10-Q 1 a10-q.txt 10-Q UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 ----------- FORM 10-Q ----------- (MARK ONE) X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE --- SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended July 1, 2000 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 942404110 (STATE OR OTHER JURISDICTION (I.R.S. EMPLOYER IDENTIFICATION NO.) OF INCORPORATION OR ORGANIZATION) 1 Infinite Loop Cupertino, California 95014 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE) REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (408) 996-1010 Securities registered pursuant to Section 12(b) of the Act: None Securities registered pursuant to Section 12(g) of the Act: Common Stock, no par value Common Share Purchase Rights (Titles of classes) ----------- 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 X No ---- ---- 324,969,055 shares of Common Stock Issued and Outstanding as of July 21, 2000 PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS APPLE COMPUTER, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (in millions, except share and per share amounts)

THREE MONTHS ENDED NINE MONTHS ENDED ----------------- ----------------- JULY 1, 2000 JUNE 26, 1999 JULY 1, 2000 JUNE 26, 1999 ------------ ------------ ------------ ------------- ~~Net sales.. $1,825 $1,558 $6,113 $4,798 Cost of sales... 1,282 1,131 4,414 3,486 ------ ------ ------ ------ Gross margin...................................... 543 427 1,699 1,312 ------ ------ ------ ------ Operating expenses: Research and development........................... 97 80 279 232 Selling, general, and administrative.............. 278 243 884 761 Special charges: Restructuring costs........................... 0 0 8 9 Executive bonus............................... 0 0 90 0 ------ ------ ------ ------ Total operating expenses 375 323 1,261 1,002 ------ ------ ------ ------ Operating income .... 168 104 438 310 Gains from sales of investment 50 101 284 188 Interest and other income (expense), net 52 24 141 53 ------ ------ ------ ------ Total interest and other income (expense), net 102 125 425 241 ------ ------ ------ ------ Income before provision for income taxes............. 270 229 863 551 Provision for income taxes........................... 70 26 247 61 ------ ------ ------ ------ Net income.. $ 200 $ 203 $ 616 $ 490 ====== ====== ====== ======~~

~~Earnings per common share: Basic..~~

~~$0.62 $0.70 $1.90 $1.77 Diluted.. $0.55 $0.60 $1.71 $1.49 Shares used in computing earnings per share (in thousands): Basic.. 325,040 288,107 323,770 277,141 Diluted.. 361,817 349,300 359,928 346,660~~

See accompanying notes to condensed consolidated financial statements. 2 APPLE COMPUTER, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (in millions, except share amounts) ASSETS

JULY 1, 2000 SEPTEMBER 25,1999 -----------
- ----------------- ~~Current assets: Cash and cash~~
~~equivalents.. $1,344~~
~~$1,326 Short-term~~
~~investments... 2,482~~
~~1,900 Accounts receivable, less allowances of $63~~
~~and $68, respectively....... 967 681~~
~~Inventories..~~
~~5 20 Deferred tax~~
~~assets... 162 143~~
~~Other current~~
~~assets... 197 215 -~~
~~----- ------ Total current~~
~~assets.. 5,157 4,285~~
~~Property, plant and equipment,~~
~~net.. 314 318 Non-~~
~~current debt and equity~~
~~investments................................... 1,236 339~~
~~Other~~
~~assets...~~
~~225 219 ------ ------ Total~~
~~assets... $6,932~~
~~$5,161 ====== ====== LIABILITIES AND~~
~~SHAREHOLDERS' EQUITY Current liabilities:~~
~~Accounts~~
~~payable..~~
~~$1,040 $ 812 Accrued~~
~~expenses.. 833~~
~~737 ------ ------ Total current~~
~~liabilities... 1,873 1,549~~
~~Long-term~~
~~debt.. 300~~
~~300 Deferred tax~~
~~liabilities.. 583 208~~
~~------ ------ Total~~
~~liabilities... 2,756~~
~~2,057 ------ ------ Commitments and~~
~~contingencies Shareholders' equity: Series A non-~~
~~voting convertible preferred stock, no par value;~~
~~150,000 shares authorized, issued and~~
~~outstanding............................. 150 150 Common~~
~~stock, no par value; 900,000,000 shares~~
~~authorized; 324,826,267 and 321,598,122 shares~~
~~issued and outstanding, respectively............ 1,376~~
~~1,349 Retained~~
~~earnings... 2,115~~
~~1,499 Accumulated other comprehensive~~
~~income................................ 535 106 ------ -----~~
~~- Total shareholders'~~
~~equity.. 4,176 3,104 ----~~
~~-- ------ Total liabilities and shareholders'~~
~~equity........................ $6,932 $5,161 ======~~
~~======~~

See accompanying notes to condensed consolidated financial statements. 3 APPLE COMPUTER, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (in millions)

NINE MONTHS ENDED ----------------- JULY 1,
2000 JUNE 26, 1999 ------------- ------------- ~~Cash~~
~~and cash equivalents, beginning of the~~
~~period............................ $1,326 $1,481 ------- -----~~
~~-- Operating: Net~~
~~income...~~

~~616 490 Adjustments to reconcile net income to cash generated by operating activities: Depreciation and amortization... 66 66 Provision for deferred income taxes... 152 15 Gains on sales of ARM shares.. (284) (188) Changes in operating assets and liabilities: Accounts receivable.. (286) 59 Inventories... 15 71 Other current assets... 18 31 Other assets... (21) 6 Accounts payable... 228 73 Other current liabilities... 164 (43) ------ ------ Cash generated by operating activities................................... 668 580 ------ ------ Investing: Purchase of short-term investments... (3,023) (3,039) Proceeds from maturities of short-term investments.............................. 2,441 2,525 Proceeds from sales of ARM shares.. 288 201 Purchase of long-term investments... (232) -- Net proceeds from property, plant, and equipment retirements 11 21 Purchase of property, plant, and equipment..................................... (76) (31) Other... (18) (6) ------ ------ Cash used for investing activities...................................... (609) (329) ------ ------ Financing: Proceeds from issuance of common stock.. 50 41 Cash used for repurchase of common stock....................................... (91) -- ------ ------ Cash generated by (used for) financing activities......................... (41) 41 ------ ------ Total cash generated... 18 292 ------ ------ Cash and cash equivalents, end of the period.................................... $1,344 $1,773 ====== ====== Supplemental cash flow disclosures: Cash paid for interest.. $ 10 $ 49 Cash paid (received) for income taxes, net.................................. $ 36 $ (1) See accompanying notes to condensed consolidated financial statements. 4 APPLE COMPUTER, INC. Notes to Condensed Consolidated Financial Statements (Unaudited) NOTE 1 - BASIS OF PRESENTATION Interim information is unaudited; however, in the opinion of the Company's management, all adjustments of a normal recurring nature necessary for a fair statement of interim periods presented have been included. The results for interim periods are not necessarily indicative of results to be expected for the entire year. Certain amounts in the Condensed Consolidated Balance Sheet as of September 25, 1999, have been reclassified to conform to the 2000~~

~~presentation. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto for the year ended September 25, 1999, included in its Annual Report on Form 10-K for the year ended September 25, 1999 (the 1999 Form 10-K). All information is based on the Company's fiscal calendar. NOTE 2 - EARNINGS PER SHARE Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The dilutive effect of outstanding options is reflected in diluted earnings per share by application of the treasury stock method. The dilutive effect of convertible securities is reflected using the if-converted method. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except net income and per share amounts): FOR THE THREE MONTHS ENDED FOR THE NINE MONTHS ENDED ---------------------------- ------ --------------------- 7/1/00 6/26/99 7/1/00 6/26/99 Numerator (in millions): Numerator for basic earnings per share - Net income $ 200 $ 203 $ 616 $ 490 Interest expense on convertible debt -- 7 -- 28 ------- ---- ----- ----- Numerator for diluted earnings per share - Adjusted net income $ 200 $ 210 $ 616 $ 518 ====== ====== ====== ====== Denominator: Denominator for basic earnings per share -- weighted average-shares outstanding 325,040 288,107 323,770 277,141 Effect of dilutive securities: Convertible preferred stock 18,182 18,182 18,182 18,182 Convertible debt -- 31,434 -- 40,667 Dilutive options 18,595 11,577 17,976 10,670 ------ ------ ------ ------ Dilutive potential common shares 36,777 61,193 36,158 69,519 ------- ------ ------ ------ Denominator for diluted earnings per share -- adjusted weighted-average shares and assumed conversions 361,817 349,300 359,928 346,660 ======= ======= ======= ======= Basic earnings per share $0.62 $0.70 $1.90 $1.77 ======= ======= ======= ======= Diluted earnings per share $0.55 $0.60 $1.71 $1.49 ======= ======= ======= =======~~

5 Options to purchase approximately 1,853,108 and 160,000 shares of common stock were outstanding as of July 1, 2000, and June 26, 1999, respectively, that were not included in the computation of diluted earnings per share for the quarters then ended because the options' exercise price was greater than the average market price of the Company's common stock during those periods and, therefore, the effect would be antidilutive. During the first two quarters of 1999, the Company had outstanding $661 million of unsecured convertible subordinated debentures (the Debentures) which were convertible by their holders into approximately 45.2 million shares of common stock. The weighted-average common shares represented by the Debentures upon conversion were included in the computation of diluted earnings per share for the three and nine month periods ended June 26, 1999, using the if-converted method. On April 14, 1999, the Company called for redemption the Debentures. As a result, debenture holders converted virtually all of the outstanding debentures to 45.2 million shares of the Company's common stock during the third quarter of 1999. For additional disclosures regarding the Debentures, see the 1999 Form 10-K. NOTE 3 - CONSOLIDATED FINANCIAL STATEMENT DETAILS (IN MILLIONS) INVENTORIES

	7/1/00	9/25/99
Purchased parts	$ 1	$ 4
Work in process	--	3
Finished goods	4	13
Total inventories	$ 5	$ 20

PROPERTY, PLANT, AND EQUIPMENT

	7/1/00	9/25/99
Land and buildings	$ 322	$ 323
Machinery and equipment	205	220
Office furniture and equipment	61	61
Leasehold improvements	133	125
Accumulated depreciation and amortization	(407)	(411)
Net property, plant, and equipment	$ 314	$ 318

ACCRUED EXPENSES

	7/1/00	9/25/99
Accrued compensation and employee benefits	$ 190	$ 84
Accrued marketing and distribution	188	170
Accrued warranty and related costs	107	105
Other current liabilities	348	378
Total accrued expenses	$833	$737

INTEREST AND OTHER INCOME (EXPENSE)

	NINE MONTHS ENDED	
	7/1/00	6/26/99
Interest income	$ 151	$ 102
Interest expense	(15)	(42)
Other income (expense), net	5	(7)
Interest and other income (expense), net	$ 141	$ 53

NOTE 4 - NON-CURRENT DEBT AND EQUITY INVESTMENTS The Company holds significant investments in ARM Holdings plc (ARM), Samsung Electronics Co., Ltd (Samsung), Akamai Technologies, Inc. (Akamai) and EarthLink Network, Inc. (EarthLink). These investments are reflected in the consolidated balance sheets as non-current debt and equity investments and have been categorized as available-for-sale requiring that they be carried at fair value with unrealized gains and losses, net of taxes, reported in equity as a component of accumulated other comprehensive income. The combined fair value of these investments was $1.236 billion and $339 million as of July 1, 2000, and September 25, 1999, respectively. The combined fair value of these investments has declined to approximately $1.062 billion as of July 28, 2000. The Company believes it is likely there will continue to be significant fluctuations in the fair value of these investments in the future. ARM is a publicly held company in the United Kingdom involved in the design and licensing of high performance microprocessors and related technology. As of September 25, 1999, the Company held approximately 80 million shares of ARM stock with a fair value of $226 million. Share data for ARM presented in this Form 10-Q has been adjusted to reflect ARM's four-for-one stock split in April of 1999 and its five-for-one stock split in April of 2000. During the third quarter of 2000, the

Company sold approximately 5 million shares of ARM stock for net proceeds of approximately $51 million and a gain before taxes of $50 million. During the nine months ended July 1, 2000, the Company has sold approximately 38 million shares of ARM stock for net proceeds of approximately $288 million and gains before taxes of approximately $284 million. During the third quarter of 1999, the Company sold approximately 50 million shares of ARM stock for net proceeds of $105 million and a gain before taxes of $101 million. During the nine months ended June 26, 1999, the Company sold approximately 148 million shares of ARM stock for net proceeds of approximately $201 million and a gain before taxes of approximately $188. The fair value of the Company's investment in ARM is approximately $450 million as of July 1, 2000. In January 2000, the Company invested $200 million in EarthLink, an Internet service provider (ISP). The investment is in EarthLink's Series C Convertible Preferred Stock, which is convertible by the Company after January 4, 2001, into approximately 7.1 million shares of EarthLink common stock. Concurrent with this investment, Earthlink and the Company entered into a multi-year agreement to deliver ISP service to Macintosh users in the United States. Under the terms of the agreement, the Company will profit from each new Mac customer that subscribes to EarthLink's ISP service, and EarthLink will become the default ISP in Apple's Internet Setup Software included with all Macintosh computers sold in the United States. The fair value of the Company's investment in EarthLink is approximately $110 million as of July 1, 2000. During the fourth quarter of 1999, the Company invested $100 million in Samsung to assist in the further expansion of Samsung's TFT-LCD flat-panel display production capacity. The investment, in the form of three year unsecured bonds, is convertible into approximately 550,000 shares of Samsung common stock beginning in July 2000. The bonds carry an annual coupon rate of 2% and pay a total yield to maturity of 5% if redeemed at their maturity. The fair value of the Company's investment in Samsung is approximately $188 million as of July 1, 2000. In June 1999, the Company invested $12.5 million in Akamai, a global Internet content delivery service. The investment was in the form of convertible preferred stock that converted into 4.1 million shares of Akamai common stock (adjusted for subsequent stock splits) at the time of Akamai's initial public offering in October 1999. The Company is restricted from selling more than 25% of its shares within one year after the date of the closing of the public offering of Akamai's stock. Beginning in the first quarter of 2000, the Company categorized its shares in Akamai as available-for-sale. The fair value of the Company's investment in Akamai is approximately $488 million as of July 1, 2000. 7 NOTE 5 - SHAREHOLDERS' EQUITY On June 21, 2000, the Company effected a two-for-one stock split in the form of a stock dividend. Accordingly, share and per share information presented in this Form 10-Q has been adjusted to reflect this stock split. On April 20, 2000, the Company's shareholders approved an increase in the number of the Company's authorized shares from 320,000,000 to 900,000,000. During the second quarter of 2000, the Company's Board of Directors granted the Company's Chief Executive Officer options under the Company's 1998 Executive Officer Stock Plan to purchase 20 million shares of common stock at an exercise price of $43.59 per share, the then fair value of the underlying common stock (share and per share figures for this option grant are adjusted for the June 2000 two-for-one stock split). A summary of the Company's stock option activity and related information for the nine-month period ended July 1, 2000, follows (option amounts are presented in thousands):

	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Options outstanding at 9/25/99	36,808	$13.19
Granted	44,002	$46.27
Exercised	(4,527)	$ 9.05
Forfeited	(3,912)	$26.49
Options outstanding at 7/1/00	72,371	$32.84
Options exercisable at 7/1/00	14,941	$32.56

In July 1999, the Company's Board of Directors authorized a plan for the Company to repurchase up to $500 million of its common stock. This repurchase plan does not obligate the Company to acquire any specific number of shares or acquire shares over any specified period of time. During the third quarter of 2000, approximately 1 million shares of common stock were repurchased at a cost of approximately $50 million. Since inception of the stock repurchase plan, the Company has repurchased a total of 4.5 million shares of its common stock at a total cost of $166 million. NOTE 6 - COMPREHENSIVE INCOME Comprehensive income is comprised of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that under generally accepted accounting principles are recorded as an element of shareholders' equity but are excluded from net income. The Company's other comprehensive income is comprised of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency and from unrealized gains and losses, net of taxes, on marketable securities categorized as available-for-sale. See Note 4 for additional information regarding available-for-sale securities. The components of comprehensive income, net of tax, are as follows (in millions):

FOR THE THREE MONTHS FOR THE NINE MONTHS ENDED ENDED 7/1/00 6/26/99 7/1/00 6/26/99 ------------- ------------- --------------- -------------- ~~Net income................................ $200 $ 203 $616 $ 490 Other comprehensive income (loss): Change in accumulated translation adjustment........................ (2) (5) (8) (3) Unrealized gains (losses) on investments, net of taxes......... (157) 18 648 273 Reclassification adjustment for gains included in net income............ (37) (89) (211) (139) ----- ----- ------ ----- Total comprehensive income................ $ 4 $127 $1,045 $ 621~~ ===== ===== ====== =====

8 NOTE 7 - SPECIAL CHARGES RESTRUCTURING ACTIONS During the first quarter of 2000, the Company initiated restructuring actions resulting in recognition of an $8 million restructuring charge. This charge was comprised of $3 million for the write-off of various operating assets and $5 million for severance payments to approximately 95 employees associated with consolidation of various domestic and international sales and marketing functions. Of the $5 million accrued for severance, $2.5 million had been spent by July 1, 2000, and the remainder is expected to be spent over the following two quarters. Of the $3 million accrued for the write-off of various assets, substantially all was utilized by April 1, 2000. During the fourth quarter of 1999, the Company initiated restructuring actions resulting in a charge to operations of $21 million comprised of $11 million for contract cancellation charges associated with the closure of the Company's outsourced data center, substantially all of which had been spent by the end of the third quarter of 2000, and $10 million for contract cancellation charges related to supply and development agreements previously discontinued, substantially all of which had been utilized by the end of the first quarter of fiscal 2000. EXECUTIVE BONUS In December 1999, the Company's Board of Directors approved a special executive bonus for past services for the Company's Chief Executive Officer in the form of an aircraft with a total cost to the company of approximately $90 million, the majority of which is not tax deductible. Approximately half of the total charge is the cost of the aircraft. The other half represents all other costs and taxes associated with the purchase. NOTE 8 - SEGMENT INFORMATION AND GEOGRAPHIC DATA The Company manages its business primarily on a geographic basis. The Company's reportable segments are comprised of the Americas, Europe, and Japan. The Americas segment includes both North and South America. The European segment includes European countries as well as the Middle East and Africa. Other operating segments include Asia-Pacific, which includes Australia and Asia except for Japan, and the Company's subsidiary, Filemaker, Inc. Each reportable operating segment provides similar products and services, and the accounting policies of the various segments are the same as those described in the 1999 Form 10-K. 9 The Company evaluates the performance of its operating segments based on net sales and operating income. Operating income for each segment includes revenue, cost of sales, and operating expenses directly attributable to the segment. Net sales are based on the location of the customers. Operating income for each segment excludes other income and expense and certain expenses that are managed outside the reportable segment. Costs excluded from segment operating income include various corporate expenses, income taxes, and nonrecurring charges for purchased in-process research and development, restructuring, and acquisition related costs. Corporate expenses include research and development, manufacturing expenses not included in segment cost of sales, corporate marketing expenses, and other separately managed general and administrative expenses. The Company does not include intercompany transfers between segments for management reporting purposes. Summary information by segment follows (in millions):

	THREE MONTHS ENDED 7/1/00	THREE MONTHS ENDED 6/26/99	NINE MONTHS ENDED 7/1/00	NINE MONTHS ENDED 6/26/99
Americas:				
Net sales	1,021	881	3,199	2,628
Operating income	155	121	458	343
Europe:				
Net sales	353	297	1,448	1,117
Operating income	23	27	200	142
Japan:				
Net sales	303	269	1,064	723
Operating income	81	62	292	159
Other segments:				
Net sales	148	111	402	330
Operating income	47	22	111	60

A reconciliation of the Company's segment operating income to the condensed consolidated financial statements follows (in millions):

THREE MONTHS
ENDED NINE
MONTHS ENDED
7/1/00 6/26/99
7/1/00 6/26/99 ------

~~Segment operating~~
~~income~~
~~......................... 306~~
~~232 1,061 704~~
~~Corporate expenses,~~
~~net ....~~
~~138 128 525 385~~
~~Restructuring costs~~
~~............................. --~~
~~-- 8 9 Executive~~
~~bonus~~
~~..................................~~
~~-- -- 90 -- ------ ----~~
~~-- ------ ------ Total~~
~~operating income~~
~~........................ $ 168~~
~~$ 104 $ 438 $ 310~~
~~====== ======~~
~~====== ======~~

Information regarding net sales by product is as follows (in millions):

THREE MONTHS ENDED
NINE MONTHS ENDED 7/1/00
6/26/99 7/1/00 6/26/99 -----------

------ ~~Power~~
~~Macintosh.............................. $~~
~~643 $ 600 $2,055 $1,967~~
~~PowerBook..................................~~
~~286 177 750 580~~
~~iMac.......................................~~
~~453 517 1,788 1,449~~
~~iBook.......................................~~
~~163 -- 688 -- Software, service,~~
~~and other net sales...... 280 264~~
~~832 802 ------ ------ ------ ------~~
~~Total net sales...........................~~
~~$1,825 $1,558 $6,113 $4,798~~
~~====== ====== ======~~
~~======~~

10 NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS In March 1998, the AICPA issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which provides guidance on accounting for the costs of computer software intended for internal use. The adoption of SOP 98-1 in fiscal 2000 did not have a material impact on the Company's consolidated results of operations or financial position during the quarter and nine months ended July 1, 2000. In June 1998, Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued. SFAS No. 133, as amended by SFAS No. 138, establishes accounting and reporting standards for derivative instruments, hedging activities, and exposure definition. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in fair value will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. In June 1999, SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities- Deferral of the Effective Date of FASB Statement No. 133," was issued. The statement defers the effective date of SFAS No. 133 until the first quarter of fiscal 2001. Although the Company continues to review the effect of the implementation of SFAS No. 133, the Company does not currently believe its adoption will have a material impact on its financial position or overall trends in results of operations and does not believe adoption will result in significant changes to its financial risk management practices. However, the impact of adoption of SFAS No. 133 on the Company's results of operations is dependent upon the fair values of the Company's derivatives and related financial instruments at the date of

adoption and may result in more pronounced quarterly fluctuations in other income and expense. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." The objective of this SAB is to provide further guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. The Company is required to adopt the guidance in the SAB no later than the fourth quarter of its fiscal year 2001. Adoption of this guidance is not expected to have a material impact on the Company's financial position or results of operations. The SEC has recently indicated it intends to issue further guidance with respect to adoption of specific issues addressed by SAB No. 101. Until such time as this additional guidance is issued, the Company is unable to assess the impact, if any, it may have on its financial position or results of operations. NOTE 10 - CONTINGENCIES The Company is subject to various legal proceedings and claims that are discussed in detail in the 1999 Form 10-K. The Company is also subject to certain other legal proceedings and claims which have arisen in the ordinary course of business and which have not been fully adjudicated. The results of legal proceedings cannot be predicted with certainty; however, in the opinion of management, the Company does not have a potential liability related to any legal proceedings and claims that would have a material adverse effect on its financial condition or results of operations. The Internal Revenue Service (IRS) has proposed federal income tax deficiencies for the years 1984 through 1991, and the Company has made certain prepayments thereon. The Company contested the proposed deficiencies by filing petitions with the United States Tax Court, and most of the issues in dispute have now been resolved. On June 30, 1997, the IRS proposed income tax adjustments for the years 1992 through 1994. Although most of the issues for these years have been resolved, certain issues still remain in dispute and are being contested by the Company. Management believes adequate provision has been made for any adjustments that may result from tax examinations. 11 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS THIS SECTION AND OTHER PARTS OF THIS FORM 10-Q CONTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SUBSECTION ENTITLED "FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION" BELOW. THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE 1999 FORM 10-K AND THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS FORM 10-Q. ALL INFORMATION IS BASED ON THE COMPANY'S FISCAL CALENDAR. RESULTS OF OPERATIONS Tabular information (dollars in millions, except per share amounts and for the average revenue per Macintosh shipped):

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	7/1/00	6/26/99	CHANGE	7/1/00	6/26/99	CHANGE
	-----------	-----------	--------- -	-----------	-----------	----------
~~Macintosh CPU unit sales (in thousands)~~	~~1,016~~	~~905~~	~~12%~~	~~3,436~~	~~2,676~~	~~28%~~
~~Avg. revenue per Macintosh shipped~~	~~$1,749~~	~~$1,683~~	~~4%~~	~~$1,740~~	~~$1,756~~	

~~(1%) Net~~
~~sales~~
~~$1,825~~
~~$1,558~~
~~17%~~
~~$6,113~~
~~$4,798~~
~~27%~~
~~Gross~~
~~margin $~~
~~543 $ 427~~
~~27%~~
~~$1,699~~
~~$1,312~~
~~29%~~
~~Percentage~~
~~of net sales~~
~~29.8%~~
~~27.4%~~
~~27.8%~~
~~27.3%~~
~~Operating~~
~~expense $~~
~~375 $ 323~~
~~16%~~
~~$1,163 $~~
~~993 17%~~
~~Percentage~~
~~of net sales~~
~~20.5%~~
~~20.7%~~
~~19.0%~~
~~20.7%~~
~~Special~~
~~charges $~~
~~-- $ -- $~~
~~98 $ 9~~
~~Gains from~~
~~sales of~~
~~investment~~
~~$ 50 $~~
~~101 $ 284~~
~~$ 188~~
~~Interest~~
~~and other~~
~~income,~~
~~net $ 52 $~~
~~24 117%~~
~~$ 141 $~~
~~53 166%~~
~~Provision~~
~~for income~~
~~taxes $ 70~~
~~$ 26~~
~~169% $~~
~~247 $ 61~~
~~305%~~
~~Effective~~
~~tax rate~~
~~25.9%~~
~~11.4%~~

~~28.6% 11.1% Net income $ 200 $ 203 (1%) $ 616 $ 490 26% Diluted earnings per share $ 0.55 $ 0.60 (8%) $ 1.71 $ 1.49 15%~~

NET SALES Net sales for geographic operating segments and Macintosh unit sales by geographic segment and by product follow (net sales in millions and Macintosh unit sales in thousands):

THREE MONTHS ENDED NINE MONTHS ENDED --- ------------ --- -------- --------- 7/1/00 6/26/99 CHANGE 7/1/00 6/26/99 CHANGE ------ ----- -- ------ --- --- ------- - -----

~~Americas net sales .... $1,021 $ 881 16% $3,199 $2,628 22%~~

~~Europe net sales .... $ 353 $ 297 19% $1,448 $1,117 30%~~

~~Japan net sales .... $ 303 $ 269 13% $1,064 $ 723 47%~~

~~Asia Pacific net sales .... $~~

~~100 $ 81 23% $ 269 $ 238 13% Americas Macintosh unit sales ... 570 519 10% 1,819 1,465 24% Europe Macintosh unit sales ..... 222 167 33% 886 622 42% Japan Macintosh unit sales ...... 165 175 (6%) 574 450 28% Asia Pacific Macintosh unit sales 59 44 34% 157 139 13% ------ ------ ------ ------ Total Macintosh unit sales . 1,016 905 12% 3,436 2,676 28% ======= ======= ======= ======= Power Macintosh unit sales ...... 351 346 1% 1,060 1,073 (1%) PowerBook unit sales .... 113 72 57% 297 246 21% iMac unit sales .... 447 487 (8%) 1,623 1,357 20% iBook unit sales~~

....
105 --
100% 456
-- 100% --
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Total
Macintosh
unit sales .
1,016 905
12% 3,436
2,676 28%
======
======
======
======

12 Net sales increased $267 million or 17% to $1.825 billion in the third quarter of 2000 compared to the same quarter in 1999. On a year-over-year basis, quarterly net sales increased in all of the Company's geographic operating segments. The primary source of this growth was an overall 12% increase in Macintosh unit sales, which reflects strong unit growth in the Americas and Europe somewhat offset by a decline in unit sales in Japan. Further contributing to year-over-year quarterly growth in net sales was a 4% increase in the average revenue per Macintosh system, a function of total net sales generated by hardware shipments and total Macintosh CPU unit sales. For the first nine months of 2000, net sales increased $1.315 billion or 27% over the same period in 1999. A 28% increase in year-to-date Macintosh unit sales, reflective of strong growth in all of the Company's geographic operating segments, was the principal cause of the increase in net sales during the first nine months of 2000. Net sales declined sequentially during the third quarter of 2000 compared to the second quarter of 2000 by $120 million or 6%. Similarly, Macintosh unit sales decreased 3% during the third quarter of 2000 compared to the second quarter. The sequential decline in both net sales and unit sales during the third quarter was primarily the result of a sequential quarterly decline in iMac unit sales of 6% and a sequential decline in the average revenue per Macintosh system. The Company believes that iMac unit sales during the third quarter were negatively impacted by anticipation of product updates expected at the beginning of the fourth quarter. The average revenue per Macintosh system for the third quarter of 2000 declined 4% from the second quarter to $1,749. This decline was due to a shift during the quarter towards lower-priced versions of its consumer products purchased by the Company's education customers and by price protection recognized during the third quarter resulting from planned product transitions in the fourth quarter. SEGMENT OPERATING PERFORMANCE The Company manages its business primarily on a geographic basis. The Company's reportable geographic segments include the Americas, Europe, and Japan. The Americas segment includes both North and South America. The European segment includes European countries as well as the Middle East and Africa. The Japan segment includes only Japan. Each geographic operating segment provides similar hardware and software products and similar services. Further information regarding the Company's operating segments may be found in this Form 10-Q in the Notes to Condensed Consolidated Financial Statements at Note 8, "Segment Information and Geographic Data," and in the 1999 Form 10-K. AMERICAS Net sales in the Americas segment during the third quarter of 2000 increased $140 million or 16% compared to the same period in 1999. Macintosh quarterly unit sales in the Americas increased 10% on a year-over-year basis, reflecting strong growth in unit sales of professional products, particularly PowerBooks, and the impact on unit sales of iBook which was first shipped at the beginning of fiscal 2000. These increases in unit sales were partially offset by an 8% decline in unit sales of iMac ahead of the anticipated product updates at the beginning of the fourth quarter. During the third quarter of 2000, the Americas segment represented approximately 56% of the Company's total net sales compared to 57% during the same quarter in 1999. For the first nine months of 2000, net sales in the Americas segment increased $571 million or 22% from the same period in 1999, while Macintosh unit sales increased 24%. The results experienced by the Americas segment during the first nine months of 2000 versus the same period in 1999 reflect the Company's overall results characterized by strong year-to-date growth in sales of iMac and PowerBook products, sales of iBook which was first shipped at the beginning of fiscal 2000, and stable unit sales of the Company's Power Macintosh products. 13 EUROPE Net sales in the Europe segment increased $56 million or 19% during the third quarter of 2000 as compared to the same quarter in 1999, while the segment's Macintosh unit sales increased 33%. Growth in year-over-year unit sales was experienced in the Europe segment in all four of the Company's principal product families. Sequentially, net sales in the Europe segment declined $116 million or 25% during the third quarter of 2000 compared to the second quarter, while Macintosh unit sales declined 19%. The sequential decline in the Europe's segment net sales and unit sales is attributable primarily to two factors. First, like the Americas segment, Europe's results in the third quarter of 2000 as compared to the second quarter reflect a sequential decline in iMac unit sales in anticipation of upcoming product updates. Second, the Company has historically experienced a modest seasonal decline in net sales in Europe during its third fiscal quarter. JAPAN Net sales in Japan rose 13% or $34 million during the third quarter of 2000 as compared to the same quarter in 1999. However, the segment's quarterly Macintosh unit sales decreased 6% on a year-over-year basis. The Japan segment's unit sales during the third quarter of 2000 as compared to the same quarter in 1999 reflect declines in unit sales of the Company's desktop products, particularly iMac, prior to the anticipated product introductions in the fourth quarter, partially offset by increases in sales of portable products. This shift in mix towards higher-priced portable products led to the year-over-year increase in net sales. GROSS MARGIN Gross margin for the third quarter of 2000 was 29.8% compared to 27.4% for the same quarter in 1999 and 28.2% for the second quarter of 2000. Gross margin during the third quarter of 2000 was favorably impacted by two principal factors. First, component costs incurred to manufacture the Company's products were lower during the third quarter of 2000 compared to both the previous quarter and to the same quarter in 1999. Second, during the third quarter of 2000 the Company's mix of product sales shifted somewhat away from its consumer products towards its higher margin professional desktop and portable products. There can be no assurance targeted gross margin levels will be achieved or current margins on existing individual products will be maintained. In general, gross margins and margins on individual products will remain under significant downward pressure due to a variety of factors, including continued industry

wide global pricing pressures, increased competition, compressed product life cycles, potential increases in the cost and availability of raw material and outside manufacturing services, fluctuations in freight costs incurred to deliver the Company's products to market, and potential changes to the Company's product mix, including higher unit sales of consumer products with lower average selling prices and lower gross margins. In response to these downward pressures, the Company expects it will continue to take pricing actions with respect to its products. Gross margins could also be affected by the Company's ability to effectively manage quality problems and warranty costs and to stimulate demand for certain of its products. The Company's operating strategy and pricing take into account anticipated changes in foreign currency exchange rates over time; however, the Company's results of operations can be significantly affected in the short term by fluctuations in exchange rates. 14 OPERATING EXPENSES Selling, general and administrative expenses, excluding special charges, increased $35 million or 14% during the third quarter of 2000 as compared to the same period in 1999 and declined $9 million or 3% from the second quarter of 2000. Selling, general and administrative expenses for the first nine months of 2000 increased $123 million or 16% as compared to the same period in 1999. However, as a result of growing net sales, selling, general and administrative expenses fell to 14% of net sales during the first nine months of 2000 compared to 16% during the same period in 1999. The absolute year-over-year increases in selling, general and administrative expenses for both the third quarter and the first nine months of 2000 are primarily the result of higher variable selling and marketing expenses resulting from the year-over-year increase in net sales and due to higher discretionary spending on marketing and advertising in 2000 as compared to 1999. Expenditures for research and development increased 21% between the third quarter of fiscal 2000 and the same quarter in 1999 and increased 20% during the first nine months of 2000 compared to the same period in 1999. These increases resulted primarily from increased spending in 2000 to support product development activities and increased research and development headcount. SPECIAL CHARGES During the first quarter of 2000, the Company initiated restructuring actions resulting in recognition of an $8 million restructuring charge. This charge was comprised of $3 million for the write-off of various operating assets and $5 million for severance payments to approximately 95 employees associated with consolidation of various domestic and international sales and marketing functions. Of the $5 million accrued for severance, $2.5 million had been spent by July 1, 2000, and the remainder is expected to be spent over the following two quarters. Of the $3 million accrued for the write-off of various assets, substantially all was utilized by April 1, 2000. During the first quarter of 2000, the Company's Board of Directors approved a special executive bonus for the Company's Chief Executive Officer for past services in the form of an aircraft with a total cost to the company of approximately $90 million, the majority of which is not tax deductible. Approximately half of the total charge is the cost of the aircraft. The other half represents all other costs and taxes associated with the purchase. TOTAL INTEREST AND OTHER INCOME, NET Interest and other income and expense (net) increased $28 million or 117% to $52 million during the third quarter of 2000 compared to the same quarter in 1999 and increased $88 million or 166% for the first nine months of 2000 over the same period in 1999. These increases are attributable primarily to two factors. First, interest income increased $18 million or 48% between the third quarter of 2000 and the third quarter of 1999 as a result of higher cash, cash equivalents, and short-term investment balances and due to an increase in the overall yield earned on the Company's investment portfolio resulting from higher market interest rates and a modest lengthening of the portfolio's average maturity. Second, as the result of conversion to common stock of the Company's convertible subordinated debentures during the third quarter of 1999, interest expense declined $6 million or 55% during the third quarter of 2000 compared to the same quarter in 1999 and decreased $27 million or 64% for the comparable nine month periods. During the third quarter of 2000, the Company sold approximately 5 million shares of ARM stock for net proceeds of approximately $51 million and a gain before taxes of $50 million. During the nine months ended July 1, 2000, the Company has sold approximately 38 million shares of ARM stock for net proceeds of approximately $288 million and gains before taxes of approximately $284 million. During the third quarter of 1999, the Company sold approximately 50 million shares of ARM stock for net proceeds of $105 million and a gain before taxes of $101 million. During the nine months ended June 26, 1999, the Company sold approximately 148 million shares of ARM stock for net proceeds of approximately $201 million and a gain before taxes of approximately $188. 15 PROVISION FOR INCOME TAXES As of July 1, 2000, the Company had deferred tax assets arising from deductible temporary differences, tax losses, and tax credits of $535 million before being offset against certain deferred tax liabilities for presentation on the Company's balance sheet. A substantial portion of this asset is realizable based on the ability to offset existing deferred tax liabilities. As of July 1, 2000, a valuation allowance of $40 million was recorded against the deferred tax asset for the benefits of tax losses that may not be realized. The valuation allowance primarily relates to the operating loss carryforwards acquired from NeXT and to tax benefits in certain foreign jurisdictions. The Company will continue to evaluate the realizability of the deferred tax assets quarterly by assessing the need for and amount of the valuation allowance. The Company's effective tax rate for the first quarter of 2000 was approximately 33% and includes the effect of the special executive bonus accrued during that quarter. The effective tax rate during the first quarter of 2000 without this charge was approximately 25%. The Company's effective tax rate for the three months ended July 1, 2000, was approximately 26%. The effective tax rate without the special executive bonus for the nine months ended July 1, 2000, is also 26%. This effective rate is less than the statutory federal income tax rate of 35% due primarily to the reversal of a portion of the previously established valuation allowance for tax loss and credit carryforwards and certain undistributed foreign earnings for which no U.S. taxes were provided. 16 LIQUIDITY AND CAPITAL RESOURCES The following table presents selected financial information and statistics for each of the quarters ending on the dates indicated (dollars in millions):

7/1/00 4/1/00 9/25/99 ------ ------ -------

~~Cash, cash equivalents, and short-term investments.................. $ 3,826 $ 3,609 $ 3,226 Accounts receivable, net.. $ 967 $ 940 $ 681 Inventory... $ 5 $ 10 $ 20 Working capital.. $ 3,284 $ 3,059 $ 2,736 Non-current debt and equity investments.............................. $ 1,236 $ 1,544 $ 339 Long-term debt... $ 300 $ 300 $ 300 Days sales in accounts receivable (a)................................ 48 44 46 Days of supply in inventory (b)..................................... < 1 1 2 Days payables outstanding (c).. 74 73 77 Operating cash flow (quarterly)...................................... $ 234 $ 61 $218~~

(a) Based on ending net trade receivables and most recent quarterly net sales for each period. (b) Based on ending inventory and most recent quarterly cost of sales for each period. (c) Based on ending accounts payable and most recent quarterly cost of sales adjusted for the change in inventory. As of July 1, 2000, the Company had approximately $3.8 billion in cash, cash equivalents, and short-term investments, an increase of $600 million over the same balances at the end of fiscal 1999. For the nine months ended July 1, 2000, the Company's primary source of cash was $668 million in cash flows from operating activities. Cash generated by operations was primarily from net income of $616 million and a combined increase in accounts payable and other current liabilities of $392 million partially offset by an increase in accounts receivable of $286 million. In addition to operating cash flow, other significant cash flow items during the nine months ended July 1, 2000 included net purchases of short-term investments of $582 million, $232 million utilized for the purchase of long-term investments, $76 million for the purchase of property, plant and equipment, and cash proceeds from the sale of ARM stock of $288 million. In July 1999, the Company's Board of Directors authorized a plan for the Company to repurchase up to $500 million of its common stock. This repurchase plan does not obligate the Company to acquire any specific number of shares or acquire shares over any specified period of time. During the third quarter of 2000, approximately 1 million shares of common stock were repurchased at a cost of approximately $50 million. Since inception of the stock repurchase plan, the Company has repurchased a total of 4.5 million shares of its common stock at a total cost of $166 million. On November 18, 1999, the Company entered into a $100 million revolving credit agreement with Bank of America. Loans under the agreement pay interest at LIBOR plus 1%, and the Company is required to pay a commitment fee of 0.2% of the unused portion of the credit facility. No advances have been made against this credit facility. This revolving credit agreement is intended to provide the Company with an additional source of short-term liquidity. The Company believes its balances of cash, cash equivalents, short-term investments, and available credit facilities will be sufficient to meet its cash requirements over the next twelve months, including any cash that may be utilized by its stock repurchase plan. However, given the Company's current non-investment grade debt ratings, if the Company should need to obtain short-term borrowings, there can no assurance such borrowings could be obtained at favorable rates. The inability to obtain such borrowings at favorable rates could materially adversely affect the Company's results of operations, financial condition, and liquidity. OTHER INVESTMENTS The Company holds significant investments in ARM, Samsung, Akamai and EarthLink. These investments are reflected in the consolidated balance sheets as non-current debt and equity investments and have been categorized as available-for-sale requiring that they be carried at fair value with unrealized gains and 17 losses, net of taxes, reported in equity as a component of accumulated other comprehensive income. The combined fair value of these investments was $1.236 billion and $339 million as of July 1, 2000, and September 25, 1999, respectively. The Company believes it is likely there will continue to be significant fluctuations in the fair value of these investments in the future. Additional information regarding these investment may be found in this Form 10-Q in the Notes to Condensed Consolidated Financial Statements at Note 4, "Non-Current Debt and Equity Investments." FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION The Company operates in a rapidly changing environment that involves a number of uncertainties, some of which are beyond the Company's control. In addition to the uncertainties described elsewhere in this report, there are many factors that will affect the Company's future results and business, which may cause the actual results to differ from those currently expected. The Company's future operating results and financial condition are dependent upon 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 a favorable financial condition. Potential risks and uncertainties that could affect the Company's future operating results and financial condition include, among other things, continued competitive pressures in the marketplace and the effect of any reaction by the Company to such competitive pressures, including pricing actions by the Company; risks associated with international operations, including economic and labor conditions, regional economic problems, political instability, tax laws, and currency fluctuations; increasing dependence on third-parties for manufacturing and other outsourced functions such as logistics; the availability of key components on terms acceptable to the Company; the continued availability of certain components and services essential to the Company's business currently obtained by the Company from sole or limited sources, including PowerPC RISC microprocessors developed by and obtained from IBM and Motorola and the final assembly of certain of the Company's products; the Company's ability to supply products in certain categories; the Company's ability to supply products free of latent defects or other faults; the Company's ability to make timely delivery to the marketplace of technological innovations, including its ability to continue to make timely delivery of planned enhancements to the current Mac OS and timely delivery of future versions of the Mac OS; the availability of third-party software for particular applications; the Company's ability to attract, motivate and retain key employees; the effect of previously undetected Y2K compliance issues; managing the continuing impact of the European Union's transition to the Euro as its common legal currency; continuing fluctuations in the fair value of the Company's non-current debt and equity investments, and the Company's ability to retain the operational and cost benefits derived from its recently completed restructuring programs. For a discussion of these and other factors affecting the Company's future results and financial condition, see "Item 7 -- Management's Discussion and Analysis -- Factors That May Affect Future Results and Financial Condition" in the Company's 1999 Form 10-K. 18 ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK THE INFORMATION PRESENTED BELOW REGARDING MARKET RISK CONTAINS FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THOSE DISCUSSED BELOW AND ELSEWHERE IN THIS FORM 10-Q REGARDING MARKET RISK. THE FOLLOWING DISCUSSION SHOULD BE READ IN CONJUNCTION WITH THE 1999 FORM 10-K AND THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS FORM 10-Q. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investments in debt securities and long-term debt obligations and related derivative financial instruments. The Company places its investments with high credit quality issuers and, by policy, limits the amount of credit exposure to any one issuer. The Company's general policy is to limit the risk of principal loss and ensure the safety of invested funds by limiting market and credit risk. Excluding those investments classified as non-current debt and equity investments, all highly liquid investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents; investments with maturities between three and twelve months are considered to be short-term investments. As of July 1, 2000, substantially all of the Company's investments in debt securities have maturities less than 12 months. During the last two years, the Company has entered into interest rate derivative transactions, including interest rate swaps and floors, with financial institutions in order to better match the Company's floating-rate interest income on its cash equivalents and short-term investments with its fixed-rate interest expense on its long-term debt, and/or to diversify a portion of the Company's exposure away from fluctuations in short-term U.S. interest rates. The Company may also enter into interest rate contracts that are intended to reduce the cost of the interest rate risk management program. The Company does not hold or transact in such financial instruments for purposes other than risk management. 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, and in particular a strengthening of the U.S. dollar, may negatively affect the Company's net sales and gross margins as expressed in U.S. dollars. The Company enters into foreign exchange forward and option contracts with financial institutions primarily to protect against currency exchange risks associated with existing assets and liabilities, certain firmly committed transactions, and probable but not firmly committed transactions. The Company's foreign exchange risk management policy requires it to hedge a majority of its existing material foreign exchange transaction exposures. However, the Company may not hedge certain foreign exchange transaction exposures that are immaterial either in terms of their minimal U.S. dollar value or in terms of the related currency's historically high correlation with the U.S. dollar. Foreign exchange forward contracts are carried at fair value in other current liabilities. The premium costs of purchased foreign exchange option contracts are recorded in other current assets and marked to market through earnings. 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 nonhedge portfolios, the Company continually monitors its foreign exchange forward and option positions, and its interest rate swap, option and floor positions both 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 and the anticipatory nature of the exposures intended to hedge, there can be no assurance 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 mark-to-market instruments for any given period may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Company's operating results and financial position. For a complete description of the Company's interest rate and foreign currency related market risks, see the discussion in Part II, Item 7A of the Company's 1999 Form 10-K. There has not been a material change in the Company's exposure to interest rate and foreign currency risks since the date of the 1999 Form 10-K. 19 PART II. OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS The Company is subject to various legal proceedings and claims which are discussed in the 1999 Form 10-K. The Company is also subject to certain other legal proceedings and claims which have arisen in the ordinary course of business and which have not been fully adjudicated. The results of legal proceedings cannot be predicted with certainty; however, in the opinion of management, the Company does not have a potential liability related to any legal proceedings and claims that would have a material adverse effect on its financial condition or results of operations. ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS The annual meeting of shareholders was held on April 20, 2000. All matters voted on were approved. The results are as follows: PROPOSAL I The following directors were elected at the meeting to serve a one-year term as directors:

	For	Authority Withheld
~~William V. Campbell~~	~~139,530,349~~	~~1,526,408~~
~~Gareth C.C. Chang~~	~~139,671,948~~	~~1,384,809~~
~~Millard S. Drexler~~	~~139,281,278~~	~~1,775,479~~
~~Lawrence J. Ellison~~	~~130,301,339~~	~~10,755,418~~
~~Steven P. Jobs~~	~~139,687,954~~	~~1,368,803~~
~~Jerome B. York~~	~~139,682,237~~	~~1,374,520~~

PROPOSAL II The proposal to amend the Company's Restated Articles of Incorporation to increase the number of authorized shares of Common Stock from 320,000,000 to 900,000,000 shares was approved. As a result, the Company's Restated Articles of Incorporation were amended to increase the number of authorized shares to 900,000,000.

For	Against	Abstained	Broker Non-Vote
~~120,834,875~~	~~19,682,413~~	~~537,666~~	~~1,803~~

PROPOSAL III The proposal to amend the Company's 1998 Executive Officer Stock Plan (the 1998 Plan) to increase the number of shares reserved for issuance thereunder by 2,000,000 shares, bringing the total number of shares of Common Stock reserved for issuance under the 1998 Plan to 19,000,000, was approved. As a result, the 1998 Plan was amended to reserve an additional 2,000,000 shares of Common Stock for issuance thereunder.

For	Against	Abstained	Broker Non-Vote
~~87,975,961~~	~~52,315,384~~	~~761,685~~	~~3,727~~

PROPOSAL IV Ratification of appointment of KPMG LLP as the Company's independent auditors for fiscal year 2000.

For	Against	Abstained	Broker Non-Vote
~~140,342,114~~	~~168,893~~	~~545,750~~	~~-0-~~

The proposals above are described in detail in the Registrant's definitive proxy statement dated March 6, 2000, for the Annual Meeting of Shareholders held on April 20, 2000. 20 ITEM 6. EXHIBITS

EXHIBIT NUMBER DESCRIPTION
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- ~~3.3 By-laws of the Company, as amended through April 20, 2000. 10.A.49 1997 Employee Stock Option Plan, as amended through June 27, 2000. 10.A.51 1998 Executive Officer Stock Plan, as amended through June 27, 2000. 27 Financial Data Schedule.~~

21 SIGNATURES 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) By: /s/ Fred D. Anderson -------------------- Fred D. Anderson Executive Vice President and Chief Financial Officer July 31, 2000 22 INDEX TO EXHIBITS

Exhibit Index Number Description
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------- ~~3.3 By-laws of the Company, as amended through April 20, 2000. 10.A.49 1997 Employee Stock Option Plan, as amended through June 27, 2000. 10.A.51 1998 Executive Officer Stock Plan, as amended through June 27, 2000. 27 Financial Data Schedule.~~