



# Apple Computer, Inc.

## Company Profile

Reference Code: 108

Publication Date: Nov 2006

[www.datamonitor.com](http://www.datamonitor.com)

**Datamonitor USA**

245 5th Avenue  
4th Floor  
New York, NY 10016  
USA

t: +1 212 686 7400  
f: +1 212 686 2626  
e: [usinfo@datamonitor.com](mailto:usinfo@datamonitor.com)

**Datamonitor Europe**

Charles House  
108-110 Finchley Road  
London NW3 5JJ  
United Kingdom

t: +44 20 7675 7000  
f: +44 20 7675 7500  
e: [eurinfo@datamonitor.com](mailto:eurinfo@datamonitor.com)

**Datamonitor Germany**

Kastor & Pollux  
Platz der Einheit 1  
60327 Frankfurt  
Deutschland

t: +49 69 9754 4517  
f: +49 69 9754 4900  
e: [deinfo@datamonitor.com](mailto:deinfo@datamonitor.com)

**Datamonitor Hong Kong**

2802-2803 Admiralty Centre  
Tower 1  
18 Harcourt Road  
Hong Kong

t: +852 2520 1177  
f: +852 2520 1165  
e: [hkinfo@datamonitor.com](mailto:hkinfo@datamonitor.com)

## ABOUT DATAMONITOR

Datamonitor is a leading business information company specializing in industry analysis.

Through its proprietary databases and wealth of expertise, Datamonitor provides clients with unbiased expert analysis and in depth forecasts for six industry sectors: Healthcare, Technology, Automotive, Energy, Consumer Markets, and Financial Services.

The company also advises clients on the impact that new technology and eCommerce will have on their businesses. Datamonitor maintains its headquarters in London, and regional offices in New York, Frankfurt, and Hong Kong. The company serves the world's largest 5000 companies.

Datamonitor's premium reports are based on primary research with industry panels and consumers. We gather information on market segmentation, market growth and pricing, competitors and products. Our experts then interpret this data to produce detailed forecasts and actionable recommendations, helping you create new business opportunities and ideas.

Our series of company, industry and country profiles complements our premium products, providing top-level information on 10,000 companies, 2,500 industries and 50 countries. While they do not contain the highly detailed breakdowns found in premium reports, profiles give you the most important qualitative and quantitative summary information you need - including predictions and forecasts.

All Rights Reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher, Datamonitor plc.

The facts of this profile are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that Datamonitor delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such Datamonitor can accept no liability whatever for actions taken based on any information that may subsequently prove to be incorrect.

## **TABLE OF CONTENTS**

<b>Company Overview .....</b>	<b>4</b>
<b>Key Facts .....</b>	<b>4</b>
<b>Business Description .....</b>	<b>5</b>
<b>History .....</b>	<b>6</b>
<b>Key Employees .....</b>	<b>8</b>
<b>Major Products And Services .....</b>	<b>15</b>
<b>Products And Services Analysis.....</b>	<b>17</b>
<b>SWOT Analysis .....</b>	<b>18</b>
<b>Top Competitors .....</b>	<b>23</b>
<b>Company View .....</b>	<b>24</b>
<b>Locations and Subsidiaries .....</b>	<b>27</b>

## COMPANY OVERVIEW

Apple Computer designs, manufactures and markets personal computers and related software, services, peripherals, and networking solutions. The company also designs, develops, and markets portable digital music players along with related accessories and services, including the online distribution of third-party music, audio books, music videos, short films, and television shows. The company primarily operates in the Americas, Europe and Japan. It is headquartered in Cupertino, California and employs about 14,800 people.

The company recorded revenues \$13,931 million during the fiscal year ended September 2005, an increase of 68.3% over 2004. The increase in revenue was mainly due to the increase of iPod sales, which soared by 409% in 2005. The company's operating profit was \$1650 million during fiscal year 2005, as compared to \$326 million in 2004. The net profit was \$1335 million in fiscal year 2005, as compared to \$276 million in 2004.

## KEY FACTS

<b>Head Office</b>	Apple Computer, Inc. 1 Infinite Loop Cupertino CA 95014 United States
<b>Phone</b>	+1 408 996 1010
<b>Fax</b>	+1 408 996 2113
<b>Web Address</b>	<a href="http://www.apple.com">http://www.apple.com</a>
<b>Revenues/turnover (US\$ Mn)</b>	13931
<b>Financial Year End</b>	September
<b>Employees</b>	14800
<b>SIC Codes</b>	SIC 3571 Electronic Computers SIC 7372 Prepackaged Software
<b>NAICS Codes</b>	334111, 51121, 334611
<b>NASDAQ National Market Ticker</b>	AAPL
<b>Frankfurt Ticker</b>	APCD

## **BUSINESS DESCRIPTION**

Apple Computer is involved in the design, manufacture, and marketing of personal computers and related software, services, peripherals, and networking solutions. The company also designs, develops, and markets a line of portable digital music players along with related accessories and services including the online distribution of third-party music, audio books, music videos, short films, and television shows. The company sells its products worldwide through its online stores, its own retail stores, its direct sales force, and third-party wholesalers and resellers.

The company manages its business primarily on a geographic basis. The company operates through five operating segments: the Americas, Europe, Japan, retail and others.

The Americas, Europe, and Japan reportable segments do not include activities related to the retail segment. The Americas segment includes both North and South America. The Europe segment includes European countries as well as the Middle East and Africa. Each reportable geographic operating segment provides similar hardware and software products and similar services.

The retail segment currently operates Apple-owned retail stores in the US, Canada, Japan, and the UK. The company has 116 retail stores in the US and eight international stores in Canada, Japan, and the UK.

The 'others' operating segment focuses on Asia-Pacific, which includes Australia and Asia except Japan; and the company's subsidiary, FileMaker. FileMaker develops, publishes, and distributes desktop-based database management application software for Mac OS and Windows-based systems.

## **HISTORY**

The Apple Computer was incorporated in 1977. It was co-founded by Steven Wozniak and marketed by Steven Jobs. They introduced the first Apple I computer in 1976. The Apple I was a failure but Apple II launched in 1977 was successful. The company offered its IPO in the year 1980.

In the early eighties, competition from the PC market and internal difficulties led to critical management changes. By 1983, Apple encountered danger with the entry of IBM into the PC market, and the failure of its Apple III version computer. Apple introduced its first mouse driven computer, the Macintosh in 1978.

By 1990 the market was flooded with cheap PC clones and Microsoft had launched Windows 3.0. In 1994, the company launched the PowerPC chip based PowerMac. This new chip allowed Macs to compete with the speed of Intel's PC processors. Apple still had problems though and in 1995, the company had a \$1 billion order backlog. These problems were compounded by the launch of Windows 95. The company's performance nosedived in 1995-96 when it lost \$68 million.

In 1996, Apple acquired NeXT and NeXT's operating system, Rhapsody, became Apple's next-generation operating system. By 1997, Apple had lost hundreds of millions of dollars. Steven Jobs, the original co-founder returned as interim Chief Executive Officer. Under his leadership, Apple reorganized to concentrate on its more profitable competencies. Apple divested its unsuccessful spin offs, including Newton.

Soon after Steven Jobs returned, an agreement was made with Microsoft, and was subsequently followed with the appearance of MS Office on Mac PCs. During 2001, the company acquired PowerSchool, one of the leading providers of web-based student information systems for K-12 schools and school districts. Also in 2001, the company acquired Spruce Technologies, a privately held company involved in developing and marketing DVD authoring products.

In the following year, Apple, Ericsson and Sun Microsystems formed an alliance to create a standard format for delivering multimedia content to wireless devices, such as smart phones and PDAs. The alliance combined Apple's QuickTime video creation software, Sun's content distribution software and hardware, and Ericsson's mobile infrastructure and services expertise.

Apple pursued a number of acquisitions during 2002. The company acquired Prismo Graphics, Silicon Grail and certain assets of Zayante, and also acquired the German

based specialist music software manufacturer, Emagic, which became a wholly owned division of Apple. Additionally, in the second quarter of 2002, the company acquired certain assets of Nothing Real, a privately held company engaged in the development of high performance tools designed for the digital image creation market.

Apple launched its iTunes music store, an online store for downloading music tracks and albums in 2003. In the following year, the company signed licensing agreements with three of the largest European independent music labels, Beggars Group, Sanctuary Records Group and V2, adding tens of thousands of additional independent tracks from leading artists to the iTunes music store in the UK, France and Germany. In the same year, Apple introduced its fourth generation iPod portable digital music player.

In June 2005, the company made agreement to use Intel microprocessors in its Macintosh computers. Later in the year, the company collaborated with Acura, Audi, Honda and Volkswagen to deliver iPod with their car stereos for 2006 model lines and also introduced mobile phone with iTunes in collaboration with Motorola and Cingular Wireless.

## KEY EMPLOYEES

<b>Name</b>	<b>Job Title</b>	<b>Board</b>	<b>Compensation</b>
Steve Jobs	Chief Executive Officer	Executive Board	
Fred D Anderson	Director	Non Executive Board	
Bill Campbell	Director	Non Executive Board	
Millard Drexler	Director	Non Executive Board	
Albert Gore	Director	Non Executive Board	
Arthur D Levinson	Director	Non Executive Board	
Jerry York	Director	Non Executive Board	
Timothy D Cook	Chief Operating Officer	Senior Management	
Tony Fadell	Senior Vice President, iPod Division	Senior Management	
Jonathan Ive	Senior Vice President Industrial Design	Senior Management	
Ronald Johnson	Senior Vice President, Retail	Senior Management	
Peter Oppenheimer	Senior Vice President and Chief Financial Officer	Senior Management	
Philip W Schiller	Senior Vice President, Worldwide Product Marketing	Senior Management	
Bertrand Serlet	Senior Vice President, Software Engineering	Senior Management	
Sina Tamaddon	Senior Vice President, Applications	Senior Management	

## **KEY EMPLOYEE BIOGRAPHIES**

### **Steve Jobs**

Board: Executive Board  
Job Title: Chief Executive Officer  
Since: 1997

Mr Jobs is one of the company's co-founders and currently serves as its Chief Executive Officer. He is also the Chairman and Chief Executive Officer of Pixar Animation Studios. In addition, he co-founded NeXT Software and served as the Chairman and Chief Executive Officer of NeXT from 1985 until 1997. He also serves as a director of Gap.

### **Fred D Anderson**

Board: Non Executive Board  
Job Title: Director  
Since: 2004

Mr Anderson has been a founding partner of Elevation Partners, a private equity firm focused on the media and entertainment industry, since 2004. Previously, he served as the company's Executive Vice President and Chief Financial Officer from 1996 to 2004. He also serves on the Board of Directors of eBay.

### **Bill Campbell**

Board: Non Executive Board  
Job Title: Director  
Since: 1997

Mr Campbell assumed his role as Chairman of the Board of Directors in 1998. From 1994 to 1998, he served as the President and Chief Executive Officer of Intuit. He also served as Chief Executive Officer of the company from 1999 to 2000. Prior to joining Intuit, he was the President and Chief Executive Officer of GO Corporation. He was the founder, President and Chief Executive Officer of Claris Corporation, which was purchased by Apple Computer in 1990. Before starting Claris, he was Apple's Executive Vice President, group executive of the US. He joined Apple Computer in 1983 as Vice President of marketing. In 1985, he was named group executive of the US. He came to Apple from Eastman Kodak Company, where his last assignment was General Manager of Consumer Products for Kodak Europe. Prior to joining Kodak, he

was Vice President of J. Walter Thompson, a New York based advertising agency. He also serves on the board of Opsware. He holds a Bachelors degree in economics and a Masters degree from Columbia University.

**Millard Drexler**

Board: Non Executive Board

Job Title: Director

Since: 1999

Mr Drexler is presently Chairman and Chief Executive Officer of J.Crew. He has been Chief Executive Officer of Gap since 1995 and President since 1987. He has been a member of the Board of Directors of Gap since November 1983. He also served as the President of the Gap Division from 1983 to 1987.

**Albert Gore**

Board: Non Executive Board

Job Title: Director

Since: 2003

Mr Gore was elected as the 45th Vice President of the US in 1993. He was re-elected in 1996, and helped lead the US into the longest period of sustained economic growth in American history. He served for a total of eight years as President of the Senate, a member of the cabinet and the National Security Council, and as the leader of a wide range of administration initiatives including environmental policy, technology, science, communications and government cost reduction. He serves as a Senior Advisor to Google. He is also a visiting professor at the University of California Los Angeles, Fisk University and Middle Tennessee State University. He received his B.A. in Government with honors from Harvard University in 1969, and attended the Vanderbilt University School of Religion and the Vanderbilt University School of Law.

**Arthur D Levinson**

Board: Non Executive Board

Job Title: Director

Since: 2000

Dr Levinson has been President, Chief Executive Officer and a Director of Genentech since 1995. He has been Chairman of the Board of Directors of Genentech since 1999. He joined Genentech in 1980 and served in a number of executive positions, including Senior Vice President of R&D from 1993 to 1995.

## **Jerry York**

Board: Non Executive Board

Job Title: Director

Since: 1997

Mr York is Chairman and Chief Executive Officer of Micro Warehouse. Previously, he was Vice Chairman of Tracinda Corporation from 1995 to 1999. In 1993, he joined IBM as Senior Vice President and Chief Financial Officer, and he served as a Director of IBM from January 1995 to August 1995. Prior to joining IBM, he served at a number of executive positions at Chrysler Corporation, including Executive Vice President-Finance and Chief Financial Officer from 1990 to 1993. He also served as a Director of Chrysler Corporation from 1992 to 1993. He is also a Director of MGM Mirage and Metro-Goldwyn- Mayer.

## **Timothy D Cook**

Board: Senior Management

Job Title: Chief Operating Officer

Mr Cook is Senior Vice President of worldwide operations at Apple Computer. Before joining Apple, he was Vice President of corporate materials for Compaq and was responsible for procuring and managing Compaq's entire product inventory. Prior to his work at Compaq, he was the Chief Operating Officer of the reseller division at Intelligent Electronics. He also spent 12 years with IBM, most recently as Director of North American Fulfillment where he led manufacturing and distribution functions for IBM's Personal Computer Company in North and Latin America. Mr Cook earned an MBA from Duke University where he was a Fuqua Scholar, and a Bachelor of Science degree in Industrial Engineering from Auburn University.

## **Tony Fadell**

Board: Senior Management

Job Title: Senior Vice President, iPod Division

Since: 2006

Mr Fadell joined Apple as the first member of its iPod hardware engineering team in 2001 and was promoted to Vice President of iPod engineering in 2004. He became

Senior Vice President of the iPod Division in 2006. Prior to joining Apple, he was a cofounder, CTO, and Director of engineering of the Mobile Computing Group at Philips Electronics. He later became Vice President of business development for Philips US Strategy & Ventures focused on building the company's digital media strategy and investment portfolio. Prior to joining Philips, he was a hardware and software architect at General Magic. He graduated with a BS degree in Computer Engineering from the University of Michigan in 1991. He has filed more than 20 patents for his work.

### **Jonathan Ive**

Board: Senior Management

Job Title: Senior Vice President Industrial Design

Since: 1996

Mr Ive is the Senior Vice President of Industrial Design at Apple, reporting directly to the Chief Operating Officer. Since 1996 he has been responsible for leading a design team widely regarded as one of the world's best. He holds a Bachelor of Arts and a Doctorate from Newcastle Polytechnic.

### **Ronald Johnson**

Board: Senior Management

Job Title: Senior Vice President, Retail

Since: 2000

Mr Johnson joined Apple as Senior Vice President of Retail in 2000. He directed the successful launch of Apple's first two stores in McLean, Virginia and Glendale, California in 2001. Before joining Apple, Johnson held various management positions at the Target Corporation, most recently as Vice President of Merchandising for Target Stores. In this capacity, Johnson presided over a successful period of growth at Target, playing a key role in developing new initiatives for branding, marketing and merchandising. He led the team responsible for launching the Michael Graves exclusive line of products, as well as the addition of other key brands to the store's selection. Prior to his work at Target, he spent five years at Mervyn's, also a division of the Target Corporation. He received his MBA from Harvard and his Bachelor of Arts in Economics from Stanford University.

### **Peter Oppenheimer**

Board: Senior Management

Job Title: Senior Vice President and Chief Financial Officer

Mr Oppenheimer is Apple's Senior Vice President and Chief Financial Officer. He started his career with Apple in 1996 as controller for the Americas and in 1997 was promoted to Vice President and Worldwide Sales controller and then to corporate controller. He joined Apple from Automatic Data Processing (ADP), where he was Chief Financial Office of one of the four strategic business units. Prior to joining ADP, he spent six years in the Information Technology Consulting Practice with Coopers and Lybrand where he managed financial and systems engagements for clients in the insurance, telecommunications, transportation and banking industries. He received a Bachelors degree from California Polytechnic University, San Luis Obispo and an MBA from the University of Santa Clara.

## **Philip W Schiller**

Board: Senior Management

Job Title: Senior Vice President, Worldwide Product Marketing

Mr Schiller is Apple's Senior Vice President of worldwide product marketing. He is a member of Apple's executive team and is responsible for the company's product marketing, developer relations, education and business marketing programs. He rejoined Apple in 1997. He has over eighteen years of marketing and management experience, including eleven years at Apple in various marketing management positions; as the Vice President of Product Marketing at Macromedia of San Francisco; as the Director of product marketing at FirePower Systems of Menlo Park, California; as an Information Technology Manager at Nolan, Norton & Company of Lexington; and as a Programmer and Systems Analyst at Massachusetts General Hospital in Boston. He graduated with a Bachelor of Science degree in Biology from Boston College in 1982. He also currently serves on the advisory boards of Apple's subsidiaries, FileMaker and PowerSchool.

## **Bertrand Serlet**

Board: Senior Management

Job Title: Senior Vice President, Software Engineering

Mr Serlet is Apple's Senior Vice President of Software Engineering, and is responsible for leading Apple's Software Engineering group. He joined Apple in 1997, and has

been a key player in the definition, development and creation of Mac OS X. As Vice President of Platform Technology, he managed the largest part of the Mac OS software engineering group. Before joining Apple, he spent 4 years at Xerox PARC, and then joined NeXT in 1989. He holds a doctorate in Computer Science from the University of Orsay, France.

**Sina Tamaddon**

Board: Senior Management

Job Title: Senior Vice President, Applications

Mr Tamaddon joined the company in 1997. He has served the company in the position of Senior Vice President Worldwide Service and Support, and Vice President and General Manager, Newton Group. Before joining the company, he held the position of Vice President, Europe with NeXT from 1996 to 1997. From 1994 to 1996, he held the position of Vice President, Professional Services with NeXT.

## **MAJOR PRODUCTS AND SERVICES**

Apple designs, manufactures and markets personal computers and related solutions for sale primarily to education, creative, business, and consumer customers. The company's key products and services include the following:

Hardware products:

- Macintosh computers
- PowerBook G4 notebook
- iMac
- eMac
- iBook
- Mac mini
- Xserve G5 server
- Xserve RAID storage system

Music products and services:

- iPod
- iTunes Music Store

Peripheral products:

- iSight
- Flat panel TFT active-matrix digital color displays
- Computer printers and printing supplies
- Storage devices
- Digital video and still cameras
- Personal digital assistants
- Digital music players and related accessories

Software products and computer technologies:

- Mac OS X V10.3
- Spotlight
- Server software and server solutions
- Xsan

Professional application software:

- iCat
- iChat AV
- ISync
- X11

Appleworks  
Final Cut Express  
Keynote  
Final Cut Pro  
Dvd Studio Pro  
Soundtrack  
Logic platinum

Consumer, education and business oriented application software:

iLife  
iPhoto 2  
iMovie 3  
iDVD 3  
iWork  
The FileMaker Pro

Internet software and services:

Safari  
QuickTime  
.Mac

Wireless connectivity and networking:

AirPort Extreme  
AirPort Express

Other connectivity and networking solutions:

Bonjour  
FireWire

## **PRODUCTS AND SERVICES ANALYSIS**

The company recorded revenues \$13,931 million during the fiscal year ended 2005, an increase of 68.3% over 2004. For the fiscal year 2005, the Americas, the company's largest geographic market, accounted for 47.3% of the total revenues.

Apple manages its business primarily on a geographic basis. Apple's geographic segments include the Americas, Europe and Japan as core divisions. Additionally, the company has a retail segment, which oversees the activities of Apple owned retail stores in the US, Canada, Japan, and the UK.

Americas, Apple Computer's largest geographical market, accounted for 47.3% of the total revenues in the fiscal year 2005. Revenues from Americas reached \$6590 million in 2005, an increase of 64% over 2004.

Europe accounted for 22.1% of the total revenues in the fiscal year 2005. Revenues from Europe reached \$3073 million in 2005, an increase of 70.8% over 2004.

Retail accounted for 16.9% of the total revenues in the fiscal year 2005. Revenues from retail reached \$2350 million in 2005, an increase of 98.3% over 2004.

'Others' accounted for 7.2% of the total revenues in the fiscal year 2005. Revenues from 'others' reached \$998 million in 2005, an increase of 66.6% over 2004.

Japan accounted for 6.5% of the total revenues in the fiscal year 2005. Revenues from Japan reached \$920 million in 2005, an increase of 35.9% over 2004.

## SWOT ANALYSIS

Apple Computer designs, manufactures and markets personal computers and related software, services, peripherals, and networking solutions. The company's strong operating performance has strengthened its market position and has also increased investor confidence. However, intense competition could affect the company's margins.

<b>Strengths</b>	<b>Weaknesses</b>
Global presence	Low returns
Brand image	Dependency for key components
Synergistic portfolio	
Strong media content	
<b>Opportunities</b>	<b>Threats</b>
Wireless products	Strong competition
New digital platform	Slow Eurozone economy
MP3 player market	Lawsuits

### Strengths

#### Global presence

Apple has a global presence spanning the Americas, EMEA, and Asia Pacific. The company derives more than 50% of its revenues from regions outside US, its domestic market. A balanced presence in mature as well as emerging markets has enabled the company to record a steady revenue growth. The company's financial performance has been strong in the last five years. Its revenues recorded a CAGR of 27% during 2001-05. The company's margins were above the industry average in the five-year period, 2001-05 driven by strong growth in all the markets. The company's operating profit margin during this period was 4.2% against an industry average of 2.8%. Strong operating performance strengthens the company's market position and also increases investor confidence.

#### Brand image

The Apple brand is well regarded amongst most consumers. Apple also enjoys a high level of brand awareness and brand recognition for its products throughout the markets in which it operates. Apple leverages its brand image to differentiate its product offering and drive sales. The company's strong brand helps it create barriers to entry within the market, and also enables it command a premium pricing for its products such as iMac and iPod, giving it a competitive edge over regional as well as other global competitors such as IBM and Sony.

#### Synergistic portfolio

The company designs, manufactures and markets personal computers and related software, services, peripherals, and networking solutions; a portfolio that is highly synergistic in nature. The company also designs, develops, and markets portable digital music players along with related accessories and services, including the online distribution of third-party music, audio books, music videos, short films, and television shows. The wide product portfolio reduces its dependency on any single product line and hence its business risk. In addition, it also enhances its cross-selling opportunities.

#### Strong media content

The growth of Apple's iPod and iTunes products has been a great success story in recent times. In February 2006 iTunes downloads topped one billion songs. The iTunes Music Store allows users to legally purchase and download music and videos online. The iTunes Music Store features over 3500 music videos, Pixar and Disney short films, a variety of hit TV shows, 35,000 podcasts, 16,000 audiobooks and more than two million songs from the major music companies and independent record labels. The company is leveraging its established position of iTunes installed base into the online video segment. Since October 2005, the company has sold millions of videos, indicating a strong start. A strong content set gives the company a competitive edge over regional players.

## **Weaknesses**

#### Low returns

The company has recorded weak returns on assets and investments in recent years. The company recorded average return on assets (RoA) of 4.7%, lower than the industry average of 5.8% during 2001-05. For the same period, the company's average return on investment was 6.7%, significantly lower than the industry average of 13.8%. The return on equity also followed the same trend and was 7.4% in the

period 2001-05, as compared to industry average of 18.5% in the same period. Low weak return on assets and equity can erode investor confidence and the company's growth plans.

#### Dependency for key components

The company is susceptible to a supply risk for key components. IBM is currently the company's sole supplier of the PowerPC G5 processor, which is used in its current Power Mac, Xserve, and iMac G5 products. Freescale is the sole supplier of the G4 processor, which is used in the company's eMac, Mac mini, and portable products. IBM experienced manufacturing problems with the PowerPC G5 processor, which resulted in delaying the shipment of various products and constrained certain product shipments during the second half of 2004 and the first quarter of 2005. In a market where speed to market is critical, Apple's dependency for key components could put it at a competitive disadvantage.

## Opportunities

#### Wireless products

Demand for wireless connectivity and networking products is likely to increase in the future. Apple is ideally positioned to capitalize on this growth, as it already provides a number of offerings in this area. For example, AirPort is the Apple's wireless networking technology that allows users to create a computer network and connect to the internet without cables, additional phone lines, or networking hardware. Based on the IEEE 802.11b wireless standard and Wi-Fi certified, AirPort allows high-speed wireless communications within a radius of approximately 150 feet from an AirPort base station. Increasing adoption of wireless hi-speed internet would boost the company's top line growth.

#### New digital platform

Apple is focusing on transforming its Mac platform into a digital hub that combines iTunes video content to customers' television screens and portable devices. This new platform would enhance Apple's rapidly growing digital content business. In addition, it would also integrate the digital content business with Apple's Mac business. This is expected to provide stability to the company's long-term growth.

#### MP3 player market

Apple's US MP3 player market share increased to 78% in March 2006 from 71% in December 2005. However, Apple's market share in international markets remains far

below the US level. Apple's market share is about 40% in the UK, 54% in Japan, 45% in Canada, and 58% in Australia and is significantly lower in Italy, Spain, Eastern Europe, China and Korea (20-40%). This suggests that Apple's penetration outside of the US has huge scope for growth. The company is planning to increase its retail points of presence, both domestic and international, and the likelihood of new products in 2006 along with expanding portfolio of digital content (particularly video), the company could expand its international market share. Moreover, penetration of MP3 players in the US is less than 25% of the penetration for digital cameras, which may indicate that this segment would remain a key growth driver in short to medium term.

## **Threats**

### **Strong competition**

Apple is confronted by strong competition in all areas of its business. The market for the design, manufacture, and sale of personal computers and related software and peripheral products is highly competitive. This market continues to be characterized by rapid technological advances in both hardware and software development, which have substantially increased the capabilities and applications of these products, and have resulted in the frequent introduction of new products and significant price, feature, and performance competition.

Over the past several years, price competition in the market for personal computers has been particularly intense. Apple's competitors who sell Windows-based personal computers have aggressively cut prices and lowered their product margins to gain market share in response to weakness in demand for personal computing products. Apple's results of operations and financial condition have been, and in the future may continue to be, adversely affected by these and other industry wide pricing pressures and downward pressures on gross margins.

### **Slow Eurozone economy**

The Eurozone economy slowed down in 2005. The GDP growth for the year 2005 was estimated at 1.3%, as compared with 2.1% in 2004. The slowdown was accompanied by higher oil prices and increased unemployment. In the short term, corporate spending in France could be adversely affected with political unrest over the new labor law. Economic activity in the region is further affected threatened by the housing price bubble that may burst. Europe is one of the key markets for the company and continued slowdown and political uncertainties in the Eurozone could reduce spending on information technology products and adversely affect its revenues.

### Lawsuits

Apple is subject to certain legal proceedings. Apple Corps has sued Apple Computer claiming that it has broken a 1991 agreement in which each agreed not to enter into the other's field of business. Apple Corps, started by the Beatles in 1968, argues that Apple Computer has infringed its territory by entering the music business and is seeking to force Apple Computer to drop its apple logo from the iTunes Music Store and pay damages. In addition, Apple faces several other lawsuits related to patent infringement, false advertising and unfair business practices. These legal issues could have a material impact on its financial condition in addition to the brand image.

## TOP COMPETITORS

The following companies are the major competitors of Apple Computer, Inc.:

Ceridian Corporation  
Micro Electronics, Inc.  
NEC Corporation  
Unisys Corporation  
ViewSonic Corporation  
Seiko Epson Corporation  
PC Connection, Inc.  
Canesta, Inc.  
RM plc  
Adobe Systems Incorporated  
Casio Computer Co., Ltd.  
Dell Inc.  
Fujitsu Limited  
Gateway, Inc.  
Hewlett-Packard Company  
International Business Machines Corporation  
Micron Technology, Inc.  
Microsoft Corporation  
Novell  
Oki Electric Industry Company, Limited  
Oracle Corporation  
Samsung Electronics Co., Ltd.  
Sony Corporation  
Sun Microsystems, Inc.  
Toshiba Corporation  
Silicon Graphics, Inc.  
Sybase, Inc.  
RealNetworks, Inc.  
BenQ Corporation  
Insight Enterprises, Inc.

## **COMPANY VIEW**

An excerpt from the 'Management's Discussion and Analysis of Financial Condition and Results of Operations' section is given below. The statement has been taken from the company's 10-K filing for fiscal year 2005.

The company designs, manufactures, and markets personal computers and related software, services, peripherals, and networking solutions. The Company also designs, develops, and markets a line of portable digital music players along with related accessories and services including the online distribution of third-party music, audio books, music videos, short films, and television shows. The Company's products and services include the Macintosh line of desktop and notebook computers, 'the iPod digital music player, the Xserve G5 server and Xserve RAID storage products, a portfolio of consumer and professional software applications, the Mac OS X operating system, the iTunes Music Store, a portfolio of peripherals that support and enhance the Macintosh and iPod product lines, and a variety of other service and support offerings.

The Company sells its products worldwide through its online stores, its own retail stores, its direct sales force, and third-party wholesalers, resellers, and value added resellers. In addition, the Company sells a variety of third-party Macintosh compatible products, including computer printers and printing supplies, storage devices, computer memory, digital camcorders and still cameras, personal digital assistants, and various other computing products and supplies through its online and retail stores. The Company sells to education, consumer, creative professional, business, and government customers.

The company's business strategy leverages its ability, through the design and development of its own operating system, hardware, and many software applications and technologies, to bring to its customers around the world compelling new products and solutions with superior ease-of-use, seamless integration, and innovative industrial design.

The company participates in several highly competitive markets, including personal computers with its Macintosh line of computers, consumer electronics with its iPod line of digital music players, and distribution of third-party digital content through its online iTunes Music Store. While the Company is widely recognized as an innovator in the personal computer and consumer electronic markets as well as a leader in the emerging market for distribution of digital content, these are all highly competitive markets that are subject to aggressive pricing and increased competition. To remain

competitive, the Company believes that increased investment in research and development (R&D) and marketing and advertising is necessary to maintain and extend its position in the markets where it competes.

The Company's R&D spending is focused on delivering timely updates and enhancements to its existing line of personal computers, displays, operating systems, software applications, and portable music players; developing new digital lifestyle consumer and professional software applications; and investing in new product areas such as rack-mount servers, RAID storage systems, and wireless technologies. The Company also believes investment in marketing and advertising programs is critical to increasing product and brand awareness.

In June 2005, the company announced its plan to begin using Intel microprocessors in its Macintosh computers. The Company plans to begin shipping certain models with Intel microprocessors by June 2006 and to complete the transition of all of its Macintosh computers to Intel microprocessors by the end of calendar year 2007. There are potential risks and uncertainties that may occur during this transition, which are further discussed under the heading "Factors That May Affect Future Results and Financial Condition."

The company utilizes a variety of direct and indirect distribution channels. The company believes that sales of its innovative and differentiated products are enhanced by knowledgeable salespersons who can convey the value of the hardware, software, and peripheral integration, demonstrate the unique digital lifestyle solutions that are available only on Macintosh computers, and demonstrate the compatibility of the Macintosh with the Windows platform and networks. The company further believes that providing a high-quality sales and after-sales support experience is critical to attracting and retaining customers. To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company has expanded and improved its distribution capabilities by opening its own retail stores in the U.S. and internationally. The Company had 124 stores open as of Se

The company also staffs selected third-party stores with the Company's own employees to improve the buying experience through reseller channels. The Company has deployed Apple employees and contractors in reseller locations around the world including the U.S., Europe, Japan, and Australia. The Company also sells to customers directly through its online stores around the world.

To improve access to the iPod product line, the Company has significantly expanded the number of distribution points where iPods are sold. The iPod product line can be

purchased in certain department stores, member-only warehouse stores, large retail chains, and specialty retail stores, as well as through the channels listed above.

## LOCATIONS AND SUBSIDIARIES

### Head Office

Apple Computer, Inc.  
1 Infinite Loop  
Cupertino  
CA 95014  
United States  
P: 1 408 996 1010  
F: 1 408 996 2113  
[www.apple.com](http://www.apple.com)

### Other Locations and Subsidiaries

<p>FileMaker 5201 Patrick Henry Drive Santa Clara San Francisco CA 95054-1171 United States P: 1 408 987 7000 F: 1 408 987 3931 <a href="http://www.filemaker.com">www.filemaker.com</a></p>	<p>Apple Computer Benelux B.V. Buro &amp; Design Center 1st floor Heizel Esplanade Heysel Box 100 B-1020 Brussels Belgium P: 32 2713 12 44 F: <a href="http://www.apple.com/benl">www.apple.com/benl</a></p>
<p>Apple Computer Australia Sydney Office 16 Rodborough Road Frenchs Forest NSW 2086 Australia P: 61 2 9641 8000 F: 61 2 9641 8160 <a href="http://www.apple.com.au">www.apple.com.au</a></p>	<p>Apple i Danmark Apple Sollerodvej 64 2840 Holte Denmark P: 45 70 15 17 19 F: 45 70 15 17 21 <a href="http://www.apple.com/dk/">www.apple.com/dk/</a></p>
<p>Apple Computer International 5/F Du Parc Trinity 17 Mahatma Gandhi Road Bangalore 560-001 India P: 91 80 555 0575 F: 91 80 555 0660 <a href="http://www.asia.apple.com">www.asia.apple.com</a></p>	<p>Apple Computer Korea 3201 ASEM Tower 159 Samsung-dong Kangnam-Ku Korea 135-090 Korea P: 82 2 6001 6600 F: 82 2 6001 6601 <a href="http://www.apple.co.kr">www.apple.co.kr</a></p>

<p>Apple Computer France ZA de Courtaboeuf 12, av. d'Océanie 91956 Les Ulis Cedex France P: 33 0825 888 024 F: <a href="http://www.apple.com/fr">www.apple.com/fr</a></p>	<p>Apple Computer Dornacher Str. 3d D-85622 Feldkirchen Germany P: 49 89 99640 0 F: 49 89 99640 180 <a href="http://www.apple.com/de">www.apple.com/de</a></p>
<p>Apple Computer International 2401 NatWest Tower Times Square Causeway Bay Hong Kong P: 852 2506 8888 F: 852 2506 2833 <a href="http://appleclub.com/hk/">appleclub.com/hk/</a></p>	<p>Apple Computer International Beijing Office 1 17/F Full Link Plaza 18 Chaoyangmenwai Ave. Beijing 100020 China P: 86 10 6856 3330 F: 86 10 6856 1169 <a href="http://www.apple.com.cn">www.apple.com.cn</a></p>
<p>Apple Computer Systems Malaysia Sdn Bhd 1005 Block B, Level 10 Phileo Damansara 1 9 Jalan 16/11 Off Jalan Damansara 46350 Petaling Jaya Selangor Darul Ehsan Malaysia P: 60 3 461 3366 F: 60 3 461 3365 <a href="http://www.asia.apple.com">www.asia.apple.com</a></p>	<p>Apple Philippines Incorporated Unit 1114 Ayala Tower One Ayala Triangle, Ayala Ave cor Paseo de Roxas Makati City Philippines P: 63 2 848 6931 F: 63 2 848 6935 <a href="http://www.asia.apple.com">www.asia.apple.com</a></p>
<p>Apple Computer South Asia 7 Ang Mo Kio Street 64 Singapore 569086 Singapore P: 65 481 5511 F: 65 481 4035 <a href="http://www.asia.apple.com">www.asia.apple.com</a></p>	<p>Apple Computer Asia 16A No. 333 Tun Hwa South Road Sec. 2 Taipei Taiwan P: 886 2 2738 3242 F: 886 2 2737 2222 <a href="http://www.apple.com.tw">www.apple.com.tw</a></p>
<p>Apple Computer International Hollyhill Industrial Estate Cork Ireland P: 353 1850 946 191 F: <a href="http://www.apple.com/ie">www.apple.com/ie</a></p>	<p>Apple Computer Italia Via Milano 150 20093 Cologno Monzese (MI) Italy P: 39 199 120 800 F: <a href="http://www.apple.com/it">www.apple.com/it</a></p>

Apple Sweden Box 31 164 93 Kista Sweden P: 46 8 703 3000 F: 46 8 703 3001 <a href="http://www.apple.com/se">www.apple.com/se</a>	Apple Computer Postboks 244 Lilleaker 0216 Oslo Norway P: 47 22 95 49 00 F: <a href="http://www.apple.com/no">www.apple.com/no</a>
Apple SA 6 Kikuyu Road Sunninghill Sandton Johannesburg South Africa P: 27 11 234 1420922 F: 27 11 234 0933 <a href="http://www.apple.com/sa">www.apple.com/sa</a>	Apple Canada 7495 Birchmount Road Markham, ON L3R 5G2 Canada P: 1 905 513 5800 <a href="http://www.apple.com/ca">www.apple.com/ca</a>