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10 UNITED STATES DISTRICT COURT  
11 NORTHERN DISTRICT OF CALIFORNIA  
12 SAN JOSE DIVISION

HRL

C 07 2214

14 SECURITIES AND EXCHANGE COMMISSION,  
15 Plaintiff,  
16 vs.  
17 NANCY R. HEINEN and FRED D. ANDERSON,  
18 Defendants.

Case No.

COMPLAINT

20 Plaintiff Securities and Exchange Commission (the "Commission") alleges:

21 SUMMARY OF THE ACTION

22 1. This matter involves improper stock option backdating at Apple Computer, Inc. ("Apple"  
23 or the "Company"), which resulted in the Company's issuance of false financial statements that  
24 concealed millions of dollars in executive compensation. On two occasions in 2001, Apple issued  
25 huge option grants to top executives, but used false grant dates to avoid reporting nearly \$40 million  
26 in expenses to the public. Defendant Nancy R. Heinen, Apple's then-General Counsel, caused the  
27 options to be backdated and altered company records to conceal the fraud. Defendant Fred D.  
28

1 Anderson, Apple's then-Chief Financial Officer, should have noticed Heinen's efforts to backdate the  
2 first grant but failed to take steps to ensure that Apple's financial statements were correct. The two  
3 defendants personally benefited from the backdating, receiving several million dollars in unreported  
4 compensation as a result of the backdated options.

5 2. Under well-settled accounting principles in effect throughout the relevant period, Apple  
6 was not required to record an expense in its financial statements for options granted at the market  
7 price ("at-the-money"), but *was* required to record expenses for any options granted below the current  
8 market price ("in-the-money"). In order to provide herself and other Apple executives with far more  
9 lucrative in-the-money options, while avoiding having to inform shareholders of the millions of  
10 dollars in compensation expenses, Heinen twice engaged in a scheme to grant in-the-money options  
11 while falsifying records to make it appear that the options had been granted at-the-money. In  
12 connection with a 4.8 million-share grant to Apple's Executive Team, and a 7.5 million-share grant to  
13 Chief Executive Officer Steven Jobs, Heinen backdated the grants to dates on which the stock was  
14 trading at significantly lower prices. In each instance, Heinen fabricated or falsified company records  
15 to create the false appearance that the options had been granted at the market price on an earlier date  
16 – including the creation of minutes for a non-existent Board of Directors meeting at which the Jobs  
17 grant was supposedly authorized. For the Executive Team grant, Anderson should have recognized  
18 the implications of the backdated grant, put a stop to it, and disclosed it to Apple's auditors, KPMG  
19 LLP ("KPMG"), but failed to do so.

20 3. As a result, Heinen's and Anderson's actions caused Apple to materially understate its  
21 expenses, overstate its income, and falsely represent in certain filings that Apple had incurred no  
22 expense for options grants.

23 4. By engaging in the acts alleged in this Complaint, defendants Heinen and Anderson,  
24 among other things, violated the antifraud provisions of the federal securities laws, made or caused to  
25 be made materially false or misleading statements to Apple's auditors, falsified books and records,  
26 and caused Apple to falsely report its financial results. The Commission seeks an order enjoining  
27 defendants from future violations of the securities laws, requiring them to disgorge ill-gotten gains  
28 with prejudgment interest and to pay civil monetary penalties, barring Heinen from serving as an

1 officer or director of a public company, and providing other appropriate relief.

## 2 JURISDICTION AND VENUE

3 5. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the Securities  
4 Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b) and 77t(d)] and Sections 21(d) and 21(e) of the  
5 Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d) and 78u(e)].

6 6. This Court has jurisdiction over this action pursuant to Sections 20(c) and 22(a) of the  
7 Securities Act [15 U.S.C. §§ 77t(c) and 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. §  
8 78aa]. The defendants, directly or indirectly, have made use of the means and instrumentalities of  
9 interstate commerce, of the mails, or of the facilities of a national securities exchange in connection  
10 with the acts, practices and courses of business alleged in this complaint.

11 7. Venue is proper in this District pursuant to Section 22 of the Securities Act [15 U.S.C. §  
12 77v], and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Heinen and Anderson both reside in  
13 the Northern District of California, and acts or transactions constituting violations occurred in this  
14 district.

## 15 INTRADISTRICT ASSIGNMENT

16 8. Assignment to the San Jose Division is appropriate pursuant to Civil Local Rules 3-2(c)  
17 and 3-2(d) because acts and omissions giving rise to the Commission’s claims occurred, among other  
18 places in this district, in Santa Clara County.

## 19 DEFENDANTS

20 9. Nancy R. Heinen, age 50, resides in Portola Valley, California. She has maintained an  
21 active license to practice law in California since 1982. At the time of the events alleged in the  
22 complaint, Heinen was Senior Vice President, General Counsel, and Corporate Secretary at Apple.  
23 In that position, among other things, Heinen had responsibility for overseeing Apple’s legal group  
24 and preparing and certifying the minutes of Apple’s Board of Directors and its committees. Heinen  
25 left Apple in May 2006. In sworn testimony during the Commission’s investigation, Heinen declined  
26 to answer questions based on her rights under the Fifth Amendment.

27 10. Fred D. Anderson, age 62, resides in Atherton, California and was a licensed Certified  
28 Public Accountant in the State of California from 1975 to 1998. At the time of the events alleged in

1 the complaint, Anderson was Apple's Chief Financial Officer. After retiring from Apple in 2004,  
2 Anderson began serving as an Apple director, a position he held until his resignation from the Board  
3 in September 2006.

4 **RELEVANT ENTITY**

5 11. Apple is a Delaware corporation headquartered in Cupertino, California, located in Santa  
6 Clara County. Apple designs, develops, manufactures, and markets personal computers, portable  
7 digital music players, and related products. At the time of the events alleged in this complaint, Apple  
8 had common stock registered with the Commission pursuant to Section 12(b) of the Exchange Act  
9 [15 U.S.C. § 78l(b)], which was listed on the NASDAQ National Market.

10 **FACTUAL ALLEGATIONS**

11 *Apple's Options Granting Program*

12 12. During the late 1990s and early 2000s, Apple, like many other companies, made liberal  
13 use of employee stock options as a form of compensation to recruit, retain, and incentivize key  
14 employees. Each option gave the grantee the right to buy one share of Apple common stock from the  
15 Company at a set price, called the "exercise" or "strike" price, on a future date after the option vested.  
16 The option was "in-the-money" whenever the trading price of Apple's common stock exceeded the  
17 option's exercise price. The option was "at-the-money" whenever the trading price of Apple's  
18 common stock and the exercise price were the same. The option was "underwater" or "out-of-the-  
19 money" whenever the trading price of Apple's common stock was less than the exercise price.

20 13. Under the accounting rules in effect from the time Apple became a public company, U.S.  
21 public companies were permitted to grant stock options to employees without recording an expense  
22 so long as the options' strike price was at or above the market's closing price for the stock on the day  
23 the options were granted. However, when granting options in-the-money – that is, with a strike price  
24 below the market price when granted – public companies were required to record a compensation  
25 expense in their financial statements. Consequently, granting in-the-money options to employees  
26 could have a significant impact on the expenses and income (or loss) reported to the shareholders of a  
27 public company.

1 14. Throughout the relevant period, Apple represented, in audited financial statements and  
2 other filings with the Commission, that its option grants were made at fair market value, *i.e.*, the  
3 closing trading price of Apple common stock on the option's "measurement date," which is the date  
4 when the key terms of the options grant are fixed.

5 **The January 17, 2001 Executive Team Grant**

6 15. In early February 2001, Apple finalized the terms of a 4.8 million options grant to six  
7 members of its Executive Team, including one million options for Anderson and 400,000 for Heinen.  
8 At that time, Apple stock was trading at nearly \$21 per share. However, Heinen caused Apple to  
9 backdate the grant to the Executive Team to January 17, 2001, when Apple's share price was only  
10 \$16.81, and the strike price for the grant was set at this substantially lower price. Heinen also  
11 directed her staff to prepare documents that falsely indicated that Apple's Board had approved the  
12 Executive Team grant on January 17. By so doing, Heinen caused Apple to improperly fail to record  
13 approximately \$18.9 million in compensation expense associated with the in-the-money Executive  
14 Team grant. Anderson was aware of the manner in which the price of the Executive Team grant was  
15 selected, and its impact on Apple's reported compensation expense should have been clear to him.

16 **A. Heinen Picks An Earlier Date and Price for the Executive Team Grant**

17 16. Around late 2000, Apple's Board had begun considering a large options grant to Apple's  
18 Executive Team. On January 30, 2001, Heinen provided Jobs with a list of the daily closing share  
19 prices of Apple's common stock for January 2001 and suggested that Apple use an earlier date and  
20 price for the Executive Team options grant.

21 17. In her January 30 e-mail, Heinen wrote: "There are 6.68m shares available for grant in  
22 the 1998 Executive Officer plan. To avoid any perception that the Board was acting in appropriately  
23 [sic] for insiders prior to Macworld announcements, I suggest we use Jan. 10, the day after your  
24 Macworld keynote, at \$16.563. That was one of the lowest closes of the month, after the \$14.875  
25 price on Jan 2. I don't think the [Executive Team] would object to the \$1.688 difference to avoid  
26 claims of inappropriate conduct."

27 18. On January 31, 2001, Heinen sent the same set of January closing prices to Anderson and  
28 recommended picking Tuesday, January 17 or Monday, January 22 as ostensible grant dates. Heinen

1 subsequently corrected her earlier e-mail, noting that the 16<sup>th</sup> actually fell on a Tuesday. Anderson  
2 replied that “Tuesday the 16<sup>th</sup> looks fine to me.”

3 19. The following day, February 1, 2001, Heinen told Anderson that Jobs had agreed to use  
4 Apple’s closing price on January 17<sup>th</sup> for the Executive Team grant. Heinen began the process of  
5 preparing false paperwork to submit to Apple’s Board of Directors so that it could authorize the  
6 grant. That same day, Heinen directed a lawyer in Apple’s Legal Department to prepare a  
7 Unanimous Written Consent (“UWC”) for the Board members’ signature, with “an effective date of  
8 Jan 17, 2001, priced at \$16.813.” Contrary to these representations, no actual Board action was taken  
9 on January 17, and Heinen only began the process of selecting the grant date and price on January 30.

10 20. Once the UWC was finalized, Heinen then forwarded the options grant paperwork to  
11 Apple’s Board, with a copy to Anderson. Heinen’s cover memorandum (dated February 1) asked the  
12 Board to sign and return the UWC to her by fax, “if approved.” Apple’s directors subsequently  
13 signed the UWCs and returned them to Heinen.

14 21. Heinen received the UWCs by February 7, 2001. Apple’s stock closed at \$20.75 per share  
15 on that date, approximately \$3.94 higher than the January 17 price used for the Executive Team  
16 grant. As a result, the Executive Team grant was in-the-money by approximately \$3.94 per share  
17 when granted.

18 **B. The Executive Team Grant Backdated to January 17, 2001 Caused Apple’s Filings with**  
19 **the Commission to be False**

20 22. As a public company, Apple filed with the Commission annual reports that included  
21 audited financial statements, certified by the Company’s outside auditors, KPMG. Apple’s public  
22 filings affirmatively stated that the Company accounted for stock options granted to employees in  
23 accordance with generally accepted accounting principles, also known as GAAP, which are the  
24 accounting conventions, standards, and rules required for preparing financial statements. GAAP  
25 required an expense to be recorded for stock options granted at prices below the market value for the  
26 stock on the date of the grant.

27 23. Throughout the period, Apple accounted for stock options using APB 25. Under APB 25,  
28 employers were required to record an expense on their financial statements for the in-the-money

1 portion of any options grant. An option with an exercise price lower than the quoted market price on  
2 the date of actual grant is considered in-the-money. According to APB 25, that difference must be  
3 recorded as compensation expense to be recognized over the vesting period of the option. APB 25  
4 allowed companies, where the key terms of an option grant were certain, to grant employee stock  
5 options without recording any compensation expense so long as the option exercise price was not  
6 below the stock's market price on the date of the grant.

7 24. Apple's failure to record a compensation expense in connection with the Executive Team  
8 grant resulted in overstated income on the financial statements in its Forms 10-K for fiscal year 2001,  
9 ended September 29, 2001, and fiscal year 2002, ended September 28, 2002. For fiscal year 2001,  
10 the failure to record a compensation expense for the January grant caused Apple's net loss to be  
11 understated by 10.77%; for fiscal 2002, the failure to record an expense caused operating income to  
12 be overstated by 23.5% and net income by approximately 5%. Apple also sold securities pursuant to  
13 offering documents, including registration statements on Forms S-8 filed May 18, 2001, September  
14 28, 2001, December 24, 2001, and December 24, 2002, which incorporated the false financial  
15 statements. In such filings, Apple also falsely disclosed that it did not recognize any compensation  
16 expense for options because it did not grant in-the-money options. At this time, Heinen and  
17 Anderson both reviewed Apple's financial statements for accuracy and completeness prior to filing.

18 25. Apple's proxy statements (which were sent to its shareholders) for fiscal year 2001, filed  
19 March 21, 2002, and fiscal year 2002, filed March 24, 2003, contained false disclosures. Among  
20 other things, the discussion on executive compensation falsely states that the Executive Team  
21 received their options "at an exercise price equal to the fair market value of the Common Stock on  
22 the date of grant" and that the date of grant was January 17, 2001. At this time, Heinen assisted with  
23 the preparation of Apple's proxy statements, and Heinen and Anderson both reviewed the statements  
24 for accuracy and completeness prior to filing.

25 26. After the grant had been issued, KPMG, Apple's auditors, received a copy of the  
26 backdated January 17, 2001 UWC confirming the Executive Team grant. Heinen and Anderson were  
27 both aware that Apple routinely provided UWCs to KPMG in connection with its audit work.  
28

1 27. In addition, Anderson signed a management representation letter dated October 16, 2001  
2 to KPMG for fiscal year 2001 indicating that the company's stock options were "granted at fair value  
3 at the date of grant." Because he knew the manner in which the January 17, 2001 date was selected  
4 for the Executive Team grant, Anderson should have known that these statements were inaccurate.

5 28. Heinen and Anderson both signed and caused to be filed with the Commission false  
6 Forms 5 (disclosing their annual statements of changes in beneficial ownership of Apple securities)  
7 that incorrectly disclosed the grant date for their options grants as January 17, 2001.

8 **C. Heinen and Anderson Were Aware That In-the-Money Grants Needed to be Expensed**

9 29. Heinen understood the accounting implications of awarding an in-the-money options  
10 grant. She knew that Apple would have to record an accounting expense for any options that were  
11 granted below fair market value on the date of the grant. She also knew the requirements for the  
12 determination of a measurement date for grants.

13 30. Anderson also understood that Apple would have to appropriately account for an in-the-  
14 money grant. A former certified public accountant, Anderson was familiar with Accounting  
15 Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"), the  
16 accounting literature that dictates how to account for the granting of an in-the-money stock option.

17 **D. Heinen and Anderson Received Ill-Gotten Gains from the Backdated Grants**

18 31. Pursuant to the backdated Executive Team grant, Heinen and Anderson received grants  
19 that were in-the-money by approximately \$3.94 per share. Anderson exercised and sold 750,000 of  
20 the 1,000,000 shares granted to him before he retired from Apple in 2004; Heinen exercised and sold  
21 all 400,000 options she received. At a minimum, Heinen and Anderson reaped improper benefits of  
22 approximately \$1.6 million and \$3 million, respectively.

23 32. Heinen was also unjustly enriched, through, among other things, the exercise of additional  
24 stock options and the sale of Apple stock at prices fraudulently inflated as a result of Apple's false  
25 financial statements.

26 **The October 19, 2001 Steve Jobs Grant**

27 33. On December 18, 2001, Apple and Steve Jobs concluded lengthy negotiations over the  
28 terms of a 7.5 million share options grant to Jobs. At that time, the share price of Apple stock was



1 \$21.01. However, Heinen backdated the grant to Jobs to October 19, 2001, when Apple's share price  
2 was only \$18.30, and the strike price for the grant was set at this substantially lower price. Heinen  
3 also created fictitious Board minutes that purported to show that the Board had approved the grant to  
4 Jobs on October 19 at a "Special Meeting," which never occurred. By so doing, Heinen caused  
5 Apple to improperly fail to record \$20.3 million in compensation expense associated with the in-the-  
6 money options grant to Jobs.

7 **A. Heinen Backdates the 7.5 Million Option Grant to Steve Jobs**

8 34. Beginning in the spring of 2001, Apple's Board began considering ways to increase Jobs's  
9 compensation. Since returning to Apple in July 1997, Jobs had been paid only \$1 a year  
10 in compensation for his services. Although he had received a grant of 10 million options in January  
11 2000, those options were significantly underwater as a result of declines in Apple's stock price.

12 35. On August 29, 2001, Apple's Board granted options for Jobs to purchase 7.5 million  
13 shares of Apple common stock at an exercise price of \$17.83 per share, the closing price of Apple's  
14 stock on that day.

15 36. Shortly after the Board approved the 7.5 million option grant, Jobs expressed  
16 dissatisfaction with its vesting schedule. Over the course of the next three months, Apple's  
17 Compensation Committee spoke frequently amongst themselves and with Jobs about the grant,  
18 holding multiple discussions and conference calls, including Compensation Committee meetings on  
19 October 16 and 19 and November 19 and 20. Heinen was aware of and involved in these discussions,  
20 and she attended the Compensation Committee meetings in her role as Corporate Secretary.

21 37. As the Compensation Committee's discussions with Jobs continued, Heinen became  
22 increasingly concerned about the delay. Apple had missed the November deadline by which Apple  
23 was supposed to file a Form 4 with the SEC reporting the specifics of Jobs's August 29 options grant.  
24 In addition, Heinen also foresaw a problem with the auditors, since Apple's fiscal year had concluded  
25 at the end of September, yet Apple had not disclosed the grant to KPMG.

26 38. By mid-December, it was evident to Heinen that the August 2001 grant date would no  
27 longer withstand scrutiny. Instead, she began to consider the possibility of selecting a different grant  
28 date in the new fiscal year. On December 17 – by which time Apple's stock price had risen

1 significantly – Heinen forwarded a spreadsheet to the chair of Apple’s Compensation Committee  
2 detailing three months of Apple’s closing prices and recommending the selection of a day for the  
3 backdated options grant. She wrote: “There are several days in October and November, following  
4 the first meeting of the Compensation Committee on October 16<sup>th</sup> and after our earnings call on  
5 October 17<sup>th</sup>, that are close to the Aug. 29<sup>th</sup> close of \$17.83. I suggest using a day that the  
6 Compensation Committee held a telephone call, either jointly or individually with the members.”

7 39. On December 18, 2001, the Compensation Committee and Jobs finally came to an  
8 agreement on the vesting schedule for the 7.5 million share grant. The following day, the chair of the  
9 Compensation Committee e-mailed Apple’s full Board to let them know the specifics of the grant,  
10 including the fact that the date of grant would be October 19, 2001, which corresponded to the date of  
11 a Compensation Committee call. He noted: “For the record, I informed Nancy [Heinen] in advance  
12 of our intentions and of the above specifics to be certain we were conforming to all legal  
13 requirements/guidelines.” Heinen received a copy of the e-mail.

14 40. On December 18, 2001, Apple’s common stock closed at \$21.01. Hence, by retroactively  
15 repricing the grant to October 19 (when the stock closed at \$18.30), Heinen caused Apple to award  
16 Jobs 7.5 million in-the-money options while avoiding reporting approximately \$20.3 million in pre-  
17 tax compensation expense.

18 **B. Heinen Creates False Corporate Documents**

19 41. To substantiate October 19, 2001 as the grant date for Jobs’s grant, Heinen had fictitious  
20 minutes created for a phony “Special Meeting” of Apple’s Board of Directors. Minutes purporting to  
21 be from the October 19, 2001 Special Meeting state that all of the Board members (other than Jobs)  
22 met to discuss CEO compensation. According to the minutes, the Board voted to approve a grant to  
23 Jobs of an option to purchase 7.5 million shares at an exercise price equal to the closing price on the  
24 date of the grant (October 19). In fact, no such meeting occurred.

25 42. Heinen directed her staff to prepare the “Special Meeting” minutes in January 2002. After  
26 the draft was prepared, Heinen reviewed and signed the minutes as Corporate Secretary, falsely  
27 certifying that the minutes were accurate.  
28

1 43. Heinen similarly signed a "Secretary's Certificate," included with the Board minutes,  
2 falsely attesting that the Board met on October 19, 2001 and in that meeting granted Jobs the options  
3 to purchase 7.5 million shares at the exercise price of \$18.30 a share (the October 19 closing price).  
4 Heinen affixed Apple's corporate seal to the document and attested that she did so on November 2,  
5 2001. However, this document was not even created until January 2002, making Heinen's  
6 certification patently false.

7 44. Heinen also caused the alteration of previously-approved official corporate minutes from  
8 the August 29, 2001 Board meeting and the October 16, 2001 Compensation Committee meeting in  
9 order to conceal the backdating. Draft minutes for the August 29 meeting, which were reviewed and  
10 approved by Heinen, stated that the Board, in executive session, "granted Mr. Jobs a stock option  
11 under the 1998 Executive Officer Stock Plan to purchase 7.5 million shares of common stock."  
12 These draft minutes were circulated to the Board before the November 13, 2001 regularly-scheduled  
13 Board meeting and approved at that meeting. However, the official minutes that appear in Apple's  
14 Minutes Books (which were provided to the company's auditors) were altered to delete the reference  
15 to the Jobs grant, instead simply noting that the Board authorized the Compensation Committee to  
16 establish compensation arrangements for Jobs. The changed minutes were not presented to the Board  
17 for approval. Heinen signed the modified minutes, thus falsely attesting to their accuracy.

18 45. Similar alterations were made to the draft minutes of the October 16, 2001 Compensation  
19 Committee meeting. The draft minutes, which Heinen had reviewed and approved, indicated that the  
20 Compensation Committee "discussed options granted to Steve Jobs at the August 29, 2001 Board  
21 meeting." Again, the official corporate minutes for Apple were altered to remove this reference.  
22 Heinen signed the expurgated October 16 minutes, thus falsely attesting to their accuracy.

23 **C. The Backdated Grant Causes Apple's Filings With the Commission to be False**

24 46. As a result of Heinen's actions, Apple failed to record an expense for the Jobs grant in the  
25 financial statements included in Apple's Form 10-K for its fiscal year ended September 28, 2002.  
26 This failure caused Apple to materially overstate its operating income by 47.1% and its net income by  
27 9.2%, for the 2002 fiscal year. In addition, Apple sold securities pursuant to offering documents,  
28 including registration statements on Forms S-8 filed September 28, 2001, December 24, 2001, and

1 December 24, 2002, which incorporated the false financial statements. In such filings, Apple also  
2 falsely represented that it did not recognize any compensation expense for options because it did not  
3 grant in-the-money options. In addition, Apple's Form 10-K for its fiscal year ended September 29,  
4 2001 omitted that Apple's Board of Directors had approved a grant to Jobs on August 29, 2001.  
5 Heinen reviewed Apple's financial statements for accuracy and completeness prior to their inclusion  
6 in Apple's Forms 10-K and its registration statements.

7 47. Apple's proxy statement for fiscal year 2002, filed March 24, 2003, also falsely disclosed  
8 that "in October 2001 the Compensation Committee recommended and the Board approved [Jobs's  
9 7.5 million options grant]," and that Jobs's options were granted at \$18.30 per share, which was  
10 "equal to the fair market value of the Common Stock on the date of grant." In addition, Apple's  
11 proxy statement for fiscal year 2001, filed March 21, 2002, omitted to state that Apple's Board of  
12 Directors had approved a grant to Jobs on August 29, 2001. Heinen assisted with the preparation of  
13 Apple's proxy statements, and Heinen reviewed the statements for accuracy and completeness prior  
14 to filing.

15 48. Heinen was aware that Apple's outside auditors, KPMG, received only the doctored grant  
16 documents. KPMG received a copy of the fabricated minutes from the October 19 "Special Meeting"  
17 of the Board of Directors, as well as Heinen's Secretary's Certificate vouching for those minutes.  
18 Heinen knew that Apple routinely furnished minutes from Apple Board meetings to KPMG as part of  
19 KPMG's review and that KPMG would rely on the expurgated August 29 Board minutes, which were  
20 altered to delete any reference to the original 7.5 million share grant.

21 **Apple's Restatement for Options Expenses**

22 49. On December 29, 2006, Apple filed restated financial statements to recognize additional  
23 compensation expense because of the use of the wrong dates for 6,428 stock option grants made from  
24 October 1996 through January 2003. In total, Apple recognized \$105 million in pre-tax expense over  
25 5 years. This included \$18.9 million in pre-tax expense associated with the Executive Team grant  
26 that was backdated to January 17, 2001 and \$20.3 million in pre-tax expense associated with the Jobs  
27 grant that was backdated to October 19, 2001.

1 50. For Apple's 2002 fiscal year, the failure to record an expense associated with the in-the-  
2 money portions of the Executive Team grant and the Jobs grant resulted in a combined 71%  
3 overstatement of reported operating income and a combined 16% overstatement of reported net  
4 income.

5 **FIRST CLAIM FOR RELIEF**

6 *(Violations of Section 10(b) of the  
Exchange Act and Rule 10b-5 Thereunder by Heinen)*

7 51. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
8 above.

9 52. By engaging in the conduct described above, Heinen, directly or indirectly, in connection  
10 with the purchase or sale of securities, by the use of means or instrumentalities of interstate  
11 commerce, or the mails, with scienter:

- 12 (a) employed devices, schemes, or artifices to defraud;  
13 (b) made untrue statements of material facts or omitted to state material facts  
14 necessary in order to make the statements made, in the light of the  
15 circumstances under which they were made, not misleading; and  
16 (c) engaged in acts, practices, or courses of business which operated or would  
17 operate as a fraud or deceit upon other persons, including purchasers and  
18 sellers of securities.

19 53. By reason of the foregoing, Heinen has violated, and unless restrained and enjoined, will  
20 continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R.  
21 § 240.10b-5].

22 **SECOND CLAIM FOR RELIEF**

23 *(Aiding and Abetting Violations of Section 10(b) of the  
Exchange Act and Rule 10b-5 Thereunder by Heinen)*

24 54. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
25 above.

26 55. By engaging in the conduct described above, Heinen, directly or indirectly, in connection  
27 with the purchase or sale of securities, by the use of means or instrumentalities of interstate  
28 commerce, or the mails, with scienter:

- 1 (a) employed devices, schemes, or artifices to defraud;
- 2 (b) made untrue statements of material facts or omitted to state material facts
- 3 necessary in order to make the statements made, in the light of the
- 4 circumstances under which they were made, not misleading; and
- 5 (c) engaged in acts, practices, or courses of business which operated or would
- 6 operate as a fraud or deceit upon other persons, including purchasers and
- 7 sellers of securities.

8 56. Heinen knowingly provided substantial assistance to another person's violations of

9 Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5], and

10 therefore is liable as an aider and abettor pursuant to Section 20(e) of the Exchange Act [15 U.S.C. §

11 78t(e)].

12 57. Unless restrained and enjoined, Heinen will continue to violate and aid and abet violations

13 of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5].

14 **THIRD CLAIM FOR RELIEF**

15 *(Violations of Section 17(a)(1) of the Securities Act by Heinen)*

16 58. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,

17 above.

18 59. By engaging in the conduct described above, Heinen, directly or indirectly, in the offer or

19 sale of securities, by use of the means or instruments of transportation or communication in interstate

20 commerce or by use of the mails with scienter employed devices, schemes, or artifices to defraud.

21 60. By reason of the foregoing, Heinen violated, and unless restrained and enjoined, will

22 continue to commit violations of, Section 17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)].

23 **FOURTH CLAIM FOR RELIEF**

24 *(Violations of Sections 17(a)(2) and (3) of the Securities Act by Defendants)*

25 61. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,

26 above.

1 62. By engaging in the conduct described above, Heinen and Anderson, directly or indirectly,  
2 in the offer or sale of securities, by use of the means or instruments of transportation or  
3 communication in interstate commerce or by use of the mails:

4 (a) obtained money or property by means of untrue statements of material fact  
5 or by omitting to state a material fact necessary in order to make the  
6 statements made, in light of the circumstances under which they were  
7 made, not misleading; and

8 (b) engaged in transactions, practices, or courses of business which operated  
9 or would operate as a fraud or deceit upon the purchasers.

10 63. By reason of the foregoing, Heinen and Anderson have violated, and unless restrained and  
11 enjoined, will continue to violate Sections 17(a)(2) and (3) of the Securities Act [15 U.S.C. §  
12 77q(a)(2) and (3)].

13 **FIFTH CLAIM FOR RELIEF**

14 *(False Statements and Omissions to Accountants and Auditors—  
15 Violation of Rule 13b2-2 by Defendants)*

16 64. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
17 above.

18 65. By engaging in the acts and conduct alleged above, Heinen and Anderson, directly or  
19 indirectly, made or caused to be made a materially false or misleading statements or omitted to state  
20 or caused another person to omit to state, material facts necessary in order to make statements made,  
21 in light of the circumstances under which such statements were made, not misleading to an  
22 accountant in connection with an audit or examination of the financial statements of Apple required  
23 to be made or the preparation or filing of reports required to be filed by Apple with the Commission.

24 66. By reason of the foregoing, Heinen and Anderson have violated and, unless restrained and  
25 enjoined, will continue to violate Rule 13b2-2 [17 C.F.R. § 240.13b2-2].  
26  
27  
28

1 **SIXTH CLAIM FOR RELIEF**

2 *(False Periodic Reports—Aiding and Abetting Violations*  
3 *of Section 13(a) of the Exchange Act and Rules 12b-20,*  
4 *13a-1 and 13a-13 Thereunder by Defendants)*

4 67. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
5 above.

6 68. Based on the conduct alleged above, Apple violated Section 13(a) of the Exchange Act  
7 [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20,  
8 240.13a-1, and 240.13a-13], which obligate issuers of securities registered pursuant to Section 12 of  
9 the Exchange Act [15 U.S.C. § 78l] to file with the Commission accurate annual and quarterly  
10 reports.

11 69. By engaging in the conduct alleged above, Heinen and Anderson knowingly provided  
12 substantial assistance to Apple's filing of materially false and misleading reports with the  
13 Commission.

14 70. By reason of the foregoing, Heinen aided and abetted violations by Apple of Section  
15 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, and 13a-13 thereunder [17  
16 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13]. By reason of the foregoing, Anderson aided and  
17 abetted violations by Apple of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules  
18 12b-20, 13a-1, and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13]. Unless  
19 restrained and enjoined, Heinen and Anderson will continue to aid and abet such violations.

20 **SEVENTH CLAIM FOR RELIEF**

21 *(Inaccurate Books and Records—Aiding and Abetting Violations of*  
22 *Section 13(b)(2)(A) of the Exchange Act by Defendants)*

22 71. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
23 above.

24 72. Based on the conduct alleged above, Apple violated Section 13(b)(2)(A) of the Exchange  
25 Act [15 U.S.C. § 78m(b)(2)(A)], which obligates issuers of securities registered pursuant to Section  
26 12 of the Exchange Act [15 U.S.C. § 78l] to make and keep books, records and accounts which, in  
27 reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the  
28 issuer.



1 73. By engaging in the conduct alleged above, Heinen and Anderson knowingly provided  
2 substantial assistance to Apple's failure to make and keep books, records and accounts which, in  
3 reasonable detail, accurately and fairly reflect its transactions and dispositions of its assets.

4 74. By reason of the foregoing, Heinen and Anderson have aided and abetted violations by  
5 Apple of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)]. Unless restrained  
6 and enjoined, Heinen and Anderson will continue to aid and abet such violations.

7 **EIGHTH CLAIM FOR RELIEF**

8 *(Inadequate Internal Accounting Controls—Aiding and Abetting  
Violations of Section 13(b)(2)(B) of the Exchange Act by Defendants)*

9 75. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
10 above.

11 76. Based on the conduct alleged above, Apple violated Section 13(b)(2)(B) of the Exchange  
12 Act [15 U.S.C. § 78m(b)(2)(B)], which obligates issuers of securities registered pursuant to Section  
13 12 of the Exchange Act [15 U.S.C. § 78I] to devise and maintain a sufficient system of internal  
14 accounting controls.

15 77. By engaging in the conduct alleged above, Heinen and Anderson knowingly provided  
16 substantial assistance to Apple's failure to devise and maintain a sufficient system of internal  
17 accounting controls.

18 78. By reason of the foregoing, Heinen and Anderson have aided and abetted violations by  
19 Apple of Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)]. Unless restrained and  
20 enjoined, Heinen and Anderson will continue to aid and abet such violations.

21 **NINTH CLAIM FOR RELIEF**

22 *(Falsifying Books and Records or Circumventing Internal Accounting  
Controls—Violation of Section 13(b)(5) of the Exchange Act by Heinen)*

23 79. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
24 above.

25 80. By the conduct alleged above, Heinen violated Section 13(b)(5) of the Exchange Act [15  
26 U.S.C. § 78m(b)(5)] which prohibits anyone from knowingly circumventing a system of internal  
27 accounting, or knowingly falsifying certain books, records, and accounts.  
28

1 81. Unless restrained and enjoined, Heinen will continue to violate Section 13(b)(5) of the  
2 Exchange Act [15 U.S.C. § 78m(b)(5)].

3 **TENTH CLAIM FOR RELIEF**

4 *(Falsifying Books and Records—Violation of  
5 Rule 13b2-1 of the Exchange Act by Heinen)*

6 82. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
7 above.

8 83. By engaging in the conduct described above, Heinen falsified or caused to be falsified  
9 Apple's books, records and accounts in violation of Rule 13b2-1 under the Exchange Act [17 C.F.R.  
10 § 240.13b2-1].

11 84. Heinen has violated and, unless restrained and enjoined, will continue to violate, Rule 13b2-1  
12 under the Exchange Act [17 C.F.R. § 240.13b2-1].

13 **ELEVENTH CLAIM FOR RELIEF**

14 *(False Proxy Statements—Aiding and Abetting Violations  
15 of Section 14(a) of the Exchange Act and Rule 14a-9 Thereunder by Defendants)*

16 85. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
17 above.

18 86. Based on the conduct alleged above, Apple violated Section 14(a) of the Exchange Act  
19 [15 U.S.C. § 78n(a)] and Rule 14a-9 thereunder [17 C.F.R. § 240.14a-9], which prohibits solicitations  
20 by means of a proxy statement, form of proxy, notice of meeting or other communication, written or  
21 oral, that contain a statement which, at the time and in the light of the circumstances under which it  
22 was made, was false or misleading with respect to any material fact, or which omit to state any  
23 material fact necessary in order to make the statements therein not false or misleading or necessary to  
24 correct any statement in any earlier communication with respect to the solicitation of a proxy for the  
25 same meeting or subject matter which had become false or misleading.

26 87. By engaging in the conduct alleged above, Heinen and Anderson knowingly provided  
27 substantial assistance to Apple's false or misleading proxy statements.

28 88. By reason of the foregoing, Heinen and Anderson have aided and abetted violations by  
Apple of Section 14(a) of the Exchange Act [15 U.S.C. § 78n(a)] and Rule 14a-9 thereunder [17

1 C.F.R. § 240.14a-9] thereunder. Unless restrained and enjoined, Heinen and Anderson will continue  
2 to aid and abet such violations.

3 **TWELFTH CLAIM FOR RELIEF**

4 *(Beneficial Ownership Reporting—Violations of Section 16(a)*  
5 *of the Exchange Act and Rule 16a-3 Thereunder by Defendants)*

6 89. The Commission realleges and incorporates by this reference Paragraphs 1 through 50,  
7 above..

8 90. Based on the conduct alleged above, Heinen and Anderson violated Section 16(a) of the  
9 Exchange Act [15 U.S.C. § 78p(a)] and Rule 16a-3 [17 C.F.R. § 240.16a-3] thereunder, which  
10 require officers, directors and beneficial owners of more than ten percent of any class of equity  
11 security registered pursuant to Exchange Act Section 12 [15 U.S.C § 78I] to file periodic reports  
12 disclosing any change of beneficial ownership of those securities.

13 91. Heinen and Anderson have violated and, unless restrained and enjoined, will continue to  
14 violate, Section 16(a) of the Exchange Act [15 U.S.C. § 78p(a)] and Rule 16a-3 [17 C.F.R. § 240.16a-  
15 3] thereunder.

16 **PRAYER FOR RELIEF**

17 WHEREFORE, the Commission respectfully requests that this Court:

18 I.

19 Permanently enjoin Heinen from directly or indirectly violating Section 17(a) of the Securities  
20 Act [15 U.S.C. § 77q(a)] and Sections 10(b), 13(b)(5), and 16(a) of the Exchange Act [15 U.S.C. §§  
21 78j(b), 78m(b)(5), and 78p(a)], and Rules 10b-5, 13b2-1, 13b2-2, and 16a-3 thereunder [17 C.F.R. §§  
22 240.10b-5, 240.13b2-1, 240.13b2-2, and 240.16a-3], and from aiding and abetting violations of  
23 Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 14(a) of the Exchange Act [15 U.S.C. §§ 78j(b),  
24 78m(a), 78m(b)(2)(A), 78m(b)(2)(B), and 78n(a)] and Rules 10b-5, 12b-20, 13a-1, 13a-13, and 14a-9  
25 [17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-13, and 240.14a-9] thereunder;

26 II.

27 Permanently enjoin Anderson from directly or indirectly violating Sections 17(a)(2) and (3) of  
28 the Securities Act [15 U.S.C. § 77q(a)(2) and (3)] and Section 16(a) of the Exchange Act [15 U.S.C.  
§ 78p(a)] and Rules 13b2-2 and 16a-3 thereunder [17 C.F.R. §§ 240.13b2-2 and 240.16a-3], and from

