

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$83.00** (as of January 11, 2006)

AAPL has an approximate 0.46% weighting in the **S&P 500**

**Sector:** Information Technology

**Sub-Industry:** Computer Hardware

**Peer Group:** Computer Hardware - Personal Computers

**Summary:** This leading vendor of personal computers has broadened its reach in the digital music business, with the success of its iPod MP3 player.

**Quantitative Evaluations**

S&P Earnings & Dividend Rank: **B**  
D C B- **B** B+ A- A A+

S&P Fair Value Rank: **2-**  
1 2 3 4 5  
Lowest Highest

Fair Value Calc.: **\$55.80** (Slightly Overvalued)

S&P Investability Quotient Percentile  
**94%**

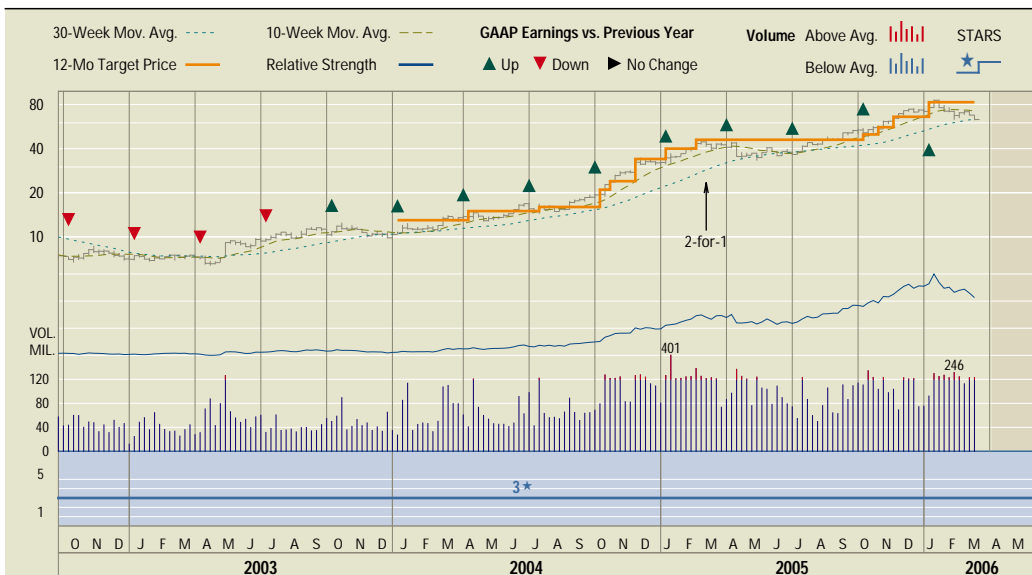
AAPL scored higher than 94% of all companies for which an S&P Report is available.

Volatility: **High**  
Low Average High

Technical Evaluation: **Bearish**  
Since 2/06, the technical indicators for AAPL have been Bearish.

Relative Strength Rank: **Weak**  
10  
1 Lowest Highest 99

Price as of 3/10/06: **\$63.19** 52-Week Range: **\$86.40 - \$33.11**



Analyst commentary prepared by Megan Graham-Hackett/ND/PS

Options: ASE,CBOE,P,Ph

**Highlights** January 20, 2006

- We project revenue growth of 39% for FY 06 (Sep.), following a 68% increase in FY 05. We believe revenues will continue to benefit from growth in AAPL's expanding iPod line, but note that growth rates are expected to begin to decelerate from FY 05's high levels, which we had believed were not sustainable. We also believe the company's core Mac line should register solid growth in the coming year, but are looking for signs of sustained demand acceleration in the company's product portfolio before becoming more optimistic on future sales growth in AAPL's core computer business. AAPL has announced it will switch from the Power PC chip to Intel chips, effective February 2006.
- We note that AAPL continues to open retail stores in an effort to introduce new users to its platform. The company had approximately 135 retail stores open as of the end of December 2005. We project FY 06 gross margins to narrow to 27.8% from 29.0% in FY 05, as we suspect the sales mix shift favoring some of AAPL's lower-end iPod products could offset the benefits accrued from higher volumes. However, recently there have been several new models introduced, which could help offset this impact.
- We project FY 06 EPS of \$1.91, including an estimated \$0.09 in stock option expense. Our FY 06 S&P Core EPS projection is also \$1.91. Our FY 07 EPS estimate of \$2.38 includes \$0.10 in projected stock option expense.

**Key Stock Statistics**

|                            |             |                     |                |
|----------------------------|-------------|---------------------|----------------|
| S&P Core EPS 2007E         | <b>2.38</b> | Dividend Rate/Share | <b>Nil</b>     |
| S&P Core EPS 2006E         | <b>1.91</b> | 12 Month P/E        | <b>34.0</b>    |
| S&P Oper. EPS 2006E        | <b>1.91</b> | Beta                | <b>1.30</b>    |
| P/E on S&P Oper. EPS 2006E | <b>33.1</b> | Shareholders        | <b>28,333</b>  |
| S&P Oper. EPS 2007E        | <b>2.38</b> | Market Cap (B)      | <b>\$ 53.6</b> |
| Yield (%)                  | <b>Nil</b>  | S&P Credit Rating   | <b>NR</b>      |

Value of \$10,000 invested five years ago: **\$ 70,358**

**Dividend Data**

Cash payments began in 1987 and were discontinued in February 1996.

**Investment Rationale/Risk** January 20, 2006

- Despite the shares' volatility, our recommendation is hold. While the success of Apple's iPod has benefited the company's bottom line results, we believe that year-over-year growth rates for the device neared their peak in FY 05, and we expect these rates to decelerate over the next year. In addition, AAPL's larger exposure to consumer electronics introduces much more variability in quarterly sales (owing to the seasonal consumer buying patterns), and the company's reliance on the iPod line also increases risk, in our opinion. Still, we expect AAPL's revenue growth to remain above peers over the next 12 months, reflecting the iPod's success and the potential for AAPL to enter new markets leveraging that success.
- Risks to our opinion and target price include a deterioration of technology spending, including a decline in consumer spending due to higher fuel prices, challengers to AAPL's successful iPod line, and market share losses.
- Our 12-month target price of \$83 is based on our price to sales ratio analysis, as well as our P/E multiple analysis. Specifically, we believe AAPL shares can trade at 3.3X our FY 07 revenue per share estimate, based on recent trading levels, and reflecting the fact that AAPL has nearly \$10 a share in cash and equivalents. While the stock trades at a price to sales ratio and P/E multiple above peer levels, we think the shares are appropriately valued, reflecting the success of the iPod and potential to further capitalize on its momentum.

**Revenues/Earnings Data** Fiscal year ending September 30

| Revenues (Million \$)   | 2006  | 2005   | 2004  | 2003  | 2002  | 2001  |
|-------------------------|-------|--------|-------|-------|-------|-------|
| 1Q                      | 5,749 | 3,490  | 2,006 | 1,472 | 1,375 | 1,007 |
| 2Q                      | —     | 3,243  | 1,909 | 1,475 | 1,495 | 1,431 |
| 3Q                      | —     | 3,520  | 2,014 | 1,545 | 1,429 | 1,475 |
| 4Q                      | —     | 3,678  | 2,350 | 1,715 | 1,443 | 1,450 |
| Yr.                     | —     | 13,931 | 8,279 | 6,207 | 5,742 | 5,363 |
| Earnings Per Share (\$) | 2006  | 2005   | 2004  | 2003  | 2002  | 2001  |
| 1Q                      | 0.65  | 0.35   | 0.09  | -0.01 | 0.06  | -0.30 |
| 2Q                      | E0.40 | 0.34   | 0.06  | 0.02  | 0.06  | 0.06  |
| 3Q                      | E0.41 | 0.37   | 0.08  | 0.03  | 0.05  | 0.09  |
| 4Q                      | E0.45 | 0.50   | 0.13  | 0.06  | -0.07 | 0.10  |
| Yr.                     | E1.91 | 1.56   | 0.36  | 0.10  | 0.09  | -0.06 |

Next earnings report expected: mid-April Source: S&P, Company Reports

EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$83.00** (as of January 11, 2006)

**Business Summary** January 25, 2006

**CORPORATE OVERVIEW.** Apple Computer may have a relatively small share of the more than \$200 billion market for PCs (estimated for 2005 by Framingham, MA-based market reseracher IDC), but in the rapidly growing MP3 player market, Apple has dominated with the success of its iPod. The worldwide portable compressed audio market was about \$10 billion in 2004 and is projected by IDC to grow 59% in 2005, with a CAGR of 13.3% for the period 2004-2009. In the portable jukebox category of the market, IDC estimated Apple's global market share to be 66% in 2004.

Apple hopes that the success of the iPod will translate into higher demand for Apple's computers. Over the past several years, AAPL's PC share has been maintained at roughly 3% on a global unit basis.

**COMPETITIVE LANDSCAPE.** Apple, in our opinion, derives its competitive advantage from its focus on innovation. We believe the iPod is a clear example of this strategy's success. AAPL entered the consumer device market with the iPod in 2001, and by the fourth quarter of FY 05 (Sep.), iPod sales were 33% of total revenues.

Another key differentiator for the company is that its computers are based on its own operating system, enabling a further area for Apple to innovate, in our view. AAPL's computers are based on the Mac OS (vs. the prevalent Windows operating system). Apple's Mac OS operating system focuses on simplicity and is viewed as graphically sophisticated. The Mac line also differed from peers by using the PowerPC RISC-based chip, developed by IBM and Motorola (now Freescale), but transitioned to the more common Intel chip, effective February 2006. Apple also differentiated its iPod from other MP3 players by launching its iTunes digital music download service (launched in 2003, with certain video

content added as of October 2005). As of October 2005, the company estimated that iTunes had 85% share of the legal download music market.

We believe Apple has differentiated itself from peers with its own retail stores. The company initiated a retail strategy in 2001, and as of the end of FY 05, its store count had reached 124. The strategy behind this retail presence is to drive traffic through its stores, and to expand its installed base of customers by showcasing its products in a user-friendly environment in the stores.

**FINANCIAL TRENDS.** While Apple has focused on innovation in its product line and selling strategy, we think it has also benefited from a renewed focus and discipline in its financials over the past 10 years. Under a restructuring program introduced in 1996 and enhanced in 1997, Apple presented a new business model to improve profitability, and trimmed its workforce and operating costs. While these efforts were initiated by former chairman and CEO Dr. G. Amelio (who resigned in July 1997), we attribute the turnaround to Apple's co-founder, Steve Jobs, its CEO since then. For example, as of September 24, 2005, AAPL's gross margins were 28% (vs. 19.8% in FY 96), and benefiting from a focus on asset management (enabling the company to maintain inventory days at 6, and days sales outstanding at 22, in FY 05) its cash and short-term investments were more than \$8 billion.

We believe Apple's recent track record in innovation and fiscal discipline, which should enable it to continue to reinvest in R&D to continue this cycle, support our forecast for EPS growth of 15% over the next five years. Our concerns are that while the iPod line is growing, competition is also intensifying, and we see tougher year-over-year sales comparisons going forward.

**Company Financials** Fiscal Year ending September 30

**Per Share Data (\$)**

(Year Ended September 30)

|                   | 2005  | 2004  | 2003  | 2002  | 2001  | 2000  | 1999  | 1998  | 1997  | 1996  |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Tangible Bk. Val. | 8.83  | 6.36  | 5.61  | 5.54  | 5.59  | 6.00  | 4.59  | 2.76  | 2.05  | 4.13  |
| Cash Flow         | 1.77  | 0.55  | 0.50  | 0.25  | 0.09  | 1.21  | 0.99  | 0.63  | -1.84 | -1.33 |
| Earnings          | 1.56  | 0.36  | 0.10  | 0.09  | -0.06 | 1.09  | 0.90  | 0.53  | -2.07 | -1.65 |
| S&P Core Earnings | 1.47  | 0.21  | -0.17 | -0.19 | -0.72 | NA    | NA    | NA    | NA    | NA    |
| Dividends         | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | 0.03  |
| Payout Ratio      | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | Nil   | NM    |
| Prices - High     | 75.46 | 34.78 | 12.50 | 13.08 | 13.56 | 37.59 | 29.50 | 10.93 | 7.43  | 8.87  |
| - Low             | 31.30 | 10.59 | 6.36  | 6.68  | 7.21  | 6.81  | 8.00  | 3.37  | 3.18  | 4.00  |
| P/E Ratio - High  | 48    | 98    | NM    | NM    | NM    | 34    | 33    | 21    | NM    | NM    |
| - Low             | 20    | 30    | NM    | NM    | NM    | 6     | 9     | 6     | NM    | NM    |

**Income Statement Analysis (Million \$)**

|                   |        |       |       |       |       |       |       |       |        |        |
|-------------------|--------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Revs.             | 13,931 | 8,279 | 6,207 | 5,742 | 5,363 | 7,983 | 6,134 | 5,941 | 7,081  | 9,833  |
| Oper. Inc.        | 1,829  | 499   | 138   | 164   | -231  | 704   | 471   | 379   | -285   | -1,048 |
| Depr.             | 179    | 150   | 113   | 118   | 102   | 84.0  | 85.0  | 111   | 118    | 156    |
| Int. Exp.         | Nil    | 3.00  | 8.00  | 11.0  | 16.0  | 21.0  | 47.0  | 62.0  | 71.0   | 60.0   |
| Pretax Inc.       | 1,815  | 383   | 92.0  | 87.0  | -52.0 | 1,092 | 676   | 329   | -1,045 | -1,295 |
| Eff. Tax Rate     | 26.4%  | 27.9% | 26.1% | 25.3% | NM    | 28.0% | 11.1% | 6.10% | NM     | NM     |
| Net Inc.          | 1,335  | 276   | 68.0  | 65.0  | -37.0 | 786   | 601   | 309   | -1,045 | -816   |
| S&P Core Earnings | 1,259  | 164   | -119  | -137  | -465  | NA    | NA    | NA    | NA     | NA     |

**Balance Sheet & Other Fin. Data (Million \$)**

|                     |        |       |       |       |       |       |       |       |       |       |
|---------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cash                | 3,491  | 2,969 | 3,396 | 2,252 | 2,310 | 1,191 | 1,326 | 1,481 | 1,230 | 1,552 |
| Curr. Assets        | 10,300 | 7,055 | 5,887 | 5,388 | 5,143 | 5,427 | 4,285 | 3,698 | 3,424 | 4,515 |
| Total Assets        | 11,551 | 8,050 | 6,815 | 6,298 | 6,021 | 6,803 | 5,161 | 4,289 | 4,233 | 5,364 |
| Curr. Liab.         | 3,484  | 2,680 | 2,357 | 1,658 | 1,518 | 1,933 | 1,549 | 1,520 | 1,818 | 2,003 |
| LT Debt             | Nil    | Nil   | Nil   | 316   | 317   | 300   | 300   | 954   | 951   | 949   |
| Common Equity       | 7,466  | 5,076 | 4,223 | 4,095 | 3,920 | 4,031 | 2,954 | 1,492 | 1,050 | 2,058 |
| Total Cap.          | 7,466  | 5,076 | 4,223 | 4,640 | 4,503 | 4,870 | 3,612 | 2,769 | 2,415 | 3,361 |
| Cap. Exp.           | 260    | 176   | 164   | 174   | 232   | 107   | 47.0  | 46.0  | 53.0  | 67.0  |
| Cash Flow           | 1,514  | 426   | 181   | 183   | 65.0  | 870   | 686   | 420   | -927  | -660  |
| Curr. Ratio         | 3.0    | 2.6   | 2.5   | 3.2   | 3.4   | 2.8   | 2.8   | 2.4   | 1.9   | 2.3   |
| % LT Debt of Cap.   | Nil    | Nil   | Nil   | 6.8   | 7.0   | 6.2   | 8.3   | 34.5  | 39.4  | 28.2  |
| % Net Inc. of Revs. | 9.6    | 3.3   | 1.1   | 1.1   | NM    | 9.8   | 9.8   | 5.2   | NM    | NM    |
| % Ret. on Assets    | 13.6   | 3.7   | 1.0   | 1.1   | NM    | 13.1  | 12.7  | 7.3   | NM    | NM    |
| % Ret. on Equity    | 21.3   | 5.9   | 1.6   | 1.6   | NM    | 22.5  | 27.0  | 24.3  | NM    | NM    |

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs. Bold denotes primary EPS - prior periods restated. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

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CEO: S.P. Jobs.

COO: T.D. Cook.  
SVP, CFO & Investor Contact: P. Oppenheimer 408-974-3123.  
SVP & General Counsel: N.R. Heinen.  
Dir: F. D. Anderson, W. V. Campbell, M. S. Drexler, A. Gore, Jr., S. P. Jobs, A. D. Levinson, J. B. York.

Founded: in 1977.  
Domicile: California.  
Employees: 16,820.  
S&P Analyst: Megan Graham-Hackett/ND/PS

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$83.00** (as of January 11, 2006)

**Sub-Industry Outlook**

Our fundamental outlook for the S&P Computer Hardware sub-industry remains neutral. Year to date through February 3, the S&P Computer Hardware Sub Industry Index rose a modest 0.4%, underperforming the S&P 1500, which rose 1.8% during the same period. Indeed, the index underperformed in 2005, falling 2.2%, compared with a 3.8% rise for the broader market. We remain concerned that unit growth figures for the personal computer market will begin to face more difficult comparisons in 2006, and we see sustained pressure on pricing. However, we believe that many computer hardware vendors have taken costs out of their infrastructures over the past few years. Therefore, we believe that with a backdrop of steady demand for information technology (IT) products in 2006 and with cost cutting offsetting continued pricing pressure, the S&P Computer Hardware sub-industry index should perform in line with the performance of the overall market.

We see longer-term fundamentals in the computer industry remaining attractive, as we think that a global appetite for technology products should boost productivity and communications. We see global competition forcing companies to be more productive; we think this is being achieved largely

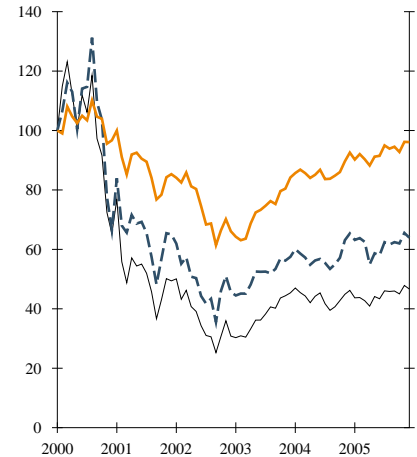
through technology. Many vendors have also streamlined operations during the industry's downturn, and we see this boosting longer-term profit potential.

We believe the benefits of Internet-related computing for the computer industry may be in the early stages. Demand for Internet-based applications is growing; we think this is because they offer companies opportunities to reduce costs and improve customer service. Although some initial deployments have been made to capitalize on this opportunity, we think the evolution of the platforms could produce another wave of investment as Internet use matures. For example, we think the growing complexity of computing infrastructures could lead to investments in hardware that have self-management features and eventually on-demand or automated computing. In addition, as price pressures in the PC industry have remained intense, we think that hardware vendors have been seeking to offset the negative impact on profits by offering wider-margin services, servers and storage.

--Megan Graham-Hackett

**Stock Performance**

**GICS Sector:** Information Technology  
**Sub-Industry:** Computer Hardware  
Based on S&P 1500 Indexes  
Month-end Price Performance as of 02/28/06



Sub-Industry Sector S&P 1500

Note: All Sector & Sub-Industry Information is based on the Global Industry Classification Standard (GICS)

**Sub-Industry: Computer Hardware** \*Peer Group: Computer Hardware - Personal Computers

| Peer Group            | Stock Symbol | Recent Stock Price | P/E Ratio | 12-Mo. Trailing EPS | 30-day Price Chg(%) | 1-year Price Chg.(%) | Beta        | Yield (%)  | Quality Ranking | Stk. Mkt. Cap. (Mil. \$) | Ret. on Equity (%) | Pretax Margin (%) | LTD to Cap. (%) |
|-----------------------|--------------|--------------------|-----------|---------------------|---------------------|----------------------|-------------|------------|-----------------|--------------------------|--------------------|-------------------|-----------------|
| <b>Apple Computer</b> | <b>AAPL</b>  | <b>63.19</b>       | <b>34</b> | <b>1.86</b>         | <b>-8%</b>          | <b>59%</b>           | <b>1.30</b> | <b>Nil</b> | <b>B</b>        | <b>53,624</b>            | <b>21.3</b>        | <b>13.0</b>       | <b>Nil</b>      |
| Avid Technology       | AVID         | 45.60              | 53        | 0.86                | -4%                 | -29%                 | 1.61        | Nil        | B-              | 1,900                    | 22.0               | 11.9              | Nil             |
| Concurrent Computer   | CCUR         | 2.86               | NM        | -0.08               | 28%                 | 58%                  | 2.03        | Nil        | C               | 204                      | NM                 | NM                | 4.0             |
| Dell, Inc.            | DELL         | 29.09              | 20        | 1.46                | -8%                 | -28%                 | 1.01        | Nil        | B+              | 68,464                   | 47.7               | 9.0               | 7.2             |
| Diebold, Inc.         | DBD          | 41.72              | 29        | 1.42                | 7%                  | -24%                 | 1.01        | 2.1        | A-              | 2,892                    | 15.3               | 11.6              | Nil             |
| Gateway               | GTW          | 2.18               | 17        | 0.13                | -13%                | -51%                 | NA          | Nil        | C               | 813                      | NM                 | NM                | 55.0            |
| Hewlett-Packard       | HPQ          | 32.99              | 36        | 0.92                | 3%                  | 60%                  | 1.73        | 1.0        | B+              | 93,614                   | 6.4                | 4.1               | 8.4             |
| Intergraph Corp       | INGR         | 40.47              | 11        | 3.59                | 7%                  | 41%                  | 0.64        | Nil        | B-              | 1,176                    | 38.4               | 42.4              | 0.2             |
| NCR Corp.             | NCR          | 39.78              | 14        | 2.80                | 2%                  | 3%                   | 2.25        | Nil        | B               | 7,304                    | 14.6               | 4.2               | 12.7            |
| NEC Corp.             | NIPNY        | 5.97               | 20        | 0.30                | 0%                  | -7%                  | 1.57        | 0.7        | NR              | 11,498                   | 9.0                | 3.1               | 43.7            |
| Neoware Inc           | NWRE         | 24.79              | 49        | 0.51                | 5%                  | 128%                 | 1.54        | Nil        | B-              | 489                      | 8.7                | 13.8              | Nil             |
| Palm Inc.             | PALM         | 40.76              | 7         | 5.79                | 9%                  | 82%                  | 2.22        | Nil        | NR              | 2,056                    | 12.4               | 6.3               | 5.7             |
| Stratasys Inc         | SSYS         | 26.99              | 27        | 0.99                | 12%                 | 0%                   | 2.03        | Nil        | B               | 279                      | 11.5               | 19.7              | Nil             |
| Sun Microsystems      | SUNW         | 4.58               | NM        | -0.09               | 5%                  | 5%                   | NA          | Nil        | C               | 15,851                   | NM                 | NM                | 14.4            |
| Toshiba Corp          | TOSBF        | 5.40               | 42        | 0.13                | -11%                | NA                   | NA          | 0.6        | NR              | 17,371                   | 5.9                | 1.9               | 41.6            |

NA-Not Available NM-Not Meaningful NR-Not Rated \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$83.00** (as of January 11, 2006)**S&P Analyst Research Notes and other Company News****March 13, 2006**

UP 2.87 to 66.06... Citigroup upgrades to buy from hold... Co. unavailable...

**March 13, 2006**

10:07 am EST... APPLE COMPUTER (AAPL 66.0) UP 2.81, CITIGROUP UPGRADES TO BUY FROM HOLD, MAINTAINS \$82 PRICE TARGET... Analyst Richard Gardner tells salesforce AAPL has fallen from \$85 to \$63 on disappointing Jan. Q guidance, flash memory order cancellations, other factors... But while number of product transitions are conspiring against co. during Mar. Q, he expects new products unveiled near co.'s 30th anniversary in early Apr. to fuel rebound starting in Jun Q... Says his checks suggest INTEL-based iBook, refreshed iPod Video with larger screen and/or more storage... Cuts \$4.8B, \$0.48 (incl. options expense) Mar. Q rev., EPS ests to \$4.5B, \$0.45... But keeps \$82 target. /BEgli

**February 13, 2006**

01:59 pm EST... S&P DOWNGRADES OPINION ON SHARES OF CREATIVE TECHNOLOGY LTD. TO SELL FROM HOLD (CREAF 7.87\*\*): We see CREAT facing a challenging Mar-Q due to seasonality, exacerbated by recent product introductions by Apple (AAPL 65.3\*\*\*) that have broadened its product portfolio at the lower end of the MP3 player market, thereby increasing the competitive dynamics, in our opinion. We are lowering our 12-month target price to \$7 from \$8, based on our revised price/sales analysis, which assumes shares will trade at 0.45X our FY 06 (Sep.) revenue estimate; just below current levels due to what we see as a slightly higher risk profile to the shares, given recent competitive actions. /M.Graham-Hackett

**February 7, 2006**

UP 1.51 to 68.81... Unveils new 1GB iPod nano for just \$149, cuts price for its iPod shuffle.

**January 19, 2006**

07:23 am EST... S&P REITERATES HOLD OPINION ON SHARES OF APPLE COMPUTER INC. (AAPL 82.49\*\*\*): Dec-Q EPS of \$0.65 vs. \$0.35 was above our \$0.56 est. Sales surged 65% on iPod shipments. We note iPod sales have exceeded those of Mac, which fell a bit below our model. Laptop sales were down Q/Q. Reflecting product mix, gross margin declined Y/Y and was just below our forecast. AAPL guided for Mar.-Q rev. growth of 33%, well below Dec.-Q, and EPS guidance was below our model. We are reducing our FY 06 (Sep.) EPS est. by \$0.09 to \$1.91. However, we believe AAPL has opportunities to monetize iPod success going forward, and with its \$8B in cash, we view AAPL as worth holding. /M.Graham-Hackett

**January 19, 2006**

Posts \$0.65 vs. \$0.35 Q1 EPS on 65% revenue rise... Sees Q2 revenue of \$4.3B, vs. Q1's \$5.75B, GAAP EPS of about \$0.38... S&amp;P cuts FY 06 EPS estimate; keeps hold...

**January 19, 2006**

NEW YORK (Standard &amp; Poor's)--Jan 18, 2006, Apple Computer Inc., announced 1Q EPS \$0.65 vs. \$0.35. Results are adjusted for Feb. '05 2-for-1 stock split.

**January 11, 2006**

S&amp;P raises target, reiterates hold... First Albany raises estimates, target, reiterates buy... Yesterday co. announced strong Q1 sales...

**January 11, 2006**

09:16 am EST... APPLE COMPUTER (AAPL 80.86) FIRST ALBANY RAISES ESTIMATES TARGET, REITERATES BUY... Analyst Joel Wagonfeld says AAPL CEO Jobs preannounced Q1 revenue upside, reflecting stronger-than-expected iPods, weaker-than-expected Macs... Notes \$5.7B Q1 sales vs. his \$5.0B est, \$4.9B consensus... Says MSFT made important long-term commitment to continued development/support for Office:Mac for at least another 5 years, which he views as significant as it ensures seamless interoperability of MSFT applications between Mac, non-Mac users... Raises \$0.53 Q1 EPS estimate to \$0.64, \$1.88 FY 06 (Sep) to \$2.15, \$2.22 FY 07 to \$2.53... Raises \$80 target to \$92. /BBrodie

**January 11, 2006**

08:15 am EST... S&P REITERATES HOLD OPINION ON SHARES OF APPLE COMPUTER INC. (AAPL 80.86\*\*\*): We are raising our 12-month target price on AAPL to \$83 from \$66, as we shift our valuation base to FY 07 (Sep.) from FY 06 and incorporate AAPL's news that its Intel (INTC 26.1\*\*\*\*)-based Macs will be available earlier than we had expected. Our FY 06 EPS estimate, incl. stock option expense, rises to \$2.00 from \$1.66 to reflect better-than-expected iPod-driven Dec-Q revs. of \$5.7B. We see this momentum continuing, and our FY 07 estimate rises to \$2.38 from \$1.82. Our target price reflects our view that AAPL can sustain a price/sales of 3.3X, applied to our FY 07 sales view. /M.Graham-Hackett

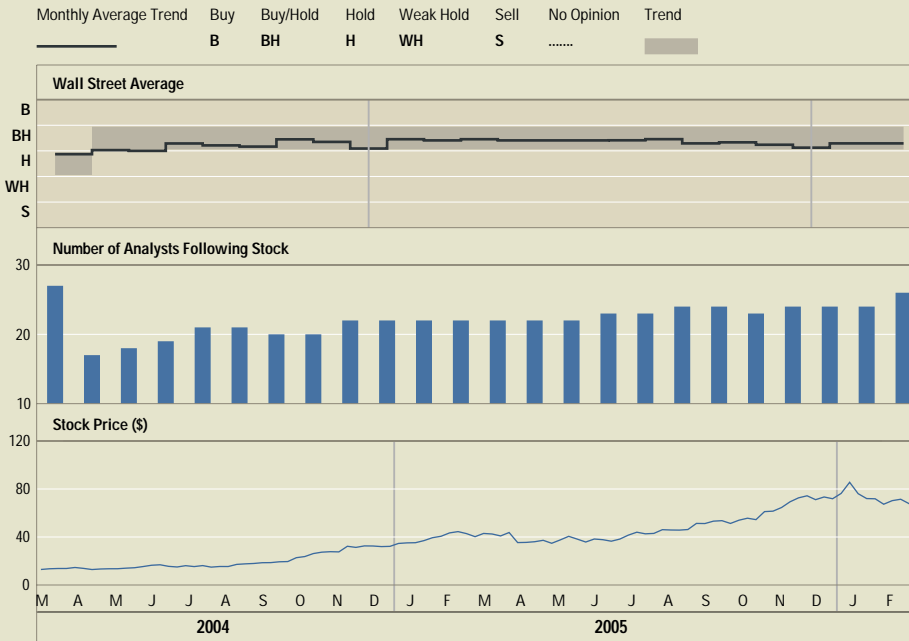
**January 10, 2006**

UP 3.30 to 79.35... CEO Steve Jobs reportedly announces at Macworld Expo that co.'s retail stores during Q1 generated \$1 billion in qtrly revenue for first time ever.

**January 10, 2006**

02:06 pm EST... S&P MAINTAINS HOLD RECOMMENDATION ON SHARES OF APPLE COMPUTER (AAPL 80.23\*\*\*): At Macworld Expo, CEO Jobs announces Dec-Q revenues would be about \$5.7B, above our \$4.7B forecast, aided by strong iPod unit sales of 14 million. In Dec-Q, quarterly sales from AAPL's retail stores exceeded \$1B for the first time. We continue to believe that AAPL will benefit from revenue gains in its expanding iPod line, but we expect growth to decelerate over the next year. In addition, we think the company's exposure to consumer electronics introduces more variability in quarterly sales and its reliance on the iPod increases risk. We are placing our estimates under review. /M. Graham-Hackett, Z. Bokhari

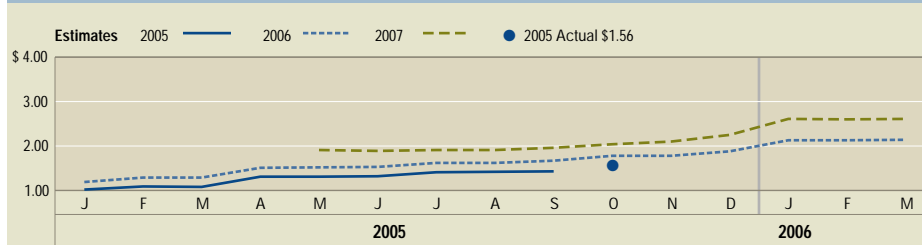
**Analyst Recommendations**



Of the total 27 companies following AAPL, 26 analysts currently publish recommendations.

|              | # of Rec. | % of Total | 1 Mo. Prior | 3 Mos. Prior |
|--------------|-----------|------------|-------------|--------------|
| Buy          | 4         | 15         | 4           | 2            |
| Buy/Hold     | 12        | 46         | 11          | 11           |
| Hold         | 10        | 38         | 9           | 11           |
| Weak Hold    | 0         | 0          | 0           | 0            |
| Sell         | 0         | 0          | 0           | 0            |
| No Opinion   | 0         | 0          | 1           | 1            |
| <b>Total</b> | <b>26</b> | <b>100</b> | <b>25</b>   | <b>25</b>    |

**Wall Street Consensus Estimates**



| Fiscal years    | Avg. Est. | High Est. | Low Est. | # of Est. | Est. P/E |
|-----------------|-----------|-----------|----------|-----------|----------|
| 2007            | 2.61      | 3.08      | 2.24     | 22        | 24.2     |
| 2006            | 2.14      | 2.41      | 1.91     | 23        | 29.5     |
| 2007 vs. 2006   | ▲ 22%     | ▲ 28%     | ▲ 17%    | ▼ -4%     | ▼ -18%   |
| Q2'07           | 0.57      | 0.66      | 0.46     | 15        | NM       |
| Q2'06           | 0.44      | 0.55      | 0.38     | 22        | NM       |
| Q2'07 vs. Q2'06 | ▲ 30%     | ▲ 20%     | ▲ 21%    | ▼ -32%    | NM       |

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

**Wall Street Consensus Opinion**

**BUY/HOLD**

**Companies Offering Coverage**

- American Technology Research
- Argus Research Corp.
- Banc of America Securities LLC.
- Bear Stearns & Co.
- Caris & Company
- Cowen & Co.
- Credit Suisse First Boston
- Deutsche Bank
- FTN Midwest Research
- First Albany Corporation
- First Global Stockbroking Ltd.
- Goldman Sachs & Co.
- JP Morgan Securities
- Kintisheff Research
- Lehman Brothers, Inc.
- Merrill Lynch Research
- Morgan Stanley & Company
- Needham & Co.
- Pacific Crest Securities
- Piper Jaffray
- Prudential Securities
- Smith Barney
- Soleil - Cross Research
- Thinkequity Partners
- Thomas Weisel Partners
- UBS Warburg
- When2trade Group

**Wall Street Consensus vs. Performance**

**Earnings Analysis**

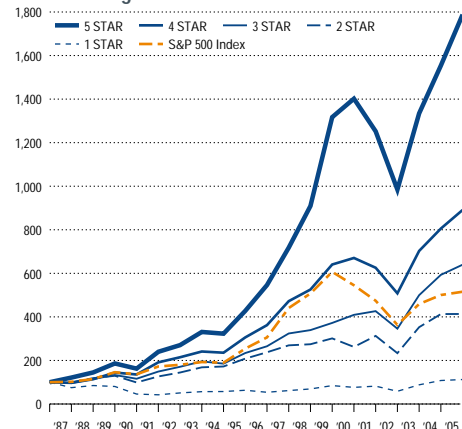
For fiscal year 2006, analysts estimate that AAPL will earn \$2.14. For the 1st quarter of fiscal year 2006, AAPL announced earnings per share of \$0.65, representing 30% of the total annual estimate. For fiscal year 2007, analysts estimate that AAPL's earnings per share will grow by 22% to \$2.61.

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$83.00** (as of January 11, 2006)

**Glossary**

**S&P STARS** - Since January 1, 1987, Standard & Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

**STARS Average Annual Performance**



**S&P 12-Month Target Price** - The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Quantitative Evaluations** - In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

**S&P Earnings & Dividend (Quality) Rank** - S&P's appraisals of the growth and stability of earnings and dividends over the past 10 years for individual companies are indicated by the following quality ranks. Quality Rankings are not intended to predict stock movements.

- A+ Highest
- A High
- A- Above Average
- B+ Average
- NR Not Ranked
- B Lower
- B- Below Average
- C Lowest
- D In Reorganization

**S&P Fair Value Rank** - Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process.

A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

**S&P Fair Value Calc.** - The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Earnings & Dividend Rankings). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

**Investability Quotient (IQ)** - The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

**Standard & Poor's IQ Rationale:  
Apple Computer**

|                               | Raw Score  | Max Value  |
|-------------------------------|------------|------------|
| Proprietary S&P Measures      | 37         | 115        |
| Technical Indicators          | 27         | 40         |
| Liquidity/Volatility Measures | 20         | 20         |
| Quantitative Measures         | 66         | 75         |
| <b>IQ Total</b>               | <b>150</b> | <b>250</b> |

**Volatility** - Rates the volatility of the stock's price over the past year.

**Technical Evaluation** - In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

**Relative Strength Rank** - Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

**Global Industry Classification Standard (GICS)** An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 64 Industries, and 139 Sub-Industries.

**S&P Core Earnings** - Standard & Poor's Core Earnings is a uniform methodology for calculating operating earnings, and focuses on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, writedowns of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

**Required Disclosures**

**In the U.S.:** As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services U.S. have recommended 28.2% of issuers with buy recommendations, 61.3% with hold recommendations and 10.5% with sell recommendations.

**In Europe:** As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services Europe have recommended 33.8% of issuers with buy recommendations, 46.8% with hold recommendations and 19.4% with sell recommendations.

**In Asia:** As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services Asia have recommended 24.8% of issuers with buy recommendations, 53.1% with hold recommendations and 22.1% with sell recommendations.

**Globally:** As of December 31, 2005, research analysts at Standard & Poor's Equity Research Services globally have recommended 28.7% of issuers with buy recommendations, 59.1% with hold recommendations and 12.2% with sell recommendations.

★★★★★ **5-STAR (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ **4-STAR (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ **3-STAR (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ **2-STAR (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★★★★★ **1-STAR (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:** In the U.S. the relevant benchmark is the S&P 500 Index, in Europe the S&P Europe 350 Index and in Asia the S&P Asia 50 Index.

**For All Regions:** All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

**Additional information is available upon request.**

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$83.00** (as of January 11, 2006)**Other Disclosures**

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