or directors of the Company whose aggregate direct remuneration exceeded $50,000, and as to all officers and directors as a group, during the fiscal year ended September 26, 1980.

		Cash and Cash Equivalent Remuneration	
Individuals or Persons in Group	Capacities in Which Served	Salaries and Bonuses (1)	Securities and Personal Benefits (2)
Michael M. Scott	President and Chief Executive Officer	$ 135,182	$ 12,362
Gene P. Carter	Vice President—Sales	80,091	206,895
John D. Couch	Vice President	81,253	646,734
Frederick Rodney Holt	Vice President	78,554	128,148
Thomas M. Whitney	Executive Vice President	104,750	2,342,819
All Officers and Directors as a group (16 persons)		$1,473,912	$3,419,703(3)

(1) Includes bonuses paid in January 1980 for services rendered in the fiscal year ended September 30, 1979 and bonuses accrued for all officers and directors as a group during the fiscal year ended September 26, 1980. Such accrued bonuses have not been allocated among participants in the bonus plan and therefore are not included in the individual amounts shown in the table. See "Key Employee Bonus Plan".

(2) Includes (i) automobile allowances; (ii) $3,272,488 representing the difference between the exercise price of options exercised by certain officers during fiscal 1980 and the fair value on the date of exercise; and (iii) $106,464 representing the difference between the rate of interest on certain officers' and directors' notes to the Company and the average rate of interest (12.4%) at which the Company borrowed money in fiscal 1980.

(3) Includes benefits paid to a former director who resigned in October 1980.

See "Certain Transactions" for information concerning indebtedness of certain officers to the Company.

Key Employee Bonus Plan

The Board of Directors of the Company has adopted a bonus plan for management for the fiscal year ending September 25, 1981. The bonus pool is determined by a formula based on annual sales and pre-tax profit margins, before adjustment for certain items. Eligible employees include the president, the vice-presidents, directors of operations, other key employees and certain other employees. Ninety percent of the bonus pool is available for award to individuals in certain categories. These categories are assigned weighted distribution values, which values are then used to determine the maximum dollar amount of bonuses available for individuals in such categories. Each individual is automatically awarded 70% of his or her maximum bonus determined pursuant to the weighted formula, and the remaining 30% is awarded at the discretion of the president. The remaining 10% of the total bonus pool is available for award at the discretion of the president to individuals not included in the categories referred to above. A similar bonus plan has been in effect in each of Apple's two prior fiscal years. In fiscal 1980, an aggregate of $554,000 was available as a bonus pool for distribution under the plan.

Profit Participation Plan

The Company adopted a Profit Participation Plan for fiscal 1980 under which distributions are made by the Company to employees in amounts of up to an aggregate of three percent of pre-tax earnings, depending upon the Company's pre-tax profits for each calendar quarter, before adjustment for certain items. Distributions under the Profit Participation Plan are made by the Company on a quarterly basis within 30 days after the end of the quarter and are allocated among eligible participants in the proportion that their base salary for the quarter bears to the aggregate of all base salaries of participating employees in that quarter. All persons employed on a regular basis for at least 30 hours per week with a minimum of six months of service with the Company, with the exception of corporate officers and directors of operations, are eligible to participate in the Profit Participation Plan. For fiscal 1980, approximately $379,000 was provided under the Profit Participation Plan.

Stock Option Plans

The Company had a 1978 Stock Option Plan (the "1978 Option Plan") which was terminated by the Board in December 1979. In addition, the Company has a 1980 Stock Option Plan (the "1980 Option Plan"), adopted by the Board of Directors and approved by the shareholders in December 1979, under which a total of 3,200,000 shares of Common Stock were reserved for issuance, and a 1981 Stock Option Plan (the "1981 Option Plan"), adopted by the Board of Directors in October 1980 and approved by the shareholders in November 1980, under which 1,500,000 shares of Common Stock are reserved for issuance. Each of these plans is administered by the Board of Directors, which has authority to determine optionees, the number of shares to be covered by each option, the time at which each option is exercisable, the exercise price of the options granted, the method of payment and certain other terms of the options. The exercise prices of options granted under the 1978 Option Plan and 1980 Option Plan have been determined by the Board to be not less than the fair value of the shares at the respective dates of grant. The 1981 Option Plan provides that the exercise prices of options granted thereunder shall not be less than the fair market value of the shares at the date of grant, as determined by the Board. Any options which are cancelled or not exercised within the option period become available for future grants. As of November 30, 1980, options to purchase a total of 5,652,600 shares were outstanding to employees under the Company's stock option plans. No options have been granted under the 1981 Option Plan.

The following table sets forth information as to all options to purchase Common Stock under the stock option plans which were granted to or exercised by certain officers and all officers and directors as a group during the fiscal year ended September 26, 1980, and information as to unexercised options held by such persons as of November 30, 1980.

	Gene P. Carter	John D. Couch	F. Rodney Holt	Thomas M. Whitney	All Directors and Officers as a Group (7 Persons)
Options Granted:					
Number of shares	—	—	—	160,000	435,000
Average exercise price per share	—	—	—	$1.31	$2.78
Options Exercised:					
Number of shares	160,000	320,000	106,656	1,120,000	1,906,656
Aggregate purchase price	$ 15,000	$127,500	$ 19,998	$ 300,000	$ 724,998
Aggregate fair value on date of exercise	$210,000	$765,000	$139,986	$2,620,000	$3,997,486
Unexercised Options:					
Number of shares	—	—	106,688	—	481,688
Average exercise price per share	—	—	$.19	—	$2.39

See "Shares Eligible for Future Sale" and "Description of Securities—Outstanding Registration Rights" for information concerning the registration of shares reserved under the stock option plans.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors in October 1980 and approved by the shareholders in November 1980. A total of 1,000,000 shares of Common Stock are reserved for issuance under the Purchase Plan. The Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1954, as amended, is implemented by one offering during each six-month period and is administered by the Board of Directors of the Company or by a committee appointed by the Board. Employees are eligible to participate if they are customarily employed by the Company for at least 20 hours per week and more than five months per year. The Purchase Plan permits eligible employees to purchase Common Stock through payroll deductions (which may not exceed 10% of an employee's compensation) at the lower of 85% of the fair market value of the Common Stock as determined by the Board of Directors at the beginning or at the end of each six-month offering period. Employees may end their participation in the offering at any time during the offering period and participation ends automatically on termination of employment with the Company. To date, no shares have been offered or sold to employees pursuant to the Purchase Plan.

Key Employee Stock Purchase Plan

In December 1979, the Board of Directors and shareholders of the Company adopted a Key Employee Stock Purchase Plan which was terminated by the Board of Directors in October 1980. A total of 800,000 shares of Common Stock was initially reserved for issuance under the plan, of which 798,000 shares have been issued. Consideration for the shares, which were sold at fair value as determined by the Board of Directors, was payable in cash or by a promissory note. The purchase agreements under the plan provide the Company with an option to repurchase the shares at the original sales price in the event of termination of the participants' employment within specified time periods.

1980 Stock Option Financial Assistance Program

In December 1979, the Board of Directors and shareholders adopted a Financial Assistance Program for the purpose of assisting optionees under the stock option plans of the Company in acquiring shares by providing loan guarantees of bank loans to such optionees. Optionees holding options exercisable during calendar year 1980 are eligible for participation in the program. The Company will provide a guaranty to the bank in an amount not to exceed the aggregate purchase price of the shares plus 23% of the difference between the aggregate purchase price of the shares and their market price on the date of exercise, as determined by the Board of Directors. The shares issued upon exercise of the option must be pledged to the Company as collateral to secure its guaranty. The aggregate amount to be guaranteed by the Company pursuant to the program shall not exceed $8,000,000. At November 30, 1980 the Company had outstanding guarantees of approximately $3,899,585 under the program, representing the outstanding amount on loans made to 101 optionees for the purchase of an aggregate of 2,331,423 shares of the Company's Common Stock upon the exercise of the options. Messrs. Carter, Couch and Whitney are the only officers currently participating in this program. This plan was terminated by the Board of Directors, effective at the end of November 1980.

CERTAIN TRANSACTIONS

Steven P. Jobs, Stephen G. Wozniak and A. C. Markkula, Jr. may be considered "promoters" of the Company within the meaning of the rules and regulations promulgated under the Securities Act of 1933, as amended. In March 1977 the Company sold and issued to Messrs. Jobs and Wozniak 8,320,000 shares of Common Stock each for an aggregate purchase price of $2,654.48 each; and in November 1977 the Company sold and issued 8,320,000 shares of Common Stock to Mr. Markkula for $91,000. The shares issued to Mr. Markkula were paid for in cash. The shares issued to Messrs. Jobs and Wozniak were issued in exchange for certain designs and assets relating to Apple's first products, which were valued at their then current value by Messrs. Jobs, Wozniak and Markkula acting in their capacities as directors of the Company.

In a private placement in January 1978 the Company sold an aggregate of 5,520,000 shares of Common Stock at a purchase price of $.09 per share for an aggregate purchase price of $517,500 to a group of private investors. Of these shares, 640,000 were purchased by Mr. Arthur Rock, a director of the Company, and 3,200,000 were purchased by Venrock Associates, a venture capital limited partnership of which Mr. Henry S. Smith, a former director of the Company, and Mr. Peter O. Crisp, a director of the Company, are general partners. Mr. Smith and his successor, Mr. Crisp, were elected to the Board of Directors pursuant to a common stock purchase agreement and related letter agreement with certain major shareholders executed in connection with such private placement, which documents provide that, so long as Venrock Associates is a holder of at least 5% of the outstanding shares of Common Stock of the Company, at least one person nominated by Venrock Associates is to be elected to the Board. In addition, Venrock Associates purchased 22,222 shares of Preferred Stock, Series A, from the Company in a private placement in September 1978 at a purchase price of $9.00 per share for an aggregate purchase price of $199,998. These shares were subsequently converted, in accordance with their terms, into 711,104 shares of Common Stock (giving effect to subsequent stock splits).

The following table sets forth the number of shares of Common Stock which were sold to and the price paid therefor by officers and directors of the Company other than the promoters:

Name	Shares	Price per Share	Date of Purchase
Michael M. Scott	1,280,000	$ .01	11/77
	1,920,000	.09(1)	8/78
Carl H. Carlson	200,000(2)	1.31(1)	10/79
	100,000(2)	1.31(1)	10/80
Gene P. Carter	160,000	.09	6/78
	160,000(2)	.09	1/79
	40,000(4)	1.31(5)	12/79
	160,000(2)	.09(3)	2/80
	160,000(2)	.09(3)	11/80
John D. Couch	80,000(2)	.09(1)	10/78
	80,000(2)	.09(3)	2/80
	160,000(2)	.09(1)	4/80
	80,000(2)	1.31(1)	4/80
Albert A. Eisenstat	160,000(4)	2.75(1)	7/80
Frederick Rodney Holt	800,000	.01	11/77
	960,000	.09(1)	8/78
	106,656(2)	.19(3)	2/80
	106,656(2)	.19	11/80
Thomas Whitney	320,000(2)	.09(1)	10/78
	320,000(2)	.09(3)	2/80
	640,000(2)	.09(1)	4/80
	160,000(2)	1.31(1)	4/80
Kenneth R. Zerbe	800,000	.31(1)	5/79
	100,000(4)	2.75(1)	7/80
Arthur Rock	640,000	.09	1/78
Philip S. Schlein	32,000	.31	7/79
	80,000(4)	2.75(6)	4/80
Henry E. Singleton	1,120,000	.09	9/78
	80,000(4)	2.75(6)	4/80

(1) Payment was made by a 6% promissory note due five years from its date and secured by the shares purchased.
(2) Represents shares issued upon exercise of options under the Company's stock option plans.
(3) Payment was made with the proceeds of a bank loan guaranteed by the Company.
(4) Represents shares purchased under the 1980 Key Employee Stock Purchase Plan. See "Management—Key Employee Stock Purchase Plan".
(5) Payment was made by a 7% promissory note due five years from its date and secured by the shares purchased.
(6) Payment was made by a 7% promissory note due four years from its date and secured by the shares purchased.

The purchase price for the shares sold in each of the foregoing transactions was equal to the fair value of the shares at the respective dates of sale or option grant, as determined by the Company's Board of Directors.

Of the amounts payable by officers and directors of the Company with respect to the notes described in the table, Messrs. Carlson, Couch, Whitney and Zerbe have repaid $7,875, $1,500, $1,875 and $50,000, respectively, and Mr. Scott has repaid all of his notes in full. At November 1, 1980, all other amounts described in the foregoing table remained outstanding. Also, Messrs. Carter, Couch, Holt and Whitney were extended loans in an aggregate amount of $563,020 during fiscal 1980 by a bank under the 1980 Stock Option Financial Assistance Program, repayment of which was guaranteed by the Company. Mr. Holt has subsequently repaid this note in full. See "Management—1980 Stock Option Financial Assistance Program".

During fiscal 1979, the Company extended a $100,000 cash loan to Kenneth R. Zerbe at an interest rate of 6%. This loan was repaid prior to September 26, 1980. In addition, the Company extended loans during fiscal 1980 and 1981 in aggregate amounts of $443,900, $124,200, and $107,812 at an interest rate of 6% to Thomas Whitney, John Couch, and Carl Carlson, respectively, for tax payment purposes.

It is the current policy of the management of the Company that the Company not extend or guarantee loans or accept notes from officers, directors or employees of the Company in connection with the purchase of shares of the Company or the payment of tax liabilities associated therewith without the approval of a majority of the disinterested, outside members of the Board of Directors. Such policy will be in effect for at least two years from the date hereof.

On August 6, 1980, Hambrecht & Quist, one of the Representatives of the Underwriters, purchased for its own account and the account of certain of its affiliates 40,000 shares of the Company's Common Stock from an employee of the Company at $5.44 per share for an aggregate purchase price of $217,600. The $5.44 per share purchase price was arrived at as a result of arm's-length negotiations between the parties. Mr. Rock, a director of the Company, is a limited partner of Hambrecht & Quist. See "Underwriters".

CERTAIN SHAREHOLDERS

The following table sets forth information, as of November 30, 1980, with respect to all shareholders known by the Company to be the beneficial owners of more than 5% of its outstanding Common Stock and share ownership by directors and by all officers and directors as a group.

Name and Address	Shares of Common Stock Beneficially Owned: Number of Shares	Percent of Total
Venrock Associates 30 Rockefeller Plaza New York, NY	3,801,822	7.6%
Steven P. Jobs	7,542,448	15.0
A. C. Markkula, Jr.	7,029,448(1)	14.0
Stephen G. Wozniak	3,989,231(2)	7.9
Michael M. Scott	2,810,232(3)	5.6
Peter O. Crisp	3,801,822(4)	7.6
Henry E. Singleton	1,200,000	2.4
Arthur Rock	640,000(5)	1.3
Philip S. Schlein	112,000	0.2
All Officers and Directors as a group (17 persons)	32,026,443(6)(7)	63.8

(See footnotes on following page)

(Footnotes from preceding page)

(1) Includes (i) 6,971,095 shares held of record by Armas Clifford Markkula and Linda Kathryn Markkula, Trustees of the Arlin Trust U/D/T dated May 29, 1980, which shares are beneficially owned by Mr. Markkula, and (ii) 58,353 shares held of record by trusts for the benefit of Mr. Markkula's wife and minor children, as to which he disclaims beneficial ownership.

(2) Excludes (i) 1,248,000 shares held of record by Mr. Wozniak's wife, from whom he is separated, and (ii) an aggregate of 128,000 shares held of record by Mr. Wozniak's parents and siblings. Mr. Wozniak disclaims beneficial ownership of these shares.

(3) Excludes 100,000 shares to be sold by Mr. Scott. See footnote (7).

(4) Represents shares held of record by Venrock Associates, a venture capital limited partnership. As a general partner of Venrock Associates, Mr. Crisp may be deemed to share voting and investment power as to all of such shares.

(5) Includes 12,800 shares held of record by the Marie R. Getchel Trust, for which Mr. Rock acts as trustee and exercises voting and investment power.

(6) Includes (i) 2,250 shares held of record by Mr. Couch's children, as to which shares he disclaims beneficial ownership; (ii) 101,540 shares held by a trustee in an irrevocable trust for Mr. Holt; (iii) 100,000 shares held by Mr. Carlson and his wife as trustee for a trust for their benefit; and (iv) 4,000 shares held of record by Mr. Whitney's children, as to which shares he disclaims beneficial ownership. Excludes 119,944 shares owned by Mr. Henry S. Smith, a former director of the Company who resigned in October 1980.

(7) Excludes 100,000, 150,000, 50,000 and 50,000 shares to be sold by Messrs. Scott, Carlson, Zerbe and Carter, respectively, to an individual investor, Mr. Charles O. Finley, and a company affiliated with Mr. Finley in private transactions pursuant to agreements entered into in November 1980. The investors represented that the shares are being acquired for investment. The closings for such sales are to take place on or by the fifth business day following the date of this Prospectus at a price per share equal to the public offering price less 15%. These shares were sold by the aforementioned officers in reliance upon the "private placement" exemption under the Act and are consequently subject to the restrictions upon resale applicable to privately placed securities thereunder.

As indicated in footnote (7) to the table set forth above, four officers of the Company are selling an aggregate of 350,000 shares to Mr. Charles O. Finley and his affiliated company. These officers have agreed to sell these shares principally to raise cash to pay income taxes and to diversify their investments. In the course of entering into these agreements, Mr. Finley requested assistance in obtaining from the Underwriters allocations of the shares offered hereby. Messrs. Scott and Zerbe subsequently wrote letters to Morgan Stanley & Co. Incorporated ("Morgan Stanley"), one of the Representatives of the Underwriters, requesting that Morgan Stanley attempt to accommodate Mr. Finley to the extent consistent with Morgan Stanley's business practices and applicable law. Morgan Stanley declined to afford Mr. Finley any special consideration in the public offering of the shares offered hereby. An attorney representing Mr. Finley and his affiliated company has threatened to sue Messrs. Scott, Zerbe and Carlson on behalf of these prospective purchasers for allegedly failing to use their best efforts and good offices to assist them in obtaining a substantial block of the shares offered hereby.

By virtue of their beneficial ownership of 15.0%, 14.0% and 5.6% of the outstanding shares of Common Stock, respectively, and positions with the Company (See "Management—Executive Officers and Directors"), Messrs. Jobs, Markkula and Scott may be deemed to be "parents" of the Company within the meaning of the rules and regulations promulgated under the Securities Act of 1933, as amended.

SELLING SHAREHOLDERS

The following table sets forth information, as of November 30, 1980, with respect to the beneficial ownership of the Company's Common Stock by Selling Shareholders:

Name or Identity of Group	Shares Owned		Shares to Be Sold	Shares to Be Owned After Sale	
	Number	Percent		Number	Percent(1)
Broventure Company, Inc.	200,000	.4%	5,000	195,000	.4%
Continental Illinois Venture Corporation	1,792,000	3.6	224,000	1,568,000	2.9
Fifty-Third Street Ventures, Inc.	240,000	.5	40,000	200,000	.4
First Century Partnership	380,952	.8	100,000	280,952	.5
Hellman, Gal Investment Associates	600,000	1.2	100,000	500,000	.9
Hixon Venture Company	362,864	.7	51,000	311,864	.6
Xerox Corporation	800,000	1.6	80,000	720,000	1.3
Total	4,375,816	8.7%	600,000	3,775,816	7.0%

(1) Assuming no exercise of the over-allotment option to purchase up to an aggregate of 400,000 shares from the Company.

First Century Partnership, one of the Selling Shareholders, is a private limited investment partnership for which Smith Barney Capital Corporation acts as investment advisor. Smith Barney Capital Corporation is a subsidiary of Smith Barney, Harris Upham & Co. Incorporated ("Smith Barney"), which is one of the Underwriters. See "Underwriters". First Century Partnership acquired 380,952 shares of Common Stock of the Company pursuant to a common share purchase agreement dated August 9, 1979. Such shares were acquired at a purchase price of $1.3125 per share for an aggregate of $499,999.50 in a private transaction from a group of sellers consisting of the Company and nine selling shareholders, some of whom were also officers and directors of the Company.

DESCRIPTION OF SECURITIES

The Company's authorized capital stock consists of 160,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock.

Common Stock

Holders of shares of Common Stock are entitled to one vote per share on all matters to be voted on by shareholders, except that holders are entitled to cumulate their votes in the election of directors. The holders of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors in its discretion from funds legally available therefor and subject to the prior dividend rights of holders of the Preferred Stock, if any (see "Dividends"). Upon liquidation or dissolution of the Company, subject to prior liquidation rights of the holders of the Preferred Stock, if any, the holders of Common Stock are entitled to receive pro rata all assets remaining available for distribution to shareholders. The Common Stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such shares. All of the outstanding shares of Common Stock are fully paid and nonassessable, and the shares of Common Stock to be outstanding upon completion of this offering will be fully paid and nonassessable.

Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of Preferred Stock, none of which is presently outstanding. The Board of Directors is authorized to determine the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, liquidation preferences and sinking fund terms on any series of Preferred Stock, the number of shares constituting any such series and the designation thereof. The Company has no present plans to issue any such shares.

Outstanding Registration Rights

The holders of an aggregate of 11,736,248 shares of Common Stock, at September 26, 1980, sold by the Company pursuant to Common Stock Purchase Agreements dated January 31, 1978 and August 9, 1979, and Common Stock issued upon conversion of Preferred Stock, Series A, sold by the Company pursuant to Preferred Stock Purchase Agreements dated August 25, 1978 and September 6, 1978, or their transferees (collectively, the "Holders") are entitled to certain rights with respect to the registration thereof under the Securities Act of 1933, as amended (the "Act"). Such Holders may request that the Company file a registration statement under the Act with respect to such Common Stock, and the Company shall use its best efforts to effect such registration, provided that the aggregate proposed offering price of the shares proposed to be registered is at least $4 million for the first registration of securities by the Company and $3 million for subsequent registrations, or the number of shares proposed to be registered is 3,200,000 shares, and subject to certain other conditions. The original purchasers under the four agreements have the sole and exclusive right to request the first such demand registration and the Company is only required to effect two such registrations. Furthermore, whenever the Company proposes to register any of its securities under the Act either for its own account or on account of other security holders exercising certain registration rights, the Company is required, each such time, to notify each Holder of the proposed registration, and include all Common Stock which such Holder may request to be included in such registration; provided, among other things, that the Company has the right to limit the number of such shares being registered according to a certain schedule.

Holders of (i) options which have been granted under the 1978 Stock Option Plan or the 1980 Stock Option Plan and which are exercisable and (ii) Common Stock of the Company issued upon exercise of such options (collectively, the "Option Shares") are entitled to certain registration rights pursuant to the Option Agreements entered into with the Company. All expenses of such registrations are to be borne by the Company with the exception of transfer taxes, brokerage fees and other costs incurred directly by the optionee. The Company intends to file a registration statement on Form S-1 to register the issuance of shares of Common Stock to employees upon exercise of stock options issued under the Company's stock option plans. Such registration statement is expected to become effective shortly after the date of this Prospectus. Shares of Common Stock issued upon the exercise of stock options after the effective date of such registration statement will generally be freely tradable without any further registration requirement.

Subject to market conditions and other factors, the Company may file another registration statement on a date not less than four months after the date of this Prospectus covering the sale of such amount of the Option Shares as may be requested by the holders. The Company has agreed that the number of such Option Shares included in such registration statement will not exceed 500,000 shares without the written consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist as to the amount and method of offering.

Transfer Agent and Registrar

The First National Bank of Boston is the Transfer Agent and Registrar of the Company's Common Stock.

Reports to Shareholders

The Company intends to furnish its shareholders with annual reports containing audited financial statements and to distribute quarterly reports containing unaudited financial information for the first three quarters of each fiscal year.

UNDERWRITERS

Under the terms and subject to the conditions contained in an Underwriting Agreement dated the date hereof, the Underwriters named below have severally agreed to purchase, and the Company and the Selling Shareholders have severally agreed to sell to them, shares of the Company's Common Stock which in the aggregate equal the number of shares set forth opposite the name of such Underwriter below.

Name	Number of Shares	Name	Number of Shares
Morgan Stanley & Co. Incorporated	725,250	Eppler, Guerin & Turner, Inc.	17,500
Hambrecht & Quist	725,250	EuroPartners Securities Corporation	17,500
ABD Securities Corporation	17,500	Fahnestock & Co.	8,150
Advest, Inc.	17,500	Ferris & Company, Incorporated	4,100
Algemene Bank Nederland N.V.	17,500	The First Boston Corporation	71,500
Arnhold and S. Bleichroeder, Inc.	17,500	First Harlem Securities Corporation	4,100
Associated European Capital Corporation	4,100	First Manhattan Co.	4,100
Atlantic Capital Corporation	34,700	First of Michigan Corporation	17,500
Bache Halsey Stuart Shields Incorporated	71,500	First Southwest Company	4,100
Bacon, Whipple & Co.	34,700	Robert Fleming Incorporated	17,500
Baer Securities Corporation	4,100	Folger Nolan Fleming Douglas Incorporated	17,500
Robert W. Baird & Co. Incorporated	34,700	Foster & Marshall Inc.	17,500
Baker, Watts & Co.	4,100	Goldman, Sachs & Co.	71,500
Banque Nationale de Paris	17,500	Gruntal & Co.	4,100
Baring Brothers & Co., Limited	4,100	Herzfeld & Stern	8,150
Basle Securities Corporation	34,700	Hill Samuel & Co. Limited	17,500
Bateman Eichler, Hill Richards Incorporated	34,700	J. J. B. Hilliard, W. L. Lyons, Inc.	17,500
George K. Baum & Company, Incorporated	4,100	Howard, Weil, Labouisse, Friedrichs Incorporated	17,500
Bear, Stearns & Co.	71,500	E. F. Hutton & Company Inc.	71,500
Sanford C. Bernstein & Co., Inc.	17,500	Interstate Securities Corporation	8,150
William Blair & Company	34,700	Janney Montgomery Scott Inc.	17,500
Blunt Ellis & Loewi Incorporated	17,500	Johnson, Lane, Space, Smith & Co., Inc.	4,100
Blyth Eastman Paine Webber Incorporated	71,500	Johnston, Lemon & Co. Incorporated	17,500
Boettcher & Company	17,500	Josephthal & Co. Incorporated	4,100
J. C. Bradford & Co., Incorporated	17,500	Kidder, Peabody & Co. Incorporated	71,500
Brean Murray, Foster Securities Inc.	4,100	Kleinwort, Benson Incorporated	17,500
Alex. Brown & Sons	34,700	Cyrus J. Lawrence Incorporated	17,500
Bruns, Nordeman, Rea & Co.	4,100	Lazard Frères & Co.	71,500
Burgess & Leith Incorporated	4,100	Legg Mason Wood Walker, Incorporated	17,500
Cazenove Incorporated	8,150	Lehman Brothers Kuhn Loeb Incorporated	71,500
The Chicago Corporation	8,150	Lepercq, de Neuflize & Co. Incorporated	4,100
Collett & Company, Inc.	4,100	Manley, Bennett, McDonald & Co.	4,100
County Bank Limited	17,500	McDonald & Company	34,700
Cowen & Co.	8,150	Merrill Lynch, Pierce, Fenner & Smith Incorporated	71,500
Craigie Incorporated	4,100	Montgomery Securities	17,500
Crédit Commercial de France	17,500	Moore & Schley, Cameron & Co.	4,100
Crowell, Weedon & Co.	17,500	Morgan Grenfell & Co. Limited	17,500
Dain Bosworth Incorporated	34,700	Morgan, Keegan & Company, Inc.	4,100
Daiwa Securities America Inc.	17,500	Moseley, Hallgarten, Estabrook & Weeden Inc.	34,700
Dataquest Securities, Incorporated	4,100	Neuberger & Berman	8,150
Davenport & Co. of Virginia, Inc.	4,100	New Court Securities Corporation	34,700
Davis, Skaggs & Co., Inc.	4,100	Newhard, Cook & Co. Incorporated	4,100
R. G. Dickinson & Co.	4,100	The Nikko Securities Co. International, Inc.	17,500
Dillon, Read & Co. Inc.	71,500	Nomura Securities International, Inc.	34,700
Dominion Securities Inc.	8,150	The Ohio Company	8,150
Donaldson, Lufkin & Jenrette Securities Corporation	71,500	Sal. Oppenheim Jr. & Cie.	4,100
Drexel Burnham Lambert Incorporated	71,500	Oppenheimer & Co., Inc.	34,700
F. Eberstadt & Co., Inc.	34,700	Parker/Hunter Incorporated	8,150
A. G. Edwards & Sons, Inc.	34,700		
Elkins & Co.	8,150		

Name	Number of Shares
Pictet International Ltd.	8,150
Pierson, Heldring & Pierson N.V.	8,150
Piper, Jaffray & Hopwood Incorporated	34,700
Pitfield, Mackay & Co., Inc.	4,100
Prescott, Ball & Turben	34,700
Rauscher Pierce Refsnes, Inc.	34,700
Robertson, Colman, Stephens & Woodman	8,150
The Robinson-Humphrey Company, Inc.	34,700
Rodman & Renshaw, Inc.	4,100
Wm. C. Roney & Co.	4,100
Rotan Mosle Inc.	34,700
L. F. Rothschild, Unterberg, Towbin	71,500
Salomon Brothers	71,500
Scherck, Stein & Franc, Inc.	4,100
Schneider, Bernet & Hickman, Inc.	4,100
J. Henry Schroder Wagg & Co. Limited	17,500
Scott & Stringfellow, Inc.	4,100
Shearson Loeb Rhoades Inc.	71,500
Smith Barney, Harris Upham & Co. Incorporated	71,500
Société Générale de Banque S.A.	17,500
Somers, Grove & Co., Inc.	4,100
Stephens Inc.	17,500
Sutro & Co. Incorporated	17,500
Thomson McKinnon Securities Inc.	34,700
Tucker, Anthony & R. L. Day, Inc.	34,700
Underwood, Neuhaus & Co., Incorporated	8,150
Vereins- und Westbank Aktiengesellschaft	8,150
Burton J. Vincent, Chesley & Co.	4,100
Warburg Paribas Becker Incorporated	71,500
Wertheim & Co., Inc.	71,500
Westdeutsche Landesbank Girozentrale	17,500
Wheat, First Securities, Inc.	34,700
Dean Witter Reynolds Inc.	71,500
Wood Gundy Incorporated	17,500
Yamaichi International (America), Inc.	17,500
Total	4,600,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the shares of Common Stock are subject to the approval of certain legal matters by counsel and to certain other conditions including the conditions that no stop order suspending the effectiveness of the Registration Statement is in effect and no proceedings for such purpose are pending before or threatened by the Securities and Exchange Commission and that there has been no material adverse change (not in the ordinary course of business) in the condition of the Company and its subsidiaries, taken as a whole, from that set forth in the Registration Statement. The nature of the Underwriters' obligations is such that they are committed to take and pay for all of the shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any are taken.

The Underwriters propose to offer part of the shares directly to the public at the public offering price set forth on the cover page hereof and part to certain dealers at a price which represents a concession of $.70 a share under the public offering price. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $.25 a share to other Underwriters or to certain other dealers.

The Company has granted to the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to 400,000 additional shares of Common Stock at the public offering price set forth on the cover page hereof less the underwriting discounts and commissions. The Underwriters may exercise such option to purchase solely for the purpose of covering over-allotments, if any, incurred in the sale of the shares of Common Stock offered hereby. To the extent such option to purchase is exercised, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such Underwriter's name in the preceding table bears to 4,600,000.

The Representatives of the Underwriters have informed the Company that the Underwriters do not expect sales to discretionary accounts to exceed 5% of the total number of shares of Common Stock offered hereby and that the Representatives do not intend to confirm sales to any accounts over which they exercise discretionary authority.

In August 1980, Hambrecht & Quist, one of the Representatives of the Underwriters, entered into an agreement to purchase for its own account and the accounts of certain of its affiliates 40,000 shares of Common Stock of the Company from an employee of the Company at $5.44 per share for an aggregate purchase price of $217,600. See "Certain Shareholders" for further information with regard to this transaction and for information as to shares owned by Mr. Arthur Rock, a director of the Company and a limited partner of Hambrecht & Quist.

Smith Barney, one of the Underwriters, is a limited partner in First Century Partnership, one of the Selling Shareholders. Smith Barney and employees of Smith Barney hold an aggregate partnership interest of approximately 4.2% in First Century Partnership, and an individual who is a Senior Vice President and member of the Board of Directors of Smith Barney is the sole general partner of First Century Partnership. In addition, Smith Barney Capital Corporation, a subsidiary of Smith Barney, acts as investment advisor to First Century Partnership. See "Selling Shareholders".

L. F. Rothschild, Unterberg, Towbin, one of the Underwriters, purchased 190,472 shares of Common Stock of the Company for the accounts of certain of its partners and employees pursuant to a common share purchase agreement dated August 9, 1979. Such shares were acquired at a purchase price of $1.3125 per share for an aggregate of $249,994.50 in a private transaction from a group of sellers consisting of the Company and nine selling shareholders, some of whom were also officers and directors of the Company. In addition, in September 1980, L. F. Rothschild, Unterberg, Towbin also purchased, for the accounts of certain of its partners and employees, 13,000 shares of the Common Stock of the Company from two officers of the Company, Messrs. Markkula and Carter, at a purchase price per share of $4.125 for an aggregate of $53,625.

The Company, the Selling Shareholders and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act of 1933.

Each Selling Shareholder has agreed not to offer, sell, contract to sell or grant any option to purchase or otherwise dispose of any shares of Common Stock owned by such Selling Shareholder on the date hereof for a period of 90 days after the date of the initial public offering of the shares offered hereby without the consent of Morgan Stanley & Co. Incorporated and Hambrecht & Quist.

Pricing of the Offering

Prior to this offering, there has been no public market for the Company's Common Stock. The initial public offering price for the Common Stock has been determined by negotiation among the Company, the Selling Shareholders and the Representatives of the Underwriters. Among the factors considered in determining the initial public offering price were the sales, earnings and certain other financial and operating information of the Company in recent periods, the future prospects of the Company and its industry in general and the price-earnings ratios, price-book value ratios, market prices of securities and certain financial and operating information of companies engaged in activities similar to those of the Company.

LEGAL OPINIONS

The validity of the shares offered hereby will be passed upon for the Company and the Selling Shareholders by Wilson, Sonsini, Goodrich & Rosati, a Professional Corporation, 2 Palo Alto Square, Palo Alto, California, and for the Underwriters by Davis Polk & Wardwell, 1 Chase Manhattan Plaza, New York, New York. Davis Polk & Wardwell will rely as to all matters of California law on Wilson, Sonsini, Goodrich & Rosati.

EXPERTS

The consolidated financial statements and schedules included in this Prospectus and elsewhere in the Registration Statement have been examined by Arthur Young & Company, certified public accountants, to the extent and for the periods indicated in their report with respect thereto, and are included herein in reliance upon such reports and upon the authority of such firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission, Washington, D.C. 20549, a Registration Statement under the Securities Act of 1933, as amended, with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and such Common Stock, reference is hereby made to such Registration Statement, exhibits and schedules.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders
Apple Computer, Inc.

We have examined the accompanying consolidated balance sheets of Apple Computer, Inc. at September 26, 1980 and September 30, 1979 and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three fiscal years in the period ended September 26, 1980 and for the period from January 3, 1977 (inception of the Corporation) through September 30, 1977. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Apple Computer, Inc. at September 26, 1980 and September 30, 1979 and the consolidated results of operations and changes in financial position for each of the three fiscal years in the period ended September 26, 1980 and for the period from January 3, 1977 (inception of the Corporation) through September 30, 1977, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

San Jose, California
October 31, 1980

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF INCOME

	January 3, 1977 (Inception of Corporation) to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Revenues (Note 1):				
Net sales	$773,977	$7,856,360	$47,867,186	$117,125,746
Interest income	—	27,126	71,795	775,797
	773,977	7,883,486	47,938,981	117,901,543
Costs and expenses (Notes 1 and 10):				
Cost of sales	403,282	3,959,959	27,450,412	67,328,954
Research and development	75,520	597,369	3,601,090	7,282,359
Marketing	162,419	1,290,562	4,097,081	12,109,498
General and administrative	76,176	485,922	2,616,365	6,819,352
Interest	5,405	2,177	69,221	209,397
	722,802	6,335,989	37,834,169	93,749,560
Income before taxes on income	51,175	1,547,497	10,104,812	24,151,983
Provision for taxes on income (Note 4)	9,600	754,000	5,032,000	12,454,000
Net income	$ 41,575	$ 793,497	$ 5,072,812	$ 11,697,983
Earnings per common and common equivalent share (Note 1)	$ *	$.03	$.12	$.24
Common and common equivalent shares used in the calculation of earnings per share	16,640,000	31,544,000	43,620,000	48,412,000

*Less than $.01.

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	September 30, 1979	September 26, 1980
Current assets:		
Cash and temporary cash investments (Note 5)	$ 562,800	$ 362,819
U.S. Government securities, at cost, which approximates market	—	2,110,710
Accounts receivable, net of allowance for doubtful accounts of $617,763 ($400,000 in 1979) (Note 5)	9,178,311	17,441,066
Inventories (Notes 1 and 5):		
Raw materials and purchased parts	6,348,810	19,709,562
Work-in-process	2,985,794	3,773,615
Finished goods	768,113	10,708,443
	10,102,717	34,191,620
Total current assets	19,843,828	54,106,215
Property, plant and equipment, at cost (Note 1):		
Land and buildings	—	242,851
Machinery, equipment and tooling	404,127	2,688,787
Leasehold improvements	384,186	710,556
Office furniture and equipment	321,718	1,673,225
	1,110,031	5,315,419
Less accumulated depreciation and amortization	209,824	1,311,256
Net property, plant and equipment	900,207	4,004,163
Leased equipment under capital leases, net of accumulated amortization of $205,358 ($32,627 in 1979) (Note 6)	195,764	774,988
Cost in excess of net assets of purchased business, net of accumulated amortization of $13,193 (Note 3)	—	514,592
Reacquired distribution rights, net of accumulated amortization of $90,022 (Note 2)	—	5,311,304
Other assets	231,180	639,079
	$21,170,979	$65,350,341

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1979	September 26, 1980
Current liabilities:		
Notes payable to bank (Note 5)	$ —	$ 7,850,000
Note payable (Note 2)	—	1,250,000
Accounts payable (Note 5)	5,410,879	14,495,143
Accrued liabilities	1,720,459	5,795,945
Income taxes payable	1,879,432	7,474,170
Deferred taxes on income (Note 4)	2,051,000	661,000
Current obligations under capital leases (Note 6)	21,823	253,870
Total current liabilities	11,083,593	37,780,128
Non-current obligations under capital leases (Note 6)	203,036	670,673
Deferred taxes on income (Note 4)	204,000	951,000
Commitments and contingencies (Notes 5, 7, and 10)		
Shareholders' equity (Notes 1 and 8):		
Common stock, no par value:		
160,000,000 shares authorized, 48,396,928 shares issued and outstanding (43,305,632 in 1979)	4,297,729	11,428,438
Common stock to be issued in business combination (Note 3)	—	920,210
Retained earnings (Note 5)	5,907,884	17,605,867
	10,205,613	29,954,515
Less notes receivable from shareholders	(525,263)	(4,005,975)
Total shareholders' equity	9,680,350	25,948,540
	$21,170,979	$65,350,341

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(See Note 8)

	Convertible Preferred Stock		Common Stock		Common Stock Subscribed		Common Stock to Be Issued	Retained Earnings	Notes Receivable From Shareholders	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at January 3, 1977 (inception of the Corporation)	—	$ —	—	$ —	—	$ —	$ —	$ —	$ —	$ —
Issuance of common shares to founders	—	—	16,640,000	5,309	—	—	—	—	—	5,309
Common shares subscribed	—	—	—	—	10,480,000	114,625	—	—	—	114,625
Net income	—	—	—	—	—	—	—	41,575	—	41,575
Balance at September 30, 1977	—	—	16,640,000	5,309	10,480,000	114,625	—	41,575	—	161,509
Issuance of common shares previously subscribed	—	—	10,480,000	114,625	(10,480,000)	(114,625)	—	—	—	—
Issuance of common shares to investors and employees	—	—	6,256,064	586,506	—	—	—	—	—	586,506
Issuance of common shares to officers and directors	—	—	4,000,000	375,000	—	—	—	—	(375,000)	—
Issuance of convertible preferred shares	78,222	703,998	—	—	—	—	—	—	—	703,998
Net income	—	—	—	—	—	—	—	793,497	—	793,497
Balance at September 30, 1978	78,222	703,998	37,376,064	1,081,440	—	—	—	835,072	(375,000)	2,245,510
Issuance of common shares under stock option plan	—	—	1,026,464	181,205	—	—	—	—	(53,250)	127,955
Issuance of common shares to officers and investors	—	—	2,400,000	2,331,086	—	—	—	—	(250,000)	2,081,086
Repayments of notes receivable from shareholders	—	—	—	—	—	—	—	—	152,987	152,987
Issuance of common shares upon conversion of convertible preferred shares	(78,222)	(703,998)	2,503,104	703,998	—	—	—	—	—	—
Net income	—	—	—	—	—	—	—	5,072,812	—	5,072,812
Balance at September 30, 1979	—	—	43,305,632	4,297,729	—	—	—	5,907,884	(525,263)	9,680,350
Issuance of common shares under stock option plans	—	—	4,293,296	4,831,209	—	—	—	—	(1,399,100)	3,432,109
Issuance of common shares to officers and directors under key employee stock purchase plan	—	—	798,000	2,299,500	—	—	—	—	(2,299,500)	—
Repayments of notes receivable from shareholders	—	—	—	—	—	—	—	—	217,888	217,888
Shares to be issued in business combination (Note 3)	—	—	—	—	—	—	920,210	—	—	920,210
Net income	—	—	—	—	—	—	—	11,697,983	—	11,697,983
Balance at September 26, 1980	—	$ —	48,396,928	$11,428,438	—	$ —	$920,210	$17,605,867	$(4,005,975)	$25,948,540

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	January 3, 1977 (Inception of Corporation) to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
Sources of working capital:				
Working capital provided from operations:				
Net income	$ 41,575	$ 793,497	$ 5,072,812	$11,697,983
Charges to operations not requiring the current use of working capital:				
Depreciation and amortization	8,057	33,056	201,338	1,377,378
Deferred income taxes—non-current portion	—	29,000	175,000	747,000
Total working capital provided from operations	49,632	855,553	5,449,150	13,822,361
Issuance of common shares, net of notes receivable from shareholders	5,309	586,506	2,209,041	3,454,109
Common shares subscribed	114,625	—	—	—
Issuance of convertible preferred shares	—	703,998	—	—
Issuance of common shares upon conversion of preferred shares	—	—	703,998	—
Payments on notes receivable from shareholders	—	—	152,987	195,888
Non-current obligations under capital leases	—	—	228,391	751,955
Working capital provided from business combination:				
Non-current assets acquired	—	—	—	(607,455)
Common shares to be issued	—	—	—	920,210
Working capital provided from business combination	—	—	—	312,755
Total sources of working capital	169,566	2,146,057	8,743,567	18,537,068
Applications of working capital:				
Additions to property, plant and equipment	58,894	250,877	800,260	4,125,718
Acquisition of equipment under capital leases	—	—	228,391	751,955
Reacquisition of distribution rights	—	—	—	5,401,326
Additions to other assets	1,364	27,533	202,283	407,899
Reduction in non-current obligations under capital leases	—	—	25,355	284,318
Conversion of preferred shares to common stock	—	—	703,998	—
Total applications of working capital	60,258	278,410	1,960,287	10,971,216
Increase in working capital	$109,308	$1,867,647	$ 6,783,280	$ 7,565,852
Changes in components of working capital:				
Increases (decreases) in current assets:				
Cash and temporary cash investments	24,420	750,909	$ (212,529)	$ (199,981)
U.S. Government securities	—	—	—	2,110,710
Accounts receivable	178,648	1,201,239	7,798,424	8,262,755
Inventories	182,188	1,637,831	8,282,698	24,088,903
Prepaid taxes on income	3,400	64,600	(68,000)	—
Common stock subscriptions receivable	114,625	(114,625)	—	—
	503,281	3,539,954	15,800,593	34,262,387
Increases (decreases) in current liabilities:				
Notes payable to bank	150,000	(150,000)	—	7,850,000
Note payable	—	—	—	1,250,000
Accounts payable	200,494	795,854	4,414,531	9,084,264
Accrued liabilities	32,379	267,771	1,420,309	4,075,486
Income taxes payable	11,100	758,682	1,109,650	5,594,738
Deferred taxes on income	—	—	2,051,000	(1,390,000)
Current obligations under capital leases	—	—	21,823	232,047
	393,973	1,672,307	9,017,313	26,696,535
Increase in working capital	$109,308	$1,867,647	$ 6,783,280	$ 7,565,852

See accompanying notes.

APPLE COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of Apple Computer, Inc. and all of its subsidiaries, after elimination of significant intercompany accounts and transactions. Minority interests in subsidiaries are immaterial.

Provision for doubtful accounts

Provisions for doubtful accounts were $10,000, $125,000, $326,000 and $330,000 in 1977, 1978, 1979 and 1980, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out (FIFO) basis. Market is replacement cost for raw materials and purchased parts and estimated net realizable value for work-in-process and finished goods.

Property, plant and equipment

Depreciation and amortization is being provided using principally declining balance methods over estimated useful lives as follows:

	Estimated Life
Buildings	30 years
Machinery, equipment and tooling	3-7 years
Leasehold improvements	Life of lease or four years, whichever is less
Office furniture and equipment	3-5 years

Stock splits

In April 1979, May 1980 and September 1980 the Company increased its authorized common shares from 5,000,000 to 160,000,000 and declared two four-for-one stock splits and a two-for-one stock split. Numbers of common shares and per share amounts for all periods presented reflect the effects of the stock splits.

Fiscal year

In fiscal 1980, the Company changed from a September 30 fiscal year-end to a fiscal year ending on the last Friday in September.

Earnings per common and common equivalent share

Earnings per share were computed using the weighted average number of common shares outstanding and common shares issuable upon the exercise of outstanding options (assuming the proceeds would be used to purchase treasury stock at the average fair value during the year). In 1978 and 1979, the calculation included the common shares issuable upon conversion of the preferred stock.

The Company has restated earnings per share for 1979 to reflect the retroactive application of Financial Accounting Standards Board Interpretation No. 31, which requires that the tax benefit attributable to unexercised stock options be considered as part of the proceeds under the treasury stock method. The effect of the restatement was to increase earnings per share in 1979 by $.01.

Investment tax credits

The Company accounts for investment tax credits using the flow-through method.

Industry segment and geographic information

The Company designs, develops, produces, markets and services personal computer systems. One customer, ComputerLand, accounted for approximately 17% of consolidated revenues in fiscal 1978 and 14% of consolidated revenues in fiscal 1979 and 1980. Sales to certain distributors accounted for more than 10% of revenues prior to changes in distribution arrangements (see Notes 2 and 3). The Company has had no significant foreign operations. Export sales including sales in Canada, made primarily through the Company's former distributor of products in foreign countries (see Note 2), comprise 14%, 24% and 25% of total consolidated sales in 1978, 1979 and 1980, respectively.

2. Product distribution arrangements

Until March 1980, the Company's products were sold primarily through distributors. Effective in March 1980, the Company cancelled all domestic distribution agreements in accordance with their terms and began selling directly to domestic dealers. Concurrent with the cancellations, the Company repurchased approximately $1,300,000 of Apple inventory and offset the amount against amounts owing to the Company by the distributors.

In August 1980 the Company reacquired, for approximately $5,400,000, the exclusive rights to distribute its products in certain foreign countries. The rights, which were to expire in September 1984, were acquired from a distributor and are being amortized using the straight-line method over four years. In connection with the purchase the Company issued an 11%, $1,250,000 promissory note payable February 15, 1981. The Company also repurchased, for approximately $2,800,000, the distributor's Apple inventory and offset the amount against amounts owing to the Company.

3. Business combination

Effective June 30, 1980, the Company agreed to purchase all of the outstanding common stock of a former distributor of Apple products, OB1. The purchase price, $920,210, is to be paid by the issuance of the Company's common stock. The actual number of common shares to be issued (estimated by the Company to be 115,000) is dependent upon the outcome of negotiations currently in progress. The resulting cost in excess of the net OB1 assets acquired, $527,785, is being amortized on the straight-line method over ten years. The effect of this acquisition on sales and income is immaterial.

4. Taxes on income

The provision for taxes on income consists of the following:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1979	Fiscal Year Ended September 26, 1980
State:				
Current	$5,000	$151,000	$ 555,000	$ 2,205,000
Deferred (prepaid)	(400)	(11,000)	360,000	(272,000)
	4,600	140,000	915,000	1,933,000
Federal:				
Current	8,000	642,000	2,186,000	10,893,000
Deferred (prepaid)	(3,000)	(28,000)	1,931,000	(372,000)
	5,000	614,000	4,117,000	10,521,000
Provision for taxes on income	$9,600	$754,000	$5,032,000	$12,454,000

Deferred (prepaid) taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. The sources of these differences and the tax effect of each are as follows:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Bad debt, warranty and advertising provisions	$(1,600)	$(86,000)	$1,961,000	$(2,642,000)
Inventory items capitalized for financial reporting	—	—	—	810,000
Income of Domestic International Sales Corporation	—	39,000	292,000	1,136,000
Other	(1,800)	8,000	38,000	52,000
Total deferred (prepaid) taxes	$(3,400)	$(39,000)	$2,291,000	$ (644,000)

The total provision for taxes on income differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The reasons for the differences and the tax effect of each are as follows:

	January 3, 1977 to September 30, 1977	Fiscal Year Ended September 30, 1978	September 30, 1979	September 26, 1980
Computed expected tax, net of surtax exemption	$11,100	$729,500	$4,681,000	$11,091,000
California franchise tax, net of federal benefit	2,400	73,000	490,000	1,044,000
Investment tax credits	(5,600)	(25,000)	(77,000)	(197,000)
Other	1,700	(23,500)	(62,000)	516,000
Provision for taxes on income	$ 9,600	$754,000	$5,032,000	$12,454,000

5. Bank credit arrangements

At September 26, 1980, $7,850,000 was payable to a bank under a $20,000,000 line of credit which expires in January 1981. The agreement allows the Company to borrow up to $15,000,000 based upon acceptable receivables and an additional $5,000,000 based upon certain items of inventory. The interest rate is the bank's prime rate plus ¼%. Any amounts due to the bank under the inventory line ($1,850,000 at September 26, 1980) may be converted, at the Company's option, to a term loan payable in 48 monthly installments beginning March 1, 1981 at the bank's prime rate plus ¾%.

Letters of credit of $3,442,169 outstanding at September 26, 1980 further reduce availability of the $15,000,000 portion of the line of credit. Acceptances payable of $946,892 and $1,113,580 at September 26, 1980 and September 30, 1979, respectively, for goods received under the letters of credit but not yet paid by the bank are classified with accounts payable. Additional borrowings at September 26, 1980 are limited, based upon the definition of the borrowing base in the agreement, to approximately $1,500,000 and $3,150,000 under the receivable and inventory portions of the line, respectively.

Borrowings are secured by the Company's receivables and inventory. The agreement contains provisions prohibiting payment of any cash dividends without bank authorization and requiring maintenance of specified levels of working capital and tangible net worth. In accordance with the agreement, the Company has paid a $112,500 commitment fee to the bank.

The inventory line requires the Company to either maintain compensating balances equal to $250,000 plus ten percent of the average daily outstanding balance under the line or to pay fees in lieu of the compensating balances for periods in which the required balances are not maintained.

Amounts paid to the bank under this provision are immaterial. The compensating balance requirement does not legally restrict the use of cash.

6. Obligations under capital leases

Obligations under capital leases represent the present value of future rental payments to be made to a bank under agreements for lease of data processing equipment. Upon payment of the required rentals, the Company has the option to either extend the leases or purchase the equipment at the then fair value. The equipment is being depreciated using the double declining balance method over the terms of the leases (3-7 years). These leases were entered into pursuant to a $2,000,000 lease line of credit with a bank.

Following is a schedule by year of future minimum lease payments under the capital lease obligations together with the present value of the net minimum lease payments as of September 26, 1980:

Fiscal years ending September:	
1981	$ 343,000
1982	343,000
1983	305,000
1984	48,000
1985	48,000
Later years	48,000
Total minimum lease payments	1,135,000
Less amount representing interest	210,000
Present value of net minimum lease payments	$ 925,000

7. Commitments

Lease commitments

The Company operates in leased facilities and also leases certain automobiles. Rent expense was $8,000, $61,000, $358,000 and $1,810,000 in fiscal 1977, 1978, 1979 and 1980, respectively. Aggregate minimum annual lease commitments are $2,672,000, $2,678,000, $2,489,000, $2,140,000, $1,739,000 and $2,208,000 in fiscal 1981, 1982, 1983, 1984, 1985 and 1986-1990, respectively.

Loan guarantees

The Company is the guarantor of $1,018,567 of bank loans as of September 26, 1980 to employees who have exercised options to date during calendar year 1980 under the Company's stock option plans (see Note 8). Employees are required to pledge as collateral the common shares obtained upon exercise. The bank loans are limited to the purchase price of the common shares plus 23% of the difference between the aggregate purchase price and the fair value of the shares as of the date of exercise.

Foreign facilities

During fiscal 1980, the Company signed a grant agreement with the Industrial Development Authority of Ireland (IDA), an Irish government agency, whereby the Company agreed to establish an industrial undertaking for the production and development of personal computer systems and committed itself to purchase or construct land, buildings, machinery, and equipment before July 31, 1983, at a cost of approximately $16,000,000. As of September 26, 1980, the IDA had not yet signed the grant agreement and the amount of the grant, if any, had not yet been determined.

8. Capital stock

Preferred stock authorized

The Company has authorized 1,000,000 shares (increased by the Board of Directors to 5,000,000 shares in October 1980) of preferred stock which may be issued from time to time in one or more series. The Board of Directors is authorized to fix the number and designation of any such series and to determine the rights, preferences, privileges and restrictions granted to or imposed upon any such series.

Stock option plans

In July 1978, the Board of Directors adopted a nonqualified stock option plan (1978 plan) under which options for a total of 11,025,600 shares of common stock were available for grant to officers, directors, employees and contractors at the discretion of the Board of Directors. Option prices were to be at fair value as determined by the Board of Directors, but not less than $.03 per share. Options granted under the 1978 plan become exercisable over varying periods and expire seven years after the grant date. This plan was terminated in December 1979. Subsequent cancellations are not available for regrant and 49,856 options available for grant at the termination date were rescinded.

In December 1979, the Board of Directors adopted a nonqualified stock option plan for fiscal 1980 (1980 Plan) under which options for a total of 3,200,000 shares of common stock may be granted to officers, directors, employees and contractors. Options granted under the 1980 plan have been granted at no less than fair value as determined by the Board of Directors, become exercisable over varying periods, and expire eight years after grant date. Proceeds and income tax benefits of $66,349 and $3,391,714 in 1979 and 1980, respectively, realized by the Company as a result of transactions under these plans have been credited to shareholders' equity; no charges have been made to income in connection with these plans.

Information with respect to stock options is summarized as follows:

		Outstanding Options		
	Available for Grant	Number	Aggregate Price	Price Per Share
Initial authorization under the plan—fiscal year 1978	8,000,000	—	$ —	$ —
Balance at September 30, 1978	8,000,000	—	—	—
Authorized increase	2,000,000	—	—	—
Options granted	(11,621,600)	11,621,600	2,850,150	$ .09–$1.31
Options exercised	—	(1,026,464)	(114,856)	$ .09–$ .81
Options cancelled	1,530,656	(1,530,656)	(146,999)	$ .09–$ .31
Balance at September 30, 1979	(90,944)	9,064,480	2,588,295	$ .09–$1.31
Authorized increases, net of rescission	4,175,744			
Options granted	(2,765,800)	2,765,800	6,775,725	$1.31–$6.00
Options exercised	—	(4,293,296)	(1,439,495)	$ .09–$2.75
Options cancelled	33,600	(356,012)	(187,221)	$ .19–$1.31
Balance at September 26, 1980	1,352,600	7,180,972	$7,737,304	$ .09–$6.00
Options exercisable at:				
September 30, 1979		267,200	$ 200,500	$ .09–$1.31
September 26, 1980		227,924	$ 96,553	$ .09–$2.75

In October 1980, the Board of Directors adopted the 1981 Stock Option Plan, subject to shareholder approval, under which 1,500,000 shares of common stock are reserved for issuance. This plan is similar to the Company's 1978 and 1980 option plans.

Key employee stock purchase plan

In December 1979, the Board of Directors adopted a stock purchase plan to encourage stock ownership by certain officers, directors and key employees of the Company. The Company has reserved 800,000 common shares for issuance under the plan. The purchase price of shares sold pursuant to this plan was the fair value at the date of sale, as determined by the Board of Directors. At September

26, 1980, 798,000 shares of common stock had been issued under this plan. Certain of the shares sold under this plan are subject to repurchase by the Company at the original sale price if the employees leave the employ of the Company within specified periods of time.

Employee Stock Purchase Plan

In October 1980, the Board of Directors adopted, subject to shareholder approval, an Employee Stock Purchase Plan under which 1,000,000 shares of Common Stock were reserved for issuance. This plan provides that substantially all employees may purchase stock at 85% of its fair market value at certain specified dates. Purchases are limited to 10% of an employee's compensation.

Notes receivable from shareholders

The notes receivable arose from the sale by the Company of its common stock to directors, officers and employees and from the exercise of stock options by officers and employees under the Company's stock option plans. The notes receivable relating to exercise of stock options include both the proceeds from the exercise and up to 23% of the difference, if any, between the aggregate exercise price and the fair value of the shares as of the exercise date.

The notes receivable are secured by a pledge of the shares issued, less the pro-rata release by the Company of pledged shares based on the percentage of the principal amount of the notes paid. There were 4,179,000 common shares pledged as collateral at September 26, 1980.

The notes bear interest at 6% and 7% and are payable on various dates through July 1985.

9. Employee incentive plans

Profit participation plans

The Company has a profit participation plan originally adopted effective October 1978 which covers all fulltime employees, except corporate officers and certain key employees, who have been employed for at least six months. Distributions under the plan are based upon pretax profits, as defined, for each calendar quarter. The amount of the distribution can vary from zero to three percent, depending upon the pretax profit percentage for each calendar quarter, and is payable to all eligible participants within 30 days after the end of the quarter. For the years ended September 30, 1979 and September 26, 1980, approximately $263,000 and $379,000, respectively, were provided under the plan.

Key employee bonus plans

The Company has a bonus plan originally adopted effective October 1978 for officers and certain key employees. The amount of the distribution can vary from zero to seven percent of pretax profits, depending upon annual sales and pretax profits, as defined. Payments under the plan shall be made by January 15 of the year following the fiscal year in which the distribution is accrued. For the years ended September 30, 1979 and September 26, 1980, approximately $456,000 and $554,000, respectively, were provided under the plan.

10. Litigation

In June 1980, a former distributor (High Technology, Inc.) filed suit against the Company alleging, among other things, violation of federal antitrust laws, breach of contract and tortious interference with contractual relationships. The complaint purports to state individual but overlapping claims, the largest of which is for $11,750,000 in damages, as well as alleging treble damages, punitive damages, and claiming attorneys' fees and costs. Another former distributor (Omega Northwest, Inc.) filed suit against the Company in May 1980 seeking treble damages in an unspecified amount, equitable relief and attorneys' fees and costs. The complaint alleges breach of contract, violations of state franchise protection and state antitrust acts, and defamation. In the opinion of the Company's management, the outcome of the litigation will result in no material loss to the Company. Refer to "Litigation" section of the Prospectus for a more complete description of this pending litigation.