

# Apple 1Q dazzles investors, distracts from Jobs (Update 2)

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In this Nov. 26, 2010 file photo, a store employee holds up an iPad at an Apple Store in San Francisco. Apple Inc. on Tuesday, Jan. 18, 2011 said that its net income for the holiday quarter jumped 78 percent as shoppers snapped up more iPads than analysts predicted. (AP Photo/Jeff Chiu, File)

(AP) -- Apple Inc.'s shining holiday-quarter results diverted Wall Street's attention, at least temporarily, from news that CEO Steve Jobs is taking another medical leave of absence.

Investors focused on Apple's success in boosting production of iPads, which happened faster than analysts predicted. Shoppers also bought iPhones as fast as Apple could make them, helping drive the company's fiscal first-quarter net income up 78 percent from the prior year.

Apple's shares rose \$4.25, a mild 1.3 percent, to \$344.90 in extended

trading after the release of results. In the regular session, shares dipped 2.3 percent to close at \$340.65 as investors grappled with Jobs' undisclosed health problems.

Jobs had surgery in 2004 that he said cured him of a rare form of pancreatic cancer. In 2009, Jobs announced a half-year leave during which time he had a liver transplant; this time, Apple did not say whether Jobs is acutely ill again or when it expects him to return.

While some analysts question how long Apple can prolong its run of smash-hit products without Jobs' day-to-day oversight, most agree the gadget maker can keep going apace for the next few years with updates to the iPad, iPhone and other devices already in the pipeline.

That the quarter, which also included stronger iPod sales than expected and a surge of store traffic and sales in China, blew past expectations and should give Wall Street more confidence on that point.

"The quarter was remarkable," said Shaw Wu, a Kaufman Bros. analyst. In an interview, Wu said he thinks investors will give Apple more credit for the quarter in the coming days or weeks. As for Jobs' health, he said investors are "not as fixated on it."

Apple's newest product, the iPad tablet computer, went on sale in April and was one of the hottest gifts over the holidays. Apple sold 7.3 million of the touch-screen, keyboard-less gadgets, which people use to surf the Web, watch movies, play games and, increasingly, get real work done.

That's about a million more than analysts were expecting for the quarter. Wu said Apple was able to ramp up iPad production to meet widespread demand, and executives sounded confident that would continue even as Apple expands iPad sales to 15 more countries in the current quarter.

PC industry analysts say the iPad and the promise of competing tablets that run Microsoft Corp.'s Windows or Google Inc.'s Android software are prompting people to hold off buying new laptops. Intel Corp., the largest maker of PC processors, said last week that competition from the iPad was part of what held revenue in each of its major divisions, except for server chips, flat from the third quarter.

In a conference call Tuesday, Tim Cook, Apple's chief operating officer, had nothing nice to say about competitors' tablets.

"The ones that are using a Windows-based operating system are generally fairly big and heavy and expensive. They have very weak battery life," Cook said. "From our point of view and what we've seen, customers, frankly, just are not interested in them."

And Cook called the Android tablets on the market bizarre scaled-up smartphones.

Cook, who will lead Apple's day-to-day operations during Jobs' medical leave, does think the iPad is alluring enough to cannibalize some computer sales. But that doesn't mean the iPad team is pulling any punches to prop up Mac sales.

"I also think there's a halo effect," Cook said. "We have introduced millions of people in Asia to Apple through the iPhone. And we're now introducing many more through the iPad. And I think some of those decide to buy Mac."

Mac sales in the quarter support the halo theory. Apple sold 4.1 million, a 23 percent increase from last year, helped by a new line of ultrathin Macbook Air laptops. That's much faster than overall worldwide PC shipments grew over the same period, which industry analysts at Gartner Inc. and IDC put at about 3 percent. But it's still just over half of the

number of iPads sold in the quarter.

Apple ended the quarter with almost no iPhones left in stores, having sold 16.2 million, or 86 percent more of the smart phones than a year ago. With the expansion in the U.S. from one carrier, AT&T Inc., to two with Verizon Wireless, Cook didn't even want to guess at when Apple might be able to make enough to consistently satisfy demand.

"We are working around-the-clock to build more," he said.

It became clear in the quarter that Apple's focus on China, which has included the opening of four stores there and the launch of a country-specific iTunes store, is starting to pay off. The Cupertino, Calif.-based company said revenue from China, Hong Kong and Taiwan totaled \$2.6 billion, about 10 percent of its total revenue and four times the year-ago total. Cook said two years ago, revenue in China was less than \$1 billion for the whole year.

Of Apple's 321 stores open worldwide during the quarter on average, China stores clocked the highest traffic and revenue per store. Most of the revenue came from iPhone and iPad sales, even though at the moment, Apple only sells the iPhone through one carrier, the country's second-largest.

Apple also sold 19.5 million iPods, a 7 percent drop from a year earlier, but still about two million more than Wall Street expected. Wu, the analyst, said the strength came from sales of the iPod Touch, which people are buying as a portable videogame device.

Net income for Apple's fiscal first quarter rose to \$6 billion, or \$6.43 per share, up from \$3.4 billion, or \$3.67 per share, in the same period a year earlier.

Analysts surveyed by FactSet forecast \$5.41 per share for the quarter, which ended Dec. 25.

Revenue climbed 71 percent to \$26.7 billion, more than the \$24.3 billion analysts expected. It was \$15.7 billion in the same quarter a year earlier.

For the current quarter that ends in March, Apple said it expects net income of \$4.90 per share on revenue of \$22 billion. According to FactSet data, analysts were currently expecting net income of \$4.48 per share on \$20.9 billion in revenue.

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