Apple To Pay Dividend, Start Stock Buybacks

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NEW YORK (AP) — After amassing a huge cash hoard, Apple Inc. is finally acknowledging that it doesn't need all that money, saying Monday that it will start paying some of it out to shareholders in the form of a dividend and share buyback program.

Investors had been expecting the announcement, driving up Apple shares 37 percent since management hinted in January that a dividend was in the works.

Apple, the world's most valuable company, sits on $97.6 billion in cash and securities. For years, CEO Steve Jobs resisted calls to reward shareholders with some of that money. He used to say that the money was better used to give Apple maneuvering room, for instance by giving it the ability to buy other companies.

Apple paid a quarterly dividend between 1987 and 1995, a period when Jobs was not involved with the company.

Jobs died in October after a long fight with cancer. On Monday, new CEO Tim Cook said that with this much cash on hand, a dividend wouldn't restrain the company's options.

"These decisions will not close any doors for us," he told analysts and reporters on a conference call.

Had it kept amassing cash and low-yielding securities, Apple could eventually have opened itself to legal challenge from shareholders, who could have argued that it was misusing their money.

Cook also suggested that the dividend could have been larger if U.S. tax laws were different.

Apple said Monday that it will pay a quarterly dividend of $2.65 per share, starting in its fiscal fourth quarter, which begins July 1.

The dividend works out to $10.60 annually, or 1.8 percent of the current stock price. By comparison, Microsoft Corp., pays 2.5 percent of its stock price in dividends, and Hewlett-Packard Co. pays 2 percent.

However, in absolute terms, Apple will pay one of the richest dividends in the U.S. It will spend more than $10 billion on dividends in its first year, placing it just below companies including AT&T Inc. and Verizon Communications Inc., for whom the dividend is the main way of attracting investors.

Exxon Mobil Corp., the world's second largest company by market capitalization, pays about $9 billion in dividends annually.

Apple generated $31 billion in cash in the fiscal year that ended in September, and is on pace to generate even more in the current year. That means its cash pile will continue to grow even with a dividend and a buyback program, albeit at a lower rate.

Even if it had no net cash, Apple would hardly be financially constrained, since it could borrow all the money it needs.

The dividend opens up ownership of Apple shares to a wider range of funds, potentially boosting the stock price in the long term. Many "value-oriented" funds are not allowed to buy stocks that don't pay dividends

Apple said the $10 billion share buyback program will begin next fiscal year, which starts Sept. 30, and run for three years.

Buybacks are a popular alternative to dividends, since they reduce the number of shares outstanding. That means every remaining investor has title to a larger share of the company.

Cook said the main point of Apple's buyback is to offset the shares issued to reward the Cupertino, Calif., company's employees.

In late morning trading, Apple shares rose $7.93, or 1.3 percent, to $593.50. Last week, the shares hit an all-time record of $600.01. The company is worth $553 billion.

The dividend and buyback announcement comes three days after the launch of Apple's latest iPad tablet in the U.S. and nine other countries.

Cook said the company also considered splitting its stock, and continues to look at that option. Stock splits increase the number of shares while reducing their value, potentially making it easier for small investors to buy them. But Cook said "there's very little support" for the idea that this helps the stock overall.

Cook said that when Apple analyzing how much it could give out to shareholders, it looked solely at how much cash it has in the U.S. Like many other big exporters, Apple has much of its cash overseas — two-thirds, specifically.

Apple is reluctant to bring back overseas profits, which have already been taxed in their respective countries, to the U.S. because they'd then be subject to the 35 percent corporate tax rate.

"Current tax laws provide a considerable economic disincentive to U.S. companies that might otherwise repatriate a substantial amount of foreign cash," Chief Financial Officer Peter Oppenheimer said.

Cook said the company looked at how much domestic cash it had, then set aside enough for planned and unplanned investments. What was left over would be given out to shareholders, he said.

That suggests that if Apple could bring back its $64 billion in overseas money, the rewards to shareholders could be larger. Corporations have been clamoring for a change in tax laws, or a repeat of a 2004 tax amnesty on repatriated earnings.