



# BULKY DOCUMENTS

(Exceeds 100 pages)

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Part 2 of 4

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October 31, 2002

On target with iPod

Edited by Cara DiPasquale (cdipasquale@tribune.com) and Kris Karnopp (kkarnopp@tribune.com)

Start your Christmas shopping early.

Apple announced Wednesday that iPod, its popular digital music player, will be available at all Target stores nationwide starting this week. Apple has placed an operable iPod on display in each of Target's 1,148 stores, so every customer can listen to an iPod before they buy.

Available in both Mac(R) and Windows versions, iPod holds up to 4,000 songs and is the only portable digital music player with Auto-sync, an innovative feature that automatically downloads an entire digital music library into an iPod and keeps it up-to-date whenever the iPod is plugged in.

It'll set you back about \$300, \$400 or \$500, depending on the version.

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--- INDEX REFERENCES ---

INDUSTRY: (I.T. (IIT96); Multimedia Production, Graphics & Publishing Software (1MU67); Software (ISO30); Software Products (ISO56); Application Software (1AP32); Audio Technology (1AU01); Advanced Digital Technologies (1AD50))

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September 6, 2002

Section: Gulf Coasting

Apple serves up a hit with iPod

September 6, 2002

I can take 1,000 of my favorite songs and carry them around in my pocket.

Am I dreaming, or did I just buy an iPod? I'll give you a hint - I'm not dreaming.

News-Press

The iPod is Apple's new MP3 player, and it can come with either 5 GB (1,000 songs), 10 GB (2,000 songs) or 20 GB (do the math yourself), all of which are hugely bigger than most MP3 players out there.

The iPod also has, in true Apple tradition, a great design. You can easily navigate through all of your songs more quickly than you can navigate through most MP3 players that hold one-fifth of what this holds.

Your songs are arranged by playlists, artists, albums, songs, genres and composers. Most MP3 programs have something that allows you to get all the info on your CD with the click of a button, but if you don't have one of these, or if it is an extremely obscure CD, you will have to fill in this data yourself.

The iPod comes with a pair of earbuds that were apparently invented by an elephant, because if they are kept in the ears too long, the ears may start to turn red and, after a while, even fall off.

Okay, I lied, but they are really uncomfortable, so you will probably want to replace the buds. Once you do, you will notice that the iPod has wondrous sound quality. There is such detail in this little player that you can hear the sweat drip off of Ozzy's nose after a rousing rendition of "Crazy Train."

In case you're listening to boring music, there is a simple game included on the iPod. It is called "Breakout," and is kind of like a one-player version of Pong. Other extras are a built-in equalizer, which includes more than 20 presets, a clock, an address book and a calendar.

But none of these are the main focus here. That focus is playing music, and the iPod does exceptionally well, probably better than any other MP3 player. Keep in mind that you are paying for the best, so the \$300 price tag shouldn't be a big surprise (That \$300 is for the 5 GB model; the 10 GB model is \$400 and the 20 GB model is \$500.) I fully

recommend the iPod.

TECHNOLOGY REVIEW

iPod

\*\*\*\*

Will Hulseman

Age: 14

9th grade

Canterbury School

\*\*\*\* - Excellent; \*\*\* - Good \*\* - Fair; \* - Poor

--- INDEX REFERENCES ---

Language: EN

OTHER INDEXING: (CANTERBURY SCHOOL; GB) (Age; Apple; News; Ozzy)

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2003 WLNR 3780982

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January 12, 2003

Section: FEATURES ARTS & ENTERTAINMENT

The ear-opening possibilities of the iPod

Tom Moon

Last spring, the New York Times Magazine devoted a full page to the contents of Beck's iPod portable MP3 player. The list wasn't terribly surprising - obscure Brazilian pop of the '60s, several pieces by 20th-century dissonance master Anton Webern, some Bing Crosby, and Blind Willie McTell.

I remember wondering: What's the big deal? Of course an artist who revels in curious juxtapositions and collisions of "found" sounds would feed his head with minor classics and arcana, lost beats from every hidden corner of the globe.

What I didn't appreciate then was what Beck and other MP3-enabled types had been saying: That having so much music at your fingertips, with the ability to organize and quickly regroup tunes to follow one stylistic path or mix several, actually changes the listening experience. These little devices offer not only the pure geek thrill of massive storage - you can walk around with up to 20 gigabytes in your pocket, enough to hold 10,000 songs - but also the chance to encounter, and use, music in unexpected ways.

My conversion wasn't instantaneous. I'd used the early MP3 players, which held only 30 minutes of music and took forever to load. The second-generation devices were better, but still bulky. The pricey iPod (\$299 to \$499), introduced by Apple in 2001, was something else: a sleek silver-and-white box, about the size of a deck of cards, that could summon any song within seconds. It sounded as crisp as any of the available players, but was far more elegant.

Apple released a Windows version of the iPod in the fall, and shortly after, I succumbed to gear lust. I started by transferring CDs from my collection to MP3s - an activity the big labels see as a step toward the dreaded file sharing that they say has cost them so much revenue in the last two years. For the record, I didn't feel like a criminal: These were CDs I'd purchased or been sent for review. Even label executives - such as Lyor Cohen, president of Island/Def Jam, who has raved in public about his iPod - would agree that what I did differs from building a collection from files pirated off the Internet.

Something radical happens when you disengage from physical discs and tapes, when you collapse the distance separating "rock," "jazz" and "world" in the record stores and view the collection as an ocean of possibility. Daily life gets a different kind of soundtrack, endlessly mutable and instantly reconfigurable. Sometimes it's pure utility: What you need going home on the subway might be many decibels away from what you need when you're waiting

at the dentist's office. Sometimes it's pure perversity - Booker T's greasy soul into some up-tempo Basement Jaxx electronica freight-training into Jo o Gilberto singing "Quiet Nights" at a whisper.

I loaded in an hour of Miles Davis gems, culled from probably 18 discs. Then a Brazil mix including more than a dozen artists, then a "new garage" mix centered on the White Stripes. The discs and their cases would have filled a large backpack, and even if you did carry them around, you'd never be able to create a mix without expanses of "dead air" while stopping and reloading the CD player.

But it was a jazz guitar mix that demonstrated the music-appreciation value of these devices. Starting with selections from the recent box of pioneering electric guitarist Charlie Christian, I put together a slapdash, incomplete evolution of the guitar through jazz history - some Wes Montgomery, Jim Hall, Tal Farlow, Grant Green's 1961 Sunday Mornin' in its glorious gospel-soul entirety, some vintage Pat Martino, early Bill Frisell, Pat Metheny.

At first, the tracks were in chronological order. Then one day I put the mix in random-shuffle mode and found myself comparing little things like phrasing, noticing how Metheny's feathery, almost transparent attack differs from Montgomery's crisply rendered single notes, how Martino fractures straight-up blues declarations into a meta-language of his own.

Play with these portable gadgets enough, and you find yourself listening more actively, thinking like a DJ - seeking the mind-bending segue or the track that kicks things into another gear, savoring this surreal mix-and-match moment in which historical artifact rubs up against disposable remix. You start to imagine all sorts of new-frontier ideas - kiosks in airports offering custom mixes (by Moby, Nikka Costa, anybody) or an hour's worth of music from unknown talents selected by some veteran coolhunter.

"I really think it has changed the way I listen," Beck said of his still-beloved iPod last fall. "Before I came out on the road this time, I loaded in a bunch of stuff I never really listened to before. I'm like a punk kid, right?, but I'm deep into a John Coltrane phase, so I have like six or seven of his albums in there, and some Stravinsky, some Charley Patton, Hank Williams, Jimmie Rodgers. . . . You know, the usual."

Contact music critic Tom Moon at 215-854-4965 or [tmoon@phillynews.com](mailto:tmoon@phillynews.com).

## PHOTO

### DARIO ZALIS

Strange bedfellows on an MP3 player: Mixing Jo o Gilberto (above) and Basement Jaxx might be perverse, but could get you thinking.

### Sounding Out

## --- INDEX REFERENCES ---

REGION: (Brazil (IBR84); Americas (IAM92); South America (ISO03); Latin America (ILA15))

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January 17, 2003

Section: Tempo

Mix master iPod makes music of juxtapositions  
Tom Moon, Knight Ridder/Tribune News.

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A new soundtrack

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#### Shuffle mode

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A different kind of soundtrack enters daily life

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#### ---- INDEX REFERENCES ----

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## 10 MOST SUCCESSFUL PRODUCT LAUNCHES

From iPod to 'Lord of the Rings'

December 22, 2003

QwikFIND ID: AAP24K

# #1

### APPLE'S IPOD

Updated in 2003, the beautifully appointed iPod spawned a white wire cult among the cognoscenti with a category leading 20-plus percent market share. Sales were boosted with the launch of Apple's companion iTunes Music Store, with 25 million songs sold in seven months. In 2004, competition proliferates from cheaper and not-so-bad-looking Microsoft compatible players such as the Rio Karma. But the original sleek white iPod remains tops with us for its ingenious design.

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# Tech

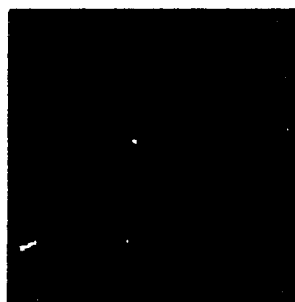
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Posted 11/19/03 2:11 AM

## Ads for iPods offer big music gift in small package

By Theresa Howard, USA TODAY

NEW YORK — One of the biggest holiday gifts for teens and technophiles this year was one of the smallest — Apple's little white iPod, a digital music player that's 0.62 inches thick, weighing 3.6 ounces.



A simulated device savings of iTunes on her iPod

Consumers also snapped up gift certificates for 99-cent music downloads for the players from Apple's (AAPL) iTunes store. The certificates, sold in stores and online, come in increments of \$10 to \$200.

The first holiday season for iTunes — it opened for Mac users in April and for Windows in October — helped drive sales even more for popular iPods.

Overall, digital music player sales are expected to be up 67% in 2003, but the pace was accelerating. Shipments of iPods were up 140% for Apple's fourth quarter ended Sept. 27. The iPod, rolled out in 2001, has a 50% share of the market for such music players, according to market cracker The NPD Group.

The music industry dampdown on illegal online music downloads also has motivated more consumers to turn to the iPod and iTunes duo for legal satisfaction of their digital music wants. Since its introduction, iTunes has sold 25 million downloads.

"The iTunes Music Store has revolutionized the way people legally buy music online," said Apple CEO Steve Jobs at the company's introduction of iTunes for Windows. Jobs and other Apple executives were unavailable for this story.

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**Click here for success Ad Tracks** To subscribe to Harris Ad Research Service, contact David Krane of Harris Interactive at 212-531-5648 or at [david.krane@harrisinteractive.com](mailto:david.krane@harrisinteractive.com). Based on a nationwide poll of 770 adults who had seen the ads. Poll conducted Nov. 18-24; margin of error is plus or minus 3.5 percentage points. Overall average based on 333 ads.

### Today's Top Tech Stories

- Astronomers capture the edge of time - 11/19/03
- Flaming bats online can be a gamble - 11/19/03
- Today's grocery list: milk, bread, music - 11/19/03
- Photos from Mars never show rock-filled landscapes - 11/19/03
- Ads for iPod offer big music gift in small package - 11/19/03

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Music and Tech

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## FOCUS - 73 of 89 DOCUMENTS

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February 23, 2004

SECTION: FEATURES/COVER STORY; Pg. 76

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HEADLINE: 2 Role Changing Roils Tech;

Convergence, long a discredited buzzword, finally lives up to its hype. Apple, HP, and Dell won't look the same.

BYLINE: Fred Vogelstein

**BODY:**

Since the invention of the PC, techies have taken two things for granted: Processor speeds will grow exponentially, and PCs will become indistinguishable from televisions—that there will be, in industry lingo, convergence. The first prediction obviously has come true (nice crystal-ball gazing, Gordon Moore!), and the second—well, consumers aren't exactly firing off e-mail from their TV sets.

So what are Michael Dell and Carly Fiorina doing hawking flat-screen TVs? And why, while we're at it, is Fiorina waving around an iPod at the Consumer Electronics Show? It turns out that after a generation of hype, convergence has actually become real—and, over the next few years, it's going to be huge, if a little different from what we once imagined. Consumers may not like to watch movies on their PCs, but they love listening to music on them. They may not like to send e-mail from their couch, but they love having a PC—known as a digital video recorder—attached to the TV to automatically record all their favorite shows. And while they won't buy an old-fashioned TV from Dell or HP, when it comes to flat-screen TVs, they have no problem at all.

Why is convergence happening now, after all these years? Thank the cheap flat screens and hard drives, easy broadband access, and simplified home-network setup. Today, hard-drive storage—the guts of an iPod or DVR—costs less than \$1 a gigabyte, down from \$20 a gigabyte in 1999. Flat-screen TVs that cost \$10,000 a few years ago now goes for less than \$1,000.

For PC makers, it's also good business. Prices and margins for computers keep falling; gross margins in consumer electronics are twice those in the PC world. And now that the music and movies consumers play on those systems are the same zeros and ones that are the foundation of PCs, there is little conversion cost.

The only clear winner in this new world is Apple, which has leveraged its computer platform to make it easy and fashionable for consumers to get with the digital-music age. Apple today sells almost as many iPods per quarter as it does Macs. Microsoft wants in on this business badly, but as HP's decision to shift its loyalty to Apple illustrates, Microsoft doesn't have much leverage just now. The other company to watch over the next few years is Sony. It misplayed the convergence game but is redoubling efforts to make its PC, consumer electronics, gaming, and entertainment divisions play together. Whoever wins the hearts and minds of consumers, one thing's clear: The eye-rolling over convergence can stop right now. —F.V.

**BOX STORY:**

**COMPANIES TO WATCH**

—Apple (AAPL, \$24) The only computer company that knows how to make products that people don't mind displaying.

—Gracenote (private) The firm's massive CD-info database makes it a top partner for anyone getting into digital music.

2 Role Changing Roils Tech; Convergence, long a discredited buzzword, finally lives up to its hype. Apple, HP, and Dell won't look the same. Fortune February 23, 2004

**GRAPHIC: COLOR PHOTO: JUSTIN SULLIVAN-GETTY IMAGES, SHINING THE APPLE** Fiorina is selling HP-branded iPods. She wants to win in consumer electronics, even if it means angering Microsoft.

**LOAD-DATE:** February 9, 2004

8/7/25 (Item 13 from file: 15)  
DIALOG(R)File 15:ABI/Inform(R)  
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CENTER OF ATTENTION

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LENGTH: 6 Pages WORD COUNT: 3926

**ABSTRACT:** Apple says that from October 2003 through December 2003, it sold 730,000 iPods - enough to give it a 31% share of the MP3-player market. But as the iPod's capacity has grown, folks with modestly sized music libraries have had less reason to sing the device's praises. Users without thousands of songs to store have little need for all that space. Faced with this problem, Apple came up with a small solution - the iPod mini. Basically a slimmer version of the iPod in a more colorful package, the iPod mini rounds out Apple's digital-music-player offerings. While the regular iPod is about as big as a deck of cards, the iPod mini is the size of a business card. The iPod mini comes in silver, gold, green, pink, or blue, or an anodized aluminum case that resists stains and scratches. The feature that's really got people talking about Apple's miniature music player is its \$249 price.

**TEXT:** IPOD MINI, ILIFE '04 EXPAND APPLE'S DIGITAL HUB

WITH A MIX OF POWERFUL hardware and innovative applications, the Mac has firmly established itself at the center of our digital lives. Got a digital camera? iPhoto can import, organize, edit, and share all your images. Been videotaping birthdays and vacations on your DV camcorder? Use iMovie to edit your footage into a home movie, and then burn your movie onto a disc with iDVD. Now, thanks to a spate of new products, Apple's digital hub is extending its reach. A slimmed-down version of the iPod has the potential to enlarge the music player's appeal, while the iLife '04 suite includes updates to three popular i-apps and introduces an entirely new program that puts music creation at your fingertips. Here's a closer look at Apple's latest hardware and software--these products promise to make your digital hub the place to be.

A LITTLE MUSIC

BY PHILIP MICHAELS

Pop singers should envy the way the iPod has rocketed to the top of the charts. The portable music player debuted with a splash more than two years ago, and the hits have kept on coming ever since. Apple says that from October 2003 through December 2003, it sold 730,000 iPods--enough to give it a 31 percent share of the MP 3-player market.

But as the iPod's capacity has grown--the smallest model now has 15GB of storage--folks with modestly sized music libraries have had less reason to sing the device's praises. Users without thousands of songs to store have little need for all that space.

Faced with this big problem, Apple came up with a small solution--the iPod mini. Basically a slimmer version of the iPod in a more colorful package, the iPod mini rounds out Apple's digital-music-player offerings (see "iPod Playlist"). More importantly, anyone looking for a lower-capacity music

player now has an option that not only features Apple's stylish design but also seamlessly integrates with the iTunes jukebox software.

#### Mini to the Max

While the regular iPod is about as big as a deck of cards, the iPod mini is the size of a business card. The smaller iPod is 3.6 by 2.0 inches, compared with the 4.1-by-2.4-inch dimensions of its larger sibling.

To shrink the music player into such a small package, Apple's designers made some changes to the face of the iPod. Buttons found above the scroll wheel on the original iPod have moved onto the iPod mini's wheel itself. You can scroll through your iPod mini's music library with the touch of a finger; click on the scroll wheel's menu, play/pause, fast-forward, and rewind buttons to access those functions.

The rest of the iPod package is unchanged. The iPod mini retains the Hold switch, remote port, and headphone jack on its top side. The FireWire-USB 2.0 connector on the bottom is also the same, so most accessories that work with the regular iPod will also work with the iPod mini. (Two notable exceptions are the Belkin Voice Recorder and Belkin Media Reader, which were introduced last fall. They aren't supported by the iPod mini's software.)

#### The Color of Music

Apple is also injecting some color into the iPod line—five colors to be exact. The iPod mini comes in silver, gold, green, pink, or blue, on an anodized aluminum case that resists stains and scratches.

The iPod mini's screen resists scratches, too. It's recessed in the case, so if you set the iPod facedown on your desk, the screen never touches the surface. Priced at \$249, the iPod mini costs \$50 less than the least expensive iPod (see "Music Player for a Song?"). But Apple is gambling that the combination of form and features is enough for another number-one hit.

#### MUSIC PLAYER FOR A SONG?

Forget the iPod mini's compact size and its assortment of colors. The feature that's really got people talking about Apple's miniature music player is its \$249 price. And the chatter hasn't exactly been enthusiastic.

When Apple unveiled the iPod mini, it positioned the slimmed-down iPod as a rival for small, flash-based music players. Apple CEO Steve Jobs compares the 4GB iPod mini to SonicBlue's 256MB Rio Chiba and Rio Cali. While those \$199 devices cost less than the new iPod mini, they also hold far less music than the 1,000 songs Apple's smaller music player can store. "That's the best \$50 you'll ever spend," Jobs said at January's Macworld Expo.

But critics of the iPod mini's price argue that for another \$50, iPod users can get even more storage—15GB worth, now that Apple has upped the capacity of its \$299 iPod. While paying \$249 for 3.7GB more storage than you get from a \$199 flashbased player may be a good deal, some analysts and Mac users contend that paying \$299 for 11GB more sounds even better. Of course, a comparable music player—the Rio Nitrus 4GB—also sells for \$249. And Stan Ng, Apple's senior product manager for the iPod line, believes that the iPod mini will appeal to different users. Some will appreciate its colorful look and portability, while others—who don't have anywhere near 15GB of music—will find the iPod mini's smaller capacity



provides more than enough storage.

Besides, Ng adds, the iPod released by Apple in 2001 offered only 5GB of storage, and it cost \$399. "And people thought that wasn't going to sell well," he says.

#### POD PARTNERS

First the iPod went cross-platform. Now it's going cross-company. Apple has struck a deal with Hewlett-Packard, which will deliver digital-music players based on the iPod but sold under the HP brand name. (Details—such as the product name and price—weren't available at press time.) As part of the deal, HP will also include the Windows version of iTunes on its Pavilion, Media Center, and Compaq Presario desktops and laptops. As of December 2003, the iPod enjoyed the biggest share of MP3-player sales in the world, and Apple's dealings with HP make it clear that the company intends to keep things that way.

#### SMALL DEVICE, BIG ACCESSORIES

So what will \$249 buy you these days, besides 4GB worth of storage in an anodized aluminum case? The iPod mini ships with earbud headphones, an AC adapter, and cables for FireWire and USB 2.0. The music player also ships with its own belt clip. Optional accessories include the \$39 dock for charging and synchronizing the device, and Apple's new \$39 in-ear headphones. iPod mini users on the move should be interested in the optional \$29 neoprene armband, for holding the music player in place while you're working out at the gym.

#### IPOD PLAYLIST

With the addition of the iPod mini, Apple now offers four digital-music-player configurations.

#### IN MY GARAGE

BY JONATHAN SEFF

iTunes has made listening to, burning, and buying music a part of the digital lifestyle of Mac users. But something has been missing from Apple's musical equation—music creation. We have the \$199 Soundtrack and the \$699 Logic Platinum, but the former relies on sound loops to create background music, while the latter is a professional-level and complicated audio and MIDI (Musical Instrument Digital Interface) music-creation application.

Somewhere between the extremes of Soundtrack and Logic lies GarageBand; the latest addition to Apple's family of iLife apps, it's included in the iLife '04 suite. With GarageBand, you can layer prerecorded loops, play software instruments via a MIDI keyboard, and record live instruments—all in one project.

#### LOOPS

Anyone who has seen Soundtrack (which comes as part of Final Cut Pro 4 or can be purchased separately) will be familiar with the concept of loops—short, prerecorded sounds designed to repeat for as long as needed.

Apple includes more than 1,000 loops in the Apple Loop format, the same format used in Soundtrack. In fact, many of GarageBand's loops come from

Soundtrack—which ships with more than 4,000 loops on two DVD discs—while other loops have been created specifically for GarageBand. All are royalty-free, so you can use them to create music that belongs to you. Loops are easily accessible via the Loop browser, and they're organized by instrument (mandolin, organ, acoustic guitar, and trombone, for example), mood (distorted, cheerful, grooving, and processed), and genre (orchestral, rock/blues, and cinematic). Clicking on a button brings up a list of loops, presenting you with the loop's name, tempo, key, and number of beats per loop. You can also type in the name of your desired loop via a search box similar to the one in iTunes, Safari, Mail, and other Apple apps.

Once you find the loop you want, you can drag and drop it into GarageBand's main window to create a new track. Want to lengthen or shorten the loop? Click and drag the loop in the timeline until it reaches the desired length. As you add other loops, GarageBand will adjust the tempo, key, and beats so everything matches. (Loops with green icons are MIDI generated, while those with blue icons are recordings of actual performances.)

If the included loops aren't enough, several third-party sound companies have started selling Apple Loop libraries that you can add to GarageBand (not to mention Apple's own \$99 GarageBand Jam Pack, which has 2,000 more loops). Acid Loops—a popular format in the PC world—won't work directly with GarageBand. However, you can use the Soundtrack Loop Utility—part of the Apple Loops SDK—to convert them (visit <http://developer.apple.com>).  
SOFTWARE INSTRUMENTS

If the thought of making music appeals to you, you'll probably want to do more than just fiddle with someone else's loops. GarageBand obliges you by giving you access to virtual instruments—or Software Instruments, as Apple dubs them—for your own personal jam session.

With Software Instruments, you can "play" more than 50 different instruments that exist only as software code within the application. GarageBand includes an on-screen keyboard you can use to enter notes and chords, but to get the most out of GarageBand's Software Instruments, you'll need to add a MIDI or USB keyboard. Connected to your Mac, these keyboards let you play and record more-complex arrangements of piano, horn, drum, string, and choir sounds (to name just a few).

Instruments such as these can sell for hundreds of dollars apiece. Apple says that Software Instruments produce the same high-quality sounds as other virtual instrument products do—for example, a guitar sounds like a real guitar—but have fewer parameters that users can control.

That doesn't mean you need to take sounds as they come. GarageBand has more than 200 effects presets for adjusting compression, equalization, echo, reverberation, and more. By combining different effects, you can create custom sounds and save them.

#### LIVE RECORDING

After layering loops and generating sounds with Software Instruments, the third leg of GarageBand is live instrument recording.

Whether you play an instrument, such as an electric guitar or a bass, or sing vocals, you can record your live audio as tracks into GarageBand. The application has preset effects for effect combinations—for example, Bright Bass, Female Basic, and Crunchy Drums settings. When it comes to playing a

guitar, GarageBand includes several vintage amplifier sounds—with one of these chosen, playing a guitar through GarageBand will sound as if you were playing through a classic guitar amp.

Just as with loops and Software Instruments, you can record different live tracks in GarageBand, one at a time (rhythm and lead guitar parts, for instance). Your Mac's speed and your hard drive determine how many tracks you can play back at once.

Band Together GarageBand adds music creation to the iLife suite's bag of tricks. The program lets you blend prerecorded loops, virtual instruments, and recordings of vocals and instruments, to produce songs that you can burn to a CD or compress to MP3 or AAC format.

#### GETTING CONNECTED

To connect an electric guitar (or a professional mike, for that matter), you'll need additional hardware. Apple sells the \$19 Monster Instrument Adaptor, which converts a guitar's ¼-inch plug to a standard 1/8-inch minijack plug that you connect to your Mac's analog audio-in port (although you can pick up a similar adapter at your local electronics store for less than \$5). Apple says this is all you need to get guitar sound into a Mac, but for optimal sound levels and quality, you may want to consider a preamplifier such as M-Audio's \$180 MablePre USB (shown here).

#### MIX DOWN

After you have all the tracks you want, you can tweak both volume and panning (left to right) settings by track, add and change effects, and more. In all, you can layer 64 instrument tracks, and even more for digital audio.

When you're happy with your results, select File > Export to iTunes. GarageBand will mix all your tracks down to a 2-track (stereo), 16-bit, 44.1kHz AIFC file—a full CD-quality song. Then GarageBand will send that file to iTunes, and you can compress it to MP3 or AAC format to put on your iPod or Web site, or keep it in full quality to burn to a CD.

#### I'M WITH THE BAND

GarageBand joins Apple's iLife suite—now dubbed iLife '04 and featuring updates of iDVD, iMovie, and iPhoto, as well as the latest version of iTunes. The suite ships on all new Macs and is also available as a \$49 boxed set. Unlike the other iLife programs, iTunes remains a free download (Mac and Windows versions).

#### GarageBand

##### Jam Pack

##### More Instruments, Loops, and Effects for GarageBand

All of GarageBand's loops and instruments should keep you busy for a while, but for when you want even more choices, several add-on options have emerged. Apple has the \$99 GarageBand Jam Pack. This add-on contains more than 2,000 additional Apple Loops, another hundred or so Software Instruments, 100-plus more effects presets, and 15 more guitar-amp settings. Although you can use any MIDI keyboard with GarageBand, Apple sells M-Audio's \$99 Keystation 49e and Edirol's \$199 PCR-30, two USB keyboards, as accessories at the online Apple Store. And since the built-in

sound output on your Mac probably won't be good enough for you when playing and recording music, consider purchasing a good pair of headphones or computer speakers.

## IMOVIE'S LATEST EDITS

BY JASON SNELL

As far as sequels go, iMovie 3 was a disappointing follow-up to its predecessors. Last year's update to Apple's consumer video-editing program offered tons of interface and behind-the-scenes changes. But after discovering that iMovie 3 ran much slower, many people stuck with iMovie 2. Now with iMovie 4, Apple has not only added more features but also addressed iMovie 3's biggest problem—speed. The updated app is part of the \$49 iLife '04 suite; it's no longer available as a free download. Director's Cut iMovie 4's editing enhancements include the ability to trim clips in the timeline.

### Faster, Faster!

iMovie 4's interface is much more responsive than version 3's. Video starts playing almost immediately after you click on the play button—iMovie 3 just couldn't do this. But Apple's engineers have also pepped up the rendering of titles, effects, and transitions, so you won't have to wait as long to see if a cross-dissolve effect is really in the right place.

iMovie 4 also includes several new features designed to speed up your workflow. You can now select multiple, noncontiguous clips in the timeline. Say you decide that all the transitions in your project need to be one-second-long cross-dissolves. You can now select them all and change the cross-dissolve length in iMovie's Transitions panel; the program will re-render every transition with the new settings.

The new Bookmarks menu allows you to mark key spots in your project and then move between them with a keystroke. In a similar time-saving fashion, the View menu now lets you quickly move the Timeline or Clip Viewer to the current location of the playhead, saving you the trouble of scrolling through the viewer to figure out just what you're looking at.

### Editing Made Easier

You can edit clips just as you've always done in iMovie. But the new Direct Trimming feature lets you shorten clips directly in the timeline.

When you first enter iMovie's Timeline view, you'll see a subtle change—untrimmed clips have slightly rounded edges, while trimmed clips are perfectly rectangular. When you click on the edge of a clip and drag it, you automatically trim the clip. iMovie's main window shows you just what video you're removing. You can also drag out blank space in the timeline to use for inserting other material, such as a Color Clip—a new feature in iMovie that lets you insert a blank clip of any solid color, for use with transitions or titling.

### Productive Changes

iMovie 4 features numerous other improvements that can bolster editing productivity. Press the option key while you're clicking in the timeline, and you can drag the playhead back and forth while listening to your project's audio—a great way to make sure your soundtrack and video are

synced properly.

This version also provides direct support for Apple's iSight video camera, so you can capture video from the iSight directly within iMovie. The new Share command provides expanded exporting options, including the ability to automatically compress and e-mail movies, publish them to the Web via .Mac's HomePage feature, or even send them to a Bluetooth-enabled portable device.

#### iDVD 4: MATURE THEMES

iDVD's assortment of prebuilt themes—which provide attractive menu designs for DVD projects—is arguably the program's biggest asset. So while iDVD 4 introduces several new features, its most important addition is its 20 new themes. The program now features more than 40 high-quality templates for your DVD projects.

Beyond themes, though, are several other refinements that can make iDVD-built discs more closely resemble Hollywood productions. You can now create a movie that plays when someone inserts your disc, making it just like commercial DVDs that feature the FBI and Interpol warnings. iDVD can also build video transitions between your menus, so you can move from one menu to another with the flip of a page or the twist of a cube, for example. (Those dynamic, Keynote-style transitions are also available in iDVD's Slideshow feature, adding some variety to the simple cross-dissolve feature of iDVD 3's slide shows.)

iDVD's new Map button lets you view the structure of your disc as a flowchart, which is quite useful for large, complicated projects. Anyone facing hardware limitations will especially appreciate iDVD 4's Save As Archive command, which, for the first time, lets the program run on Macs without SuperDrives. You can build your DVD project on any iLife-compatible Mac, choose Save As Archive, and transfer the resulting archive file to a SuperDrive-equipped Mac for burning. You can also now fit more on one disc. Using the same MPEG-2 compression engine used in Apple's DVD Studio Pro, iDVD 4 can fit two hours of video on a disc. (If you don't have a lot of video, you can opt for higher-quality compression that can fit as much as one hour on a disc.)

#### FLASH PHOTOGRAPHY

BY KELLY LUNSFORD

Two years and several thousand photographs after iPhoto's debut, Apple's image viewer is experiencing growing pains. These days, you may spend as much time waiting for iPhoto to catch up to commands as you do showing off photos.

So the fact that Apple has addressed these speed issues in iPhoto 4 should come as a relief to avid iPhoto users. (As with iMovie 4, this version of iPhoto comes only as part of the iLife '04 suite, not as a free download.) The update makes iPhoto more responsive when scrolling, dragging, and resizing, but it also offers a host of organizational tools that simplify the process of finding photos.

#### Find Photos Faster

Consider the dilemma of the iPhoto Library, a repository that displays every image ever imported into iPhoto. To find a recently taken photo in version 3, you had to scroll past every image that surrounded it—a tedious

task, even with iPhoto's souped-up scrolling performance.

In iPhoto 4, however, Apple has made it much easier to find the photos you want. To quickly find a photo you took last year, you can click on a small disclosure triangle next to your Photo Library to see a new collection of photo albums organized by year. Each album contains only photos taken during those 12 months. Every time you import a new roll, iPhoto automatically adds the photos to the appropriate folder, keeping everything up-to-date.

If you want to see your most-recent photos, you can still click on the Last Roll menu item to view them or use the new Last 12 Months option to view everything taken in the past year. If these settings are too broad or too narrow, you can adjust them in iPhoto's preference pane.

Adapted from iTunes

Of course, sometimes you want to find photos featuring specific events, people, or other characteristics. iPhoto offers help in the form of Smart Albums, a feature similar to the Smart Playlists in iTunes.

Smart Albums automatically organizes photos into groups according to criteria you specify. Say you wanted to create an album containing all your family photographs. You could set up a Smart Album that automatically included any photo with the keyword family. You could further narrow down the collection by setting criteria such as dates, comments, file names, rolls, titles, assigned albums, or iPhoto 4's new rating system—another feature taken from iTunes—which lets you identify your favorite photos by applying as many as five stars. Once you've created a Smart Album, iPhoto will automatically add any future photos that match its criteria to it.

A third iTunes feature that made its way into iPhoto is Rendezvous integration. Now you can use Apple's zero-configuration networking technology to share your entire photo library or selected albums across a network. You can password-protect shared albums to control who sees what. There's one key difference from iTunes' Rendezvous implementation, however: downloading photos from a shared album is simply a matter of dragging the photo to your own library.

Pick a Date By showing photos taken during a specified year, iPhoto 4 helps you sort through your library faster.

The Song Is Not the Same

Other improvements to iPhoto 4 include new slide-show transitions and tighter integration with iTunes. Older versions of iPhoto let you select a single song to play over slide shows—meaning that the same song would play over and over again as you cycled through photos. Now you can select entire iTunes playlists for greater musical variety. With the speed improvements in iPhoto 4, though, just make sure you pick an up-tempo song.

FINAL CUT EXPRESS 2

iMovie 4 may add welcome features such as improved trimming and enhanced titles, but it remains an entry-level editing program. Video editors looking for more power—without Final Cut Pro 4's \$999 price—should be pleased with Final Cut Express 2, the latest update to Apple's midlevel video editor.

Based on the Final Cut Pro 4 code, the new version of Final Cut Express (\$299; upgrade, \$99) has many of the same features as its more robust sibling. The biggest addition is RT Extreme, the same real-time architecture that's in Final Cut Pro. It provides more effects, transitions, and simultaneous layers in real time, without the need to render.

Real-time benefits even carry over to audio volume and filter adjustments. Additionally, the new version has other audio improvements such as automated audio keyframe recording and support for Apple's Audio Units plug-in format.

Another welcome pro-level feature is Final Cut Express 2's ability to capture footage across time-code breaks, helping users save time by capturing footage in one automated session. There's also tighter integration with other apps, in the form of scoring-marker export for Soundtrack, chapter-marker export for iDVD and DVD Studio Pro, and compression-marker export for Compressor.-JONATHAN SEFF

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## FOCUS - 70 of 89 DOCUMENTS

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## HIGHLIGHT:

In just three years, Apple's adorable mini music player has gone from gizmo to life-changing cultural icon

## BODY:

Steve Jobs noticed something earlier this year in New York City. "I was on Madison," says Apple's CEO, "and it was, like, on every block, there was someone with white headphones, and I thought, 'Oh, my God, it's starting to happen.'" Jonathan Ive, the company's design guru, had a similar experience in London: "On the streets and coming out of the Tube, you'd see people fiddling with it." And Victor Katch, a 59-year-old professor of kinesiology at the University of Michigan, saw it in Ann Arbor. "When you walk across campus, the ratio seems as high as two out of three people," he says.

They're talking about the sudden ubiquity of the iPod, the cigarette-box-size digital music player (and its colorful credit-card-size little sister, the Mini) that's smacked right into the sweet spot where a consumer product becomes something much, much more: an icon, a pet, a status indicator and an indispensable part of one's life. To 3 million-plus owners, iPods give not only constant access to their entire collection of songs and CDs but membership into an implicit society that's transforming the way music will be consumed in the future. "When my students see me on campus with my iPod, they smile," says Professor Katch, whose unit stores everything from Mozart to Dean Martin. "It's sort of a bonding."

The glue for the bond is a tiny, limited-function computer with a capacious disk drive, decked in white plastic and loaded with something that until very recently was the province of ultrageeks and music pirates: digital files that play back as songs. Apple wasn't the first company to come out with a player, but the earlier ones were either low-capacity toys that played the same few songs or brick-size beasts with impenetrable controls. Not only is Apple's device powerful and easy to use, but it has an incandescent style that makes people go nuts about it. Some, like 44-year-old Tokyo electronics executive Katsuyuki Kanema, take their iPod everywhere, even the bathtub. (He doesn't need to worry about changing CDs with wet hands.) "It's the ultimate relaxation," he says.

Adding to the appeal is the cachet of A-list approbation. "I love it!" says songwriter Denise Rich. "I have my whole catalog on it, and I take it everywhere." She is only one voice in a chorus of celebrity Podsters who sing the same praises voiced by ordinary iPod users, but add a dollop of coolness to the device, as if it needed it. Will Smith has bubbled to Jay Leno and Wired magazine about his infatuation with "the gadget of the century." Gwyneth Paltrow confided her Pod love to Vogue (her new baby is named Apple—coincidence?). It's been seen on innumerable TV shows, movies and music videos, so much so that Fox TV recently informed Josh Schwartz, producer of its hit series "The O.C.," that future depictions of music players would have to forgo the telltale white ear buds. Schwartz, himself a 27-year-old who still hasn't recovered from the shock of having his unit stolen from his BMW, was outraged. "It's what our audience uses and what our characters would use," he says.

People who actually create music are among the biggest fans: "The layout reminds the musician of music," says tuner John Mayer. And couture maven Karl Lagerfeld's iPod collection is up to 60, coded in the back by laser etching



so he can tell what's on them. Lagerfeld's tribute to the iPod is a \$1,500 Fendi pink copper rectangular purse that holds 12 iPods. It is one of more than 200 third-party accessories ranging from external speakers to microphones and--fasten your seat belt--a special connector that lets you control your iPod from the steering wheel of a BMW.

Music hits people's emotions, and buying something that opens up one's entire music collection--up to 10,000 songs in your pocket--makes for an intense relationship. iPod users often obsess, talking incessantly about playlists and se-ques, grumbling about glitches, fixating on battery life and panicking at the thought of losing their digital friend. "It's as much a part of my life as eating and drinking," says Shanmugam Senthivel, 28, a Singapore systems analyst. Fans of the device use it for more than music. "It's the limousine for the spoken word," says Audible CEO Don Katz, whose digital-audiobook company has been revitalized by having its products on Apple's iTunes store. (Podsters downloaded thousands of copies of Bill Clinton's autobiography within minutes of its 3 a.m. release last month.) And computer users have discovered that its vast storage space makes it a useful vault for huge digital files: the makers of the "Lord of the Rings" movies used iPods to shuttle dailies from the set to the studio. Thousands of less accomplished shutterbugs store digital photos on them.

iPods aren't conspicuous everywhere--their popularity seems centered on college towns and big cities from London to Los Angeles--but sometimes it seems that way. Earlier this year during the Apple vs. Apple case, wherein the Beatles' record company is suing the computer firm on a trademark issue, the judge wondered if he should recuse himself--because he is an avid iPod user. (The litigants had no objection to his staying on.) A report from London-based Informa Media, released last week, predicts that more than 21 million mobile music players will be in use around the world by the end of this year, a quarter of them iPods.

In 1997, when Steve Jobs returned to the then struggling company he had cofounded, he says, there were no plans for a music initiative. In fact, he says, there wasn't a plan for anything. "Our goal was to revitalize and get organized, and if there were opportunities we'd see them," he says. "We just had to be ready to catch the ball when it's thrown by life." After some painful pink-slipping and some joyous innovating, the company was solvent.

But in the flurry, Jobs

**GRAPHIC:** GRAPHIC(text/charts/graphs): The New Musical Icon: Apple's portable has invigorated the company's profits, and is changing the way people buy and store music. The iPod effect: (graphic omitted); **PHOTO:** The New iPod: Features: Circular touchpad for easier scrolling; shuffle with just one click; Price: Top-of-the-line model now \$399, a \$100 cut; Play: A 50% boost in battery life without more weight; Color: Despite the rumors, still as pure as the driven snow

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**BODY:**

Since its introduction nearly three years ago, the iPod has pulled off an amazing feat that goes beyond squeezing the contents of several shelves of CDs into your pocket. The portable music player has helped transform Apple--from a computer company serving a loyal (but relatively small) contingent of users, to the world's chief purveyor of legal digital music and digital music devices. Apple hopes to keep the music playing with the latest versions of the iPod--this generation incorporates hardware and software changes that alter the device's look and feel.

**Hardware Happenings.**

Like previous updates, the fourth-generation iPod is notably different from earlier editions, both on the inside and on the outside.

Click and Roll Apple faced a significant design challenge when it assembled the slim iPod mini--fitting all the controls and functionality of the original iPod's manual interface on a diminutive version of the music player. Born of necessity, the iPod mini's Apple Click Wheel now has a home on the full-size iPod (see "iPod Close-up").

[ILLUSTRATION OMITTED]

[ILLUSTRATION OMITTED]

In form and function, the Click Wheel is very similar to the ring of buttons that surrounded the scroll wheels of the first and second-generation iPods. Gone is the horizontal row of four touch-sensitive buttons introduced in April 2003. Its departure will be welcome news to iPod users who complained that the four buttons were too easy to touch accidentally and too unwieldy to operate on purpose--as well as to people who postponed buying a new iPod for that reason. (Even so, Apple sold more than 860,000 iPods and iPod minis from April to June 2004--buttons and all--bringing total iPod sales to more than 3 million since late 2001.)

With those buttons gone, the new Click Wheel pulls double duty, providing a wheel for scrolling through songs, menus, settings, and the like, as well as a set of buttons. Next/Forward, Play/Pause, Previous/Back, and Menu controls are on the edge of the wheel, at the three, six, nine, and twelve o'clock positions, respectively; a slight push on the wheel at those positions acts like a button click. Those clicks let you control playback and navigate the iPod's interface. You make selections by clicking a button in the center of the Click Wheel. (You do have to physically push down this button--it's not touch-sensitive like the one on the last generation of iPods.) Stan Ng, director of iPod product marketing, says that iPod customers prompted the change; they told Apple that the Click Wheel simplified access to menus and browsing, since it didn't force them to take their fingers off the wheel to access the buttons.

[ILLUSTRATION OMITTED]

Rock and scroll: the new Click Wheel iPod rules the digital music world; Cover Story Macworld October 1, 2004

In a departure from previous models, the latest iPod doesn't have the familiar all-white design. The Click Wheel is now gray, which Ng attributes to both aesthetics and function. "Our industrial-design team decided on something that looked great," Ng says. "And from simplicity and ease of use, it brings you directly to it—you know where to put your thumb."

**Better Battery** The first two incarnations of the iPod promised 10-hour battery life. That changed last year, when battery life on the third-generation

iPod dropped to 8 hours—a change that the device's more compact design necessitated.

The new iPod reverses the downward trend, with a battery rated to run for 12 hours on a single charge. Apple attributes the longer battery life to several factors. "It is a slightly higher-capacity battery," Ng says. "But the majority comes from engineering of a new hardware architecture and new software." Both factors reduce the iPod's overall power consumption. Like the batteries in earlier iPods—and in any device that uses a lithium-ion power source—the new battery has a finite number of charge cycles (see "Mac Users in a Fix," Mac Beat, April 2004). Eventually, it will wear out and need to be replaced.

The iPod is still rechargeable via its AC power adapter, its FireWire cable connected directly to a Mac or a PC, or the dock (which is included with the 40GB model or is available as a \$39 add-on for the 20GB model). And for the first time with the full-size iPod, you can charge via an included USB 2.0 cable, just as you can with an iPod mini.

A word about the iPod dock—Apple sells a version made specifically for the Click Wheel models. But since the connection is the same as with the previous dock, you should be able to use an older dock with your new iPod. And since the iPod's dock connection remains the same, most third-party accessories compatible with the previous model should work fine with the new versions.

**Curious Capacities** The new iPod is available in two configurations, a 20GB model, for \$299, and a 40GB model, for \$399. These capacities should sound familiar—Apple offered both sizes in the third-generation iPod line, but those older models cost \$100 more than their fourth-generation counterparts. That fits with Apple's pattern of dropping prices on older capacities as production costs fall and new technologies emerge. However, unlike previous iPods, neither new model comes with a remote control or a case—a decision Apple made in order to keep the price down, according to Ng.

This is the first time that the high-end model in a new generation of iPods hasn't had an increased storage capacity (see "The iPod Evolves"). This is particularly puzzling in light of Toshiba's June announcement that Apple was ordering the hard-drive maker's new 1.8-inch, 60GB hard disk. That new drive was expected to be available to manufacturers this summer, making a 60GB iPod an obvious choice to fill the \$499 spot not currently included among Apple's iPod offerings. When pressed for details about a new model based on Toshiba's 60GB mechanism, both Ng and Greg Joswiak, Apple's vice president of hardware product marketing, declined comment.

**Pod Problem?** As this issue went to press, some users of the new iPod had reported hearing static and noise through the headphones whenever the iPod accessed its hard drive—for instance, when the iPod was transferring songs from the hard drive to RAM cache. Such transfers happen when you skip through several songs or listen to more than 25 minutes of music at a time. The cause of the static is unknown; Apple did not respond to several requests for comment.

#### Under the Hood

The software running on the iPod often gets lost in the glitz of design, hard-drive space, and accessory issues. But it would be a mistake to overlook version 3.0 of the iPod software, since it adds several features that will affect how you use your music player.

**Menu Magic** iPod navigation has gotten a tune-up. Replacing the ambiguous Browse item of previous software versions is a Music menu (though, curiously, Music also includes an Audiobooks entry). It gives you access to the same Artists, Albums, Songs, Genres, and Composers search methods as before. New to that list is Audiobooks. "We heard [from customers] that audiobooks were a great way to pass the time while commuting or on a plane," Ng says. "So we made audiobooks [a] category."

**Book Smart** The updated software does more than just give Audible-format audiobooks their own menu listing; it also gives you new control over playback speed. The software lets you speed up or slow down audiobook playback without changing the pitch (and making it sound as though you were listening to a tape player running low on battery

Rock and scroll: the new Click Wheel iPod rules the digital music world; Cover Story Macworld October 1, 2004

power, or to a person who had inhaled helium just before the recording session). So this feature should prove useful for speed-listening or for foreign-language instruction.

[ILLUSTRATION OMITTED]

Like iTunes, the iPod recognizes an audiobook by its file type. If you use a utility such as FileBuddy to change the file type of an AAC file from M4A (unprotected) or M4P (iTunes Music Store file) to M4B (with a blank space at the end), you can change the speed of a song the way you would an audiobook. You'll also be able to take advantage of the iPod's audiobook bookmarking feature, so you can continue playing back a song from where you left off (great for long pieces, such as symphonies).

Serious Shuffle Shuffling through a playlist, or an entire iPod, is a fun way to enjoy your music with an element of surprise—it's like listening to a radio station that plays only music you like. To enhance that capability, Apple added a Shuffle Songs option to the main iPod window. Clicking on Shuffle Songs automatically shuffles all your music—excluding audiobooks—and begins playing. That saves you from having to turn on shuffling in the iPod's Settings menu and then browsing several levels down in order to select all songs.

Playlists To Go The On-The-Go Playlist feature, which lets iPod users create their own playlists away from a Mac, has been enhanced. Now you can create and save multiple On-The-Go playlists on the iPod. To save an On-The-Go playlist, just scroll to the bottom of the playlist and choose Save Playlist. The iPod will give it a unique name, such as New Playlist 1. Once the playlist is saved, you can start creating an entirely new On-The-Go playlist. You can also delete songs from an On-The-Go playlist: just click on a song in the playlist and hold down the center button.

Polyglot Pod Until now, the iPod has supported 14 languages for displaying song, artist, and album information. The new software doubles that by adding 14 more languages, including Russian, Croatian, Czech, Greek, Polish, and Hungarian.

Good Listener One feature not hyped by Apple is the iPod's ability to sense headphone connection status. If you're listening to music and you pull the headphone jack out of its port, the iPod will pause. (The same feature also works if you've got something else, such as a cassette adapter, plugged into the headphone jack.) Reattaching the headphones does not start the music playing again—you need to do that yourself. If the iPod is in sleep mode or turned off, plugging in the headphones will bring it to life but won't start playback.

The Last Word

The changes introduced in the latest iPod generation aren't necessarily elaborate, but they are significant. Unlike past updates, which have introduced new functions or expanded compatibility, these changes seem aimed at improving the overall iPod experience. The new features may not revolutionize how you use your music player—but if you're an iPod enthusiast, then a new Click Wheel, longer battery life, and key software enhancements should give you plenty to sing about.

THE IPOD EVOLVES

Each major update to Apple's iPod has introduced changes, both sweeping and subtle, to the portable music player.

MODEL	RELEASE DATE	BATTERY		
		CAPACITY	PRICE	LIFE
First- Generation	October 2001	5GB	\$ 399	10 hours
iPod	March 2002	5GB, 10GB	\$ 399, \$ 499	10 hours
Second-	July 2002	5GB, 10GB,	\$ 299, \$ 399,	10 hours

Rock and scroll: the new Click Wheel iPod rules the digital music world; Cover Story Macworld October 1, 2004

Generation 20GB \$ 499  
 iPod  
 Third- April 2003 10GB, 15GB, \$ 299, \$ 399, 8 hours  
 Generation 30GB \$ 499  
 iPod  
 September 2003 10GB, 20GB, \$ 299, \$ 399, 8 hours  
 40GB \$ 499  
 iPod mini January 2004 4GB \$ 249 8 hours  
 Fourth- July 2004 20GB, 40GB \$ 299, \$ 399 12 hours  
 Generation  
 iPod

**MODEL INTERFACE PORTS**

First- scroll wheel FireWire  
 Generation  
 iPod scroll wheel FireWire  
 Second- touch wheel FireWire  
 Generation  
 iPod  
 Third- touch wheel, touch- FireWire and USB 2.0  
 Generation sensitive buttons dock connector (no  
 iPod USB 2.0 charging)  
 touch wheel, FireWire and USB 2.0  
 touch-sensitive buttons dock connector (no  
 USB 2.0 charging)  
 iPod mini Click Wheel FireWire and USB 2.0  
 dock connector  
 Fourth- Click Wheel FireWire and USB  
 Generation 2.0 dock connector  
 iPod

**SOFTWARE**

**MODEL COMPATIBILITY HIGHLIGHTS**

First- Mac iTunes 2 integration

Rock and scroll: the new Click Wheel iPod rules the digital music world; Cover Story Macworld October 1, 2004

#### Generation

iPod Mac contact-list storage  
 Second- Mac, Windows Genre and Composer  
 Generation (via FireWire) organization categories,  
 iPod audiobook support  
 Third- Mac, Windows text notes, alarm clock,  
 Generation On-The-Go Playlist  
 iPod feature  
 Mac, Windows text notes, alarm clock,  
 On-The-Go Playlist  
 feature, voice recording,  
 photo importing  
 iPod-mini Mac, Windows no support for voice  
 recorder or photo input  
 Fourth- Mac, Windows new Music menu,  
 Generation Shuffle Songs feature,  
 iPod support for multiple  
 On-The-Go playlists

#### RELATED ARTICLE: Big iPod on Campus

First-year students at Duke University are already familiar with the details of Apple's new iPod. Officials at the North Carolina school handed out 1,650 of the 20GB models to incoming freshmen as they arrived on campus in August.

#### [ILLUSTRATION OMITTED]

Duke administrators expect their students to use the iPods for carrying around more than the latest Black Eyed Peas song. Instead, the portable music players are part of a pilot program, designed by Duke and Apple, aimed at using the iPods as an educational tool. "We think the power and flexibility of these devices offer some real advantages over other media used to distribute educational content, such as CD-ROMs and DVDs," says Tracy Futhey, Duke's vice president of information technology.

The iPods the Duke freshmen received came preloaded with content on campus life, including orientation information and an academic calendar. A special Duke Web site modeled on the iTunes Music Store offers downloadable course content, including language lessons, music, recorded lectures, and audio books. (And, yes, Duke students can purchase music through the site.) Since computer ownership isn't mandatory for incoming freshmen, Duke lets students hook up their iPods to computers at labs around campus.

Duke finances the pilot program, which includes another 150 iPods slated for other academic and support needs, through strategic-planning funds set aside for one-time uses. The university plans to evaluate the program after a year.

PETER COHEN

Macworld Senior Editor JONATHAN SEFF has been using an iPod since they were first unveiled back in 2001, and he has already traded in his old iPod for a 40GB Click Wheel model.

Photograph by Charles Nucci

IAC-CREATE-DATE: September 27, 2004

Rock and scroll: the new Click Wheel iPod rules the digital music world; Cover Story Macworld October 1, 2004

LOAD-DATE: September 28, 2004

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December 27, 2004

Section: BUSINESS

HOT STORIES OF 2004 2005 STORIES TO WATCH THE IPOD GENERATION PORTABLE DIGITAL  
AUDIO PLAYER BECOMES THE APPLE OF TECHNO-CENTRIC EYES

Benny Evangelista, Chronicle Staff Writer

The iPod established itself in 2004 as the must-have electronics device of the holiday season. Apple's sleek music player is leading a shift in consumer behavior that could ripple throughout the entertainment industry in 2005 and beyond

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Jerrold Hofferth could be the poster child for the iPod generation.

"I've got my phone in my left pocket, my Palm Pilot in my right pocket and my iPod on my belt everywhere I go," said the 20-year-old aerospace engineering student. "My mom has one, my girlfriend has one and my brother has one."

Years from now, 2004 could be regarded as the year the iPod generation became a force. Apple Computer Inc. introduced the portable digital audio players in 2001, but sales of the iPod and iPod Mini really took off this year,

swelling the ranks of users beyond early technology enthusiasts to include mainstream consumers.

Although the market for digital audio players is crowded with competitors,

analysts believe the iPod has staying power for 2005 and beyond because of what it has become: the symbol of a techno-centric generation that has come to expect instant, ubiquitous access to information, communication and entertainment.

"I've called the iPod the first cultural icon of the 21st century," said Michael Bull, a British university instructor who has become known as "Professor iPod" because he has spent more than a decade researching the societal effects of portable audio devices, starting with Sony's Walkman portable cassette player.

Unlike other hot tech gadgets like DVD players, iPods have become more than a box of microchips and software. Owners of iPods develop a more personal relationship with the digital players, calling them life changing and even giving them names, like PankyPod, Smeagol and the Mad Mango Magnificent Music Machine.



New research shows that the ability to create personalized playlists for digital audio players is causing a shift away from traditional radio, where playlists are controlled by a DJ or program director.

Digital audio players have become electronic DJs. There are night clubs in New York and London that host contests pitting one iPod owner against another.

"Is the iPod a fad? Not really. It's the next stage of music listening," Bull said in an e-mail. "It represents a merging of aesthetics with technological functionalism ... thus permitting you to join the rhythm of your mind with the rhythm of the world."

That, in turn, is causing a shift of the "celebration of culture" away from large communal areas such as a cathedral, "a space we could all inhabit," to the world of the iPod, "which exists in our heads," he said.

Bull, a senior lecturer in media and cultural studies at the University of Sussex, is working on a book due out next year on the iPod culture and urban experience. Seldom has a single tech gadget engendered such scholarly examination or come to define an entire category of similar devices even if they are not iPods, in the way Kleenex is the generic word for facial tissue and Coke signifies a soft drink.

"It's become a household name used in describing an MP3 player," said Dennis Lloyd, founder of iPodLounge.com in Irvine. The Web site, which has turned into a full-time profitable business for Lloyd, draws 1.2 million unique visitors each month and has 40,000 registered forum members like Hofferth, an Arizona State University student.

Lloyd started the site about a month after Apple introduced its first iPod in October 2001. Apple had sold a total of more than 6 million by the end of September 2004. Analysts, who note that the iPod is selling faster than the Sony Walkman did at a similar stage, estimate sales of more than 4 million during the final three months of 2004 and as many as 10 million to 12 million in 2005.

Retailers like Amazon.com and Best Buy reported heavy demand for iPods this holiday season and said they had problems keeping the most popular models in stock.

The iPod uses a small hard drive to store up to 10,000 songs, allowing users to carry in their hand all of the music they buy. It wasn't the first portable digital music jukebox, but Apple succeeded in designing a sleek, easy-to-use product that satisfied consumers.

Moreover, iPods are becoming more than just music players. Duke University, for example, gave incoming freshmen iPods loaded with orientation material and the academic calendar, while a private girls' school in Manhattan requires them for foreign language classes. UCLA radiologists use iPods to store medical images.

The iPod's success is due in large part to Apple's heavy marketing campaign. But newer members of the iPod generation say that as they saw co-workers and friends carrying them, the devices began to sell themselves.

San Ramon eighth-grader Peggah Elahi, for example, figured as many as 10 percent of the students in her middle school have iPods. That's why she was so excited the day she finally saved up enough money from her allowance, baby-sitting jobs and gifts to buy her own blue iPod Mini.

"I thought they looked really cool," Peggah said. "When I actually saw it, when I got to listen to my friends' iPods, that influenced me more than one of those ads. It looks really good because it's way more compact than a CD player, and you can have so many songs on it."

The \$250 price "seems like a lot, but I think it's worth it," she said.

"It's just cool to have. It's fun to listen to."

The iPod generation isn't limited to young music fans.

"In New York, you can't believe how many people are walking up and down Fifth Avenue with iPods," said 72-year-old Martin Garin, a retired amusement park operator in Secaucus, N.J. Garin owns two iPods, a 40-GB model and a 20 GB, and says his girlfriend also owns an iPod.

"I use it a couple of times a week," Garin said. "I have it set aside for any kind of long trip. I used to travel to Europe with a CD player and piles of CDs. Now I have this thing in my pocket. It's a little bit bigger than a pack of cigarettes, and it has all the CDs I need. It's so versatile, and the software is so silky smooth."

Nor is the appeal of the iPods limited to the United States.

"My iPod is with me all the time," Alicia Bankhofer of Austria said in an e-mail. "It never leaves my side. It has a permanent place in my bag. When I shop for new bags, they have to accommodate my cell, purse and iPod."

Bankhofer, 33, owns a 10 GB and a 15 GB iPod and an iPod Mini and plans to buy an iPod Photo "when the price comes down a bit."

"People think I'm obsessed, and they are probably right," said Bankhofer,

33, who listens to both music and audio books on her iPods. "All of my friends know about my iPod, and I have had two or three people buy iPods on my recommendation."

Bob Levens, 48, who lives just outside Cambridge, England, bought his second iPod in August, a 40 GB version, plus an iPod Mini for his wife.

"It has helped me enjoy my music collection more," Levens said in an e-mail. "Whereas before, I would stick a CD into the hi-fi and sit and listen or maybe read, the iPod has allowed me to carry my music around with me and also listen to some CDs that had been relegated to the back of the shelf. I rarely listen to mainstream commercial radio."

That's a trend marked by research released this year from several radio consulting and ratings firms. It's also evident in an increasingly popular Internet pastime called "podcasting," in which individuals become personal radio stations by creating their own online audio content for others to download and store on portable MP3 players.

Bridge Ratings LLC of Glendale released a study that showed young people ages 12 to 24, traditionally an important demographic group for the radio industry, listened to regular AM or FM radio for an average of two hours and 25 minutes per day at the start of 2004.

By September, that average had shrunk to about two hours, while the average time spent listening to alternative audio sources -- MP3 players, digital satellite radio and CDs -- increased by about a half-hour per day, said Bridge Ratings President and Chief Executive Officer Dave Van Dyke.

In the 35 to 64 age range, there was a 16 percent increase in the use of alternative digital audio sources.

"It's all about giving me what I need when I want it," Van Dyke said.

"That's something that traditional radio can't provide as well as your computer or your digital music player."

It may be several years before the major segment of radio listeners, those who don't normally adopt new technologies until they become commonplace, discover alternatives such as MP3 players. So it's too soon to pronounce the death of traditional radio, he said.

But there is a clear shift that started during the original Napster file-sharing craze that the radio industry has now begun to acknowledge. Van Dyke noted that radio giant Clear Channel Communications Inc. this month started a new strategy called "less is more" to reduce the number of commercials per hour, a major source of listener dissatisfaction with traditional radio.

Hofferth, the Arizona State University student who is on his second iPod after nearly filling his first, said he never listens to radio for music anymore. When he was asked which of his portable gadgets he would choose if he could only pick one, Hofferth said that he wouldn't mind giving up his cell phone and that he mostly uses his personal digital assistant to play games.

"I guess I would take the iPod," he said. "The iPod I use hours and hours every day."

#### PHOTO (3)

(1-2) After saving \$250 from her allowance, baby-sitting jobs and gifts to buy an iPod Mini, San Ramon eighth-grader Peggah Elahi, 13, enjoys listening to her tunes.

Penni Gladstone

The Chronicle, (3) Peggah Elahi, 13, downloads music from her computer to her iPod Mini. "It's just cool to have. It's fun to listen to," she said.

Penni Gladstone

The Chronicle

E-mail Benny Evangelista at [bevangelista@sfchronicle.com](mailto:bevangelista@sfchronicle.com).<

#### --- INDEX REFERENCES ---

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USA TODAY

January 12, 2005, Wednesday, FINAL EDITION

**SECTION:** MONEY; Pg. 1B

**LENGTH:** 456 words

**HEADLINE:** Apple strikes while the iPod is hot

**BYLINE:** Jefferson Graham

**DATELINE:** SAN FRANCISCO

**BODY:**

SAN FRANCISCO -- Apple Computer introduced a radically different-looking computer Tuesday and a new economy-priced iPod digital music player for \$99 -- both aimed at profiting from the hot-selling iPod.

Wall Street had expected the products. But the new iPod Shuffle is \$50 lower than analysts and Internet gossip sites had speculated. And the computer, the \$499 Mac Mini, is Apple's lowest-priced ever.

"People who are thinking of switching will no longer have an excuse not to," Apple CEO Steve Jobs said at the Macworld trade show here.

The Mac Mini is a tiny box with a slot to insert a CD or DVD. It's 2 inches tall by 6.5 inches deep and weighs 2.9 pounds. It comes without a keyboard, mouse or monitor. Jobs said that, as most people already have that gear, they can buy the Mac Mini as a second computer.

Apple historically has asked premium prices for its products. And even though critics rave about its wares, its share of the computer market is tiny: 3.5%. With a sub-\$500 computer, tech analysts think, Apple finally may get iPod users to switch from Windows PCs.

"Apple has hit a real nerve," says independent analyst Tim Bajarin of Creative Strategies. "For the first time, people are going to have to seriously consider switching."

Gene Munster, an analyst at securities firm Piper Jaffray, said Apple's move takes away the "big negative" customers have had about Apple: its higher prices. The Mac Mini "will have a dramatic effect on computer sales," he says.

Smash sales of Apple's iPod digital music player -- 10 million since 2001 and 8.2 million in 2004 alone -- have transformed the company. Its retail stores, for instance, are huge hits.

The new iPod, meanwhile, is different from other models in that it has no preview screen to see what song is playing. Jobs says the unit is so small that users won't care.

Apple strikes while the iPod is hot USA TODAY January 12, 2005, Wednesday,

In a twist for Apple, the Shuffle is priced lower than competitors'. It starts at \$99 for 512 megabytes of internal memory, good for 120 songs. Competitive models with that amount of memory from iRiver and Rio sell on Amazon for \$177 and \$184, respectively.

The Shuffle is so low-priced that some consumers might just buy it and skip the more expensive iPods, which start at \$249, leaving less profit for Apple.

Bjarin says that's a legitimate concern.

"This move isn't so much about making more money as it is to get more people to experience the iPod," he says.

#### About the iPod Shuffle

- \* Smaller than a pack of gum. Shuffle, right, at its actual size.
- \* Weighs 0.78 of an ounce.
- \* Storage of 512 MB or 1 GB.
- \* Holds up to 240 songs.
- \* Battery life up to 12 hours.
- \* Starting at \$99.

Source: Apple

GRAPHIC: PHOTO, Color, Apple

LOAD-DATE: January 12, 2005

Schiffler to be CBS interim anchor ■ 1D

Steinem at 70

For Gena Steinem, the 70th birthday party will be a party for the program. In the past week, she has been interviewed on the anniversary of the Vietnam War, the 15th anniversary of the 9/11 attacks, and the 10th anniversary of the 9/11 attacks. She has also been interviewed on the anniversary of the Vietnam War, the 15th anniversary of the 9/11 attacks, and the 10th anniversary of the 9/11 attacks.



# USA TODAY

Illinois improves to 22-0

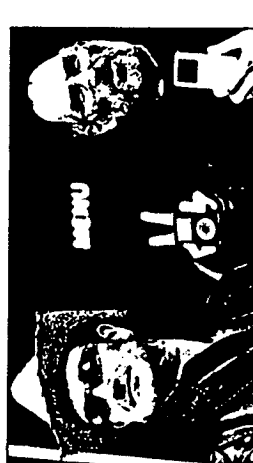


Illinois' Matt Robinson, left, fights off Florida's Reggie...

2A, THURSDAY, FEBRUARY 1, 2006 • USA TODAY

## The iPod phenomenon touches on economics, culture, even education

It's not just the sleek design and the ability to store thousands of songs in your pocket that has made the iPod a cultural phenomenon. It's also the way it has changed the way we think about music, education, and even the economy.



The iPod has become a symbol of modern technology and a catalyst for economic growth. It has also sparked debates about copyright law and the impact of digital technology on education.

Apple's success with the iPod is a testament to its ability to create products that are both functional and aesthetically pleasing. The company's focus on user experience and design has set it apart from its competitors.

The iPod's impact on the music industry is undeniable. It has led to a decline in CD sales and the rise of digital music. However, it has also opened up new opportunities for independent artists and new ways of consuming music.

As the iPod continues to evolve, it will likely have a lasting impact on the way we interact with technology and the world around us. Its success is a reminder of the power of innovation and the importance of user-centered design.

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### In iPod America, legions in tune

Apple's hip music player inspires fanatical devotion

By Marco R. Scola/USA TODAY

NEW YORK — With its high-tech design and sleek, minimalist look, the iPod has become a cultural icon. It's not just a music player; it's a statement. And it's one that has inspired a devoted following of users who are willing to go to great lengths to get their hands on the latest model.

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## FOCUS - 48 of 89 DOCUMENTS

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February 21, 2005

SECTION: U.S. EDITION; FEATURES/COVER STORIES/TECHNOLOGY SPECIAL; Pg. 66

LENGTH: 4588 words

**HEADLINE:** How Big Can Apple Get?;

Back from near oblivion, Apple is setting the pace in a new digital universe where computing and entertainment merge. We asked Steve Jobs how he did it (hint: It's the software, stupid) and what's next.

**BYLINE:** BRENT SCHLENDER

**BODY:**

"My God, there really has been a genie locked in that bottle! Apple's innovation and creativity have been unleashed in a way that they haven't been in 20 years. Look at the results. This isn't a company about 5% market share; this is a company that is capable of competing with world-class competitors and achieving market shares of 65%, 70%, and even 90%."

Steve Jobs, the silver-tongued king of Apple Computer, is explaining how the world's opinion of his company has risen with the triumph of the iPod. We're in our third phone conversation, following up on a 2 1/2-hour interview in the Apple boardroom a few days before. Jobs is obviously feeling good, and with good reason. Overnight, it seems, Apple has broken out of its box as a boutique computer maker and emerged as a force to be reckoned with in consumer electronics, music, and who knows what else. "The great thing is that Apple's DNA hasn't changed," he says. "The place where Apple has been standing for the last two decades is exactly where computer technology and the consumer electronics markets are converging. So it's not like we're having to cross the river to go somewhere else; the other side of the river is coming to us."

Apple's recent achievements, in fact, make it look as if it is walking on water. Its stock price, which languished during and after the dot-com crash, suddenly more than tripled last year. (It recently hit an all-time high of nearly \$ 80 a share.) In January, Jobs crowed that Apple had posted the highest revenues and profits in its 28-year history for its fiscal first quarter ending Christmas Day. Propelled by sales of 4.6 million iPod portable digital music players, revenues zoomed by 74%, to \$ 3.5 billion for the quarter, putting the company on track, by analysts' estimates, for a \$ 13 billion 2005. Meanwhile profits more than tripled.

The DNA may not have changed, but the external transformation is dramatic. No longer is Apple's business limited to computers—though it did sell more than a million Macs last quarter for the first time in four years. Today the company's ever-expanding products encompass multimedia applications for creative professionals and consumers, the thriving .Mac (pronounced dot-mac) Internet subscription service, and a popular line of easy-to-use wireless networking gizmos to link computers and stereos and other devices in the home and office. And, of course, the iPod. The company has even become a player in retail with its 100 Apple Stores: chic glass and anodized aluminum temples that fuse fashion, technology, and reverence for personal creativity into something Jobs likes to call the "Apple user experience."

In his first extended interview since undergoing surgery for pancreatic cancer last summer, Jobs eagerly explains how Apple has pulled all this off and drops hints about where the company is going and how big he expects it to get. (For excerpts from the interview, see box.) But as the conversation unfolds, Steve doesn't talk about the next gotta-have-it gizmo or ultracool ad campaign or trendsetting industrial design. None of those, he says, is Apple's core strength or primary competitive advantage. Instead he's going to talk about software—the central strand that runs through all of Apple's success.



How Big Can Apple Get? Back from near oblivion, Apple is setting the pace in a new digital universe where computing and entertainment merge. We asked Steve Jobs how he did it (hint: It's the soft

Steve being Steve, he's doing this partly because he's selling something. This spring, Apple will unveil Tiger, an update of its OS X operating system that, at \$ 129 a pop, will generate hundreds of millions of dollars of high-profit sales. (More about Tiger later.) Even so, for Steve to credit software for Apple's success sounds so hopelessly dweeby, so Bill Gates, that it seems hardly worth muting your iPod for—until you consider the new business model it has helped Apple spawn. Indeed, the whole iPod phenomenon is, underneath it all, one big interwoven software creation. The iTunes jukebox that coordinates the mind-meld between your iPod and your Mac or PC is just the most obvious chunk of code. The iTunes Music Store, which accounts for 62% of all music download sales on the web, is likewise a software machine, purring away in both Apple's corporate IT systems and your computer. And the iPod itself, like the Macintosh, is a marvel of software engineering.

It's that prowess in software that is Apple's greatest hope for sustained growth as it dives into markets dominated by leviathans like Sony and Microsoft, and that could propel it into other realms of consumer electronics. As we'll see, software wizardry is how Steve brought Apple back from oblivion and even breathed new life into the Mac, which turned 20 years old the day we sat down to talk. Software, in a word, is the genie in Apple's multibillion-dollar hardware business.

#### Steve Helps Himself

Your typical corporate CIO must be wondering, "Why aren't there some nice new exciting applications for me?" Nothing has really changed in his world, while on the consumer side there's all this cool new stuff like iTunes and the iPod and iPhoto and iMovie. That's where the real innovation is now, and Apple is driving it.

— BILL JOY, CO-FOUNDER AND FORMER CHIEF SCIENTIST AT SUN MICROSYSTEMS

Think back about just how irrelevant Apple seemed even two years ago. Its share of the personal-computing market had shrunk inexorably throughout the 1990s to a tiny 2%. It had slogged through nearly a decade of dwindling influence and financial pain. The consumer-oriented Mac couldn't run many of the programs that PC users—especially those in business settings—needed. Corporations, which buy the bulk of computers, were at best keeping a few Macs around to handle creative tasks like photo editing and document design.

By the late 1990s, Apple was making even its most loyal users doubt the point of sticking with the company. Its operating system was an unstable patchwork, and programmers were growing ever more reluctant to write for Macs or adapt their PC programs to run on the machines. Apple knew it needed help. It turned to a man who had started it all: Steve Jobs. Since being pushed out in 1986 of the company he had co-founded, Jobs had gone on to start another computer company, Next, and to take over what would become the animation powerhouse Pixar. Apple bought Next in 1997, and in came Jobs with a plan to remake the company with software.

But software takes a long time to build, and at first he had to scramble just to keep the place afloat. He pruned the product line in his first full year as CEO, causing revenues to sink some 15%, to \$ 5.9 billion—little more than half of Apple's peak sales in 1995. One of his first moves surprised Apple partisans—he turned for help to his longtime rival Bill Gates. The two struck a deal under which Microsoft bought \$ 150 million of Apple stock and promised to keep supplying Microsoft Office and Internet Explorer for the Mac, programs that made Apple's computers at least somewhat compatible with the PC world. (Microsoft's stake in Apple is now worth well over \$ 1 billion.) At the same time, Jobs used hardware to create buzz. In 1998, Apple launched the iMac, a fun, jellybean-colored machine that—while little different internally from its predecessors—quickly became a fashion statement.

But in truth, he was using the Microsoft deal and the iMac to buy time. Jobs' big bet was on Mac OS X, a new operating system based on his work at Next. Unlike the old Mac OS, this one would be based on Unix, an operating system that had been poked, prodded, tested, and improved over decades by some of the largest companies and universities. He told Avie Tevanian, who led software development, and Bertrand Serlet, the head of the OS X team, to treat it as a moon shot. In 2001, after three years of labor by nearly 1,000 geeks, Apple delivered the software equivalent of a cross between a Porsche and an Abrams tank: an operating system with sleek, animated graphics and an abundance of useful and novel features built on top of industrial-strength code. OS X made it easier to write applications, made programs run better, and allowed for much easier plug-and-play of camcorders and other consumer products.

OS X gave Apple the foundation it needed to build new generations of machines. But to get most of its 25 million or so Mac customers to upgrade, Jobs needed sexy applications. As part of his deal with Gates, Microsoft had agreed to adapt Office and Explorer for OS X. Jobs had assumed that this vote of confidence would inspire third-party developers to come up with software for, say, editing home videos on a computer or managing photos or digital music. But a 1998 meeting in which Jobs asked Adobe Systems executives to develop a Mac version of their consumer video-editing pro-

How Big Can Apple Get? Back from near oblivion, Apple is setting the pace in a new digital universe where computing and entertainment merge. We asked Steve Jobs how he did it (hint: It's the soft

gram changed his mind. "They said flat-out no," Jobs recalls. "We were shocked, because they had been a big supporter in the early days of the Mac. But we said, 'Okay, if nobody wants to help us, we're just going to have to do this ourselves.'"

So Apple plunged into the OS X applications business. It bought a languishing project from web software company Macromedia, and in less than a year turned out two programs that capitalized on the iMac's ability to connect to digital camcorders: a video-editing program for professionals called Final Cut Pro and a simplified version for consumers called iMovie. Apple's Applications Software Division, which sprang from the project to become what is now a 1,000-engineer-strong group, has been on a roll ever since.

Consider iLife, a bundle of programs that comes free on every new Mac or can be purchased separately for \$ 79. Its five applications turn the computer into a home studio: iMovie, iDVD (for recording movies, digital photo slide shows, and music onto TV-playable DVDs), iPhoto (for managing and touching up digital pictures and making slide shows), GarageBand (for making and mixing your own music), and the iTunes digital-music jukebox. iWork, aimed at people who like to make presentations and put out newsletters, is equally slick: It consists of a PowerPoint-like program called Keynote and a flashy word-processor/page-layout program called Pages.

The steady stream of software not only kept the buzz alive but also helped Apple create a tidy new line of business. Gradually users began to notice that the company was delivering truly innovative programs and continuously improving them. Today Apple gets people hooked with free online updates and then, every year or so, offers to sell them a full overhaul loaded with new features—and more and more users are willing to pay. OS X has already gone through four versions, named Cheetah, Puma, Jaguar, and Panther. It's a tactic that Microsoft and other software makers have tried with much less success—Windows users in particular have grown leery of the chronic computer crashes and conflicts between programs that its upgrades cause. Apple engineered ways to minimize such problems.

The upgrades also fuel Apple's computer hardware business, which still accounts for 60% of annual sales. Jobs sees applications like iLife as the centerpiece of his marketing strategy, which is to differentiate the Macintosh from Windows PCs by positioning it as a complete multimedia machine. Right out of the box, the Mac with iLife gives users (especially the creative types) everything they need for creating, editing, managing, and playing digital content. While comparable applications are available for Windows machines, matching what Apple initially throws in free costs hundreds of dollars, and the various Windows programs don't interact easily with one another. "Everyone in every corner of the software business could learn a lot from iLife," says Bill Joy, the legendary computer scientist, now a Silicon Valley venture capitalist.

#### Triumph of the iPod

I remember sitting with Steve and some other people night after night from nine until one, working out the user interface for the first iPod. It evolved by trial and error into something a little simpler every day. We knew we had reached the end when we looked at each other and said, "Well, of course. Why would we want to do it any other way?"

— JEFF ROBBIN, LEAD SOFTWARE DESIGNER FOR ITUNES AND THE IPOD

The best example of how clever software plays the pivotal role in unlocking huge hardware opportunities for Apple is the saga of iTunes and its progeny—the iPod and the iTunes Music Store. Their lightning evolution demonstrates how, when the coders really get rolling and follow their noses, one technological breakthrough leads to another in a virtuous cycle that Jobs, the marketing whiz, can exploit to create "user experiences." It's how the iPod coalesced into the hottest product the media and electronics world has seen in years. And the delicious irony is that Apple's enormous success in digital music came out of nearly missing the boat.

"I felt like a dope," says Jobs, thinking back to summer 2000, when his fixation on perfecting video editing on the Mac distracted him from noticing that millions of kids were using computers and CD burners to make audio CDs and to download digital songs called MP3s from illegal online services like Napster. Yes, even Jobs, the technological visionary of his generation, occasionally gets caught looking in the wrong direction. "I thought we had missed it. We had to work hard to catch up."

He moved fast, ordering Mac hardware designers to incorporate CD-ROM burners as standard equipment in all Macs. But what about the "jukebox" software necessary to manage what could conceivably be thousands of songs on the computer? Windows PC users already had several jukebox programs to choose from, but only a handful of Mac developers were tinkering with them. One was a company called SoundStep, founded by a then 28-year-old software engineer with an MBA named Jeff Robbin, who had left Apple literally the month Jobs returned. His program, SoundJam,

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wasn't ready for market, but Jobs bought the company anyway, primarily because Robbin had impressed people while at Apple before.

The alacrity and breadth of what transpired over the next 13 months are hard to believe in hindsight. Robbin and a couple of other programmers started over from scratch and pounded out the first version of iTunes in less than four months. That was just in time for Steve to show it off at the annual Macworld trade show. The application simplified the importing and compression of songs, but more important, iTunes was a powerful and ingenious database that could quickly sort tens of thousands of songs in a multitude of ways, and find particular tracks in a trice.

Even before iTunes was out the door, Jobs, a music nut himself (he favors Dylan and the Beatles), recognized that although storing and playing music on a computer was pretty cool, wouldn't it be even cooler if there was a portable, Walkman-like player that could hold all your digital music so that you could listen to it anywhere? He asked Robbin to pitch in on the portable-player project, a much more complex undertaking that required not only modifying iTunes but also building a tiny new operating system for what was basically a miniature computer, and designing a user interface that could sort and navigate music files on it with the same sophistication as iTunes on the Mac. It was another crash project that yielded the iPod just nine months later, in November 2001.

Only after playing with iPod prototypes did Jobs and his geeks realize that the whole iPod "platform" was still missing something, namely an online store for buying downloadable songs. They knew there had to be an easier way to get music for your iPod and your computer than by laboriously "ripping" audio CDs into your computer. But talk about a software challenge: An online store would require building an e-business infrastructure that could automatically both serve up the songs and take care of billing and accounting for conceivably millions of purchases. Plus, they'd have to construct a "storefront," either as a website or preferably by modifying iTunes yet again so that the store was incorporated right in its screen. And then they'd have to persuade big record companies—firms like Sony and Universal Music were paranoid about downloads—to buy in to make the concept work.

Still, less than 18 months after the rollout of the iPod, Apple's iTunes Music Store opened for business in April 2003. "We had hoped to sell a million songs in the first six months, but we did that in the first six days," says Eddy Cue, the corporate IT specialist who led the project and is now a vice president for applications. In the meantime, Robbin's crew developed a version of iTunes for Windows PCs, expanding the potential market for iPods and the iTunes Music Store to, well, the entire world—as well as delivering a huge, huge ego boost. The company that had once begged to get PC software adapted to the Mac now found itself supplying some of the hottest software in the PC world. By the time Apple announced its financial results in January 2005, it noted that to date it had sold more than ten million iPods and 250 million songs.

#### Apple Casts a Shadow

Software is the user experience. As the iPod and iTunes prove, it has become the driving technology not just of computers but of consumer electronics.

#### — STEVE JOBS

The crudest way to measure the impact of Jobs' software factory is by the numbers. He estimates that this year Apple will generate \$1 billion in revenue from selling applications and updates, plus other software-related revenue generated by the iTunes Music Store and its Mac online subscription service, which has 600,000 members. That's almost double last year's take and doesn't count the boost software provides by helping sell iPods and Macs.

More important than direct software sales are the growth opportunities Apple's "user experience" prowess might open up. Owning a 62% market share of the online music market, for instance, augurs serious sales growth. Even though that market is still in its infancy—downloads accounted for less than 2% of U.S. music sales in 2004—the iPod platform, for example, kicked in revenues of \$1.4 billion in Apple's first fiscal quarter, nearly as much as it did in the previous four quarters combined. Merrill Lynch analyst Steve Milunovich predicts that the iPod business alone will hit \$6.2 billion in fiscal 2006, roughly as big as all of Apple when Jobs took over. (Of course, the iPod's growth will eventually flatten as the devices lose their fad status. Yet the gadgets are so useful that it's easy to imagine them becoming as ubiquitous as the Walkman—of which Sony has sold 340 million.)

With the iPod and iTunes Music Store, Apple has changed the rules of the game for three industries—PCs, consumer electronics, and music. And as new as its influence is, Apple appears to have nothing to fear from major rivals. Its software skills have consumer electronics companies at a major disadvantage that could take years to overcome (see

How Big Can Apple Get?; Back from near oblivion, Apple is setting the pace in a new digital universe where computing and entertainment merge. We asked Steve Jobs how he did it (hint: It's the soft

"Saving Face at Sony"). Says Nathan Myhrvold, former chief of Microsoft Research: "Once audio and visual experiences become a combined hardware-software-network thing, the consumer electronics guys are fish out of water."

Apple has cast a shadow over Microsoft too. Jobs likes to say that the upcoming Tiger version of OS X will have everything that Bill Gates and Microsoft are promising in Longhorn, the often delayed major upgrade of Windows, now due in mid-2006. "They copied the original Mac with Windows 95," Jobs gloats, "and now they're going to be copying us again." (Microsoft declined comment.)

We promised earlier to tell you about Tiger. The software's most notable feature is Spotlight (that's a Spotlight icon at the top of this page). It's Apple's entry in the race to deliver a hot new capability called "desktop search." The idea is to be able to automatically scan your computer's hard drive to find files, e-mail, documents, pictures, music, and the like, much as Google scours the Internet. Desktop search promises to free users from a major headache: having to remember how files and folders are organized and particular pieces of information are stashed. Google is at work on a similar product, as an add-on piece of software; Microsoft plans to integrate desktop search in Longhorn.

Tiger is also loaded with features that Apple has included just because they're cool. An icon called Dashboard unlocks a bevy of handy Internet-enabled applications called widgets--windows that pop up at the touch of a key to display movie listings, the weather outlook, stock prices, a dictionary, a currency converter, a language translator, and the like, and then melt away just as quickly so you can get back to your work.

When you look at the brief history of OS X, and hear software experts like Bill Joy call it the best operating system in the world, you begin to realize what a remarkable accomplishment it has been for Apple--not only to build it but also to migrate millions of users to something so radically different with relatively little pain, and to improve it so dramatically and with such regularity that it has turned the endless nuisance of software support into a profit machine. The technology is so solid that Apple is beginning to sell Macs into markets that never before would even consider them, like the military and university supercomputer centers. Most tantalizing of all is scuttlebutt that three of the biggest PC makers are wooing Jobs to let them license OS X and adapt it to computers built around standard Intel chips. Why? They want to offer customers, many of whom are sick of the security problems that go with Windows and tired of waiting for Longhorn, an alternative. And besides, Apple has buzz now, and Microsoft does not.

Regardless of whether OS X starts showing up in PCs, it looks like Apple, a company that has had its share of ups and downs over the years, has finally mapped out a durable growth path. Sales will likely reach the \$ 13 billion mark this year, thanks largely to the updraft from the iPod and the new \$ 99 iPod shuffle. But there also appears to be a swelling of demand for the Mac product line, helped by the new budget-priced Mac Mini. If Apple can double its personal-computer market share in, say, the next two years (which still wouldn't put much of a dent in the sales of other PC makers), it would be well on its way to becoming a \$ 20 billion company. And that doesn't even take into account what else Steve might have up his sleeve. Apple now has more than \$ 6.5 billion in cash, ample to fund R&D, which last year consumed about \$ 500 million.

Jobs is always coy about where Apple technology might pop up next, but occasionally he'll drop hints. At the recent Macworld trade show, he declared 2005 to be the year that high-definition video hits the mainstream, and touted the HD editing capabilities of a new version of iMovie. He also notes that a new generation of Wi-Fi networking gear is in the offing next year, which will offer enough bandwidth to finally make it possible to stream high-quality video from Macs to TVs. (In the short term, look for Apple to use its wireless technology to let HDTV owners display slideshows of digital photos stored on their Macs.)

Jobs also talks about alliances that will expand Apple's influence. "We're partnering with Motorola for doing things on cellphones, partnering with HP on the iPod, partnering with car companies and with the record companies. And we definitely will be partnering more and more."

There is one immense uncertainty hanging over Apple, however. Last July, Jobs was diagnosed with a rare islet-cell neuroendocrine tumor on his pancreas. In most cases, pancreatic cancer quickly turns lethal. Fortunately, this particular type can sometimes be treated with surgery, and experts say the procedure has a relatively good five-year survival rate--approaching 50%. Jobs had part of his pancreas removed in late July, returned to work six weeks later, and has been cancer-free ever since. He says he's feeling better than ever.

That illness only serves to remind investors and fans how crucial Jobs is to Apple. Jim Collins, the management guru who wrote the bestseller *Built to Last*, calls him the "Beethoven of business." Jobs may not be a programmer or a designer or an engineer or an MBA, but he has matured into a shrewd business strategist. And his perfectionist's pen-

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chant for the aesthetics of the user experience is the DNA that makes Apple such a distinctive and creative enterprise. Apple has to hope this particular genie won't disappear.

**FORTUNE.COM SUBSCRIBERS ONLY** Read more online, including "The iPod People Have Invaded Apple's Stores."

#### BOX STORY:

Three years of labor by nearly 1,000 geeks resulted in the software equivalent of a Porsche crossed with an Abrams tank.

"I felt like a dope," says Jobs, recalling how he failed to notice that millions of kids had started playing with music on their computers.

#### BOX STORY:

Apple's Rising Tide of Software Marvels

(Along with wave upon wave of interesting—and lucrative—upgrades.)

Under Jobs, Apple has become a font of innovative programs, including its state-of-the-art operating system OS X, an array of multimedia consumer apps, a matching set of software for professionals (not shown), and online services. Jobs' coders continuously improve the products, and Apple has built a tidy business selling upgrades. The company expects sales of \$ 1 billion from software and related services in 2005.

#### iGlossary:

Applications included with Tiger

Address Book: Personal directory

Automator: Helps users do their own programming

Dashboard: Internet "widgets" to display weather, stocks, movie listings, flight schedules, and more

iCal: Personal calendar program

iChat AV: Instant messaging and video conferencing

iSync: Syncs everything from browser bookmarks to e-mail archives

Mail: Apple's answer to Microsoft Outlook

Preview: Photo and PDF viewer

Quicktime: Multimedia viewer

Safari: Internet browser

Consumer Application Suites

iLife: \$ 79 (iMovie, iDVD, iPhoto, iTunes, GarageBand)

iWork: \$ 79 (Keynote for presentations, Pages for making documents)

#### Services

iMac: Web hosting and online storage for individuals

iTunes Music Store: Music downloads

#### BOX STORY:

##### The Jobs Effect

With its success in digital music, and despite its puny PC market share, Apple has lately outshined Microsoft as an investment.

2% of personal computers worldwide are Macs

How Big Can Apple Get?; Back from near oblivion, Apple is setting the pace in a new digital universe where computing and entertainment merge. We asked Steve Jobs how he did it (hint: It's the soft

59% of MP3 players are iPods

62% of paid music downloads are from the iTunes Music Store

BOX STORY:

1998

Mac OS X development begins

1999

iMovie

2000

[iMovie] v.2

2001

Cheetah, Puma

iDVD, v.2

iTunes, v.2

2002

Jaguar

[iTunes] v.3

iPhoto

2003

Panther

Keynote

iLife suite:

\*iPhoto 2

\*iDVD 3

\*iTunes 3

\*iMovie 3

2004

iLife '04

[iTunes] v.4?

2005

Tiger

iWork '05?:

\*Pages

\*Keynote 2

iLife '05

GarageBand added.

"Everyone in every corner of the software business could learn a lot from iLife."

How Big Can Apple Get?; Back from near oblivion, Apple is setting the pace in a new digital universe where computing and entertainment merge. We asked Steve Jobs how he did it (hint: It's the soft

"Once audio and visual experiences become a combined hardware-software-network thing, the consumer electronics guys are fish out of water."

--NATHAN MYHRVOLD

GRAPHIC: COLOR PHOTO: PHOTOGRAPH BY MICHAEL O'NEILL, GARAGE BAND, Lest they get hired away, Jobs rarely lets his brain trust be photographed (for who they are, turn the page). WHO'S WHO in Jobs' crew in the photo on the preceding pages: from left, Scott Forstall, in charge of the look and feel of OS X; Steve Jobs; Ayie Tevanian Jr., chief of software technology; Jeff Robbin, Mr. iTunes; Eddy Cue, builder of Apple's online stores; Bertrand Serlet, boss of OS X development; and Phil Schiller, head of worldwide marketing; COLOR PHOTO: JAMES LEYNSE--CORBIS, Jobs shows off an iPod shuffle at Macworld.; FIVE COLOR CHARTS: FORTUNE CHART, COLOR PHOTO: JENNIFER GRAYLOCK--AP, COLOR PHOTO, The iTunes icon; COLOR PHOTO, The Automator icon; COLOR PHOTO: TED S. WARREN--AP, COLOR PHOTO, The iMovie icon; COLOR PHOTO

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Apple Computer's iPod could become as popular the cellphone, based on its sales performance to the present. An example of the popularity of iPods is the rise of iPod parties in clubs in major cities globally. Apple has sold about 15 million iPods, and the number is rising. In fact, 5.3 million iPods were sold in 1Q3005. There are many peripherals available from such companies as Bose and Altec Lansing, and accessories are many, including cases by Burberry, Gucci, Coach, and Crystalmini. These are in addition to hundreds of other shells, bags, socks, and weather-proof Pod holders. The iPod is a genuine cultural and social phenomenon that is influencing lives in a way that consumer marketing types usually only fantasize about. iPods are not only popular with tweens, but also with professionals, parents, and college students. The iPod has revolutionized the retail music business with the download of 400 million or more from the Apple iTunes music store. The iPod also can now store books and photos. Another example of iPod's popularity is a theme cruise. The iPod can be conveniently plugged into a stereo to provide music for guests, and radio stations are switching to the new format called JACK FM, a long, random set list that imitates the shuffle phenomenon.

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Section: BUSINESS & TECHNOLOGY

Sizzling iPods bolster Apple

Bloomberg News

Apple Computer Inc. said third-quarter profit rose fivefold as sales of iPod digital music players unexpectedly surged to a record and Macintosh computer shipments reached a five-year high.

Net income rose to \$320 million, or 37 cents a share, from \$61 million, or 8 cents, a year earlier, Cupertino, Calif.-based Apple said in a statement yesterday. Sales climbed 75 percent to \$3.52 billion, the company's highest ever. Profit beat analysts' estimates for the seventh straight quarter.

"They've blown away the expectations," Robert O'Donnell, an analyst at researcher IDC, said in an interview from Mountain View, Calif. "It's great news for Apple."

A jump in iPod shipments to 6.16 million, seven times as many as a year ago, allayed concerns that demand for the iPod is waning. Apple, which made its name selling Macintosh computers, is now known for the iPod, whose users range from Bono to the Queen of England. Analysts, speculating the gadgets were losing their cachet, had expected shipments of 5.29 million.

Shares of Apple rose 96 cents to \$39.31 in extended trading.

They earlier rose 11 cents to \$38.35 in Nasdaq Stock Market composite trading. The stock has gained 19 percent this year after more than tripling last year.

Apple forecast fourth-quarter sales and profit that would miss analysts' estimates. Sales will be \$3.5 billion, less than the \$3.58 billion average estimate of 21 analysts surveyed by Thomson Financial, and profit will be 32 cents, below the 33-cent average prediction.

Peter Oppenheimer, chief financial officer, told analysts on a conference call he is being "prudent" while awaiting the effect of a decision to use some Intel computer chips in Macs for the first time.

The company last quarter also forecast results that were less than analysts hoped, causing a 14 percent drop in the stock price.

The quarter's profit of 38 cents a share before onetime items released today beat Apple's forecast and the 31-cent average analyst estimate.

Apple sold 1.18 million Macs, the third straight quarter that more than 1 million machines were sold. Mac revenue rose 24 percent to \$1.57 billion, driven by record notebook sales, Oppenheimer said. Sales of the iPod rose to \$1.1 billion from \$249 million.

"Anyone who has bet against them in the past few years is on a fool's errand," Barry Jaruzelski, a technology analyst for consulting firm Booz Allen Hamilton Inc. in New York, said before the report. "The iPod has become the de facto standard. Anything but is second best."

AP Photo - Apple Computer Inc. yesterday reported glowing third-quarter earnings, which were boosted by sales of its signature iPod digital music players and Macintosh computers. Above, an iPod billboard in Queens.

'They've blown away the expectations. It's great news for Apple.' - Robert O'Donnell, an analyst at researcher IDC

--- INDEX REFERENCES ---

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**HEADLINE:** How Apple Does It;  
Conventional wisdom says its strategy is wrong, yet it keeps turning out great products. TIME looks inside the world's most innovative company

**BYLINE:** Lev Grossman / Cupertino

**BODY:**

This is partly a story about a company called Apple Computer. It's also partly a story about a fancy new iPod that plays videos as well as music and that could dramatically change the way people entertain themselves. But it's mostly a story about new things and where they come from, about which there are a few popular misconceptions.

Stop and look at Apple for a second, since it's an odd company. It has been around long enough and has a high enough profile that it's easy to forget that. While most high-tech firms focus on one or two sectors, Apple does all of them at once. Apple makes its own hardware (iBooks and iMacs), it makes the operating system that runs on that hardware (Mac OS X), and it makes programs that run on that operating system (iTunes, iMovie, Safari Web browser, etc.). It also makes the consumer-electronics devices that connect to all those things (the rapidly multiplying iPod family), and it runs the online service that furnishes content to those devices (iTunes Music Store). If you smooshed together Microsoft, Dell and Sony into one company, you would have something like the diversity of the Apple technological biosphere.

Why would anybody run a business like that? If you follow conventional wisdom, Apple is doing it all wrong. Try to do everything at once, and you won't do anything well. Worse, the way Apple operates is not how you're supposed to foster innovation, or not in the U.S., anyway. Under the traditional, capitalist, Adam Smithian model, new and better things arise as a result of freedom and open competition, but Apple is essentially operating its own closed miniature techno-economy. What is this, Soviet Russia? Why not license Mac OS X to Dell, see what hardware it comes up with and let the market decide whose ride is flyest? Is Steve Jobs afraid of a little healthy wrasslin' in the great American bazaar?

And yet ... this is the company that gave us three of the signature technological innovations of the past 30 years: the Apple II, the Macintosh and the iPod. In the past six weeks alone, Apple has shipped three impressive new products: an ultra-tiny iPod called the nano, the video iPod and a nifty feature called Front Row that lets you run your computer from across the room, lying on a sofa, clicker in hand, without crouching over a keyboard. That is cool stuff. So, where does it all come from?

Ask Apple CEO Steve Jobs about it, and he'll tell you an instructive little story. Call it the Parable of the Concept Car. "Here's what you find at a lot of companies," he says, kicking back in a conference room at Apple's gleaming white Silicon Valley headquarters, which looks something like a cross between an Ivy League university and an iPod. "You know how you see a show car, and it's really cool, and then four years later you see the production car, and it sucks? And you go, What happened? They had it! They had it in the palm of their hands! They grabbed defeat from the jaws of victory!"

"What happened was, the designers came up with this really great idea. Then they take it to the engineers, and the engineers go, 'Nah, we can't do that. That's impossible.' And so it gets a lot worse. Then they take it to the manufacturing people, and they go, 'We can't build that!' And it gets a lot worse."

How Apple Does It; Conventional wisdom says its strategy is wrong, yet it keeps turning out great products. TIME looks inside the world's most innovative company Time Magazine October 24, 2005

When Jobs took up his present position at Apple in 1997, that's the situation he found. He and Jonathan Ive, head of design, came up with the original iMac, a candy-colored computer merged with a cathode-ray tube that, at the time, looked like nothing anybody had seen outside of a Jeitsons cartoon. "Sure enough," Jobs recalls, "when we took it to the engineers, they said, 'Oh.' And they came up with 38 reasons. And I said, 'No, no, we're doing this.' And they said, 'Well, why?' And I said, 'Because I'm the CEO, and I think it can be done.' And so they kind of begrudgingly did it. But then it was a big hit."

There are two lessons to be drawn from that story: one about collaboration, one about control. Apple employees talk incessantly about what they call "deep collaboration" or "cross-pollination" or "concurrent engineering." Essentially it means that products don't pass from team to team. There aren't discrete, sequential development stages. Instead, it's simultaneous and organic. Products get worked on in parallel by all departments at once--design, hardware, software--in endless rounds of interdisciplinary design reviews. Managers elsewhere boast about how little time they waste in meetings; Apple is big on them and proud of it. "The historical way of developing products just doesn't work when you're as ambitious as we are," says Ive, an affable, bearlike Brit. "When the challenges are that complex, you have to develop a product in a more collaborative, integrated way."

Everybody you meet at Apple will echo that precise sentiment, in almost Stepford-like unison. Not only have they all drunk the Kool-Aid; they all have the same favorite flavor. They're on a hot streak, and they know it. ("The Sony guys are over there across the street with binoculars," jokes a senior vice president. "They rented space on the fourth floor." High-tech trash talk!) It's almost eerie: Apple employees all like one another, and they have a strong sense that they are the chosen of the earth, and they're not going to be a jerk about it, but all others who dwell on this mortal coil are missing out by not working here.

The second lesson of Jobs' parable is about control, and to that extent, it's a lesson about Jobs himself. He is one of the technology world's great innovators but not because he's an engineer or a programmer. He doesn't have an M.B.A. either. He doesn't even have a college degree. (He dropped out of Reed College after one semester.) Jobs has a great native sense of design and a knack for hiring geniuses, but above all, what he has is a willingness to be a pain in the neck about what matters most to him.

Sure, Jobs is perfectly pleasant to be around. And he pays attention to what you're saying, but if he disagrees with it--if, hypothetically, you're maybe airing a pet peeve about the fact that iMacs have all their ports in the back, where they're hard to get at--he'll come storming back and hammer at you until you change your mind or at least shut up. When he generously introduces you to the guy who runs Apple's iTunes development team, Jobs makes it clear that you're welcome to meet him but you can't print his name. Jobs doesn't want competitors poaching his talent. "You can mention his first name but not his last name," Jobs says. "How's that?" It'll have to do. The guy's name, by the way, is Jeff.

In other words, Jobs is into control. In itself, that is of no real importance, except that in a lot of ways, Apple is an expression of Jobs' personal ethos. One reason Apple makes its own hardware and software is that when Jobs goes to the trouble of creating a piece of software, he doesn't want it running on hardware built by a bunch of dudes he doesn't know and can't fire. He wants it on hardware he makes himself. How else can he be sure that every little thing integrates together the way he says--nay, insists--it should?

He needs that control because he is fastidious about technology the way a gourmet is fastidious about foie gras, and he recognizes that in an increasingly networked world, in which gadgets can't just do their own thing but have to talk to one another, that conversation will go better if Jobs has scripted both sides of it. "One company makes the software. The other makes the hardware ... It's not working," Jobs says. "The innovation can't happen fast enough. The integration isn't seamless enough. No one takes responsibility for the user interface. It's a mess."

That isn't the only way to run a business. Look at Microsoft. Bill Gates focused on operating systems. He didn't worry about hardware. He gave Windows to anybody who could pony up a licensing fee, and he let them worry about hardware. Result? He devoured the market and made the biggest killing in the history of killings. Apple kept its Mac operating system on Apple hardware almost exclusively. It may have won a moral victory--or a technological one or an aesthetic one. But business-wise, it got the bits kicked out of it.

But Jobs doesn't care just about winning. He's willing to lose. He has done it often enough. He's just not willing to be lame, and that may, increasingly, be the winning approach. The iPod proved that design and ease of use are at least as important as increased functionality, and the iTunes Music Store proved that goes for smoothly integrating physical devices with online services too. "I think the definition of product has changed over the decades," observes Tony Fadell,

How Apple Does It; Conventional wisdom says its strategy is wrong, yet it keeps turning out great products. TIME looks inside the world's most innovative company Time Magazine October 24, 2005

vice president of engineering in the iPod division, who played a key role in conceiving and building the first iPod. "The product now is the iTunes Music Store and iTunes and the iPod and the software that goes on the iPod. A lot of companies don't really have control, or they can't really work in a collaborative way to truly make a system. We're really about a system."

That's one aspect of control. Here's another. What Jobs has accepted—the truth that he's willing to face and others cower from—is that new things don't want to be born. Innovation causes problems, and it's much easier simply to avoid it. In fact, it's downright tempting. Other guys may give in to that temptation but not Jobs. He's smart, but more than that, he's willing to be the guy who looks over your shoulder and tells you you're not going to make your dinner reservation tonight because you're going to be here at the office, thinking different.

Here's the end of his parable, the story of what happened after Jobs got the iMac launched. "The people around here—some of them left," he remembers. "Actually, some of them I got rid of. But most of them said, 'Oh, my God, now I get it.' We've been doing this now for seven years, and everybody here gets it. And if they don't, they're gone."

If Jobs, say, ran a hedge fund or an army platoon, that talk would not sound so blunt. But because he looks and acts like such a cool guy—this is the guy who put Lennon and Gandhi on thousands of billboards—the words are bracing, to say the least. And yet that approach produces shiny, innovative things like the new iPod. Even though it costs the same (\$299) as its immediate predecessor, which Apple introduced only 15 months ago, the new iPod has more memory (30 GB as opposed to 20 GB), and it's thinner (0.43 in., as opposed to 0.6 in.). Plus, it plays video. The screen is just 2.5 in. diagonally, but because it's extremely bright and very sharp, it looks bigger than it is. It's the kind of thing you could definitely imagine being unable to live without.

There are other portable video players out there, but none look as nice or are as easy to use as the new iPod. And it works well—seamlessly, as Jobs would say—with the iTunes Music Store, which gives users a quick, legal and reasonably cheap way to buy video content (which so far consists of music videos, some charming Pixar shorts and a few TV shows from ABC, including *Lost* and *Desperate Housewives*). That is the kind of integration that Apple's approach makes possible.

Right now, nobody disputes that digital music is the future and that Apple is the gatekeeper. If it becomes the gatekeeper to portable video, well, then, golly. Video is the blood and the lymph and the lingua franca of contemporary culture. Music is important, of course, but the scale is different. In a typical week, a top-selling album may move 300,000 copies. A top-rated TV show can draw an audience of 30 million. Add to that movie trailers, animated shorts, old syndicated shows, DVD-extra-style exclusives, and the entire television industry, which is hungry for new kinds of revenue, is going to have to reorient itself. And maybe a few other industries besides (cough! porn! cough!).

The new iPod's potential is so huge, it inspires even Jobs to a burst of understatement. "There is no market today for portable video," he says. "We're going to sell millions of these to people who want to play their music, and video is going to come along for the ride. Anyone who wants to put out video content will put it out for this. And we'll find out what happens." Yes, we will. We're all coming along for the ride, and we all know who's going to be driving.

#### BOX STORY:

##### History of the Revolution

Apple II was the first of many innovations that have changed how we live and play

##### Then

**APPLE II** The first large-scale-production computer, created in 1977 and sporting an 8-bit architecture, was a favorite in hip '80s households

**MACINTOSH** The original Mac, called the 128K, debuted in 1984 and was the first mainstream personal computer with a graphical user interface

**IPOD** With its sleek, seamless design, the company's first portable audio player, released in 2001, instantly became the ultimate icon of the digital-music age

##### Now

**THE NEW IPOD** The fifth-generation device can handle video as well as music and photos. With up to 60 GB of memory, it's still 30% thinner than its predecessor

How Apple Does It; Conventional wisdom says its strategy is wrong, yet it keeps turning out great products. TIME looks inside the world's most innovative company Time Magazine October 24, 2005

**iMAC G5** The slimmest desktop on the market, it combines flat-panel monitor, computer and camera in an elegant 2-in.-thick body. Plus it has a nifty remote control

Next? Few companies are as stingy with their plans as Apple. "It doesn't make any sense to tell our competitors what we're doing," Jobs says. But now that Apple owns portability, could we one day see a **HYBRID STEREO-iMAC** for the living room--perhaps with TiVo-style video functions too? And who wouldn't want an **iPOD CAMERA**?

**GRAPHIC: PHOTO: Photographs for TIME by Art Streiber THE CORE** The Apple team, from left: engineering vice president Fadell, iPod head Jon Rubinstein, industrial design chief Ive, CEO Jobs and marketing director Philip Schiller; **PHOTO: Photographs for TIME by Art Streiber THE DESIGN GUY** Ive, left, is credited with designing the iMac, which turned Apple's fortunes; **FIVE PHOTOS: ART STREIBER FOR TIME (2)**

**LOAD-DATE:** October 16, 2005

3/7/13 (Item 6 from file: 15)  
DIALOG(R)File 15:ABI/Inform(R)  
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In the iPod Zone

O'Neill, Sean

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JRNL CODE: GCHT

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ABSTRACT: No technology since the VCR is as revolutionary to personal entertainment as the MP3 player. And the revolution is just beginning. More than a third of homes that have computers will also have iPods within two years, according to analysts at Merrill Lynch. What's more, sales of all devices that can store and play a library of digital music, such as smart phones, will overtake sales of PCs by the end of the decade, says Shaw Wu, an analyst at American Technology Research. Apple's MP3 players are the easiest to use because Apple software seamlessly links them to a computer library and the iTunes online store. Today's top MP3 players not only let you keep a wide variety of music on hand, but they also let you play it through most stereos.

TEXT: To see more or to subscribe, visit [kiplinger.com](http://kiplinger.com)  
plus: iPod PERFECT FOR POWER PLAYERS

on page(s) 97

plus: iPod nano MADE FOR MARATHON MUSIC SESSIONS on page(s) 97

plus: iPod shuffle TINY TUNES FOR TEENS on page(s) 97

plus: iPod to the MAX on page(s) 100-101

by SEAN O'NEILL

TECH Your guide to the core features of Apple's hot player. By Sean O'Neill

PHOTOGRAPHS BY MEREDITH HEUER

We fall into two camps when it comes to MP3 players--those mini machines with massive memories, best known by the standard bearer, Apple's iPod. While some of us consider them glorified Walkmen, others consider them the fifth lobe of our brains.

Carlos Pedraza of Santa Cruz, Cal., is a Pod person. He bought his first iPod five years ago. Says Pedraza, who is a director at a nonprofit group: "Thinking of an iPod as a fancy CD player is just as mistaken as thinking of a computer as a fancy typewriter. MP3 players let you do so much more."

With memories that can store thousands of songs, MP3 players play the soundtrack of your life. Tunes can be loaded to suit your mood, change your mood or create whatever audio reality you wish between your ears. iPods and some other MP3 players can also store names, addresses, calendars, computer files, audiobooks, podcasts and many popular TV shows.

These practical advantages have won over legions of fans, such as Michelle Peluso, chief executive officer of Travelocity. "After years--okay,

decades--of not getting nearly enough exercise, I'm now an avid runner, largely thanks to my iPod," says Peluso. "Running always seemed horribly boring and monotonous until I got my iPod. Now I run ten to 15 miles a week and zone out while listening to everything from Merle Haggard to Black Eyed Peas."

No technology since the VCR is as revolutionary to personal entertainment as the MP3 player. And the revolution is just beginning. More than a third of homes that have computers will also have iPods within two years, according to analysts at Merrill Lynch. What's more, sales of all devices that can store and play a library of digital music, such as smart phones, will overtake sales of PCs by the end of the decade, says Shaw Wu, an analyst at American Technology Research.

If you're just coming to grips with the revolution, don't worry. This guide will update you and give you a look at where digital music is headed.

To start, your best bet is an iPod (for details on iPod models, see the next page). Apple's MP3 players are the easiest to use because Apple software seamlessly links them to a computer library and the iTunes online store (where you can buy music), both of which recognize your device instantly. None of Apple's rivals has created anything as seamless, and each has fallen short in other areas. Dell's recently released DJ Ditty, for example, fails to improve on the light weight and simple menu control of iPod's most basic model, the shuffle. Sony's players cost more than Apple's per gigabyte of memory, without offering better features. Plus, iPods look the coolest.

No technology since the VCR is as revolutionary to personal entertainment as the MP3 player.

#### VERSATILITY

Today's top MP3 players not only let you keep a wide variety of music on hand, but they also let you play it through most stereos.

For example, marketer Peter Evers of Mill Valley, Cal., used to bring CDs in the car with him to amuse his 2-year-old daughter, Caitlin: "If I had to hear 'Wheels on the Bus' one more time," he says, "I was going to scream." Peter and his wife, Emily, now play children's tunes along with their own favorites, thanks to his year-old iPod, which they have stuffed with 6,207 songs.

Peter uses Griffin Technology's iTrip transmitter (recently \$30 to \$39, depending on compatible iPod model, at [www.pcmall.com](http://www.pcmall.com); for more on this and other iPod accessories, see page 100). The device broadcasts your iPod's songs through an unused FM channel on a radio. The iTrip transmitter lets the Evers family enjoy tons of tunes without the hassle of stacks of discs. Other drivers have an even better alternative: About five million cars this year will be shipped with direct cables for iPods.

Another cool function of MP3 players: They can play music downloads from online stores, making song purchases a snap. Consider high school librarian Steve Davidson of Albany, N.Y., who hasn't bought a CD in four years. On a recent morning, he was reading the news on his laptop while eating his cold cereal. He saw a story about a band named My Morning Jacket, called up a review of its albums at [Rollingstone.com](http://Rollingstone.com), and then bought a song at online music store [iTunes.com](http://iTunes.com)--all before heading to work. Culling tunes online isn't just convenient, it's economical, says Davidson, who prefers paying a buck for one song to paying \$13 for an entire CD. He laughs at how his



family takes digital music for granted. One of his son Max's first words was iPod.

iTunes sells about 1.4 million songs a day and offers personalized recommendations based on what you buy. But one flaw with iTunes is that its songs play only on iPods. If you have another make of MP3 player, you need to buy music from other online stores, such as Napster.com, Rhapsody.com and Walmart.com. Songs cost 99 cents a pop at these Web sites (Walmart.com's are 88 cents), although a sliver of titles are priced higher or lower. The selection at iTunes is typical of all the sites', about two million titles. (To run iTunes you need Windows XP or 2000, or Mac OS X 10.2.8 or later.) But online shopping isn't essential to enjoying an MP3 player. Most iPod owners buy only a dozen or so songs from iTunes and transfer the rest from their existing CD collection.

Another useful feature of MP3 players is that they can store audiobooks. When JetBlue flight attendant Karinne Saint-Louis received a 40-gigabyte iPod as a gift a year ago, she began loading books and music on it. "My life is up in the air--pun intended--and I have to condense my belongings because I'm constantly on the go," she says. "It soothes me to have all my books and music with me."

Saint-Louis buys audiobooks by Stephen Hawking and J.K. Rowling on CD and then transfers them to her iPod. But you can also download audiobooks directly from Audible.com to any model iPod and many other MP3 players. Prices for downloads and CDs are comparable. Recently, the bestseller Freakonomics cost \$20 as a download from Audible.com--the same price charged by Amazon.com for the CD version.

Apple's rivals are racing to develop an MP3 player that will let you load music without hooking up to a PC.

#### WHAT'S NEXT

Apple has a lock on the market today. iPods account for 72% of MP3-player sales, says the NPD Group. But the iPod itself may turn out to be a fad. No matter how trendy Apple's famous white earbuds are now, in several years the cool kids on your block could be listening to their music on another manufacturer's MP3 player, says Paul Saffo, a research director at the Institute for the Future. (Given the iPod's status as fashion icon, Saffo notes, "Paris is no longer the center of fashion. Now it's Silicon Valley.")

But fad or no, you shouldn't hesitate to buy an iPod--or any other MP3 player--because you're afraid your music won't work on tomorrow's players. Succeeding generations of devices will be able to play multiple formats, says Jon Erensen, an analyst with Gartner Group.

They will also be cheaper, smaller and smarter. For example, the latest iPod (a 30-GB version) is 45% smaller than the original 2001 model--at a 25% lower price. And its hard-drive memory (which has rotating platters along with other moving parts) holds six times more data.

In the past year, Apple introduced two devices, the nano and the shuffle, that hold less data but are also less expensive. These devices use flash memory (with a memory chip and no moving parts), which will soon be able to store more data in a smaller space and at a comparable cost to hard-drive memory.

Apple's rivals are racing to develop an MP3 player that will let you load music from an online store without hooking up to a PC. Expect such devices

to hit the market within the year, says IDC analyst Susan Kevorkian. Apple may follow suit if the devices win fans.

The first wireless music store that allows you to download music directly to your cell phone was recently launched by Sprint Nextel. About 250,000 songs are available. Each download comes in two versions, one that will play through your cell phone's limited speakers and another on your PC. (You download the PC version from a personal account at [musicstore.sprint.com](http://musicstore.sprint.com).) For \$2.50 a song, you get both the phone and PC versions. Verizon and Cingular are expected to offer a similar service shortly.

It's too soon to know how popular it'll be to search an online music store using a phone's Lilliputian screen, as opposed to using a computer monitor. Moreover, few consumers seem eager to download music directly to their cell phones, and most appear content to keep their MP3 players and cell phones separate.

In the evolution of MP3 players, we're still in the Cambrian era: a time when digital music devices appear in many forms and compete for dominance in the marketplace. Although the iPod may be the most highly evolved today, we would not be surprised if a sixth lobe is now being perfected in an inventor's lab.

page 97 RewardsKIPLINGER'S JANUARY 2006

**Features:** The top-of-the-line iPod includes a 2.5-inch color screen that can display videos, photos and album-cover art. Besides music, it plays recordings of many videos and some top TV shows sold at [iTunes.com](http://iTunes.com) for \$2 each. It connects to TVs and projectors, if you buy a cable for \$19 from [Apple.com](http://Apple.com).

**Capacity:** You can store about 360 hours of music, or about 75 hours of video, on iPods with a 30-gigabyte hard drive and about twice as much on 60-GB models. The 30-GB version lets you watch up to two hours of video, and hear up to 14 hours of music, on one battery charge.

**Price:** \$300 for the 30-GB model, \$400 for the 60-GB model.

page 97 RewardsKIPLINGER'S JANUARY 2006

**Features:** About the size of a business card and 1/4-inch thick, the nano has a color screen that's 1.5 inches on the diagonal. It's nearly half the weight and half the depth of the iPod mini, which it has replaced. You can listen to songs for up to 14 hours on one charge. The nano stores its songs on flash memory, so it has no moving parts. That means songs won't skip when the device is shaken, which is not the case for hard-drive iPods.

**Capacity:** You can store about 24 hours of music on a 2-GB flash-drive nano and twice as much on the 4-GB flash-drive version. Both can store photos taken by your digital camera (but not video).

**Price:** \$200 for the 2-GB model, \$250 for the 4-GB model.

page 97 RewardsKIPLINGER'S JANUARY 2006

**Features:** The shuffle is the cheapest and least powerful of Apple's players. The size of a pack of gum, the white device is exponentially better than a CD player to use while walking or exercising because of its

slim profile, long battery life (up to 12 hours on a charge) and use of flash memory, which prevents song-skipping. The shuffle lacks a screen, and it connects to your computer with a USB cable, which means it won't work with accessories that use a dock connector.  
Capacity: The 512-megabyte shuffle can store about six hours of music; the 1-GB version packs nearly twice as much.

Price: \$100 for the 512-MB model, \$130 for the 1-GB model.

pages 100-101 RewardsKIPLINGER'S JANUARY 2006

#### ACCESSORIES

Tune in where you want, when you want.

#### PHOTOGRAPHS BY RENÉE COMET

#### HOME RUN

Boost your home-entertainment system with the DLO HomeDock from Digital Lifestyle Outfitters (\$100 at [www.dlo.com](http://www.dlo.com)). Just slip in your iPod, connect the device to your stereo or TV with the included cables, and you can use the HomeDock's remote control to play music through your home stereo or run a slide show of photos (or videos, if you have the latest iPod) on your TV. It works with iPods that dock from the bottom, rather than by a USB or FireWire cable.

#### CAR TALK

Send your ticks to your car-stereo speakers via your iPod with Griffin Technology's iTrip FM transmitter (recently \$30 to \$39, depending on iPod model, at [www.pcmall.com](http://www.pcmall.com)). The transmitter broadcasts your tunes via a vacant FM frequency. The iTrip costs far less than wiring your iPod to your car speakers, but its wireless service is somewhat less reliable. In our roughly 400-mile road test, iTrip couldn't find an open frequency in some places. There is an iTrip model that works with every iPod, except the iPod shuffle.

#### DESPERATE HOUSEWIVES: ABC/SCOTT GARFIELD

#### PORTABLE JUKEBOX

Sonic Impact's i-Fusion portable-speaker kit (recently \$150 at [CircuitCity.com](http://CircuitCity.com)) doubles as a hard case and charger, sparing you from having to carry both your iPod and a separate charger. Its rich sound and superior bass tops that of rivals, but it lacks a subwoofer. The hard case acts as a speaker cabinet, improving the fidelity. The i-Fusion is compatible with all iPod models, thanks to an included adapter, and it can connect an iPod to a traditional stereo.

#### SILENCERS ARE GOLDEN

Some iPod users gripe that Apple's earbuds don't fit their ears or filter out external sounds. Now come one-size-fits-all Solitude headphones (\$200 at [www.protravelgear.com](http://www.protravelgear.com)). The soft fabric gently cups your ears, while filtering out the rattle and hum in airplanes and subways as effectively as other top noise-canceling headphones we tested.

#### RADIO TO GO

"Video Killed the Radio Star" was an early '80s song, but today's version

might be "RadioShark Saved the Radio Star." RadioShark, made by Griffin Technology (recently \$50 at Target.com), is a fin-shaped antenna you can program to record FM and AM stations. Replay a show (edited, if you wish) through your PC or any iPod. Never endure a pledge drive or a commercial again.

DESKTOP DEEJAY

JBL's On Stage II (recently \$170 at Apple.com) refines the iPod speaker concept by adding a remote control. We found the remote will operate the device from a distance, even through a plaster wall. The speakers pump out rich treble and bass, but there's no subwoofer for deep sound. On Stage is compatible with the standard iPod, the shuffle and the mini (and many MP3 and CD players, plus laptops and other devices). Owners of the iPod nano need to order a free attachment from [www.jbl.com](http://www.jbl.com).

--SEAN O'NEILL

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If you want to take up residence on my iPod, keep it real  
Calvert, Richard

Revolution PP: 82 May 2006 ISSN: 1460-5953 JRNL CODE: RVL  
DOC TYPE: Periodical; Commentary LANGUAGE: English RECORD TYPE: Fulltext  
LENGTH: 1 Pages WORD COUNT: 497

ABSTRACT: Everyone is into iPod. The fact that Apple has shipped 41 million of the little bundles of joy over the last 12 months is a testament to the universal appeal of the little marvel -- or some great marketing. The author does not want overt marketing messages pumped into his ears. He is managing to avoid much of the television advertising out there and happily filter all but the most eye-catching, engaging online content, so the last thing he needs are overt marketing messages delivered across his channel.

TEXT: Terminator 1

iPod, you pod, he/she pods, we pod, they pod. We're all at it. The fact that Apple has shipped 41 million of the little bundles of joy over the last 12 months ([www.apple.com](http://www.apple.com)) is testament to the universal appeal of the little marvel - or some great marketing. Take your pick you cynic. Can you remember your first time? I can. It was in 2001. I was standing in the Apple Store, up on the first floor, hovering around a circular table that displayed a handful of beautiful, little white and silver boxes, all safely tucked away in the corner with the USB-driven desk fans and reading lights. All fresh from the Innovations catalogue. Standing there, I struck up a conversation with another similarly bemused customer. We thought that they looked great, and that wheel - how lovely. But what was it for? How on earth were we going to fill 10, 15 or 20Gb? Yeah, music, but a CD only lasts an hour and a bit... and so the conversation went on. In the end, we decided that Apple must have a plan. I mean, why bother building it otherwise?

Of course, we both bought one, and 2,741 songs later, I still have an alarming amount of unused capacity on my iPod. My iPod diet has expanded though. It includes the usual stream of shuffled songs collected on various formats across the past 20 or so years, plus a French class (The French Pod Class), the CNET News.com daily technology Podcast and a joint BBC-PBS technology Podcast, The World, all updated regularly and archived for my delight and education.

What does that mean? I suppose it means that one day I'll fill my iPod with 30 years of technology updates - oh, and be fluent in French. It means I get content that I want, delivered by people I trust straight to my head. But, let me level with you, you giddy marketer you; I don't want overt marketing messages pumped into my ears, thank you very much. I'm managing to avoid much of the TV advertising out there and happily filter all but the most eye-catching, engaging online content, so the last thing I need are overt marketing messages delivered across 'my' channel.

So, engage me, entertain me, give me something to talk about. Most of all, keep it moving. Don't think I'll be content with 12 minutes of PR puffery and an interview. Provide a platform for other people like me to create and share content. Make it funny or intelligent - just cut the sell. If you can manage this, you're welcome to take up residency on my iPod.

And that wheel-lovely. But what was it for? How on earth were we going to fill 10, 15 or 20Gb? Yeah, music, but a CD only lasts an hour... and so the conversation went on. In the end, we decided that Apple must have a plan

Richard Calvert is senior strategist at Tullo Marshall Warren

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Survey: Heard on the street

Anonymous

Economist v379n8474 PP: 11 Apr 22, 2006 CODEN: ECSTA3 ISSN: 0013-0613

JRNL CODE: ECT

DOC TYPE: Periodical; Feature LANGUAGE: English RECORD TYPE: Abstract

ABSTRACT: In 2004, Adam Curry, a former show host on MTV, used his own celebrity and the underlying technologies of blogging to popularise yet another next big thing: "podcasting." The "pod" comes from Apple's iPod, a fashionable portable music player--a stroke of marketing luck for Apple, which initially had nothing to do with podcasting. The "casting" comes from broadcasting, which means sending a radio signal to an entire population in a particular geographic area at a particular time. It works as follows. A podcaster records something--anything from music to philosophical ramblings, professional news or snorting noises--into a computer with the aid of a microphone, then posts this audio file onto the internet. There, people can listen to it and, more importantly, subscribe to a "feed" from the same podcaster, so that all new audio files from that source are automatically pulled down as soon as they are published. Does podcasting therefore spell the end of radio? The effects on radio, while not lethal, will be large. But historically, radio has been good at adapting.

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13302857 Supplier Number: 147834370 (THIS IS THE FULLTEXT)  
FBI special agent recounts outsourcing horror story; Also warns of the dangers of mobile computing security lapses. (Nenette Day of Federal Bureau of Investigation)

Brown, Bob  
Network World, pNA  
May 16, 2006

TEXT:

Byline: Bob Brown

The CAD/CAM company thought it was protecting itself, having employees of the Indian outsourcing company that was debugging its source code sign non-disclosure agreements. But when a disgruntled outsourcing employee swiped a copy of the code a few years back and tried to sell it to the CAD/CAM vendor's competitors, the vendor found out that the NDAs were of little use when it came to prosecuting the alleged thief in India.

"They weren't worth the paper they were written on," says Nenette Day, an FBI special agent out of Boston who did double duty as both the case agent and undercover agent investigating this crime against software maker SolidWorks. "The employees would have had to sign the agreement with the Indian company, not the American one."

Day, who has worked in computer crime for 8 years and calls herself "a geek with a gun," told attendees at last week's CIO

Forum that their companies need to do serious research about the laws of any country to which they outsource work.

CIO Forum is a unique conference during which IT vendors and 300 potential customers unite on a cruise ship out of New York

City. (Other discussions at the event focused on topics such as identity theft and biometrics and grid computing.)

A handful of FBI agents were on board to consult with IT pros about cybercrime threats, a topic that FBI agents say companies are often reluctant to talk about.

As for protecting yourself when outsourcing to other countries, Day advises IT executives to assume that you have no legal rights. "It should not start with your understanding of American law," she says.

In India, for example, there is no theft of trade secret law, Day says. India does have an IT act, she says, but it is mainly focused on copyright violations.

Day says that despite the fact that "there was not a shred of evidence that we did not have" against the alleged SolidWorks

thief, prosecutors in India have failed to convict the suspect and he continues to work. The FBI initially tried to lure the suspected thief out of India to simplify prosecution, but he was too smart for that, Day says.

Indian police nabbed the suspect in 2002 when he allegedly tried to sell the code to Day while she was undercover (she says

he initially tried to sell the code for about \$250,000, not realizing it was probably worth \$300 million). Fortunately, she says, the original source code was recovered and copies were not believed to have been sold.

In the wake of that case, Indian software developers have formed a lobby to push for stronger intellectual property protection

laws, concerned that companies won't outsource to India if they



aren't better protected, Day says. Outsourcing firms, like the one SolidWorks worked with, have also tightened their own security policies considerably in recent years, she says.

Another thing to consider when outsourcing to other countries is not just whether there are laws to protect intellectual property, but whether the laws are enforced. "No criminal law exists if the police will not enforce it," she says, noting that the FBI received an unprecedented amount of cooperation from its counterpart in India on the SolidWorks case (after threatening to expose India's laissez-faire attitude toward the case).

Questions companies should ask when outsourcing to other nations, Day says, include the following:

- \* Can my company risk loss of this data?
- \* What are my liabilities if I do lose it?
- \* What are your notification requirements if you lose customer data?

(She notes that if your data is encrypted, you might not have to report it missing.)

- \* Will the company you are outsourcing to go the distance if you need its help to chase down a criminal?

- \* How long could a prolonged legal battle in a foreign country cost?

("You could lose all your outsourcing savings there,"

Day says.)

"This is all risk analysis," she says. "We're not saying don't outsource. We're saying learn the risk points and add that to your analysis when choosing the country or company wherever you're outsourcing."

Mobile computing worries

Mobile computing is the other area of networking that has Day very concerned on the cybercrime front. This involves both stolen and lost mobile systems.

"Laptops. I don't even know how to get on this soapbox and scream loud enough," says Day, citing third-party market research about tens of thousands of cell phones and portable computers being left in Chicago taxis during a six-month period last year.

"Universities, companies, government. Where could I not go and not tell you a story about the laptop that went missing and did not have the information encrypted."

Day points out that even the FBI encrypted its laptops when she joined 8 years ago. "And (at that time we were) behind the curve in every way electronically, except that," she quips.

It's "mind boggling" that information is being kept in the clear on portable devices and that companies aren't being held responsible, Day says. Though she says that companies are starting to pay the price, as a credit card processing company recently settled a compromised data case for big bucks.

Cases so far have mainly been civil ones, though she says criminal charges won't be far behind given the emergence of new data protection laws.

Day also discussed the dangers of cell phones, which she described as potential monitoring devices, given that so many have cameras and audio recording capacity on them. They can also threaten security by being tapped, through techniques such as someone asking to borrow your phone and downloading a tracking program, she says.

The FBI requires members to shed all electronic devices during certain of its top-secret meetings.

"We understand how easy these things are to compromise," Day says. "You might want to consider in your own company a no electronics area."

This includes devices such as iPods, which can be used to swipe info via "pod slurping," a technique that involves simply sticking an iPod into a USB port on a computer. "They don't even need access to the keyboard," she says.

Day urges IT pros to contact the FBI if their intellectual property is stolen, noting that even if criminal charges are brought against someone, civil charges can also be made.

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October 23, 2006

Section: Book Excerpt

The Power of iPod

Apple's music player weighed six ounces. But it had tons of influence on culture, commerce and coolness.

Steven Levy

The iPod arrived in October 2001, bringing the promise of pleasure to a world in transformation from its comforting analog roots to a disruptive digital future. But no one expected that the iPod would become the signature artifact of our young century, selling more than 60 million units in its first five years. No one envisioned vast swaths of humanity escaping reality via the White Earbud Express. And no one would ever have believed that a 2005 survey would report that the iPod is more popular on college campuses ... than beer. But that's what happened. In his new book, "The Perfect Thing," NEWSWEEK Senior Editor Steven Levy contemplates the ways that the iPod changed the world.

#### Identity

It was perhaps inevitable that the L subway line, running from boho Brooklyn to edgy 14th Street in Manhattan, would be the scene of the so-called iPod Wars. These were musical sumo matches where two iPod wearers spontaneously confront each other, thrusting the screen in each other's faces with a song cue that, ideally, would win the approval of the most pedantic rock critic but be totally unknown to all but a microscopic fraction of the listening public. Such incidents strike deep in Planet iPod, confirming more closely documented observations of how music on one's iPod affects status. Playlist is character.

Musical one-upmanship is nothing new. But the portability of the iPod and the transparency that comes from exposing an iPod screen to an observer make the otherwise private device a potential broadcaster of taste. We seem to be immersed in an age of musical voyeurism. No one is spared, particularly the famous. In response to the question "What's on your iPod?" we learn that CNN newsman Aaron Brown's iTunes library includes "everything that Paul Simon has ever done," and that the conductor of the Atlanta Symphony Orchestra has loaded his silver mini with Broadway show tunes and that song by Harry Nilsson about the lime in the coconut. In July 2004, George W. Bush's daughters presented him with a 40-gig iPod. It included "My Sharona," a selection successfully suppressed until after he was reelected in 2004. Dick Cheney's iPod features the Carpenters. (Zzzzz.) No word on what's on Queen Elizabeth's mini, but we know that the Pope's white nano has Beethoven, Chopin and podcasts from Vatican Radio.

Surfing someone's iPod is not merely a revelation of character but a means to a rich personal narrative, navigated

by click wheel. At one point the universal goal of the literate was to write the Great American Novel. Then the Great American Screenplay. And now, the Great American iTunes Library.

**Download** When Apple successfully rolled out its iTunes Music Store, the record labels professed delight. Finally people were paying for digital music. But the good feelings were mixed with consternation at the not-so-subtle shift that online buying represented for their business model. Downloading music a song at a time represents one of those fundamental shifts in the way people consume music and ultimately the way people will go about making music. Fifty years ago, the 45-rpm "single" created an entire culture based on the frenzied three-minute playing time. In the sixties this was surpassed by the dinner-plate-size slab of vinyl known as the LP. In the 1990s, the CD arrived and suddenly artists had a full hour to fill. So they filled it with second-rate offerings. "They have a couple of songs and then the rest isn't very good," says Stephan Jenkins of the rock group Third Eye Blind. "They're just trying to get the royalty rate for twelve tracks."

The ? la carte option in the iTunes store changes that. People can buy only the good songs. Not coincidentally, the cherry-picking method reflects the way people now listen to music ... shuffling it on their iPods. "The linear experience is gone," says rock musician John Mayer. "The iPod scroll bar has changed the chemistry of listening and now we're a skip-forward generation."

**Personal** Has the iPod destroyed the social fabric, locking us into a cycle of self-love from our hand-picked music library straight into our brains, via earbuds? Has it transmogrified us into a zombie culture?

The iPod is only the most recent, and most compelling, advance in a movement of portable cocooning that's been underway for decades. In 1974, sociologist Raymond Williams used the term "mobile privatization" to describe the phenomenon of people forming technological bubbles around themselves. And in 1979, the breakthrough device in personal audio, Sony's Walkman, was an exercise in two things: escape (shutting out the world) and enhancement (when your world is transformed into a soundtrack, reshaping your perception of the crappy world around you).

The iPod takes this a huge step further. Because it holds so much of one's music and can play back the songs with near-infinite variety, its addictiveness far exceeds that of the Walkman. Because it is more compact, it goes more places, with more ease. The world now seems split in two: those locked into iPod reveries and those griping about how they have lost contact with the cooler part of the world.

**Podcast** By the early 2000s, Internet pioneers figured out a system that let you download, and even subscribe to, audio files directly into digital jukeboxes and players. But it wasn't until September 2004, when the process was given a name that tapped the power of Apple's player, that the practice took off: Podcast. Bloggers popularized the term. In a matter of weeks, plugging the word "podcast" into a Google search field yielded hundreds of thousands of hits. (The number is now 239 million.) People spontaneously created mini-broadcasts. The price of entry into this new form of radio was a microphone and an Internet connection.

The progress of podcasts followed the earlier evolutionary path of Web sites from fringe to mainstream, this time at a rate so accelerated that it was almost a blur. This was helped by Apple's integration of podcasting into the iTunes store. One day the most popular podcasts were quirky homegrown productions like "Dawn and Drew," by a wacky postpunk couple living in a Wisconsin farmhouse, and on what seemed the very next day, people were downloading podcasts from The New York Times, National Public Radio and Major League Baseball. (Oh, and NEWSWEEK.) One might have expected the new, more professional podcasts to overwhelm the upstarts. But a funny thing happened: while the NPR podcasts dominated the popularity lists, the Dawn and Drews of the world were also well represented. When established performers like Liz Phair began podcasting their backstage ramblings, that didn't drive out more obscure musical podcasting pioneers like the Lascivious Biddies, a show-tune-style contingent who let fans eavesdrop on the tour bus. It really was possible for someone to grab some podcasting software, make a radio show, and find a niche audience among the millions of people scrounging for something new to hear

on their iPods.

By October 2005, audio podcasts were well integrated into the media food chain. Then came the fifth-generation iPod, with video—along with an announcement that the iTunes store would offer ad-free episodes of TV shows, including the blockbusters "Lost" and "Desperate Housewives," for \$1.99. Before that day, television shows were basically network-based presentations running in a designated time slot. Now they were no longer advertiser-supported productions broken up by annoying commercial messages consisting of as much as a third of their run time. They were shows you paid for, costing less than a latte, and viewed without interruption. You could download them any time and view them wherever you were, using your iPod. They were podcasts.

From the perfect thing by Steven Levy, to be published by Simon & Schuster, Inc. ? 2006 by Steven Levy.

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Section: Main News

This year, Apple iPods are in style — and often out of stock

INTERNATIONAL  
**Herald Tribune**

## Your iPod, my Polaroid

By Elsa Dorfman

Monday, January 12, 2009

### MEANWHILE

My love of Polaroid began in 1962 when I met the photographer Nicholas Dean at the Grolier bookstore in Harvard Square. He worked at Polaroid as a technical researcher, and part of his job was to test new films. On his lunch hour and after work, he would drop by the store, then as now a destination for poets, and take pictures of anyone who was hanging around. They were black-and-white photos. Peel apart, with a stick of preservative to fix the image from the ravages of light.

In 1964, I moved into an apartment building where a Polaroid original, Dr. Culler DeLong West, who started to work in crystallography with Edwin Land before Polaroid was even called Polaroid, lived on the first floor. West rode his beat-up bike to Polaroid every day, ate all his meals in the company cafeteria, and exuded the Polaroid legend of mad scientist.

The Polaroid camera was my generation's iPod, our BlackBerry, our GPS, our Kindle - that piece of technology that wows and then becomes an extension of the hand. And Dr. Land, always called Dr. although he didn't have his PhD, was our Steve Jobs. He was a brilliant scientist who got Ansel Adams, Marie Cosindas and Walker Evans to use his instant cameras with panache.

In the late 1970s came a huge technological innovation: color instant film and a new model camera that was designed for it, the SX70. The seventh wonder of the world, many called it. The film pack had a battery in it so that the camera could eject the image from the film pack. And there was nothing to peel apart. The picture developed in its thin packet within 60 seconds. The camera folded up flat.

The camera I still use, the refrigerator-sized Polaroid 20-by-24-inch Land Camera, was made to show off the charms and possibilities of the new color film. Land wanted to see how big he could make an instant camera. Getting the chemicals to spread evenly so as to transfer the image, from the negative to the positive, and to develop in 80 seconds, was a technological tour-de-force.

My love affair with the 20-by-24 was instantaneous. The color of the film I used, called P3, was soft and the images seemed three-dimensional. I loved the gravitas of the camera and its simplicity: really a grandly enlarged cereal box with a hole in the front to let in light, and the Polaroid transfer mechanism in the back to catch the light. And there was something mystical about the fact I had to get on my knees to manually pull the packet of negative, chemical pod, and positive out of the camera.

And then the world shifted. Polaroid announced recently it would no longer manufacture instant film. No two photographers can get together without talking about Polaroid. What happened?

It's hard to get past the disappointment and anger - the harsh reality - that Polaroid film is gone. It is beyond belief that Polaroid sold - for scrap! - the machines that made the film, that it let the inventory of chemicals dwindle. Some people say it goes back to Dr. Land and his brilliant scientist/marketer/businessman dichotomy. Many say it was the lawsuit between Polaroid and Kodak, which ate up time, money, attention. Hadn't Land heard of licensing his technology? Some say it was the Polaroid culture. Others say Polaroid could have survived if management and shareholders were content with a small profit rather than a huge pre-bubble profit. Many ask: With all the MBAs the U.S. churns out, how come someone hadn't learned how to save Polaroid? Did digital, even though it doesn't give you an instant image to hold, make the end inevitable?

In the end, each person has her or his own list of villains. At the top of my list is Polaroid's latest

owner, Tom Petters of Minnesota, credited with selling the machines for scrap, dismantling the company, deciding all he wanted was Polaroid's brand name. I take cold and sad comfort that Petters, after ruining Polaroid, was indicted by the U.S. Department of Justice, and is now awaiting trial, accused of conducting a 12-year Ponzi scheme.

*Elsa Dorfman is a portrait photographer.*

**Correction:**

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Notes:

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**IHT**

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June 26, 2008

Q & A

## New iPod, New AV Cable

By J. D. BIERSDORFER

Q. I can't select the TV Out menu option on my new iPod when I have it connected to my television with an iPod video cable. Is there some other setting I need to adjust so I can play videos from my iPod on the TV screen?

A. Most of the audio-video cables or docks that work with older iPods don't work with Apple's latest iPod models. While you can still watch videos directly on the iPod Classic, Nano or Touch players or the iPhone, you need an AV cable or dock that is designed to work with these particular models to play the picture on the TV.

Apple has an illustrated explanation of which iPod models work with which specific AV cables and docks at [support.apple.com/kb/HT1454](http://support.apple.com/kb/HT1454). The company sells its own special iPod docks and AV cables for component or composite connections to your television; each one costs about \$50 on the Cables & Docks page at [apple.com/store](http://apple.com/store).

Third-party manufacturers have also started to release their own updated video hardware for the latest iPods. But because many had docks and cables for earlier iPods, you should carefully check each product's specifications to make sure it works with the new iPods.

The DLO HomeDock HD, for example (available at [dlo.com](http://dlo.com) in August for about \$250) offers an HDMI cable connection and video conversion up to screen resolutions of 1080i or 720p for iPod owners who want to watch their movies on their high definition TVs.

*Questions about computer-based technology may be sent to [QandA@nytimes.com](mailto:QandA@nytimes.com). This weekly column will address questions of general interest, but e-mail and letters cannot be answered individually.*

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## Apple's iPod Dominates Amazon

Eight of the top 10 MP3 players sold on Amazon are iPod models.

Jonny Evans, Macworld UK

Thursday, February 07, 2008 08:45 AM PST

Apple's iPod continues its dominance at online retail giant, Amazon.

In the U.K., iPod's hold eight of the top ten places within Amazon's list of top-selling products, with the 80GB iPod classic the leading model sold by the retailer, followed by the silver 4GB iPod nano, with the 8GB black iPod nano in third place.

The 16GB iPod touch is the fourth most popular iPod model sold by Amazon, despite its €234 (US\$468) price on that store. In fifth place sits the 80GB silver iPod classic, with the 8GB iPod touch in sixth place.

The only two non-Apple products among the top ten sellers in Amazon U.K.'s MP3 and Digital Audio categories come from Sony and Creative, with Sony's NWZA818 Walkman at number eight, and the recently-launched Creative Zen Stone Plus 2GB player at number ten.

Amazon U.S. displays a similar pattern of iDominance, with Apple holding eight of the top ten selling models within the retailers MP3 Players list. Microsoft's Zune, while briefly in the top ten, has now slipped to 22nd place.

The silver 4GB iPod nano is the top-selling iPod on Amazon U.S., followed by the 8GB iPod touch and, in third place, the 80GB iPod classic.

Non-Apple media players among the top ten in the U.S. at time of writing include the Creative Zen 4GB player in seventh and the 1GB Sansa Clip in eighth place.



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business | kim komando

## iPods: They're not just for tunes anymore

By Kim Komando  
Gannett News Service

Posted: 02/05/2007 01:00:00 AM MST

Many people are taking their music, videos and photos with them on their Apple iPods, but some users still aren't getting the most out of their iPods.

Here are some of my favorite tricks.

Connect your iPod to your stereo. There are plenty of iPod-specific speakers. Some are portable. Others are large. But you don't need to buy expensive speakers. Instead, connect your iPod to your entertainment center.

All you need is a cable. Apple and other manufacturers make iPod-specific cables. One end plugs into the miniplug on your iPod or iPod dock. The other connects to your receiver.

Most attach to the receiver with RCA connectors. Don't plug the iPod into the phono jacks; they're too sensitive. Your stereo could be damaged. If need be, use a cable with miniplugs on both ends. Just make sure it is a stereo cable. These have two black bands on the metal tip.

There are special cables and docks for video and photo iPods. These connect your iPod to your television. Before you buy, check that your television has compatible connections.

Control your iPod with a remote. Once you connect your iPod to your entertainment center, you'll want a remote so you won't need to get up to change the tunes. Apple's remote (\$29) works with iPod docks with an infrared (IR) receiver.

Apple's AV Connection Kit (\$99) features connection cables, a dock and remote. DLO and Griffin make similar docking kits featuring a remote control.

Transfer photos. You can transfer photos to newer iPods. Connect your iPod to your computer and open iTunes. Right-click your iPod's name. On the Photos tab, select "Sync photos from." In Windows, you can select a folder containing photos. Or, if you use Adobe Photoshop Album or Adobe Photoshop Elements, select one of them.

In Mac OS X, select iPhotos or a folder. Use the options to select the photos to transfer. iTunes transfers scaled-down versions of photos.

You can also download photos from your camera directly to the iPod.

This is handy when traveling. You'll need the iPod Camera Connector (\$29). It features a USB port for attaching your camera's cable.

Not all cameras are compatible with the iPod Camera Connector. If yours isn't, use a USB memory card reader instead. Once attached, the iPod provides the option of importing photos.

When you're done, you can erase the memory card. You can view the photos on your iPod immediately.

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Store files on your iPod. You can also add files to your iPod, a convenient way to transfer files between computers.

To add files, enable disk mode. Connect your iPod and open iTunes. Right-click its name. On the Summary tab, select Enable Disk Use. You'll be warned that you must manually eject your iPod before disconnecting. Click Apply.

Move and explore files in Windows Explorer or Apple's Finder. Eject your iPod in iTunes. Or, drag it to the trash in Mac OS X. In Windows, right-click the iPod name in My Computer and select Eject.

Connect the iPod to another computer and you'll receive a warning. It will ask you to associate the iPod with the computer. Click No. Otherwise, you'll lose your iTunes library.

Contact Kim Komando at [gnstech@gns.gan nett.com](mailto:gnstech@gns.gan nett.com).

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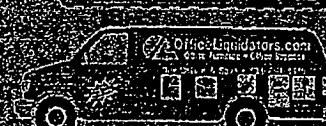
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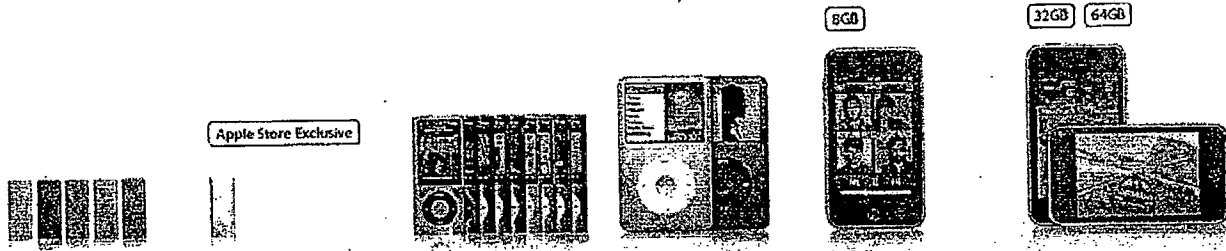
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**iPod nano**  
The superslim, colorful iPod nano now features a video camera along with a new finish, a larger display, and more. [Learn more >](#)

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With 160GB of storage for music, video, and photos, iPod classic is the take-everything-everywhere iPod. [Learn more >](#)

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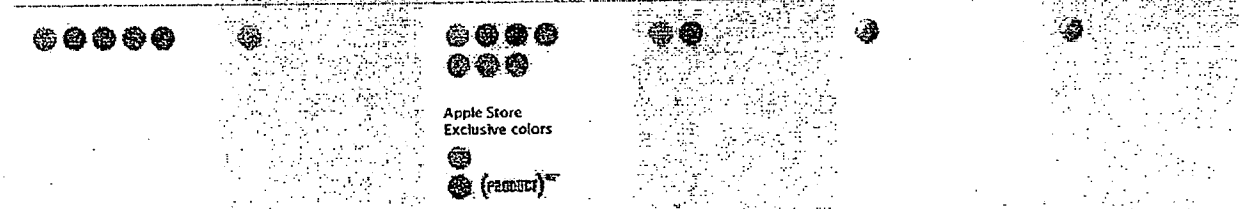
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4GB Up to 1,000 songs		16GB Up to 4,000 songs Up to 16 hours video			64GB Up to 14,000 songs Up to 80 hours video

**Battery life\*\***

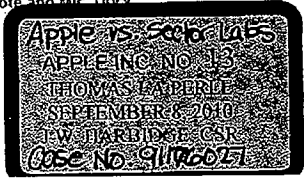
Audio playback Up to 10 hours	Audio playback Up to 10 hours	Audio playback Up to 24 hours	Audio playback Up to 36 hours	Audio playback Up to 30 hours	Audio playback Up to 30 hours
		Video playback Up to 5 hours	Video playback Up to 6 hours	Video playback Up to 6 hours	Video playback Up to 6 hours

**Colors**









**Includes**

Earphones with Remote (no mic), iPod	Earphones with Remote (no mic), iPod	Earphones, Dock Connector to USB	Earphones, Dock Connector to USB	Earphones, Dock Connector to USB	Earphones with Remote and Mic, Dock
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Apple - iPod - Compare iPod models and find the right one for you.

shuffle USB Cable	shuffle USB Cable	Cable	Cable	Cable	Connector to USB Cable
<b>Price</b>					
2GB \$59	4GB \$99	8GB \$149	16GB \$249	8GB \$199	32GB \$299
4GB \$79		16GB \$179			64GB \$399
A portion of the proceeds from every (product) purchase will go to the Global Fund to fight AIDS in Africa.					
<b>Size</b>					
1.8 x 0.7 x 0.3 inches (45.2 x 17.5 x 7.8 mm) including clip	1.8 x 0.7 x 0.3 inches (45.2 x 17.5 x 7.8 mm) including clip	3.6 x 1.5 x 0.24 inches (90.7 x 38.7 x 6.2 mm)	4.1 x 2.4 x 0.41 inches (103.5 x 61.8 x 10.5 mm)	4.3 x 2.4 x 0.33 inches (110 x 61.8 x 8.5 mm)	4.3 x 2.4 x 0.33 inches (110 x 61.8 x 8.5 mm)
<b>Weight</b>					
0.38 ounce (10.7 grams)	0.61 ounce (17.2 grams)	1.28 ounces (36.4 grams)	4.9 ounces (140 grams)	4.05 ounces (115 grams)	4.05 ounces (115 grams)
<b>Charge time</b>					
About 3 hours (2-hour fast charge to 80%)	About 3 hours (2-hour fast charge to 80%)	About 3 hours (1.5-hour fast charge to 80%)	About 4 hours (2-hour fast charge to 80%)	About 4 hours (2-hour fast charge to 80%)	About 4 hours (2-hour fast charge to 80%)
<b>Display</b>					
		2.2-inch (diagonal) TFT display	2.5-inch (diagonal) color LCD with LED backlight	3.5-inch (diagonal) widescreen Multi-Touch display	3.5-inch (diagonal) widescreen Multi-Touch display
<b>Navigation</b>					
Earphones with Remote + VoiceOver (selected languages)	Earphones with Remote + VoiceOver (selected languages)	Click Wheel + VoiceOver (selected languages)	Click Wheel	Multi-Touch display	Multi-Touch display and Earphones with Remote and Mic + Voice Control
<a href="#">More Information</a> ▾					
					

\* 1GB = 1 billion bytes; actual formatted capacity less. Music capacity is based on 4 minutes per song and 128-Kbps AAC encoding; actual song capacity varies by encoding method and bit rate. Photo capacity is based on iPod-viewable photos transferred from iTunes. Video capacity is based on H.264 1.5-Mbps video at 640-by-480 resolution combined with 128-Kbps audio. Actual capacity varies by content.

\*\* Rechargeable batteries have a limited number of charge cycles and may eventually need to be replaced (see [www.apple.com/support/ipod/service/battery](http://www.apple.com/support/ipod/service/battery)). Battery life and number of charge cycles vary by use and settings. See [www.apple.com/batteries](http://www.apple.com/batteries) for more information.

Available on iTunes. Title availability subject to change.



[iPod Images](#)

## Apple Unveils the New iPod

### Fifth Generation iPod Now Plays Music, Photos & Video

SAN JOSE, California—October 12, 2005—Apple today introduced the new iPod®, featuring a gorgeous 2.5-inch color screen which can display album artwork and photos, and play stunning video including music videos, video Podcasts, home movies and television shows. The new iPod holds up to 15,000 songs, 25,000 photos or over 150 hours of video and is available in a 30GB model for \$299 and a 60GB model for \$399, with both models available in stunning white or black designs.

"The new iPod is the best music player ever—it's 30 percent thinner and has 50 percent more storage than its predecessor—yet it sells for the same price and plays stunning video on its 2.5-inch color screen," said Steve Jobs, Apple's CEO. "Because millions of people around the world will buy this new iPod to play music, it will quickly become the most popular portable video player in history."

The new iPod plays music, audiobooks, audio Podcasts, video Podcasts, home movies, music videos and popular television shows like "Lost" and "Desperate Housewives." The unrivaled combination of iPod and iTunes® 6 now provides customers with a seamless experience for buying, managing and playing video as well as audio content, including over 2,000 music videos, six short films from the Academy-Award winning Pixar Animation Studios, and five television shows from ABC and Disney Channel, including the immensely popular "Lost" and "Desperate Housewives."

The new iPod combines all of the ground breaking features that have made the iPod the best music player in the world with revolutionary new features such as the ability to view video content on a larger stunning color display. The new iPod features Apple's innovative Click Wheel for precise, one-handed navigation and the portable design is ideal for putting music, Podcasts, photos, audiobooks, home movies, music videos and popular television shows in a pocket for on-the-go viewing. iPod users can also watch their video content and slideshows of their photos on a television via optional Apple accessories.

Featuring seamless integration with the iTunes Music Store and the iTunes digital music jukebox, iPod features Apple's patent pending Auto-Sync technology that automatically downloads digital music, Podcasts, photos, audiobooks, home movies, music videos and popular television shows onto the iPod and keeps them up-to-date whenever the iPod is plugged into a Mac® or Windows computer using USB 2.0. The 30GB model features up to 14 hours of battery life for music playback and the 60GB model features up to 20 hours of battery life for music playback.\*

#### Pricing & Availability

The new iPods will begin shipping next week for a suggested retail price of \$299 (US) for the 30GB model and \$399 (US) for the 60GB model through the Apple Store® ([www.apple.com](http://www.apple.com)), Apple's retail stores and Apple Authorized Resellers. All iPod models include earbud headphones, USB 2.0 cable, case, dock insert and a CD with iTunes for Mac and Windows computers.

Optional accessories designed for the new iPod include: Universal Dock for \$39 (US), giving users easy access to a USB port for syncing, IR support to work with the Apple Remote for a variable line out and S-video connections for integration within the living room; Apple Remote for \$29 (US), providing wireless integration to the Universal Dock and quick and easy access to controls from across the room; Apple iPod AV cable for \$19 (US), enabling television viewing of video content in full-screen; the iPod Camera Connector for \$29 (US); and Apple Socks for \$29 (US) providing six vibrant color socks to dress up and protect your iPod.

iPod requires a Mac with a USB 2.0 and Mac OS® X version 10.3.9 or later and iTunes 6; or a Windows PC with a USB 2.0 port and Windows 2000, XP Home or Professional (SP2) and iTunes 6.

\* Battery life and number of charge cycles vary by use and settings. See [www.apple.com/batteries](http://www.apple.com/batteries) for more information. Music capacity is based on four minutes per song and 128-Kbps AAC encoding; video capacity is based on H.264 750-Kbps combined with 128-Kbps audio; and photo capacity is based on iPod-viewable photos transferred from iTunes.

Apple ignited the personal computer revolution in the 1970s with the Apple II and reinvented the personal computer in the 1980s with the Macintosh. Today, Apple continues to lead the industry in innovation with its award-winning desktop and notebook computers, OS X operating system, and iLife and professional applications. Apple is also spearheading the digital music revolution with its iPod portable music players and iTunes online music store.

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NOTE TO EDITORS: For additional information visit Apple's [PR website](#), or call Apple's Media Helpline at (408) 974-2042.

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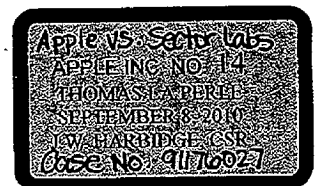
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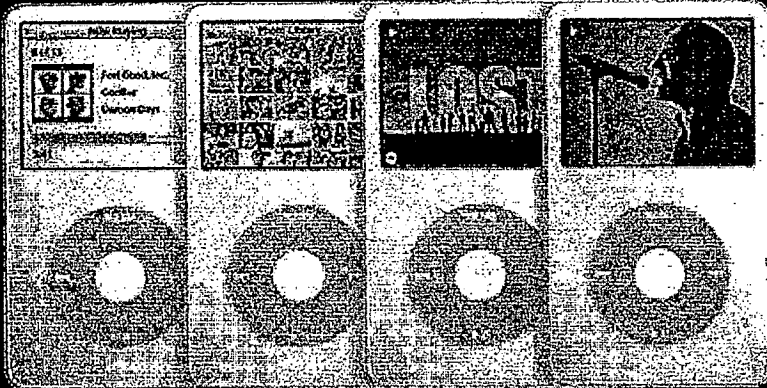
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Choose an iPod.



The new iPod  
 15,000 songs.  
 25,000 photos.  
 150 hours of video.

Witness the evolution of the revolution. First it played songs. Then photos. Then podcasts. Now iPod plays video, changing the way you experience your music and more. Again. In lighter, thinner 30GB and 60GB models starting at \$299, the new iPod is music to your eyes.

iPod pure front and pure side



**Better Yet**

Time for the world's best music player to take the stage for another encore. In 30GB and 60GB(1) models that hold up to 15,000(2) songs, full-color album art and up to 25,000 photos(3), the new iPod makes the most of your music and more. Yeah, you've heard that tune before. Only now, you can watch it, too. With support for up to 150 hours(4) of video and a 2.5-inch color display, the new iPod lets you take music videos and TV shows on the road.

**More and Less**

The new iPod boasts up to 20 hours of battery life(5), five hours more than before. Plus, you get a bigger display and one more iPod color — sleek black. But here's the kicker: At under half an inch thin, the new 30GB iPod takes up about 45 percent



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less room than the original iPod. Even the new 60GB model is 10 percent thinner than the fourth-generation 20GB iPod. More features in less space? Sounds like iPod.

### Hold Everything

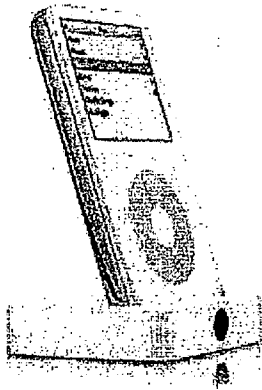
Now you can put all your music in your pocket and still have room for, well, practically everything else. Catch up on your reading with audiobooks. Browse your memories with photo slideshows, complete with music. Watch video podcasts, music videos and your favorite TV shows. Consult your calendar or look up an email address. Even check the time in another city or time your fastest lap. The new iPod keeps it all close at hand.

Stopwatch animation



### Spin Some Tunes

The Apple Click Wheel gives you access to your entire music, photo and video library — from one thumb. Control volume and browse using the touch-sensitive surface. Play. Pause. Rewind and fast-forward. Rate your favorites. Create playlists on the go. Launch photo slideshows. The Click Wheel puts everything at your fingertips, so you can keep your eyes and ears on the music.



### Sync, Look and Listen

Playing your iPod is only half the fun. Try filling it with downloads from the iTunes Music Store. Choose from over 2 million songs, 20,000 podcasts, 2,000 music videos or your favorite ABC and Disney television shows, download them to your Mac or PC and sync them to your iPod. Add an optional audio cable to play music from the iPod to your home stereo or use an optional S-video cable with iPod to play VJ on your TV. You can perform the same big-screen feat with iPod photo slideshows. Oh, and you can do it all from across the room using the optional Universal Dock and

handy new Apple remote.

### iPod Features

- Holds up to 15,000 songs(2) and full-color album art
- 30GB model is 4.1 x 2.4 x 0.43 inches; 60GB model is 4.1 x 2.4 x 0.55 inches
- Bright 2.5-inch, 320 x 240 pixel TFT display
- Up to 20 hours of battery life(5)
- Holds up to 25,000 photos(3)
- Holds up to 150 hours of video(4)
- Plays video or photo slideshows on TV via the optional Dock
- Apple Click Wheel
- Accessory-compatible Dock connector
- Dock works with the new Apple Remote
- Charges and syncs via USB
- Works with Mac OS X or Windows 2000/XP
- Syncs contacts, calendars and to-do lists

[More Features](#)

### See More of iPod



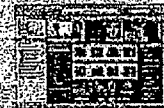
OTVR



Gallery

### iTunes 6

Now you can browse, buy and sync video to your iPod with iTunes 6. Free download.



### Support and Downloads

- [iPod Support Site](#)
- [iPod Software Updater](#)
- [Share your feedback](#)

1. 1GB = 1 billion bytes; actual formatted capacity less.
2. Song capacity is based on four minutes per song and 128-Kbps AAC encoding.
3. Photo capacity is based on iPod-viewable photos transferred from iTunes.
4. Video capacity is based on 4 minutes per H.264 750-Kbps video combined with 128-Kbps audio.
5. Up to 20 hours of battery life refers to 60GB model and music playback.

Rechargeable batteries have a limited number of charge cycles and may eventually need to be replaced. Battery life and number of charge cycles



vary by use and settings. See <http://web.archive.org/web/20051016010406/http://www.apple.com/batteries/> for more information.

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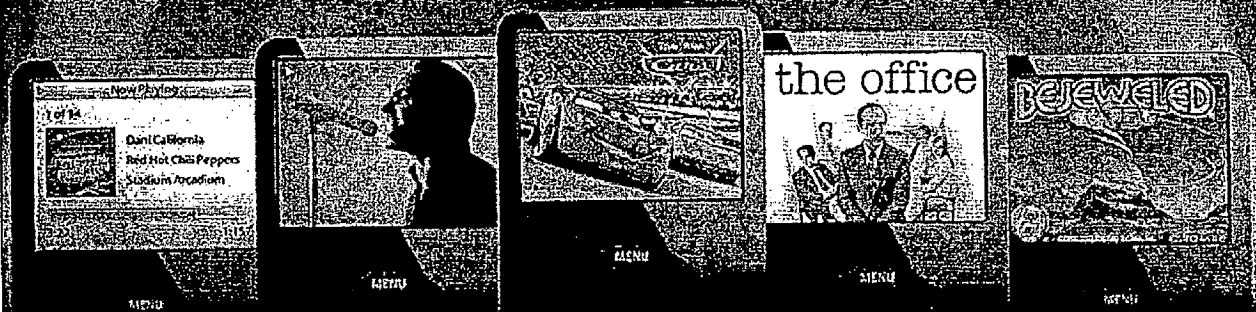
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# iPod

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## Movies, TV shows, games, and music. Now playing on an iPod near you.



Now that you can buy movies from the iTunes Store and sync them to your iPod, the whole world is your theater. With a 30GB or 80GB iPod in hand, those movies fit comfortably next to TV shows, new iPod games, podcasts, audiobooks, photo albums, and, of course, an entire library of music — up to 20,000 songs, in fact. Now starting at \$249, iPod is a pocket-size prodigy.

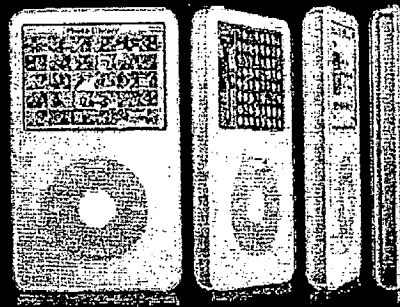
### Play all day

With all that music at your fingertips, you may never want to stop listening. Lucky thing your iPod plays audio for up to 20 hours.<sup>2</sup> Or, if you'd rather watch, you can feast your eyes on movies and TV shows for up to six-and-a-half hours.<sup>3</sup>



### Watch this space

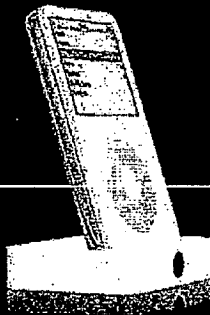
How much can your pocket hold? That's up to you and your iPod. It holds up to 20,000 songs, up to 25,000 photos, and up to 100 hours of video — or any combination of each.<sup>1</sup> So you can browse movies on the iTunes Store, download the ones you want (*Pirates of the Caribbean: The Curse of the Black Pearl*, *Washed?*), then sync it to your iPod. Same goes for TV episodes, new iPod games, 0% songs, best-selling audiobooks, and an entire universe of free podcasts, including captivating *Jeopardy!* quizzes, museums, and French chateaus. Go ahead. Fill 'er up.



### Pack light

It might be a miracle. Otherwise, it's hard to explain exactly how 30GB of storage<sup>4</sup> can fit into an iPod that's over 30% thinner than the previous fourth-generation iPod. Or how an 80GB iPod can be the

same size as the 60GB model before it. However it happened, it means you can carry your entire music collection — plus a nice selection of video — absolutely everywhere you go. And a 60% lighter, more vibrant display gives your album art, photos, and video extra oomph.



### Suit yourself

From cases to car kits, customize your iPod with accessories made especially for it. Pick up an iPod Universal Dock for more convenient syncing. Add an iPod Hi-Fi for room-filling sound. Sync photos on the go with an iPod Camera Connector. Attach a voice recorder to tap audio notes. And if you buy from the Apple Store online, you can even have your iPod engraved with your name or a message.

### Search and enjoy

Finding what you want to hear among 20,000 songs could be quite a chore — unless you have an iPod. A new interface lets you search your iPod using the patented Click Wheel. And if you're a fan of live albums, classical works, or anything that sounds best when it's continuous, iPod supports gapless playback that seamlessly transitions from one song to another.

1. Song capacity based on 4 minutes per song and 128-Kbps AAC encoding; actual capacity varies by content. Photo capacity based on iPod-viewable photos transferred from

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- iTunes. Video capacity based on H.264 1.5-Mbps video at 640-by-480 resolution combined with 128-Kbps audio; actual capacity varies by content.
- Up to 20 hours of battery life refers to 8GB models and music playback.
  - 8.5 hours of battery life refers to 8GB model and is based on H.264 1.5-Mbps video at 640-by-480 resolution combined with 128-Kbps audio. Rechargeable batteries have a limited number of charge cycles and may eventually need to be replaced. Battery life and number of charge cycles vary by use and settings. See <http://web.archive.org/web/20070630053531/http://www.apple.com/ipod/itunes/> for more information.
  - 1GB = 1 billion bytes; actual formatted capacity less.

Gifts available on iTunes in selected countries. © Disney/Fixar

### Dads & Grads Gift Guide.

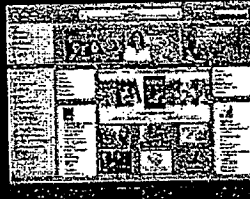
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### iTunes 7

Download iTunes 7 (free and new for macOS) to enhance your music, sync, explore, and, as always, get on it.

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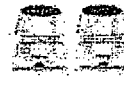
**Philips Fidelio DS7550 Portable...**  
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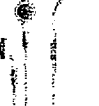

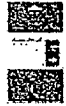





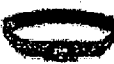








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Free Shipping  
★★★★★  
\$79.95



Incase Deluxe Travel Kit  
Ships: Within 24hrs  
\$49.95



iPod: The Missing Manual,  
8th Ed.  
Ships: Within 24hrs  
\$19.95





↑ Accessories Car Accessories

- Shop Mac
- Shop iPod
- Shop iPhone
- Shop iPad

Sort by

- Top Sellers
- Newest
- Price: Low to High
- Price: High to Low
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- Highest Rated

Shop by Type

- All iPods: ...
- iPod nano
- iPod classic
- iPod touch
- Previous iPod models



**Belkin Micro Auto Charger**  
Ships: 1-2 weeks  
★★★★☆  
\$24.95



**Griffin WindowSeat HandsFree for...**  
Ships: Within 24hrs  
★★★★☆  
\$29.95



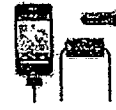
**Monster iCable 800 for iPhone and...**  
Ships: Within 24hrs  
★★★★☆  
\$19.95



**Monster iCarPlay Cassette 800 for...**  
Ships: Within 24hrs  
★★★★☆  
\$24.95



**Belkin Mini-Stereo Cable**  
Ships: Within 24hrs  
★★★★☆  
\$19.95



**Griffin iTrip Auto for iPod and...**  
Ships: Within 24hrs  
Free Shipping  
\$79.95



**Monster iCarPlay Wireless 800 FM...**  
Ships: 1-2 months  
Free Shipping  
★★★★☆  
\$79.95



**Magellan Premium Car Kit for iPhone...**  
Ships: 2-3 weeks  
Free Shipping  
★★★★☆  
\$99.95



**Belkin 2.6' Retractable Cable for...**  
Ships: Within 24hrs  
★★★★☆  
\$24.95



**Kensington Power Port Mount for...**  
Ships: Discontinued  
★★★★☆  
\$29.95



**TomTom Car Kit for iPod touch**  
Ships: Within 24hrs  
Free Shipping  
★★★★☆  
\$79.95



**Kensington Car Charger Deluxe for...**  
Ships: Discontinued  
★★★★☆  
\$49.95



**Griffin RoadTrip FM Transmitter with...**  
Ships: Within 24hrs  
Free Shipping  
★★★★☆  
\$99.95



**Belkin TuneBase Direct with Handsfree...**  
Ships: Within 24hrs  
Free Shipping  
★★★★☆  
\$69.95



**Monster iCarCharger AUX 1000 for...**  
Ships: Within 24hrs  
★★★★☆  
\$49.95



**XM SkyDock**  
Ships: Within 24hrs  
Free Shipping  
★★★★☆  
\$119.95



**Monster iCarPlay Wireless 250 FM...**  
Ships: Within 24hrs  
Free Shipping  
★★★★☆  
\$99.95



**Belkin TuneBase FM with Handsfree for...**  
Ships: Within 24hrs  
Free Shipping  
★★★★☆  
\$99.95

**Belkin TuneCast Auto Live**  
Ships: Within 24hrs



Free Shipping

\*\*\*

\$69.95

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1-800-MY-APPLE | Chat

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Shop iPod  
Shop iPhone  
Shop iPad

**Similar Products**

- Apple Remote  
★★★★★  
\$19.00
- Apple Earphones with...  
★★★★★  
\$29.00
- Apple In-Ear Headphones...  
★★★★★  
\$79.00
- Power Support Anti Glare...  
★★★★★  
\$14.95
- Nike + iPod Sport Kit  
★★★★★  
\$29.00

**Others Also Bought**

- Apple Wireless Keyboard  
★★★★★  
\$69.00
- Apple iPad Case  
★★★★★  
\$39.00
- Apple iPad Dock  
★★★★★  
\$29.00
- Apple USB Power Adapter  
★★★★★  
\$29.00
- Apple iPad Camera Connection Kit  
★★★★★

**Optoma Pico PK-101 Pocket Projector for iPhone/iPod**

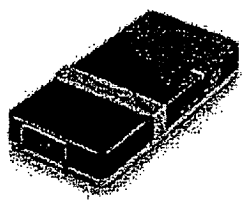


\$189.95  
Ships: Within 24hrs  
Free Shipping

Add to Cart

The smallest projector you've ever seen, the Optoma Pico PK-101 is compact enough to fit in your pocket, yet bright enough to spark your imagination. Its minimal size and serious durability make it a must-have for travel and on-the-spot presentations.

- Easily share photos and videos from mobile devices
- Project images on any surface, nearly anywhere
- Ultra-light, even including battery
- Enlarge images up to 60 in./152 cm

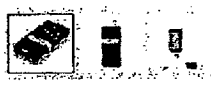


Learn more >

Questions & Answers  
28 Questions + 46 Answers



Based on 18 reviews | Write a review



Enlarge images >

Save Print

**Overview**

The latest addition to Optoma's award-winning product line, the versatile Pico PK-101 takes projector miniaturization to an entirely new level. This pocket-sized device is the perfect travel companion, allowing you to give presentations anywhere you go.

**Easy and flexible**

The bundled connection kit makes it a snap to attach the Optoma Pico to your iPhone, iPod classic or iPod touch. It also works with camcorders, dv-cams, digital cameras and other video players with standard composite AV Out.\* You can power Pico with the rechargeable battery or the power adapter.

**Amazingly compact**

The Pico Projector is small and light enough to fit in your pocket, purse or backpack, yet strong enough to display pictures, videos or presentations on most surfaces varying in size from 6 to 60 inches (15.2 to 152 cm). To achieve the desired image size, simply move the projector forwards or backwards.

**Features**

- Lets a group see photos and videos from your mobile devices
- Projects images on nearly any surface
- Ultra-light at 4 oz./113 g including battery
- Enlarge images up to 60 in./152 cm
- Vivid 1000:1 contrast ratio for great viewing
- DLP Pico technology
- LED light source lasts over 20,000 hours
- Recharge battery via USB or AC power adapter

\*Please consult the manual of the camcorder or other device to ensure that it has the correct output connection.

**Did you notice?**

The Pico is small and light enough to carry in a pocket or briefcase so you can bring it along wherever you travel.

**Apple Recommends for...**

Letting everyone in a group easily see the images, videos and other content on your iPhone, iPod or iPod touch.

**Technical specifications**

- Projection type: DLP
- Light source: LED
- Light source life: Approx. 20,000 hours
- Contrast ratio: 1000:1
- Battery type: Li-ion rechargeable (3.7V, 1100 mAh)
- Battery life: Up to 1.5 hours
- Power Input: Mini-USB connector
- AV Input: 2.5mm jack AV input (Composite video and stereo audio-in); PAL/NTSC(576i/480)
- Throw ratio: 1.9:1 (Distance/Width)
- Image size: 6 to 60 in./15 to 152 cm
- Projection distance: 10 to 102 in./25.4 to 259.1 cm
- Audio: One 0.5 W speaker
- Weight: 4 oz./114g with battery; 2.8 oz./80g without battery
- Dimensions (W x H x D): 1.97 x 0.59 x 4.06 in./50 x 15 x 103 mm

**What's in the box?**

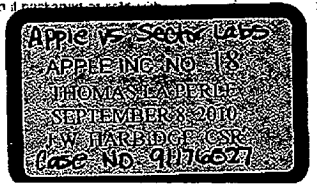
- Optoma Pico PK-101 projector
- Power adapter
- USB cable
- Tripod adapter
- Two batteries
- Standard AV cable (RCA to mini-jack)
- iPod kit with dock connector (U.S. only)
- Storage bag

**Warranty**

One-year limited parts and labor; 90 days on battery

Mo. Part No.: PK101

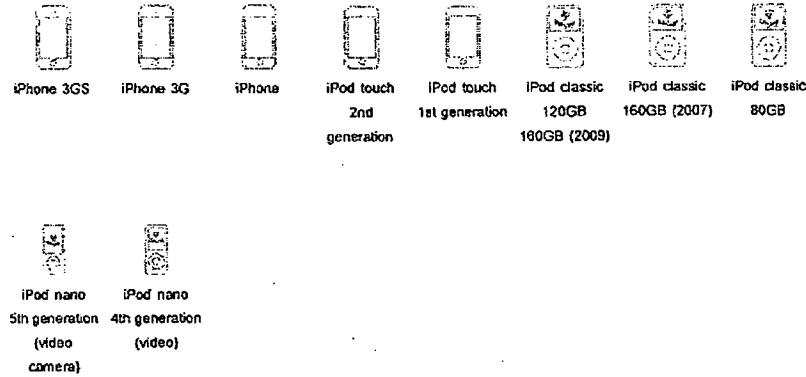
Note: Products sold through this website that do not bear the Apple Brand name are sourced and supported exclusively by their manufacturers in accordance with terms and conditions packaged with the products. Apple's Limited Warranty does not apply to products that are not Apple-branded, even if purchased at retail price.



\$29.00

Apple products. Please contact the manufacturer directly for technical support and customer service.

This accessory is compatible with the following:



Ratings & Reviews

[Write a Review](#)

★★★★★ Based on 18 reviews

Most Useful Reviews

Most Recent Reviews

★★★★★

★★★★★

**The good, the bad and the ugly**

**Order the PK102 if you want to use it with a laptop**

Written by KI from shoreline | Mar 27, 2009

Written by RC from Falmouth | May 2, 2010

The Good: Great picture. The small size is incredible and very light. The Bad: Small speaker, and the package doesn't include a...

Hooks up to iPhone with ease and works great BUT if you want to hook it up to your laptop you are out of luck. To hook up to a la...

218 of 248 people found this useful

19 of 22 people found this useful

Was this useful?

Was this useful?

★★★★★

★★★★★

**very helpful**

**ONLY outputs from youtube and the photo album**

Written by JP from san antonio | Apr 2, 2009

Written by JL from woodinville | Mar 9, 2010

Even though this product costs a lot, it is very useful when attempting to show a group of people pictures. The quality is phenom...

The projector is adequate, however it can only output video's and from Photo's in play mode. Completely useless for my purposes;...

104 of 137 people found this useful

14 of 30 people found this useful

Was this useful?

Was this useful?

★★★★★

★★★★★

**WOW**

**Great little product**

Written by MD from Pembroke Pines | Mar 26, 2009

Written by HZ from Manhattan | Feb 24, 2010

pocket Projector is something that help to use a lot graphics and present personal projection for small groups... very nice

I used it in Iraq while deployed. Other than the short battery life and the "not loud enough" speakers this product really is a g...

114 of 165 people found this useful

23 of 24 people found this useful

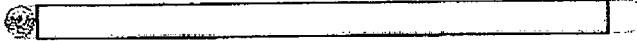
Was this useful?

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Questions & Answers



See all 28 Questions

Most Interesting

Does this device have an internal battery, or run off of the iPod/iPhone battery? Or does it come with a power adapter for a 120volt wall outlet  
2 Answers  
Asked by ZZ from El Sobrante | Jul 9, 2010

Does this work with the IPAD?  
2 Answers  
Asked by PS from Puyolup | May 5, 2010

Answer Yes it does. It works for videos, youtube and presentations with keynote. The only thing you need...More

Answered by PB from Fontenay Les Grès | Jun 8, 2010

can you hook a stereo mini jack cable from your ipod to another speaker system when using the projector?  
4 Answers  
Asked by EC from Jersey Shore | Oct 25, 2009

Answer yes you can but you need only to connect the yellow for the picture and red and white for the audio...More

Answered by TH from Charlotte | Nov 14, 2009

Recently Answered

Does this projector work with iPhone OS 4.0?  
1 Answer  
Asked by TA from Paris | Aug 2, 2010

would this work with an xbox?  
1 Answer  
Asked by WB from Lasington | Jun 1, 2010

Answer Yes, because a composite I/O is included, which is what most Xbox machines have.

Answered by KX from Arlington Heights | Jul 9, 2010

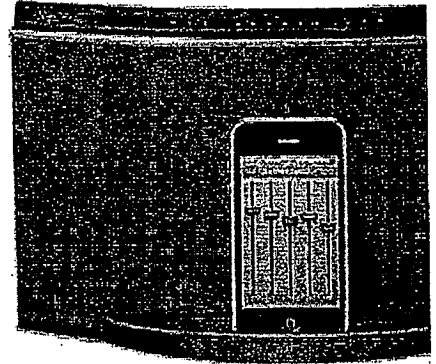
Does the Pico have keystoning correction?  
1 Answer  
Asked by NB from Calgary | May 19, 2010

Enter your email address to track questions about this product.



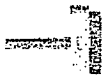
# MFi Program

Participate in the MFi licensing program to develop electronic accessories that connect to iPod, iPhone, and iPad. Licensed developers gain access to technical documentation, hardware components, technical support and certification logos.



### MFi Logos

The Made for iPod, Made for iPhone, and Made for iPad logos mean that an electronic accessory has been designed to connect specifically to iPod, iPhone, or iPad and has been certified by the developer to meet Apple performance standards.



### Technical Documentation and Hardware Components

Developers receive technical specifications describing the iPod Accessory protocol, the communication protocol used to interact with iPod, iPhone, and iPad. Developers also gain access to the hardware connectors and components that are required to manufacture iPod, iPhone, and iPad accessories.



### Technical Support and Compatibility

Developers have access to Developer Technical Support and Compatibility Labs to assist in product development and testing.

### Program Benefits

- Technical Information ✓
- Hardware connectors and components ✓
- Testing Tools ✓
- Technical Support ✓
- Product Certification ✓
- MFi Logos ✓
- iPod, iPhone, and iPad compatibility icons ✓

Apply Now

Sign In



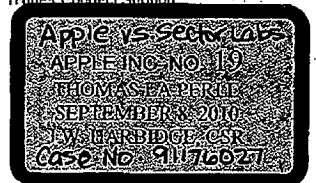
### iOS Accessories

To design iOS apps that communicate with accessories connected through the 30-pin dock connector or Bluetooth, join the iPhone Developer Program.



### iPod, iPhone, and iPad Cases

If you are designing a carrying case for iPod, iPhone, or iPad, download dimensional drawings for current and past products and get access to compatibility icons.





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- VIEWSONIC DELIVERS DIGITAL SIGNAGE SOLUTIONS AT INFOCOMM 2009
- VIEWSONIC EXTENDS PROJECTOR OFFERINGS WITH THREE NEW 12015/13D-ENABLED DLP PRODUCTS
- VIEWSONIC ANNOUNCES NEW ERGONOMIC WIDESCREEN LCD MONITORS
- VIEWSONIC ENHANCES DIGITAL PHOTO VIEWING WITH TRUEVIEW LINE OF DIGITAL PHOTO FRAMES
- VIEWSONIC ANNOUNCES WORLDWIDE 3G SMARTPHONE INITIATIVE
- VIEWSONIC SHIPS ALL-IN-ONE PC/FIRST MODEL OF COMPUTER INITIATIVE
- VIEWSONIC'S MULTIPICO PROJECTOR COMBINES PORTABILITY AND IMAGE QUALITY FOR ON-THE-GO PERFORMANCE
- VIEWSONIC EXPANDS HDTV LINEUP WITH THE LAUNCH OF SIX NEW LCD TV'S
- VIEWSONIC BROADENS BREADTH OF DLP AND LCD PROJECTOR FAMILIES
- VIEWSONIC DEBUTS FIRST 24-INCH WIDESCREEN FULL HDTV IDEAL FOR THE OTHER ROOM
- VIEWSONIC SHOWCASES NEW ULTRA-THIN BEZEL COMMERCIAL DISPLAY AND FIRST MULTIMEDIA HDTV AT DIGITAL SIGNAGE EXPO

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## VIEWSONIC SUPER SIZES DIGITAL CONTENT WITH WORLD'S FIRST FULLY-FEATURED, HIGH DEFINITION, DLP® PROJECTOR WITH INTEGRATED IPOD DOCK

PJ258D Expands Consumers' Views While Providing Style, Versatility and Performance in a Palm-Sized Device

**LAS VEGAS, Jan. 8, 2007** – Incorporating its innovative ViewDock™ technology across another product line, ViewSonic Corp. today announced the world's first High Definition, fully-featured, multifunction, "Made for iPod," DLP® front projector. The PJ258D brings new digital lifestyle entertainment options to iPod® enthusiasts with video by giving them the portable display technology to take viewing experiences from "pocket" size to life-size, without the need of a computer.

Studies have shown that iPod users are three times as likely to download video clips, movies and Web casts to their computers, making the PJ258D perfect for sharing personal media content. Mimicking the sleek design of the iPod and weighing less than 4 pounds, the PJ258D is a portable powerhouse ideal for teens, young adults, home theater enthusiasts, and business professionals looking to bring the benefits of their digital media content to any environment from living room walls and basements, to well-lit hotel rooms and conference rooms.

Much like the iPod, the PJ258D was designed with ease of use and versatility in mind. The docking station connects the iPod with video directly to the projector to eliminate the need for a computer to project video content. In addition, it charges the iPod's battery while digital content is being played to make hours of entertainment possible. The projector also supports other popular digital media through its multiple connectivity options, including S-Video and VGA, which enable users to quickly connect to PCs, DVD players and video game consoles.

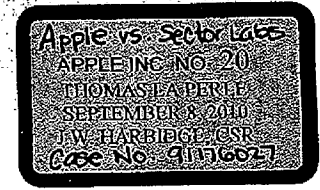
"Advances in digital technology have produced a new generation of consumers who want their information and entertainment to be as instant as mobile and as real as they are," said Jeff Volpe, vice president of marketing, ViewSonic Americas. "The PJ258D is ViewSonic's latest example of how innovative technology can meet these demands to continually redefine how people access, view and bond over sharing favorite content."

Built on Texas Instruments' award-winning DLP platform, the PJ258D boasts a sharp 1024x768 XGA resolution, 2,000 lumens of brightness and a 2000:1 contrast ratio to deliver bright, crisp pictures and video playback in any setting.

The PJ258D will be available in Q1 through authorized ViewSonic professional audio-visual resellers, distributors and solution providers for an estimated street price of \$999. The projector will be sold with ViewSonic's superior customer support program that includes a three-year limited product warranty, 24/7 technical support and one year of Express Exchange® service.

ViewSonic Corporation  
800.968.8583 or 909.444.8883

Trademarks: All corporate names and trademarks are the property of their respective companies.



Birds

at no additional charge. ViewSonic also provides a one-year lamp warranty.

For more information on ViewSonic projectors or to locate an authorized ViewSonic dealer, visit [www.ViewSonic.com/projectors](http://www.ViewSonic.com/projectors) or call 800.888.8583.

#### About ViewSonic

ViewSonic® Corp., a worldwide leader in visual display products, allows users to "See the Difference™" by offering comprehensive display solutions for today's business, education and consumer electronics markets. The company's products have won more than 2,000 awards globally from independent publications and organizations.

Headquartered in Walnut, Calif., ViewSonic was founded in 1987 and is a privately held corporation. For further information, please contact ViewSonic Corp. at tel: 800.888.8583 or 909.869.7976; fax: 909.468.7336; or [www.ViewSonic.com](http://www.ViewSonic.com).

#### Forward-looking Statements

*This press release contains forward-looking statements, including all statements relating to the performance expectations of ViewSonic products, business opportunities or financial performance. These statements are subject to risks and uncertainties that could cause actual results to be materially different than expectations. Such risks and uncertainties include, but are not limited to, ViewSonic's dependence on third-party manufacturers; its need to maintain and expand its sales channels; market acceptance of ViewSonic's products; general industry trends, including cyclical trends in the PC and visual display industries; and the impact of competitive products and pricing alternatives. Investors are advised to read ViewSonic's Form 10 filed with the Securities and Exchange Commission, particularly the section entitled "Factors that May Affect ViewSonic's Business and Financial Results."*

*Undue reliance should not be placed on these forward-looking statements, which speak only as of the date of this press release. All forward-looking statements are qualified in their entirety by this cautionary statement, and ViewSonic undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date hereof.*

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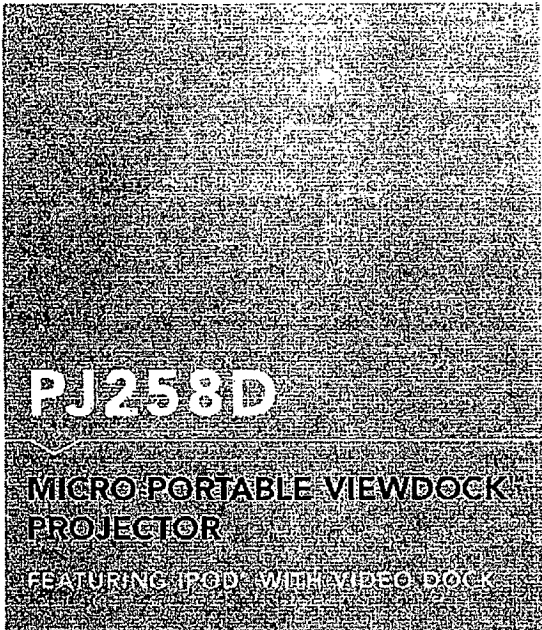
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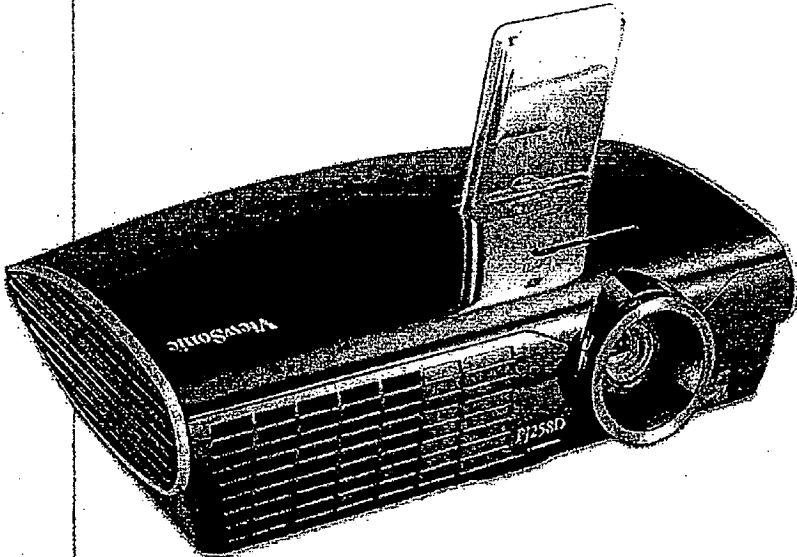
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## Digital lifestyle iPod® projector

ViewSonic's PJ258D ViewDock™ projector sets the bar for digital lifestyle projectors for work and play by converging entertainment excitement with professional practicality. The integrated iPod dock lets you PROJECT CONTENT DIRECTLY FROM YOUR IPOD WITH VIDEO for larger-than-life pictures and videos. The array of projector connectivity options allows you to connect a PC, DVD player, game consoles, and more. The PJ258D uses Texas Instruments DLP® technology for RAZOR SHARP DIGITAL IMAGES and brilliantly displays 2,000 lumens for use in virtually any setting. Its stylishly contoured design is sophisticated for the contemporary professional on the go and the entertainment aficionado by night. Your projector doesn't have to be lackluster anymore as ViewSonic's PJ258D ViewDock™ elevates the status of your digital lifestyle.



*iPod sold separately*

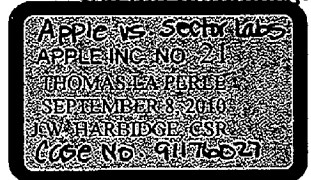
### LIFE-SIZE YOUR IPOD

- > Bright in virtually any setting with 2,000 lumens  
Packs 2,000 lumens in just 2.9 lbs. It's the bright choice for mobile presenters.
- > Life-size your iPod® with video  
Dock and charge your iPod with video in the projector's docking station. Share your videos, podcasts, games and presentations in larger-than-life fashion.
- > DLP® technology  
Stunning all-digital clarity delivers lifelike color, sharp graphics, and outstanding video.
- > Ultimate video source flexibility  
Connect a computer or add a video source for dynamic meetings and presentations.
- > Supports HD signals including 720p and 1080i  
Capable of displaying HD signals as well as other video and data sources.
- > Unplug and go  
Direct off feature lets you unplug the projector and go.
- > The best warranty in the business  
Covered by a three-year parts and labor limited warranty, first-year Express Exchange® and one-year limited lamp warranty.\*\*



**VIEWSONIC**  
PRODUCTS, PROGRAMS,  
AND SERVICES

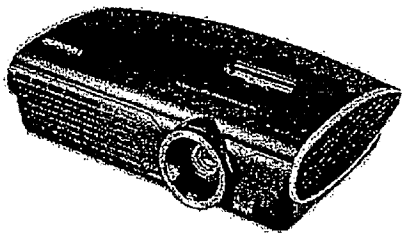
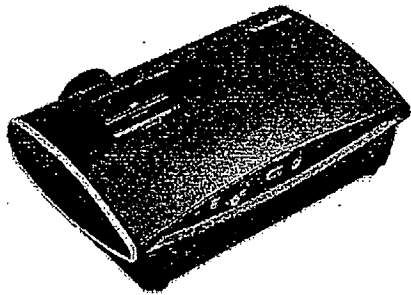
**ViewSonic®** See the difference® 



APD0005211

# PJ258D

## MICRO-PORTABLE VIEWDOCK™ PROJECTOR WITH IPOD® DOCK



### Optional Accessories

- Replacement lamp ..... RLC-025
- Rolling soft case with notebook bag ..... CASE-006
- Extended Express Exchange® ..... PRJ-EE-03-03
- VGA to component video adapter ..... ADPT-002
- Wireless G presentation adapter ..... WPG-100

<b>PROJECTOR</b>	Type	0.55" DMD, DLP*
	Pixel Format	1024x768 XGA
	Lens	Manual zoom, manual focus
	Zoom Factor	1.2
<b>DISPLAY</b>	Keystone	Vertical ± 15°
	Size	40"–300" (diagonally)
	Throw Distance	32.4"–468"
	Throw Ratio	1.94-2.27:1
	Lamp	200W, 2,000 hours normal, up to 3000** hours eco
	Brightness	2,000 ANSI lumens (max)
<b>AUDIO</b>	Speakers	1x1-watt
	<b>INPUT SIGNAL</b>	Computer and Video
Frequency		F <sub>H</sub> : 31.5–79.3kHz; F <sub>V</sub> : 50–65Hz
<b>COMPATIBILITY</b>	PC	Analog: from VGA to SXGA (scaled)
	Mac**	Analog: to SXGA (may require a Mac adapter)
<b>CONNECTOR</b>	RGB (input)	15-pin HD, D-sub cable
	Composite Video (input)	RCA jack (x1)
	S-Video (input)	Mini-Din 4-pin (x1)
	Component Video (input)	VGA to RCA component adapter* (optional)
	iPod	Dock
<b>POWER</b>	Voltage	100–240 VAC, 50/60Hz (universal)
	Consumption	280W (typ)
<b>CONTROLS</b>	Basic	Standby/On, input, menu
	OnView®	Display (mode, brightness, contrast, white intensity, color temp, saturation), management (menu location, projection, keystone, source lock, high altitude, transluence, reset), frequency, phase, H. position, V. position, degamma, aspect ratio, V. shift 16:9, OSD language, color setting, lamp setting
<b>OPERATING CONDITIONS</b>	Temperature	32°–104°F (0–40°C)
	Humidity	10–90% (non-condensing)
<b>NOISE LEVEL</b>	Normal	37 dB (typ)
	Whisper Mode	34 dB (typ)
	<b>DIMENSIONS</b>	Physical (mm)
(W x H x D)	Physical (in.)	11.3" x 7.5" x 3.5"
<b>WEIGHT</b>	Net	3.9 lb. (1.8 kg)
	Gross	10.1 lb. (4.6 kg)
<b>REGULATIONS</b>		UL, C-UL, FCC-B, CB, CE, TUV/GS, CCC, PSB, NOM
<b>OTHER</b>		Whisper mode, iPod dock, optical zoom, wireless remote control, soft carrying case, progressive scan, direct off for unplug and go, daylight mode
<b>PACKAGE CONTENTS</b>		iPod dock, projector, power cords, VGA cable, RCA video cable, remote control, soft case, lens cap, ViewSonic Wizard CD, Quick Start Guide
<b>WARRANTY</b>		Three-year limited warranty on parts and labor, first-year Express Exchange® Service. One-year limited warranty on lamp***



ViewSonic Corporation • 381 Brea Canyon Road, Walnut, CA 91789

Customer Service and Technical Support: (800) 688-6688 • Sales: (888) 881-8781 • SalesInfo@ViewSonic.com • ViewSonic.com

\*Optional cables required. \*\*Running whisper-mode exclusively can extend lamp life. \*\*\*ViewSonic.com for full details. Adapter may be required. Analog adapter available from ViewSonic. Specifications subject to change without notice. Sales and offers vary by country. See your ViewSonic representative for complete details. DLP is a registered trademark of Texas Instruments Inc. in the United States and other countries. Corporate names, trade marks listed herein are the property of their respective companies. Copyright © 2007 ViewSonic Corporation. All rights reserved. (13471-008-1) 007 PJ258D-1

**ViewSonic**   
See the difference®

For more product information, visit us on the web at [ViewSonic.com](http://ViewSonic.com)

APD0005212

# MICROVISION SHOWWX™ LASER PICO PROJECTOR

COMPATIBILITY | SPECS | FAQ | SUPPORT

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## OVERVIEW



Special Back-to-School Pricing

**\$449**

LEARN MORE >>

Relax and enjoy beautiful photos  
from your iPod touch.

Actual photo of the SHOWWX in use.

It's here. The world's first laser pico projector. Amplify yourself with the SHOWWX laser pico projector. The SHOWWX projects big, bright, and colorful images that are always in focus, yet it is small enough to fit in your pocket.

Connect the SHOWWX to a video output-capable device to spontaneously share photos and videos, presentations and more, for a big screen experience.

### Features:

- » Always in focus: you never, ever have to adjust focus
- » Sharp and clear images on any surface from 6 inches or less to 200 inches or more
- » Rich and vivid laser colors amplify your photos, videos and presentations
- » Wide projection angle delivers a big image (1:1 throw ratio)
- » High resolution (WVGA 848x480) brings out every detail
- » Widescreen (16:9) aspect ratio enables you to experience content the way it was meant to be
- » Sleek contours feel great in your hand; slim enough to put in your pocket
- » Plug-n-play compatibility enables quick and easy operation with your device



VISIT THE  
MICROVISION  
ONLINE STORE



» [Movie-capable battery that lasts 90-120 minutes on a single charge](#)

[Download Brochure \(PDF\) >](#)

[See the full technical specifications of SHOWWX >](#)

#### SHOWWX Works with a Variety of Devices

» [Connect a SHOWWX to the following types TV-out capable electronics products:](#)



[Learn more about SHOWWX compatibility with the electronics products you own >](#)

[back to top](#)



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United States Patent and Trademark Office

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Trademarks > Trademark Electronic Search System (TESS)

TESS was last updated on Fri Aug 27 04:05:47 EDT 2010

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Logout Please logout when you are done to release system resources allocated for you.

Start List At: OR Jump to record:

4 Records(s) found (This page: 1 ~ 4)

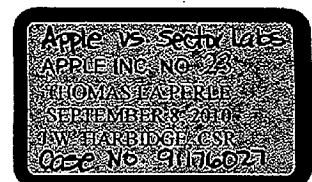
Refine Search ("ipod")[fm] and (not (apple)[on]) and (009)[i] Submit

Current Search: S8: ("ipod")[fm] and (not (apple)[on]) and (009)[ic] docs: 4 occ: 4

	Serial Number	Reg. Number	Word Mark	Check Status	Live/Dead
1	76339149	2758099	IPOD	TARR	DEAD
2	76090687		IPOD	TARR	DEAD
3	75854960		IPOD	TARR	DEAD
	5718637		IPOD	TARR	DEAD

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# Guidelines for Using Apple Trademarks and Copyrights

(Formerly entitled Guidelines for Third Parties Using Apple Trademarks and Copyrights)

These guidelines are for Apple licensees, authorized resellers, developers, customers, and other parties wishing to use Apple's trademarks, service marks or images in promotional, advertising, instructional, or reference materials, or on their web sites, products, labels, or packaging. Use of the "keyboard" Apple Logo (Option-Shift-K) for commercial purposes without the prior written consent of Apple may constitute trademark infringement and unfair competition in violation of federal and state laws. Use of Apple trademarks may be prohibited, unless expressly authorized.

If you are a licensee of an Apple trademark or logo and have been provided with special trademark usage guidelines with your license agreement, please follow those guidelines. If your license agreement does not provide usage guidelines, then follow these guidelines. If you are an Apple Authorized Reseller or member of an Apple program, you may be subject to additional restrictions.

Apple's trademarks, service marks, trade names, and trade dress are valuable assets. In following these guidelines, you help us protect our valuable trademark rights and strengthen our corporate and brand identities. By using an Apple trademark, in whole or in part, you are acknowledging that Apple is the sole owner of the trademark and promising that you will not interfere with Apple's rights in the trademark, including challenging Apple's use, registration of, or application to register such trademark, alone or in combination with other words, anywhere in the world, and that you will not harm, misuse, or bring into disrepute any Apple trademark. The goodwill derived from using any part of an Apple trademark exclusively inures to the benefit of and belongs to Apple. Except for the limited right to use as expressly permitted under these Guidelines, no other rights of any kind are granted hereunder, by implication or otherwise. If you have any questions regarding these guidelines, please talk to your Apple representative or send an e-mail to Apple's Trademark Department at [appletm@apple.com](mailto:appletm@apple.com).

## Authorized Use of Apple Trademarks

1. Advertising, Promotional, and Sales Materials: Only Apple and its authorized resellers and licensees may use the Apple Logo in advertising, promotional, and sales materials. Apple Authorized Resellers may use the Apple Logo only as specified in their reseller agreement and the [Apple Corporate Identity Guidelines for Resellers](#) and such use must always be in conjunction with the appropriate terms that define the relationship authorized by their contract with Apple. For example:

Authorized Reseller

Authorized Value Added Reseller

Authorized Service Provider

Authorized Wholesaler

2. Compatibility: Developers may use Apple, Macintosh, iMac, or any other Apple word mark (but not the Apple Logo or other Apple-owned graphic symbol/logo) in a referential phrase on packaging or promotional/advertising materials to describe that the third party product is compatible with the referenced Apple product or technology, provided they comply with the following requirements.

- The Apple word mark is not part of the product name.
- The Apple word mark is used in a referential phrase such as "runs on," "for use with," "for," or "compatible with."
- The Apple word mark appears less prominent than the product name.
- The product is in fact compatible with, or otherwise works with, the referenced Apple product.

## Additional Information

End User Software License Agreements

Hardware Warranties

iPhone Warranty

Original iPhone

iPhone 3G

Privacy Policy

iTunes Store Terms

Sales Policies

Apple Global Online Support site (AGOS)

Apple Online Store

Apple Online Store for K12 Schools

Apple Online Store for Higher Education

Retail Store

Apple Online Store for Education Individuals

Apple Authorized U.S. Reseller

Service Products

AppleCare Protection Plan for i11-Learning Solutions (PDF)

AppleCare Service Plan

AppleCare Protection Plan

AppleCare Protection Plan for iPhone

AppleCare Protection Plan for iPad

AppleCare Repair Agreement

AppleCare Parts Agreement

Bomgar Remote Support Software

AppleCare Premium Service and Support Plan Terms and Conditions

AppleCare Technical Support Services Terms and Conditions

Remote Support Terms and Conditions

(Bomgar Software) (PDF)

Terms of Service

Web Site Terms and Conditions of Use

Apple Print Services Terms of Use

Apple Print Services Sales Policies & Ordering Information

MobileMe Terms of Service

Work.com Public Beta Terms of Service

One to One Terms and Conditions

ProCare Terms and Conditions

iChat Account Terms of Service

iTunes Store Terms of Service

iTunes Store Gift Certificates and Allowances Terms and Conditions

iTunes Store Terms of Sale

Discussions Terms and Conditions

Repair Terms and Conditions

iPhone Service

Retail Store Service

General Service (English)

General Service (Dutch)

General Service (Spanish)

General Service (Italian)

General Service (Japanese)

General Service (German)

General Service (Swedish)

General Service (French)

Advance Replacement Service for iPhone

In Warranty Terms and Conditions

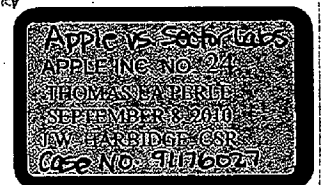
Out of Warranty Terms and Conditions

Training Service Terms and Conditions

Policies

Unsolicited Idea Submission Policy

Privacy Policy



e. The reference to Apple does not create a sense of endorsement, sponsorship, or false association with Apple or Apple products or services.

f. The use does not show Apple or its products in a false or derogatory light.

3. Publications, Seminars, and Conferences: You may use an Apple word mark in connection with book titles, magazines, periodicals, seminars, or conferences provided you comply with the following requirements:

a. The use is referential and less prominent than the rest of the title. Acceptable: XYZ CONFERENCE for Macintosh Computer Users

b. The use reflects favorably on both Apple and Apple products or technology.

c. Your name and logo appear more prominent than the Apple word mark on all printed materials related to the publication, seminar or conference.

d. The Apple logo or any other Apple-owned graphic symbol, logo, icon or image does not appear on or in the publication or on any materials related to the publication, seminar, or conference without express written permission from Apple.

e. A disclaimer of sponsorship, affiliation, or endorsement by Apple, similar to the following, is included on the publication and on all related printed materials: "(Title) is an independent (publication) and has not been authorized, sponsored, or otherwise approved by Apple Inc."

f. A trademark attribution notice is included in the credit section giving notice of Apple's ownership of its trademark(s). Please refer to the section below titled "Proper Trademark Notice and Attribution."

4. Web Sites: Web sites that serve only as noncommercial electronic informational forums concerning an Apple product or technology may use the appropriate Apple word mark, provided such use complies with the guidelines set forth in Section 3 above.

5. Apple Web Badge Licensing Program: Web sites may use one of the Apple Web Badges if the site uses or was created using Apple-branded hardware or software and you comply with the terms of the Apple Web Badges License Agreement and Guidelines. For licensing information on the Apple Web Badges Licensing Program refer to Apple's web site at [www.apple.com/about/webbadges](http://www.apple.com/about/webbadges).

#### Unauthorized Use of Apple Trademarks

1. Company, Product, or Service Name: You may not use or register, in whole or in part, Apple, iPod, iTunes, Macintosh, iMac, or any other Apple trademark, including Apple-owned graphic symbols, logos, icons, or an alteration thereof, as or as part of a company name, trade name, product name, or service name except as specifically noted in these guidelines.

2. Apple Logo and Apple-owned Graphic Symbols: You may not use the Apple Logo or any other Apple-owned graphic symbol, logo, or icon on or in connection with web sites, products, packaging, manuals, promotional/advertising materials, or for any other purpose except pursuant to an express written trademark license from Apple, such as a reseller agreement.

3. Variations, Takeoffs or Abbreviations: You may not use an image of a real apple or other variation of the Apple logo for any purpose. Third parties cannot use a variation, phonetic equivalent, foreign language equivalent, takeoff, or abbreviation of an Apple trademark for any purpose. For example:

Not acceptable: Appletree Jackintosh Apple Cart PodMart

4. Disparaging Manner: You may not use an Apple trademark or any other Apple-owned graphic symbol, logo, or icon in a disparaging manner.

5. Endorsement or Sponsorship: You may not use Apple, Macintosh, iMac, or any other Apple trademark, including Apple-owned graphic symbols/logos, or icons, in a manner that would imply Apple's affiliation with or endorsement, sponsorship, or support of a third party product or service.

6. Merchandise Items: You may not manufacture, sell or give-away merchandise items, such as T-shirts and mugs, bearing Apple, Macintosh, iMac or any other Apple trademark, including symbols, logos, or icons, except pursuant to an express written trademark license from Apple.

#### Trademark, Copyright and Intellectual Property

Trademark List

Copyright

Apple Web Badges

Privacy Prevention

Guidelines for Trademarks and Copyrights

FileMaker: Legal Information

NeXT Trademark List

Training and Certification Agreements and Policies

Legal Contacts

Export Compliance

Supplier Provisions

7. Apple's Trade Dress: You may not imitate the distinctive Apple packaging, web site design, logos, or typefaces.

8. Slogans and Taglines: You may not use or imitate an Apple slogan or tagline.

For example: "Think different."

9. Domain Names: You may not use an identical or virtually identical Apple trademark as a second level domain name.

Not acceptable: "imac.com" "imacapple.com" "imac-apple.com" "podmart.com"

#### The Mac Trademark

1. You may not use the Mac trademark standing alone except to denote or refer to the Apple Macintosh product line.

2. You may use "Mac" in your product name, company name, trade name, or service name provided your name satisfies the following criteria:

- a. Your product is not a computer, computer system, or operating system software.
- b. Your product is Mac compatible or the third party business is associated with Mac based computers.
- c. "Mac" is used in combination with another non-generic word.

Acceptable: MacVenus MacCharlie

Not acceptable: MacCharleston MacSales

d. "Mac" does not appear more prominently than the rest of the name in size, color, or typeface.

e. Your name does not suggest a false association with Apple.

f. Your name is not confusingly similar to any trademark owned or used by Apple.

g. You acknowledge that Apple is the sole owner of the "Mac" trademark and that you will not interfere with Apple's use or registration of "Mac" alone or in combination with other words.

h. If you are an Apple Authorized Reseller or member of an Apple program, you may be subject to additional restrictions.

#### Rules for Proper Use of Apple Trademarks

1. Trademarks are adjectives used to modify nouns; the noun is the generic name of a product or service.

2. As adjectives, trademarks may not be used in the plural or possessive form.

Correct: I bought two Macintosh computers.

Not Correct: I bought two Macintoshes.

3. An appropriate generic term must appear after the trademark the first time it appears in a printed piece, and as often as is reasonable after that. Suggested generic terms are provided in the [Apple Trademark List](#) which is posted on the Apple web site at: [www.apple.com/legal/trademark/appietmlist.html](http://www.apple.com/legal/trademark/appietmlist.html).

4. Always spell and capitalize Apple's trademarks exactly as they are shown in the [Apple Trademark List](#). Do not shorten or abbreviate Apple product names. Do not make up names that contain Apple trademarks.

#### Proper Trademark Notice and Attribution

1. Distribution Within the United States Only



- a. On product, product documentation, or other product communications that will be distributed only in the United States, use the appropriate trademark symbol (TM, SM, ®) the first time the Apple trademark appears in the text of the advertisement, brochure, or other material.
- b. Refer to the Apple Trademark List for the correct trademark symbol, spelling of the trademark, and generic term to use with the trademark. Generally, the symbol appears at the right shoulder of the trademark (except the Apple Logo, where the logo appears at the right foot).
- c. Include an attribution of Apple's ownership of its trademarks within the credit notice section of your product, product documentation, or other product communication.

Following are the correct formats:

\_\_\_\_\_ and \_\_\_\_\_ are registered trademarks of Apple Inc.

\_\_\_\_\_ and \_\_\_\_\_ are trademarks of Apple Inc.

## 2. Distribution Outside the United States:

a. Do not use trademark symbols on products, product documentation, or other product communications that will be distributed outside the United States.

b. Use one of the following international credit notices:

\_\_\_\_\_ is a trademark of Apple Inc., registered in the U.S. and other countries.

\_\_\_\_\_ is a trademark of Apple Inc.

## Depictions of Apple Products

1. Endorsement or Sponsorship: Apple does not support the use of its logos, company names, product names, or images of Apple products by other parties in marketing, promotional or advertising materials as their use may create the perception that Apple endorses or sponsors the product, service or promotion.
2. Compatibility: If you are a developer, you may show an image of an Apple product in your promotional/advertising materials to depict that your product is compatible with, or otherwise works with, the Apple product or technology, provided you comply with the following requirements:
  - a. Your product is in fact compatible with, or otherwise works with, the referenced Apple product.
  - b. The image is an actual photograph of the genuine Apple product and not an artist's rendering (Note: You must obtain express written permission from Apple before using any photograph owned or licensed by Apple).
  - c. The Apple product is shown only in the best light, in a manner or context that reflects favorably on the Apple products and on Apple Inc.
  - d. The reference to Apple does not create a sense of endorsement or sponsorship by, or other false association with, Apple or Apple products.

For further information with respect to Apple's copyrights, send an email to [copyright@apple.com](mailto:copyright@apple.com) or fax to Apple Rights & Permissions 408-253-0186.

Updated January 11, 2007 by the Apple Legal Team - [appletrn@apple.com](mailto:appletrn@apple.com)

 Legal Trademark, Copyright and Intellectual Property Copyright and Trademark Guidelines

op the Apple Online Store (1-800-MY-APPLE), visit an Apple Retail Store, or find a reseller.

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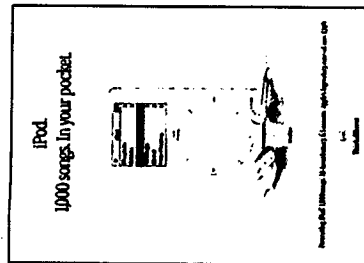


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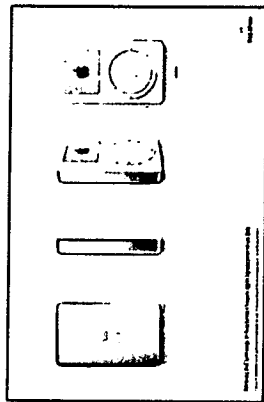


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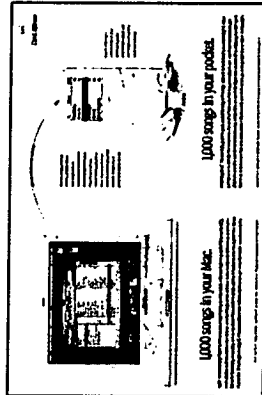
2001



Publication	Date
Business Week	11/24/01
Business Week	12/10/01
Entertainment Week	12/21/01
ESPN Mag	12/24/01
Fortune	12/24/01
New Yorker	12/03/01
Newsweek	12/03/01
Newsweek	12/10/01
Sell	12/01/01

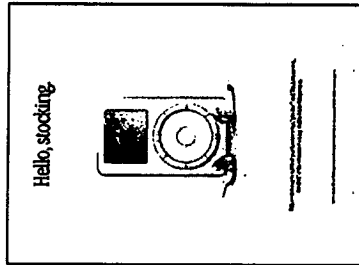


Publication	Date
Entertainment Weekly	11/30/01
GQ	12/01/01
ID	12/01/01
Metropol	12/01/01
Suffance	12/01/01
Wallpaper	12/01/01

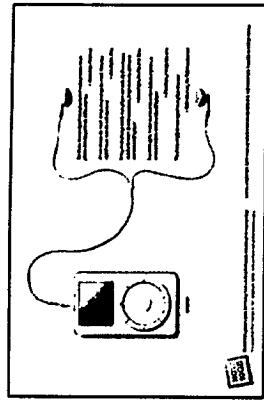


Publication	Date
Entertainment Week	11/16/01
Entertainment Week	12/7/01
New Yorker	12/10/01
Newsweek	11/19/01
Outside	3/1/02
Premiere	3/1/02
Rolling Stone	12/27/01
Sports Illustrated	12/3/01
Sports Illustrated	12/17/01

2002



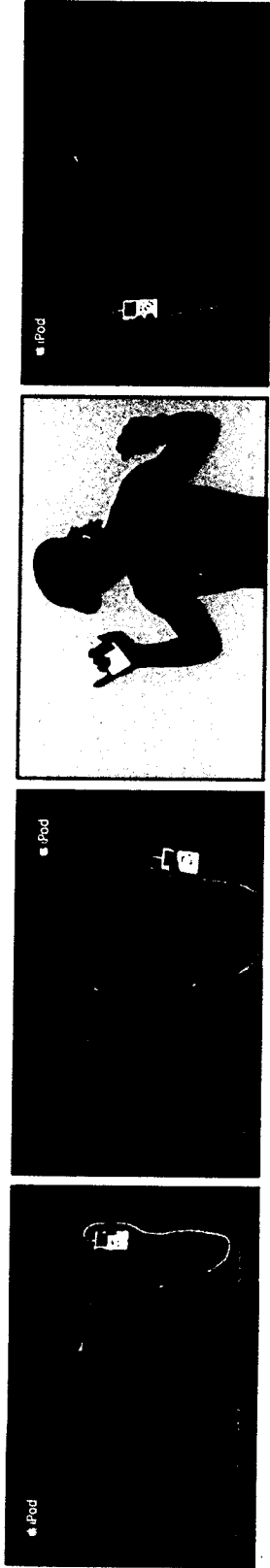
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Business Week	11/25/02
Business Week	12/09/02
Entertainment Week	12/20/02
ESPN Mag	12/23/02
Martha Stewart Mag	12/01/02
New Yorker	12/02/02
Newsweek	12/02/02
Newsweek	12/09/02
Rollingstone	11/28/02



Publication	Date
Fast Company	6/01/02
Mac Addict	6/01/02
Mac World	6/01/02
Martha Stewart Mag	6/01/02
Outside	7/01/02
Spin	7/01/02
Time	5/06/02
Vibe	7/01/02
Yahoo Insider	6/01/02

Apple vs. Sector Labs  
 APPLE INC. NO. 25  
 THOMAS LA PERLE  
 SEPTEMBER 8, 2010  
 J.W. HARBIDGE, CSR  
 Case NO. 91176027

# ipod print 2003



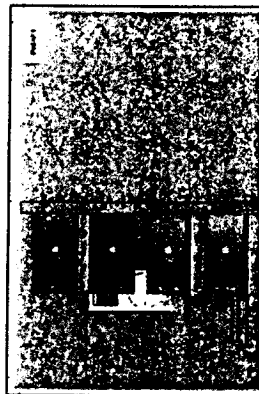
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Billboard	9/23/03
Connafr	10/01/03
Entertainment Weekly	10/24/03
ID	11/01/03
Macworld	10/01/03
Newsweek	10/13/03
Oprah	11/01/03
Rollingstone	11/13/03
Shape	11/01/03

Publication	Date
Entertainment Weekly	9/05/03
Fast Company	11/01/03
Outside	11/01/03
PC World	10/01/03
Real Simple	11/01/03
Source	11/01/03
Spin	11/01/03
Wired	11/01/03

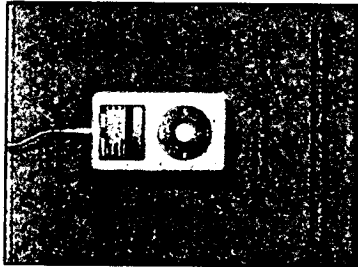
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Details	10/01/03
Entertainment Weekly	10/10/03
ESPN Mag	9/29/03
CQ	10/01/03
Mens Journal	11/01/03
Metropol	11/01/03
PC Mag	10/28/03
Rollingstone	9/18/03
Sound & Vision Mag	11/01/03

Publication	Date
Fodor	12/01/03
Freeze	12/01/03
New Yorker	10/06/03
Outside	12/01/03
PC World	11/01/03
Rollingstone	10/02/03
Spin	12/01/03
Sports Illustrated	9/08/03
Time	10/04/03

# ipod print 2004



Publication	Date
Rolling Stone	3/13/04

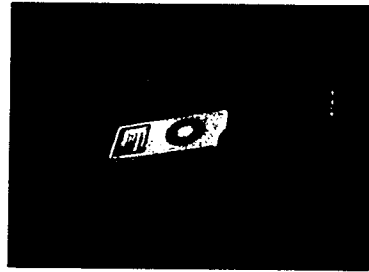


Publication	Date
Entertainment Week	7/24/04
National Geographic	11/1/04
New Yorker	8/30/04
Newsweek	8/16/04
Newsweek	7/20/04
Organic Style	11/1/04
Sports Illustrated	8/9/04
Time	8/2/04
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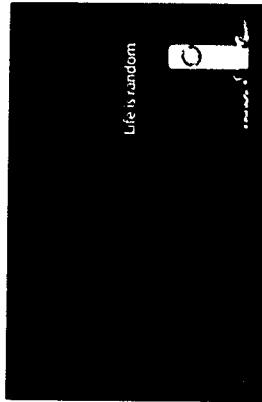
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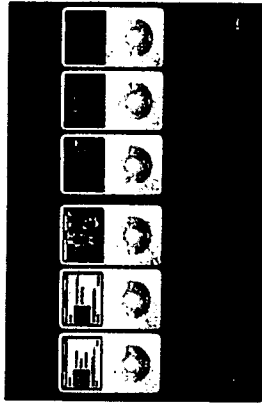
Publication	Date
Blender	7/1/05
Budget Traveller	7/1/05
Cargo	7/1/05
Conde Nast Traveller	7/1/05
Elle	7/1/05
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ESPN	5/23/05



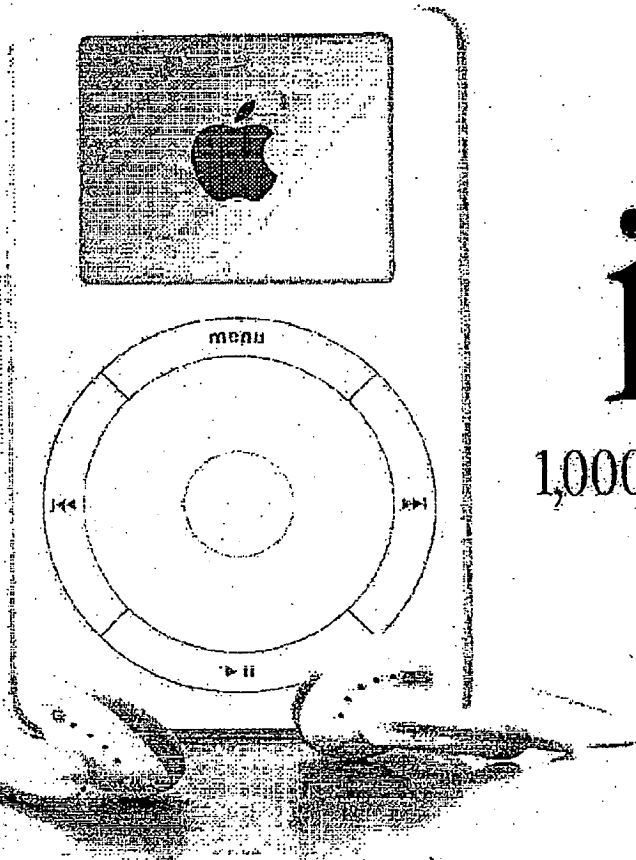
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Businessweek	9/26/05
Entertainment Week	9/23/05
New Yorker	9/19/05
New Yorker	10/23/05
Newsweek	9/19/05
Newsweek	10/10/05
NY Times Mag	10/9/05
Premiere	11/1/05
SoB	11/1/05



Publication	Date
Allure	3/1/05
Allure	3/1/05
Budget Traveller	3/1/05
Budget Traveller	3/1/05
Cargo	3/1/05
Daily Vap	2/10/05
Elle	3/1/05
Entertainment Week	2/25/05
ESPN Magazine	1/31/05



Publication	Date
Allure	4/1/04
Blackbook	12/1/05
Blackbook	4/1/04
Blender	12/1/05
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Budget Traveller	4/1/04
Conde Nast Traveller	4/1/04
Details	4/1/04
Elle	4/1/04



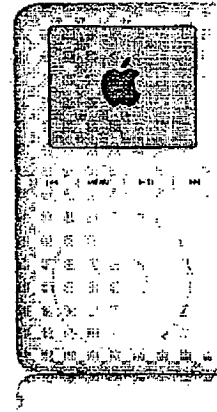
# iPod.

1,000 songs. In your pocket.

Apple vs. Sector Labs  
APPLE INC. NO. 26  
THOMAS A. PERLE  
SEPTEMBER 3, 2010  
J.W. HARBIDGE, CSR  
CASE NO. 9106021



Every concert  
you've ever been to.  
In your pocket.

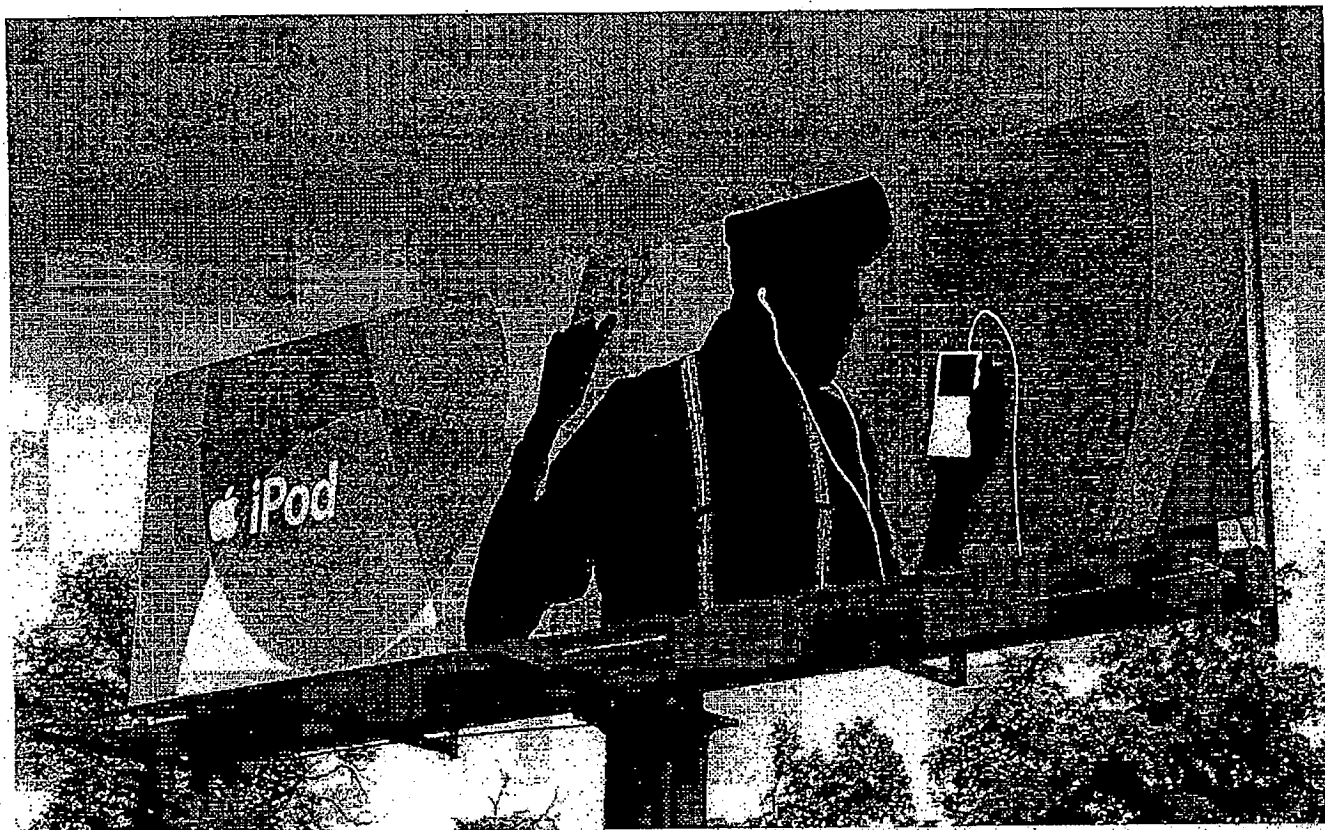


**The new iPod.**

It's the light. It has an 8-hour battery life and 250 songs and is Micro-USB compatible.  
The ultimate digital music player.

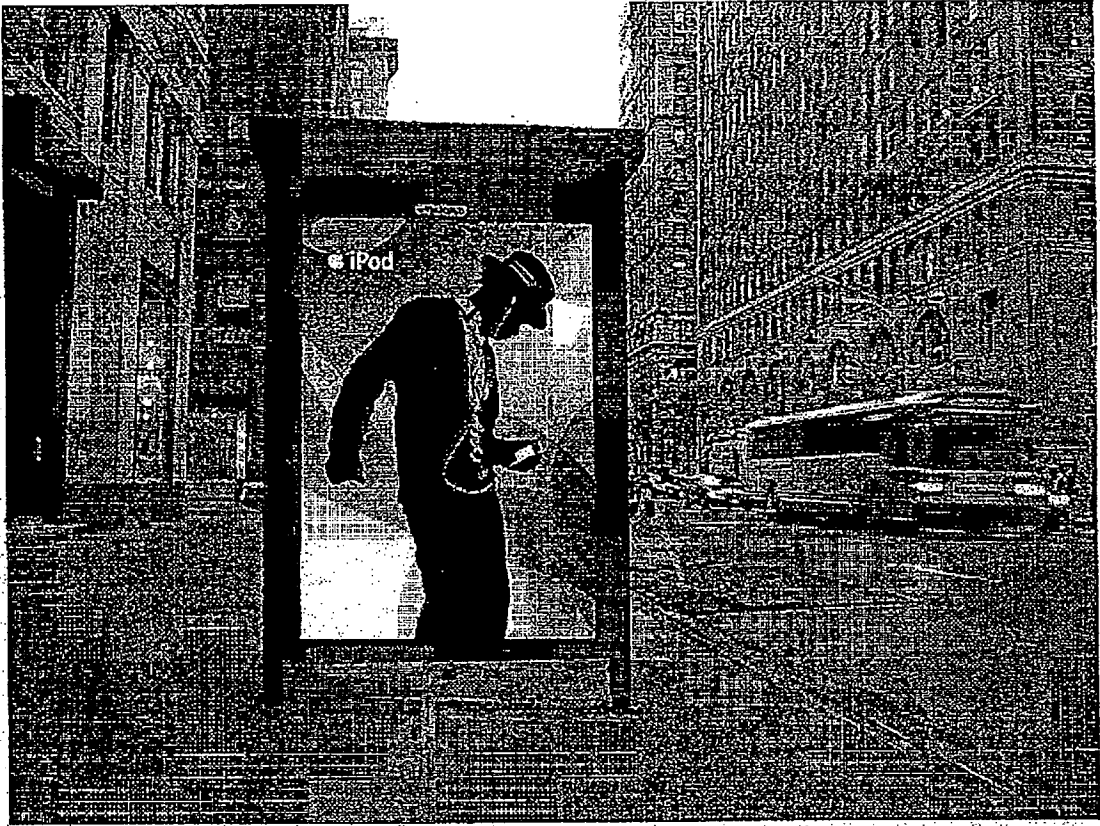
[www.apple.com/ipod](http://www.apple.com/ipod)





Apple vs. Secur Labs  
APPLE INC NO. 27  
THOMAS LA PEREE  
SEPTEMBER 8, 2010  
J.W. HARBIDGE CSR  
Case No. 91176027

APD0004538





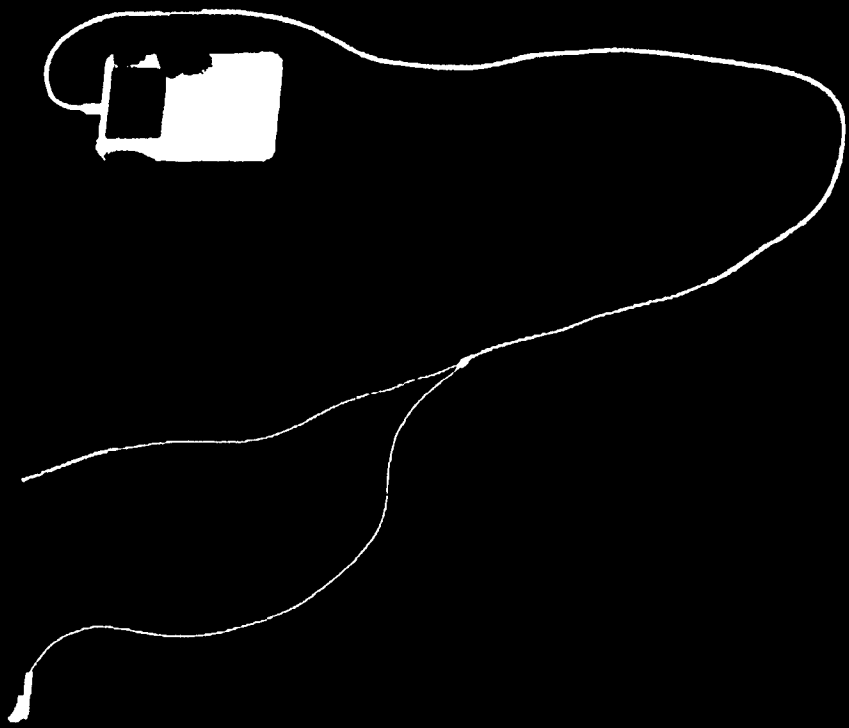
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Apple vs. Sector Labs  
APPLE INC. NO. 28  
THOMAS LA PERLE  
SEPTEMBER 8, 2010  
J.W. HARBIDGE, CSR  
Case No. 91176027

APD0004550

Apple  
iPod

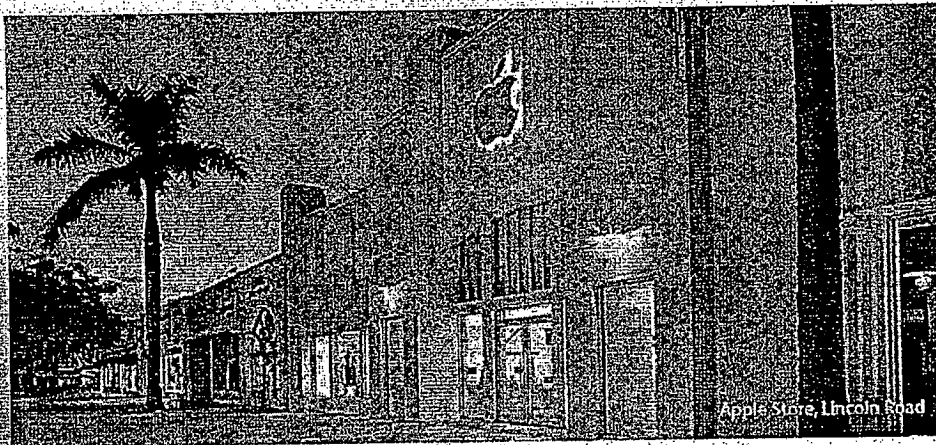


Welcome to the digital music revolution. 7,500 songs in your pocket.

Available in Mac or PC. Over a million sold. The new iPod.

Apple Retail Store. Come to shop. Return to learn.

Apple Retail Store  
Over 300 stores worldwide



Select country:

**Alabama**

Birmingham, The Summit  
Huntsville, Bridge Street

**Arizona**

Chandler, Chandler Fashion Center  
Gilbert, SanTan Village  
Glendale, Arrowhead  
Phoenix, Biltmore  
Scottsdale, Scottsdale Quarter  
Tucson, La Encantada

**California**

Brea, Brea Mall  
Burlingame, Burlingame  
Canoga Park, Topanga  
Carlsbad, Carlsbad  
Cerritos, Los Cerritos  
Chula Vista, Olay Ranch  
Corte Madera, Corte Madera  
Costa Mesa, South Coast Plaza  
Emeryville, Bay Street  
Escondido, North County  
Fresno, Fashion Fair  
Glendale, Glendale Galleria  
Irvine, Irvine Spectrum Center  
Los Angeles, Beverly Center  
Los Angeles, Century City  
Los Angeles, The Grove  
Los Gatos, Los Gatos  
Manhattan Beach, Manhattan Village  
Mission Viejo, Mission Viejo  
Modesto, Vintage Faire  
Monterey, Del Monte  
Newport Beach, Fashion Island  
Northridge, Northridge  
Palm Desert, El Paseo Village

**Hawaii**

Honolulu, Ala Moana  
Honolulu, Kahala  
Honolulu, Royal Hawaiian

**Idaho**

Boise, Boise Towne Square

**Illinois**

Chicago, North Michigan Avenue  
Deer Park, Deer Park  
Naperville, Main Place  
Northbrook, Northbrook  
Oak Brook, Oakbrook  
Orland Park, Orland Square  
Schaumburg, Woodfield  
Skokie, Old Orchard

**Indiana**

Indianapolis, Keystone

**Iowa**

West Des Moines, Jordan Creek

**Kansas**

Leawood, Leawood

**Kentucky**

Lexington, Fayette Mall  
Louisville, Oxmoor

**Louisiana**

Baton Rouge, Mall of Louisiana  
Metairie, Lakeside Shopping Center

**Maine**

**New York**

Albany, Crossgates  
Buffalo, Walden Galleria  
Garden City, Roosevelt Field  
Huntington Station, Walt Whitman  
Lake Grove, Smith Haven  
Manhasset, Manhasset  
New York City, Fifth Avenue  
New York City, SoHo  
New York City, Upper West Side  
New York City, West 14th Street  
Staten Island, Staten Island  
Syracuse, Carousel  
Victor, Eastview  
West Nyack, Palisades  
White Plains, The Westchester

**North Carolina**

Charlotte, SouthPark  
Durham, Southpoint  
Greensboro, Friendly Center  
Raleigh, Crabtree Valley Mall

**Ohio**

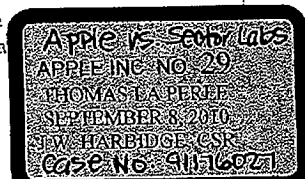
Cincinnati, Kenwood Towne Centre  
Columbus, Easton Town Center  
Columbus, Polaris Fashion Place  
Lyndhurst, Legacy Village  
Westlake, Crocker Park

**Oklahoma**

Oklahoma City, Penn Square  
Tulsa, Woodland Hills

**Oregon**

Portland, Pioneer Place  
Tigard, Bridgeport Villa



Apple Retail Store - Store List

Palo Alto, Palo Alto  
Palo Alto, Stanford Shopping Center  
Pasadena, Pasadena  
Pleasanton, Stoneridge Mall  
Rancho Cucamonga, Victoria Gardens  
Roseville, Roseville  
Sacramento, Arden Fair  
San Diego, Fashion Valley  
San Diego, UTC  
San Francisco, Chestnut Street  
San Francisco, San Francisco  
San Francisco, Stonestown  
San Jose, Oakridge  
San Luis Obispo, Higuera Street  
San Mateo, Hillsdale  
Santa Barbara, State Street  
Santa Clara, Valley Fair  
Santa Monica, Third Street Promenade  
Santa Rosa, Santa Rosa Plaza  
Sherman Oaks, Sherman Oaks  
Simi Valley, Simi Valley  
Temecula, Promenade Temecula  
Thousand Oaks, The Oaks  
Walnut Creek, Walnut Creek

**Colorado**

Boulder, Twenty Ninth Street  
Broomfield, Flatiron Crossing  
Colorado Springs, The Promenade Shops at  
Briargate  
Denver, Cherry Creek  
Littleton, Aspen Grove  
Lone Tree, Park Meadows

**Connecticut**

Danbury, Danbury Fair Mall  
Farmington, Westfarms  
Greenwich, Greenwich Avenue  
Stamford, Stamford

**Delaware**

Newark, Christiana Mall

**District of Columbia**

Washington, Georgetown

**Florida**

Altamonte Springs, Altamonte  
Aventura, Aventura  
Boca Raton, Boca Raton  
Brandon, Brandon  
Estero, Coconut Point  
Fort Lauderdale, The Galleria  
Jacksonville, St. Johns Town Center  
Miami, Dadeland  
Miami, The Falls  
Miami Beach, Lincoln Road  
Naples, Waterside Shops  
Orlando, Florida Mall  
Orlando, Millenia  
Palm Beach Gardens, The Gardens Mall  
Tampa, International Plaza  
Wellington, Wellington Green

**Georgia**

Alpharetta, North Point

South Portland, Maine Mall

**Maryland**

Annapolis, Annapolis  
Bethesda, Bethesda Row  
Bethesda, Montgomery Mall  
Columbia, Columbia  
Towson, Towson Town Center

**Massachusetts**

Boston, Boylston Street  
Braintree, South Shore  
Burlington, Burlington  
Cambridge, CambridgeSide  
Chestnut Hill, Chestnut Hill  
Dedham, Legacy Place  
Hingham, Derby Street  
Holyoke, Holyoke  
Natick, Natick Collection  
Peabody, Northshore

**Michigan**

Ann Arbor, Briarwood  
Clinton Township, Partridge Creek  
Grand Rapids, Woodland  
Novi, Twelve Oaks  
Troy, Somerset

**Minnesota**

Bloomington, Mall of America  
Edina, Southdale  
Minneapolis, Uptown  
Minnetonka, Ridgedale  
Roseville, Rosedale Center

**Mississippi**

Ridgeland, Renaissance at Colony Park

**Missouri**

Kansas City, Country Club Plaza  
Saint Louis, St. Louis Galleria  
St. Louis, West County

**Nebraska**

Omaha, Village Pointe

**Nevada**

Las Vegas, Fashion Show  
Las Vegas, The Forum Shops  
Las Vegas, Town Square  
Reno, Summit Sierra

**New Hampshire**

Nashua, Pheasant Lane  
Salem, Rockingham Park

**New Jersey**

Atlantic City, The Pier  
Bridgewater, Bridgewater  
Cherry Hill, Cherry Hill  
Edison, Menlo Park  
Freehold, Freehold Raceway Mall  
Marlton, Sagemore  
Paramus, Garden State Plaza  
Rockaway, Rockaway

Tigard, Washington Square

**Pennsylvania**

Ardmore, Suburban Square  
King of Prussia, King of Prussia  
Lancaster, Park City  
Philadelphia, Walnut Street  
Pittsburgh, Ross Park  
Pittsburgh, Shadyside  
Pittsburgh, South Hills Village  
Whitehall, Lehigh Valley

**Rhode Island**

Providence, Providence Place

**South Carolina**

Charleston, King Street  
Greenville, Haywood Mall

**Tennessee**

Germantown, Saddle Creek  
Knoxville, West Town Mall  
Nashville, Green Hills

**Texas**

Austin, Barton Creek  
Austin, The Domain  
Dallas, NorthPark Center  
Fort Worth, University Park Village  
Friendswood, Baybrook  
Frisco, Stonebriar  
Highland Park, Knox Street  
Houston, Houston Galleria  
Houston, Memorial City  
Houston, Willowbrook Mall  
Piano, Willow Bend  
San Antonio, La Centera  
San Antonio, North Star  
Southlake, Southlake Town Square  
Sugar Land, First Colony Mall  
The Woodlands, The Woodlands

**Utah**

Salt Lake City, The Gateway

**Virginia**

Arlington, Clarendon  
Arlington, Pentagon City  
Fairfax, Fair Oaks  
McLean, Tysons Corner  
Norfolk, MacArthur Center  
Reston, Reston  
Richmond, Short Pump Town Center

**Washington**

Bellevue, Bellevue Square  
Lynnwood, Alderwood Mall  
Seattle, University Village  
Tacoma, Tacoma Mall  
Tukwila, Southcenter

**Wisconsin**

Glendale, Bayshore  
Madison, West Towne  
Wausau, Mayfair

Apple Retail Store - Store List

Atlanta, Lenox Square  
Atlanta, Perimeter  
Augusta, Augusta  
Buford, Mall of Georgia

Short Hills, Short Hills  
Wayne, Willowbrook  
Woodcliff Lake, Tice's Corner

New Mexico  
Albuquerque, ABQ Uptown



Apple Retail Store Store List

Shop the Apple Online Store (1-800-MY-APPLE), visit an Apple Retail Store, or find a reseller.

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## Apple to Open High Profile Retail Store on North Michigan Avenue in Chicago

CHICAGO—June 26, 2003— Apple® will open its first high profile retail store in downtown Chicago, at 679 North Michigan Avenue, tomorrow night at 6:00 p.m. CDT.

"In just two years Apple has changed the face of computer retailing and we are now bringing that experience to one of the best shopping streets in the U.S.—North Michigan Avenue in Chicago," said Steve Jobs, Apple's CEO.

The Apple Store North Michigan Avenue will feature:

- an Internet cafe where visitors can check email and use Apple's new iChat™ AV and iSight™ digital video cameras to video conference with friends and family;
- a class Studio that overlooks an eco-friendly greenroof garden;
- a forty-foot long Genius Bar, one of the most popular sections of Apple retail stores, where anyone can ask the Mac® "Genius" questions, connect to the Mac community or receive service;
- more than 300 customer events every month including new "Genius Bar Unplugged" technical sessions taught at the Genius Bar and a Studio Series of hands-on classes\*;
- "solution centers" for music, photography and movies, where visitors can learn about the latest Apple solutions for digital photography, music and movies including the iTunes® Music Store and ultra-portable iPods;
- an expanded kids section with seven computer stations connected to the Internet;
- a software section with hundreds of software titles for the Mac; and
- a 48-seat theater, where customers can watch demonstrations of Apple's latest innovations, take classes and attend "Made on a Mac" events.

\* A complete schedule of North Michigan Avenue store events and classes is available at [www.apple.com/retail/nmichiganave](http://www.apple.com/retail/nmichiganave).

Apple opened its first retail store in May 2001 and currently has 58 stores in 26 states in the U.S. Since Apple opened its first retail store in May 2001, Apple retail stores have hosted more than 17 million visitors.

At the Apple store, knowledgeable sales people are available to help customers learn about the revolutionary iTunes Music Store and new ultra-portable iPods. The hands-on Apple store experience provides visitors access to the latest Mac computer systems including the 12-inch and 17-inch PowerBook® G4 notebooks, iMac® and eMac™ running innovative digital lifestyle applications like iPhoto™, iDVD™, iTunes and iMovie™, as well as Mac® OS X, Apple's revolutionary new operating system.

Apple ignited the personal computer revolution in the 1970s with the Apple II and reinvented the personal computer in the 1980s with the Macintosh. Apple is committed to bringing the best personal computing experience to students, educators, creative professionals and consumers around the world through its innovative hardware, software and Internet offerings.

**Press Contacts:**  
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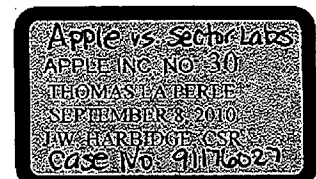
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**NOTE TO EDITORS:** For additional information visit Apple's PR website ([www.apple.com/pr/](http://www.apple.com/pr/)), or call Apple's Media Helpline at (408) 974-2042.

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Shop the [Apple Online Store](#) (1-800-MY-APPLE), visit an [Apple Retail Store](#), or find a [reseller](#).



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the fiscal year ended September 28, 2002

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

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

Commission file number 0-10030

**APPLE COMPUTER, INC.**

(Exact name of Registrant as specified in its charter)

**CALIFORNIA**  
(State or other jurisdiction  
of incorporation or organization)

**942404110**  
(I.R.S. Employer Identification No.)

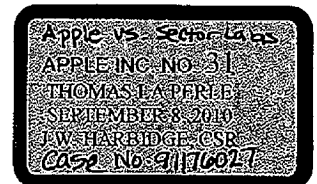
**1 Infinite Loop**  
**Cupertino, California**  
(Address of principal executive offices)

**95014**  
(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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

The aggregate market value of voting stock held by nonaffiliates of the Registrant was approximately \$4,925,788,282 as of December 6, 2002, based upon the closing price on the NASDAQ National Market reported for such date. Shares of Common Stock held by each executive officer and director and by each person who beneficially owns more than 5% of the outstanding Common Stock have been excluded in that such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

359,135,584 shares of Common Stock Issued and Outstanding as of December 6, 2002

## PART I

*The Business section and other parts of this Annual Report on Form 10-K ("Form 10-K") 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" under Part II, Item 7 of this Form 10-K.*

### Item 1. Business

#### Company Background

Apple Computer, Inc. ("Apple" or the "Company") was incorporated under the laws of the State of California on January 3, 1977. The Company designs, manufactures and markets personal computers and related personal computing solutions for sale primarily to education, creative, consumer, and business customers. Substantially all of the Company's net sales over the last five years have been derived from the sale of its Apple® Macintosh® line of personal computers and related software and peripherals. The Company's fiscal year ends on the last Saturday of September. Unless otherwise stated, all information presented in this Form 10-K is based on the Company's fiscal calendar.

#### Business Strategy

##### *Digital Hub*

Apple is committed to bringing the best possible personal computing experience to students, educators, creative professionals, businesses and consumers around the world through its innovative hardware, software, and Internet offerings. The Company believes that personal computing has entered a new era in which the personal computer functions for both professionals and consumers as the digital hub for advanced new digital devices such as digital music players, personal digital assistants, cellular phones, digital still and movie cameras, CD and DVD players, and other electronic devices. The attributes of the personal computer, including its ability to run complex applications, possess a high quality user interface, contain large and relatively inexpensive storage, and easily connect to the Internet in multiple ways and at varying speeds, can individually add value to these devices and interconnect them as well. Apple is the only company in the personal computer industry that designs and manufactures the entire personal computer—from the hardware and operating system to sophisticated applications. Apple ties it all together with its innovative industrial design, intuitive ease-of-use, and built-in networking, graphics, and multimedia capabilities. Thus, the Company is uniquely positioned to offer digital hub products and solutions.

Apple develops products and technologies that adhere to many industry standards in order to provide an optimized user experience through interoperability. Apple has played a role in the development, enhancement, promotion, and/or use of numerous of these industry standards, many of which are discussed below.

*Retail*

Since inception of its retail initiative in 2001, the Company has opened 51 retail stores in the United States. The Company has located its stores at quality high traffic locations in shopping malls and urban shopping districts. Before the end of the first quarter of 2003, the Company estimates that over 30% of the U.S. population will live within 15 miles of one of its stores. In addition to its own hardware and software products, the Company's retail stores carry in inventory a variety of third-party hardware and software products.

One of the main goals of the retail initiative is to bring new customers to the Company and expand its installed base through sales to both first time computer buyers and those switching from other computing platforms. By operating its own stores, the Company is able to better control the customer retail experience. The stores are designed to enhance the presentation and marketing of personal computing

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products. The stores employ experienced and knowledgeable personnel, provide post sale advice and support, offer a wide selection of third-party products selected to complement the Company's own products, host training and marketing presentations, and provide certain hardware support services. Additionally, the stores provide a forum in which the Company is able to present entire computing solutions to users in areas such as digital photography, digital video, music, children's software, and home computing. Recent survey results available to the Company indicate that approximately 40% of customers buying systems in its stores do not currently own a Macintosh.

*Education*

For more than 25 years, the Company has focused on educational uses of technology. The Company believes that effective integration of technology into classroom instruction can result in higher levels of student achievement, especially when used to support collaboration, information access, and the expression and representation of student thought and ideas. The Company's commitment to education encompasses a range of products and services designed to help schools maximize their investments in technology. This commitment is manifest in many of the Company's products and services, including hardware that meets the needs of education customers, video editing solutions, wireless networking capabilities, student information systems, and high-quality curriculum and professional development solutions.

*Creative Professionals*

Creative professionals constitute one of the Company's most important markets for both hardware and software products. This market is also important to many third-party developers who provide Macintosh-compatible hardware and software solutions. Creative customers utilize the Company's products for a variety of creative activities including digital video and film production and editing; digital video and film special effects, compositing, and titling; digital still photography; graphic design, publishing, and print production; music performance and production; audio production and sound design; and web design, development, and administration.

The Company designs its high-end hardware solutions, including servers and desktop and portable Macintosh systems, to incorporate the power, expandability, and features desired by creative professionals. Additionally, the Company's client operating system, Mac OS® X, incorporates powerful graphics and audio technologies and features developer tools to optimize system and application performance when running powerful creative solutions provided by the Company or by third-party developers. The Company also offers various software solutions to meet the needs of its creative customers, many of which are described below.

**Business Organization**

The Company manages its business primarily on a geographic basis. The Company's geographic operating segments include the Americas, Europe, Japan, and Asia Pacific. The Americas segment includes both North and South America, except for the Company's Retail segment which operates Apple-owned retail stores in the United States. The Europe segment includes European countries as well as the Middle East and Africa. The Japan segment includes only Japan, while the Asia Pacific segment includes Australia and Asia except for Japan. Each geographic operating segment provides similar hardware and software products and similar services. Non-geographic operating segments include the Company's subsidiary, FileMaker, Inc. and the Company's Retail segment. Further information regarding the Company's operating segments may be found in Part II, Item 7 of this Form 10-K under the heading "Segment Operating Performance," and in Part II, Item 8 on this Form 10-K in the Notes to Consolidated Financial Statements at Note 11, "Segment Information and Geographic Data."

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## Hardware Products

The Company offers a range of personal computing products including desktop and notebook personal computers, related devices and peripherals, networking and connectivity products, and various third-party hardware products. All of the Company's Macintosh products utilize PowerPC® RISC-based microprocessors. The Company's entire line of Macintosh systems, excluding servers, features the Company's suite of software for digital photography, music, and movies. Further information regarding the Company's products may be found in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

### *Power Mac®G4*

The Power Mac line of desktop personal computers is targeted at business and professional users and is designed to meet the speed, expansion and networking needs of the most demanding Macintosh user. The current Power Mac line features dual PowerPC G4 processors in all models, a new high-performance architecture, and on certain models Apple's SuperDrive™, a combination CD-RW/DVD-R drive that can burn DVDs that can be played in most consumer DVD players.

### *Xserve™*

During the third quarter of 2002, the Company introduced and shipped Xserve™, a 1U rack-mount server designed for simple set up and remote management. Xserve was designed for I/O intensive applications such as digital video, high-resolution digital imagery, and large databases. Xserve delivers high-speed networking, 15 gigaflops of computational power, and almost a half terabyte of hot-plug storage. Server Admin, a new services monitoring and remote management tool, allows administrators to easily set up and manage all key Mac OS X Server network services remotely. Server Monitor, a new hardware monitoring tool, allows system administrators to remotely monitor one or many servers. The Company offers a choice of services and support programs including 4-hour onsite response, 24x7 technical support, AppleCare® Service Parts Kits and AppleCare Professional SupportLine and Tools program.

### *PowerBook®*

The PowerBook family of portable computers is designed to meet the mobile computing needs of professionals and advanced consumer users. The Company's current PowerBook line, the Titanium PowerBook G4, was introduced in January 2001. The Titanium PowerBook is a full-featured notebook computer that incorporates PowerPC G4 processors, thin film transistor ("TFT") wide-screen active-matrix displays, integrated wireless capabilities, advanced networking and graphics capabilities, and on the latest version, a model with a built-in slot-loading SuperDrive. The Titanium PowerBook G4 is 1-inch thick, weighs as little as 5.4 pounds and is encased in a pure-grade titanium body.

### *iMac®*

The iMac line of desktop computers is targeted at education and consumer markets. The original iMac features innovative industrial design with a built-in 15-inch shadow-mask cathode ray tube ("CRT") display, easy Internet access, fan-less operation, and a PowerPC G3 processor, making it suitable for a wide range of education and consumer applications. The Company offers its original CRT iMac design at a suggested retail price under \$1,000.

In January 2002, the Company introduced the new iMac featuring an innovative industrial design that incorporates an adjustable 15-inch TFT active-matrix flat panel display and an ultra-compact base. New iMac models with 15-inch displays are available in three base configurations and feature PowerPC G4 processors, advanced graphics capabilities, and a SuperDrive on one model for playing and burning custom CDs and DVDs. In July 2002, the Company introduced an updated version of its new iMac that features a 17-inch TFT active-matrix flat panel display, a high-end PowerPC G4 processor, and a SuperDrive.

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### *eMac™*

In April 2002, the Company introduced the eMac™, a new Macintosh desktop system designed for the Company's education customers. The eMac was made available to consumers in June 2002. The eMac features a PowerPC G4 processor, a high resolution 17-inch flat CRT display, a SuperDrive option, and preserves the all-in-one compact design of the original iMac favored by many of the Company's education and consumer customers.

*iBook®*

Designed for the portable computing needs of education and consumer users, the current iBook design was introduced in May of 2001. Current iBook models feature 12.1-inch or 14.1-inch TFT active-matrix displays, include integrated wireless capabilities, utilize PowerPC G3 processors, offer a choice of optical drive configurations, weigh as little as 4.9 pounds, and have a long battery life. iBooks are currently available in a configuration with a suggested retail price under \$1,000.

*iPod™*

Introduced in October 2001, the original iPod portable digital music player utilized a 5GB hard disk drive allowing it to hold up to 1,000 CD-quality songs in a 6.5 ounce design. The iPod features an intuitive user interface on a 2-inch liquid crystal display, automatic synchronization with a music collection on a Macintosh system via Apple's iTunes® digital music software, a high-speed FireWire® connection for power and data transfer and up to 10 hours of battery life. iPods also provide access to contact and calendar information downloaded from other applications on a Macintosh system. By enhancing the overall functionality and integration of the digital music player and by expanding the usefulness of digital music and other information stored on a computer, the iPod represents an important and natural extension of Apple's digital hub strategy. In March 2002, the Company added a 10GB model to its iPod line, and in July 2002, the Company added a 20GB model and announced that all iPod models would be made available in Windows-compatible versions. The newer 10GB and 20GB iPod models come with carrying cases, wired remotes, and feature a solid-state touch wheel control.

*Peripheral Products*

The Company sells certain associated Apple-branded computer hardware peripherals, including a range of high quality flat panel TFT active-matrix digital color displays. The Company also sells a variety of third-party Macintosh-compatible hardware products directly to end users through both its retail and online stores, including computer printers and printing supplies, storage devices, computer memory, digital video and still cameras, personal digital assistants, digital music players and related accessories, and various other computing products and supplies.

**Software Products and Computer Technologies***Operating System and Server Software*

During 2001, the Company introduced the first customer release of its new client operating system, Mac OS® X, and its first significant upgrade, Mac OS X version 10.1. At its introduction, Mac OS X offered advanced functionality built on an open-source UNIX-based foundation and incorporated the most fundamental changes in both core technology and user interface design made by the Company to the Mac OS in a single upgrade since the original introduction of the Macintosh in 1984. Mac OS X features memory protection, pre-emptive multi-tasking, and symmetric multiprocessing. Mac OS X includes Apple's Quartz™ 2D graphics engine (based on the Internet-standard Portable Document Format) for enhanced graphics and broad font support, OpenGL for enhanced 3D graphics and gaming, and Apple's new user interface named "Aqua®," which combines superior ease-of-use with new functionality. In January 2002, the Company made Mac OS X the default operating system on all new Macintosh systems. Mac OS X allows users to run Mac OS 9 applications natively in the Classic compatibility environment in

4

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Mac OS X. The Company also develops and distributes extensions to the Macintosh system software including utilities, languages, and developer tools.

In August 2002, the Company released Mac OS X version 10.2 (code named "Jaguar"), the current release of Mac OS X. Jaguar includes a new Mail application designed to manage junk mail; iChat™, an AIM-compatible instant messenger; a system-wide Address Book; Inkwell™ handwriting recognition; improved Universal Access; an enhanced Finder; an updated version of QuickTime®, the Company's multimedia software for playing, interacting with or viewing video, audio, and graphics files; and an updated version of Sherlock®, the Company's advanced Internet search engine. Jaguar also features accelerated graphics performance, increased compatibility with Windows networks, and a UNIX-based foundation with enhancements including FreeBSD 4.4 and GCC 3.1-based developer tools.

Mac OS X server software was initially introduced in May 2001. The current version of Mac OS X Server, Mac OS X Server version 10.2 (code named "Jaguar Server") was released in August 2002. Jaguar Server is a UNIX-based operating system designed for superior performance and reliability. It delivers high-performance services for Internet and web serving, filing, printing, and networking services needed to manage a network of Mac, UNIX, and Windows clients. Based on the Mach 3.0 microkernel and the BSD 4.4 operating

system, Jaguar Server is a modern UNIX-based server built on open standards. It provides performance and stability through full pre-emptive multi-tasking, symmetric multiprocessing, protected memory, advanced virtual memory, software RAID support, and support for networking and security standards. Jaguar Server also includes Apple's Open Directory architecture for centralized management of network resources using LDAPv3 directory services and a suite of built-in, standards-based Internet services like an optimized Apache web server for high-performance hosting of secure dynamic web sites and QuickTime Streaming Server and QuickTime Broadcaster for streaming live events over the Internet. Jaguar Server also comes with a flexible mail server that supports POP and secure IMAP, as well as WebMail for browser-based email access.

Further information regarding the introduction of and updates to Mac OS X and Mac OS X Server may be found in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

#### *Professional Application Software*

Final Cut Pro® 3 is a video authoring application designed to meet the demanding needs of the professional video editing environment by combining in a single software package professional-quality video editing and compositing, real-time effects, professional color correction tools and an innovative interface that seamlessly integrates editing, compositing and effects tools for an efficient and powerful media creation workflow. Final Cut Pro is especially popular among broadcast professionals because it allows them to increase their programming output at a fraction of the cost of traditional editing systems. Post production facilities use Final Cut Pro for the production of a wide range of projects including feature-length films, primetime television shows, news broadcasts, documentaries, trailers and commercials. Final Cut Pro was honored by the Academy of Television Arts and Sciences with a 2002 Primetime Emmy Engineering Award for its impact on the television industry.

Shake® is the Company's industry-leading compositing and visual effects software designed for large format film and video productions. Shake features a fast rendering engine, an extensive and mature compositing toolset, two industry-standard keyers, a complete suite of color correction tools, tracking/stabilization capabilities, integrated procedural paint, rotoscoping tools, and support for leading plug-in vendors. Shake has been used in the production of over a hundred motion pictures including the past five winners of the Academy Award for Best Visual Effects. Introduced during the fourth quarter of 2002, Shake 2.5 was the first Mac OS X native version of the software and added an improved image input, a disk-based proxy system, and the ability to limit the rendering process to a portion of an image for quicker processing.

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Introduced in 2002, Cinema Tools for Final Cut Pro™ is a new software package that enhances Final Cut Pro 3's 24 frames-per-second (fps) editing capabilities with support for film cut lists and 24-frame edit decision lists (EDLs) for high-definition (HD) video. The 24-frame EDL support allows off-line HD projects to be finished using significantly more affordable Final Cut Pro®-based HD finishing systems. Cinema Tools for Final Cut Pro is a robust solution for filmmakers who shoot and finish with 35mm or 16mm film, but want to take advantage of the cost and time benefits of digital editing on a Final Cut Pro system. Cinema Tools converts "telecined" content to its native 24-frame rate for editing, then generates a 24-fps cut list for negative conform. With its support for 24-fps EDL import/export, Cinema Tools for Final Cut Pro provides video professionals with not only an affordable path to online HD finishing, but also the EDL conversion capabilities required to create high-definition 24P universal masters used to efficiently meet the needs of varying international distribution formats.

DVD Studio Pro® 1.5 lets professional users encode video, conduct complex authoring tasks and preview finished product in real-time and allows users to burn DVDs using SuperDrive-equipped Macintosh systems. It handles the MPEG encoding, menu creation, asset organization, linking, and output formatting that are required to produce DVD-Video disks. DVD Studio Pro 1.5 has been optimized for Mac OS X and features enhanced integration with Final Cut Pro.

The Company was honored in 2002 by the National Academy of Recording Arts and Sciences with a Technical GRAMMY Award for its outstanding technical contributions to the music industry and recording field. This was the first Technical GRAMMY ever awarded to a personal computer company. From the original Macintosh, the first personal computer to include built-in audio capabilities, Apple has helped change the way music is written, recorded, mixed and enjoyed. The Company acquired Emagic, a leading provider of professional software and hardware solutions for computer based music production, during the fourth quarter of 2002. Emagic's most popular product, Logic®, is actively used by musicians around the world and by professionals in music production, film scoring, and post production facilities. At the time of the acquisition, Macintosh-based products accounted for over 65% of Emagic's revenues. Emagic's Windows-based product offerings were discontinued by the Company during its first fiscal quarter of 2003.

#### *Consumer, Education and Business Oriented Application Software*

iMovie™ 2, the Company's easy-to-use consumer digital video editing software for creation of home and classroom movies, features an enhanced user interface, improved audio editing capabilities, enhanced controls for titling and transitions, and added special effects.

iMovie 2 is currently preinstalled on all of the Company's Macintosh systems. iDVD™ 2 is consumer oriented software that makes it easy to turn iMovie files, QuickTime files and digital pictures into DVDs that can be played on most consumer DVD players. iDVD 2 simplifies DVD authoring by including professionally designed themes and drag-and-drop simplicity. iDVD 2 is currently preinstalled on all Macintosh systems equipped with a SuperDrive.

The Company introduced iPhoto™ in January 2002. Designed exclusively for Mac OS X, iPhoto makes it easy to import, edit, save, share, and print digital photos, as well as organize and manage an entire digital photo collection containing thousands of photos. Users are able to view their photos in full-screen; using the slide show feature accompanied by their favorite music; automatically create custom web pages of their photos; email photos to friends and family; order professionally-processed prints and enlargements online; or easily design and order custom-printed, linen-covered hard bound photo books online. Prints, enlargements, and hard bound book production is currently only available to U.S. customers. iPhoto is currently preinstalled on all of the Company's Macintosh systems.

iTunes® is a digital music application for the Macintosh that lets users create and manage their own digital music library. iTunes organizes music using searching, browsing and playlist features. It supports both audio and MP3 CD burning, features a graphic equalizer and cross fading between songs, and supports automatic synchronization with the music stored on an iPod, Apple's portable digital music player. iTunes is currently preinstalled on all Macintosh systems. In July 2002, the Company introduced iTunes 3,

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featuring Smart Playlists, which automatically and dynamically updates playlists based on simple rules set by the user, and Sound Check for consistent volume playback.

During the fourth quarter of 2002, the Company released two new applications, iCal and iSync Public Beta. iCal is a new calendar program that allows users to manage multiple calendars and share them over the Internet. iCal makes it easy for consumers, students, educators and small business users to create and manage individual or group activities on single or multiple calendars; publish these calendars on the web for viewing by colleagues, friends and family members; subscribe to automatically updated calendars via the Internet to keep up with work schedules, family events and school events; organize and track activities with To Do list management; quickly locate any event via a search tool; and take calendars to go using iSync with Bluetooth-enabled mobile phones, Palm OS devices and iPod. iSync Public Beta is a preview version of Apple's new software application that automatically synchronizes address books and calendars between Macintosh systems and the new generation of Bluetooth-enabled GPRS mobile phones, Apple's iPod and Palm OS-compatible handheld organizers. In addition, users with a .Mac™ account can use iSync to seamlessly synchronize their calendars and address books across multiple Macintosh systems connected to the Internet.

AppleWorks® 6.2 is an integrated productivity application that incorporates word processing, page layout, image manipulation, spreadsheets, databases and presentations in a single application. Intended to be an easy-to-use product for the Company's consumer and education customers, AppleWorks makes it simple to create professional-looking documents in the classroom and at home.

FileMaker Corporation, a wholly owned subsidiary of the Company, develops, publishes, and distributes desktop-based database management application software for Mac OS and Windows-based systems. FileMaker's FileMaker® Pro database software and related products offer strong relational databases and advanced desktop-to-web publishing capabilities.

#### *Internet Software, Integration, and Services*

Apple's Internet strategy is focused on delivering seamless integration with and access to the Internet throughout the Company's product lines. The Company's Internet products and technologies adhere to many industry standards in order to provide an optimized user experience through interoperability. An easy Internet Setup Assistant is included with the Mac OS.

QuickTime®, the Company's multimedia software for Macintosh and Windows platforms, features streaming of live and stored video and audio over the Internet and playback of high-quality audio and video on computers. QuickTime Player is an easy-to-use application for playing, interacting with or viewing video, audio, QuickTime VR 3D images, or graphics files. More than 125 million copies of QuickTime Player were downloaded via the Internet during the last year. Tens of thousands of software applications and content CDs feature QuickTime, and more than 150 models of digital cameras from most major brands use QuickTime to capture and display their images.

The current version of QuickTime, QuickTime 6, was released in July of 2002 and features support for the open-standard MPEG 4 format. QuickTime 6 includes the new Instant-On Streaming feature that eliminates buffer delays and provides users with the ability to quickly and easily scrub through streaming media content to locate and instantly view specific sections. In addition, QuickTime 6 running on Mac OS X now supports JPEG 2000, the next generation JPEG standard that allows users to capture still images in a higher quality and smaller file size than ever before. QuickTime 6 also includes Advanced Audio Coding (AAC), the standard MPEG-4 audio format. AAC is the next generation professional-quality audio format that delivers superior sound quality with reduced file sizes.



QuickTime Pro is a suite of software that allows creation and editing of Internet-ready audio and video files and allows a user to add special effects and other features to QuickTime movies.

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QuickTime Streaming Server software is the underlying server technology that powers QuickTime's ability to stream live and stored video and audio over the Internet. QuickTime Streaming Server is based on an open sourced, standards-based Real-Time Transport Protocol/Real-Time Streaming Protocol (RTP/RTSP) engine. The current version, QuickTime Streaming Server 4, extends support for standards by adding support for both MPEG 4 and MP3. While QuickTime Streaming Server is designed for Mac OS X Server, it is also available as an open source server. Because QuickTime Streaming Server is an open source technology it can be ported to other platforms, and versions are available for Linux, Solaris and Windows NT/2000.

QuickTime Broadcaster is the Company's live encoding software that allows users to quickly and easily produce professional-quality live events for online delivery. The combination of QuickTime Broadcaster, QuickTime Streaming Server 4 and QuickTime 6 provides the industry's first end-to-end MPEG-4-based Internet broadcasting system, which allows users to reach not only the large and growing base of installed QuickTime Players, but also any ISO-compliant MPEG-4 player.

WebObjects®, the Company's Java-based application server for web publishing and enterprise application development, offers a complete solution for rapid development and deployment of web applications. WebObjects features sophisticated graphical development tools, comprehensive prebuilt and reusable components, integration with numerous data sources, and robust deployment tools.

Introduced with Mac OS X Jaguar, Sherlock® 3 is the Company's advanced Internet search engine. Sherlock 3 functions for users as an Internet service tool that retrieves and displays a personalized view of some of the most practical and useful information available on the Internet, such as stock news, general headlines, movie previews, locations and show times, yellow pages listings, eBay auction activity and more. Sherlock displays each of these 'channels' in its own arrangement of columns and panes. When used for Internet searches, Sherlock utilizes multiple search engines to provide search results ranked by relevance, name, or web site.

In July 2002, the Company launched .Mac™, a new suite of Internet services that for an annual fee provides Macintosh users with powerful Internet tools. .Mac features email service with IMAP, POP or web-based access, 100MB of Internet storage, and hosting for personalized homepages and shared digital photo albums. Also included with .Mac is McAfee's Virex anti-virus software and Backup, a personal back-up solution that allows users to archive data to their Internet storage, CD, or DVD.

#### *Wireless Connectivity and Networking*

AirPort® is the Company's wireless networking technology that allows users to create a computer network and connect to the Internet without cables, additional phone lines, or complicated networking hardware. Based on the IEEE 802.11b wireless standard and Wi-Fi certified, AirPort allows high-speed wireless communications within a radius of approximately 150 feet from an AirPort base station. AirPort includes security features like firewall protection and 128-bit encryption to protect user data. With the addition of an AirPort networking card, all of the Company's desktop and portable Macintosh systems have built-in support for AirPort wireless networking, including built-in antennas and an AirPort card slot.

During 2002, the Company released its Bluetooth technology for Mac OS X. Bluetooth is an emerging industry standard for wirelessly connecting computers and peripherals that supports transmission of data at up to 1 Mbps within a range of approximately 30 feet. The Company's Bluetooth technology for Mac OS X lets customers wirelessly share files between Macintosh systems, synchronize and share contact information with Palm-OS based PDAs, and access the Internet through Bluetooth-enabled cell phones. A Bluetooth USB adaptor can Bluetooth-enable any USB-based Macintosh computer running in Mac OS X version 10.1.4 or higher. Bluetooth software is built into Mac OS X Jaguar.

Introduced in the fourth quarter of 2002, the Company's new Rendezvous™ networking technology is based on open Internet Engineering Task Force (IETF) Standard Protocols such as IP, ARP and DNS. Rendezvous uses industry standard networking protocols and zero configuration technology to

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automatically discover and connect devices over any IP network, including Ethernet or 802.11-based wireless networks like the Company's AirPort product. Major developers such as Canon, Epson, Hewlett-Packard, Lexmark, Philips, Sybase, World Book and

Xerox have announced support for Rendezvous in a broad range of products including network printers, consumer electronics, enterprise database management and educational applications. In September 2002, the Company announced that it was "open sourcing" the code for Rendezvous. By making the source code freely available, the Company allows developers to use Rendezvous technology in their network-enabled devices or software applications. The Rendezvous source code includes software to support UNIX, Linux, and Windows-based systems and devices. Rendezvous support is built into Mac OS X Jaguar.

Apple Remote Desktop™ for Mac OS X software enables users, teachers and administrators to remotely manage other Macintosh systems anywhere on a local network, AirPort wireless network or across the Internet. With Apple Remote Desktop, teachers can view students' computer screens, perform group demonstrations and help individuals with real-time screen-sharing, text chat and the "request attention" command. System administrators can provide remote assistance, get comprehensive system profiles, reconfigure system settings and quickly and easily distribute software applications across hundreds of computers—all from one central location over both Ethernet and AirPort wireless networks. Apple Remote Desktop supports multiple levels of administrator access, each with its own password, providing a secure way for teachers or department-level administrators to assist users while restricting privileges for deleting items or changing system settings.

The Company invented FireWire® technology, also referred to as IEEE 1394, which is a high-speed serial input/output technology for connecting digital devices such as digital camcorders and cameras to desktop and portable computers. With its high data-transfer speed and "hot plug-and-play" capability, FireWire has become an established cross-platform industry standard for both consumers and professionals and is the data interface of choice for today's digital video and audio devices, as well as external hard drives and other high-speed peripherals. Industry data indicates that FireWire will be included on more than 64 million personal computers and nearly 100 million digital devices by the end of calendar 2002. The Company received a 2001 Primetime Emmy Engineering Award for FireWire's impact on the television industry. FireWire is currently included on all Macintosh systems and is the data transfer technology utilized by iPod.

#### *Third-Party Software Products*

Thousands of third-party software titles and solutions are available for the Macintosh platform. The Company sells a variety of these third-party software products directly to end users through both its retail and online stores. Additional information regarding the Company's relationship with and dependence upon third-party software developers, including Microsoft Corporation, may be found in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

#### **Product Support and Services**

AppleCare® offers a range of support options for Apple customers. These options include assistance that is built into software products, printed and electronic product manuals, online support including comprehensive product information as well as technical assistance, and the AppleCare Protection Plan. The AppleCare Protection Plan is a fee-based service that typically includes three years of phone support and hardware repairs, dedicated web-based support resources, and user diagnostic tools.

Apple Training offers comprehensive system administration and development training on Apple technologies, together with certification programs that test customers' skills and verify their technical proficiency. Apple Professional Services offers a range of custom, personalized technical services, including Internet consulting and setup, installation and integration services. The Company also offers specialized loan programs including loans for consumers, students, and educators. Apple also provides leasing

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solutions for its education institution customers and its business and professional customers. The Company uses several third-party lenders to originate and carry these loans and leases.

#### **Specialized Education Products and Services**

The Company offers a variety of unique services and products to its education customers, including a separate online store for education customers offering special education price lists and promotions; special financing programs for K-12 and higher education students, faculty, and staff; a special edition of its productivity software suite, AppleWorks, that is cross platform for both Macintosh and Windows computers; the iBook Wireless Mobile Lab that allows teachers and students to share iBook computers, a printer, and a wireless network/Internet connection stored on a cart for mobility between classrooms; and three special Digital Media Studio solutions designed for education, including one that is integrated into a mobile cart. Additionally, Apple Professional Services offers a range of technical services to education customers.

In 2001, Apple acquired PowerSchool Inc., a privately held provider of web-based student information systems for K-12 schools and

school districts. PowerSchool® software products give school administrators and teachers the ability to easily and cost-effectively manage student records and give parents real-time access to track their children's performance via the Internet. PowerSchool offers the option of remote hosting with an application service provider model.

### Markets and Distribution

The Company's customers are primarily in the education, creative, consumer, and business markets. Certain customers are attracted to Macintosh computers for a variety of reasons, including the reduced amount of training resulting from the Macintosh computer's intuitive ease of use, advanced graphics capabilities, industrial design features of the Company's hardware products, and ability of Macintosh computers to network and communicate with other computer systems and environments. Apple personal computers were first introduced to education customers in the late 1970s. Over 21% of the Company's net sales in 2002 were to education customers in the United States, including sales to elementary and secondary schools and college and university customers. Further information relating to the U.S. education market and the Company's position in that market may be found in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

The Company distributes its products through wholesalers, resellers, national and regional retailers and cataloguers. During 2000 a single distributor, Ingram Micro Inc., accounted for approximately 11.5% of net sales. No other customer accounted for more than 10% of net sales during 2000, and no individual customer accounted for more than 10% of net sales in 2002 or 2001. The Company also sells many of its products and resells certain third-party products in most of its major markets directly to consumers, education customers, businesses, and certain resellers through its retail stores in the United States, or through one of its online stores around the world. Net sales attributable to the Company's online stores totaled approximately \$2.4 billion and \$2.0 billion for fiscal years 2002 and 2001, respectively.

### Competition

The Company is confronted by aggressive competition in all areas of its business. The market for the design, manufacture, and sale of personal computers and related software and peripheral products is highly competitive. This market continues to be characterized by rapid technological advances in both hardware and software development, which have substantially increased the capabilities and applications of these products, and have resulted in the frequent introduction of new products and significant price, feature, and performance competition. Over the past several years price competition in the market for personal computers has been particularly intense. The Company's competitors who sell Windows-based personal computers have aggressively cut prices and lowered their product margins to gain or maintain market share in response to weakness in demand for personal computing products. The Company's results

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of operations and financial condition have been, and in the future may continue to be, adversely affected by these and other industry wide pricing pressures and downward pressures on gross margins.

The principal competitive factors in the market for personal computers include relative price/performance, product quality and reliability, design innovation, availability of software, product features, marketing and distribution capability, service and support, availability of hardware peripherals, and corporate reputation. Further, as the personal computer industry and its customers place more reliance on the Internet, an increasing number of Internet devices that are smaller, simpler, and less expensive than traditional personal computers may compete for market share with the Company's existing products.

The Company is currently taking and will continue to take steps to respond to the competitive pressures being placed on its personal computer sales as a result of innovations in the Windows platform. The Company's future operating results and financial condition are substantially dependent on its ability to continue to develop improvements to the Macintosh platform in order to maintain perceived functional and design advantages over competing platforms.

Further information relating to the competitive conditions of the personal computing industry and the Company's competitive position in that market place may be found in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

### Raw Materials

Although most components essential to the Company's business are generally available from multiple sources, certain key components (including microprocessors and application-specific integrated circuits ("ASICs")) are currently obtained by the Company from single or limited sources. Some other key components, while currently available to the Company from multiple sources, are at times subject to

industry wide availability constraints and pricing pressures. In addition, the Company uses some components that are not common to the rest of the personal computer industry, and new products introduced by the Company often initially utilize custom components obtained from only one source until the Company has evaluated whether there is a need for, and subsequently qualifies, additional suppliers. If the supply of a key or single-sourced component to the Company were to be delayed or curtailed or in the event a key manufacturing vendor delays shipments of completed products to the Company, the Company's ability to ship related products in desired quantities and in a timely manner could be adversely affected. The Company's business and financial performance could also be adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components may be affected if producers were to decide to concentrate on the production of common components instead of components customized to meet the Company's requirements. The Company attempts to mitigate these potential risks by working closely with these and other key suppliers on product introduction plans, strategic inventories, coordinated product introductions, and internal and external manufacturing schedules and levels. Consistent with industry practice, the Company acquires components through a combination of formal purchase orders, supplier contracts, and open orders based on projected demand information. These formal and informal commitments typically cover the Company's requirements for periods ranging from 30 to 130 days.

The Company believes there are several component suppliers and manufacturing vendors whose loss to the Company could have a material adverse effect upon the Company's business and financial position. At this time, such vendors include Agere Systems, Inc., Ambit Microsystems Corporation, ATI Technologies, Inc., Elite Computer Systems Co., Inc., Hon Hai Precision Industry Co., Ltd., IBM Corporation, Inventec Appliances Corporation, LG. Phillips Co., Ltd., Matsushita, Mitsubishi Electric Corporation, Motorola, Inc., Nvidia Corp., Quanta Computer, Inc., Samsung Electronics, Solectron Corporation, and Toshiba Corporation.

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Further discussion relating to availability and supply of components and product may be found in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition," and in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements at Note 10 under the subheading "Concentrations in the Available Sources of Supply of Materials and Product."

#### **Research and Development**

Because the personal computer industry is characterized by rapid technological advances, the Company's ability to compete successfully is heavily dependent upon its ability to ensure a continuing and timely flow of competitive products and technology to the marketplace. The Company continues to develop new products and technologies and to enhance existing products in the areas of hardware and peripherals, system software, applications software, networking and communications software and solutions, and the Internet. The Company's research and development expenditures, before any charges for purchased in-process research and development, totaled \$446 million, \$430 million, and \$380 million in 2002, 2001, and 2000, respectively.

#### **Patents, Trademarks, Copyrights and Licenses**

The Company currently holds rights to patents and copyrights relating to certain aspects of its computer systems, peripheral systems, and software. In addition, the Company has registered, and/or has applied to register, trademarks and service marks in the United States and a number of foreign countries for "Apple," the Apple silhouette logo, the Apple color logo, "Macintosh," and numerous other product trademarks and service marks. In 1986, the Company acquired ownership of the trademark "Macintosh" for use in connection with computer products. Although the Company believes the ownership of such patents, copyrights, trademarks and service marks is an important factor in its business and that its success does depend in part on the ownership thereof, the Company relies primarily on the innovative skills, technical competence, and marketing abilities of its personnel.

Many of the Company's products are designed to include intellectual property obtained from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of its products and business methods, the Company believes that based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms. Because of technological changes in the computer industry, current extensive patent coverage, and the rapid rate of issuance of new patents, it is possible certain components of the Company's products and business methods may unknowingly infringe existing patents of others. The Company has from time to time been notified that it may be infringing certain patents or other intellectual property rights of others.

Information regarding claims and litigation involving the Company related to alleged patent infringement and risks related to the Company's reliance on third-party intellectual property is set forth in Part I, Item 3 of this Form 10-K, and in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

#### **Foreign and Domestic Operations and Geographic Data**

The United States represents the Company's largest geographic marketplace. Approximately 57% of the Company's net sales in fiscal 2002 came from sales to customers inside the United States. Final assembly of products sold by the Company is conducted in the Company's manufacturing facilities in Sacramento, California, and Cork, Ireland, and by external vendors in Fullerton, California, Taiwan, Korea, the People's Republic of China, and the Czech Republic. Margins on sales of Apple products in foreign countries, and on sales of products that include components obtained from foreign suppliers, can be adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including tariffs and antidumping penalties.

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Information regarding financial data by geographic segment is set forth in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements at Note 11, "Segment Information and Geographic Data." Additional information regarding the risks associated with international operations is set forth in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

#### **Seasonal Business**

Although the Company does not consider its business to be highly seasonal, it has historically experienced increased net sales in its first and fourth fiscal quarters, compared to other quarters in its fiscal year, due to seasonal demand related to the holiday season and the school year. However, over the past two years the Company has not experienced these seasonal fluctuations in net sales due to the negative impact of current economic conditions on the overall demand for the Company's products. Past performance should not be considered a reliable indicator of the Company's future net sales or financial performance.

#### **Warranty**

The Company offers a limited parts and labor warranty on its hardware products. The warranty period is typically one year from the date of purchase by the end user. The Company also offers a 90-day warranty for Apple software and for Apple service parts used to repair Apple hardware products. In addition, consumers may purchase extended service coverage on most Apple hardware products in all of the Company's major markets.

#### **Backlog**

In the Company's experience, the actual amount of product backlog at any particular time is not a meaningful indication of its future business prospects. In particular, backlog often increases in anticipation of or immediately following new product introductions because of over ordering by dealers anticipating shortages. Backlog often is reduced once dealers and customers believe they can obtain sufficient supply. Because of the foregoing, backlog should not be considered a reliable indicator of the Company's ability to achieve any particular level of revenue or financial performance.

#### **Environmental Laws**

Compliance with federal, state, local, and foreign laws enacted for the protection of the environment has to date had no material effect upon the Company's capital expenditures, earnings, or competitive position. Although the Company does not anticipate any material adverse effects in the future based on the nature of its operations and the subject of these laws, there is no assurance that such existing laws or future laws will not have a material adverse effect on the Company.

The parliament of the European Union is working to finalize the Waste Electrical and Electronic Equipment Directive (the Directive). The Directive makes manufacturers of electrical goods, including personal computers, financially responsible for the collection, recycling, and safe disposal of past and future products. The Directive must now be approved and implemented by individual European Union governments by 2005. The Company's potential liability resulting from the Directive related to past sales of its products and expenses associated with future sales of its product may be substantial. However, because it is likely that specific laws, regulations, and enforcement policies will vary significantly between individual European member states, it is not currently possible to estimate the Company's existing liability or future expenses resulting from the Directive. As the European Union and its individual member states clarify specific requirements and policies with respect to the Directive, the Company will continue to assess its potential financial impact. Similar legislation may be enacted in other geographies, including federal and state legislation in the United States, the cumulative impact of which could be significant.

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## Employees

As of September 28, 2002, Apple and its subsidiaries worldwide had 10,211 employees and an additional 2,030 temporary employees and contractors.

## Item 2. Properties

The Company's headquarters are located in Cupertino, California. The Company has manufacturing facilities in Sacramento, California, Cork, Ireland, and Singapore. As of September 28, 2002, the Company leased approximately 2.7 million square feet of space, primarily in the United States, and to a lesser extent, in Europe, Japan, and the Asia Pacific region. Leased space in the United States includes 395,000 square feet of retail space. Leases are generally for terms of 5 to 10 years, and usually provide renewal options for terms of 3 to 5 additional years.

The Company owns its manufacturing facilities in Cork, Ireland, and Singapore, which total approximately 617,000 square feet. The Company also owns a 752,000 square-foot facility in Sacramento, California, which is used as a manufacturing, warehousing and distribution center. The Sacramento and Cork facilities also house customer support call centers. In addition, the Company owns 930,000 square feet of facilities located in Cupertino, California, used for research and development and corporate functions. Outside the United States, the Company owns additional facilities totaling approximately 106,000 square feet.

The Company believes its existing facilities and equipment are well maintained and in good operating condition. The Company has invested in internal capacity and strategic relationships with outside manufacturing vendors, and therefore believes it has adequate manufacturing capacity for the foreseeable future. The Company continues to make investments in capital equipment as needed to meet anticipated demand for its products.

Information regarding critical business operations that are located near major earthquake faults is set forth in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition."

## Item 3. Legal Proceedings

The Company is subject to certain legal proceedings and claims, including those described below, which have arisen in the ordinary course of business and have not been fully adjudicated. Information regarding the risks and potential financial impact of these legal matters is set forth in Part II, Item 7 of this Form 10-K under the heading "Factors That May Affect Future Results and Financial Condition," and in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements at Note 10 under the subheading "Commitments and Contingencies."

### *Articulate Systems, Inc. v. Apple Computer, Inc.*

Plaintiff Articulate filed this action in March 1996 in the United States District Court in Massachusetts claiming patent infringement relating to voice recognition technology. Plaintiff seeks unspecified damages and other relief. The Company has answered the complaint, denying all allegations and asserting numerous affirmative defenses. The Company also asserted counterclaims requesting declaratory judgment for non-infringement, unenforceability and invalidity. The case was stayed for several months pending resolution of four summary judgment motions filed by the Company, all of which were denied by the Court. Through a series of corporate transactions the assets belonging to Plaintiff were acquired by a subsidiary, Lernout & Hauspie Speech Products N.V. ("L&H"). L&H filed for bankruptcy in November 2000 and is being liquidated as part of the bankruptcy. The case is currently stayed pending the resolution of the liquidation.

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### *Bancroft v. Apple Computer, Inc.*

Plaintiff Bancroft filed this purported class action on January 30, 2002 in Los Angeles Superior Court on behalf of a potentially nationwide class of purchasers of certain Power Macintosh G3 computers. Plaintiff alleges violation of the Consumer Legal Remedies Act ("CLRA") arising from allegedly poor performance while running the Company's Mac OS X operating system, specifically relating to 2D hardware acceleration, QuickTime movie hardware acceleration, 3D graphics performance and DVD movie playback. Plaintiff seeks actual damages, injunctive relief, restitution, punitive damages, attorneys' fees and other relief. The Company has answered the complaint, denying all allegations and alleging numerous affirmative defenses. The parties participated in mediation in October 2002 without resolution. The parties are in discovery.

*BIAX Corporation v. Apple Computer, Inc.*

Plaintiff BIAx filed this action on September 5, 2001 in the United States District Court in Delaware claiming patent infringement relating to dual processor technology. IBM and Motorola were added as defendants in an amended complaint. Plaintiff seeks unspecified damages and other relief. The Company has answered the complaint, denying all allegations and asserting numerous affirmative defenses. The Company also asserted counterclaims requesting a declaratory judgment for non-infringement, unenforceability and invalidity. The parties are in discovery.

*Dynacore Holdings Corp. v. Apple Computer, Inc.*

Plaintiff Dynacore filed this action on June 6, 2001 in United States District Court for the Southern District of New York against the Company and thirteen other defendants claiming patent infringement relating to IEEE 1394 technology, also known as FireWire. Plaintiff claims that any computer system or other electronic product that uses or complies with the IEEE 1394 standard violates the patent. Plaintiff seeks unspecified damages and other relief. The Company has answered the complaint, denying all allegations and asserting numerous affirmative defenses. The Company also asserted counterclaims requesting declaratory judgment for non-infringement and invalidity. Defendants are seeking to amend the pleading to assert a counterclaim for inequitable conduct against Dynacore. The case was stayed pending the Federal Circuit's decision in *Datapoint Corp. v. Standard Microsystems Corp.*, a related case in which plaintiff claimed that its patent was infringed by products complying with the fast Ethernet standard. In February 2002, the Federal Circuit affirmed the judgment of non-infringement in *Datapoint*, and the District Court lifted the stay in this action. The defendants filed a joint motion for summary judgment based upon the decision in *Datapoint*. The Court heard the motion on October 4, 2002 and has not yet issued its ruling.

*Elonex IP Holdings Ltd., EIP Licensing, B.V. v. Apple Computer, Inc.*

Plaintiffs filed this action on February 12, 2001 in the United States District Court in Delaware claiming patent infringement relating to a low power consumption monitor standby system. Plaintiffs filed numerous identical lawsuits against other computer monitor manufacturers and computer systems manufacturers. Plaintiffs seek unspecified damages and other relief. The Company answered the complaint, denying all allegations and asserting numerous affirmative defenses. The Company also asserted counterclaims requesting declaratory judgment for non-infringement, unenforceability and invalidity of the patents at issue. The parties reached a settlement in July 2002. Settlement of this matter did not have a material effect on the Company's financial position or results of operations.

*FTC Inquiry—Prado v. Apple Computer, Inc. (and related actions)*

In October 1997, Apple began charging all U.S. non-education customers for live telephone technical support beyond 90 days after purchase of Apple products. In late 1997, the Federal Trade Commission (FTC) commenced an investigation into customer complaints that Apple's change in technical support practices was either unfair or contrary to earlier representations to certain customers. Four purported class action lawsuits were filed against Apple related to this change. During the fourth quarter of 1999, the

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regional and national offices of the FTC approved a settlement with the Company, and a settlement was approved by the Court in three of the class action suits. In November 1999, two appeals were filed objecting to the settlement. The California Court of Appeal upheld the settlement, and the California Supreme Court denied review of the Court of Appeal's decision. No further appeals were taken and the Company is administering the settlement. Settlement of this matter did not have a material effect on the Company's financial position or results of operations.

*Hawaii Structural Iron Workers and Pension Trust Fund v. Apple Computer, Inc. and Steven P. Jobs; Young v. Apple Computer, Inc. et al; Hsu v. Apple Computer Inc. et al*

Beginning on September 27, 2001, three shareholder class action lawsuits were filed in the United States District Court for the Northern District of California against the Company and its Chief Executive Officer. These lawsuits are substantially identical, and purport to bring suit on behalf of persons who purchased the Company's publicly traded common stock between July 19, 2000, and September 28, 2000. The complaints allege violations of the 1934 Securities Exchange Act and seek unspecified compensatory damages and other relief. The Company believes these claims are without merit and intends to defend them vigorously. The Company filed a motion to dismiss on June 4, 2002, which was heard by the Court on September 13, 2002. On December 11, 2002, the Court granted the Company's motion to dismiss for failure to state a cause of action, with leave to plaintiffs to amend their complaint within thirty days.

*Pierce et al. v. Apple Computer, Inc.*

Plaintiff Pierce filed this action on June 15, 2000 in Santa Clara County Superior Court. This case was a purported nationwide consumer class action brought on behalf of purchasers of the Company's AirPort Card and AirPort Base Station ("AirPort System"). Plaintiffs alleged that the Company engaged in false advertising and unfair business practices (among other causes of action) by advertising that the AirPort System is Internet-ready and failing to disclose that the AirPort System is incompatible with certain Internet service providers, primarily America Online. The Company answered the complaint, denying all allegations and alleging numerous affirmative defenses. The parties reached a settlement that received final approval by the Court on October 8, 2002. The Company is administering the settlement. Settlement of this matter did not have a material effect on the Company's financial position or results of operations.

*Pitney Bowes Inc. v. Apple Computer, Inc.*

Plaintiff Pitney Bowes filed this patent infringement action on June 18, 2001 in the United States District Court in Connecticut alleging patent infringement relating to laser printer technology. Plaintiff has filed similar lawsuits against other companies. Plaintiff seeks unspecified damages and other relief. The Company has answered the complaint, denying all allegations and asserting numerous affirmative defenses. The Company also asserted counterclaims requesting a declaratory judgment for non-infringement, unenforceability and invalidity of the patents at issue. The Connecticut Court transferred this case to the Eastern District of Kentucky on February 1, 2002 and consolidated the case with two other lawsuits, a declaratory judgment action filed by Xerox and Pitney Bowes' patent infringement case against Epson. The case is set for trial on June 8, 2004.

*Sternberg v. Apple Computer, Inc. and Gordon et al. v. Apple Computer, Inc.*

Plaintiff Sternberg filed this action against the Company on March 17, 2000 in the Santa Clara County Superior Court. The case was a purported nationwide consumer class action brought on behalf of purchasers of iMac DV and iMac DV SE computers. Plaintiff alleged that Apple engaged in false advertising, unfair competition and breach of warranty, among other causes of action, by marketing and selling a DVD player with iMac DV and iMac DV SE computers where the playback was unacceptable. A companion case, *Gordon et al. v. Apple Computer, Inc.* was filed by largely the same plaintiffs on June 14, 2000. This case was essentially the same as Sternberg but with respect to a different computer model—the Power Macintosh G4. The Company answered both complaints, denying all allegations and alleging numerous affirmative defenses. The parties reached a settlement in August 2001 that received final

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approval by the Court on February 25, 2002. The Company is administering the settlement. Settlement of this matter did not have a material effect on the Company's financial position or results of operations.

*UNOVA, Inc. v. Apple Computer, Inc., et al.*

Plaintiff UNOVA filed this patent infringement action against the Company and six other defendants on May 8, 2002 in the Central District of California for infringement of eight UNOVA patents related to "Smart Battery Management". Plaintiff alleges that the Company's portable computers manufactured since 1996 infringe these eight patents. Plaintiff has filed similar lawsuits against other companies in addition to the co-defendants in this case. Plaintiff seeks unspecified damages and other relief. The Company has answered the complaint, denying all allegations and asserting numerous affirmative defenses. The Company also asserted counterclaims requesting a declaratory judgment for non-infringement, invalidity and unenforceability.

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

No matters were submitted to a vote of security holders during the fourth quarter of the Company's fiscal year ended September 28, 2002.

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**PART II**

**Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters**



The Company's common stock is traded on the over-the-counter market and is quoted on the Nasdaq National Market under the symbol AAPL, on the Tokyo Stock Exchange under the symbol APPLE, and on the Frankfurt Stock Exchange under the symbol APCD. As of December 6, 2002, there were 28,310 shareholders of record.

On June 21, 2000, the Company effected a two-for-one stock split in the form of a Common Stock dividend to shareholders of record as of May 19, 2000. All share price and per share data and numbers of Common shares have been retroactively adjusted to reflect the stock split. The Company did not pay cash dividends in either fiscal 2002 or 2001. The Company anticipates that, for the foreseeable future, it will retain any earnings for use in the operation of its business. The price range per share of common stock presented below represents the highest and lowest closing prices for the Company's common stock on the Nasdaq National Market during each quarter.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Fiscal 2002 price range per common share	\$ 18.74-\$13.99	\$ 26.11-\$16.55	\$ 25.45-\$20.78	\$ 23.76-\$14.98
Fiscal 2001 price range per common share	\$ 25.22-\$14.68	\$ 27.12-\$18.75	\$ 23.75-\$14.44	\$ 26.75-\$13.63

#### Item 6. Selected Financial Data

The following selected financial information has been derived from the audited consolidated financial statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K in order to fully understand factors that may affect the comparability of the information presented below.

Five fiscal years ended September 28, 2002  
(In millions, except share and per share amounts)

	2002	2001	2000	1999	1998
Net sales	\$ 5,742	\$ 5,363	\$ 7,983	\$ 6,134	\$ 5,941
Net income (loss)	\$ 65	\$ (25)	\$ 786	\$ 601	\$ 309
Earnings (loss) per common share:					
Basic	\$ 0.18	\$ (0.07)	\$ 2.42	\$ 2.10	\$ 1.17
Diluted	\$ 0.18	\$ (0.07)	\$ 2.18	\$ 1.81	\$ 1.05
Cash dividends declared per common share	\$ —	\$ —	\$ —	\$ —	\$ —
Shares used in computing earnings (loss) per share (in thousands):					
Basic	355,022	345,613	324,568	286,314	263,948
Diluted	361,785	345,613	360,324	348,328	335,834
Cash, cash equivalents, and short-term investments	\$ 4,337	\$ 4,336	\$ 4,027	\$ 3,226	\$ 2,300
Total assets	\$ 6,298	\$ 6,021	\$ 6,803	\$ 5,161	\$ 4,289
Long-term debt	\$ 316	\$ 317	\$ 300	\$ 300	\$ 954
Total liabilities	\$ 2,203	\$ 2,101	\$ 2,696	\$ 2,057	\$ 2,647
Shareholders' equity	\$ 4,095	\$ 3,920	\$ 4,107	\$ 3,104	\$ 1,642

A net loss before taxes related to the Company's non-current debt and equity investments of \$42 million was recognized in 2002. Net gains before taxes related to the Company's non-current debt and equity investments of \$75 million, \$367 million, \$230 million, and \$40 million were recognized in 2001, 2000, 1999, and 1998, respectively. In 2002, the Company acquired Emagic resulting in a charge of approximately

\$1 million for acquired in-process technologies with no alternative future use. The Company recognized a similar charge of \$11 million in 2001 related to its acquisition of PowerSchool. Net charges related to Company restructuring actions of \$30 million, \$8 million, and \$27 million were recognized in 2002, 2000, and 1999, respectively. During 2000, the Company recognized the cost of 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. In 2002, of the original \$90 million accrual, \$2 million remained unspent and was reversed.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Form 10-K 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 consolidated financial statements and notes thereto included in Item 8 of this Form 10-K. All information presented herein is based on the Company's fiscal calendar.

### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles and the Company's discussion and analysis of its financial condition and results of operations requires the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 1 of the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K describe the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

Management believes the following to be critical accounting policies. That is, they are both important to the portrayal of the Company's financial condition and results, and they require management to make judgments and estimates about matters that are inherently uncertain.

#### *Revenue Recognition*

The Company recognizes revenue pursuant to applicable accounting standards, including Statement of Position (SOP) No. 97-2, *Software Revenue Recognition*, as amended, and Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*. SAB 101, as amended, summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements and provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable. Product is considered delivered to the customer once it has been shipped, and title and risk of loss have been transferred. Revenue on multiple element sales arrangements is allocated to various elements based on vendor specific objective evidence of the fair value of each element of the transaction and is recognized as each element is delivered.

The Company records reductions to revenue for estimated commitments related to price protection and for customer incentive programs, including reseller and end user rebates and other sales programs and volume-based incentives. Future market conditions and product transitions may require the Company to increase customer incentive programs and incur incremental price protection obligations that could result in incremental reductions of revenue at the time such programs are offered. Additionally, certain customer

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incentive programs require management to estimate the number of customers who will actually redeem the incentive based on historical experience and the specific terms and conditions of particular incentive programs. If a greater than estimated proportion of customers redeem such incentives, the Company would be required to record additional reductions to revenue.

#### *Allowance for Doubtful Accounts*

The Company distributes its products through third-party computer resellers and directly to certain education, consumer, and commercial customers. The Company generally does not require collateral from its customers. However, when possible, the Company does attempt to limit credit risk on trade receivables through the use of flooring arrangements for selected customers with third-party financing companies and credit insurance for certain customers in Europe, Asia, and Latin America. However, considerable trade receivables that are not covered by collateral, flooring arrangements, or credit insurance are outstanding with the Company's distribution and retail channel partners.

The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts and includes consideration of the credit worthiness and financial condition of those specific customers. The Company records an allowance to reduce the specific receivables to the amount that is reasonably believed to be collectible. The Company also records an allowance

for all other trade receivables based on multiple factors including historical experience with bad debts, the general economic environment, the financial condition of the Company's distribution channels, and the aging of such receivables. If there is a deterioration of a major customer's financial condition, if the Company becomes aware of additional information related to the credit worthiness of a major customer, or if future actual default rates on trade receivables in general differ from those currently anticipated, the Company may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

#### *Inventory Valuation and Inventory Purchase Commitments*

The Company must order components for its products and build inventory in advance of product shipments. The Company records a write-down for inventories of components and products, including third-party products held for resale, which have become obsolete or are in excess of anticipated demand or net realizable value. The Company performs a detailed review of inventory each period that considers multiple factors including demand forecasts, product lifecycle status, product development plans, and component cost trends. The personal computer industry is subject to a rapid and unpredictable pace of product and component obsolescence. If future demand or market conditions for the Company's products are less favorable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, the Company may be required to record additional write-downs which would negatively affect gross margins in the period when the write-downs are made.

The Company accrues necessary reserves for cancellation fees related to component orders that have been canceled. Consistent with industry practice, the Company acquires components through a combination of formal purchase orders, supplier contracts, and open orders based on projected demand information. These formal and informal commitments typically cover the Company's requirements for periods ranging from 30 to 130 days. If there is an abrupt and substantial decline in demand for one or more of the Company's products or an unanticipated change in technological requirements for any of the Company's products, the Company may be required to record additional reserves for cancellation fees, negatively affecting gross margins in the period when the cancellation fees are identified.

#### *Valuation of Long-Lived Assets Including Acquired Intangibles*

The Company reviews property, plant, and equipment and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to future undiscounted cash flows the assets are expected to generate. If such assets are considered to be

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impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair market value. Although the Company has recognized no material impairment adjustments related to its property, plant, and equipment or identifiable intangibles during the past three fiscal years, except those made in conjunction with restructuring actions, deterioration in the Company's business in a geographic region or business segment in the future, including deterioration in the performance of individual retail stores, could lead to such impairment adjustments in the future periods in which such business issues are identified.

As of September 28, 2002, the Company had \$85 million in goodwill. The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, in the first quarter of fiscal 2002. As a result, the Company no longer amortizes goodwill but instead performs a review of goodwill for impairment annually, or earlier if indicators of potential impairment exist. The review of goodwill for potential impairment is highly subjective and requires that: (1) goodwill be allocated to various business units of the Company's business to which it relates; (2) the Company estimate the fair value of those business units to which the goodwill relates; and (3) the Company determine the book value of those business units. If the estimated fair value of business units with allocated goodwill is determined to be less than their book value, the Company is required to estimate the fair value of all identifiable assets and liabilities of those business units in a manner similar to a purchase price allocation for an acquired business. This requires independent valuation of certain internally developed and unrecognized assets including in-process research and development and developed technology. Once this process is complete, the amount of goodwill impairment, if any, can be determined.

Based on the Company's estimates as of September 28, 2002, there was no impairment of goodwill. However, changes in various circumstances including changes in the Company's market capitalization, changes in the Company's forecasts, and changes in the Company's internal business structure could cause one or more of the Company's business units to be valued differently thereby causing an impairment of goodwill. Additionally, in response to changes in the personal computer industry and changes in global or regional economic conditions, the Company may strategically realign its resources and consider restructuring, disposing of, or otherwise exiting businesses, which could result in an impairment of property, plant, and equipment, identifiable intangibles, or goodwill.

#### *Valuation of Non-Current Debt and Equity Investments*

As of September 28, 2002, the Company held investments in certain debt and equity securities with a combined carrying value of \$39 million. These investments, which are reflected in the consolidated balance sheets as non-current debt and equity investments, 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 Company recognizes an impairment charge to earnings when it is judged an investment has experienced a decline in value that is other-than-temporary. The Company has recognized material impairment charges related to its non-current debt and equity investments in two quarters during the last two fiscal years. Various factors are considered in determining whether a decline in value is other-than-temporary, including the length of time and extent to which the investment's market value has been less than its cost basis, the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

The Company's non-current debt and equity investments are in public companies whose security prices are subject to significant volatility. The Company recognized a pre-tax impairment loss of \$50 million related to two of these investments in the fourth quarter of 2002. As a result, as of September 28, 2002, the Company had no significant unrealized gains or losses recorded against the carrying value of its non-current debt and equity investments. Should the fair value of these investments fall below the Company's current cost bases and/or the financial condition or prospects of either company deteriorate, the Company may determine in a future period that such a decline in fair value is other-than-temporary,

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requiring an impairment loss be recognized in the period such a determination is made. Additional information regarding these investments and potential charges related to their impairment may be found below under the caption "Factors That May Affect Future Results and Financial Condition."

#### Net Sales

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

	2002	Change	2001	Change	2000
Americas net sales	\$ 3,088	3 %	\$ 2,996	(30)%	\$ 4,298
Europe net sales	1,251	0 %	1,249	(31)%	1,817
Japan net sales	710	0 %	713	(47)%	1,345
Retail net sales	283	—	19	—	—
Other segments net sales	410	6 %	386	(26)%	523
<b>Total net sales</b>	<b>\$ 5,742</b>	<b>7 %</b>	<b>\$ 5,363</b>	<b>(33)%</b>	<b>\$ 7,983</b>
Americas Macintosh unit sales	1,728	(2)%	1,768	(29)%	2,507
Europe Macintosh unit sales	722	(4)%	754	(32)%	1,110
Japan Macintosh unit sales	386	(2)%	394	(46)%	730
Retail Macintosh unit sales	92	—	7	—	—
Other segments Macintosh unit sales	173	5 %	164	(22)%	211
<b>Total Macintosh unit sales</b>	<b>3,101</b>	<b>0 %</b>	<b>3,087</b>	<b>(32)%</b>	<b>4,558</b>
Power Macintosh net sales (a)	\$ 1,380	(17)%	\$ 1,664	(39)%	\$ 2,747
PowerBook net sales	831	2 %	813	(14)%	948
iMac net sales	1,448	30 %	1,117	(53)%	2,381
iBook net sales	875	8 %	809	0 %	809
Software, Service, and Other net sales	1,208	26 %	960	(13)%	1,098
<b>Total net sales</b>	<b>\$ 5,742</b>	<b>7 %</b>	<b>\$ 5,363</b>	<b>(33)%</b>	<b>\$ 7,983</b>
Power Macintosh unit sales (a)	766	(18)%	937	(35)%	1,436

PowerBook unit sales	357	3 %	346	(10)%	383
iMac unit sales	1,301	8 %	1,208	(45)%	2,194
iBook unit sales	677	14 %	596	9 %	545
Total Macintosh unit sales	3,101	0 %	3,087	(32)%	4,558
Net sales per Macintosh unit sold (b)	\$ 1,462		\$ 1,426		\$ 1,510

(a) Includes server sales and amounts previously reported as Power Macintosh G4 Cube.

(b) Based on net sales associated with Macintosh units and total Macintosh units sold.

Net sales increased \$379 million or 7% during 2002 compared to 2001, while Macintosh unit sales were relatively flat year-over-year at approximately 3.1 million units. On a geographic basis, performance in the domestic market was relatively strong, especially when considering the performance of the Company's Retail segment which currently operates exclusively in the United States. However, the European and Japanese markets remained sluggish throughout 2002. The Company's net sales in 2002 were positively influenced by a number of factors.

First, net sales from software, service, and other sources rose \$248 million or 26% in 2002 versus 2001. This increase was driven by several factors including a 28% increase in combined third-party and Apple-

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branded software sales; \$143 million in net sales of iPod, the Company's portable digital music player that was introduced in the first half of 2002; a 9% increase in the sale of computer accessories; and a 14% increase in service revenue caused primarily by increased revenue associated with extended maintenance and support contracts. The growth in software revenue was primarily the result of increased sales of third-party software in the Company's retail and online stores and expansion in recent years in the number of Apple-branded software titles.

Second, overall unit sales of Macintosh portable systems grew by 92,000 units or 10% in 2002 reflecting a general trend in the personal computer market away from desktop systems towards portable systems. During 2002, portable Macintosh systems represented 33% of total systems sales versus 31% in 2001 and 20% in 2000. Growth in this area has been most pronounced for iBook, the Company's education and consumer oriented portable Macintosh system. iBook unit sales increased 14% in 2002 and 9% in 2001.

Third, the Company's Retail segment grew from 8 stores at the end of 2001 to 40 stores at the end of 2002. The Retail segment's net sales grew from \$19 million in 2001 to \$283 million in 2002. While the Retail segment may cannibalize some net sales from the Company's preexisting sales channels in the U.S., the Company does believe that a substantial portion of the Retail segment's net sales are incremental to the Company's total net sales. See additional comments below related to the Retail segment under the heading "Segment Operating Performance."

Fourth, the Company's average unit pricing remained relatively stable during 2002 as a result of various changes in overall unit mix offset by somewhat lower pricing year-over-year on comparative Macintosh systems. Net sales per Macintosh unit sold during 2002 of \$1,462 per unit reflects the shift in mix towards relatively higher-priced portable Macintosh systems and reflects the impact on net sales of the relatively higher-priced new iMac design introduced during 2002. The impact of these changes in mix were offset by the decline in unit sales of relatively higher-priced Power Macintosh systems and by lower pricing on comparative Macintosh systems during 2002 for most of the Company's Macintosh product lines in response to industry pricing pressure.

Fifth, any comparison of net sales in 2002 versus 2001 must consider the effect of unusually low net sales during the first quarter of 2001. As discussed below, this was attributable to several factors at the beginning of 2001, including continuing deterioration in worldwide demand for personal computers, rebate programs and price cuts instituted by the Company during that quarter that cost the Company approximately \$138 million, and a plan implemented by the Company during the first quarter of 2001 to reduce substantially the level of inventory in its distribution channels that resulted in a decline in channel inventory of approximately 300,000 units during that quarter. Net sales during the first quarter of 2001 are discussed in more detail below.

Offsetting the favorable factors discussed above, the Company's net sales in 2002 were negatively impacted by several notable factors. First, unit sales of Power Macintosh systems fell 18% during 2002 as compared to 2001. This followed a 35% decline in Power

Macintosh unit sales in 2001 from 2000. The Company continues to believe that weak economic conditions over the past several years are having a pronounced negative impact on its professional and creative customers and that many of these customers continue to delay upgrades of their Power Macintosh systems due to the Company's ongoing transition to Mac OS X, its new operating system, and in anticipation of certain software vendors transitioning their Macintosh applications to run natively in Mac OS X. Further, the Company did not experience the anticipated increase in Power Macintosh sales that it expected following the introduction of Adobe's PhotoShop 7 during 2002. Additionally, many professional users may have postponed upgrading their systems until after the introduction of Mac OS X Jaguar released in the fourth quarter of 2002. Others may have delayed upgrading until after the availability of other professionally oriented software applications for Mac OS X such as QuarkXpress.

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Second, despite the overall increase in net sales during 2002 in the Americas, the Company continues to see weakness in its U.S. education channel. Total net sales in this channel fell 15% in 2002 and 4% in 2001. These declines are consistent with industry data that shows the Company losing market share in the U.S. education market in each of the last two fiscal years. The Company believes this weakness has been caused by multiple factors, including increased price competition in this price sensitive market from the Company's competitors who sell Windows-based personal computers. Additionally, some of the Company's education customers appear to be delaying technology purchases due to concerns about the overall impact of the weaker economy on their available funding. The Company continues to take steps to address weakness in the U.S. education channel. However, it is difficult to anticipate how this trend will affect fiscal 2003 and to anticipate when and if this trend will reverse.

Third, the personal computer industry in general and the Company specifically continue to see relatively soft demand for its products. Despite an overall increase in unit sales of consumer oriented Macintosh systems during 2002, consumer sales remain far below levels experienced in 2000 and earlier. Worsening global economic conditions over the past three years exacerbated by the economic and political uncertainties caused by terrorist activities and the associated international responses have clearly had a pronounced negative effect on the overall demand for the Company's products in virtually all of its markets. Further, growth in the overall personal computer industry has been slowed due to the high market penetration of personal computers and a lengthening of consumer, creative, and business personal computer upgrade cycles. In short, the Company believes that expansion in the overall market for personal computers has for the most part stalled and that growth awaits a combination of economic recovery and technological advancements.

Net sales decreased \$2.6 billion or 33% during 2001 compared to 2000, while Macintosh unit sales fell 32% from 2000. Demand for all of the Company's products in all of the Company's geographic operating segments was negatively impacted throughout 2001 by unfavorable global economic conditions. On a year-over-year basis, net sales and Macintosh unit sales were down in all of the Company's geographic operating segments, and net sales and unit sales by product were down for each Macintosh product category except iBook. In addition to general economic conditions, two other primary factors contributed to the decline in net sales during 2001. First, as discussed below, the Company executed a plan during the first three quarters of 2001 to reduce substantially the level of inventory in its distribution channels. As a result of these efforts, the Company's Macintosh channel inventory fell by approximately 450,000 units during the first nine months of 2001. Second, the Company believes that many of its professional users were delaying upgrades of their Power Macintosh systems due to the Company's ongoing transition to Mac OS X, its new operating system, and in anticipation of software vendors transitioning their Mac applications to run natively in Mac OS X.

Several positive factors combined to partially mitigate the overall decline in net sales during 2001. The net sales per Macintosh unit sold remained relatively strong during 2001 after adjusting for the \$138 million impact to net sales of the rebate programs and price cuts instituted by the Company during the first quarter of 2001, falling only about 2.5% from 2000. The relatively strong per unit sales in 2001 reflects somewhat lower year-over-year pricing on comparative systems, offset by a shift in overall sales mix toward higher-priced portable systems. Also, the Company experienced very little shift in the mix of overall combined unit sales of relatively lower-priced consumer and education Macintosh systems, iMac and iBook, and their higher-priced professionally oriented equivalents. Combined unit sales of iMac and iBook systems accounted for 58% of total Macintosh unit sales in 2001 and 60% in 2000. Second, combined unit sales of portable systems, iBook and PowerBook, actually rose 2% during 2001 despite the negative economic climate and the overall decline in unit sales. Not only does this increase in portable system sales reflect a general industry shift toward portable systems, it is also specifically attributable to the strong demand for redesigned iBooks introduced during the third quarter of 2001 and for the Titanium PowerBook G4 which was introduced during the second quarter of 2001. Third, a small decline in net sales

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in the U.S. education market during 2001 compared to 2000 was partially mitigated by a 7% increase in U.S. education unit sales during 2001.

First quarter 2001 net sales decreased 57% to \$1.007 billion compared to the same quarter in 2000 and decreased 46% from the fourth

quarter of 2000. Both the year-over-year and sequential declines in net sales during the first quarter of 2001 were attributable to several factors, including continued deterioration in worldwide demand for personal computers and rebate programs and price cuts instituted by the Company during the quarter that cost the Company approximately \$138 million. In addition, the Company implemented a plan during the first quarter to reduce substantially the level of inventory in its distribution channels from the amounts at the end of fiscal 2000 to lower levels by the end of the first quarter of 2001. The Company ended fiscal 2000 with substantially more inventory in its distribution channels than planned due to the lower than expected sell-through of the Company's products during the fourth quarter of that year. The Company reduced Macintosh channel inventory during the first quarter by approximately 300,000 units. These factors contributed to the 52% year-over-year decline during the first quarter in total Macintosh unit sales that were experienced across the Company's entire product line. These factors also reduced the net sales per Macintosh unit sold (a function of total net sales associated with Macintosh units and total Macintosh CPU unit sales) during the first quarter of 2001 to \$1,476, a decline of approximately 12% from the same period in 2000.

### Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments include the Americas, Europe, Japan, and Retail. The Americas segment includes both North and South America, except for the Company's Retail segment. The European segment includes European countries as well as the Middle East and Africa. The Japan segment includes only Japan. The Retail segment operates Apple-owned retail stores in the United States. Each reportable geographic operating segment provides similar hardware and software products and similar services. Further information regarding the Company's operating segments may be found in Part II, Item 8 on this Form 10-K in the Notes to Consolidated Financial Statements at Note 11, "Segment Information and Geographic Data."

#### *Americas*

Net sales for the Americas segment increased 3% or \$92 million in 2002. As discussed above, the Americas segment was negatively affected by a decline in U.S. education sales in 2002 of \$215 million. The Americas segment also experienced a 17% decline in Power Macintosh unit sales. However, outside of the U.S. education channel, unit sales of consumer desktop and portable systems rebounded from the substantial declines experienced in 2001, rising a combined 31% in 2002. Sales of software, peripherals, and accessories were also up in the Americas during 2002. Growth in unit sales of consumer oriented systems during 2002 in the Americas is somewhat attributable to the significantly depressed level of net sales experienced in the first quarter of 2001 discussed above. However, growth in the Americas was somewhat negatively affected, particularly with respect to consumer-oriented systems, by the significant growth of the Company's Retail segment in the U.S. More than 70% of the Retail segment's Macintosh unit sales during 2002 were for iMacs and iBooks.

The Americas segment's 2001 net sales and unit sales declined 30% and 29%, respectively, from 2000. The operating performance of the Americas segment for 2001 reflects the Company's overall performance characterized by significant declines in year-over-year quarterly net sales and units sales, particularly during the first quarter and particularly in consumer channels, with sequential increases in unit sales and net sales during each of the last three quarters of 2001. Net sales in the Americas segment during 2001 were also negatively affected by the Company's overall reduction in channel inventories during the year. Consumer sales in the Americas were particularly hard hit by current economic conditions. Outside of the U.S. education channel, unit sales of the Company's consumer oriented iMac fell 64% in 2001. The effect of falling consumer demand in the Americas segment was partially offset by strong U.S. education sales. The Company's unit sales in U.S. education markets rose 7% in 2001 driven by the acceptance of the

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Company's new portable products, particularly the iBook, and reflect a general shift in demand in the U.S. education market towards portable versus desktop systems. Portable systems accounted for 28% of total unit sales in the Company's U.S. education market in 2001 compared to 18% during 2000.

During 2002 and 2001, the Americas segment represented approximately 54% and 56%, respectively, of the Company's total net sales and represented approximately 56% and 57%, respectively, of total Macintosh unit sales.

#### *Europe*

Economic conditions in Europe remained weak throughout 2002, and the overall demand for the Company's products in that region remained flat during 2002 versus 2001. Unit sales in Europe for 2002 reflect relatively stronger demand for consumer-oriented products, particularly iBook whose unit sales increased 27% in 2002, offset by declines in Power Macintosh unit sales.

Net sales in Europe fell \$568 million or 31% during 2001 compared to 2000, while Europe's unit sales fell 32%. Europe's results reflect the worsening economic climate in Europe in the latter half of 2001 and reductions in channel inventories as experienced in the

Company's other geographic operating segments. Combined unit sales of the Company's consumer oriented products in Europe were particularly impacted during 2001, falling 40% from 2000.

#### *Japan*

Net sales in Japan remained flat during 2002 versus 2001, with a slight decline in unit sales of 2%. Consistent with the Company's other geographic operating segments, during 2002 Japan showed growth in unit sales of consumer systems and a decline in unit sales of Power Macintosh systems. Japan's iMac unit sales increased 85% in 2002. However, in the case of Japan the increase in iMac unit shipments in 2002 versus 2001 was primarily the result of the unusually depressed level of net sales experienced by the Company in the first quarter of 2001 discussed above. Additionally, net sales in Japan on a sequential and year-over-year comparative basis generally worsened as 2002 progressed reflecting particularly poor economic conditions that currently exist in Japan.

Net sales and unit sales in Japan fell 47% and 46%, respectively, in 2001 versus 2000. Although unit sales and net sales in Japan have generally trended upwards as 2001 progressed, the Japan segment has been particularly affected by current unfavorable economic conditions. Reflecting the continuing harsh consumer climate in Japan, the Japan segment's combined unit sales of iMacs and iBooks during 2001 were down 58% from 2000, and professionally oriented systems unit sales fell 30%.

#### *Retail*

By the end of September 2002, the Company had 40 retail stores operating in the United States, 32 of which were opened during fiscal 2002. The Company has opened 11 additional stores during the first quarter of 2003. During 2002, approximately 39% of the Retail segment's net sales came from the sale of Apple-branded and third-party peripherals and software. This compares to 21% for the Company as a whole. With an average of 35 stores open, the Retail segment achieved average annualized revenue per store during the fourth quarter of approximately \$12 million and had approximately 2.25 million visitors. The Retail segment reported a loss for all of 2002 of \$22 million, and a loss for the fourth quarter of 2002 of \$3 million.

Expansion of the Retail segment has required and will continue to require a substantial investment in fixed assets and related infrastructure, operating lease commitments, personnel, and other operating expenses. Capital expenditures associated with the Retail segment totaled \$106 million in 2002 and \$92 million in 2001. As of September 28, 2002, the Retail segment had 807 employees and had outstanding operating lease commitments associated with retail store space and related facilities of \$209 million. The Company would incur substantial costs should it choose to terminate its Retail segment or close individual stores. Such costs could adversely affect the Company's results of operations and financial condition. Investment

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in a new business model such as the Retail segment is inherently risky, particularly in light of the significant investment involved, the current economic climate, and the fixed nature of a substantial portion of the Retail segment's operating expenses. Results for this segment are dependent upon a number of risks and uncertainties, some of which are discussed below under the heading "Factors That May Affect Future Results and Financial Condition."

#### **Backlog**

In the Company's experience, the actual amount of product backlog at any particular time is not a meaningful indication of its future business prospects. In particular, backlog often increases in anticipation of or immediately following new product introductions because of over-ordering by dealers anticipating shortages. Backlog often is reduced once dealers and customers believe they can obtain sufficient supply. Because of the foregoing, backlog cannot be considered a reliable indicator of the Company's ability to achieve any particular level of revenue or financial performance. Further information regarding the Company's backlog may be found below under the heading "Factors That May Affect Future Results and Financial Condition."

#### **Gross Margin**

Gross margin for the three fiscal years ended September 28, 2002 are as follows (in millions, except gross margin percentages):

	2002	2001	2000
Net sales	\$ 5,742	\$ 5,363	\$ 7,983
Cost of sales	4,139	4,128	5,817
Gross margin	\$ 1,603	\$ 1,235	\$ 2,166



Gross margin percentage

2002	2001	2000
28%	23%	27%

Gross margin increased to 28% of net sales in 2002 from 23% in 2001. As discussed below, gross margin in 2001 was unusually low resulting from negative gross margin of 2% experienced in the first quarter of 2001. As a percentage of net sales, the Company's quarterly gross margins declined during fiscal 2002 from 31% in the first quarter down to 26% in the fourth quarter. This decline resulted from several factors including a rise in component costs as the year progressed and aggressive pricing by the Company across its products lines instituted as a result of continued pricing pressures in the personal computer industry. The Company anticipates that its gross margin and the gross margin of the overall personal computer industry will remain under pressure throughout fiscal 2003 in light of weak economic conditions, flat demand for personal computers in general, and the resulting pressure on prices.

The foregoing statements regarding anticipated gross margin in 2003 and the general demand for personal computers during 2003 are forward-looking. Gross margin could differ from anticipated levels because of several factors, including certain of those set forth below in the subsection entitled "Factors That May Affect Future Results and Financial Condition." There can be no assurance that current gross margins will be maintained, 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, 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

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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.

The Company orders components for its products and builds inventory in advance of product shipments. Because the Company's markets are volatile and subject to rapid technology and price changes, there is a risk the Company will forecast incorrectly and produce or order from third parties excess or insufficient inventories of particular products or components. The Company's operating results and financial condition have been in the past and may in the future be materially adversely affected by the Company's ability to manage its inventory levels and outstanding purchase commitments and to respond to short-term shifts in customer demand patterns.

Gross margin declined to 23% of net sales in 2001 from 27% in 2000. This decline resulted primarily from gross margin of negative 2% experienced during the first quarter of 2001 compared to 26% gross margin for the same quarter in 2000. In addition to lower than normal net sales, first quarter 2001 margins were negatively impacted by the rebate programs and price cuts discussed above that decreased revenue by approximately \$138 million. Additionally, actual and forecasted declines in net sales caused the Company to recognize during the first quarter of 2001 approximately \$122 million of charges associated with purchase order cancellations and loss commitments for component purchases. Without these charges, gross margin for the first quarter of 2001 would have been approximately 21%, and gross margin for all of 2001 would have been approximately 27%. As a percentage of net sales, the Company's gross margin increased each quarter as 2001 progressed reaching 30% during the fourth quarter. This pattern reflects the favorable impact during 2001 of declining component costs, especially for DRAM, hard drives, and flat panel screens.

### Operating Expenses

Operating expenses for the three fiscal years ended September 28, 2002 are as follows (in millions, except for percentages):

	2002	2001	2000
Research and development	\$ 446	\$ 430	\$ 380
Percentage of net sales	8%	8%	5%
Selling, general, and administrative expenses	\$ 1,111	\$ 1,138	\$ 1,166
Percentage of net sales	19%	21%	15%

### Research and Development (R&D)

The Company recognizes that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products that are central to the Company's core business strategy.

R&D expense increased 4% or \$16 million to \$446 million in 2002 as compared to 2001. This followed a \$50 million or 13% increase in 2001 as compared to 2000. The overall increase in R&D expense over the last two years relates primarily to increased R&D headcount and support for new product development activities. R&D spending in 2002 also included capitalized software development costs of approximately \$13.3 million associated with the development of Mac OS X Jaguar and approximately \$6 million associated with the new PowerSchool enterprise student information system. R&D spending in 2001 also included capitalized software development costs of approximately \$5.4 million associated with the development of the original version of Mac OS X. Further information related to the Company's capitalization of software development costs may be found in Part II, Item 8 of this Form 10-K at Note 1 of Notes to Consolidated Financial Statements.

#### *Selling, General, and Administrative Expense (SG&A)*

SG&A decreased \$27 million or 2% during 2002 as compared to 2001. The decrease in SG&A in 2002 is primarily the result of lower discretionary spending on marketing and advertising expenses, decreased spending related to information systems, and benefits directly related to the Company's restructuring

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actions in 2002 and 2001. These decreases were partially offset by higher sales expense in 2002 resulting from increased operating expenses associated with expansion of the Company's Retail segment. SG&A expenditures decreased \$28 million or 2% during 2001 as compared to 2000. Declines in SG&A spending in both 2002 and 2001 reflect the Company's overall efforts to stabilize and selectively reduce recurring SG&A costs in light of lower net sales and to reduce discretionary marketing and advertising expenses. Given current economic conditions and the Company's continued strategic investments in new product development and its Retail segment, the Company is currently identifying additional opportunities to make appropriate reductions in SG&A costs.

#### **Special Charges Included in Operating Expenses**

Special charges included in operating expense for the three fiscal years ended September 28, 2002 are as follows (in millions):

	2002	2001	2000
Restructuring costs	\$ 30	—	\$ 8
Purchased in-process research and development	\$ 1	\$ 11	—
Executive bonus	\$ (2)	—	\$ 90

#### *2002 Restructuring Actions*

During fiscal 2002, the Company recorded total restructuring charges of \$30 million related to actions intended to eliminate certain activities and better align the Company's operating expenses with existing general economic conditions and to partially offset the cost of continuing investments in new product development and investments in the Company's Retail operating segment. Once fully implemented, the Company estimates these restructuring actions will result in reduced quarterly operating expenses of approximately \$10 million.

Of the \$30 million restructuring charge for fiscal 2002, \$6 million was incurred in the fourth quarter of 2002 related to actions designed to reduce headcount costs in Corporate operations and sales and to adjust its PowerSchool product strategy. Headcount actions, primarily in Corporate operations, sales, and PowerSchool related research and development, resulted in the elimination of approximately 180 positions worldwide at a cost of \$1.8 million. The shift in product strategy at PowerSchool included discontinuing development and marketing of a PowerSchool product that resulted in the impairment of previously capitalized development costs associated with the product in the amount of \$4.5 million. The remaining charge in 2002 of \$24 million was incurred in the first quarter of 2002 and will ultimately result in the elimination of approximately 425 positions worldwide, 415 of which were eliminated by September 28, 2002, at a cost of \$8 million. Positions were eliminated primarily in the Company's operations, information systems, and administrative functions. In addition, these restructuring actions also included significant changes in the Company's information systems strategy resulting in termination of equipment leases and cancellation of existing projects and activities. Related lease and contract cancellation charges totaled \$12 million, and charges for asset impairments totaled \$4 million. Of the total charge in 2002 of \$30 million, substantially all had been spent by September 28, 2002, except for approximately \$1 million related primarily to future payments on abandoned operating leases.

#### *2000 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 before the end of 2000, and the remainder was spent in 2001. Of the \$3 million accrued for the write-off of various assets, substantially all was utilized before the end of 2000.

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#### *Purchased In-Process Research and Development (IPR&D)*

During the fourth quarter of 2002, the Company acquired Emagic GmbH, a provider of professional software solutions for computer based music production, for approximately \$30 million in cash; \$551,000 of which was allocated to IPR&D. The amount of the purchase price allocated to IPR&D was expensed upon acquisition, because the technological feasibility of products under development had not been established and no alternative future uses existed. The IPR&D relates primarily to Emagic's Logic series technology and extensions. At the date of the acquisition, the products under development were between 43%-83% complete, and it was expected that the remaining work would be completed during the Company's fiscal 2003 at a cost of approximately \$415,000. The remaining efforts include finalizing user interface design and development, and testing. The fair value of the IPR&D was determined by an independent third-party valuation using the income approach, which reflects the projected free cash flows that will be generated by the IPR&D projects and that are attributable to the acquired technology, and discounting the projected net cash flows back to their present value using a discount rate of 25%.

In May 2001, the Company acquired PowerSchool, Inc. (PowerSchool), a provider of web-based student information systems for K-12 schools and districts that enables schools to record, access, report, and manage their student data and performance in real-time, and gives parents real-time web access to track their children's progress. Of total purchase consideration of \$66.1 million, \$10.8 million was allocated to IPR&D and was expensed upon acquisition because the technological feasibility of products under development had not been established and no alternative future uses existed. The IPR&D relates to technologies representing processes and expertise employed to design, develop, and deploy a functioning, scalable web-based student information system for use by K-12 schools. At the date of the acquisition, the PowerSchool product under development was approximately 50% complete, and it was expected that the remaining 50% would be completed during the Company's fiscal 2002 at a cost of approximately \$9.25 million. The remaining efforts, which were completed during 2002, included completion of coding, finalizing user interface design and development, and testing. The fair value of the IPR&D was determined by an independent third-party valuation using the income approach, which reflects the projected free cash flows that will be generated by the IPR&D projects and that are attributable to the acquired technology, and discounting the projected net cash flows back to their present value using a discount rate of 25%.

#### *Executive Bonus*

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 was not tax deductible. Approximately half of the total charge was for the cost of the aircraft. The other half represents all other costs and taxes associated with the bonus. In the fourth quarter of 2002, all significant work and payments associated with the aircraft were complete. Of the original \$90 million accrual, \$2.4 million remained unspent at the end of fiscal 2002 and was reversed.

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#### **Other Income and Expense**

Other income and expense for the three fiscal years ended September 28, 2002 are as follows (in millions):

	2002	2001	2000
Gains (losses) on non-current investments, net	\$ (42)	\$ 88	\$ 367
Unrealized loss on convertible securities	\$ —	(13)	\$ —
Interest income	\$ 118	\$ 218	\$ 210
Interest expense	(11)	(16)	(21)
Miscellaneous other income and expense	5	15	14

Interest and other income, net	\$ 112	\$ 217	\$ 203
Total other income and expense	\$ 70	\$ 292	\$ 570

#### *Gains and Losses on Non-current Investments*

Investments categorized as non-current debt and equity investments on the consolidated balance sheet are in equity and debt instruments of public companies. The Company's non-current debt and equity investments, and certain investments in private companies carried in other assets, 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. However, the Company recognizes an impairment charge to earnings in the event a decline in fair value below the cost basis of one of these investments is determined to be other-than-temporary. The Company includes recognized gains and losses resulting from the sale or from other-than-temporary declines in fair value associated with these investments in other income and expense. Further information related to the Company's non-current debt and equity investments may be found in Part II, Item 8 of this Form 10-K at Note 2 of Notes to Consolidated Financial Statements.

During 2002, the Company determined that declines in the fair value of certain of these investments were other-than-temporary. As a result, the Company recognized a \$44 million charge to earnings to write-down the basis of its investment in EarthLink, Inc. (EarthLink), a \$6 million charge to earnings to write-down the basis of its investment in Akamai Technologies, Inc. (Akamai), and a \$15 million charge to earnings to write-down the basis of its investment in a private company investment. These losses in 2002 were partially offset by the sale of 117,000 shares of EarthLink stock for net proceeds of \$2 million and a gain before taxes of \$223,000, the sale of 250,000 shares of Akamai stock for net proceeds of \$2 million and a gain before taxes of \$710,000, and the sale of approximately 4.7 million shares of ARM Holdings plc (ARM) stock for both net proceeds and a gain before taxes of \$21 million.

During 2001, the Company sold a total of approximately 1 million shares of Akamai stock for net proceeds of \$39 million and recorded a gain before taxes of \$36 million, and sold a total of approximately 29.8 million shares of ARM stock for net proceeds of \$176 million and recorded a gain before taxes of \$174 million. These gains during 2001 were partially offset by a \$114 million charge to earnings that reflected an other-than-temporary decline in the fair value of the Company's investment in EarthLink and an \$8 million charge that reflected an other-than-temporary decline in the fair value of certain private company investments. During 2000, the Company sold a total of approximately 45.2 million shares of ARM stock for net proceeds of \$372 million and a gain before taxes of \$367 million.

The combined carrying value of the Company's investments in EarthLink, Akamai, and ARM as of September 28, 2002, was \$39 million. The Company believes it is likely there will continue to be significant fluctuations in the fair value of these investments in the future.

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#### *Accounting for Derivatives and Cumulative Effect of Accounting Change*

On October 1, 2000, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 established accounting and reporting standards for derivative instruments, hedging activities, and exposure definition. Net of the related income tax effect of approximately \$5 million, adoption of SFAS No. 133 resulted in a favorable cumulative-effect-type adjustment to net income of approximately \$12 million for the first quarter of 2001. The \$17 million gross transition adjustment was comprised of a \$23 million favorable adjustment for the restatement to fair value of the derivative component of the Company's investment in Samsung Electronics Co., Ltd. (Samsung), partially offset by the unfavorable adjustments to certain foreign currency and interest rate derivatives. SFAS No. 133 also required the Company to adjust the carrying value of the derivative component of its investment in Samsung to earnings during the first quarter of 2001, the before tax effect of which was an unrealized loss of approximately \$13 million.

#### *Interest and Other Income, Net*

Net interest and other income was \$112 million in fiscal 2002, compared to \$217 million in fiscal 2001. This \$105 million or 48% decrease is primarily the result of declining investment yields on the Company's cash and short-term investments resulting from substantially lower market interest rates. The weighted average interest rate earned by the Company on its cash, cash equivalents and short-term investments fell to 2.85% in 2002 compared to 5.38% in 2001.

Net interest and other income increased \$14 million or 7% to \$217 million during 2001. The increase was due in part to interest income from higher cash and invested balances in 2001, partially offset by declining interest rates and investment yields, and a rebalancing of

the aggregate investment portfolio to a higher proportion of lower risk and better credit investments. The weighted average interest rate earned by the Company on its cash, cash equivalents and short-term investments fell to 5.38% in 2001 compared to 6.12% in 2000.

The Company expects interest and other income, net to decline substantially in 2003 as declines in interest rates continue to impact earnings on the Company's investment portfolio. The Company's expects this decline to be most pronounced in the second half of the fiscal year. The foregoing statements are forward-looking. Interest and other income, net could differ from expected levels because of several factors, including certain of those set forth below in the subsection entitled "Factors That May Affect Future Results and Financial Condition." Additionally, actual future interest and other income, net may be significantly impacted by unforeseen changes in market interest rates, foreign currency exchange rates, and the fair value of the Company's short-term and long-term investments.

#### Provision for Income Taxes

The Company's effective tax rate for 2002 was 25% compared to the higher statutory rate due primarily to the research and development credit and the reversal of valuation allowances. As of September 28, 2002, the Company had deferred tax assets arising from deductible temporary differences, tax losses, and tax credits of \$369 million before being offset against certain deferred tax liabilities for presentation on the Company's balance sheet. Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, will be sufficient to fully recover the remaining net deferred tax assets. As of September 28, 2002, a valuation allowance of \$30 million was recorded against the deferred tax asset for the benefits of tax losses that may not be realized. The valuation allowance relates principally to the operating loss carryforwards acquired from NeXT and other acquisitions, the utilization of which is subject to certain limitations imposed by the Internal Revenue Code. 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.

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The Internal Revenue Service (IRS) has completed audits of the Company's federal income tax returns through 1997. Substantially all IRS audit issues for years through 1997 have been resolved. Management believes that adequate provision has been made for any adjustments that may result from tax examinations.

#### Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The Company is required to adopt the provisions of SFAS No. 143 for the first quarter of its fiscal 2003. Management does not expect the adoption of SFAS No. 143 to have a material impact on the Company's financial statements.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement 144), which supersedes both SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* and the accounting and reporting provisions of APB Opinion No. 30 (Opinion 30), *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. No. 142, *Goodwill and Other Intangible Assets*.

The Company is required to adopt the provisions of SFAS No. 144 for the first quarter of its fiscal 2003. Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of SFAS No. 144 for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 supersedes Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs To Exit an Activity (Including Certain Costs Associated with a Restructuring)* and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, as opposed to when management is committed to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. This Statement is effective for exit or disposal activities initiated after December 31, 2002. The provisions of SFAS No. 146 are required to be applied prospectively after the adoption date to newly initiated exit activities, and may affect the timing of recognizing future restructuring costs, as well as the amounts recognized.

## Liquidity and Capital Resources

The following table presents selected financial information and statistics for each of the last three fiscal years (dollars in millions):

	2002	2001	2000
Cash, cash equivalents, and short-term investments	\$ 4,337	\$ 4,336	\$ 4,027
Accounts receivable, net	\$ 565	\$ 466	\$ 953
Inventory	\$ 45	\$ 11	\$ 33
Working capital	\$ 3,730	\$ 3,625	\$ 3,494
Days sales in accounts receivable (a)	36	29	46
Days of supply in inventory (b)	4	1	2
Annual operating cash flow	\$ 89	\$ 185	\$ 868

(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.

As of September 28, 2002, the Company had \$4.337 billion in cash, cash equivalents, and short-term investments, virtually unchanged from the end of fiscal 2001. The primary sources of total cash, cash equivalents, and short-term investments in fiscal 2002 were \$89 million in cash generated by operating activities and \$105 million in proceeds from the exercise of employee stock options, offset by cash utilized for business and asset acquisitions of \$52 million and capital expenditures of \$174 million.

The Company believes its existing balances of cash, cash equivalents, and short-term investments will be sufficient to satisfy its working capital needs, capital expenditures, stock repurchase activity, outstanding commitments, and other liquidity requirements associated with its existing operations over the next 12 months.

### Lease Commitments

As of September 28, 2002, the Company had total outstanding commitments on noncancelable operating leases of \$464 million, \$209 million of which related to the lease of retail space and related facilities. Remaining terms on the Company's existing operating leases range from 1 to 12 years. Subsequent to September 28, 2002, the Company entered into additional operating lease commitments for retail space with future lease commitments totaling \$65 million for periods ranging from 5 to 10 years.

### Long-Term Debt

The Company currently has long-term debt outstanding in the form of \$300 million of aggregate principal amount 6.5% unsecured notes. The notes were sold at 99.925% of par, for an effective yield to maturity of 6.51%. The notes pay interest semiannually and mature on February 15, 2004.

### Purchase Commitments with Contract Manufacturers and Component Suppliers

The Company utilizes several contract manufacturers to manufacture sub-assemblies for the Company's products and to perform final assembly and test of finished products. These contract manufacturers acquire components and build product based on demand information supplied by the Company, which typically covers periods ranging from 1 to 3 months. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company

acquires components through a combination of formal purchase orders, supplier contracts, and open orders based on projected demand information. Such formal and informal purchase commitments typically cover the Company's forecasted component and manufacturing requirements for periods ranging from 30 to 130 days. As of September 28, 2002, the Company had outstanding third-party manufacturing commitments and component purchase commitments of approximately \$525 million.

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### *Capital Expenditures*

Of total capital expenditures in 2002 of \$174 million, \$106 million was for retail store facilities and equipment related to the Company's Retail segment and \$68 million was for corporate infrastructure including information systems enhancements and operating facilities enhancements and expansions. The Company currently anticipates it will utilize approximately \$160 million for capital expenditures during 2003, approximately \$77 million of which is expected to be utilized for further expansion of the Company's Retail segment and the remainder utilized to support normal replacement of existing capital assets and enhancements to general information technology infrastructure.

### *Stock Repurchase Plan*

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 2002 and 2001, the Company repurchased no common shares. However, during the fourth quarter of 2001, the Company entered into a forward purchase agreement to acquire 1.5 million shares of its common stock in September of 2003 at an average price of \$16.64 per share for a total cost of \$25.5 million. Since inception of the repurchase plan, the Company has repurchased or committed to repurchase a total of 6.55 million shares of its common stock at a cost of \$217 million.

### *Non-Current Debt and Equity Investments*

The Company has held significant investments in ARM, Samsung Electronics Co., Ltd, 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 losses, net of taxes, reported in equity as a component of accumulated other comprehensive income. All realized gains on the sale of these investments have been included in other income. The combined fair value of these investments was \$39 million, \$128 million, and \$786 million as of the end of fiscal 2002, 2001, and 2000, respectively. The Company believes it is likely there will continue to be significant fluctuations in the fair value of these investments in the future.

Further information related to the Company's non-current debt and equity investments may be found in Part II, Item 8 of this Form 10-K at Note 2 of Notes to Consolidated Financial Statements.

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

Because of the following factors, as well as other factors affecting the Company's operating results and financial condition, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

*General economic conditions and current economic and political uncertainty could adversely affect the Company.*

The Company's operating performance depends significantly on general economic conditions. For much of the past 3 years, demand for the Company's products has been negatively impacted by worsening global economic conditions. Continued uncertainty about future economic conditions continues to make it difficult to forecast future operating results. Should global and regional economic conditions fail to improve or continue to deteriorate, demand for the Company's products could continue to be adversely affected, as could the financial health of its suppliers, distributors, and resellers.

The terrorist attacks that took place on September 11, 2001, disrupted commerce throughout the world and created many economic and political uncertainties that have had a strong negative impact on the global economy. The long-term effects of the September 11, 2001 attacks on the Company's future operating results and financial condition remain unknown. The national and international responses to terrorist attacks, the potential for future terrorist attacks and other acts of hostility, and the potential for

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war in the Middle East have created economic and political uncertainties that could adversely affect the Company's future operating results and financial condition.

*The market for personal computers is highly competitive.*

The personal computer industry is highly competitive and is characterized by aggressive pricing practices, downward pressure on gross margins, frequent introduction of new products, short product life cycles, continual improvement in product price/performance characteristics, price sensitivity on the part of consumers, and a large number of competitors. Over the past several years, price competition in the market for personal computers has been particularly intense. The Company's competitors who sell Windows-based personal computers have aggressively cut prices and lowered their product margins in order to gain or maintain market share in response to weakness in demand for personal computing products that began in the second half of calendar 2000. The Company's results of operations and financial condition have been, and in the future may continue to be, adversely affected by these and other industry-wide pricing pressures and downward pressures on gross margins.

The personal computer industry has also been characterized by rapid technological advances in software functionality, hardware performance, and features based on existing or emerging industry standards. Further, as the personal computer industry and its customers place more reliance on the Internet, an increasing number of Internet devices that are smaller and simpler than traditional personal computers may compete for market share with the Company's existing products. Several competitors of the Company have either targeted or announced their intention to target certain of the Company's key market segments, including consumer, education, professional and consumer digital video editing, and design and publishing. Additionally, several of the Company's competitors have introduced or announced plans to introduce products that mimic many of the unique design, technical features, and solutions of the Company's products. The Company has many substantial competitors, many of whom have greater financial, marketing, manufacturing, and technological resources, as well as broader product lines and larger installed customer bases than those of the Company. Additionally, there has been a trend towards consolidation in the personal computer industry that has resulted in larger and potentially stronger competitors in the Company's markets.

The Company is currently the only maker of hardware using the Mac OS. The Mac OS has a minority market share in the personal computer market, which is dominated by makers of computers utilizing Microsoft's Windows operating systems. The Company's future operating results and financial condition are substantially dependent on its ability to continue to develop improvements to the Macintosh platform in order to maintain perceived design and functional advantages over competing platforms, including Windows.

*The Company has higher research and development and selling, general and administrative costs, as a percentage of revenues, than many of competitors.*

The Company's ability to compete successfully and maintain attractive gross margins is heavily dependent upon its ability to ensure a continuing and timely flow of innovative and competitive products and technology to the marketplace. As a result, the Company incurs higher research and development costs as a percentage of revenue than its competitors who sell Windows-based personal computers. Many of these competitors seek to compete aggressively on price and maintain very low cost structures. Further, as a result of the expansion of the Company's Retail segment and costs associated with marketing the Company's brand including its unique operating system, the Company incurs higher selling costs as a percent of revenue than many of its competitors. If the Company is unable to continue to develop and sell innovative new products with attractive gross margins, its results of operations may be materially adversely affected by its operating cost structure.

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*The Company must successfully manage frequent product introductions and transitions.*

Due to the highly volatile nature of the personal computer industry, which is characterized by dynamic customer demand patterns and rapid technological advances, the Company must continually introduce new products and technologies and enhance existing products in order to remain competitive. The success of new product introductions is dependent on a number of factors, including market acceptance, the Company's ability to manage the risks associated with product transitions, the availability of application software for new products, the effective management of inventory levels in line with anticipated product demand, the availability of products in appropriate quantities to meet anticipated demand, and the risk that new products may have quality or other defects in the early stages of introduction. Accordingly, the Company cannot determine in advance the ultimate effect that new products will have on its sales or results of operations.

During 2001, the Company introduced a new client operating system, Mac OS X, and delivered its first major upgrade, Mac OS X version 10.1. During 2002, the Company delivered another major upgrade, Mac OS X Jaguar. Inability of the Company to improve the



performance and functionality of Mac OS X, advance customer acceptance of the new operating system and its upgrades, or obtain the continued commitment of software developers to transition existing applications to run on Mac OS X or create new applications to run on Mac OS X, may have an adverse impact on the Company's operating results and financial condition.

*Because orders for components, and in some cases commitments to purchase components, must be placed in advance of customer orders, the Company faces substantial inventory risk.*

The Company records a write-down for inventories of components and products that have become obsolete or are in excess of anticipated demand or net realizable value and accrues necessary reserves for cancellation fees of orders for inventories that have been canceled. Although the Company believes its inventory and related provisions are adequate, given the rapid and unpredictable pace of product obsolescence in the computer industry, no assurance can be given the Company will not incur additional inventory and related charges. In addition, such charges have had, and may again have, a material effect on the Company's financial position and results of operations.

The Company must order components for its products and build inventory in advance of product shipments. Because the Company's markets are volatile and subject to rapid technology and price changes, there is a risk the Company will forecast incorrectly and produce or order from third parties excess or insufficient inventories of particular products. Consistent with industry practice, components are normally acquired through a combination of formal purchase orders, supplier contracts, and open orders based on projected demand information. Such formal and informal purchase commitments typically cover the Company's forecasted component and manufacturing requirements for periods ranging from 30 to 130 days. The Company's operating results and financial condition have been in the past and may in the future be materially adversely affected by the Company's ability to manage its inventory levels and respond to short-term shifts in customer demand patterns.

*Future operating results are dependent upon the Company's ability to obtain a sufficient supply of components, some of which are in short supply or available only from limited sources.*

Although most components essential to the Company's business are generally available from multiple sources, certain key components including microprocessors and application specific integrated circuits ("ASICs") are currently obtained by the Company from single or limited sources. Some key components (including without limitation DRAM, TFT-LCD flat-panel displays, and optical and magnetic disk drives), while currently available to the Company from multiple sources, are at times subject to industry-wide availability and pricing pressures. In addition, new products introduced by the Company often initially utilize custom components obtained from only one source until the Company has evaluated whether there is a need for, and subsequently qualifies, additional suppliers. In situations where a component or product utilizes new technologies, initial capacity constraints may exist until such time as the suppliers' yields have

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matured. The Company and other producers in the personal computer industry also compete for various components with other industries that have experienced increased demand for their products. The Company uses some components that are not common to the rest of the personal computer industry including certain microprocessors and ASICs. Continued availability of these components may be affected if producers were to decide to concentrate on the production of components other than those customized to meet the Company's requirements. If the supply of a key component were to be delayed or constrained on a new or existing product, the Company's results of operations and financial condition could be adversely affected.

The Company's ability to produce and market competitive products is also dependent on the ability and desire of IBM and Motorola, the sole suppliers of the PowerPC RISC-based microprocessor for the Company's Macintosh computers, to provide the Company with a sufficient supply of microprocessors with price/performance features that compare favorably to those supplied to the Company's competitors by Intel Corporation and other developers and producers of microprocessors used by personal computers using the Windows operating systems. Further, despite its efforts to educate the marketplace to the contrary, the Company believes that many of its current and potential customers believe that the relatively slower MHz rating or clock speed of the microprocessors it utilizes in its Macintosh systems compares unfavorably to those utilized by Windows-based systems and translates to slower overall system performance. There have been instances in recent years where the inability of the Company's suppliers to provide advanced G4 and G3 microprocessors with higher clock speeds in sufficient quantity has had significant adverse effects on the Company's results of operations. The inability in the future of the Company to obtain microprocessors in sufficient quantities with competitive price/performance features could have an adverse impact on the Company's results of operations and financial condition.

*The Company is dependent on manufacturing and logistics services provided by third parties, many of whom are located outside of the United States.*

Many of the Company's products are manufactured in whole or in part by third-party manufacturers. In addition, the Company has

outsourced much of its transportation and logistics management. While outsourcing arrangements may lower the fixed cost of operations, they also reduce the Company's direct control over production and distribution. It is uncertain what effect such diminished control will have on the quality or quantity of the products manufactured, or the flexibility of the Company to respond to changing market conditions. Moreover, although arrangements with such manufacturers may contain provisions for warranty expense reimbursement, the Company may remain at least initially responsible to the ultimate consumer for warranty service or in the event of product defects. Any unanticipated product defect or warranty liability, whether pursuant to arrangements with contract manufacturers or otherwise, could adversely affect the Company's future operating results and financial condition.

Final assembly of products sold by the Company is conducted in the Company's manufacturing facilities in Sacramento, California, and Cork, Ireland, and by external vendors in Fullerton, California, Taiwan, Korea, the People's Republic of China, and the Czech Republic. Currently, manufacture of many of the components used in the Company's products and final assembly of all of the Company's portable products including PowerBooks, iBooks, and the iPod is performed by third-party vendors in Taiwan. If for any reason manufacturing or logistics in any of these locations is disrupted by regional economic, business, environmental, political, or military conditions or events, the Company's results of operations and financial condition could be adversely affected.

*The Company's products could experience quality problems that result in decreased net sales and operating profits.*

The Company sells highly complex hardware and software products that may contain defects in design and manufacture. Sophisticated operating system software and applications such as the Company sells often contains "bugs" that can unexpectedly interfere with the operation of the software. Defects may also occur in components and products the Company purchases from third parties that may be beyond its control.

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There can be no assurance that the Company will be able to detect and fix all defects in the hardware and software it sells. Failure to do so could result in lost revenues, loss of reputation, and significant expense to remedy.

*The Company's retail initiative requires a substantial investment and commitment of resources and is subject to numerous risks and uncertainties.*

Since May of 2001, the Company has opened 51 retail stores in the United States and anticipates opening more stores in calendar 2003. The Company's retail initiative has required substantial investment in equipment and leasehold improvements, information systems, inventory, and personnel. The Company has also entered into substantial operating lease commitments for retail space with lease terms ranging from 5 to 12 years. The Company would incur substantial costs should it choose to terminate this initiative or close individual stores. Such costs could adversely affect the Company's results of operations and financial condition. Additionally, a relatively high proportion of the Retail segment's costs are fixed because of depreciation on store construction costs and lease expense. As a result, should the Retail segment experience a decline in sales for any reason, significant losses would result.

Certain of the Company's stores have been intentionally designed and built to serve as high profile venues that function as vehicles for general corporate marketing, corporate events, and brand awareness. Because of their unique design elements, locations and size, these stores require substantially more investment in equipment and leasehold improvements than the Company's typical retail stores. The Company has opened two such stores and has several others under development. Because of their location and size, these high profile stores also require the Company to enter into substantially larger operating lease commitments compared to those required for its more typical stores. Current leases on such locations have terms ranging from 5 to 10 years with total commitments per location over the lease terms ranging from \$25 million to \$50 million. Closure or poor performance of one of these high profile stores could have a particularly significant negative impact on the Company's results of operations and financial condition.

Many of the general risks and uncertainties the Company faces could also have an adverse impact on its Retail segment. Also, many factors unique to retail operations present risks and uncertainties, some of which are beyond the Company's control, that could adversely affect the Retail segment's future results, cause its actual results to differ from those currently expected, and/or have an adverse effect on the Company's consolidated results of operations. Potential risks and uncertainties unique to retail operations that could have an adverse impact on the Retail segment include, among other things, macro-economic factors that have a negative impact on general retail activity; inability to manage costs associated with store construction and operation; lack of consumer acceptance of the Company's retail approach; failure to attract new users to the Macintosh platform; inability to sell third-party hardware and software products at adequate margins; failure to manage relationships with existing retail channel partners; lack of experience in managing retail operations; costs associated with unanticipated fluctuations in the value of Apple-branded and third-party retail inventory; and inability to obtain quality retail locations at reasonable cost.

*Unit sales of the Company's professionally oriented desktop systems have declined sharply over past two to three years negatively impacting net sales and gross margin.*

Unit sales of Power Macintosh systems fell 18% during 2002 as compared to 2001 and fell 35% in 2001 from 2000. Power Macintosh unit sales have fallen as a percentage of total Macintosh unit sales from 38% in 1999 to 25% in 2002. The Company believes that weak economic conditions over the past several years are having a pronounced negative impact on its professional and creative customers who are the primary users of such systems. The Company also believes that many of these customers continue to delay upgrades of their Power Macintosh systems due to the Company's ongoing transition to Mac OS X and in anticipation of certain software vendors transitioning their professionally oriented Macintosh software applications to run natively in Mac OS X. In addition to the negative impact on net sales, declining sales of Power Macintosh systems also have a negative effect on the Company's overall gross margin because Power Macintosh systems are generally higher priced and have higher individual gross margins than the

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Company's other Macintosh systems. Continued deterioration in Power Macintosh unit sales will adversely affect the Company's future net sales and gross margin. If future unit sales of Power Macintosh systems fail to partially or fully recover, it will be difficult for the Company to improve its overall profitability.

*The Company faces increasing competition in the U.S. education market.*

Sales in the United States to both elementary and secondary schools, as well as for college and university customers, remains a core market for Apple. Net sales in these markets fell to 21% of the Company's total net sales in 2002 from 26% in 2001. This drop reflects declines in both net sales and Macintosh unit sales in these markets of 15% and 14%, respectively, in fiscal 2002 compared to 2001. These developments are consistent with industry data showing the Company losing market share in the U.S. education market in each of the last two fiscal years. Several competitors of the Company have either targeted or announced their intention to target the education market for personal computers. Although the Company has taken certain steps to strengthen its position in the education market, there can be no assurance that the Company will be able to increase its share of the education market or maintain its existing share of that market. Failure to increase or maintain market share in the education market may have an adverse impact on the Company's operating results and financial condition.

*The Company's future operating performance is dependent on the performance of distributors and other resellers of the Company's products.*

The Company distributes its products through wholesalers, resellers, national and regional retailers and cataloguers, many of whom distribute products from competing manufacturers. In addition, the Company also sells many of its products and resells certain third-party products in most of its major markets directly to end users, certain education customers, and certain resellers through its online stores around the world. The Company also sells its own products and certain third-party products through its retail stores in the United States. Many of the Company's significant resellers operate on narrow product margins and have been negatively affected by current economic conditions. Considerable trade receivables that are not covered by collateral or credit insurance are outstanding with the Company's distribution and retail channel partners. The Company's business and financial results could be adversely affected if the financial condition of these resellers weakened, if resellers within consumer channels were to cease distribution of the Company's products, or if uncertainty regarding demand for the Company's products caused resellers to reduce their ordering and marketing of the Company's products.

Further information regarding risks associated with Marketing and Distribution may be found in Part I, Item 1 of this Form 10-K under the heading "Markets and Distribution," which information is hereby incorporated by reference.

*The Company's business is subject to the risks of international operations.*

A large portion of the Company's revenue is derived from its international operations. As a result, the Company's operating results and financial condition could be significantly affected by risks associated with international activities, including economic and labor conditions, political instability, tax laws (including U.S. taxes on foreign subsidiaries), and changes in the value of the U.S. dollar versus the local currency in which the products are sold and goods and services are purchased. Historically, the Company's primary exposure to movements in foreign currency exchange rates relate to non-dollar denominated sales in Europe, Japan, Australia, Canada, and certain parts of Asia and non-dollar denominated operating expenses incurred throughout the world. Weaknesses in foreign currencies, particularly the Japanese Yen and the Euro, can adversely impact consumer demand for the Company's products and the U.S. dollar value of the Company's foreign currency denominated sales. Conversely, strengthening in these and other foreign currencies can increase the cost to the Company of product components, negatively affecting the Company's results of operations.

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Margins on sales of Apple products in foreign countries, and on sales of products that include components obtained from foreign suppliers, can be adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including tariffs and antidumping penalties.

Further information related to the Company's global market risks may be found in Part II, Item 7A of this Form 10-K under the subheading "Foreign Currency Risk" and may be found in Part II, Item 8 of this Form 10-K at Notes 1 and 2 of Notes to Consolidated Financial Statements, which information is hereby incorporated by reference.

*The Company's future performance is dependent upon support from third-party software developers.*

The Company believes that decisions by customers to purchase the Company's personal computers, as opposed to Windows-based systems, are often based on the availability of third-party software for particular applications such as Microsoft Office. The Company also believes the availability of third-party application software for the Company's hardware products depends in part on third-party developers' perception and analysis of the relative benefits of developing, maintaining, and upgrading such software for the Company's products versus software for the larger Windows market. This analysis is based on factors such as the perceived strength of the Company and its products, the anticipated potential revenue that may be generated, acceptance by customers of Mac OS X, and the costs of developing such software products. To the extent the Company's financial losses in prior years and the minority market share held by the Company in the personal computer market, as well as the Company's decision to end its Mac OS licensing program, have caused software developers to question the Company's prospects in the personal computer market, developers could be less inclined to develop new application software or upgrade existing software for the Company's products and more inclined to devote their resources to developing and upgrading software for the larger Windows market. In addition, past and future development by the Company of its own software applications and solutions may negatively impact the decision of software developers to develop, maintain, and upgrade similar or competitive software for the Company's products. Moreover, there can be no assurance software developers will continue to develop software for Mac OS X, the Company's new operating system, on a timely basis or at all.

In August 1997, the Company and Microsoft Corporation entered into patent cross license and technology agreements. In addition, for a period of five years through August 2002, and subject to certain limitations related to the number of Macintosh computers sold by the Company, Microsoft was required to make versions of its Microsoft Office and Internet Explorer products for the Mac OS. Although Microsoft has released Microsoft Office and Internet Explorer for Mac OS X, Microsoft is not obligated to produce future versions of its products subsequent to August 2002. While the Company believes its relationship with Microsoft has been and will continue to be beneficial to the Company and to its efforts to increase the installed base for the Mac OS, the Company does compete directly with Microsoft in a number of key areas. Accordingly, Microsoft's interest in producing application software for the Mac OS following expiration of the agreements may be influenced by Microsoft's perception of its interests as the vendor of the Windows operating system. Discontinuance of Microsoft Office and other Microsoft products for the Macintosh platform would have an adverse effect on the Company's net sales and results of operations.

*The Company's business relies on access to patents and intellectual property obtained from third parties, and the Company's future results could be adversely affected if it is alleged or found to have infringed on the intellectual property rights of others.*

Many of the Company's products are designed to include intellectual property obtained from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of its products and business methods, the Company believes that based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms. However, there can be no assurance that the necessary licenses would be available or available on acceptable terms.

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Because of technological changes in the computer industry, current extensive patent coverage, and the rapid rate of issuance of new patents, it is possible certain components of the Company's products and business methods may unknowingly infringe existing patents of others. The Company has from time to time been notified that it may be infringing certain patents or other intellectual property rights of others. Responding to such claims, regardless of their merit, can be time consuming, result in significant expenses, and cause the diversion of management and technical personnel. Several pending claims are in various stages of evaluation. The Company may consider the desirability of entering into licensing agreements in certain of these cases. However, no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. In the event there is a temporary or permanent injunction entered prohibiting the Company from marketing or selling certain of its products or a successful claim of infringement against the Company requiring it to pay royalties to a third-party, the Company's future operating results and financial condition could be adversely affected. Information regarding claims and potential litigation involving the Company related to alleged patent infringement and other matters is set forth in Part I, Item 3 of this Form 10-K. In the opinion of management, the Company does not have a potential liability for damages or royalties from any current legal proceedings or claims related to the infringement of patent or other intellectual property rights of others that would have a material adverse effect on its results of operations, or financial condition. However, the results of such legal proceedings cannot be predicted with certainty. Should the Company fail to prevail in any of the matters related to infringement of patent or other intellectual property rights of others described in Part I, Item 3 of this Form 10-K or should several of

these matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

*The Company expects its quarterly revenues and operating results to fluctuate for a variety of reasons.*

The Company's profit margins vary among its products, its geographic markets, and its distribution channels. As a result, the overall profitability of the Company in any given period will depend, in part, on the product, geographic, and channel mix reflected in that period's net sales.

*The typical concentration of net sales in the third month of the Company's fiscal quarters can adversely affect the Company's business and operating results.*

The Company generally sells more products during the third month of each quarter than it does during either of the first two months, a pattern typical in the personal computer industry. This sales pattern can produce pressure on the Company's internal infrastructure during the third month of a quarter and may adversely impact the Company's ability to predict its financial results accurately. Developments late in a quarter, such as lower-than-anticipated demand for the Company's products, an internal systems failure, or failure of one of the Company's key logistics or components suppliers, can have significant adverse impacts on the Company and its results of operations and financial condition.

*The Company's success depends largely on its ability to attract and retain key personnel.*

Much of the future success of the Company depends on the continued service and availability of skilled personnel, including those in technical, marketing and staff positions. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense, especially in the Silicon Valley, where the majority of the Company's employees are located. There can be no assurance that the Company will be able to successfully attract and retain the key personnel it needs. Additionally, volatility or a lack of positive performance in the Company's stock price may adversely affect its ability to retain key employees. As of September 28, 2002, a substantial majority of the Company's outstanding employee stock options were out-of-the-money.

*The Company is subject to risks associated with the availability and cost of insurance.*

The Company has observed rapidly changing conditions in the insurance markets relating to nearly all areas of traditional corporate insurance. Such conditions have resulted in higher premium costs, higher policy deductibles, and lower coverage limits. For some risks, because of cost and/or availability, the

Company does not have insurance coverage. For these reasons, the Company is retaining a greater portion of its insurable risks than it has in the past at relatively greater cost.

*The Company is exposed to credit risk on its accounts receivables. This risk is heightened as economic conditions worsen.*

The Company distributes its products through third-party computer resellers and retailers and directly to certain educational institutions and commercial customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. The Company also has non-trade receivables from certain of its manufacturing vendors resulting from the sale by the Company of raw material components to these manufacturing vendors who manufacture sub-assemblies or assemble final products for the Company. While the Company has procedures in place to monitor and limit exposure to credit risk on its trade and non-trade receivables, there can be assurance that such procedures will be effective in limiting its credit risk and avoiding losses. Additionally, if the global economy and regional economies fail to improve or continue to deteriorate, it becomes more likely that the Company will incur a material loss or losses as a result of the weakening financial condition of one or more of its customers or manufacturing vendors.

*The market value of the Company's non-current debt and equity investments is subject to significant volatility.*

The Company holds minority investments in several public companies with a combined fair market value of approximately \$39 million as of September 28, 2002. These investments are in publicly traded companies whose share prices are subject to significant volatility. The Company has categorized its investments in these companies as available-for-sale requiring the investments be carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of accumulated other comprehensive income. The Company recognizes an impairment charge to earnings when it is judged an investment has experienced a decline in value that is other-than-temporary. The Company has recognized material impairment charges related to its non-current debt and equity investments twice in

the last two fiscal years.

*The Company is subject to risks associated with environmental regulations.*

Production and marketing of products in certain states and countries may subject the Company to environmental and other regulations including, in some instances, the requirement that the Company provide consumers with the ability to return to the Company product at the end of its useful life, and place responsibility for environmentally safe disposal or recycling with the Company. Although the Company does not anticipate any material adverse effects in the future based on the nature of its operations and the thrust of such laws, there is no assurance that such existing laws or future laws will not have a material adverse effect on the Company.

The parliament of the European Union is working on finalizing the Waste Electrical and Electronic Equipment Directive (the Directive). The Directive makes producers of electrical goods, including personal computers, financially responsible for the collection, recycling, and safe disposal of past and future products. The Directive must now be approved and implemented by individual European Union governments by June 2004, while the producers' financial obligations are scheduled to start June 2005. The Company's potential liability resulting from the Directive related to past sales of its products and expenses associated with future sales of its product may be substantial. However, because it is likely that specific laws, regulations, and enforcement policies will vary significantly between individual European member states, it is not currently possible to estimate the Company's existing liability or future expenses resulting from the Directive. As the European Union and its individual member states clarify specific requirements and policies with respect to the Directive, the Company will continue to assess its potential financial impact. Similar legislation may be enacted in other geographies, including federal and state legislation in the United States, the cumulative impact of which could be significant.

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*Business interruptions could adversely affect the Company's future operating results.*

The Company's major business operations are subject to interruption by earthquake, fire, power shortages, terrorist attacks and other hostile acts, labor disputes, and other events beyond its control. The majority of the Company's research and development activities, its corporate headquarters, and other critical business operations, including certain major components suppliers and manufacturing vendors, are located near major seismic faults. The Company does not carry earthquake insurance for direct quake-related losses. The Company's operating results and financial condition could be materially adversely affected in the event of a major earthquake or other natural or manmade disaster.

*Unanticipated changes in the Company's tax rates could affect its future results.*

The Company's future effective tax rates could be favorably or unfavorably affected by unanticipated changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of the Company deferred tax assets and liabilities, or by changes in tax laws or their interpretation.

*The Company's stock price may be volatile.*

The Company's stock has at times experienced substantial price volatility as a result of variations between its actual and anticipated financial results and as a result of announcements by the Company and its competitors. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market price of many technology companies in ways that have been unrelated to the operating performance of these companies. These factors, as well as general economic and political conditions and investors' concerns regarding the credibility of corporate financial reporting and integrity of financial markets, may materially adversely affect the market price of the Company's common stock in the future.

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## **Item 7A. Disclosures About Market Risk**

### *Interest Rate and Foreign Currency Risk Management*

To ensure the adequacy and effectiveness of the Company's foreign exchange and interest rate hedge positions, as well as to monitor the risks and opportunities of the non-hedge portfolios, the Company continually monitors its foreign exchange forward and option

positions, and its interest rate swap and option 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. The Company adopted Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as of October 1, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, hedging activities, and exposure definition. Management does not believe that ongoing application of SFAS No. 133 will significantly alter the Company's hedging strategies. However, its application may increase the volatility of other income and expense and other comprehensive income.

#### *Interest Rate Risk*

While the Company is exposed to interest rate fluctuations in many of the world's leading industrialized countries, the Company's interest income and expense is most sensitive to fluctuations in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents, and short-term investments as well as costs associated with foreign currency hedges.

The Company's fixed income investment policy and strategy is to ensure the preservation of capital, meet liquidity requirements, and optimize return in light of the current credit and interest rate environment. The Company benchmarks its performance by utilizing external money managers to manage a small portion of the aggregate investment portfolio. The external managers adhere to the Company's investment policies and also provide occasional research and market information that supplements internal research used to make credit decisions in the investment process.

During 1994, the Company issued \$300 million aggregate principal amount of 6.5% unsecured notes in a public offering registered with the SEC. The notes were sold at 99.925% of par, for an effective yield to maturity of 6.51%. The notes pay interest semiannually and mature on February 15, 2004.

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's investment portfolio and long-term debt obligations and related derivative financial instruments. The Company places its short-term investments in highly liquid securities issued by 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. All highly liquid investments with maturities of three months or less are classified as cash equivalents; highly liquid investments with maturities greater than three months are classified as short-term investments. As of September 28, 2002, \$1.087 billion of the Company's investment portfolio classified as short-term investments was invested in U.S. Agency and corporate debt securities with maturities ranging from 1 to 5 years. As of September 29, 2001, \$313 million of the Company's investment portfolio classified as short-term investments was in U.S. agency securities with underlying maturities ranging from 1 to 4 years. The remainder all had underlying maturities between 3 and 12 months. Due to liquidity needs, or in anticipation of credit deterioration, or for the purpose of duration management of the Company's

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investment portfolio, the Company may sell investments prior to their stated maturities. As a result of such activity, the Company recognized net gains of \$7 million in 2002 and \$1 million in 2001.

In order to provide a meaningful assessment of the interest rate risk associated with the Company's investment portfolio, the Company performed a sensitivity analysis to determine the impact that a change in interest rates would have on the value of the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on investment positions as of September 28, 2002, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$37.7 million decline in the fair market value of the portfolio. As of September 29, 2001, a similar 100 basis point shift in the yield curve would have resulted in a \$17.8 million decline in fair value. Such losses would only be realized if the Company sold the investments prior to maturity. Except in instances noted above, the Company's policy is to hold investments to maturity.

The Company sometimes enters into interest rate derivative transactions, including interest rate swaps, collars, 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.

During the last two years, the Company has entered into interest rate swaps 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 interest rate swaps, which qualified as accounting hedges, generally required the Company to pay a floating interest rate based on the three- or six-month U.S. dollar LIBOR and receive a fixed rate of interest without exchanges of the underlying notional amounts. These swaps effectively converted the Company's fixed-rate 10-year debt to floating-rate debt and convert a portion of the floating rate investments to fixed rate. Due to prevailing market interest rates, during 2002 the Company entered into and then subsequently closed out debt swap positions realizing a gain of \$6 million. During 2001 the Company closed out all of its then existing debt swap positions realizing a gain of \$17 million. Both the gains in 2001 and 2002 were deferred, recognized in long-term debt and are being amortized to other income and expense over the remaining life of the debt. At certain times in the past, the Company has also entered 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.

The Company's asset swaps did not qualify for hedge accounting treatment and were recorded at fair value on the balance sheet with associated gains and losses recorded in interest and other income. Interest rate asset swaps outstanding as of September 30, 2000, had a weighted-average receive rate of 5.50% and a weighted-average pay rate of 6.66%. The unrealized loss on these assets swaps as of September 30, 2000, of \$5.7 million was deferred and then recognized in income in 2001 as part of the SFAS No. 133 transition adjustment effective on October 1, 2000. The Company closed out all of its existing interest rate asset swaps during 2001 realizing a gain of \$1.1 million.

#### *Foreign Currency Risk*

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. There is also a risk that the Company will have to adjust local currency product pricing within the time frame of our hedged positions due to competitive pressures when there has been significant volatility in foreign currency exchange rates.

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The Company enters into foreign currency forward and option contracts with financial institutions primarily to protect against foreign exchange risks associated with existing assets and liabilities, certain firmly committed transactions, and probable but not firmly committed transactions. Generally, the Company's practice is to hedge a majority of its existing material foreign exchange transaction exposures. However, the Company may not hedge certain foreign exchange transaction exposures due to immateriality, prohibitive economic cost of hedging particular exposures, and limited availability of appropriate hedging instruments. The Company also enters into foreign currency forward and option contracts to offset the foreign exchange gains and losses generated by the re-measurement of certain recorded assets and liabilities denominated in non-functional currencies of its foreign subsidiaries.

In order to provide a meaningful assessment of the foreign currency risk associated with certain of the Company's foreign currency derivative positions, the Company performed a sensitivity analysis using a value-at-risk (VAR) model to assess the potential impact of fluctuations in exchange rates. The VAR model consisted of using a Monte Carlo simulation to generate 3000 random market price paths. The value-at-risk is the maximum expected loss in fair value, for a given confidence interval, to the Company's foreign exchange portfolio due to adverse movements in rates. The VAR model is not intended to represent actual losses but is used as a risk estimation and management tool. The model assumes normal market conditions. Forecasted transactions, firm commitments, and assets and liabilities denominated in foreign currencies were excluded from the model. Based on the results of the model, the Company estimates with 95% confidence a maximum one-day loss in fair value of \$3.8 million as of September 28, 2002 compared to a maximum one-day loss of \$6.8 million as of September 29, 2001. Because the Company uses foreign currency instruments for hedging purposes, losses incurred on those instruments are generally offset by increases in the fair value of the underlying exposures.

Actual gains and losses in the future associated with the Company's investment portfolio and derivative positions may differ materially from the sensitivity analyses performed as of September 28, 2002 due to the inherent limitations associated with predicting the changes in the timing and amount of interest rates, foreign currency exchanges rates, and the Company's actual exposures and positions.

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#### **Item 8. Financial Statements and Supplementary Data**