

February 20, 2007

Rating Information

Sector Rating	Market Weight
Target Price YE '07	\$130.00
Long-Term Growth	20%

Trading Data

52-Wk Range	\$50.16 - \$97.80
Market Cap.	\$75,875 MM*
Shares Out.	883.3 MM*
Dividend Yield	0.0%
Avg Daily Vol.	31,390,000
Float	NA

Source: FactSet; * BSC Estimates

Fundamental Data

EV/EBITDA	15.5x*
Enterprise Value	\$64000 MM*
LT Debt to Total Cap.	0.0%
Book Value	\$12.71*

Source: FactSet; * BSC Estimates

EE Post Option Expense† (USD)

2006	2.27
2007	3.25E
2008	4.10E

Price Performance Chart



Source: FactSet

Securities in this report priced as of:
February 20, 2007 16:00 ET

Equity Research Analyst(s)

Andrew J. Neff
212-272-4247
aneff@bear.com

William Hand
212-272-5928
bhand@bear.com

Ted Chung, CFA
212-272-6915
tchung@bear.com

Apple, Inc. (AAPL-\$85.90-Outperform)

AAPL Spheres and Vectors; Maintain Outperform

- **POSITIVE CHANGE AT THE MARGIN.** The pending launch of Apple TV in February and iPhone in June has changed the Apple story for the better. Before, Apple launched "insanely great" products, but investors had no idea what, if anything, would come next and when it might happen, resulting in a "hit-driven" story that often pulled back as investors pondered timing and parameters of the next move.
- **THINK DIFFERENTLY ABOUT APPLE.** In contrast, we now have some more visibility about where Apple is going with four "spheres" -- PCs, music, phones soon, and video next year (we think). And each of these spheres has four vectors of expansion -- platforms, wireless, storage, software -- although these spheres overlap with consistent software and user interfaces. We discuss these spheres/vectors below.
- **THINK NON-LINEARLY.** Another challenge is that one must view AAPL "non-linearly," e.g., successor to iPod mini was not a smaller mini but flash-based nano; iPhone was not just an iPod with a phone inside. AAPL leverages curves in technology trends, e.g., music, video. Also, one should not apply "Old Steve" behavior to AAPL today -- think "New Steve." The philosophy seems to be "say little, but do a lot."
- **PRIMARY ISSUE: JOBS.** Steve Jobs, in our view, is the heart and soul of Apple, which is simultaneously its greatest opportunity and risk -- and not just relative to the option probe.
- **MAINTAINING ESTS.** We're maintaining post-option EPS for FY07 at \$3.25 and for FY08 at \$4.10. We're also maintaining 2Q07 EPS of \$0.65 on revs of \$5.2bn, reflecting a 47% seq decline in iPod to 11.1mm and 13% seq unit drop in Mac to 1.4mm -- guidance is EPS of \$0.54-\$0.56 on revs of \$4.8-\$4.9bn.
- **MAINTAINING TARGET.** We're maintaining our CY07 target of \$130 using a P/E of 28x on CY08 oper EPS and adding net cash/sh of ~\$15. In addition to its existing drivers (Macs, iPod), we see AAPL on the cusp of several major growth opportunities that can fuel '07 and beyond.

Sector View: Stable IT spending tracking normal seasonality

Pro Forma Estimates Post Option Expense †(All values are in USD)

	Q1 Dec	Q2 Mar	Q3 Jun	Q4 Sep	Year	P/E
2006 ⁽¹⁾	0.65	0.47	0.54	0.62	2.27	37.8x
2007 ⁽²⁾	1.14	0.65E	0.68E	0.80E	3.25E	26.4x
2008 ⁽³⁾	1.19E	0.95E	0.96E	1.00E	4.10E	21.0x

(1) Includes \$0.13 in options expense, (2) Includes \$0.19 in options expense, (3) Includes \$0.22 in options

Revenue (All values are in USD)

	Q1 Dec	Q2 Mar	Q3 Jun	Q4 Sep	Year	P/S
2006	5,749.0	4,359.0	4,370.0	4,837.0	19,315.0	3.9x
2007	7,115.0	5,228.6E	5,423.5E	6,195.5E	23,962.6E	3.2x
2008	8,616.9E	7,183.0E	7,402.8E	7,874.8E	31,077.6E	2.4x

† All numbers are after stock based compensation expense. Beginning with 2006 estimates, this expense will be normalized consistent with BSC option expense policy. Prior years are not necessarily normalized. Outside data provider may not conform to this policy.

Bear Stearns does and seeks to do business with companies covered in its research reports. As a result investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Customers of Bear Stearns in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.bearstearns.com/independent-research or can call (800) 517-2327 to request a copy of this research. Investors should consider this report as only a single factor in making their investment decision.

PLEASE REFER TO PAGE 14 OF THIS REPORT FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

BEAR, STEARNS & CO. INC. 383 MADISON AVENUE NEW YORK, NY 10179 (212) 272-2000 WWW.BEARSTEARNS.COM

While we discuss each of these “spheres” separately, it is important to note that one of Apple’s strategic advantages is its consistency across its product lines in terms of design, user interface, software and other elements.

“Old Steve” vs. “New Steve.” To us, Steve Jobs’ role at Apple is both a tremendous positive, because of his leadership, inspiration, business acumen and ability to identify and foster creativity, as well as a risk because of his centrality to the success at Apple. As we have seen at other companies over history – some examples that come to mind include Walt Disney at Disney, Akio Morita at Sony, David Packard and Bill Hewlett at H-P – Jobs’ role is critical to its success and his absence would be sorely missed. Here we are referring not just to the current options scandal but to any other risk (including health).

At the same time, we think that many investors have overlooked the transformation from Jobs’ strategy and tactics in his first years at Apple – which we refer to as “old Steve” – to a more dynamic role in his current tenure – “new Steve.” In the case of the former, Apple designed “insanely great” products, but its products were targeted at a high-end niche, which allowed competitors to establish a foothold in the low end – and then move up – leading to a market share decline from nearly 100% in PCs to around 3% today. In contrast, and clearly learning from prior missteps, “new Steve” seems to be focused more carefully on developing strategies to gain share and deter competitors. In the iPod market, we can think of two examples: first, the introduction of iTunes software for Windows greatly expanding the market, and second, the development of versions of iPods at multiple price points stands in marked contrast to the “old Steve” strategy of high-priced Macintoshes. In the Macintosh products, the shift to Intel-based Macs along with the potential for running Windows is an example of the “new Steve” approach.

Think Non-Linearly. In contrast to the way we look at the Wintel market (i.e., the next product will be just like the last product only faster with the next Intel processor), we find that in order to assess the product strategy and directions at Apple, it is necessary to look at its products in a “non-linear” fashion. Two examples:

- *From iPod mini to iPod nano.* When reports surfaced that Apple was planning to introduce a flash-based iPod, most speculated it would essentially be an iPod mini with flash memory, which is a logical but linear approach. Instead, Apple introduced the nano which was revolutionary in many respects (i.e., size, weight, color screen).
- *From iPod to iPhone.* Similarly, the conventional wisdom around an iPhone was that it would be the iPod with phone functionality layered on. Instead, the iPhone was clearly developed and optimized as a phone, but can simultaneously play music and video and act as a fully featured Internet device with revolutionary touch-screen interface.

Moreover, this report is a “non-linear” extension of the report we wrote in January 2006 – “iPod Vectors” – as well as an industry report in June 2005 entitled “Digital Lifestyle: Where The Puck Is Heading.”

Apple Spheres And Vectors: Metamorphosis For The Better. With the pending launch of AppleTV in February and iPhone in June, we think that the Apple story is taking a qualitative turn for the better: specifically, the story is shifting from a dependence on one ‘hit’ product with little sense of what could follow and when, to a broader array of product lines with multiple drivers and some sense of what is down the road. Moreover, from a historical perspective, Apple has shifted from a Mac turnaround (starting in late 1997 with Steve Jobs’ return to Apple) to an iPod story (2004-06) and to a company with multiple engines, which we call “spheres” (2007 and beyond).

- **Macintosh.** With the shift to Intel-based Macs, we believe that Apple is in the early stages of multi-year expansion of its computer business, with the potential for meaningful market share gains. Eventually, we expect to see Apple enter new price points, provide better Windows interoperability and expand products (ultra portable, tablet PC).
- **Music.** Digital music (iPod) is the other current leg, which has provided growth over the past few years. In addition, we could see the iPod platform expanding to adjacent markets such as portable gaming, which is already offered for iPods.
- **iPhone.** With the expected launch of iPhone in June, Apple is establishing another line of business, which goes beyond iPod replacement. iPod has been optimized for music, while iPhone has been optimized as a phone, while still incorporating a host of other features that don’t complicate the device’s design, size and usability.

- **Video.** We think that video is at the early stages of digitization and the digital living room, with Apple laying out the initial pieces with Apple TV.

Apple Spheres And Vectors

Vectors \ Spheres	Macintosh PCs	iPods	iPhones	Videos
New Platforms	<ul style="list-style-type: none"> • Low-end PCs • Ultra portable • Tablet PCs 	<ul style="list-style-type: none"> • True/widescreen video iPod • Innovative form factor change for music-centric iPods • Portable gaming 	<ul style="list-style-type: none"> • Broad range of form factors (size, user interface) and price points • Video conferencing using iChat features • GPS technology 	<ul style="list-style-type: none"> • HDTV with integrated Apple TV functionality • PVR/DVR functionality • Storage server for all media • Video gaming
Wireless	<ul style="list-style-type: none"> • Wide Area Network (WAN) • WiMax 	<ul style="list-style-type: none"> • Bluetooth • Wi-Fi/802.11 • Ultrawide Band (UWB) • WiMax 	<ul style="list-style-type: none"> • UMTS • HSDPA • Wimax 	<ul style="list-style-type: none"> • Ultrawide Band (UWB) • WiMax
Storage	<ul style="list-style-type: none"> • Solid State Drives (NAND) 	<ul style="list-style-type: none"> • Higher-capacity HDD and NAND 	<ul style="list-style-type: none"> • Higher capacity HDD • Removable flash 	<ul style="list-style-type: none"> • Higher-capacity HDD
Software	<ul style="list-style-type: none"> • Leopard OS • Seamless integration of Windows with Boot Camp or as virtual machines • Enhanced integration with other AAPL products (iPod, iPhone, Apple TV, etc.) 	<ul style="list-style-type: none"> • Active vs. passive • Subscription-based model 	<ul style="list-style-type: none"> • Leopard OS with seamless integration with other AAPL products (iPod, iPhone, Apple TV, etc.) 	<ul style="list-style-type: none"> • Front Row • Bonjour software • Integration with Leopard OS to control application on PCs (similar to Timbuktu)

Source: Bear, Stearns & Co. Inc.

Vectors. At the same time, one can try to see where each of these segments (or spheres) is heading by applying four vectors (each of which overlaps with some of the other categories):

- **New platforms:** feature enhancements and/or product line extensions including new, lower price points. One of the most significant developments for the iPod was products at every price point (i.e., New Steve) vs. the Macintosh strategy of high price points.
- **More wireless:** leverage new wireless technologies. Follow the phone market.
- **More storage:** storage prices decline and new alternatives emerge, providing a higher amount of storage.
- **Enhanced software:** the hardest thing to do is to make it simple. (As the mathematician Blaise Pascal wrote to his son: “If I had more time, I would have written you a shorter letter.”)

Below, we take another look at each sector along these lines to get a sense of where we think that Apple is heading.

Macintosh...we expect to see a broader array of products, resulting in further market share gains





With the transition to Intel-based systems completed in 2006, we believe that the Macintosh product line is positioned for significant growth and gains in market share. Moreover, we believe that investors have to focus not on where Apple is today (i.e., relatively high priced entry point) but where it can go (broader product line). Again, as we note, while Apple is perceived as expensive, we think it is important to recognize that this perception is a result of the fact that Apple’s lowest price point is \$999 for desktops compared to Wintel at \$350 and notebooks starting at \$1,099 (MacBook) compared to Wintel notebooks in the \$600 range. In fact, on a comparable systems basis, Macs are competitively priced, and oftentimes cheaper (see table below). Nonetheless, it is important to look at what Apple did with the digital music products (i.e., products at every price point).

- **New platforms.** We see the potential for Apple to move in three directions: more innovative products (new form factors for Macs in addition to new tablet or ultra-portable class products with innovative storage), increased multimedia (more HDTV-based platforms), and lower price points (heading towards \$599 and below).
- **Wireless.** While Apple has already been at the forefront of wireless technologies, we could see the shift to new technologies – such as integration of wide-area-network (mobile phone networks) or WiMax, and wireless peripheral connectivity through Ultrawide band (UWB).

- **Storage.** We think that Apple is working to use its leadership position in deployment of flash memory (NAND) and strong supplier relationships to develop flash-based PCs. Moreover, we think that Apple may be developing other innovative storage devices, aimed at providing storage for home users – either in the home and/or over the Internet.
- **Software.** The expected launch of the next generation of the Mac OS – known as Leopard – in the spring will probably include functionality that will offer more seamless integration of Windows either through switching (as it does with Boot Camp today) or a virtual machine (e.g., Parallels). Moreover, we expect to see tighter collaboration with some of the digital music and video products.





Apple Product Comparisons: Apple is actually lower priced than comparable Wintel products

Product comparisons: Desktops, Servers

	Apple iMac	Hewlett-Packard TouchSmart IQ770		Apple Xserve	DELL PowerEdge 1950
					
Price	\$1,674	\$1,799	Price	\$4,498	\$4,692
Operating System	Mac OS 10.4.4	Windows Vista Home Premium	Operating System	Mac OS X Server (unlimited client licenses)	Windows Server 2003 R2 (5 client licenses)
Processor	2.13 GHz Intel Core 2 Duo	AMD Turion 64 X 2 Dual Core	Processor	Two 2.0 GHz Dual Core Intel Xeon	Two 2.0 GHz Dual Core Intel Xeon
Dimension	NA	NA	Frontside Bus	1.33GHz	1.33GHz
Weight	NA	NA	I/O Connectivity	Two built-in Gigabit Ethernet	Dual Embedded Broadcom NetXtreme II 5708 Gigabit Ethernet
Screen	Integrated 20"	Integrated 19"	Memory	2GB	2 GB
Memory	2 GB	2 GB	HDD	73GB SAS @ 15,000rpm	73GB, SAS @ 15,000rpm
HDD	250 GB	250 GB	DVD/CD RW	24x Combo drive (DVD-ROM/CD-RW)	24X IDE CD-RW/DVD
DVD/CD RW	Yes	Yes	Power Supply	Single 650W power supply	670W hot-plug power supply
Graphics chip	ATI Radeon X1600 with 128 MB VRAM	NVIDIA GeForce Go 7600 graphics with 256MB	PCI Express	Two open x8 PCI Express slots	Riser with 2 PCI Express slots
Modem	No	Yes			
Built-in webcam	Yes	Yes			
Wireless	Yes	Yes (no Bluetooth)			
Software	iLife '06 ; Front Row; Photo Booth; Big Bang; Board Games; Comic Life; OmniOutliner; Safari 2; Mail 2; Address Book 4; iChat AV 3; iCal 2; Font Book 2; DVD Player 4.5; Preview 3; Xcode 2	TouchSmart Software; HP SmartCalendar; HP Photosmart Touch; Roxio Creator; DVD Play; Microsoft® Works 8			

Source: Company websites (as of 2/15/07)

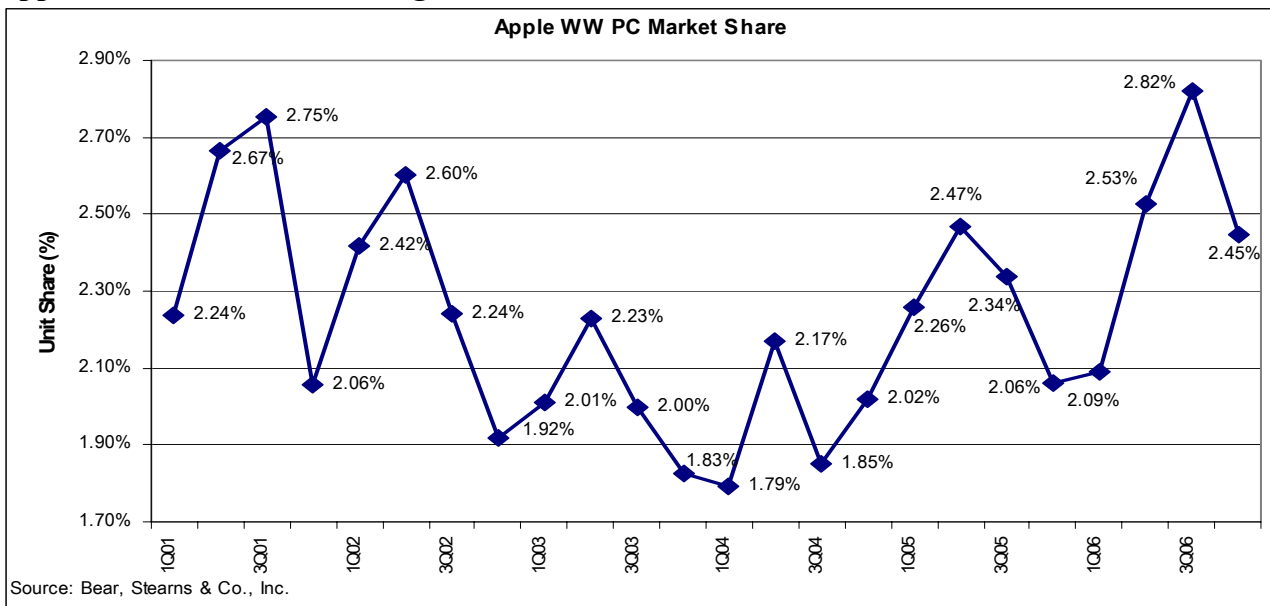
Apple Product Comparisons: Low-end and high-end notebooks

	Apple MacBook	Dell XPS M1210	Apple MacBook Pro (17")	Dell XPS M1710
				
Price	\$1,348	\$1,513	\$2,799	\$2,699
Operating System	Mac OS 10.4.4	Windows Vista (Home Edition)	Mac OS 10.4.4	Windows Vista Home Premium
Processor	2.0 GHz Intel Core 2 Duo	2.0 GHz Intel Core 2 Duo	2.33 GHz Intel Core 2 Duo	2.33 GHz Intel Core 2 Duo
Dimension	12.78" x 8.92" x 1.08"	11.7" x 8.7" x 1.2"	15.4" x 10.4" x 1.0"	15.5" x 11.3" x 1.6"
Weight	5.2 pounds	4.37 pounds	6.8 pounds	7.9
Screen	13.3", 1280 x 800 glossy TFT widescreen	12.1" WXGA 1280x800 TFT Active Matrix	17", 1680 x 1050 resolution, TFT widescreen	17" WXGA TFT Active Matrix (1440 x 900 max. resolution)
Memory	1 GB	1 GB	2 GB	2 GB
HDD	80 GB	80 GB	160 GB	160 GB
DVD/CD RW	Yes	Yes	Yes	Yes
Graphics chip	Intel GMA 950 graphics processor	Intel GMA 950 graphics processor	ATI Mobility Radeon X1600 with 128MB of GDDR3 SDRAM and dual-link DVI	256MB NVIDIA® GeForce™ Go 7900 GS
Modem	External	Integrated	Yes	Yes
Built-in webcam	Yes	Yes	Yes	No
Wireless	Yes (Wi-Fi/Bluetooth)	Yes (Wi-Fi/Bluetooth)	Yes (Wi-Fi/Bluetooth)	Yes (Wi-Fi/Bluetooth)
Software	iLife '06 ; Front Row; Photo Booth; Big Bang; Board Games; Comic Life; OmniOutliner; Safari 2; Mail 2; Address Book 4; iChat AV 3; iCal 2; Font Book 2; DVD Player 4.5; Preview 3; Xcode 2	Microsoft Works 8	iLife '06 ; Front Row; Photo Booth; Big Bang; Board Games; Comic Life; OmniOutliner; Safari 2; Mail 2; Address Book 4; iChat AV 3; iCal 2; Font Book 2; DVD Player 4.5; Preview 3; Xcode 2	Microsoft Works Suite

Source: Company websites (as of 2/15/07)

Market share gains: While Apple is starting off at a low base, there are clear signs that it is gaining share. Based on total CPU shipments of 1.606 million and preliminary PC shipment data released from IDC on 1/17, we estimate that Apple's PC market share increased by 40 basis points year/year from 2.06% to 2.45% (but down 37 basis points sequentially), as the company continues to grow faster than the market.

Apple Market Share: The Long March?



Apple Macintosh Revenue, Unit and Average Selling Price Forecasts (\$ in millions, units in thousands)

	Total Mac Business						Total Desktop -- iMac, Mac mini & Mac Pro						Total Notebook -- MacBook & MacBook Pro													
	CPU / Systems Revenue			Total CPU Units			CPU ASP			Total DT Revenue			Total DT Units			DT ASP			Total NB Revenue			Total NB Units			NB ASP	
	\$MM	% Q/Q	% Y/Y	000s	% Q/Q	% Y/Y	\$	% Y/Y	\$MM	% Q/Q	% Y/Y	000s	% Q/Q	% Y/Y	\$	% Y/Y	\$MM	% Q/Q	% Y/Y	000s	% Q/Q	% Y/Y	\$	% Y/Y		
2001	\$4,403	--	(36)	3,087	--	(32)	\$1,426	(6)	\$2,781	--	(46)	2,145	--	(41)	\$1,296	(8)	\$1,621	--	(8)	942	--	2	\$1,721	(9)		
2002	\$4,534	--	3	3,101	--	0	\$1,462	3	\$2,828	--	2	2,067	--	(4)	\$1,368	6	\$1,706	--	5	1,034	--	10	\$1,650	(4)		
2003	\$4,492	--	(1)	3,012	--	(3)	\$1,491	2	\$2,476	--	(12)	1,762	--	(15)	\$1,405	3	\$2,016	--	18	1,250	--	21	\$1,613	(2)		
2004	\$4,923	--	10	3,290	--	9	\$1,496	0	\$2,373	--	(4)	1,625	--	(8)	\$1,460	4	\$2,550	--	26	1,665	--	33	\$1,532	(5)		
2005/1Q	\$1,605	30	26	1,046	25	26	\$1,534	0	\$1,001	80	54	623	62	44	\$1,607	7	\$604	(11)	(3)	423	(6)	7	\$1,428	(9)		
2Q	1,494	(7)	29	1,070	2	43	1,396	(10)	803	(20)	34	608	(2)	55	1,321	(14)	691	14	24	462	9	29	1,496	(4)		
3Q	1,565	5	24	1,182	10	35	1,324	(8)	845	5	49	687	13	65	1,230	(10)	720	4	3	495	7	8	1,455	(4)		
4Q	1,611	3	31	1,236	5	48	1,303	(11)	787	(7)	42	602	(12)	56	1,307	(9)	824	14	22	634	28	41	1,300	(13)		
2005	\$6,275	--	27	4,534	--	38	\$1,384	(8)	\$3,436	--	45	2,520	--	55	\$1,363	(7)	\$2,839	--	11	2,014	--	21	\$1,410	(8)		
2006/1Q	\$1,724	7	7	1,254	1	20	\$1,375	(10)	\$912	16	(9)	667	11	7	\$1,367	(15)	\$812	(1)	34	587	(7)	39	\$1,383	(3)		
2Q	1,572	(9)	5	1,112	(11)	4	1,414	1	833	(9)	4	614	(8)	1	1,357	3	739	(9)	7	498	(15)	8	1,484	(1)		
3Q	1,866	19	19	1,327	19	12	1,406	6	705	(15)	(17)	529	(14)	(23)	1,333	8	1,161	57	61	798	60	61	1,455	0		
4Q	2,213	19	37	1,610	21	30	1,375	5	869	23	10	624	18	4	1,393	7	1,344	16	63	986	24	56	1,363	5		
2006	\$7,375	--	18	5,303	--	17	\$1,391	0	\$3,319	--	(3)	2,434	--	(3)	\$1,364	0	\$4,056	--	43	2,869	--	42	\$1,414	0		
2007/1Q	\$2,410	9	40	1,606	(0)	28	\$1,501	9	\$955	10	5	637	2	(4)	\$1,500	10	\$1,455	8	79	969	(2)	65	\$1,502	9		
2QE	2,147	(11)	37	1,397	(13)	26	1,537	9	825	(14)	(1)	543	(15)	(12)	1,520	12	1,322	(9)	79	854	(12)	72	1,548	4		
3QE	2,328	8	25	1,555	11	17	1,497	6	849	3	20	578	7	9	1,469	10	1,479	12	27	977	14	22	1,514	4		
4QE	2,610	12	18	1,804	16	12	1,447	5	923	9	6	621	7	(0)	1,486	7	1,687	14	25	1,182	21	20	1,426	5		
2007E	\$9,495	--	29	6,362	--	20	\$1,493	7	\$3,552	--	7	2,379	--	(2)	\$1,493	9	\$5,943	--	47	3,983	--	39	\$1,492	6		
2008/1QE	\$2,736	5	14	1,886	5	17	\$1,451	(3)	\$960	4	0	645	4	1	\$1,489	(1)	\$1,777	5	22	1,241	5	28	\$1,431	(5)		
2QE	2,482	(9)	16	1,659	(12)	19	1,496	(3)	868	(10)	5	565	(12)	4	1,535	1	1,614	(9)	22	1,094	(12)	28	1,475	(5)		
3QE	2,609	5	12	1,812	9	16	1,440	(4)	854	(2)	1	590	4	2	1,446	(2)	1,756	9	19	1,221	12	25	1,438	(5)		
4QE	2,890	11	11	2,045	13	13	1,413	(2)	897	5	(3)	609	3	(2)	1,472	(1)	1,994	14	18	1,436	18	21	1,388	(3)		
2008E	\$10,718	--	13	7,402	--	16	\$1,448	(3)	\$3,578	--	1	2,409	--	1	\$1,485	(1)	\$7,140	--	20	4,993	--	25	\$1,430	(4)		











Source: Company reports; Bear Stearns & Co. estimates

Music...focusing on the seamless integration

Last year, we discussed the four vectors driving Apple's music business – platforms, wireless, storage and software – and it appears that most of those vectors continue to move forward. Importantly, we see music as a separate market opportunity than phone and video, although there are certain overlapping aspects at the margin because of Apple's design consistency.

- **New platforms.** As noted above, Apple's design philosophy is to develop iPod products that are optimized for music, although we could see an overlap with personal video as soon as this year. Specifically, we see an opportunity for a "true" video iPod where Apple could take the iPhone platform, pull out the flash memory and phone functionality, and incorporate a high-capacity HDD. Moreover, we continue to see the proliferation of the iPod platform at incremental markets including planes and autos. In addition, we also think that it would make sense for Apple to incorporate camera technology into an iPod, given the convergence of phones and cameras elsewhere – the iPhone was introduced with a 2 megapixel camera. Finally, Apple could further extend iPod platform into the gaming segment, with gaming-centric iPods since Apple already sells games for its 5.5-generation iPod through iTunes Music Store.
- **Wireless.** We expect to see Apple incorporate enhanced wireless connectivity in the iPod platform. According to our discussion with Apple's engineering teams, wireless (in the form of Bluetooth headset) is "the number one request" by users. We see several options, including the incorporation of enhanced Bluetooth technology that supports stereo music (which could be available by later this year or early 2008). The incorporation of Wi-Fi is another option with the adoption of 802.11n in the computing platform. As opposed to cutting the cord to the headphones, a non-linear approach for Apple could be to incorporate the functionality of the iPod shuffle into the headphones themselves – i.e., a wireless iPod/headset combination. Finally, Apple could incorporate ultrawide band (UWB) for cordless synchronization of iPod.
- **Storage.** Again, we expect to see higher-capacity uses of HDD with reported adoption of a 120GB HDD for the mainstream iPod platform, which may be necessary for a true video iPod. Moreover, we expect to see broader use of flash memory is the nano and shuffle platforms.
- **Software.** The primary directions of software include the shift from active (I get the song/video I want) to passive (iTunes gets it for me), as well as a shift to subscription mode (I can get 24 delivered to me each week so I don't miss an episode).

Apple iPod Family History

2001 First Generation iPod  Launched: 10/2001 EOL: 1/02 Price: \$399 Capacity: 5 GB	2002 Second Generation iPod  Launched: 7/02 EOL: 4/03 Price: \$499 Capacity: 10 GB	2003 Third Generation iPod  Launched: 4/03 EOL: 7/04 Price: \$299 Capacity: 10 GB
2004 First Generation iPod Mini  Launched: 1/04 EOL: 2/05 Price: \$249 Capacity: 4 GB Fourth Generation iPod  Launched: 7/04 EOL: 6/05 Price: \$299 Capacity: 20 GB iPod Photo  Launched: 10/04 EOL: 6/05 Price: \$499 Capacity: 40 GB	2005 iPod Shuffle  Launched: 1/05 EOL: 9/05 Price: \$99, \$149 Capacity: 512 MB, 1 GB Second Generation iPod  Launched: 2/05 EOL: 9/05 Price: \$249 Capacity: 6 GB iPod Nano  Launched: 9/05 EOL: 9/06 Price: \$199, \$249 Capacity: 2 GB, 4 GB Fifth Generation iPod  Launched: 6/05 EOL: 9/05 Price: \$299 Capacity: 20 GB	2006 Second Generation iPod Shuffle  Launched: 9/06 Available Price: \$79 Capacity: 1 GB Second Generation iPod nano  Launched: Available Price: \$149, \$199, \$249 Capacity: 2 GB, 4 GB, 8 GB 5.5 Generation iPod  Launched: 9/06 Available Price: \$249, \$349 Capacity: 30 GB, 80 GB

Source: Company website; Bear Stearns & Co.

Apple iPod Revenue, Unit and Average Selling Price Forecasts (\$ in millions, units in thousands)

	Total iPod Business											Other Music Products			
	Revenue			Units						ASP		Revenue			
	\$MM	% Q/Q	% Y/Y	Shuffle	Nano	HDD	000s	% Q/Q	% Y/Y	\$	% Q/Q	% Y/Y	\$MM	% Q/Q	% Y/Y
2002	\$143	--	--	--	--	376	376	--	--	\$380	--	--	--	--	--
2003	\$344	--	141	--	--	934	934	--	148	\$368	--	(3)	\$26	--	--
2004	\$1,306	--	280	--	--	4,416	4,416	--	373	\$296	--	(20)	\$278	--	969
2005/1Q	\$1,211	126	373	--	--	4,580	4,580	127	525	\$264	(1)	(24)	\$177	81	277
2Q	1,014	(16)	284	1,800	--	3,511	5,311	16	558	191	(28)	(42)	216	22	260
3Q	1,103	9	343	2,175	--	3,980	6,155	16	616	179	(6)	(38)	241	12	230
4Q	<u>1,212</u>	10	126	<u>1,825</u>	<u>1,050</u>	<u>3,576</u>	<u>6,451</u>	5	220	<u>188</u>	5	(29)	<u>265</u>	10	170
2005	\$4,540	--	248	5,800	1,050	15,647	22,497	--	409	\$202	--	(32)	\$899	--	223
2006/1Q	\$2,906	140	140	2,460	7,455	4,128	14,043	118	207	\$207	10	(22)	\$491	85	177
2Q	1,714	(41)	69	1,250	4,995	2,281	8,526	(39)	61	201	(3)	5	485	(1)	125
3Q	1,497	(13)	36	1,100	4,895	2,116	8,111	(5)	32	185	(8)	3	457	(6)	90
4Q	<u>1,559</u>	4	29	<u>915</u>	<u>5,482</u>	<u>2,332</u>	<u>8,729</u>	8	35	<u>179</u>	(3)	(5)	<u>452</u>	(1)	71
2006	\$7,676	--	69	5,725	22,827	10,857	39,409	--	75	\$195	--	(3)	\$1,885	--	110
2007/1Q	\$3,427	120	18	5,190	10,965	4,911	21,066	141	50	\$163	(9)	(21)	\$634	40	29
2QE	1,845	(46)	8	2,595	5,702	2,849	11,145	(47)	31	166	2	(18)	642	1	32
3QE	1,781	(4)	19	2,725	5,417	2,792	10,933	(2)	35	163	(2)	(12)	649	1	42
4QE	<u>1,863</u>	5	20	<u>2,888</u>	<u>5,687</u>	<u>2,903</u>	<u>11,479</u>	5	32	<u>162</u>	(0)	(9)	<u>676</u>	4	50
2007E	\$8,916	--	16	13,398	27,770	13,455	54,623	--	39	\$163	--	(16)	\$2,601	--	38
2008/1QE	\$3,153	69	(8)	4,910	9,669	4,936	19,514	70	(7)	\$162	(0)	(1)	\$937	39	48
2QE	1,879	(40)	2	2,946	5,801	2,961	11,708	(40)	5	160	(1)	(3)	870	(7)	35
3QE	1,868	(1)	5	3,005	5,917	2,872	11,795	1	8	158	(1)	(3)	827	(5)	27
4QE	<u>1,947</u>	4	4	<u>3,155</u>	<u>6,213</u>	<u>2,959</u>	<u>12,327</u>	5	7	<u>158</u>	(0)	(3)	<u>837</u>	1	24
2008E	\$8,847	--	(1)	14,016	27,600	13,728	55,344	--	1	\$160	--	(2)	\$3,471	--	33

Source: Company reports; Bear Stearns & Co. estimates

Note: Other Music Products consists of iTunes Music Store downloads and iPod-related accessories and services (incl Apple TV)

iPhone...don't focus on the price

On January 9, 2007, Apple CEO Steve Jobs announced the iPhone with availability expected in June. We expect that – as with the iPod – this iPhone will be the first of a larger product family. As with iPod, we believe that Apple's agenda is to develop this as a platform for a phone, but with true convergence of multiple functions (and not just a phone with music/video capabilities). Looking back on iPod, it started out as a portable music device and evolved to include photos, videos, and now games. Moreover, we would not focus on the concerns about the relatively high price (\$499/\$599), since we would not expect its partner Cingular to want to have a product announced six months early that competes with its existing products.

- **New platforms.** While iPhone is in itself a new platform, we would expect Apple to offer new versions with different capacities, interfaces, carrier partnerships. In addition, given iPhone's inclusion of a digital camera, iPhone could evolve to include video conferencing features via Apple's iChat. Finally, through the use of Google maps and a unique Maps application for satellite imagery and directions, iPhone could ultimately integrate GPS technology.
- **Wireless.** While the introductory version only offered Cingular's EDGE technology (along with 802.11 b/g Wi-Fi and Bluetooth 2.0), we would expect Apple to offer faster network technologies, such as UMTS and HSDPA, as it introduces new versions.
- **Storage.** We would expect Apple to possibly include an HDD version, although battery life could be a limiting factor here. While the current version of iPhone are expected to come in 2GB/4GB versions, Apple could also introduce removable flash via secure digital (SD) slot.
- **Software.** The inclusion of Mac OS X as the operating system for the iPhone will also allow for more robust functionality, access to desktop-class applications and software (e.g., rich HTML email, full-featured web browsing, etc.) and seamless connectivity with other Apple products.

Apple iPhone Competitive Landscape

	<u>Apple iPhone</u>	<u>LG Prada</u>	<u>Samsung F700</u>	<u>Palm Treo 700wx</u>	<u>Palm Treo 750</u>	<u>RIM 8800c</u>	<u>RIM Pearl</u>	<u>Samsung BlackJack</u>
								
Operating Systems	Mac OS X	NA	Flash	Microsoft	Microsoft	RIM	RIM	Microsoft
Price To Carriers	\$600	\$778 (600 Euro)	NA	\$600	\$500-\$550	\$400-\$450	\$330-\$350	\$400
Retail Price*	\$499 (4GB) \$599 (8GB)	\$788 (600 Euro)	NA	\$499	\$399	\$299	\$199	\$199
Dimension	4.5 x 2.4 x 0.46	3.89x2.13x0.47	4.09x1.97x0.65	5.1 x 2.3 x 0.9	4.4 x 2.3 x 0.8	4.49x2.60x0.55	4.2 x 2.0 x 0.6	4.4 x 2.3 x 0.5
Volume (inch ³)	5.0	3.9	5.2	10.6	8.1	6.4	5.0	4.6
Weight	4.8 oz	3.1 oz	NA	6.4 oz	5.2 oz	4.73 oz	3.1 oz	3.5 oz
Wireless Radio	EDGE	EDGE	HSDPA	EV-DO	EDGE/UMTS	EDGE	EDGE	HSDPA
Talk time	up to 5 hours	Up to 3 hours	NA	up to 5 hours	up to 4.5 hours	up to 5 hours	up to 3.5 hours	up to 5.5 hours
Input	Touchscreen	Touchscreen	Touchscreen & QWERTY Keyboard	Touchscreen & QWERTY Keyboard	Touchscreen & QWERTY Keyboard	QWERTY Keyboard	QWERTY Keyboard	QWERTY Keyboard
Digital Camera	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Multimedia player	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wi-Fi enabled	Yes	Yes	No	No	No	No	No	No
Enterprise Email Services	No	No	No	Yes	Yes	Yes	Yes	Yes
Availability	Jun-2007	Mar-2007	2H07	Available	Available	Feb-2007	Available	Available

*Price based on 2-year contract

Source: Company press release; Bear, Stearns & Co. Inc. estimates

Apple iPhone Revenue, Unit and Average Selling Price Forecasts (\$ in millions, units in thousands)

	Total iPhone								
	Revenue			Units			ASP		
	\$MM	% Q/Q	% Y/Y	000s	% Q/Q	% Y/Y	\$	% Q/Q	% Y/Y
2007/1Q	--	--	--	--	--	--	--	--	--
2QE	--	--	--	--	--	--	--	--	--
3QE	--	--	--	--	--	--	--	--	--
4QE	<u>330</u>	--	--	<u>600</u>	--	--	<u>550</u>	--	--
2007E	\$330	--	--	600	--	--	\$550	--	--
2008/1QE	\$1,018	208	--	1,850	208	--	\$550	0	--
2QE	1,238	22	--	2,250	22	--	550	0	--
3QE	1,375	11	--	2,500	11	--	550	0	--
4QE	<u>1,428</u>	4	333	<u>2,650</u>	6	342	<u>539</u>	(2)	(2)
2008E	\$5,058	--	1433	9,250	--	1442	\$547	--	(1)

Source: Bear Stearns & Co. estimates

Note: We conservatively assume no iPhone units in fiscal 3Q07 despite Apple's plan to launch in June

Video...is next year's story – think of iPod in its early days

In our view, the digitization of video is in the early stages of dramatic growth, with all the pieces beginning to fall into place – analogous to the early days of iPod/iTunes. While it was a push to get the music industry to go along with digital music platforms, the view of the film industry is “when not if” according to Apple executives. Apple’s foray into video segment to date has been limited. Apple began selling TV shows through its iTunes store, along with the launch of iPod with video playback feature, on October 12, 2005. About a year later in September 2006, Apple formally announced its entry into the movie space, with availability of movies for download through iTunes coupled with its initial announcement of Apple TV (aka iTV). Like iPod and iPhone before it, we see Apple TV as a platform for the emerging digital living room, addressing a broader entertainment market. Initial goal of Apple TV is to solve the issue of growing video content stored on PCs (via purchase through online stores like iTunes) and watching the shows on TVs. Accordingly, its primary function is to connect TVs to Macs and PCs wirelessly.


Apple Other Music Products Revenue Forecasts, including Apple TV (\$ in millions, units in thousands)

	Other Music Products			Apple TV Assumptions (incl. in Other Music Products)		
	\$MM	% Q/Q	% Y/Y	Units (000s)	ASP \$	Revenue (\$MM)
2003	\$26	--	--			
2004	\$278	--	969			
2005	\$899	--	223			
2006/1Q	\$491	85	177			
2Q	485	(1)	125			
3Q	457	(6)	90			
4Q	<u>452</u>	(1)	71			
2006	\$1,885	--	110	550	\$299	\$164
2007/1Q	\$634	40	29	--	--	--
2QE	642	1	32	70	299	21
3QE	649	1	42	195	299	58
4QE	<u>676</u>	4	50	<u>285</u>	<u>299</u>	<u>85</u>
2007E	\$2,601	--	38	550	\$299	\$164
2008/1QE	\$937	39	48	465	\$299	\$139
2QE	870	(7)	35	279	299	83
3QE	827	(5)	27	293	299	88
4QE	<u>837</u>	1	24	<u>308</u>	<u>299</u>	<u>92</u>
2008E	\$3,471	--	33	1,345	\$299	\$402

Source: Company reports; Bear Stearns & Co. Estimates

Note: Other Music Products consists of iTunes Music Store downloads and iPod-related accessories and services (including Apple TV)

Apple TV Specification

	
Price	\$299
Wireless Connection:	802.11n
Storage	40 GB HDD (up to 50 hours of TV shows and movies)
Connection:	10/100BASE-T Ethernet USB 2.0
Vido Out	HDMI (video and audio) Component video
Audio Out	Optical audio Analog RCA stereo audio
TV Compatibility	Enhanced-n or high-definition widescreen TVs capable of 1080i 60/50Hz, 720p 60/50Hz, 576p 50Hz (PAL format), or 480p 60Hz
Video Format	H.264 and protected H.264: 640 by 480, 30 fps, LC version of Baseline Profile; 320 by 240, 30 fps, Baseline profile up to Level 1.3; 1280 by 720, 24 fps, Progressive Main Profile. MPEG-4: 640 by 480, 30 fps, Simple Profile
Audio Format	AAC (16 to 320 Kbps); protected AAC (from iTunes Store); MP3 (16 to 320 Kbps); MP3 VBR; Apple Lossless; AIFF; WAV
Remote control	Yes
Availability	Feb-2007

- New platforms.** Looking ahead, Apple could expand the functionality of Apple TV to include HD content support and personal video recorder (PVR) features (already comes with HDD) that could enable customers to record video content from TVs and evolve to become a home media server (i.e., storage for all media). In addition, given its connection with TVs and video game offerings on iTunes, Apple TV could morph into a gaming console. Finally, in addition to Apple TV itself, we see the potential for a hybrid product that incorporates Apple TV into an HDTV, along with wireless connectivity and iTunes software to provide a system that provide a simple/intuitive user interface and allows access to video out of the box.



- Wireless.** Apple TV currently is compatible with 802.11n and could offer other broadband connectivity including WiMax and Ultrawide Band (UWB) when available.
- Storage.** While the early version of Apple TV includes a 40GB drive, we would expect Apple to increase storage capacities for video recording, and ultimately for storage of all media content from Macs/PCs.
- Software.** Apple TV has advanced software options for moving data around, such as Apple's Bonjour software, which enables beaming of music and video from a PC to an AppleTV-attached HDTV. In addition, we see potential for Apple TV to incorporate remote desktop access features, similar to Timbuktu for Wintel machines, to allow users to access Macs/PCs on the network from the living room.

Maintaining FY07 Estimates. We are maintaining our GAAP (post-option) EPS estimate for FY07 of \$3.25 (including \$0.19 in stock-based compensation expense) on revenues of \$23.96 billion (up 24% year/year). We are assuming a gross margin of 30.4% and operating expenses of \$3.31 billion.

- We are maintaining our iPod shipment assumption at 54.6 million (up 39% year/year) based on an ASP of \$163.
- We are maintaining our total CPU shipment estimate at 6.36 million (up 20% year/year) based on an ASP of \$1,493.
- We are still estimating total iPhone shipments of 600,000 at an ASP of \$550.

Maintaining 2Q07 Estimates. We are maintaining our GAAP 2Q07 (March) EPS estimate of \$0.65 (vs. \$0.47 a year ago), including \$0.05 in options expense, on a gross margin assumption of 30.2% and operating expenses of \$792 million (excluding \$58 million in options expense). Our revenue estimate of \$5.23 billion (up 20% year/year) reflects a 47% sequential unit decline in iPod (to 11.15 million) on a 2% increase in ASPs (to \$166) and a 13% sequential decline in Mac units to 1.40 million (up 26% year/year). Apple's guidance calls for revenues of \$4.8-\$4.9 billion, gross margin of 29.5% (including stock compensation of \$8 million), operating expenses of \$845 million (including options expense of \$58 million), interest/other income of \$130 million, and a tax rate of 32%, translating to GAAP EPS of \$0.54-\$0.56.

Maintaining FY08 Estimates. For FY08, we are maintaining our GAAP EPS estimate of \$4.10 (including \$0.22 in stock-based compensation expense) on revenues of \$31.08 billion (up 30% year/year), a gross margin of 29.0%, and operating expenses of \$3.74 billion.

- We are assuming total iPod units of 55.34 million (up 1% year/year) at ASP of \$160.
- We are assuming total CPU shipments of 7.40 million (up 16% year/year) at ASP of \$1,448.
- We are assuming total iPhone shipments of 9.25 million units at ASP of \$547.

Valuation: Maintaining CY07 Price Target at \$130. We are maintaining our CY07 price target at \$130 by applying a P/E multiple of 28x on our CY08 operating EPS of \$4.11 and then adding back projected net cash per share of roughly \$15. We are maintaining our Outperform rating given dual drivers of Macs/music and numerous growth opportunities ahead (phones, video, other products "tba").

Apple Valuation Model (\$millions except EPS)			
Projected net cash (y/e '07)*	\$13,788	Current stock price	\$85.00
Interest rate	4.5%	Net cash per share	\$15.38
Interest income	\$620	"Net" stock price	\$69.62
Tax rate	31.6%	CY08 EPS estimate	\$4.58
After tax profit on cash	\$425	Less: EPS on cash	\$0.47
Share outstanding	896.8	EPS/operations	\$4.11
After tax EPS on cash	\$0.47		
		P/E on CY08/ops	17

* Cash & securities less long-term debt

P/Ex	Calendar Year 2008 Operating EPS					Adding \$15.38 in Net Cash per Share				
	\$3.91	\$4.01	\$4.11	\$4.21	\$4.31	\$3.91	\$4.01	\$4.11	\$4.21	\$4.31
26x	\$102	\$104	\$107	\$109	\$112	\$117	\$120	\$122	\$125	\$127
27x	\$105	\$108	\$111	\$114	\$116	\$121	\$124	\$126	\$129	\$132
28x	\$109	\$112	\$115	\$118	\$121	\$125	\$128	\$130	\$133	\$136
29x	\$113	\$116	\$119	\$122	\$125	\$129	\$132	\$134	\$137	\$140
30x	\$117	\$120	\$123	\$126	\$129	\$133	\$136	\$139	\$142	\$145

Source: Bear Stearns & Co. estimates

Positives

- Strong brand name, fiercely loyal customer base, defensible installed base
- Innovative products and design strategies
- Incremental opportunities through “digital lifestyle” (iPod, iTunes, iDVD, iMovie, iPhoto, iPhone)
- Ongoing efforts to monetize beyond-the-box revenue streams (e.g. software, paid subscription services, iTunes Store downloads) to help offset cyclical nature of hardware business
- Excellent cash position and balance sheet – exited fiscal 1Q07 around \$13.44 per diluted share in net cash
- Intel-based hardware and “Boot Camp” could spur upgrade cycle and new wave of demand
- Multiple growth drivers (e.g., iPhone Intel Macs, iPod nano, iPod video, iPod points of distribution)
- Improving consistency and execution (exceeded results in 14 consecutive quarters)

Concerns

- Growth rates may have peaked and could slow which can hurt a stock’s P/E multiple
- Ultimate size of the music/MP3 player market is unknown along with increasing competition from multiple vendors
- Historical inability to capture a wider customer base and grow market share without a more compelling product offering to attract new users and penetrate the Wintel world, although “halo” effect appears to be playing out
- “Hit-driven” nature of business model which can produce erratic results
- Overhang related to stock option grant practices and any risk to CEO Jobs

Apple Computer Sales and Earnings Model

FY 9/30	Sales (\$MM)	Yr/Yr %Ch	Gross Margin %	R&D/ Sales %	MG&A/ Sales %	Oper Margin %	Int. Exp. %	PBT (\$MM)	PBT Margin %	Tax Rate %	Net Income (\$MM)	Pro	Pro Forma	
												Forma EPS (\$)	Yr/Yr %Chg	EPS (w/ Opt Exp) (\$)
1998	\$5,941	-16	24.9	5.1	15.3	4.5	-0.6	\$303.0	5.1	6.3	\$284.1	\$0.49	165	582.5
1999	\$6,134	3	27.6	5.1	16.2	6.3	-1.4	\$473.0	7.7	10.9	\$421.5	\$0.64	32	696.1
2000	\$7,983	30	27.1	4.8	14.6	7.8	-2.5	\$822.8	10.3	26.0	\$609.1	\$0.84	31	722.2
											Fully taxed	\$0.50		
2001	\$5,363	-33	23.0	8.0	21.2	-6.2	-4.0	(\$116.0)	-2.2	29.7	(\$81.5)	(\$0.12)	-114	(\$0.64) 702.7
2002	\$5,742	7	27.9	7.8	19.3	0.8	-2.0	\$158.0	2.8	25.0	\$118.5	\$0.16	241	(\$0.20) 725.6
2003	\$6,207	8	27.5	7.6	19.5	0.4	-1.2	\$102.0	1.6	28.5	\$72.9	\$0.10	-39	(\$0.13) 727.9
2004/1Q	\$2,006	36	26.7	5.9	17.1	3.7	-0.4	\$83.0	4.1	28.0	\$59.8	\$0.08	448	\$0.03 724.9
2Q	1,909	29	27.8	6.4	17.8	3.6	-0.6	80.0	4.2	28.0	57.6	0.08	248	0.04 756.5
3Q	2,014	30	27.8	6.2	17.6	4.0	-0.6	93.0	4.6	28.0	67.0	0.09	259	0.05 785.2
4Q	2,350	37	27.0	5.2	16.1	5.7	-0.8	152.0	6.5	27.6	110.0	0.14	249	0.11 805.8
2004	\$8,279	33	27.3	5.9	17.1	4.3	-0.6	\$408.0	4.9	27.9	\$294.3	\$0.38	282	\$0.24 768.1
2005/1Q	\$3,490	74	28.5	3.5	13.5	11.5	-0.7	\$429.0	12.3	31.2	\$295.0	\$0.35	327	\$0.33 838.2
2Q	3,243	70	29.9	3.6	13.5	12.7	-1.0	445.0	13.7	32.8	299.0	0.35	358	0.33 857.0
3Q	3,520	75	29.7	4.1	13.2	12.4	-1.3	484.0	13.8	31.8	330.0	0.38	350	0.36 860.7
4Q	3,678	57	28.2	3.9	12.6	11.7	-1.6	489.0	13.3	32.0	332.5	0.38	181	0.36 866.4
2005	\$13,931	68	29.0	3.8	13.2	12.1	-1.2	\$1,847.0	13.3	32.0	\$1,256.5	\$1.47	283	\$1.38 855.6
2006/1Q	\$5,749	65	27.3	2.9	10.6	13.8	-1.4	\$875.0	15.2	32.0	\$595.0	\$0.68	93	\$0.65 874.2
2Q	4,359	34	29.9	3.7	13.1	13.1	-1.7	647.0	14.8	32.0	440.0	0.50	44	0.47 878.5
3Q	4,370	24	30.5	3.7	12.9	13.8	-2.2	698.0	16.0	28.5	499.0	0.57	49	0.54 876.4
4Q	4,837	32	29.3	3.4	12.5	13.4	-2.3	761.0	15.7	24.4	575.5	0.65	71	0.62 878.8
2006	\$19,315	39	29.1	3.4	12.1	13.5	-1.9	\$2,981.0	15.4	29.2	\$2,109.4	\$2.41	64	\$2.27 877.0
2007/1Q	\$7,115	24	31.3	2.4	9.7	19.2	-1.8	\$1,494.0	21.0	30.7	\$1,035.9	\$1.17	72	\$1.14 883.3
2QE	5,229	20	30.2	3.1	12.0	15.1	-2.5	919.9	17.6	32.0	625.5	0.70	40	0.65 891.3
3QE	5,423	24	30.1	3.1	11.9	15.1	-2.6	960.7	17.7	32.0	653.3	0.72	27	0.68 901.3
4QE	6,196	28	29.5	2.7	11.0	15.8	-2.5	1,134.9	18.3	32.0	771.7	0.85	29	0.80 911.3
2007E	\$23,963	24	30.3	2.8	11.0	16.5	-2.3	\$4,509.5	18.8	31.6	\$3,086.5	\$3.44	43	\$3.25 896.8
2008/1QE	\$8,617	21	28.8	2.1	8.9	17.7	-1.9	\$1,689.5	19.6	32.0	\$1,148.8	\$1.25	6	\$1.19 921.3
2QE	7,183	37	29.5	2.5	10.1	16.9	-2.3	1,381.0	19.2	32.0	939.1	1.01	44	0.95 931.3
3QE	7,403	36	29.2	2.5	10.0	16.7	-2.4	1,410.6	19.1	32.0	959.2	1.02	41	0.96 941.3
4QE	7,875	27	28.6	2.4	9.8	16.4	-2.3	1,473.7	18.7	32.0	1,002.1	1.05	24	1.00 951.3
2008E	\$31,078	30	29.0	2.3	9.7	17.0	-2.2	\$5,954.8	19.2	32.0	\$4,049.2	\$4.32	26	\$4.10 936.3

	30-Dec 2006	30-Sep 2006	24-Sep 2005	Valuation Ratios	30-Dec 2006	30-Sep 2006	24-Sep 2005
ASSETS							
Cash & securities	\$11,869	\$10,110	\$8,261	Book value per share	\$12.71	\$11.42	\$8.62
Accounts receivable	1,621	1,252	895	Cash per share	\$13.44	\$11.50	\$9.53
Inventory	303	270	165	Current ratio	2.3	2.2	3.0
Other current assets	2,871	2,877	979	LT debt/capital	0.0%	0.0%	0.0%
Total current assets	16,664	14,509	10,300	Return on sales	14.6%	11.9%	9.0%
Net PP&E	1,362	1,281	817	Return on assets *	21.3%	13.3%	11.5%
Non-current equity invests	0	0	0	Return on equity *	36.9%	22.9%	17.8%
Other assets	1,435	1,454	434	A/R Days sales out *	21	24	22
Total Assets	\$19,461	\$17,244	\$11,551	Inventory Turns *	64.5	50.7	64.0
LIABILITIES AND SHAREHOLDERS EQUITY				Days Inventory *	6	7	6
Current Liabilities	\$7,337	\$6,456	\$3,484	Revs. per empl (000)*	\$1,923.0	\$1,307.3	\$994.1
Long-term debt	0	0	0	Employees (000)	14.8	14.8	14.8
Other liabilities	896	750	601	* Annualized		Revs.	EPS
Total shhldrs equity	\$11,228	\$10,038	\$7,466	FY06/01 Cpd annual growth		29.2%	23.3%
				Net cash per share	\$13.44	\$11.50	\$9.53

Source: Company reports, Bear Stearns & Co. estimates

Important Disclosures

The costs and expenses of Equity Research, including the compensation of the analyst(s) that prepared this report, are paid out of the Firm's total revenues, a portion of which is generated through investment banking activities.

This report has been prepared in accordance with the Firm's conflict management policies. Bear Stearns is unconditionally committed to the integrity, objectivity, and independence of its research. Bear Stearns research analysts and personnel report to the Director of Research and are not subject to the direct or indirect supervision or control of any other Firm department (or members of such department).

This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information or opinion contained herein, and the frequency of subsequent publications, if any, remain in the discretion of the author and the Firm.

Analyst Certification

The research analyst(s) primarily responsible for the preparation this research report hereby certify that all of the views expressed in this research report accurately reflect their personal views about any and all of the subject securities or issuers. The research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Andrew Neff

Companies Analyzed

* Apple, Inc. (AAPL) - \$85.90 (as of February 20, 2007 16:00 ET) - Outperform

Price Target ('07): \$130.00

Risk(s) to Price Target - Company execution on multiple product initiatives, size of music business, increasing competition in music/MP3 player market, failure to develop of new "hot" products, high investor expectations

Valuation Methodology - Forward P/E multiple of 28x applied to CY08 operating EPS estimate and then adding back projected net cash per share

Apple, Inc.(AAPL): The subject company is or during the past twelve (12) months has been a non-investment banking client (securities related services) of Bear Stearns & Co. Inc.

Apple, Inc.(AAPL): Within the past twelve (12) months, Bear, Stearns & Co. Inc. or one of its affiliates has received non-investment banking compensation from this company.

Apple, Inc.(AAPL): Bear, Stearns & Co. Inc. is a market maker in this company's equity securities.



Bear, Stearns & Co. Inc. Equity Research Rating System:

Ratings for Stocks (vs. analyst coverage universe):

Outperform (O) - Stock is projected to outperform analyst's industry coverage universe over the next 12 months.

Peer Perform (P) - Stock is projected to perform approximately in line with analyst's industry coverage universe over the next

12 months.

Underperform (U) - Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index):

Market Overweight (MO) - Expect the industry to perform better than the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Underweight (MU) - Expect the industry to underperform the primary market index for the region (S&P 500 in the US) over the next 12 months.

Bear, Stearns & Co. Inc. Ratings Distribution as of December 31, 2006:

Percentage of BSC universe with this rating / Percentage of these companies which were BSC investment banking clients in the last 12 months.

Outperform (Buy): 41.0 / 8.3

Peer Perform (Neutral): 49.5 / 8.0

Underperform (Sell): 9.5 / 0.0

Securities covered by the author(s) of this report include:

Andrew Neff (IT Hardware): Apple, Inc., Dell Inc., EMC Corp, Gateway Inc., Hewlett-Packard Co., IBM Corporation, Network Appliance, Palm Inc., Sun Microsystems, Inc., Brocade Communications Systems, Inc., QLogic, Synaptics, Inc., Adaptec Inc., Research In Motion, Seagate Technology, Western Digital Corp., Komag, Inc.

William Hand (IT Hardware): Lexmark International, CDW Corp.

Ted Chung (IT Hardware): Logitech International S.A., Logitech International, Plantronics, Inc.

OTHER DISCLAIMERS

This report has been prepared by Bear, Stearns & Co. Inc., Bear, Stearns International Limited or Bear Stearns Asia Limited (together with their affiliates, "Bear Stearns"), as indicated on the cover page hereof. This report has been adopted and approved for distribution in the United States by Bear, Stearns & Co. Inc. for its and its affiliates' customers. If you are a recipient of this publication in the United States, orders in any securities referred to herein should be placed with Bear, Stearns & Co. Inc. This report has been approved for publication in the United Kingdom by Bear, Stearns International Limited, which is authorized and regulated by the United Kingdom Financial Services Authority. Private Customers in the U.K. should contact their Bear, Stearns International Limited representatives about the investments concerned. This report is distributed in Hong Kong by Bear Stearns Asia Limited, which is regulated by the Securities and Futures Commission of Hong Kong. Additional information is available upon request.

Bear Stearns and its employees, officers, and directors deal as principal in transactions involving the securities referred to herein (or options or other instruments related thereto), including in transactions which may be contrary to any recommendations contained herein. Bear Stearns and its employees may also have engaged in transactions with issuers identified herein. Bear Stearns is affiliated with a specialist that may make a market in the securities of the issuers referred to in this document, and such specialist may have a position (long or short) and may be on the opposite side of public orders in such securities.

This publication does not constitute an offer or solicitation of any transaction in any securities referred to herein. Any recommendation contained herein may not be suitable for all investors. Although the information contained in the subject report (not including disclosures contained herein) has been obtained from sources we believe to be reliable, the accuracy and completeness of such information and the opinions expressed herein cannot be guaranteed. This publication and any recommendation contained herein speak only as of the date hereof and are subject to change without notice. Bear Stearns and its affiliated companies and employees shall have no obligation to update or amend any information or opinion contained herein.

This publication is being furnished to you for informational purposes only and on the condition that it will not form the sole basis for any investment decision. Each investor must make their own determination of the appropriateness of an investment in any securities referred to herein based on the tax, or other considerations applicable to such investor and its own investment strategy. By virtue of this publication, neither Bear Stearns nor any of its employees, nor any data provider or any of its employees shall be responsible for any investment decision. This report may not be reproduced, distributed, or published without the prior consent of Bear Stearns. ©2007. All rights reserved by Bear Stearns. Bear Stearns and its logo are registered trademarks of The Bear Stearns Companies Inc.

This report may discuss numerous securities, some of which may not be qualified for sale in certain states and may therefore not be offered to investors in such states. This document should not be construed as providing investment services. Investing in non-U.S. securities including ADRs involves significant risks such as fluctuation of exchange rates that may have adverse effects on the value or price of income derived from the security. Securities of some foreign companies may be less liquid and prices more volatile than securities of U.S. companies. Securities of non-U.S. issuers may not be registered with or subject to Securities and Exchange Commission reporting requirements; therefore, information regarding such issuers may be limited.

NOTE TO ACCOUNT EXECUTIVES: For securities that are not listed on the NYSE, AMEX, or Nasdaq National Market System, check the Compliance page of the Bear Stearns Intranet site for State Blue Sky data prior to soliciting or accepting orders from clients.

CIR 230 Disclaimer

Bear Stearns does not provide tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

In order for Bear Stearns to comply with Internal Revenue Service Circular 230 (if applicable), you are notified that any discussion of U.S. federal tax issues contained or referred to herein is not intended or written to be used, and cannot be used, for the purpose of: (A) avoiding penalties that may be imposed under the Internal Revenue Code; nor (B) promoting, marketing or recommending to another party any transaction or matter discussed herein.