

**Apple Computer, Inc.  
1994 Annual Report**

**In education, business, and the home, people turn to one computer company for leadership and innovation.**

**Fellow shareholders:**

In 1994, Apple delivered decisively on the objectives outlined in these pages one year ago. During the year, we successfully implemented a dramatic restructuring of our business, enabling Apple to compete profitably with much lower gross margins.

The numbers tell the story: In the fourth quarter of fiscal year 1992, Apple generated \$97.6 million in income with gross margins of 42.7 percent of net sales. Two years later, in the same fiscal quarter, Apple generated \$114.7 million in income—\$17.1 million above the 1992 level—with gross margins of 27.2 percent, 15.5 points lower than 1992 gross margins. We raised revenues even as we reduced the number of regular employees, resulting in an increase in net sales per employee from \$485,000 in fiscal year 1992 to \$622,000 in 1994.

In addition to restructuring our financial model, we continued to bring to market the computer industry's most innovative solutions. For example, in 1994 we launched our first computers based on the PowerPC microprocessor. We shipped a new release of the Macintosh operating system, which incorporates new capabilities that streamline the way people work on computers. And we delivered sophisticated multimedia capabilities at an affordable price for home computer users.

As a result, we finished the 1994 fiscal year with improved earnings and revenue growth, disciplined financial management, and a revitalized competitive position. We revamped our entire portfolio of products, we expanded our new businesses, and we experienced rapid growth in emerging personal computer markets around the world.

For the year, Apple's revenues reached a new high of \$9.19 billion, an increase of 15 percent over fiscal 1993. Net income was \$310.2 million, or \$2.61 a share, up from \$86.6 million, or \$0.73 a share, in fiscal 1993. Included in the Company's fiscal 1993 results was a charge of \$320.9 million (\$198.9 million, or \$1.72 per share, after taxes) for restructuring expenses. Included in Apple's fiscal 1994 results was an adjustment that increased income by \$126.9 million (\$78.7 million, or \$0.66 per share, after taxes) related to a reduction in the Company's estimates of the costs associated with its restructuring activities. Operating expenses (excluding restructuring costs) dropped to 21.2 percent of net sales in fiscal 1994, compared with 28.8 percent of net sales in fiscal 1993.

These achievements, however, are but a prologue. Because Apple is an established leader in some of the largest and fastest-growing areas of the computer industry, we believe we can expand our market presence in the coming years.

Consider the facts:

- The computer industry is rapidly moving to the high-performance RISC (Reduced Instruction Set Computing) architecture—an architecture that until now has been used primarily in workstations. In just the few months since their introduction in March 1994, Apple's Power Macintosh computers have become the world's best-selling RISC-based computers.
- Industry research suggests that in 1995 the home market will—for the first time—prove to be a bigger market for personal computers in the United States than the corporate market. Apple is the world's number one vendor of personal computers for the home.
- Increasingly, customers are looking for solutions that are based on industry standards and that can be purchased from multiple vendors. In response, Apple announced an agreement in 1994 with IBM and Motorola to develop a common hardware reference platform for RISC-based computers. We also announced a strategy to broadly license the Macintosh operating system.
- Users want software that's easy to learn and customize, and software developers are looking for ways to streamline the development process. Apple is moving forward with OpenDoc, a component software architecture that meets the needs of both users and developers.
- Global markets represent tremendous opportunities for growth in the personal computer industry, and Apple has a strong presence in these markets. In Japan, the world's second-largest computer market, Apple holds the number two market position, with more than \$1.2 billion in net sales in fiscal year 1994. The Company foresees new opportunities for growth in emerging markets such as China, India, Brazil, Korea, and Mexico, as well.

These industry developments—and Apple's ability to take advantage of them—augur well for the Company in the coming years. They also suggest that a full understanding of Apple's position in the computer industry requires a new perspective. We're not simply a hardware company or a software company. Apple is a company that delivers a full range of computing solutions.

This year's annual report is structured to offer a new way of looking at Apple: as a leader in key areas of the personal computer market; as an innovator in the industry; and as a company structured to leverage its research, development, and marketing investments profitably across many businesses.

Though challenges remain, we expect our strategy of creating comprehensive computing solutions will help us attract new customers in 1995. We plan to reinforce our leadership position with compelling new products in all of our businesses. And we aim to extend the overall market share of the Macintosh platform by introducing groundbreaking operating system technologies and by licensing the Macintosh operating system.

As the personal computer industry enters its third decade, its greatest priority must be a renewed commitment to meeting customer needs. For too long, the industry has provided technology to people without fully understanding how it affects the way they work.

At Apple, we aim to redouble our efforts in delivering products that direct the tremendous power of high technology toward one simple goal: meeting the needs of our customers.

Looking back over the year, it's clear to me that 1994 was a test of character for Apple. To respond to the financial disappointment of 1993, we had to do more than just be willing to learn from the past. We had to show the persistence to overcome the inevitable cycles of global economics, and the spirit and discipline to deliver inspired solutions, even under tremendous organizational and competitive pressures.

These are the traits necessary to be a market leader and to realize a mission of changing the world. As 1994 demonstrated, they are also the traits that define this institution called Apple.

Michael Spindler  
President  
Chief Executive Officer

## **Apple in the Home**

Industry research suggests that in 1995, for the first time, sales of computers to the home market will surpass sales to the corporate market in the United States. And home computer use is growing in other countries, as well. As the leader in home computing, Apple sees these developments as a tremendous opportunity.

### **Anticipating customer needs**

According to research published in 1994 by Dataquest, Apple® Macintosh® personal computers held 13.9 percent of the worldwide home computer market, and an even stronger 18.7 percent of the U.S. home computer market. This enviable position is the result of Apple's response to the unique requirements of home computer users. These users don't have a technical support staff at home, so they want a system that's easy to set up and learn. They buy home computers with their own money, so they want systems that are reliable and affordable. And they want their home furnishings to be attractive, so they want computers that look like they belong in a home instead of a stark cubicle.

Macintosh computers meet these requirements, with affordable systems that are simple to set up and maintain, with peripherals that actually work when they're plugged in, and with award-winning industrial design.

In addition, Apple's position in home computing has benefited from our leadership in education. As parents focus more on home learning, they look for the computer that their children use in school, and for the computer that runs educational software recommended by teachers. The result? They look to Macintosh.

### **Bringing new capabilities to home computers**

We plan to extend this leadership position in the coming year through a number of key initiatives. First, we expect to extend our leadership in home multimedia computing. With the Macintosh Performa® 630 series of computers, we've already broken new ground by enabling people to do more than just passively watch multimedia programs on their home computer—now they can create their own multimedia materials at home.

Second, we aim to make it simpler for people to work from home and still have access to the libraries of information they need. Our Apple Remote Access software enables people to access files on their office computers and networks from their home computer. Our home computers offer the ability to work with DOS and Windows files, making it easier for people to bring work home from the office. With the growing acceptance of eWorld,<sup>™</sup> our on-line service, and GeoPort,<sup>™</sup> our telecommunications architecture, we expect to further reduce the barriers between home and business computing, giving people greater flexibility about how—and where—they spend their working hours.

Third, we intend to bring more powerful and comprehensive computing solutions to the home market at affordable prices. With the introduction of the Macintosh Performa 6100 series of computers in October 1994, we have already started to bring the power of RISC computing to the home user.

Simply put, we want to make home computers more useful to people. And we believe that our emphasis on providing affordable, innovative capabilities for the home user will extend our leadership in the fastest-growing segment of the computer industry.

### **Multimedia for Families**

Apple's Macintosh Performa 630 series of computers enable families to produce their own multimedia projects. They make it easy for users to add video frames or sequences to documents, create presentations, and even watch television on the computer's display while they're working. FamilyPC magazine rated the Macintosh Performa 638CD the "best multimedia family Macintosh."

### **Leadership in Home Computing**

The home computer market is projected to be the largest computer market in the United States in 1995, and Apple is the leader in home computer unit sales. We've designed our Macintosh Performa computers to meet the growing needs of families. These computers are easy to set up, learn, and use. They come with a variety of software applications for every member of the family. And they're affordable, with a Performa model to suit almost any budget.

### **Apple Printers Complete the Picture**

Our award-winning printers are natural companions to Apple computers. The Apple Color StyleWriter® 2400, for example, is designed for families who want an economical, compact color printer. Apple's peripherals business continues to play a key role in our strategy of providing customers with complete and integrated solutions.

## **Apple in Business**

The strength of Apple's presence in business is much debated and often misunderstood. A few facts help clarify Apple's position:

- Apple is the third-largest personal computer vendor to business in the world, according to research by Dataquest. Apple generates more than \$4 billion in annual sales to the business and government markets worldwide.
- Apple leads in one of the fastest-growing parts of the business market—business communication and publishing—which Apple estimates accounted for 25 percent of our net sales in 1994.
- Apple leads in one of the most promising segments of the business market—mobile computing. Apple's PowerBook Duo® computers are market leaders in the subnotebook category, and our PowerBook® computers continue to set the standard for innovation.
- Apple is extending our presence in business with a new line of PowerPC™ microprocessor –based Workgroup Servers. Apple's commitment to business is significant—and we aim to increase our presence in this area in the coming year.

### **A growing market presence**

It's clear even to the casual observer that businesses around the world are looking to decentralize management, streamline processes, and find ways to communicate faster and more effectively. We believe that Apple's strengths respond to these needs, and position us well for a greater share of the business market.

We anticipate that our solutions for mobile computing, collaboration among computer users, and graphics and multimedia will become increasingly relevant to global businesses. Apple's relationship with Bergen Brunswig, a leading supplier of pharmaceuticals and health-care products, illustrates this point. Bergen Brunswig has developed a multimedia system based on Macintosh computers for its pharmacy network. With its AccuSource application and the Macintosh, Bergen Brunswig is enabling its thousands of pharmacy retailers to easily find information about products and prescription alternatives, and even view full-motion videos showing new products.

### **Publishing: A long-standing partnership**

Apple's market-leading position in publishing is the result of our long-standing partnership with publishing customers and developers. We aim to be not just an

equipment supplier, but a partner in discovering how technology can advance the publishing business.

In 1994, the introduction of our PowerPC microprocessor–based Power Macintosh™ computers galvanized the publishing industry. At a stroke, the high-performance computing capabilities once reserved for workstations came to the desktop. According to independent research by Market Presence, publishing applications designed to take advantage of the PowerPC microprocessor run up to eleven times faster on Power Macintosh computers than on comparable computers based on Intel Pentium processors—offering huge performance advantages to publishing professionals.

Publishers are expanding their business beyond producing paper-based publications to creating new media: videos, CD-ROM titles, interactive kiosks, on-line services, and other forms of publishing information. We believe this area offers considerable opportunity for Apple and our publishing partners.

#### **The Fastest Personal Computer Available**

With the Power Macintosh line of computers, Apple became the first company to bring the high performance of PowerPC processors to personal computer users. The Power Macintosh 8100/110, with its 110-megahertz PowerPC processor, is the ideal choice for business and publishing professionals who need a computer that can handle calculation-intensive tasks.

#### **Leadership in Publishing**

Today's graphic design and publishing professionals require high performance computing technology. The Lanman Companies, based in Washington, D.C., are publishing specialists—from design and production to prepress, printing, and multimedia. "Increasingly, we're converting our manufacturing from high-end dedicated computer systems to Macintosh solutions," says Lanman CEO Bruce Cunningham. "Our latest additions are 15 Power Macintosh 8100/80 computers. These machines give us substantial increases in productivity —more than 25 percent. In our design, prepress, database management, and multimedia areas, the Macintosh is an integral part of our process."

## **Apple in Education**

At Apple, we view the challenge of improving education as a global priority. Nowhere is our commitment to changing the world more evident than in the solutions we create to help children learn faster, to help people with disabilities participate more fully in society, and to help educational institutions move into the future.

Apple has a clear leadership position in education. Research by Dataquest indicates that we hold a 28 percent share of the worldwide education market—the number one position. Apple holds an even stronger lead in K–12 education, with a 61

percent market share of the U.S. installed base, according to research by Quality Education Data.

In 1994, education remained a tremendously important part of the Company's business. Apple estimates that sales to education contributed 20 percent of our net sales. Our strength in education also influences other parts of the computer market, most notably home computing, as parents look for computers their children use at school and that can run the learning software they want to use.

### **A rich history of collaboration**

Apple continues to work closely with educators to develop new and comprehensive learning solutions. Many of the most appealing attributes of Apple's computer platform have been designed with the education customer in mind. For example, schools don't have the budget for on-site technical support, so Apple systems are designed to be easy to set up, connect to a network, and administer. Schools need computers that can be used by children as well as teachers and administrators, so Apple's computers are easy to learn. Schools' investments in hardware and software have to last a long time, so Apple has created a smooth transition path for customers—from our original Apple II to Macintosh, and now to Power Macintosh. And the huge library of education software that has been developed for Apple computers is unmatched.

### **Creating the future together**

In 1994, products from all of Apple's businesses addressed the needs of people in education—whether they work in classrooms, in administration buildings, in dormitories, or in computer labs. For example, our Power Macintosh computers met with strong approval in higher education and secondary schools, with their exceptional performance and cross-platform capabilities. And our Workgroup Servers, combined with our AppleSearch® software, make it easier for people who have access to the Internet to explore the vast information resources of this network. AppleSearch allows students and educators to use commands in plain English to search through servers around the world for information, and it can perform these searches automatically at specified times.

As in publishing, Apple's commitment to education goes well beyond merely supplying equipment. We are deeply involved in the technological, social, and cultural issues that influence global education reform. As part of this involvement, we fund our own educational technology research group—the Apple Classrooms of Tomorrow—to explore new ways of teaching and learning. We are sharing the findings of this living laboratory with public policymakers to help them integrate technology into their plans for education reform.

### **Leadership in Education**

Power Macintosh computers are the systems of choice for students and faculty at Drake University in Des Moines, Iowa. In 1994, Drake added more than 1,100 Power Macintosh computers to its faculty offices, residence halls, and classrooms. With the Power Macintosh systems, students conduct research, search for information on the

Internet, design publications, and create multimedia presentations. “Our experience with a computer-intensive curriculum affirms that the use of computers contributes to active learning, rather than passive learning,” says Drake president Michael R. Ferrari. “It is critical that our graduates be well prepared to enter an increasingly global information-based economy, and they must have advanced learning tools to be successful in the coming years.”

#### **Complete Solutions for K–12 Education**

In 1994, Apple introduced the Apple Education Series, a suite of products and programs that help educators use technology in a smooth, productive, and cost-efficient way. Each Apple Education Series product includes hardware, software, training, and technical support. Included with many of the Apple Education Series products is the Macintosh LC 575, Apple’s powerful, all-in-one computer for education.

## **The Macintosh Computing Platform**

Apple has anticipated the major technology transitions that are realigning the computer industry. We have aggressive plans to extend our leadership in operating system software. And we have moved forward with our plans to make Apple technology more available in the marketplace through licensing.

Taken together, these developments enhance the competitive position of the Macintosh platform. The platform consists of the hardware and software technologies that give the Macintosh its acknowledged superiority in the marketplace.

#### **The transition from CISC to RISC**

Computer manufacturers are beginning to make the transition from CISC (Complex Instruction Set Computing) technology to RISC technology. RISC is fundamentally more powerful and efficient than CISC technology, which is used in nearly all Intel processor-based systems.

Apple has already successfully—and smoothly—made the transition to RISC. Our Power Macintosh computers run the same operating system as our Macintosh and PowerBook computers based on Motorola 680x0 processors, and they also run virtually all software created for other Macintosh systems. Less than a year after introducing the Power Macintosh line, Apple is the top-selling vendor of RISC-based computers worldwide—by a wide margin. The Power Macintosh line has also been important to the many developers who have delivered software products, known as native applications, that take advantage of the PowerPC processor’s exceptional performance.

Our competition’s transition to RISC looks rockier. It’s unclear when manufacturers of systems that run Microsoft Windows software will offer RISC-based computers. And it’s just as unclear which operating system these computers will run, because the personal computer versions of Microsoft Windows—Windows 3.1 and

the yet-to-be-released Windows 95—can't run on RISC-based computers. The competing platform, as of today, has no high-volume operating system available to run on the microprocessor architecture of the future.

As a result, Apple—along with the third-party software and hardware developers that support the Macintosh platform—has a head start in delivering solutions for the next generation of computing.

### **Extending the Mac OS leadership**

The Mac™ OS—the Macintosh operating system—has long been acknowledged as the industry leader in ease of use, plug-and-play compatibility, support for sophisticated graphics, and productivity for its users. This year, the introduction of Macintosh System 7.5—the latest release of the Mac OS—reinforced that leadership. System 7.5 offers many new features, including Apple Guide, an innovative help system that provides step-by-step guidance for new or complex tasks; QuickDraw™ GX, which offers advanced type and graphics technology; and Macintosh PC Exchange,™ which makes exchanging files with DOS and Windows software-based systems easier.

In the coming years, we will make even more improvements to the Macintosh operating system. First, we expect to deliver a user interface that conforms even more to the way people work and that can be modified to meet each user's needs. This interface will include technologies that allow “agents” to anticipate users' needs and learn from their work habits. We also plan to include improved speech-to-text and text-to-speech technologies, support for more languages, and improved scripting capabilities.

Second, future versions of the Mac OS will include OpenDoc™, our cross-platform component software technology. OpenDoc is designed to allow users to customize their computer work environment, and we expect it to open new opportunities for developers. Industry leaders such as Xerox, Novell, IBM, Adobe, and Lotus have joined Apple in the creation of Component Integration Laboratories, an independent organization that will maintain standards and license OpenDoc.

Third, we aim to make it easier for people to work with multimedia. We intend to offer new products based on our QuickTime® multimedia software and QuickDraw GX graphics technology.

Finally, we plan to make the Macintosh computer an integrated tool for communications, consolidating the various communication devices people use today. For example, the “universal mailbox”—a feature of Macintosh System 7.5—provides a single place for users to receive voice messages, faxes, electronic mail from multiple applications, and paging messages. In the future, we expect to expand these communication capabilities to include navigation through on-line services and the Internet.

## **Expanding market share through licensing**

During the year, Apple moved forward with plans to license Macintosh hardware and software in order to reach more customers with our technology. First, we announced our plans to license the Mac OS broadly around the world. Second, we agreed with IBM and Motorola to create a common hardware reference platform for computers based on the PowerPC microprocessor. This platform will offer customers the flexibility of running several different operating systems, including the Mac OS. It also makes it easier for new customers and potential licensees to adopt the Mac OS. In addition, we are exploring opportunities to license the Mac OS to vendors that create consumer electronics products. One of the primary goals of our licensing plans is to make our licensees successful in the global marketplace.

Licensing is a very important development for the Company. We believe licensing strengthens our ability to increase market share of both the Mac OS and Apple-branded Macintosh personal computers. Through licensing, we can add the sales, marketing, and distribution resources of our licensees to Apple's own efforts to expand the market share of Macintosh. In addition, we dismantle one of the final barriers to widespread acceptance of Macintosh: proprietary technology. This increased market share should, in turn, expand the business opportunities for third-party hardware and software companies that support the Macintosh platform.

### **Power Macintosh Leads in Performance**

In a benchmark study conducted in November 1994 by Ingram Laboratories, a leading independent tester of personal computers, Apple's Power Macintosh computers outperformed comparable Intel Pentium processor-based computers running Microsoft Windows 3.1. The Power Macintosh 8100/110 was 39 percent faster overall than a computer based on a 100-megahertz Pentium processor. The Power Macintosh 7100/66 and 6100/60 computers were 15 percent and 24 percent faster, respectively, than comparable Pentium processor-based systems.

### **Expanding the Mac OS Market**

In 1994, Apple announced plans to license the Mac OS to other personal computer vendors. Licensing is an important part of the Company's overall strategy to increase market share. The new Mac OS logo signifies Apple's more open approach to attracting new users to the platform, and manufacturers who license the Mac OS can display the logo on their products and packaging to indicate that the products are compatible with the Mac OS.

### **Hundreds of Native Applications for Power Macintosh**

The list of native applications—software that has been accelerated to take full advantage of the high-performance PowerPC processor—continues to grow every day. More than 350 native applications have been introduced to date, by such major software developers as Microsoft, Adobe, Claris, Quark, and WordPerfect.

### **Apple Guide Brings New Ease of Use**

This new feature is part of Macintosh System 7.5, the latest release of the Mac OS. Apple Guide helps to lower training costs by providing interactive on-screen help that guides users through tasks one step at a time. It also allows users to automate simple tasks, such as printing daily to-do lists.

### **The Leading Edge of Notebook Computing**

Apple advanced its strong position in mobile computing in May 1994 with the introduction of the PowerBook 500 series of notebook computers, which combine innovative technologies and a sleek new design. The PowerBook 540c is Apple's top-of-the-line PowerBook—its high-performance features include an active-matrix color display, the Apple trackpad, Ethernet networking, and integrated productivity software.

## **Managing and Expanding the Business**

Two major initiatives underpin Apple's current business model: First, we plan to manage our assets and expenses efficiently to maximize our performance and financial returns. Second, we plan continued expansion in our new businesses.

### **Efficient financial management**

Apple's financial rebound in the last twelve months is due in no small part to the Company's relentless restructuring for greater productivity. Our employees have cut costs, found more efficient ways of doing business, and, quite simply, figured out how to do more with less. Their tenacity and discipline proved instrumental in our recovery.

We are continuing to streamline operations by reengineering our component purchasing, inventory management, and customer distribution processes. We are improving our manufacturing cost competitiveness by using lower-cost, industry-standard parts in our products. And we are reducing our facilities costs by moving certain business functions to lower-cost areas in the United States and around the world.

### **Apple's new businesses**

The installed base of more than 16 million Macintosh computers gives Apple a solid foundation on which we can build new businesses that capitalize on our strengths. The contribution to revenue from our new businesses—including our software subsidiary, our server business, our on-line services, and our personal electronics business—is currently small in comparison with our large personal computer revenue. But we believe these businesses can be important contributors to our revenue growth.

In fiscal 1994, unit shipments of software from Claris Corporation, our software subsidiary, increased 67 percent over 1993 levels—surpassing the 3 million mark. The best-selling ClarisWorks® application—which includes word processing, spreadsheet, drawing, painting, communications, and database programs, all in one

package—was rated the “Best Buy” by Home Office Computing magazine. Also in 1994, Claris tripled its presence in the Windows software market. Its international presence expanded as well—Claris doubled its business in the fast-growing Japanese market in 1994.

Also in 1994, Apple introduced competitively priced high-performance servers for workgroups consisting mostly of Macintosh users. We made great strides toward offering server systems that move beyond the Macintosh market into the much broader standards-based server market. Specifically, Novell announced plans to port its market-leading NetWare 4 network operating system to Apple’s new PowerPC processor-based servers.

We continued to expand our on-line services business. We believe Apple’s eWorld service is poised to become a key player in this dynamic growth market. eWorld software is included free with most Macintosh computers, giving this new service broad distribution.

And in our personal electronics business, Apple has already claimed a leadership position with its Newton® technology and MessagePad™ products. While the market for personal digital assistants is still in its early phases, industry research indicates that Newton technology holds a significant lead. We expect this lead to continue in the coming fiscal year.

#### **High-Performance Servers**

In 1994, Apple expanded its line of workgroup server solutions. The Workgroup Server 9150 is our most expandable, most powerful RISC-based server, capable of handling applications that require significant memory and storage capacity.

#### **Communicating in New Ways**

The Newton MessagePad allows users to capture, organize, and communicate business and personal information. We expect the Newton MessagePad to continue to lead in specialized markets such as health care, financial services, and sales automation. In addition, we believe it will continue to compete strongly in the high-end personal organizer category.

#### **A New World On-line**

Apple’s eWorld on-line service is designed around the metaphor of a community, giving users instant and easy access to information about hundreds of subjects. The intuitive eWorld interface, its growing library of information, and its global reach distinguish this service from its competitors.