

# APPLE INC

## FORM 10-Q (Quarterly Report)

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Address	ONE INFINITE LOOP CUPERTINO, CA 95014
Telephone	(408) 996-1010
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Symbol	AAPL
SIC Code	3571 - Electronic Computers
Industry	Computer Hardware
Sector	Technology
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D. C. 20549

**Form 10-Q**

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended March 31, 1995 or

Transition report pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission file number 0-10030*

**APPLE COMPUTER, INC.**

(Exact name of Registrant as specified in its charter)

(CALIFORNIA, [State or other jurisdiction) (94-2404110, [I.R.S. Employer  
of incorporation or organization] Identification No.]

1 Infinite Loop (95014, [Zip Code])  
Cupertino  
California, [Address of  
principal executive offices]

Registrant's telephone number, including area code: (408) 996-1010

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

121,158,498 shares of Common Stock Issued and Outstanding as of May 5, 1995

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**APPLE COMPUTER, INC.**

**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**  
(Dollars in millions, except per share amounts)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 31, 1995	April 1, 1994	March 31, 1995	April 1, 1994
Net sales	\$ 2,652	\$ 2,077	\$ 5,484	\$ 4,546
Costs and expenses:				
Cost of sales	1,957	1,578	3,975	3,455
Research and development	143	134	275	286
Selling, general and administrative	386	330	801	705
Restructuring costs	--	--	(17)	--
	2,486	2,042	5,034	4,446
Operating income	166	35	450	100
Interest and other income (expense), net	(50)	(7)	(35)	(7)
Income before provision for income taxes	116	28	415	93
Provision for income taxes	43	11	154	36
Net income	\$ 73	\$ 17	\$ 261	\$ 57
Earnings per common and common equivalent share	\$ .59	\$ .15	\$ 2.14	\$ .49
Cash dividends paid per common share	\$ .12	\$ .12	\$ .24	\$ .24
Common and common equivalent shares used in the calculations of earnings per share (in thousands)	122,644	118,944	122,122	117,950

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS  
(In millions)

	March 31, 1995 (Unaudited)	September 30, 1994
Current assets:		
Cash and cash equivalents	\$ 1,375	\$ 1,203
Short-term investments	611	55
Accounts receivable, net of allowance for doubtful accounts of \$97 (\$91 at September 30, 1994)	1,633	1,581
Inventories:		
Purchased parts	429	469
Work in process	161	207
Finished goods	394	412
	984	1,088
Deferred tax assets	350	293
Other current assets	208	256
Total current assets	5,161	4,476
Property, plant, and equipment:		
Land and buildings	481	484
Machinery and equipment	605	573
Office furniture and equipment	152	158
Leasehold improvements	216	237
	1,454	1,452
Accumulated depreciation and amortization	(791)	(785)
Net property, plant, and equipment	663	667
Other assets	226	160
	\$ 6,050	\$ 5,303

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED BALANCE SHEETS (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

(In millions)

	March 31, 1995 (Unaudited)	September 30, 1994
Current liabilities:		
Short-term borrowings	\$ 627	\$ 292
Accounts payable	854	882
Accrued compensation and employee benefits	138	137
Accrued marketing and distribution	182	178
Accrued restructuring costs	26	58
Other current liabilities	416	397
Total current liabilities	2,243	1,944
Long-term debt	304	305
Deferred tax liabilities	789	671
Shareholders' equity:		
Common stock, no par value; 320,000,000 shares authorized; 121,093,059 shares issued and outstanding at March 31, 1995 (119,542,527 shares at September 30, 1994)	339	298
Retained earnings	2,331	2,096
Accumulated translation adjustment	44	(11)
Total shareholders' equity	2,714	2,383
	\$ 6,050	\$ 5,303

See accompanying notes.

APPLE COMPUTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(In millions)

	SIX MONTHS ENDED	
	March 31, 1995	April 1, 1994
Cash and cash equivalents, beginning of the period	\$ 1,203	\$ 676
Operations:		
Net income	261	57
Adjustments to reconcile net income to cash generated by operations:		
Depreciation and amortization	67	81
Net book value of property, plant, and equipment retirements	1	10
Changes in assets and liabilities:		
Accounts receivable	(52)	39
Inventories	104	220
Other current assets	(9)	(128)
Accounts payable	(28)	19
Accrued restructuring costs	(32)	(80)
Other current liabilities	30	65
Deferred tax liabilities	118	70
Cash generated by operations	460	353
Investments:		
Purchase of short-term investments	(928)	(171)
Proceeds from sale of short-term investments	372	367
Purchase of property, plant, and equipment	(52)	(99)
Other	(23)	(25)
Cash generated by (used for) investment activities	(631)	72
Financing:		
Increase (decrease) in short-term borrowings	335	(332)
Increase (decrease) in long-term borrowings	(1)	298
Increases in common stock, net of related tax benefits and changes in notes receivable from shareholders	38	48
Cash dividends	(29)	(28)
Cash generated by (used for) financing activities	343	(14)
Total cash generated	172	411
Cash and cash equivalents, end of the period	\$ 1,375	\$ 1,087

See accompanying notes.

APPLE COMPUTER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Interim information is unaudited; however, in the opinion of the Company's management, all adjustments necessary for a fair statement of interim results have been included. All adjustments are of a normal recurring nature unless specified in a separate note included in these Notes to Consolidated Financial Statements. The results for interim periods are not necessarily indicative of results to be expected for the entire year. These financial statements and notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the fiscal year ended September 30, 1994, included in its Annual Report on Form 10-K for the year ended September 30, 1994 (the "1994 Form 10-K").

2. In the first quarter of 1995, the Company lowered its estimates of the total remaining costs associated with its restructuring plan initiated in the third quarter of 1993 and recorded an adjustment that increased income by \$17 million (\$11 million, or \$0.09 per share, after taxes). This adjustment primarily reflected favorable cancellation settlements of certain R&D project commitments and facility leases and the completion of other actions at lower costs than originally estimated.

At March 31, 1995, the Company had \$26 million of accrued restructuring costs for actions that are currently under way. Approximately \$20 million in charges to the accrual are expected to be incurred during 1995 with the remaining \$6 million incurred beyond 1995. Charges to be incurred beyond 1995 relate primarily to recurring payments under certain noncancelable operating leases.

The following table depicts a roll-forward reconciliation of the activity in the restructuring accrual balance from September 30, 1994 to March 31, 1995:

	(In millions)			
Category	Balance at September 30, 1994	Charges	Adjust- ments	Balance at March 31, 1995
Employee termination payments (C)	\$ 11	\$ 4	\$ 5	\$ 2
Provisions relating to employees who will not be terminated (C)	4	*	1	3
Termination payments for leases and other contracts (C)	20	6	1	13
Write-down of operating assets to be sold (N)	1	*	1	--
Provisions for litigation (C)	2	1	--	1
R&D project cancellations (C)	6	1	5	--
Other provisions and write-downs (B)	13	2	4	7
1991 accrued restructuring costs (B)	1	1	--	--
	\$ 58	\$ 15	\$ 17	\$ 26

C: Cash; N: Noncash; B: Both cash and noncash \*: Less than \$1 million

3. Interest and other income (expense), net, consists of the following:

	(In millions)			
	Three Months Ended		Six Months Ended	
	March 31, 1995	April 1, 1994	March 31, 1995	April 1, 1994
Interest income	\$ 26	\$ 8	\$ 44	\$ 18
Interest expense	(10)	(8)	(17)	(18)
Gain (loss) on foreign exchange instruments	(52)	5	(44)	10
Net premiums and discounts earned (paid) on forward and option foreign exchange instruments	(16)	(11)	(17)	(17)
Other income (expense), net	2	(1)	(1)	--
	\$(50)	\$(7)	\$(35)	\$(7)

4. Effective October 1, 1994, the Company adopted Financial Accounting Standard No. 115 (FAS 115), "Accounting for Certain Investments in Debt and Equity Securities". In accordance with FAS 115, prior period financial statements have not been restated to reflect the change in accounting principle. The cumulative effect of the change was not material to shareholders' equity as of October 1, 1994. Under FAS 115, debt securities that a company has both the positive intent and ability to hold to maturity are carried at amortized cost. Debt securities that a company does not have the positive intent and ability to hold to maturity and all marketable equity securities are classified as either available-for-sale or trading and are carried at fair value. Generally, unrealized holding gains and losses on securities classified as available-for-sale are reported as a component of shareholders' equity. Unrealized holding gains and losses on securities classified as trading are included in earnings.

The Company's cash equivalents consist primarily of certificates of deposit, time deposits and commercial paper with maturities of three months or less at the date of purchase. Short-term investments consist principally of commercial paper with maturities between three and twelve months. The Company's marketable equity securities consist of securities issued by U. S. corporations and are included in "Other assets" on the accompanying balance sheet. As of March 31, 1995, the Company's cash equivalents, short-term investments and marketable equity securities are classified as available-for-sale.

The adjustments recorded to shareholders' equity for unrealized holding gains (losses) on available-for-sale cash equivalents and short term investments were not material either individually or in the aggregate, at March 31, 1995. The net adjustment recorded to shareholders' equity for unrealized holding gains (losses) related to marketable equity securities was an unrealized gain of approximately \$40 million at March 31, 1995. The realized gains (losses) recorded to earnings on sales of available-for-sale securities, either individually or in the aggregate, were not material for the three and six months ended March 31, 1995.

5. U.S. income taxes have not been provided on a cumulative total of \$372 million of undistributed earnings of the Company's foreign subsidiaries. It is intended that these earnings will be indefinitely invested in operations outside the United States. It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed. Except for such indefinitely invested earnings, the Company provides for federal and state income taxes currently on undistributed earnings of foreign subsidiaries.

The Internal Revenue Service has proposed federal income tax deficiencies for the years 1984 through 1988, and the Company has made prepayments thereon. The Company has contested these alleged deficiencies and is pursuing administrative and judicial remedies. Management believes that adequate provision has been made for any adjustments that may result from these tax examinations.

6. Earnings per share is computed using the weighted average number of common and dilutive common equivalent shares attributable to stock options outstanding during the period.

7. Certain prior year amounts on the consolidated statements of cash flows have been reclassified to conform to the current period presentation.

8. On January 25, 1995, the Board of Directors declared a cash dividend of \$0.12 per share related to the Company's first fiscal quarter ended December 30, 1994. The dividend was distributed on March 10, 1995, to shareholders of record as of February 17, 1995. On April 27, 1995, the Board of Directors declared a cash dividend of \$0.12 per share for the Company's second fiscal quarter ended March 31, 1995. The dividend is payable on June 23, 1995, to shareholders of record as of June 2, 1995.

9. The information set forth in Item 1 of Part II hereof is hereby incorporated by reference.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the consolidated financial statements and notes thereto. All information is based on Apple's fiscal calendar.

(Tabular information: Dollars in millions, except per share amounts)

### Results of Operations

	Second Quarter			Six Months		
	1995	1994	Change	1995	1994	Change
Net sales	\$ 2,652	\$ 2,077	27.7%	\$ 5,484	\$ 4,546	20.6%
Gross margin	\$ 695	\$ 499	39.3%	\$ 1,509	\$ 1,091	38.3%
Percentage of net sales	26.2%	24.0%		27.5%	24.0%	
Operating expenses (excluding restructuring costs)	\$ 529	\$ 464	14.0%	\$ 1,076	\$ 992	8.5%
Percentage of net sales	19.9%	22.4%		19.6%	21.8%	
Restructuring costs	--	--	--	\$ (17)	--	--
Percentage of net sales	--	--		-0.3%	--	
Interest and other income (expense), net	\$ (50)	\$ (7)	661.1%	\$ (35)	\$ (7)	422.4%
Net income	\$ 73	\$ 17	329.4%	\$ 261	\$ 57	357.9%
Earnings per share	\$ 0.59	\$ 0.15	293.3%	\$ 2.14	\$ 0.49	336.7%

Net sales for the second quarter and first six months of 1995 increased over the comparable periods of 1994, primarily resulting from a combination of unit growth and higher average selling prices. The increase in average selling prices was driven by a shift in mix towards the Company's newer products and products with multi-media configurations. Specifically, the Company recorded strong sales of its Performa (registered trademark) 630, and of products within the Power Macintosh (registered trademark) family and PowerBook (registered trademark) 500 series of personal computers. Increased sales of these products contributed to an increase in the average aggregate revenue per Macintosh (registered trademark) computer unit of approximately 10% and 17% in the second quarter and first six months of 1995, respectively, over the comparable periods of 1994. Total Macintosh computer unit sales increased 21% and 9% in the second quarter and first six months of 1995, respectively, over the comparable periods of 1994. This unit sales growth principally resulted from strong sales of the Company's Power Macintosh products, PowerBook 500 series of personal computers and newer product offerings within the Performa family of desktop personal computers. This unit growth was partially offset by declining unit sales of certain of the Company's older product offerings.

International net sales grew 34% and 26% in the second quarter and first six months of 1995, respectively, over the comparable periods of 1994, primarily reflecting strong net sales growth in the Pacific region, particularly Japan. Net sales for the second quarter and first six months of 1995 grew moderately in Europe over the comparable periods of 1994. International net sales represented 54% and 51% of total net sales for the second quarter and first six months of 1995, respectively, compared with 52% and 48%, respectively, for the corresponding periods of 1994. Domestic net sales grew 21% and 15% in the second quarter and first six months of 1995, respectively, over the comparable periods of 1994, primarily resulting from strong growth in the education, consumer and business markets.

In general, the Company's resellers typically purchase products on an as-needed basis due to the Company's distribution strategy, which is designed to expedite the filling of orders. Resellers frequently change delivery schedules and order rates depending on changing market conditions. Unfilled orders ("backlog") can be, and often are, canceled at will. The Company attempts to fill orders on the requested delivery schedules. However, products may be in relatively short supply from time to time until production volumes have reached a level sufficient to meet demand or if other production or fulfillment constraints exist. The Company's backlog increased to approximately \$795 million at May 5, 1995, from approximately \$670 million at February 3, 1995, primarily due to backlog of the Company's Power Macintosh products.

In the Company's experience, the actual amount of product backlog at any particular time is not a meaningful indication of its future business prospects. In particular, backlog often increases in anticipation of or immediately following introduction of new products because of over-ordering by dealers anticipating shortages. Backlog often is reduced sharply once dealers and customers believe they can obtain sufficient supply. Because of the foregoing, as well as other factors affecting the Company's backlog, backlog should not

be considered a reliable indicator of the Company's future revenue or financial performance. Further information regarding the Company's backlog may be found under Part I, Item 2 of this Form 10-Q under the heading "Factors that May Affect Future Results and Financial Condition", which information is hereby incorporated by reference.

## Gross Margin

Gross margin represents the difference between the Company's net sales and its cost of goods sold. The amount of revenue generated by the sale of products is influenced principally by the price set by the Company for its products relative to competitive products. The cost of goods sold is based primarily on the cost of components and to a lesser extent, direct labor costs. The type and cost of components included in particular configurations of the Company's products (such as memory and disk drives) is often directly related to the need to market products in configurations competitive with other producers. Competition in the personal computer industry is intense, and in the short term, frequent changes in pricing and product configuration are often necessary in order to remain competitive. Accordingly, gross margin as a percentage of net sales can be significantly influenced in the short term by actions undertaken by the Company in response to industry-wide competitive pressures.

Gross margin increased both in amount and as a percentage of net sales during the second quarter and first six months of 1995, respectively, over the comparable periods of 1994. The increase in gross margin as a percentage of net sales was primarily a result of a shift in product mix towards the Company's newer high margin products within each product category which included strong sales of the Company's entry level Macintosh Performa 630, and of products within its Power Macintosh family and its PowerBook 500 series of personal computers.

The increase in gross margin levels was affected somewhat favorably by changes in foreign currency exchange rates as a result of a weaker U.S. dollar relative to certain foreign currencies during both the first and second quarters of 1995 compared with the corresponding periods of 1994. The Company's operating strategy and pricing take into account changes in exchange rates over time; however, the Company's results of operations can be significantly affected in the short term by fluctuations in foreign currency exchange rates.

The Company's gross margin percentage declined from 28.7% in the first quarter of 1995 to 26.2% in the second quarter of 1995, resulting primarily from the Company's pricing strategies, particularly on entry level and PowerBook notebook personal computers, and to a lesser extent on Power Macintosh products. It is anticipated that gross margins will remain under pressure and could fall below prior years' levels worldwide due to a variety of factors, including continued industry-wide pricing pressures, increased competition, and compressed product life cycles.

Research and Development	Second Quarter			Six Months		
	1995	1994	Change	1995	1994	Change
Research and development	\$143	\$134	6.7%	\$275	\$286	-3.8%
Percentage of net sales	5.4%	6.5%		5.0%	6.3%	

Research and development expenditures increased in amount in the second quarter of 1995 when compared with the corresponding period of 1994, due to higher project- and headcount- related spending. During the first six months of 1995, research and development expenditures decreased when compared with the corresponding period of 1994, primarily reflecting lower product development expenditures during the first quarter of 1995 as a result of the Company's restructuring actions aimed at reducing costs as well as fewer new product introductions in the first quarter of 1995 compared with the corresponding period of 1994.

As a percentage of net sales, research and development expenditures decreased in the second quarter and first six months of 1995 compared with the corresponding periods of 1994, primarily due to the increase in the level of net sales.

Selling, General and Administrative	Second Quarter			Six Months		
	1995	1994	Change	1995	1994	Change
Selling, general and administrative	\$386	\$330	17.0%	\$801	\$705	13.6%
Percentage of net sales	14.6%	15.9%		14.6%	15.5%	

Selling, general and administrative expenses increased in amount in the second quarter and first six months of 1995 when compared with the corresponding periods of 1994. This increase was primarily a result of increased advertising and channel marketing program spending as the Company continued its efforts to expand its market share. Despite this increase in expenditures, selling, general and administrative expenses decreased as a percentage of net sales in the second quarter and first six months of 1995 when compared with the corresponding periods of 1994, primarily as a result of the increase in the level of net sales combined with the Company's ongoing efforts to manage operating expense growth.

The Company will continue to face the challenge of managing selling, general and administrative expenses relative to gross margin levels, particularly in light of the Company's expectation of continued pressure on gross margins, and continued competitive pressures worldwide. The Company anticipates that selling, general and administrative expenses will increase in amount during the remaining quarters of 1995, but will remain relatively flat as a percentage of net sales.

Restructuring costs	Second Quarter			Six Months		
	1995	1994	Change	1995	1994	Change
Restructuring costs	--	--	--	\$(17)	--	--
Percentage of net sales Net	--	--		(0.3%)	--	

For information regarding the Company's restructuring actions, refer to Note 2 of the Notes to Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q, which information is hereby incorporated by reference.

Interest and Other Income (Expense), Net	Second Quarter			Six Months		
	1995	1994	Change	1995	1994	Change
Interest and other income (expense), net	\$(50)	\$(7)	614.3%	\$(35)	\$(7)	400%

Interest and other income (expense), net, increased by approximately \$43 million in expense in the second quarter of 1995 compared with the same period in 1994. The increase in expense was primarily driven by net losses recorded for the mark-to-market valuation of outstanding currency forwards and sold currency options undertaken for currency risk management purposes, and to a lesser extent, higher overall hedging costs as a result of the increased volatility in the exchange markets as the value of the U.S. dollar declined dramatically relative to other foreign currencies during March of 1995. The increase in expense was slightly offset by an increase in net interest income resulting from higher cash balances coupled with higher investment interest rates. As of May 1, 1995, the Company's net mark-to-market valuation of outstanding currency forwards and sold currency options undertaken for currency risk management purposes has remained consistent with the net mark-to-market valuation recorded at March 31, 1995.

Interest and other income (expense), net, increased by approximately \$28 million in expense for the first six months of 1995 when compared with the corresponding period of 1994, reflecting the \$43 million increase in mark- to-market losses, and expense related

to foreign exchange risk management activity during the second quarter of 1995 as discussed above. This increase in expense was partially offset by a \$15 million increase in interest and other income, net, during the first quarter of 1995 when compared with the corresponding period of 1994 which reflected increased interest income of \$8 million, net gains from foreign currency risk management activity, and a decrease in interest expense.

Notional principal amounts on certain of the Company's foreign exchange instruments increased significantly compared with the balances at September 30, 1994, in accordance with the Company's currency risk management strategies. Specifically, notional principal amounts on purchased and sold foreign exchange options not accounted for as hedges increased approximately \$4.7 billion and \$3.8 billion respectively, compared with the balances at September 30, 1994. The notional principal amounts for off-balance-sheet instruments provide one measure of the transaction volume outstanding at a particular point in time, and do not necessarily represent the amount of the Company's exposure to credit or market risk. The net impact of the mark-to-market valuation on these foreign exchange instruments is discussed in the preceding paragraphs.

Further information regarding the Company's foreign exchange hedging programs may be found in Part I, Item 2 of this Form 10-Q under the subheading "Global Market Risks" included under the heading "Factors that May Affect Future Results and Financial Condition."

Provision for Income Taxes	Second Quarter			Six Months		
	1995	1994	Change	1995	1994	Change
Provision for income taxes	\$43	\$11	290.9%	\$154	\$36	327.8%
Effective tax rate	37%	38%		37%	38%	

The information contained in Note 4 of the Notes to Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated by reference into this discussion.

### **Factors That May Affect Future Results and Financial Condition**

The Company's future operating results and financial condition are dependent on the Company's ability to successfully develop, manufacture, and market technologically innovative products in order to meet dynamic customer demand patterns. Inherent in this process are a number of factors that the Company must successfully manage in order to achieve favorable future operating results and financial condition.

### **Product Introductions and Transitions**

Due to the highly volatile nature of the personal computer industry, which is characterized by dynamic customer demand patterns and rapid technological advances, the Company frequently introduces new products and product enhancements. The success of new product introductions is dependent on a number of factors, including market acceptance, the Company's ability to manage the risks associated with product transitions, the availability of application software for new products, the effective management of inventory levels in line with anticipated product demand, and the manufacturing of products in appropriate quantities to meet anticipated demand. Accordingly, the Company cannot determine the ultimate effect that new products will have on its sales or results of operations.

In 1994, the Company introduced Power Macintosh, a new line of Macintosh computers based on a new PowerPC family of RISC microprocessors. The Company's results of operations and financial condition may be adversely affected if it is unable to successfully complete the transition of its lines of personal computers and servers from the Motorola 68000 series of microprocessors to the PowerPC (registered trademark) microprocessor. The success of this ongoing transition will depend on the Company's ability to continue to sell products based on the Motorola 68000 series of microprocessors while gaining market acceptance of the new PowerPC processor-based products, to successfully manage inventory levels of both product lines simultaneously, and to continue to coordinate the timely development and distribution by independent software vendors of new "native" software applications specifically designed for the PowerPC processor-based products.

The rate of product shipments immediately following introduction of a new product is not necessarily an indication of the future rate of shipments for that product, which depends on many factors, some of which are not under the control of the Company. These factors may include initial large purchases by a small segment of the user population that tends to purchase new technology prior to its acceptance by the majority of users ("early adopters"); purchases in satisfaction of pent-up demand by users who anticipated new technology and as a result deferred purchases of other products; and over-ordering by dealers who anticipate shortages due to the aforementioned factors. The preceding may also be offset by other factors, such as the deferral of purchases by many users until new technology is accepted as "proven" and for which commonly used software products are available; and the reduction of orders by dealers once they believe they can obtain sufficient supply of product previously in backlog.

Backlog is often volatile after new product introductions due to the aforementioned demand factors, often increasing sharply coincident with introduction, and then reducing sharply once dealers and customers believe they can obtain sufficient supply of product.

The measurement of demand for newly introduced products is further complicated by the availability of different product configurations, which may include various types of built-in peripherals and software. Configurations may also require certain localization (such as language) for various markets and, as a result, demand in different geographic areas may be a function of the availability of third-party software in those localized versions. For example, the availability of European-language versions of software products manufactured by U.S. producers may lag behind the availability of U.S. versions by a quarter or more. This may result in lower initial demand for the Company's new products outside the United States, even though localized versions of the Company's products may be available.

## **Competition**

The personal computer industry is highly competitive and continues to be characterized by consolidations in the hardware and software industries, aggressive pricing practices, and downward pressure on gross margins. The Company's results of operations and financial condition could be adversely affected should the Company be unable to effectively manage the impact of industry-wide pricing pressures.

The Company's future operating results and financial condition may also be affected by the Company's ability to offer customers competitive technologies while effectively managing the impact on inventory levels and the potential for customer confusion created by product proliferation.

On November 7, 1994, the Company reached an agreement with International Business Machines Corporation (IBM) and Motorola, Inc. on a new hardware reference platform for the PowerPC microprocessor that is intended to deliver a much wider range of operating system and application choices for computer customers. As a result of this agreement, the Company intends to make the Macintosh operating system available on the common platform. Accordingly, the Company's future operating results and financial condition may be affected by its ability to implement this and certain other collaboration agreements entered into, and to manage the associated competitive risk.

The Company's future operating results and financial condition may also be affected by the Company's ability to increase market share in its personal computer business. The Company recently announced the licensing of the Macintosh operating system to other personal computer vendors in January of 1995, and one vendor is currently selling product which utilizes the Macintosh operating system. However, the Company is currently the primary maker of hardware that uses the Macintosh operating system, and it has a minority market share in the personal computer market, which is dominated by makers of computers that run the MS-DOS(registered trademark) and Microsoft Windows (trademark) operating systems. Certain of the Company's personal computer products are capable of running application software designed for the MS-DOS or Windows operating systems, through software emulation of Intel Corporation microprocessor chips by use of software specifically designed for the Company's products, either those based on the Motorola 68000 series of microprocessors or those based on the PowerPC microprocessor. The Company also recently introduced products which include both the RISC-based PowerPC 601 microprocessor and the 486 DX2/66 microprocessor which enable users to switch between Macintosh and DOS computing environments. In addition, as a result of the collaboration agreement noted in the preceding paragraph, the Company believes it may have the opportunity to increase its market share in the personal computer business as the Macintosh operating system becomes available on computers based on the new hardware reference platform.

Decisions by customers to purchase the Company's personal computers, as opposed to MS-DOS or Windows-based systems, are often

based on the availability of third-party software for particular applications. The Company believes that the availability of third-party application software for the Company's hardware products depends in part on the third-party developers' perception and analysis of the relative benefits of developing such software for the Company's products versus software for the larger MS-DOS and Windows market. This analysis is based on factors such as the relative market share of the Company's products, the anticipated potential revenue that may be earned, and the costs of developing such software products.

In an effort to increase overall market share, the Company has commenced licensing the Macintosh operating system to other personal computer vendors. The Company anticipates that the licensing activities will result in a variety of these vendors bringing to market personal computers that will run application software based on the Macintosh operating system. The Company also believes that licensing the operating system will offer software vendors a broader installed base on which they can develop and provide technical innovations for the Macintosh platform. However, there can be no assurance on the number of application software titles or the rate at which vendors will bring to market application software based on the Macintosh operating system. The Company's efforts to increase its overall market share through licensing of the Macintosh operating system is also dependent on the Company's ability to manage the risks associated with competing companies producing Macintosh OS-based computer systems. Accordingly, the Company cannot determine the ultimate effect that licensing of the Macintosh operating system will have on its sales or results of operations.

Microsoft Corporation is the developer of the MS-DOS and Windows operating systems, which are the principal competing operating systems to the Company's Macintosh operating system. Microsoft is also an important developer of application software for the Company's products. Accordingly, Microsoft's interest in producing application software for the Company's products may be influenced by Microsoft's perception of its interests as an operating system vendor.

The Company's ability to produce and market competitive products is also dependent on the ability of IBM and Motorola, Inc., the suppliers of the new PowerPC RISC microprocessor for certain of the Company's products, to continue to supply to the Company microprocessors which produce superior price/performance results compared with those supplied to the Company's competitors by Intel Corporation, the developer and producer of the microprocessors used by most personal computers using the MS-DOS and Windows operating systems. IBM produces personal computers based on the Intel microprocessors as well as on the PowerPC microprocessor, and is also the developer of OS/2, a competing operating system to the Company's Macintosh operating system. Accordingly, IBM's interest in supplying the Company with improved versions of microprocessors for the Company's products may be influenced by IBM's perception of its interests as a competing manufacturer of personal computers and as a competing operating system vendor.

The Company's future operating results and financial condition may also be affected by the Company's ability to successfully expand its new businesses and product offerings into other markets, such as the markets for on-line services and personal digital assistant (PDA) products.

### **Global Market Risks**

A large portion of the Company's revenue is derived from its international operations. As a result, the Company's operations and financial results could be significantly affected by international factors, such as changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which the Company distributes its products. When the U.S. dollar strengthens against other currencies, the U.S. dollar value of non-U.S. dollar-based sales decreases. When the U.S. dollar weakens, the U.S. dollar value of non-U.S. dollar-based sales increases. Correspondingly, the U.S. dollar value of non-U.S. dollar-based costs increases when the U.S. dollar weakens and decreases when the U.S. dollar strengthens. Overall, the Company is a net receiver of currencies other than the U.S. dollar and, as such, benefits from a weaker dollar and is adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates may negatively affect the Company's consolidated sales and gross margins (as expressed in U.S. dollars).

To mitigate the short-term impact of fluctuating currency exchange rates on the Company's non-U.S. dollar-based sales, product procurement, and operating expenses, the Company regularly hedges its non-U.S. dollar-based exposures. Specifically, the Company enters into foreign exchange forward and option contracts to hedge firmly committed transactions. Currently, hedges of firmly committed transactions do not extend beyond one year. The Company also purchases foreign exchange option contracts to hedge certain other probable, but not firmly committed transactions. Hedges of probable, but not firmly committed transactions do not extend beyond one year. To reduce the costs associated with these ongoing foreign exchange hedging programs, the Company also regularly sells foreign exchange option contracts and enters into certain other foreign exchange transactions. All foreign exchange

forward and option contracts not accounted for as hedges, including all transactions intended to reduce the costs associated with the Company's foreign exchange hedging programs, are carried at fair value and are adjusted on each balance sheet date for changes in exchange rates.

While the Company is exposed with respect to fluctuations in the interest rates of many of the world's leading industrialized countries, the Company's interest income and expense is most sensitive to fluctuations in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents, and short-term investments as well as interest paid on its short-term borrowings and long-term debt. To mitigate the impact of fluctuations in U.S. interest rates, the Company has entered into interest rate swap and option transactions. Certain of these swaps are intended to better match the Company's floating-rate interest income on its cash, cash equivalents, and short-term investments with the fixed-rate interest expense on its long-term debt. The Company also enters into interest rate swap, swaption, and option transactions in order to extend the effective duration of a portion of its cash, cash equivalent, and short-term investment portfolios. These swaps may extend the Company's cash investment horizon up to a maximum effective duration of three years.

To ensure the adequacy and effectiveness of the Company's foreign exchange and interest rate hedge positions, as well as to monitor the risks and opportunities of the non hedge portfolios, the Company continually monitors its foreign exchange forward and option positions, and its interest rate swap, swaption, and option positions on a stand-alone basis and in conjunction with its underlying foreign currency- and interest rate- related exposures, respectively, from both an accounting and an economic perspective. However, given the effective horizons of the Company's risk management activities, there can be no assurance that the aforementioned programs will offset more than a portion of the adverse financial impact resulting from unfavorable movements in either foreign exchange or interest rates. In addition, the timing of the accounting for recognition of gains and losses related to marked-to-market instruments for any given period may not coincide with the timing of gains and losses related to the underlying economic exposures, and as such, may adversely affect the Company's operating results and financial position.

### **Inventory and Supply**

The Company's products include certain components, such as specific microprocessors manufactured by Motorola, Inc., that are currently available only from single sources. Any availability limitations, interruptions in supplies, or price increases of these and other components could adversely affect the Company's business and financial results. Continued growth in the personal computer industry may create demand for certain components that exceeds the present manufacturing capacity of component suppliers. If the Company cannot obtain an adequate supply of either custom-made or commonly-used components due to competitive factors in the personal computer industry, the Company's future operating results and financial condition may be adversely affected by product constraints and increased costs. The Company's future operating results and financial condition may also be adversely affected by the Company's ability to manage inventory levels and lead times required to obtain components in order to be more responsive to short-term shifts in customer demand patterns. In addition, if anticipated unit sales growth for new and current product offerings is not realized, inventory valuation reserves may be necessary that would adversely affect the Company's results of operations and financial condition.

### **Marketing and Distribution**

A number of uncertainties exist regarding the marketing and distribution of the Company's products. Currently, the Company's primary means of distribution is through third-party computer resellers. However, in response to changing industry practices and customer preferences, the Company is continuing its expansion into various consumer channels, such as mass-merchandise stores (for example, Sears and Wal-Mart), consumer electronics outlets, and computer superstores. The Company's business and financial results could be adversely affected if the financial condition of these sellers weakens or if sellers within consumer channels decide not to continue to distribute the Company's products.

### **Other Factors**

The majority of the Company's research and development activities, its corporate headquarters, and other critical business operations are located near major seismic faults. The Company's operating results and financial condition could be materially adversely affected in the event of a major earthquake.

The Company plans to replace its current transaction systems (which include order management, distribution, manufacturing, and finance) with a single integrated system as part of its ongoing effort to increase operational efficiency. The Company's future operating results and financial condition could be adversely affected by its ability to implement and effectively manage the transition to this new integrated system.

In April 1995, the Company announced a company-wide reorganization designed to more closely align the Company's organizational structure with the Company's business strategy of placing increased focus on customer needs and expanding its presence in the home, education, and business markets. Although the Company does not anticipate any downsizing as a result of the organizational changes, the Company's future operating results and financial condition could be adversely affected by its ability to effectively manage the transition to this new organizational structure.

Because of the foregoing factors, as well as other factors affecting the Company's operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. In addition, the Company's participation in a highly dynamic industry often results in significant volatility of the Company's common stock price.

#### Liquidity and Capital Resources Six Months 1995

Cash, cash equivalents and short-term investments, net of short-term borrowings	\$ 1,359
Cash generated by operations	\$ 460
Cash used for investment activities, excluding short-term investments	\$ 75
Cash generated by financing activities	\$ 343

The Company's financial position with respect to cash, cash equivalents and short-term investments, net of short-term borrowings increased to \$1,359 million at March 31, 1995 from \$966 million at September 30, 1994. This increase was primarily attributable to the Company's continued efforts to increase profit levels and to manage working capital, particularly in the areas of inventory and accounts receivable.

Cash generated by operations during the first six months of 1995 totaled \$460 million. Cash was generated primarily by higher sales levels related to a shift in product mix towards higher-margin products which typically have higher average selling prices.

Net cash used for the purchase of property, plant and equipment totaled approximately \$52 million during the first six months of 1995. These purchases primarily included manufacturing machinery and equipment. The Company anticipates that capital expenditures in 1995 will be relatively consistent with 1994 expenditures of \$160 million.

Short-term borrowings at March 31, 1995 were approximately \$335 million higher than at September 30, 1994. These borrowings were primarily made to fund expected working capital growth in certain markets worldwide. In general, the Company's short-term borrowings typically reflect borrowings made under its commercial paper program and short-term uncommitted bid-line arrangements with certain commercial banks. In particular, Apple Japan, Inc., and Apple Computer BV, (Netherlands), wholly owned subsidiaries of the Company, incurred short-term borrowings from several banks, totaling approximately \$457 million and \$170 million, respectively, at March 31, 1995.

Long-term borrowings of \$304 million at March 31, 1995 remained consistent with the balance at September 30, 1994. Substantially the entire amount of long-term borrowings represents \$300 million aggregate principal amount of 6.5% unsecured notes issued under an omnibus shelf registration statement filed with the Securities and Exchange Commission in 1994. This shelf registration covers the registration of debt and other securities for an aggregate offering price of up to \$500 million. The notes were sold at 99.925% of par, for an effective yield to maturity of 6.51%. The notes pay interest semi-annually and mature on February 15, 2004.

The Company expects that it will continue to incur short- and long-term borrowings from time to time generally to finance U.S. working capital needs and capital expenditures, because a substantial portion of the Company's cash, cash equivalents, and short-term investments is held by foreign subsidiaries, generally in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries would be subject to U.S. income taxation upon repatriation to the United States; the Company's financial statements fully provide for

any related tax liability on amounts that may be repatriated.

The Internal Revenue Service has proposed federal income tax deficiencies for the years 1984 through 1988, and the Company has made prepayments thereon. The Company has contested these alleged deficiencies and is pursuing administrative and judicial remedies. Management believes that adequate provision has been made for any adjustments that may result from these tax examinations.

The Company believes that its balances of cash, cash equivalents, and short-term investments, together with funds generated from operations and short- and long-term borrowing capabilities, will be sufficient to meet its operating cash requirements on a short- and long-term basis.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Reference is made to page 39 of the Company's 1994 Annual Report on Form 10-K under the subheading "Litigation" for a discussion of certain litigation involving Microsoft Corporation and Hewlett-Packard Company and 1993 Securities and State Court Shareholders Action Litigation.

In the case of Apple Computer, Inc. v. Microsoft Corporation and Hewlett-Packard Company, the Company's petition for a writ of certiorari was denied by the Supreme Court of the United States on February 21, 1995. Accordingly, the decision of the appellate court affirming the dismissal of the Company's copyright infringement case against Microsoft Corporation and Hewlett-Packard is now final. The remaining outstanding matter in the case is Microsoft's and Hewlett-Packard's requests for an award of their attorneys' fees under the Copyright Act. The trial court has scheduled preliminary proceedings on these requests, looking toward a hearing in July 1995 to resolve them.

With respect to the 1993 Securities and State Court Shareholders Action Litigation, the Company announced on May 9, 1995, that all of the complaints filed in those cases have been voluntarily dismissed by the plaintiffs. No payment or consideration of any kind was paid by the defendants, including the Company.

The Company continues to believe the pending suits cited above in which the Company is a defendant, to be without merit and intends to vigorously defend against these actions. The Company believes the resolution of all of these matters will not have a material adverse effect on its financial condition and results of operations as reported in the accompanying financial statements. However, depending on the amount and timing of an unfavorable resolution of these lawsuits, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

### Item 4. Submission of Matters to a Vote of Security Holders

a) The annual meeting of shareholders was held on January 24, 1995.

b) The following directors were elected at the meeting to serve two-year terms as Class I directors:

Gilbert F. Amelio  
Joseph A. Graziano  
B. Jurgen Hintz  
Katherine M. Hudson  
Michael H. Spindler

The following directors are continuing to serve their terms as Class II directors which will expire at the next annual meeting.

Peter O. Crisp  
Bernard Goldstein  
Delano E. Lewis  
A. C. Markkula, Jr.

c) The matters voted upon at the meeting and results of the voting with respect to those matters were as follows:

	For	Withheld		
(1) Election of Class I Directors:				
Gilbert F. Amelio	101,441,845	938,584		
Joseph A. Graziano	101,765,074	615,355		
B. Jurgen Hintz	101,961,508	418,921		
Katherine M. Hudson	101,684,692	695,737		
Michael H. Spindler	101,764,683	615,746		
	For	Against	Abstain	Broker Non-Votes
(2) Ratification of Ernst & Young LLP as the Company's independent auditors for fiscal year 1995.	101,898,239	203,676	278,514	--

The foregoing matters are described in detail in the Registrant's definitive proxy statement dated December 12, 1994, for the Annual Meeting of Shareholders held on January 24, 1995.

### Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit Number	Description
10.A.20	Separation Agreement dated April 19, 1995, between the Registrant and Ian Diery.
11	Computation of per share earnings
27	Financial Data Schedule

b) Reports on Form 8-K

None.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**APPLE COMPUTER, INC.**  
(Registrant)

*DATE: May 15, 1995*

*BY /s/ Joseph A. Graziano*

*Joseph A. Graziano  
Executive Vice President and  
Chief Financial Officer*

**APPLE COMPUTER, INC.**

**INDEX TO EXHIBITS**

Exhibit Index	Description	Page Number
10.A.20	Separation Agreement dated April 19, 1995, between the Registrant and Ian Diery.	20
11	Computation of per Share Earnings	26
27	Financial Data Schedule	27

**Separation Agreement**

In consideration of the mutual agreements set forth below, Ian Diery ("Diery") and Apple Computer, Inc. ("Apple") agree to the following terms and conditions of this Separation Agreement (the "Agreement"):

1. **Nature of Business.** Apple is in the business of designing, developing, producing, selling and marketing computer systems, related products and services. The business practices of Apple and the market conditions in which Apple operates change rapidly and these changes have necessitated prompt changes in management, and/or managers' responsibilities. These changes are needed from time to time in the high level management positions such as those for which Diery has been employed.
2. **Resignation from Office.** Employee hereby resigns from his position as Executive Vice President and General Manager, Personal Computer Division, effective as the date of this Agreement. Diery hereby resigns from all other positions he holds on behalf of Apple, its subsidiaries and affiliates, which positions are set forth at Exhibit A hereto. Diery agrees to sign all appropriate documentation prepared by Apple to facilitate these resignations.
3. **Employment Status/Termination.** Subject to paragraph 11 below, from the date of this Agreement through October 15, 1995 ("Termination Date") or such earlier date as a result of an event under paragraph 11, Diery will continue to devote his best efforts to Apple and will remain an employee of and fiduciary to Apple reporting to Edward B. Stead. Until Termination Date, Diery shall continue to receive his regular salary, participate in the Apple's FY '95 Senior/Executive Incentive Bonus Plan ("Bonus Plan") and receive medical insurance benefits and agrees that he will use his accrued vacation and sabbatical before Termination Date. Apple will designate Diery as a participant in Apple's Executive Severance Plan ("Plan") on or about August 15, 1995, or such earlier date as determined between the parties, and Diery will become eligible to receive the appropriate compensation and benefits under that Plan.
4. **Compensation and Benefits Upon Termination.** Subject to paragraph 11 below, at Termination Date, Apple will pay the following:
  - a. **Severance Payments.** Under the Plan, on Termination Date as defined above, Diery is eligible to receive a lump sum severance payment equal to 7 months' pay and a proration of his FY '96 bonus, less deductions. Subject to paragraph 11 below, Apple will pay Diery eight hundred eighty seven thousand, four hundred eighty-five thousand dollars (\$887,485), less deductions, in full satisfaction of all Apple's obligations under the Plan, Bonus Plan and otherwise. Diery shall be paid on or about Termination Date and such payment constitutes full compensation under the Plan, Bonus Plan and otherwise. There shall be no other payments to Diery except as stated in this paragraph 4(a) and in paragraph 3 above and the amount of such payments shall be subject to paragraph 11.
  - b. **Satisfaction of Repayment Obligations.** At Termination Date, Diery shall have satisfied any and all repayment obligations to Apple including specifically his obligation to satisfy his promissory note to Apple relating to a down payment loan. A copy of the promissory note dated December 6, 1989 is attached hereto as Exhibit B. Diery and Apple agree that the principal and interest due and owing as of October 15, 1995 is two hundred sixty-one thousand, seven hundred ninety dollar and seventy-one cents (\$261,790.71). If this amount (or adjusted amount in the event Diery's Termination Date is prior to October 15, 1995) remains unpaid on Termination Date, Diery agrees that the entire sum may be withheld from the amounts otherwise payable to him under this Agreement.
  - c. **Stock Options.** The Board or Apple's Stock Option Committee (the "Committee") previously granted Diery options to purchase shares of Apple Common Stock under Apple's 1981 and 1990 Stock Option Plans (the "1981 and 1990 Plans") and options to purchase shares of stock under Apple's 1987 Executive Long Term Stock Option Plan ("ELTSOP"). Such options shall continue to vest and be exercisable in accordance with the terms of the grant agreement issued to Diery with respect to such grants, and the terms of the 1981 and 1990 Stock Option Plans and the ELTSOP administered by the Board or the Committee.

d. Receipt of Documentation. Diery acknowledges that he has previously received from Apple copies of pertinent portions of Apple's Senior/ Executive Bonus Program, the 1981 and 1990 Stock Option Plans, Apple's ELTSOP, the Vacation and Holiday Policies, and Apple's Benefit Plans relating to health care, life insurance, accidental death and disability, short and long term disability and Savings Plans. Diery understands and agrees to be bound by the written terms and conditions of these various plans, policies or programs, and agrees that Apple has reserved the right and option, in its sole discretion, to change, interpret, modify or terminate these and all other plans, policies or programs at any time without Diery's consent.

e. No Other Benefits. Diery will not be entitled to receive any other compensation, bonus or benefits provided by, through or on behalf of Apple, its affiliates or subsidiaries, other than benefits that are vested as of the date of this Agreement and that are payable in accordance with the terms of any applicable Benefit Plan, or otherwise provided for herein.

5. Confidentiality. The terms of this Agreement are confidential. Neither Diery nor Apple will at any time disclose to any third party the fact or terms of this Agreement, except as authorized by this agreement or as required by law. Diery may also make such disclosure to his spouse, tax advisor or lawyer, all of whom shall be instructed to keep the information disclosed to them confidential; any disclosure by any such party shall be deemed a disclosure by Diery. Apple and Diery shall not disparage each other in their communications in response to all inquiries from the press, public media or any other third parties regarding this Agreement or Diery's employment termination.

6. Trade Secrets, Proprietary and Confidential Information. Diery agrees to comply with Apple's "Proprietary Rights and Information Agreement" which is attached hereto as Exhibit C to this Agreement

In addition, Diery agrees to continue to abide by the principles and guidelines in Apple's Global Ethics brochure, the terms of which are incorporated herein.

On or before Termination Date, Diery agrees to promptly return all proprietary and confidential information, including but not limited to all inventions, discoveries, improvements, computer programs, designs, documentation, notes, plans, drawings and copies thereof to Apple.

Diery and Apple agree that this section regarding Trade Secrets, Proprietary and Confidential Information shall survive the termination of this Agreement.

7. Fiduciary Duties/Non-Competition/Non-Solicitation. Diery further recognizes that Apple's work force constitutes an important and vital aspect of its business. Diery agrees, therefore, that both during his employment with Apple, and for a period of six months following Termination Date, he shall not solicit, or assist others to become employed by any firm, company or other business enterprise. Diery further represents that he has no time prior to this Agreement solicited or encouraged any employee to leave Apple.

Diery will retain his fiduciary responsibilities to Apple to the extent provided by law. For six months following Termination Date, Diery will not, without the prior express written consent of Apple, compete with Apple by engaging in or assisting others to develop or market products or services that are in competition with Apple products or services. Diery's agreement not to compete is limited to the states of California and New York only.

Diery and Apple also agree, that upon a breach or violation or threatened breach or violation of any confidentiality, trade secrets, non-competition or non-solicitation agreement by Diery contained herein, or if any provision of Sections 5, 6, or 7 of this Agreement, Apple, in addition to all other remedies which might be available to it, shall be entitled as a matter of right to equitable relief in any court of competent jurisdiction, including the right to obtain injunctive relief or specific performance. Diery and Apple agree that the remedies at law for any such breach or violation are not fully adequate and that the injuries to Apple as a result of the continuation of any breach or violation are incapable of full calculation in monetary terms and therefore constitute irreparable harm. This paragraph 7 shall survive the termination of this Agreement.

8. Indemnification. All rights of indemnification previously provided by Apple to Diery by Apple's By-Laws and/or by the Indemnification Agreement dated October 16, 1989, shall continue in full force and effect in accordance with their terms, following the date of this Agreement. A copy of Diery's Indemnification Agreement is attached hereto as Exhibit D to this Agreement.

9. Successors. Apple will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Apple to expressly assume and agree to perform this Agreement in the manner and to the same extent that Apple would be required to perform it if no such succession had taken place. Failure of Apple to obtain such assumption and agreement prior to the effectiveness of any such succession shall entitle Diery to the benefits listed in paragraph 4 of this Agreement, subject to the terms and conditions therein.

10. Governing Law. The validity, interpretation, effect, and enforcement of this Agreement shall be governed by the laws of the State of California without regard to its choice of law principles.

11. Entire Agreement. This Agreement, and Exhibits A, B, C and D to this Agreement, set forth the entire Agreement and understanding between Diery and Apple, and supersede any other negotiations, agreements, understandings, oral agreements, representations or past or future practices, whether written or oral, by Apple. This Agreement may be amended only by written agreement, signed by the parties to be bound by the amendment. Parol evidence will be inadmissible to show agreement by and between the parties to any term or condition contrary to or in addition to the terms and conditions contained in this Agreement.

Each Apple plan or policy referred to herein directly or by implication (except the 1981 and 1990 Stock Option Plans and the ELTSOP) is incorporated herein only insofar as it does not contradict this Agreement. If any inconsistencies exist between this Agreement and any such plan or policy, this Agreement shall control. If any inconsistencies exist between this Agreement and any such plan or policy, this Agreement and the 1981 and 1990 Stock Option Plans or the ELTSOP, those stock plans shall control.

Nothing in any such plan, policy, or this Agreement shall change the At Will nature of Diery's employment under this Agreement and under his employment agreement dated September 15, 1989, by which either party can terminate Diery's employment without regard to cause. Diery understands and agrees that Apple is obligated to make the payments outlined in paragraph 3 and 4 of this Agreement in the event Diery's employment terminates before Termination Date for any reason other than:

a. by Apple for "Business Reasons" as defined below;

b. by Diery for any reason, except if Diery's employment is terminated for any material breach by Apple of this Agreement. In this event, Diery will be entitled to the payments outlined in paragraph 3 and 4 adjusted according to the actual, accelerated Termination Date and offsetting any payments made to him prior to the actual, accelerated Termination Date;

For purposes of this Agreement only, "Business Reasons" shall mean that you are terminated for the following reasons:

(i) you have engaged in unfair competition with Apple; or

(ii) you have induced any customer of Apple to breach any contract with Apple;

(iii) you have made any unauthorized disclosure of or otherwise misused any of the secrets or confidential information of Apple;

(iv) you have committed any act of embezzlement, fraud or theft with respect to any Apple property;

(v) you have violated any Apple policy or guideline or the terms of this Agreement;

(vi) you have caused material loss, damage or injury to or otherwise endangered the property, reputation or employees of Apple;

(vii) you have engaged in malfeasance, negligence or misconduct, or failed to perform reasonable duties and responsibilities consistent with your fiduciary duties and responsibilities to Apple; or

(viii) you have failed to act in accordance with specific, reasonable and lawful instructions from Apple's Chief Executive Officer, or his delegate.

12. Right to Advice of Counsel. Diery understands that he has the right to have this Agreement reviewed by his lawyer and acknowledges that Apple has encouraged him to consult with his lawyer so that he is fully aware of his rights and obligations under this Agreement. Diery acknowledges that he has done so.

13. Modification. This Agreement may not be amended, modified, changed or discharged in any respect except as agreed in writing and signed by Diery and the Chief Executive Officer of Apple Computer, Inc.

14. Severability and Interpretation. In the event that any provision or any portion of this Agreement is held invalid or unenforceable by a court of competent jurisdiction, such provision or portion thereof shall be considered separate and apart from the remainder of this Agreement and the other provisions shall remain fully valid and enforceable, provided that, if paragraphs 5, 6, 7, 19 and 21 are held to be invalid or unenforceable in response to a motion, argument or other act by Diery, then Apple, at its sole discretion, may rescind the Agreement and recover all consideration paid to Diery under the Agreement.

15. Notices. All notices required by this Agreement shall be given in writing either by personal delivery or by first class mail, return receipt requested. Notices shall be addressed as follows:

To Apple: Apple Computer, Inc.  
1 Infinite Loop, Mail Stop 38-I Cupertino, California 95014 Attention: General Counsel

To Diery : 4175 Woodside Road  
Woodside, California 94062

or in each case to such other address as Diery or Apple shall notify the other. Notice given by mail shall be deemed given five (5) days following the date of mailing.

16. Miscellaneous. The rights and obligations of Apple under this Agreement shall inure to the benefit of and shall be binding upon the present and future subsidiaries of Apple, any and all subsidiaries of a subsidiary, all affiliated corporations, and successors and assigns of Apple. No assignment of this Agreement by Apple will relieve Apple of its obligations. Diery shall not assign any of his rights and/or obligations under this Agreement and any such attempted assignment will be void. This Agreement shall be binding upon Diery heirs, executors, administrators, or other legal representatives and their legal assigns.

17. Damage Limitation. At Termination Date, Diery shall not be entitled to recover any compensation, benefits or damages except as specifically described in this Agreement. This damage waiver provides that no damages (including without limitation, special, consequential, general, liquidated or punitive damages) shall be sought or due from Apple.

18. Waiver. A waiver by either party of any of the terms or conditions of this Agreement in any instance shall not be deemed or construed to be a waiver of such term or condition for the future, or of any subsequent breach thereof. All remedies, rights, undertakings, obligations, and agreements contained in this Agreement shall be cumulative and none of them shall be in limitation of any other remedy, right, undertaking, obligation or agreement of either party.

19. Release. Diery hereby completely releases and forever discharges Michael Spindler, Apple, its officers, directors, agents, employees, attorneys, insurers, subsidiaries and affiliates ("Apple Parties") from, and covenants not to sue any Apple Party with respect to, all claims, rights, demands, actions, obligations, debts, sums of money, damages (including but not limited to general, special, punitive, liquidated and compensatory damages) and causes of action of every kind, nature and character, known and unknown, in law or equity, connected with Diery's employment relationship with the Apple Parties, or any other act or omission of any Apple Party which may have occurred prior to the date this Agreement is signed. Diery further agrees that by his acceptance and negotiation of the payment provided for in paragraph (4) of this Agreement, he thereby completely releases and forever discharges the Apple Parties from, and covenants not to sue any Apple Party with respect to, all claims, rights, demands, actions, obligations, debts, sums of money, damages (including but not limited to general, special, punitive, liquidated and compensatory damages) and causes of action of every kind, nature and character, known and unknown, in law or equity, connected with Diery's employment relationship with the Apple Parties, or the termination of such relationship, or any other act or omission of any Apple Party which may have occurred prior to Termination Date. This release and discharge includes, but is not limited to, all "wrongful discharge" claims; all claims relating to any contracts of employment express or implied; any covenant of good faith and fair dealing express or implied; any tort of any nature: any federal, state, or municipal statute or ordinance; any claims under the California Fair Employment and Housing Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 1981, and any other laws and regulations relating to employment discrimination and any and all claims for attorney's fees and costs. Diery specifically acknowledges that the foregoing release includes a complete release and discharge of all Apple Parties from any and all claims, damages of any kind, and claims for attorneys fees and costs, under the Age Discrimination in Employment Act of 1967 ("ADEA") as amended by the Older Worker Benefit Protection Act ("OWBPA"). Diery and Apple agree that part of the consideration payable to Diery under this Agreement is consideration that Diery would not otherwise be entitled to and is in consideration for Diery's release of claims under the ADEA as amended by the OWBPA.

Diery acknowledges that he understands the protections provided by the OWBPA and that the provisions of the OWBPA have been met by the terms of this Agreement. Diery states that he knowingly and voluntarily enters into this Agreement. Diery acknowledges that this Agreement is written in a manner calculated to be understood by him. Diery further acknowledges that this Agreement refers without limitation to rights under the Age Discrimination in Employment Act. Diery understands that by this Agreement, he does not waive rights or claims that may arise after the date the Agreement is executed. Diery acknowledges that he is entering this Agreement in exchange for consideration in addition to anything of value to which he already is entitled due to his employment with Apple. Further, Diery acknowledges that this release of claims under the OWBPA is not requested in connection with an exit incentive program or other employment termination program offered to a group or class of employees within the meaning of OWBPA. Diery acknowledges that he has been allowed up to 21 (twenty-one) days from the date that he received this Agreement to accept its terms. Diery acknowledges he has consulted with an attorney about the Agreement. Diery acknowledges that after he signs the Agreement, he will then be given seven (7) days following the date on which he signs the Agreement to revoke it and that this Agreement will only become effective after this seven (7) day period has lapsed. Any such revocation must be in writing signed by Diery and immediately delivered to Apple's General Counsel.

Diery has read and expressly waives Section 1542 of the California Civil Code, which provides as follows:

**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.**

This waiver is not a mere recital, but is a known waiver of rights and benefits. This is a bargained-for provision of this Agreement and is further consideration for the covenants and conditions contained herein.

The Apple Parties hereby release and forever discharge Diery, his agents and attorneys from, and covenant not to sue Diery, his agents and attorneys with respect to, all claims, rights, demands, actions, obligations, debts, sums of money, damages, and causes of action ("claims") arising from his employment relationship with Apple to the extent permitted by law and public policy, except for any claims arising from any intentional acts of misconduct, or any other act taken in bad faith or without a reasonable belief that it was in the best interests of the Apple Parties.

20. Cooperation. Diery agrees that at all times he will make himself available, for such amounts of time as Apple's General Counsel shall reasonably deem necessary, to participate in the conduct of and preparation for any pending or future litigation to which Apple is a party and in which his experience or knowledge may be relevant. Diery shall be reimbursed for reasonable travel and out-of-pocket expenses incurred by virtue of his cooperation as described in this paragraph. In no respect shall this provision be deemed to pertain to or affect the nature or substance of Diery testimony at deposition or trial or in any other truthful testimony at deposition or trial or in any other circumstances.

21. Remedies in Event of Future Dispute.

a. Except as provided in subparagraph (b) below, in the event of any future dispute, controversy or claim between the parties arising from or relating to this Agreement, its breach, any matter addressed by this Agreement, and/or Diery's employment with Apple through Termination Date, the parties will first attempt to resolve the dispute through confidential mediation to be conducted in San Francisco by a member of the firm of Gregoria, Haldeman & Piazza, Mediated Negotiations, 625 Market Street, Suite 400, San Francisco, California 94105. If the parties' dispute is not resolved through mediation, it will be resolved through binding confidential arbitration to be conducted by the American Arbitration Association in San Francisco, pursuant to its Commercial Arbitration Rules, and judgment upon the award rendered by the Arbitrator(s) may be entered by any court having jurisdiction of the matter. The prevailing party in such arbitration shall be entitled to recover from the losing party, not only the amount of any judgment awarded in its favor, but also any and all costs and expenses, incurred in arbitrating the dispute or in preparing for such arbitration.

b. In the event that a dispute arises concerning compliance with this Agreement, either party will be entitled to obtain from a court with jurisdiction over the parties preliminary and permanent injunctive relief to enjoin or restrict the other party from such breach or to enjoin or restrict a third party from inducing any such breach, and other appropriate relief, including money damages. In seeking any such relief, however, the moving party will retain the right to have any remaining portion of the controversy resolved by binding confidential arbitration in accordance with subparagraph (a) above.

By signing the below, the parties agree to the terms hereof, including the Exhibits hereto, and agree that this document, and Exhibits A, B, C, and D hereto, sets forth their entire agreement.

**APPLE COMPUTER, INC.**

Date

By  
Edward B. Stead  
Vice President and General Counsel  
Apple Computer, Inc.

I have read, understand, and agree to the foregoing:

**Date Ian Diery**

**APPROVED AS TO FORM:**

By

Date Attorney for Ian Diery

**EXHIBIT 11**

**APPLE COMPUTER, INC.**

**COMPUTATION OF EARNINGS PER COMMON SHARE**

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	March 31, 1995	April 1, 1994	March 31, 1995	April 1, 1994
<b>Primary Earnings Per Share</b>				
<b>Earnings</b>				
Net income applicable to common stock	\$ 72,917	\$ 17,404	\$ 261,103	\$ 57,422
<b>Shares</b>				
Weighted average number of common shares outstanding	120,860	117,591	120,333	116,929
Adjustment for dilutive effect of outstanding stock options	1,784	1,353	1,789	1,021
Weighted average number of common and common equivalent shares used for primary earnings per share	122,644	118,944	122,122	117,950
Primary earnings per common share	\$ 0.59	\$ 0.15	\$ 2.14	\$ 0.49
<b>Fully Diluted Earnings Per Share</b>				
<b>Earnings</b>				
Net income applicable to common stock	\$ 72,917	\$ 17,404	\$ 261,103	\$ 57,422
<b>Shares</b>				
Weighted average number of common shares outstanding	120,860	117,591	120,333	116,929
Adjustment for dilutive effect of outstanding stock options	1,788	1,365	1,819	1,059
Weighted average number of common and common equivalent shares used for fully diluted earnings per share	122,648	118,956	122,152	117,988
Fully diluted earnings per common share	\$ 0.59	\$ 0.15	\$ 2.14	\$ 0.49

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONDENSED CONSOLIDATED STATEMENTS OF INCOME OF APPLE COMPUTER, INC. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

**ARTICLE 5**

MULTIPLIER: 1,000,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	SEP 29 1995
PERIOD END	MAR 31 1995
CASH	1,375
SECURITIES	611
RECEIVABLES	1,730
ALLOWANCES	97
INVENTORY	984
CURRENT ASSETS	5,161
PP&E	1,454
DEPRECIATION	791
TOTAL ASSETS	6,050
CURRENT LIABILITIES	2,243
BONDS	304
COMMON	339
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	2,375
TOTAL LIABILITY AND EQUITY	6,050
SALES	5,484
TOTAL REVENUES	5,484
CGS	3,975
TOTAL COSTS	3,975
OTHER EXPENSES	1,059
LOSS PROVISION	0
INTEREST EXPENSE	17
INCOME PRETAX	415
INCOME TAX	154
INCOME CONTINUING	261
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	261
EPS PRIMARY	2.14
EPS DILUTED	2.14

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