AAPL

Mike Torbenson

Let's Talk Stock

1/26/2010

New accounting proceedures

Under the historical accounting principles, the Company was required to account for sales of both iPhone and Apple TV using subscription accounting because the Company indicated it might from time-to-time provide future unspecified software upgrades and features for those products free of charge. Under subscription accounting, revenue and associated product cost of sales for iPhone and Apple TV were deferred at the time of sale and recognized on a straight-line basis over each product's estimated economic life. This resulted in the deferral of significant amounts of revenue and cost of sales related to iPhone and Apple TV. Costs incurred by the Company for engineering, sales, marketing and warranty were expensed as incurred. As of September 26, 2009, based on the historical accounting principles, total accumulated deferred revenue and deferred costs associated with past iPhone and Apple TV sales were $12.1 billion and $5.2 billion, respectively.

The new accounting principles generally require the Company to account for the sale of both iPhone and Apple TV as two deliverables. The first deliverable is the hardware and software delivered at the time of sale, and the second deliverable is the right included with the purchase of iPhone and Apple TV to receive on a when-and-if-available basis future unspecified software upgrades and features relating to the product's software. The new accounting principles result in the recognition of substantially all of the revenue and product costs from sales of iPhone and Apple TV at the time of sale. Additionally, the Company is required to estimate a standalone selling price for the unspecified software upgrade right included with the sale of iPhone and Apple TV and recognizes that amount ratably over the 24-month estimated life of the related hardware device. For all periods presented, the Company's estimated selling price for the software upgrade right included with each iPhone and Apple TV sold is $25 and $10, respectively. The adoption of the new accounting principles increased the Company's net sales by $6.4 billion, $5.0 billion and $572 million for 2009, 2008 and 2007, respectively. As of September 26, 2009, the revised total accumulated deferred revenue associated with iPhone and Apple TV sales to date was $483 million; revised accumulated deferred costs for such sales were zero.

Restated 2008

	EPS	PTP	Sales
Original	6.28	7,984	36,537
Restated	9.07	12,066	42,905
Increase	2.79	4,082	6,368
	44%	51%	17%

	PERIOD	EPS		PRE-TAX PROFIT			SALES	
		$	% CHANGE	$ MIL	% SALES	% CHANGE	$ MIL	% CHANGE
Original	12/08	1.78	1.1	2,284.00	22.5	-1.8	10,167.00	5.8
	03/09	1.33	14.7	1,730.00	21.2	17.1	8,163.00	8.7
	06/09	1.35	13.4	1,732.00	20.8	14.7	8,337.00	11.7
	09/09	1.82	44.4	2,238.00	22.7	41.5	9,870.00	25.0
Restated	12/08	2.50	42.0	3,259.00	27.4	40.1	11,880.00	23.6
	03/09	1.79	54.3	2,386.00	26.3	61.5	9,084.00	20.9
	06/09	2.01	68.9	2,692.00	27.7	78.3	9,734.00	30.4
	09/09	2.77	119.8	3,729.00	30.5	135.7	12,207.00	54.6

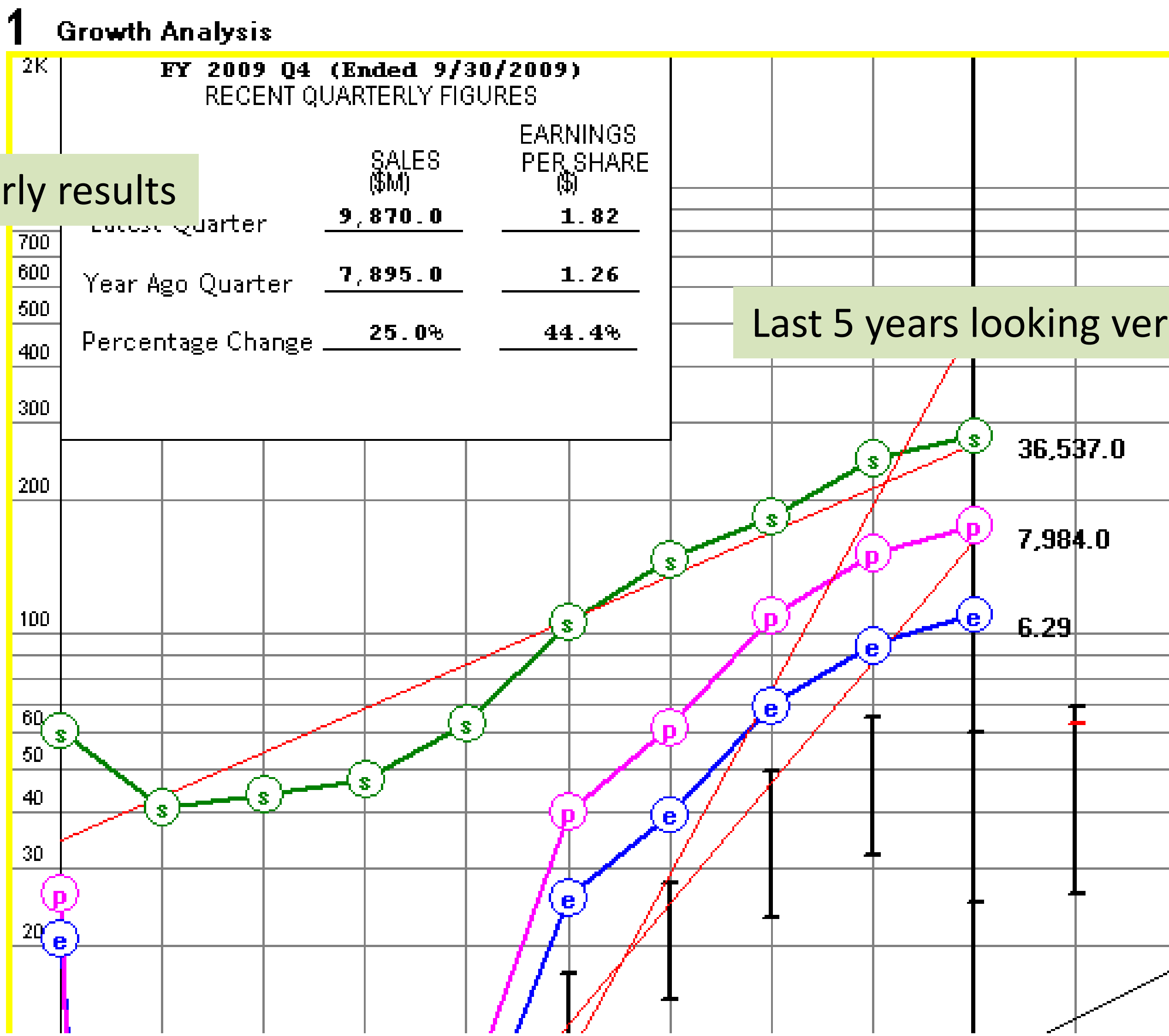
Beliefs

- Rule of 5 is correct –
  - 1/5 will exceed my expectations
  - 3/5 will generally meet my expectation
  - 1/5 will not meet my expectations
- I don't have a crystal ball. 100% confidence is not achievable.
- My judgment is as good as the analysts
  - 2002 study reveals 59% of consensus forecasts are at least 15% off.
- Mr. Market is bi-polar.
  - He normally does a good job of representing the value of a company but occasionally presents unjustified manic optimism or unjustified depressed skepticism.
  - Mr. Market's opinions cannot be assumed are correct.

Do I want to own this stock?

QUALITY REVIEW

Section 1 – Growth Rate



Nice quarterly results

Last 5 years looking very good!

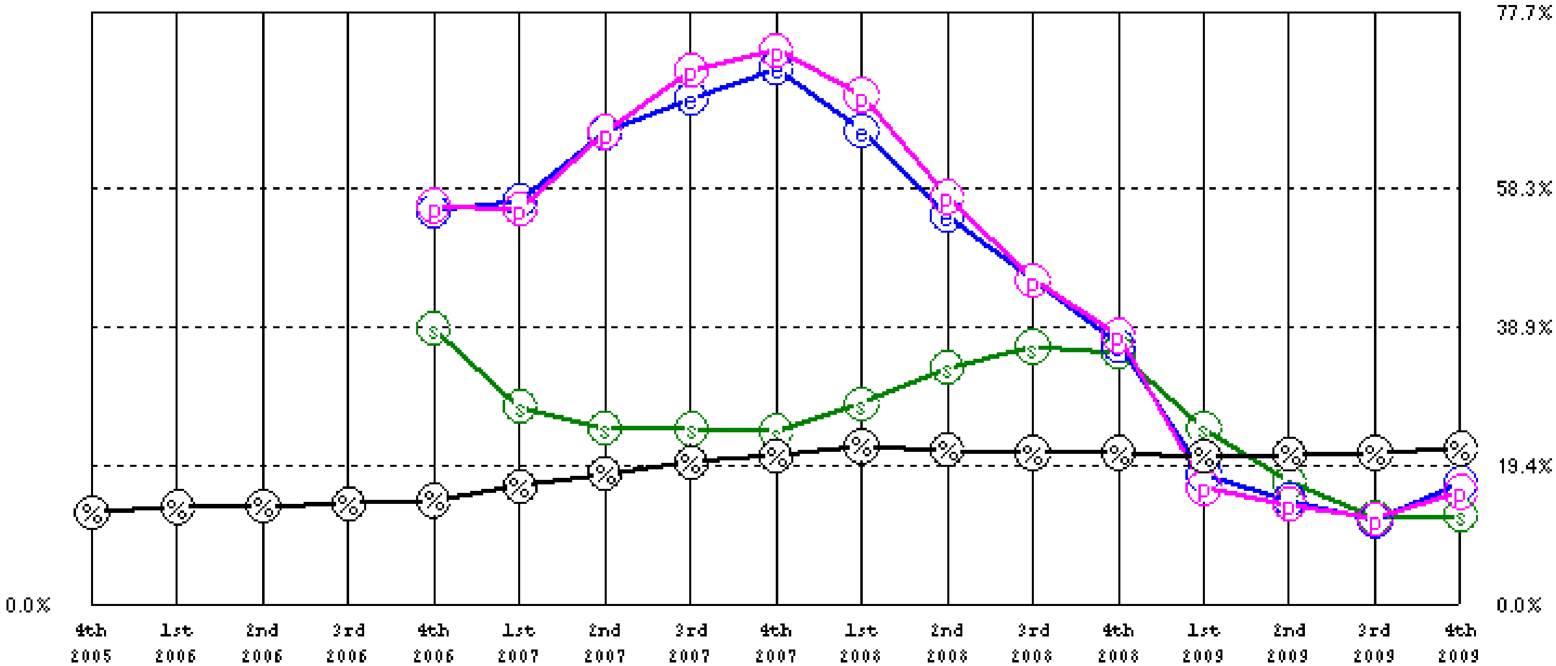
Section 2 – Managed Results

2 QUALITY ANALYSIS   Company APPLE INC (AAPL)   01/22/10

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	5 YEAR AVG	TREND UP/DOWN
A	% Pre-tax Profit on Sales	14.9	-0.8	2.0	1.9	4.9	13.0	14.6	20.9	21.2	21.9	18.3	UP
B	% ROE (Beginning Yr)		-0.7	2.1	2.1	6.4	22.5	25.1	33.7	32.2	26.6	28.0	DOWN
C	% Debt to Equity	7.4	8.1	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	EVEN

Good
Good
Very Good.

PERT A – Graph Growth Trends



Turning the corner.
How low?

Pert A

Quarterly Trend Analysis

Company APPLE INC (AAPL)

PERIOD	QUARTERLY DATA: EPS $	EPS % CHANGE	PRE-TAX PROFIT $ MIL	PRE-TAX PROFIT % SALES	PRE-TAX PROFIT % CHANGE	SALES $ MIL	SALES % CHANGE	INCOME TAX RATE	LAST 12 MONTHS DATA: EPS $	PRE-TAX PROFIT $ MIL	PRE-TAX PROFIT % SALES	SALES MIL	INCOME TAX $ MIL	INCOME TAX % RATE	% CHANGE EPS	% CHANGE PRE-TAX PROFIT	% CHANGE SALES
12/04	0.35		429.00	12.3		3,490.00		31.6						30.0			
03/05	0.33		430.00	13.3		3,243.00		34.2						31.2			
06/05	0.37		472.00	13.4		3,520.00		32.5						31.9			
09/05	0.40		477.00	13.0		3,678.00		27.3	1.45	1,808.00	13.0	13,931.0	568.3	31.4			
12/05	0.65	85.7	831.00	14.5	93.7	5,749.00	64.7	31.6	1.75	2,210.00	13.7	16,190.0	694.6	31.4			
03/06	0.47	42.4	605.00	13.9	40.7	4,359.00	34.4	31.8	1.89	2,385.00	13.8	17,306.0	734.9	30.8			
06/06	0.54	45.9	661.00	15.1	40.0	4,370.00	24.1	28.4	2.06	2,574.00	14.2	18,156.0	766.6	29.8			
09/06	0.59	47.5	721.00	14.9	51.2	4,837.00	31.5	28.1	2.25	2,818.00	14.6	19,315.0	844.5	30.0	55.2	55.9	38.6
12/06	1.14	75.4	1,448.00	20.4	74.2	7,115.00	23.8	30.5	2.74	3,435.00	16.6	20,681.0	1,019.4	29.7	56.6	55.4	27.7
03/07	0.87	85.1	1,134.00	21.5	87.4	5,264.00	20.8	32.0	3.14	3,964.00	18.4	21,586.0	1,178.6	29.7	66.1	66.2	24.7
06/07	0.92	70.4	1,196.00	22.1	80.9	5,410.00	23.8	31.5	3.52	4,499.00	19.9	22,626.0	1,372.3	30.5	70.9	74.8	24.6
09/07	1.01	71.2	1,230.00	19.8	70.6	6,217.00	28.5	26.5	3.94	5,008.00	20.9	24,006.0	1,507.1	30.1	75.1	77.7	24.3
12/07	1.76	54.4	2,326.00	24.2	60.6	9,608.00	35.0	31.9	4.56	5,886.00	22.2	26,499.0	1,792.5	30.5	66.4	71.4	28.1
03/08	1.16	33.3	1,477.00	19.7	30.2	7,512.00	42.7	29.4	4.85	6,229.00	21.7	28,747.0	1,856.3	29.8	54.5	57.1	33.2
06/08	1.19	29.3	1,510.00	20.2	26.3	7,464.00	38.0	28.8	5.12	6,543.00	21.2	30,801.0	1,906.3	29.1	45.5	45.4	36.1
09/08	1.26	24.8	1,582.00	20.0	28.6	7,895.00	27.0	27.9	5.37	6,895.00	21.2	32,479.0	2,034.5	29.5	36.3	37.7	35.3
12/08	1.78	1.1	2,284.00	22.5	-1.8	10,167.00	5.8	29.7	5.39	6,853.00	20.7	33,038.0	1,985.2	29.0	18.2	16.4	24.7
03/09	1.33	14.7	1,730.00	21.2	17.1	8,163.00	8.7	30.6	5.56	7,106.00	21.1	33,689.0	2,080.0	29.3	14.6	14.1	17.2
06/09	1.35	13.4	1,732.00	20.8	14.7	8,337.00	11.7	29.1	5.72	7,328.00	21.2	34,562.0	2,150.7	29.3	11.7	12.0	12.2
09/09	1.82	44.4	2,238.00	22.7	41.5	9,870.00	25.0	25.6	6.28	7,984.00	21.9	36,537.0	2,297.4	28.8	16.9	15.8	12.5

EPS – OK

PTP – OK

Sales – Quarterly tending up - OK

EPS	PTP	Sales
16.9	15.8	12.5

Check analysts consensus estimates for consistency

WHAT DO THE ANALYSTS SAY?

Analyst 5 years estimates?

Yearly Earnings Forecasts

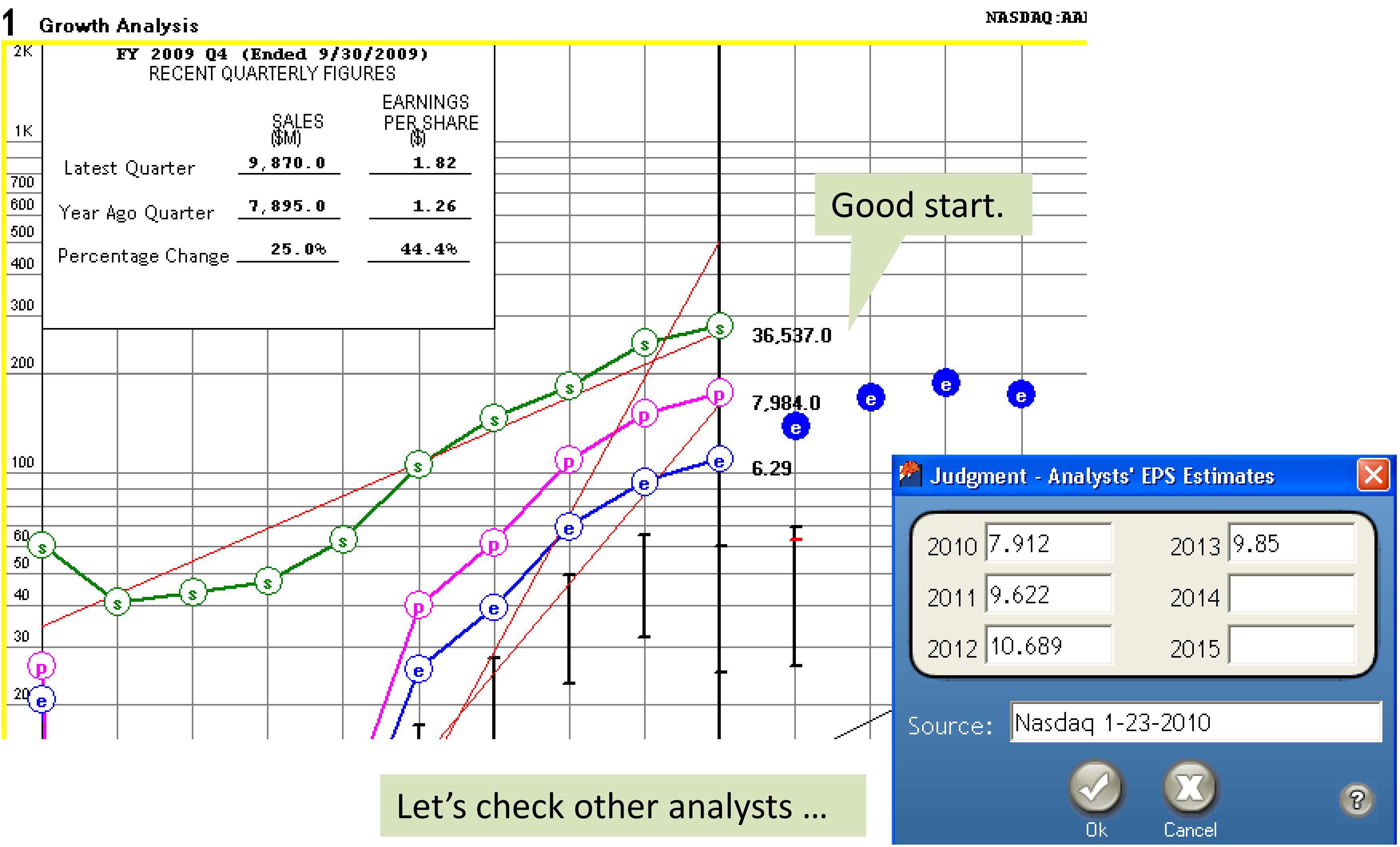
Fiscal Year End	Consensus EPS* Forecast	High EPS* Forecast	Low EPS* Forecast	Number of Estimates	Over the Last 4 Weeks Number of Revisions	
					Up	Down
Sep 2010	7.912	9.51	6.795	45	17	0
Sep 2011	9.622	12.57	7.88	36	15	0
Sep 2012	10.689	14	8.26	10	1	1
Sep 2013	9.85	9.85	9.85	1	0	0

Dip in 2013???
Only 1 analyst.

Forecasts being adjusted up.

http://www.nasdaq.com/earnings/earnings_forecast.asp?symbol=AAPL&selected=AAPL

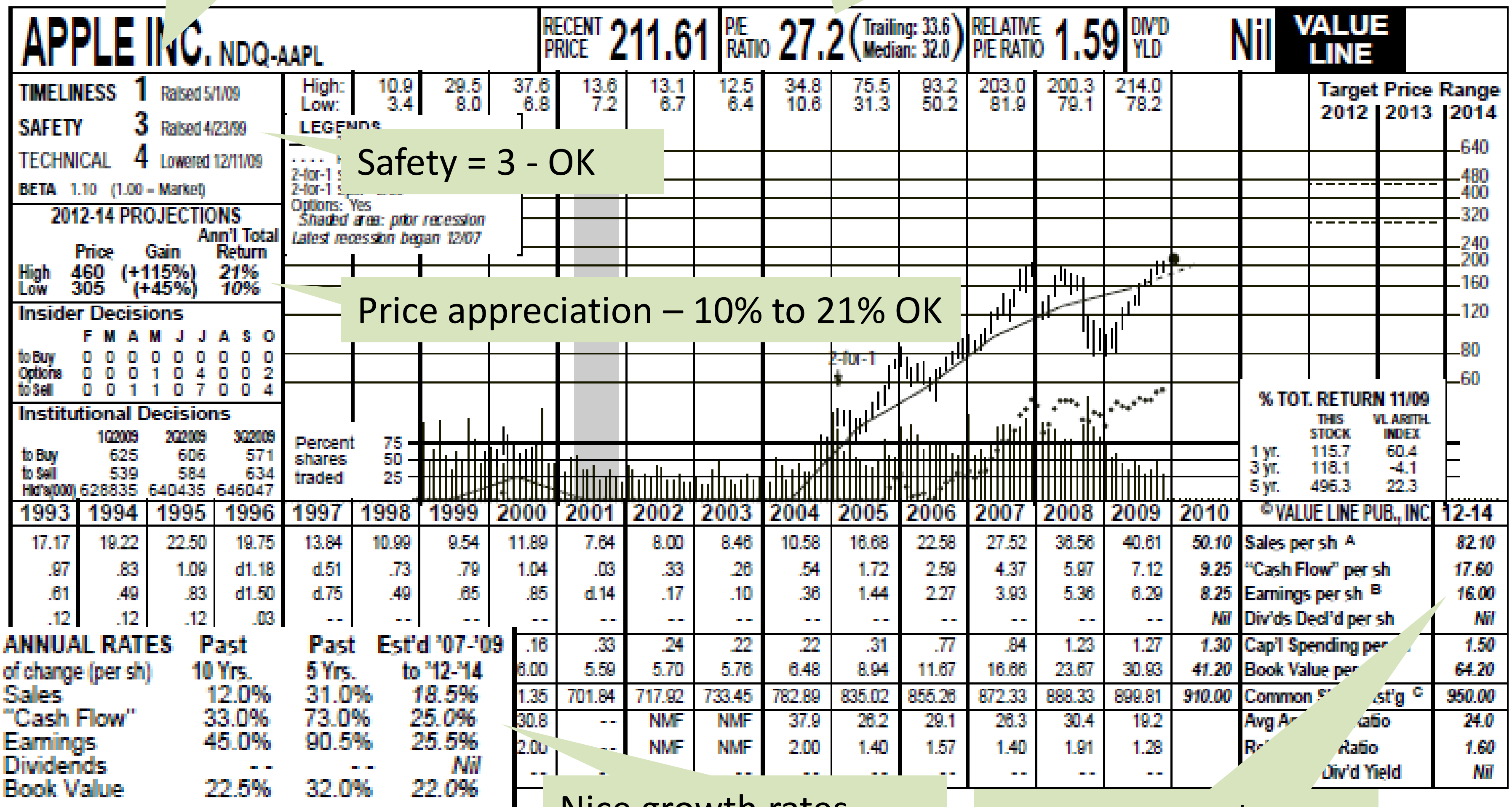
Add analyst estimates to section 1



Value Line

Timeliness = 1 - Good

PE seems high



Safety = 3 - OK

Price appreciation – 10% to 21% OK

Nice growth rates.
Sales = 18.5%

3-5 year EPS = $16.00
No dip! Too high?

http://www.kcls.org/databases

Value Line Analysis

BUSINESS: Apple Inc. is a major developer, manufacturer, and marketer of personal computers and peripheral and consumer products, such as the iPod digital music player and the iPhone, for sale primarily to the business, creative, education, government, and consumer markets. Apple also sells operating systems, utilities, languages, developer tools, and database software. As of September 26, 2009, Apple operated 273 retail outlets, including 217 stores in the U.S. and 56 stores overseas. R&D: 3.6% of '09 revenues. '09 depreciation rate: 15.1%. Has 34,300 employees. Officers & directors own less than 1.0% of common; Fidelity Investments, 5.2% (1/09 Proxy). CEO: Steve Jobs. Inc.: CA. Addr.: 1 Infinite Loop, Cupertino, CA 95014. Tel.: 408-996-1010. Web: www.apple.com.

The growth story at Apple appears to have a long way to go. The electronics giant's financial results have skyrocketed since the mid-2000s, thanks to inroads by Mac computers and the success of the iPod, iTunes, and iPhone hardware and software platforms that have transformed the portable music and cellular telephone businesses. And we believe that the top and bottom lines will experience further rapid growth in fiscal 2010 (ends September 25th) and beyond, given Apple's vast market opportunity, advertising prowess, and knack for creating innovative, user-friendly products. Notably, despite its multiyear growth spurt . . .

The company still has just a small share of the global PC (about 4%) and mobile phone (2%) markets. It continues to expand its retail footprint (it now has over 270 stores worldwide), and leverage its expertise and brand name to enter new technology sectors, too, which ought to lend additional support to results as we head deeper into the decade. In the mobile computing/Internet space, we envision many new product rollouts in the coming quarters, as Apple looks to capitalize on strong consumer demand for devices that are smaller than traditional notebook computers and more powerful than today's mobile phones. Moreover, we expect the company to take on the cable industry by launching a subscription-based TV service over the Internet, possibly in partnership with a few entertainment heavyweights like Disney and CBS. Such a move would not be without risks, especially since people would have to buy individual content (through iTunes or some similar site) that they are used to getting for free or as part of a package deal. But the upside potential is huge if the right business model is implemented and new Apple TV devices, which have been slow to get off the ground, become mainstays in living rooms across America.

These top-ranked shares have rallied sharply in recent months along with the broader market, and are now trading near their all-time high. Long-term appreciation potential remains attractive, however, based on our expectations that share net will climb at around a 25% annual clip through 2012-2014.

Justin Hellman *January 8, 2010*

Lots of room to grow.

A bit too rosy?

MSN vs VL vs NASDAQ

Earnings Estimates	Qtr(12/09)	Qtr(3/10)	FY(9/10)	FY(9/11)
Average Estimate	2.08	1.77	7.89	9.66
Number of Analysts	36	34	41	28
High Estimate	2.27	2.00	8.88	11.04
Low Estimate	1.74	1.52	7.00	8.00
Year Ago EPS	1.78	1.33	6.29	7.89
Growth Rate	+17.04%	+33.10%	+25.40%	+22.44%

Financi

MSN (Zacks) & NASDAQ (Thompson) seem to agree.

Zacks Industry: COMP-MICRO

Fiscal Year End	Consensus EPS* Forecast
Sep 2010	7.912
Sep 2011	9.622

2010	© VALUE LINE PUB., INC.	12-14
50.10	Sales per sh [A]	82.10
9.25	"Cash Flow" per sh	17.60
8.25	Earnings per sh [B]	16.00
Nil	Div'ds Decl'd per sh	Nil

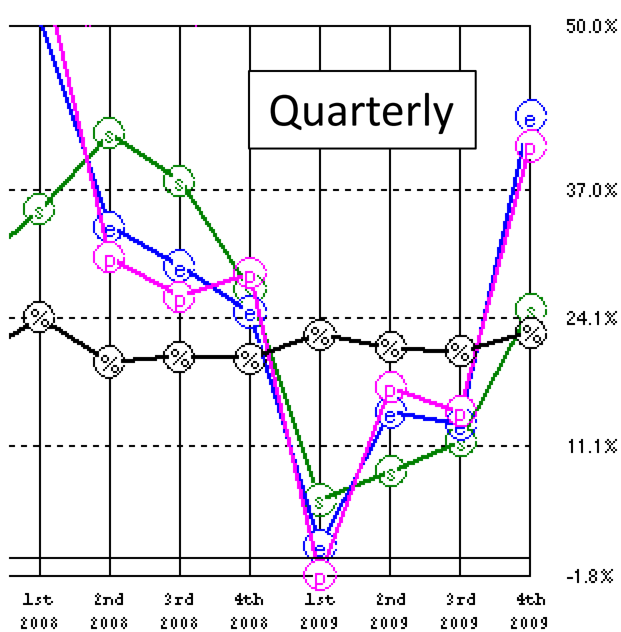
Too optimistic?

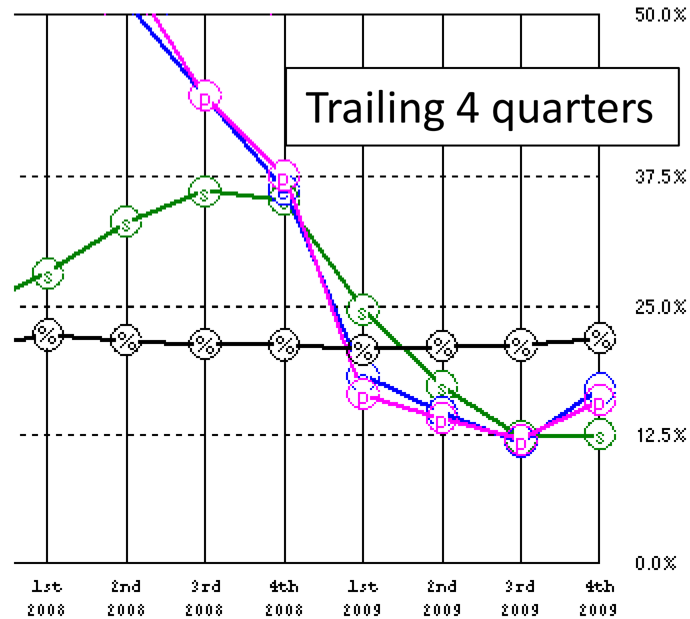
Results: Confident that next two years will not exceed 7.89 or 9.62 respectively.

I have a feeling for earnings but my projection is built on sales growth

WHAT ABOUT SALES GROWTH?

Historical Sales Growth





QUARTERLY DATA

PERIOD	EPS		PRE-TAX PROFIT			SALES	
	$	% CHANGE	$ MIL	% SALES	% CHANGE	$ MIL	% CHANGE
12/08	1.78	1.1	2,284.00	22.5	-1.8	10,167.00	5.8
03/09	1.33	14.7	1,730.00	21.2	17.1	8,163.00	8.7
06/09	1.35	13.4	1,732.00	20.8	14.7	8,337.00	11.7
09/09	1.82	44.4	2,238.00	22.7	41.5	9,870.00	25.0

LAST 12 MONTHS DATA

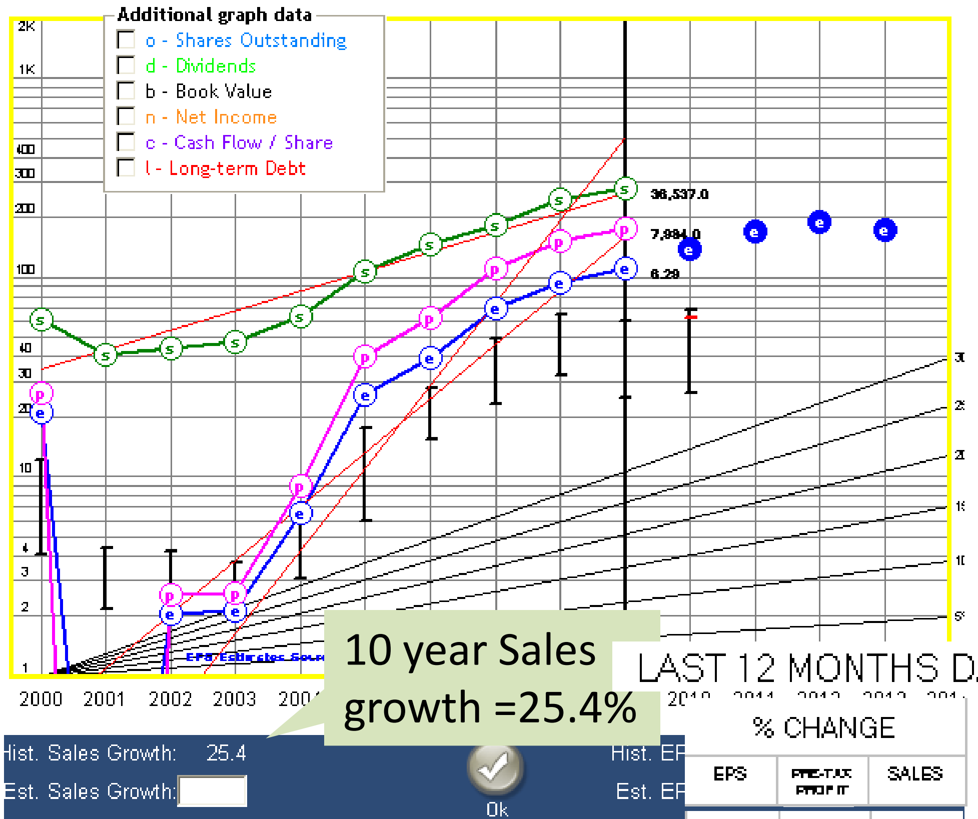
% CHANGE		
EPS	PRE-TAX PROFIT	SALES
18.2	16.4	24.7
14.6	14.1	17.2
11.7	12.0	12.2
16.9	15.8	12.5

Quarterly sales increasing quickly.

Annual sales stable on 12.5%.

Let's see what the analysts expect.

Estimating Sales Growth



10 year Sales growth =25.4%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '07-'09 to '12-'14
Sales	12.0%	31.0%	18.5%
"Cash Flow"	33.0%	73.0%	25.0%
Earnings	45.0%	90.5[illegible]	25.5%
Dividends	--		Nil
Book Value	22.5%	[illegible]	22.0%

VL Sales growth = 18.5% (too high)

QUARTERLY DATA

PERIOD	EPS		PRE-TAX PROFIT			SALES	
	$	% CHANGE	$ MIL	% SALES	% CHANGE	$ MIL	% CHANGE
12/08	1.78	1.1	2,284.00	22.5	-1.8	10,167.00	5.8
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06/09	1.35	13.4	1,732.00	20.8	14.7	8,337.00	11.7
09/09	1.82	44.4	2,238.00	22.7	41.5	9,87[illegible]	25.0

LAST 12 MONTHS DATA

% CHANGE

EPS	PRE-TAX PROFIT	SALES
18.2	16.4	24.7
14.6	14.1	17.2
11.7	12.0	12.2
10.9	15.8	12.5

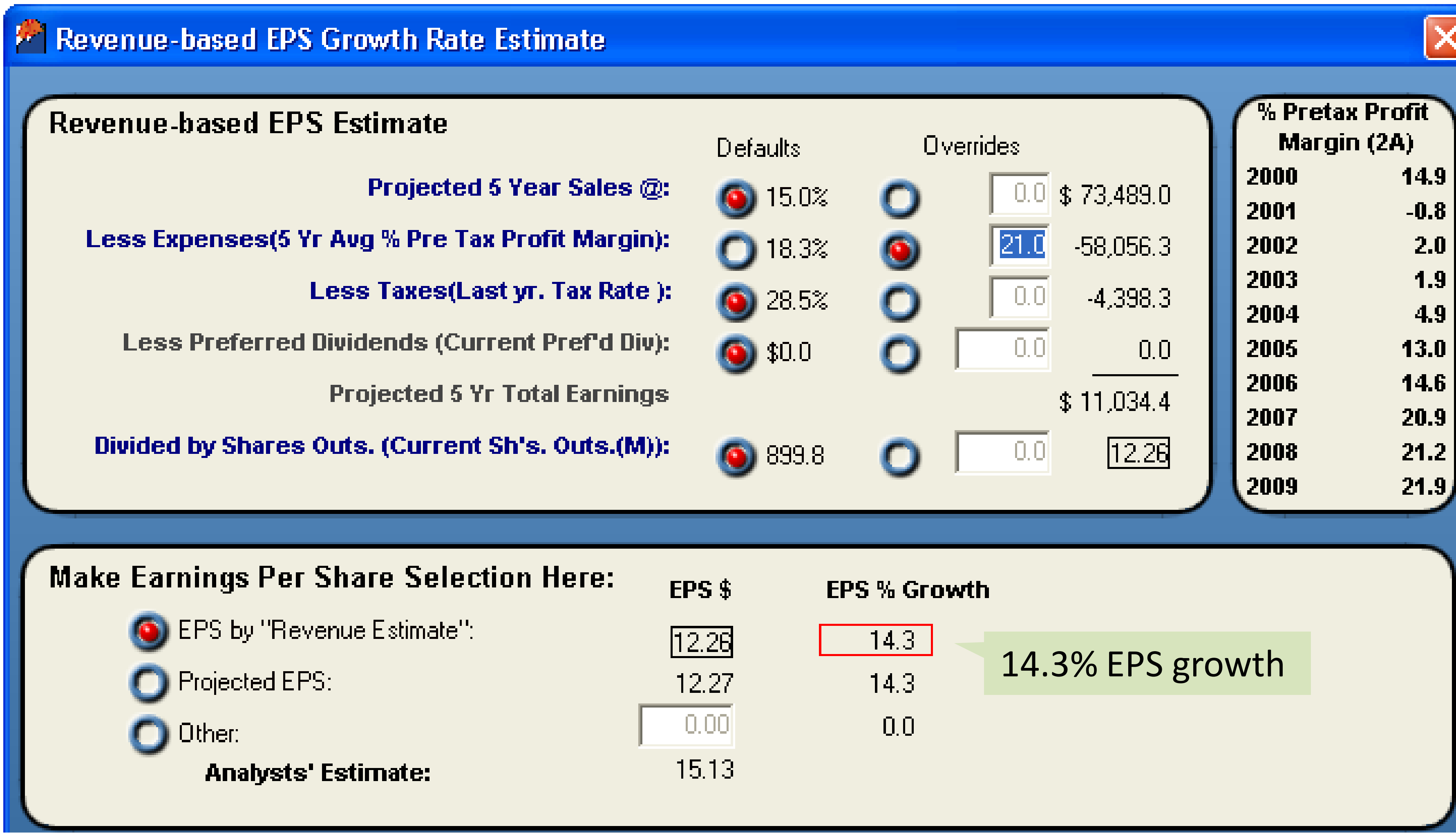
TTM sales growth = 12.5%

Last Quarterly sales growth = 25%

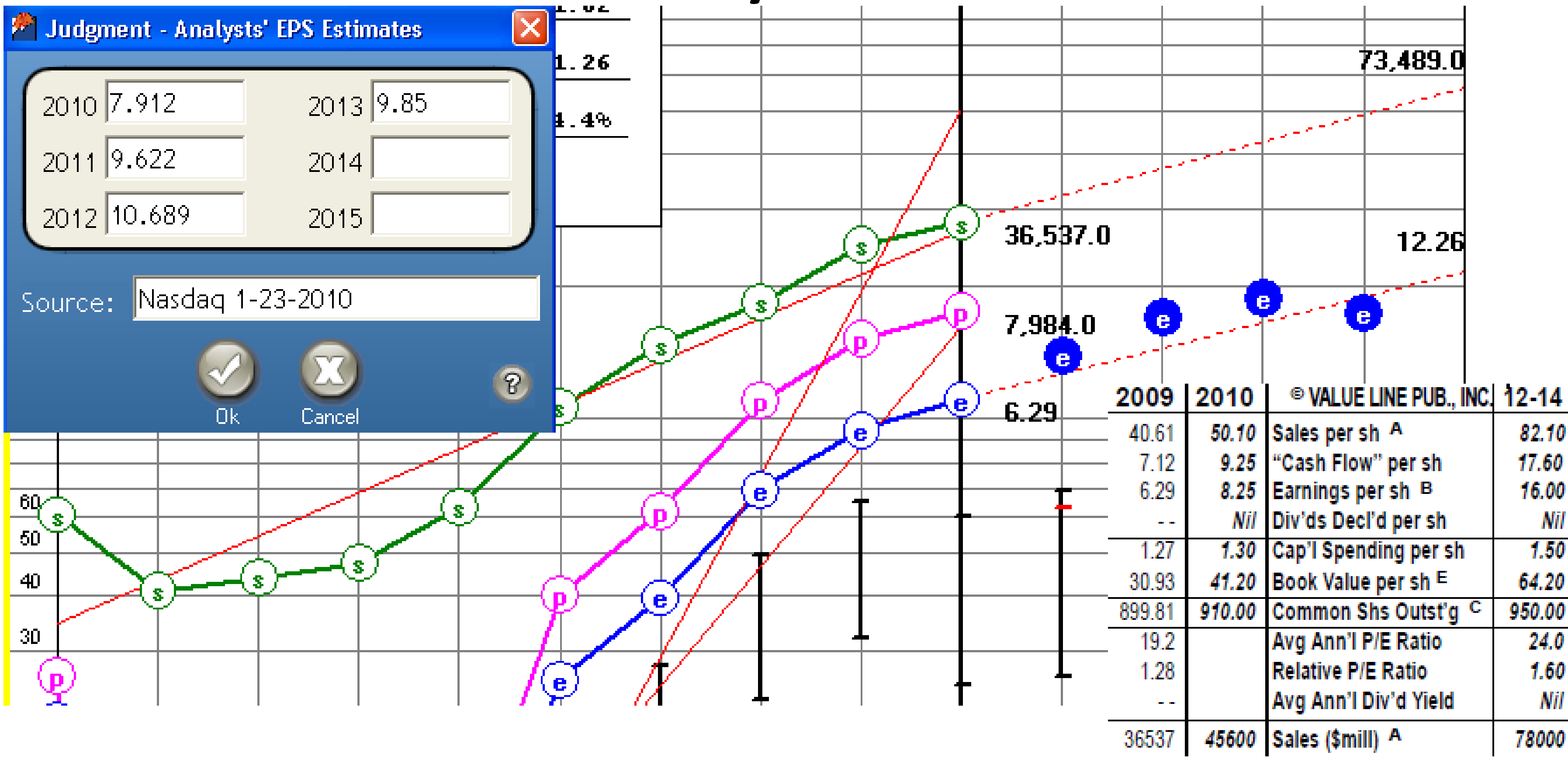
18.5% is too high. 12.5% is minimum. Choose 15% for this economy.

USE SALES GROWTH TO ESTIMATE EPS GROWTH

Preferred Method



Sanity check



1. Sales projection visually seems reasonable.
2. 5-year projected sales, $73,489, is lower than Value Line projection of $78,000.
3. 5-year projected EPS visually seems conservatively below ACE.
4. 5-year projected EPS, $12.26, is well below $16 Value Line projection.
5. 1-year projected EPS is $6.29 x 1.143% = $7.19 (above low forecast of $6.80)

HOW DOES MANAGEMENT COMPARE WITH INDUSTRY?

Section 2 – Managed Results

2 QUALITY ANALYSIS Company **APPLE INC (AAPL)** **01/22/10**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	5 YEAR AVG	TREND UP/DOWN
A % Pre-tax Profit on Sales	14.9	-0.8	2.0	1.9	4.9	13.0	14.6	20.9	21.2	21.9	18.3	UP
B % ROE (Beginning Yr)		-0.7	2.1	2.1	6.4	22.5	25.1	33.7	32.2	26.6	28.0	DOWN
C % Debt to Equity	7.4	8.1	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	EVEN

Company	Ticker	Price	Growth	Net Margin	P/E	Quality
Apple Inc.	AAPL	$203.07	18.0%	15.4%	27.0	75.4
Intl Business Machines	IBM	$126.12	4.7%	13.5%	12.0	74.3
Hewlett-Packard	HPQ	$50.06	4.3%	7.7%	16.0	61.7
Dell Inc.	DELL	$13.89	7.5%	4.7%	18.0	55.8
Mercury Computer	MRCY	$12.90	7.2%	7.6%	17.0	37.0
Sun Microsystems	JAVA	$9.48	5.7%	3.0%	23.0	16.7
Average			7.9%	9.5%	22.0	

	AAPL	Industry
Profit Margin	21.9%	6.5%
ROE	26.6%	16.5%
Debt/Equity	0%	34%

Composite Statistics: COMPUTER & PERIPHERALS INDUSTRY

2005	2006	2007	2008	2009	2010		12-14
347625	372186	415636	448069	***410000***	***425000***	Sales ($mill)	***520000***
10.5%	10.7%	12.2%	12.9%	***12.5%***	***13.5%***	Operating Margin	***13.5%***
11061	11562	13035	14547	***14500***	***14700***	Depreciation ($mill)	***15500***
21807	22704	28781	31711	***25500***	***28000***	Net Profit ($mill)	***36000***
25.6%	26.1%	24.0%	25.1%	***22.0%***	***24.0%***	Income Tax Rate	***24.0%***
6.3%	6.1%	6.9%	7.1%	***6.2%***	***6.5%***	Net Profit Margin	***6.9%***
49705	46670	54821	52386	***53300***	***51500***	Working Cap'l ($mill)	***59500***
24110	25518	39699	46029	***48000***	***50000***	Long-Term Debt ($mill)	***60000***
118388	122572	131781	118293	***140000***	***150000***	Shr. Equity ($mill)	***175000***
15.7%	15.7%	17.3%	19.9%	***14.0%***	***14.5%***	Return on Total Cap'l	***17.0%***
18.4%	18.5%	21.8%	26.8%	***18.0%***	***18.5%***	Return on Shr. Equity	***20.5%***
16.5%	16.3%	19.4%	23.8%	***16.0%***	***16.5%***	Retained to Com Eq	***18.0%***
11%	12%	11%	11%	***11%***	***11%***	All Div'ds to Net Prof	***12%***
18.6	19.1	18.1	16.6	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	***16.0***
.99	1.03	.96	1.00			Relative P/E Ratio	***1.05***
.6%	.6%	.6%	.7%			Avg Ann'l Div'd Yield	***1.0%***

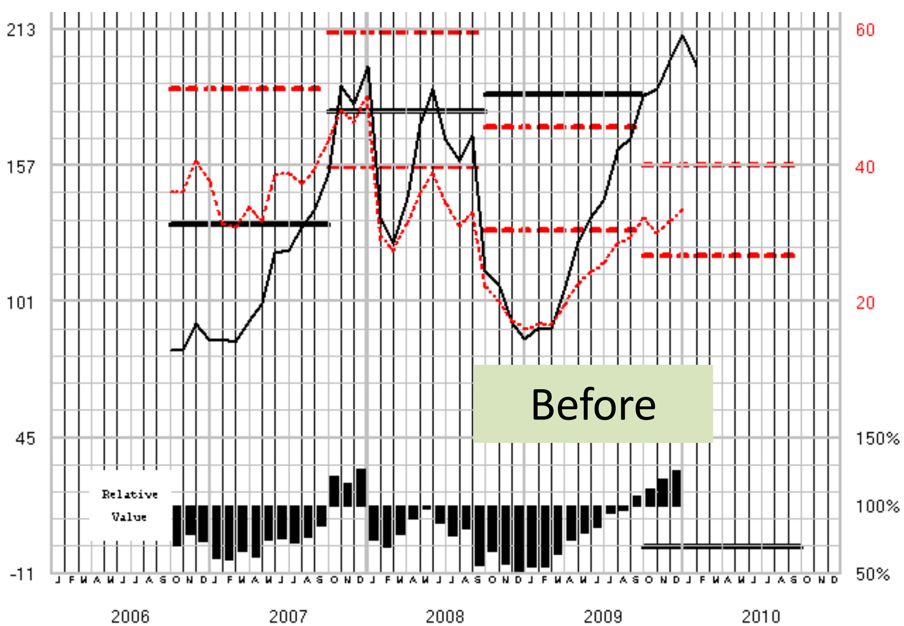
All good!
Yes, I want to own this company!

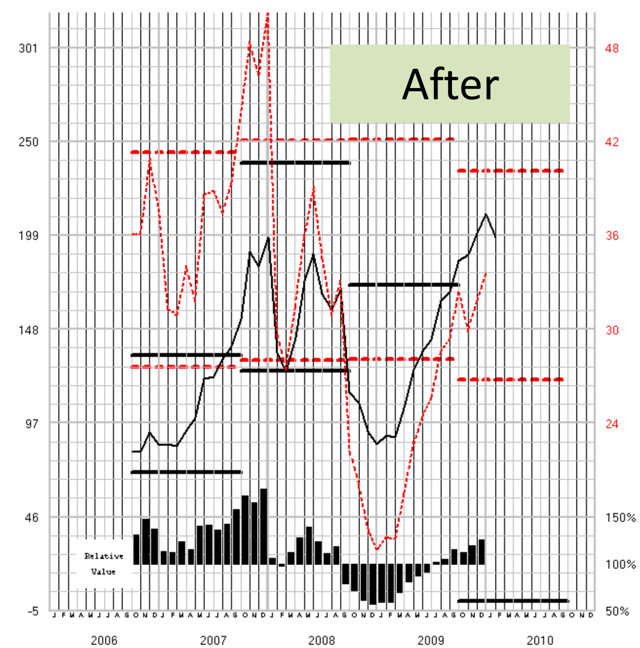
Buy today?

VALUE REVIEW

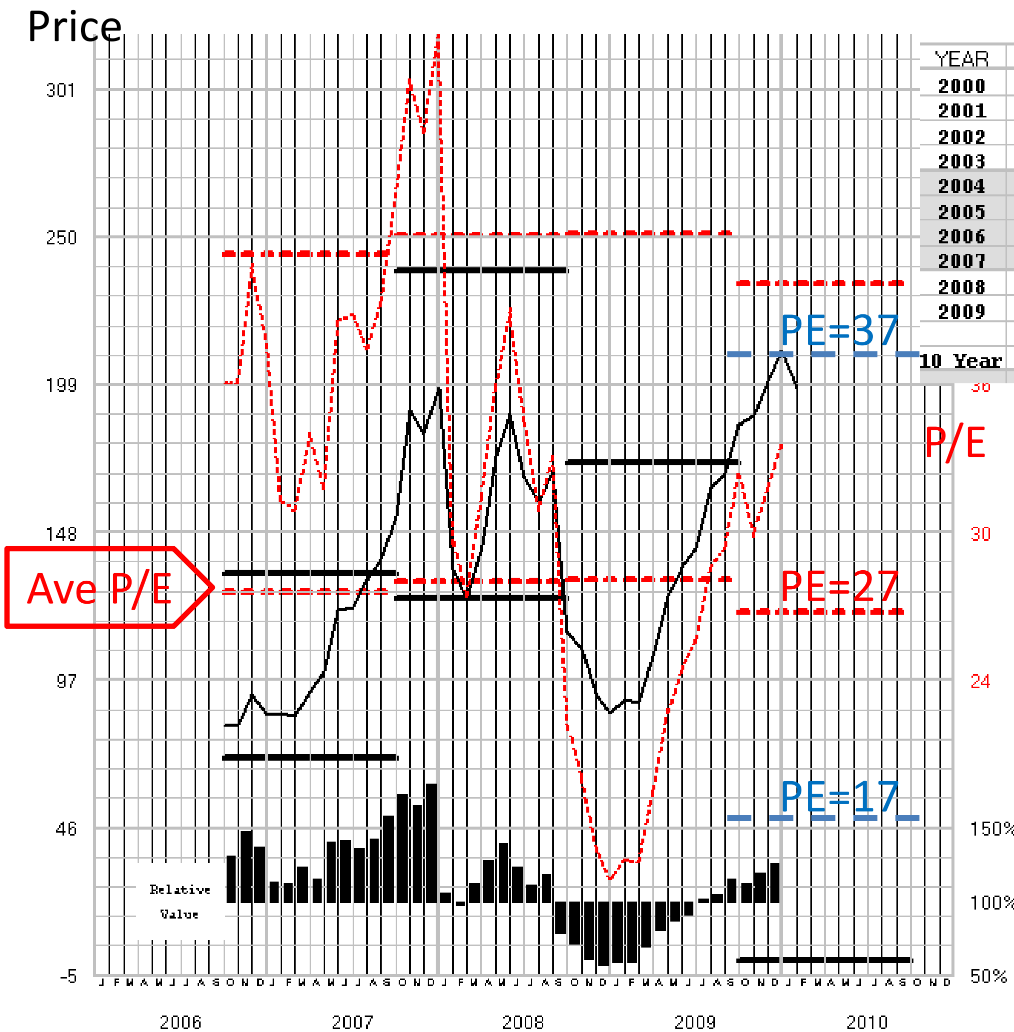
PERT-B Outliers & PMG

		PRICE RANGE		P/E RATIO		5 YR AVG P/E RATIO			DIV/	% PAYOUT		
YEAR	EPS	HIGH	LOW	HIGH	LOW	HIGH	AVG	LOW	SHARE	THIS YEAR	5 YR AVG	% HIGH YIELD
2000	1.18	37.6	12.7	31.9	10.8				.000	.0		.0
2001	-0.04	13.6	6.8	~~NMF~~	~~NMF~~				.000	NMF		.0
2002	0.12	13.1	6.9	~~113.8~~	~~60.0~~				.000	.0		.0
2003	0.12	11.7	6.4	~~97.2~~	~~53.0~~				.000	.0		.0
2004	0.37	19.6	9.6	~~53.1~~	~~26.0~~	31.9	21.3	10.8	.000	.0		.0
2005	1.46	54.6	18.8	37.4	12.9	37.4	25.1	12.9	.000	.0		.0
2006	2.24	86.4	47.9	38.6	21.4	38.0	27.6	17.1	.000	.0		.0
2007	3.93	155.0	72.6	39.4	18.5	38.5	28.0	17.6	.000	.0		.0
2008	5.36	203.0	100.6	37.9	18.8	38.3	28.1	17.9	.000	.0		.0
2009	6.29	188.9	78.2	30.0	12.4	36.7	26.7	16.8	.000	.0		.0
10 Year Avg.				35.9	15.8		25.8					





PMG P/E Analysis



		PRICE RANGE		P/E RATIO		5 YR AVG P/E RATIO		
YEAR	EPS	HIGH	LOW	HIGH	LOW	HIGH	AVG	LOW
2000	1.18	37.6	12.7	31.9	10.8			
2001	-0.04	13.6	6.8	~~NMF~~	~~NMF~~			
2002	0.12	13.1	6.9	~~113.8~~	~~60.0~~			
2003	0.12	11.7	6.4	~~97.2~~	~~53.0~~			
2004	0.37	19.6	9.6	~~53.1~~	~~26.0~~	31.9	21.3	10.8
2005	1.46	54.6	18.8	37.4	12.9	37.4	25.1	12.9
2006	2.24	86.4	47.9	38.6	21.4	38.0	27.6	17.1
2007	3.93	155.0	72.6	39.4	18.5	38.5	28.0	17.6
2008	5.36	203.0	100.6	37.9	18.8	38.3	28.1	17.9
2009	6.29	188.9	78.2	30.0	12.4	36.7	26.7	16.8
10 Year Avg.				35.9	15.8		25.8	

1. Ave P/E fairly stable between 26-27
2. P/E from 12.4 to 39.4; mid = 25.9
3. 10 year P/E average = 25.8
4. 5 year P/E average = 26.7

Use 5 year average

Average High P/E = 37
Average P/E = 27
Average Low P/E = 17

Section 3 – Price & P/E Analysis

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE 197.750 52-WEEK HIGH 215.590 52-WEEK LOW 82.330

	Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1	2005	54.6	18.8	1.46	37.4	12.9	0.000	0.0	0.0
2	2006	86.4	47.9	2.24	38.6	21.4	0.000	0.0	0.0
3	2007	155.0	72.6	3.93	39.4	18.5	0.000	0.0	0.0
4	2008	203.0	100.6	5.36	37.9	18.8	0.000	0.0	0.0
5	2009	188.9	78.2	6.29	30.0	12.4	0.000	0.0	0.0
6	AVERAGE		63.6		36.7	16.8		0.0	

AVERAGE P/E RATIO	26.8	PROJECTED P/E RATIO	27.6	TTM EPS	6.28
CURRENT P/E RATIO	31.5	PEG RATIO	1.9	FTM EPS	7.18
RELATIVE VALUE	117.5%	PROJ. RELATIVE VALUE	102.8%		

PE = 31.5
RV = 117.5%
PEG = 1.9

Alt+B = Buy @ $191.75 with 3:1 U/D

Conclusions

- Too expensive to buy today.
- High Alert when P/E = 36.7 for sell Price = 36.7 x 6.28 = 230.48
- Low Alert when P/E = 26.8 for buy Price = 26.8 x 7.18 = 192.42

Section 4 – Low Price?

4 EVALUATING REWARD and RISK over the next 5 years

A FUTURE HIGH PRICE ANALYSIS -- NEXT 5 YEARS

Selected High P/E $\boxed{36.7}$ X Estimated High Earnings/Share $\boxed{12.26}$ = Forecast High Price $ 449.9

B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Avg. Low P/E $\boxed{16.8}$ X Estimated Low Earnings/Share $\boxed{6.29}$ = $ 105.7

(b) Average 5-Year Low Price = 63.6

(c) Recent Severe Low Price = 78.2

(d) Price Dividend Will Support = Present Divd. ÷ High Yield = 0.000 ÷ 0.000 = 0.0

Selected Estimated Low Price = $ $\boxed{}$

Sections 4 & 5 – Risk/Reward

4 EVALUATING REWARD and RISK over the next 5 years

A FUTURE HIGH PRICE ANALYSIS -- NEXT 5 YEARS

Selected High P/E 36.7 X Estimated High Earnings/Share 12.26 = Forecast High Price $ 449.9

B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Avg. Low P/E 16.8 X Estimated Low Earnings/Share 6.29 = $ 105.7

(b) Average 5-Year Low Price = 63.6

(c) Recent Severe Low Price = 78.2

(d) Price Dividend Will Support = Present Divd. ÷ High Yield = 0.000 ÷ 0.000 = 0.0

Selected Estimated Low Price = $ 105.7

C PRICE RANGES

Forecast High Price 449.9 - Estimated Low Price 105.7 = Range 344.2 25% of Range = 86.1

BUY (Lower 25% of Range) =	105.7	to	191.8
MAYBE (Middle 50% of Range) =	191.8	to	363.8
SELL (Upper 25% of Range) =	363.8	to	449.9

Current Price 197.750 is in the Hold Range

D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price 449.9 - Current Price 197.750) ÷ (Current Price 197.750 - Estimated Low Price 105.7) = 2.7 To 1

5 TOTAL RETURN ANALYSIS

A CURRENT YIELD

Present Full Year's Dividend $ 0.000 ÷ Current Price of Stock $ 197.750 = 0.0 % Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

(Avg. EPS Next 5 Years 9.39 X Avg. % Payout 0.0) ÷ Current Price $ 197.750 = 0.0 %

C % COMPOUND ANNUAL TOTAL RETURN

Average Yield 0.0 % + Annual Appreciation 17.9 % = Compound Annual Total Return 17.9 %

D % PROJECTED AVERAGE RETURN

Average Yield 0.0 % + Annual Appreciation 10.6 % = Projected Average Total Return 10.6 %

Results

- Price on 1/23/2010 = 197.75
- DCF = $112.66 Intrinsic Value = 254.56
- UB=$193.70
- MA=$154.56 (trend up)
- LB= $115.41
- News:
  - Apple/Google competition.
  - Announcing tablet?
  - Rumors of replacing Goggle search on iPhone with Microsoft bing.
- Industry PE = 22 (mi) S&P 500 P/E = 87 DJIA P/E = 17 VL Industry = 19/98
- PE = 31.5 RV=117.5% PEG=1.9 U/D=2.7
- Return = 17.9% PAR=10.6%
- Alt+B Price = 191.75 (U/D=3)
- Conclusion: Too much risk/price too expensive today despite 17.9% potential return. Expecting price to expand as high as $230 (up 16%) before market pulling quickly down to $192.
- High Alert when P/E = 36.7 for sell Price = 36.7 x 6.28 = 230.48 (u/d = 1.8, RV = 137%)
- Low Alert when P/E = 26.8 for buy Price = 26.8 x 7.18 = 192.42 (u/d = 2.96; RV = 100%)

Price above DCF

Price below Intrinsic Value

Price above UB

Serious competitive change

P/E RV PEG all too high

Online References

- BI S&P data service
- www.nasdaq.com (5 years ACE)
- http://Moneycentral.msn.com (financials & industry)
- http://kcls.org for Value Line online access
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