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The Other \$15 Billion Question: How Will Apple Spend Its Cash?

By Bryan Gardiner 11.01.07 | 12:00 AM



With \$15.4 billion in cash reserves, Apple could install a solid-gold monument to wealth in its lobby at One Infinite Loop.

Photo: McClure SF/Flickr

The cash coffers are overflowing at Apple these days. While Silicon Valley is abuzz over the fact that social-networking startup Facebook is now worth \$15 billion on paper, Cupertino-based Apple has at least that much money - \$15.4 billion to be exact -- in real, spendable cash.

Apple's cash reserves have nearly doubled over the past two years, thanks to surging sales of iPods, Mac notebooks and iMacs. At the end of 2005, Apple reported \$8.7 billion in cash and short-term investments, or about 15 percent of its market capitalization. Now, at the end of a [stellar fourth quarter](#), the company's market capitalization is [surging past \\$160 billion](#).

With more money on hand than it's ever had, the question is: What exactly will Apple do with that pile?

It's easier to predict what the company *won't* do. If analysts agree on anything, it is that the company will not be making any major acquisitions. It's simply not in Apple's DNA.

While other companies like Intel and Microsoft typically use their excess cash for large acquisitions or the repurchasing of stock, Apple tends to quietly invest its money in forward-looking markets and technologies.

"They just don't make these billion-dollar acquisitions," says analyst Tim Bjarin of Creative Strategies, "but they do make (small) strategic ones." For instance, Apple's 2002 purchase of German company Emagic (for an undisclosed amount) was a stepping-stone that helped Apple develop what eventually became GarageBand. Earlier, its \$400 million acquisition of Next Software in 1996 laid the groundwork for the Unix-based OS X -- and brought exiled founder Steve Jobs back into the Apple fold.

"Apple's stockpiling of cash has more to do with its money management than anything else," says Bjarin. In essence, he says, the company "uses its cash reserves as a way to buy secrecy."

In 2006, Apple formed an asset-management firm called Braeburn Capital in Nevada (where tax laws are more lenient than in Apple's home state of California). This subsidiary is said to function as a regional treasury office for the company, but Apple won't give precise details about the firm's duties other than to describe it as a vehicle for managing the company's investment portfolio.

One possible use for the cash reserves: strategic purchases of critical components. Carl Howe of [Blackfriars Communications](#) points to Apple's \$1.2 billion dollar purchase of flash memory in 2005, in anticipation of using that memory in upcoming iPods. Much to the chagrin of other electronics manufacturers, that move created what's known as a monopsony -- a market condition where all of a particular product's supply is monopolized by a single buyer. "They basically locked up the flash memory market for two years," Howe says.

Bjarin concurs, speculating that Apple could use its wad of cash to ensure that iPhone-component makers are keeping up with demand. This is seen as critical for Apple at the moment, especially considering that it's set to launch the phone in Europe next month. Another potential investment could come in the form of building out the new property Apple purchased last year in Cupertino. Indeed, Jobs has said that the 50-acre parcel of land is to be the home of a new campus housing up to 3,500 of [Apple's employees](#).

Less likely is the possibility that Apple might join a Google-led consortium of companies bidding in the upcoming [700-MHz spectrum auction](#). With the bar set at \$4.6 billion just to qualify for the open access "C" block, analysts predict Google will likely want some monetary support from companies that could benefit from a new swath of open spectrum. That includes hardware manufacturers like Apple, whose iPhone and iPod touch might, in future versions, work with an open wireless network.

"Steve (Jobs) has a vision of a connected digital ecosystem," Bjarin concludes. "Right now, we have a limited perception of it, but we don't know what else he's got to fill it out. If you try to approach things from that perspective, then it's possible to get a hint of where that money may be going."