

**The Merriam Report AAPL QESep-09 Apple Computer**

All amounts in millions except for earnings per share

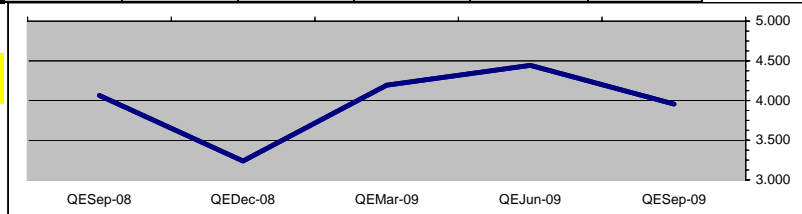
Quarterly period ending:	QESep-08	QEDec-08	QEMar-09	QEJun-09	QESep-09	Averages	
Earnings Per Share (Incl. Ext. Items)	\$ 1.250	\$ 1.780	\$ 1.330	\$ 1.350	\$ 1.830	\$ 1.508	
% Change in E.P.S. (from prev. qtr.)		42.4%	-25.3%	1.5%	35.6%	13.5%	
Total Revenues	7895.00	10167.00	8163.00	8337.00	9870.00	8886.40	
% Change in Revenues (from prev. qtr.)		28.8%	-19.7%	2.1%	18.4%	7.4%	
Cost of Revenues	5156.0	6635.0	5192.0	5314.0	6256.0	5710.6	17.73%
Accounts Receivable:	2422.0	2196.0	1932.0	2686.0	3361.0	2519.4	
% Change in Receivables (from prev. qtr.)		-9.3%	-12.0%	39.0%	25.1%	10.7%	
DSO's (# of days it took customers to pay)	27.9	19.7	21.5	29.3	31.0	25.9	
Inventories:	509.0	396.0	312.0	380.0	455.0	410.4	
% Change in Inventory (from prev. qtr.)		-22.2%	-21.2%	21.8%	19.7%	-0.5%	
Inventory as a % of Sales	6.4%	3.9%	3.8%	4.6%	4.6%	4.67%	
Prepaid Expenses:	0.00	0.00	0.00	0.00	0.00	0.0	
Other Current Assets:	7269.0	6924.0	6596.0	7882.0	8985.0	7531.2	13.99%
Property, Plant & Equip. (net):	2455.0	2580.0	2546.0	2653.0	2954.0	2637.6	
% Change in P,P & E (from prev. qtr.)		5.1%	-1.3%	4.2%	11.3%	4.8%	
Accounts Payable:	9239.0	8522.0	6737.0	8192.0	8977.0	8333.4	
% Change in Payables (from prev. qtr.)		-7.8%	-20.9%	21.6%	9.6%	0.6%	
Quarterly period ending:	QESep-08	QEDec-08	QEMar-09	QEJun-09	QESep-09		
Total Liabilities:	18542.0	19878.0	18926.0	22252.0	26019.0	21123.4	16.93%
Shareholder equity:	21030.0	22909.0	24311.0	25888.0	27832.0	24394.0	7.51%
Retained Earnings (Accum. Deficit)	13845.0	15448.0	16653.0	17878.0	19538.0		
Operating Cash Flow (OCF)	31704.0	35174.0	37899.0	40526.0	43755.0	37811.6	
OCF as % of Revenues	401.6%	346.0%	464.3%	486.1%	443.3%	434.9%	
Balance Sheet Cash Flow (BSCF)	-388.0	2236.0	3661.0	3492.0	4696.0	2739.4	
BSCF as % of Revenues	-4.9%	22.0%	44.8%	41.9%	47.6%	39.1%	
Spread between OCF & BSCF	32092.0	32938.0	34238.0	37034.0	39059.0	35072.2	
Ratios							
Spread to Revenues	406.49%	323.97%	419.43%	444.21%	395.73%	3.980	-0.56%
Spread to OCF							
MR Dual Cash-Flow Figure	4.065	3.240	4.194	4.442	3.957	3.980	

**The Merriam Report**

Apple Computer	AAPL	QESep-09				
Quarterly period ending:	QESep-08	QEDec-08	QEMar-09	QEJun-09	QESep-09	
MR Dual Cash-Flow Figure	4.065	3.240	4.194	4.442	3.957	

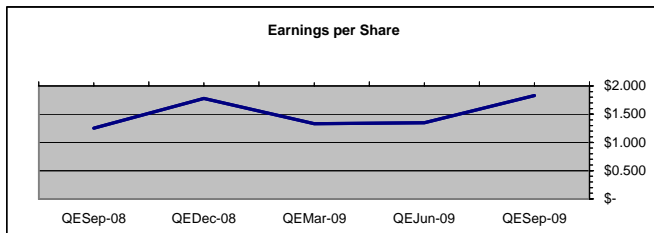
Merriam Report Signals:

- Recent Bearish
- Confirmed Bearish**
- Recent Bullish
- Confirmed Bullish



MR Dual Cash-Flow Figure (avg.)

3.980



Accrual Ratios  
Average Accruals

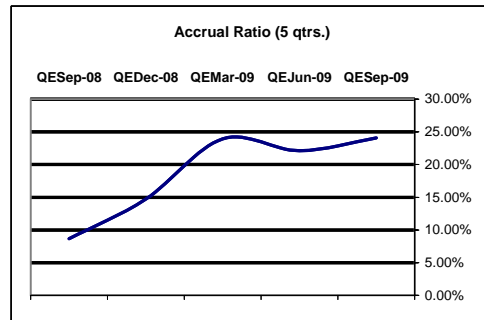
	QESep-08	QEDec-08	QEMar-09	QEJun-09	QESep-09	
Accrual Ratios	8.66%	14.74%	23.95%	22.13%	24.10%	-4.75
Average Accruals	18.72%					

Revenue Metrics (as % of Sales)

	Recent Qtr.	Combined Avg.
Research & Development	3.63%	3.67%
Cost of Sales	63.38%	64.26%
S/G/A	10.77%	11.59%
Payables	90.95%	93.78%

Capital Productivity

	Recent Qtr.	Combined Avg.
Inventory / Revenues	\$ 0.046	\$ 0.046
Receivables / Revenues	\$ 0.341	\$ 0.284
Inventory & Receivables / Revenues	\$ 0.387	\$ 0.330
P,P&E / Revenues	\$ 0.30	\$ 0.30



Accrual Ratios: According to the MR model, a ratio of -5 or less is very bullish and a ratio of +5 or more is very bearish.

## Summary of Merriam Report Signals

Dual Cash-Flow Figures

Confirmed Bearish / Recent Bearish

Operating Cash-Flow Trend

Bullish

	QESep-08	QEDec-08	QEMar-09	QEJun-09	QESep-09
OCF	31704.0	35174.0	37899.0	40526.0	43755.0
BSCF	-388.0	2236.0	3661.0	3492.0	4696.0

Balance Sheet Cash-Flow Trend

Bearish

### Comparison of Recent Quarter Changes to Average

EPS

Bullish

Revenues

Bullish

Accounts Receivable

Bearish

Days Sales Outstanding

Bearish

Inventory

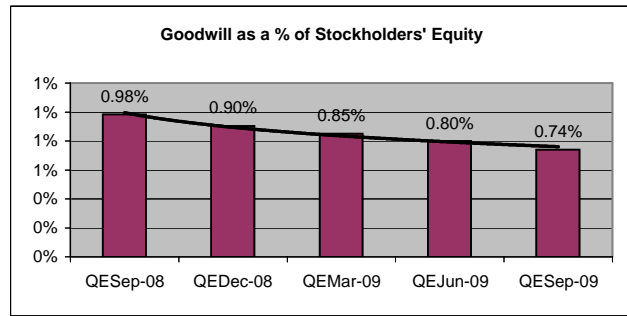
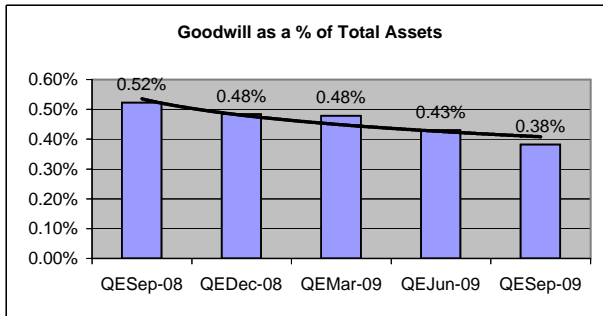
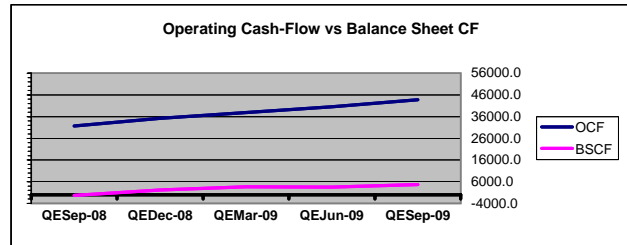
Bearish

Accounts Payable

Bearish

Accrual Ratios

Very Bearish



Balance Sheet and Income Statement	-4
Accrual Ratios	-4.75
Revenue Metrics and Capital Productivity	0
Goodwill Trends	1
<b>Merriam Report Score</b>	<b>-7.75 \$</b>

**Investment Opinion: AVOID**

**Current Price: \$195.40**

**Merriam Report Fair Value: \$166.21**

**Current Price-to-Fair Value: +17.56%**

We believe rising accrual ratios presented in the GAAP numbers, along with increases in non-operating assets, indicate a continuing decline in the quality-of-earnings being reported by Apple in recent quarters.

Reported GAAP earnings for Sept. '09 grew 34.8% over prior quarter on a boost of 18% in revenues for the similar periods.

Receivable's jumped 25.1 % q-to-q, pushing DSO's to 31 days compared to the average of 26 days. Other current "assets" though, rose almost 14%. What's interesting about other assets is, this generally includes restricted cash, pre-paid expenses, deferred tax assets, but excludes cash, inventory, receivables, short-term investments, etc.

However, deferred taxes account for approx. 1/3 of "other" assets and net of tax contingencies, non-cash assets have risen dramatically in the last two quarters.

Accounts payable too, (including accrued expenses) show an uncomfortable rise, even if one were to include deferred revenues into the picture\*.

Although we believe AAPL generates significant free cash-flow, the MR data reveals sequential declines in operating cash-flow and an increase in balance-sheet cash-flow.

Management has also made a point to say costs would be rising going forward and we do note a 17.7% bump in cost-of-sales for the latest period.

**\*Deferred Revenues: We are concerned anytime a company offers two sets of books to qualify their financial performance. Apple has been providing GAAP and non-GAAP figures since last year to show investors how much better sales and earnings would be using the non-GAAP "adjusted" figures. The following statement appears in the latest 8-k filing:**

-Cautions on Use of Non-GAAP Measures

"As noted previously, these non-GAAP financial measures are not consistent with GAAP because they do not reflect the deferral of revenue and product costs for recognition in later periods. These non-GAAP financial measures do not adjust for the costs associated with the Company's intention to provide unspecified new features and software to purchasers of iPhone and Apple TV products. These costs are expensed as incurred under GAAP's subscription accounting model, and are not adjusted in these non-GAAP financial measures. As such, these non-GAAP financial measures are not intended to reflect in a given period all of the costs of sales made in that period. Rather, the non-GAAP financial measures presented below are intended for the limited purpose of presenting performance measures that include the total sales, related product costs, and resulting income for iPhones and Apple TVs in the period those products are sold to customers". -

### From the company's Q4 2009 Transcripts

On September 23, the Financial Accounting Standards Board ratified EITF 093, which will change the way we account for iPhones and Apple TV today. Under EITF 093, only the estimated sales value of future upgrade rights to iPhones and Apple TV software are required to be deferred at the time of sale, with the balance of the iPhones and Apple TV sales price being recognized immediately as revenue. The deferred amount will be recognized over the 24 months estimated life of the product, similar to the way we have applied subscription accounting to these product sales today.

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"We don't know at this time the specific amount of revenue deferral for each iPhone and Apple TV sold under EITF 093, but we do believe that a substantial portion of the revenues will be recognized for these products at the time of sale. We are very pleased with the FASB adoption of this new rule, as we believe it will enable us to more closely align our reported results with the economics of the iPhone and Apple TV sales.

We will be required to adopt the new accounting rules no later than the first quarter of our fiscal 2011; a year from now. But we do have the option of adopting earlier than that, sometime in our fiscal 2010. We are currently assessing the impact of the new rule on our accounting and reporting systems and processes. Making this change will be complex and as of now, we are uncertain as to the timing of our adoption; therefore, we don't have anything more specific to discuss with you today about this change.

The guidance for the December quarter that we are providing today is based on a subscription accounting treatment that we have applied today for the iPhone and Apple TV sales. In other words, it is based on the assumption that the full amounts of revenue and product costs of past and future iPhone and Apple TV sales continue to be recognized ratably over the estimated 24-month life of the product." - -

**Our problem with the accounting shift is that changes in the reported GAAP figures indicate that expenses and non-cash assets may be rising faster than whatever future benefit will be realized from "adjustments" to deferred revenues and expenses going forward.**

**We don't challenge the phenomenal success of Apple's marketing ability, particularly in a recessionary environment. However, the uncertainty of timing and potential impact resulting from the adoption of future accounting changes, makes it difficult to see any catalyst to sustain current prices or drive shares higher.**

The opinions expressed herein are solely those of the author and there is no guarantee to the accuracy or completeness of information contained herein. This report is not a solicitation to buy or sell any security mentioned and it is always recommended to conduct a thorough due-diligence of any security or issue before making an investment.

Date of Report: 10-29-09

Disclosure of holdings: None

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