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This Week's Stories

How Amazon's Success With Echo Threatens Apple's Smart Home Strategy

January 27, 2017

In less than a year, Amazon's combination of the Echo speaker system and the Alexa voice-controlled digital assistant has come close to delivering on the elusive promise of easy-to-use technology that can control gadgets in the home with a few spoken words.

Yet Amazon.com's surprise success sets up a long-term battle with Apple and Alphabet's Google for primacy in the connected household. And the contours of that competition are following a classic tech industry dynamic.

Amazon is pursuing an open-systems approach that allows quick development of many features, while Apple is taking a slower route, asserting more control over the technology in order to assure security and ease-of-use.

The strategic importance of the "connected home" niche looms large: Amazon wants a way to own its customer interactions—mainly shopping online—without an Apple phone or a Google Web browser as an intermediary.

Apple needs to keep the iPhone at the center of customers' lives, and has built a whole home automation architecture, called HomeKit, into its smartphone.

Google, for its part, is investing heavily in both intelligent assistant software and home-automation devices like the Nest thermostats and, more recently, the Google Home speaker. But Google is behind in the race, with its speaker only hitting the market in November and compatible with a handful of gadgets beyond Nest and Dropcam, which the company also owns.

"When the iPhone rolled out in 2007, everyone developed for that. Right now, everyone is developing for the voice-activated Internet," said Mark Mahaney, an analyst and managing director with RBC Capital Markets.

Mahaney estimates Amazon sold as many as 10 million Alexa-enabled devices over the holiday season. Google hasn't disclosed sales for its Home speaker. Apple has declined to comment on reports that it has a voice-activated speaker in the works.

Apple spokeswoman Trudy Muller said the company is leading the industry by being the first to integrate home automation into a major platform with iOS 10. "The number of HomeKit-compatible accessories continues to grow rapidly with many exciting solutions announced just this month," she said.

For the smart home, the key developer partners are the makers of household devices ranging from lighting systems to refrigerators. There are currently about 250 devices that are certified to work with Alexa, and Amazon has encouraged rapid development of third-party applications with its open-systems approach and even financial incentives for some partners.

“Amazon is pursuing an open-systems approach that allows quick development of many features, while Apple is taking a slower route, asserting more control over the technology in order to assure security and ease-of-use.”

Apple's HomeKit, by contrast, has about 100 certified devices. And the reasons behind that gap show both the risks and the potential rewards of Apple's approach.

HOW APPLE EXERTS CONTROL

To be HomeKit-certified, gadget makers must include special chips to work with Apple's system. Developers that order small volumes of the chips say they can cost a 50 cents to \$2, though prices are lower for larger buyers. Apple also requires developers to buy specific Wi-Fi and Bluetooth networking chips that cost more than competitors.

The devices have to be made in special factories that are certified by Apple. A confidential Apple document obtained by Reuters lists more than 800 of these factories, but only a few specialize in home automation products.

Developers can ask Apple to certify an unlisted factory they want to use. But the limited selection means that device makers can't always get the best prices or work with their preferred factories. The founder of one startup that considered pursuing HomeKit approval for a device that helps control home temperatures said the company picked a factory with 40,000 employees that was making well-known "Star Wars" toys, but it couldn't use that factory for HomeKit products.

"They're a huge company, a legitimate manufacturer that makes tech household brands. And yet they're not certified," said the founder, who declined to speak on the record because of non-disclosure agreements with Apple.

Manufacturers also have to send product samples to Cupertino, where Apple tests them extensively for compatibility. The whole process can take three to five months. During that time, device makers aren't allowed to say publicly that they're pursuing HomeKit certification.

Some developers say it's worth it. "They found issues with our product before we released it that we didn't find in our testing," said Gimmy Chu, CEO of Nanoleaf, a smart lighting system. "We know that after we have the certification that it's rock solid."

AMAZON'S OPEN APPROACH

Alexa, by contrast, only requires smart home companies to write software code and submit it to Amazon for review. There are no special chips. To earn the "Works with Alexa" label — which isn't required to function with Alexa but does help promote products on Amazon's website — startups must have their products physically tested. Amazon does allow that to happen in a third-party lab, however.

Once those certifications are in hand, Amazon says it will decide whether or not a device gets the "Works with Alexa" label within 10 days.

Apple's approach has some clear advantages when it comes to privacy, security and ease-of-use. HomeKit gadgets, for example, can operate without being connected to the Internet. (An iPad or Apple TV connected to the Internet is required if you want to control devices when you're outside the house.)

"It also makes for a better user experience," notes Ahmed Abdallah, a senior engineer at Incipio, which makes HomeKit-compatible devices such as electrical outlets. "You'll experience some latency if you're always having to bounce off the cloud" as with Alexa.

Apple also has an advantage around setup. iPhone owners open up the Home app and set up a device with just a few taps. With Alexa, customers have to download the gadget's companion app first, set up the device, and then add a "skill" to Alexa in the Alexa app.

Apple's ease of setup lured in some big brands like Hunter Fan Company, the top-selling ceiling fan maker in the U.S.

"If that experience isn't good, it has a strong negative halo on the brand because customers just assume the product is bad," said John Neilson, the company's chief marketing officer.

Amazon acknowledges that unlike Apple, it can't guarantee the security of third-party devices. A company spokeswoman did note that sensitive commands like unlocking doors have an extra layer of security such as a voice-controlled PIN.

Still, it's not clear whether Apple's elaborate but slow-to-develop system will have enough advantages to overcome Amazon's widening lead.

"The danger I see for Apple and the home is they're assuming that because I have a smartphone that may be an Apple device, that alone is enough of a Trojan horse to establish their mindshare," said Andreas Stavropoulos, a partner at venture capital firm DFJ. "I wouldn't say that's certain yet."

fortune.com

Apple iPhone Price Under Pressure As Buyers Seek Cheaper Devices

January 26, 2017

Apple Inc. results next week will likely show iPhone sales growing again, bucking a year of declines. That's the good news.

But in a sign that customers are opting for less expensive models, some analysts predict that the average selling price for the handsets likely declined over the holidays, a crucial period for Apple. Some purchasers are settling for older iPhone 6S models, rather than the iPhone 7, introduced in September, analysts said.

"Recent smartphone customers increasingly are opting for the iPhone 6S," Barclays analyst Mark Moskowitz wrote in a note to clients this week as he downgraded his recommendation on Apple stock to hold. "We detect increasing concern among industry participants that smartphones in general have evolved technologically to become more than good enough to serve most users' digital needs over multiple years or until the device breaks."

Apple is scheduled to report quarterly results on Jan. 31. Analysts currently predict an average selling price, or ASP, of \$688 for the iPhone line in the holiday quarter, down from \$691 a year earlier, according to estimates compiled by Bloomberg News. That's even though the iPhone 7 Plus model costs \$20 more than the iPhone 6S Plus when it was introduced. A new iPhone launch has in previous years consistently led to an increase in ASP.

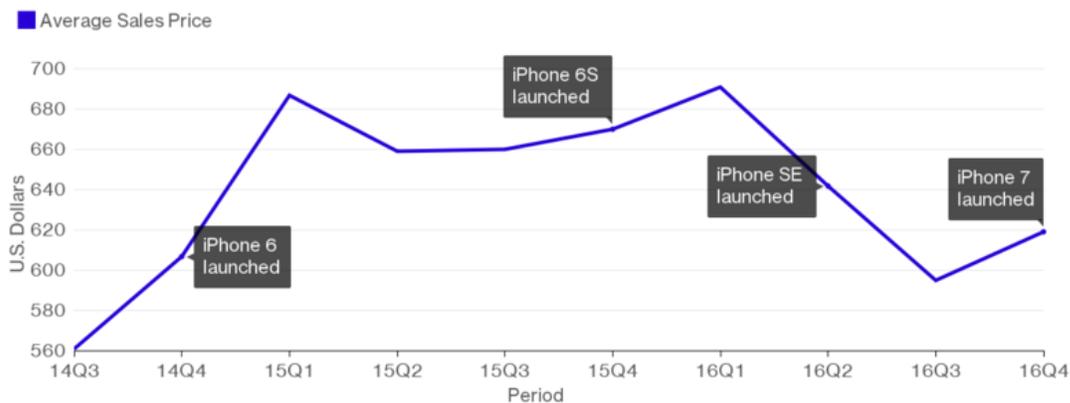
An ASP decline may suggest the iPhone 7's better camera, faster processor, improved battery life and water resistance weren't enough to draw customers away from the 6S. The trend would underscore concern that smartphone advances nowadays aren't enough to maintain the bonanza iPhone revenue growth that the Cupertino, California-based company used to enjoy.

"We know what a smartphone looks like and does," billionaire technology investor Peter Thiel told the New York Times recently. "It's not an area where there will be any more innovation."

"An ASP [average selling price] decline may suggest the iPhone 7's better camera, faster processor, improved battery life and water resistance weren't enough to draw customers away from the 6S."

The iPhone 6 Hangover

Prices usually spike with each new iPhone and were diluted by the iPhone SE



Source: Bloomberg data, company reports

Bloomberg

Apple's revenue decline in the last fiscal year, which ended in September, represented the first such drop since 2001, as falling iPhone sales dragged down the total. Industrywide smartphone shipments were likely flat in 2016, according to researcher IDC. As recently as the second quarter of 2015, the market was growing more than 10 percent a year.

Apple is likely to have sold about 76 million phones over the holiday quarter, according to the average of analyst estimates compiled by Bloomberg News, up from 75 million handsets a year earlier. Analysts expect revenue to rise 2 percent to \$77 billion, with surging sales from the App Store and Music streaming service compensating for any dip in iPhone takings.

Even after revenue from services soared last year, the iPhone still accounted for almost two-thirds of Apple's \$216 billion annual sales. The handset's importance means any ASP weakness will focus investor attention more keenly on the next iPhone, which is likely to be unveiled later this year, the device's 10th anniversary.

Demand for this model, which analysts tentatively dub the iPhone 8, 10 or X, will be gauged by Apple's sales forecast for the three months through March. Should it fall short of the \$54 billion expectation that may suggest slack demand for current products as buyers await the new model?

"The iPhone 10 gives Apple a little bit of protection," said Gene Munster, the co-founder of Loup Ventures and long-time Apple analyst.

The new device gives executives a ready excuse should the March outlook disappoint, he noted. "It's a good get out of jail free card, since investors want to own the stock for the next product cycle," Munster said.

bloomberg.com

Products & Services

Facebook Rolls Out Safer Logins With A Security Key

January 26, 2017

No one wants to hand over their account to a hacker. Today, Facebook is adding a new feature that will help protect users from getting their accounts compromised.

Facebook users can now use a security key to authenticate their identity during the login process. If you use a security key, hackers won't be able to get into your Facebook account, even if they have your username and password.

Security keys are a form of two-factor authentication — an optional extra layer of security that helps you prove your identity when you log in.

During a typical two-factor authentication process, the user enters their username and password, then the site they're logging in to responds by texting them a verification code. The user enters the verification code, proving that he or she is the proper user of the account, and not a hacker logging in with a stolen password.

But this method has its downsides. A determined attacker can reset the SIM for the user's phone and intercept the SMS messages, as we saw in the targeted hack of the activist DeRay Mckesson last summer.

Security keys solve this problem by cutting out the need to transmit the verification code to the user. Keys like those manufactured by Yubico fit into a USB port and can generate a one-time code at the tap of a finger — and, unlike SMS, these codes can't be captured without physical access to the security key itself. In addition to being more secure, security keys make the login process with two-factor authentication feel a bit faster and more seamless because you don't have to sit around waiting for the text message to be delivered. Conveniently, security keys still work even when text messages don't, so you don't lose access to your accounts just because you don't have cell service.

If you already use a security key to log into your accounts on Google or Dropbox, you don't need a new one. You can use the same key across all your accounts.

Brad Hill, a security engineer at Facebook, says it was easy for the company to roll out the feature because it was already used in-house by the engineering staff for logging in to internal systems. It was simply a matter of extending the feature to Facebook's users.

"We don't consider two-factor a mandatory thing," Hill explains. "We see account security as our responsibility regardless of technologies you choose to use. For people who want to stay in control, this would be a good choice for someone who wants to stay a head of even the most advanced attacks."

Unfortunately, there's not a great way to integrate security keys with most mobile devices yet. When logging into their Facebook accounts on mobile, most users will still have to go through the regular old two-factor SMS process (Facebook also lets users generate their verification code through the Facebook app). Users with NFC-capable Android devices and the latest versions of Chrome and Google Authenticator can use an NFC-capable key to verify their identity on the Facebook mobile website.

The challenge of using a security key with a mobile device is one Hill expects to see addressed in the future. Although access is currently limited to certain Android users, Hill says he anticipates more APIs on the Android platform that will support security keys — and that other platforms will follow suit.

Ready to activate your security key? Go to Security Settings in your account and click "Add Key." (Note: This will only work if you're using the Chrome or Opera browser.)

techcrunch.com

Google Voice Gets A New Look For Its First Major Update In Years

January 23, 2017

“The service has been given a much-needed visual refresh, bringing it in line with Google’s other apps.”

Google just announced the new and improved Google Voice that the company teased a few weeks ago. Today you’ll find updated versions of Voice available for Android, iOS, and on the web. The service has been given a much-needed visual refresh, bringing it in line with Google’s other apps. According to Google’s blog post on the changes, “your inbox now has separate tabs for text messages, calls and voicemails. Conversations stay in one continuous thread, so you can easily see all your messages from each of your contacts in one place.”

Aside from simply bringing Voice up to date aesthetically, the upgraded app carries over some features that until now were only available for users who had switched to Hangouts for some Voice functions like texting and voicemail. For one, photo MMS is now supported by Google Voice on all platforms and across pretty much all major carriers. Images show up inline in your conversations, and firing off your own is as easy as any other texting app. That sounds like basic functionality, but MMS has been a longtime sore spot for Voice. No more emails with MMS attachments or other weird workarounds.

Group texting has also been added to the main Voice apps — no Hangouts required. This is another crucially important feature to many people that Google Voice has been bad at until now. With today’s update, group conversations are labeled very clearly and should work as you’d expect them to.

Voicemail transcriptions are still in there too. And with this update, Google is introducing voicemail transcriptions for Spanish. Other nice touches I’ve noticed in a few days spent testing the new Google Voice include: in-notification replies on Android (but sadly not iOS), 3D Touch support for iPhone (mostly in Messages view), and a user experience that finally feels less like a relic from the early App Store days.

Those days are thankfully over. Speaking of which, Google claims it’s committed to preventing Voice from falling into the neglected state it was stuck in prior to today. The company says users can expect “regular” updates and new features for the mobile apps and web client, though it offers no estimate on how often they’ll arrive. Let’s just say that Google has a lot to prove if it wants to convince anyone that Voice is a priority again. One thing a spokesperson has already confirmed to The Verge is that Google is working to implement RCS messaging in Voice.

But today is just step one, a redesign that seems more about making up for lost time than reinventing what Google Voice is. If you’ve already moved your Voice account into Hangouts (and you actually still use Hangouts), the blog post says there’s “no need to change to the new apps, but you might want to try them out as we continue to improve and add more features.”

These Google Voice updates will launch first today on Android, followed by iOS in a couple days. Once your mobile app is updated, the web client will automatically change over to the new design. Everyone should have it within a couple weeks, according to Google.

theverge.com

Emerging Technology

Apple Said To Be Working On 'Enhanced Siri' For The iPhone 8

January 25, 2017

Virtually every major smartphone vendor, from Apple to Samsung to LG to Huawei, is expected to release devices featuring artificial intelligence this year. Industry sources tell DigiTimes that virtual assistants will once again play a large role in the mobile industry in 2017, and that significant upgrades are on the way.

According to DigiTimes' sources, Apple is working on an "enhanced" version of its Siri virtual assistant for its next generation of iPhone devices. The report doesn't specify whether or not this new Siri will appear on the iPhone 8, but with all the talk of the sweeping changes and additional features Apple is planning to bring to the iPhone for its 10th anniversary, a more advanced Siri would make sense.

The report also points to Apple's acquisition of machine learning and AI startup Turi last August, which it says will allow the company to "further strengthen the functionality, as well as the market share" of Siri, which is now competing with the likes of Cortana, Alexa and Google Assistant.

As for Samsung, the new AI assistant Bixby is expected to be a standout feature of the Galaxy S8, even rumored to have its own button on the vendor's next flagship phone. Google will continue to push Google Assistant on to more devices, LG is expected to integrate Amazon's Alexa into the G6 and Huawei, as the third largest global smartphone vendor, wants to compete with Apple and Samsung on AI.

foxnews.com

New iPhone Leak Suggests Surprising Technology

January 25, 2017

Apple is working with Japan Display on flexible screens that would be suitable for the iPhone (reports the Wall Street Journal). Consisting of a flexible LCD panel protected by plastic, the screen technology can bend and flex and would make a significant contribution to a smartphone designed with these features in mind.

Curved screens may be new to the iPhone, but they are not new to the smartphone ecosystem. Numerous manufacturers have worked with curving the display, most notably Samsung. Apple's chief rival has built up a strong reputation and visual identity by curving the sides of the Galaxy Note and Galaxy Edge designs. If Apple is looking for an advantage, Japan Display's flexible LCD screen technology fits the bill.

Japan Display's technology is notable for a number of reasons. The first is that it uses LCD. Apple's iPhone is a rarity in high-end smartphone circles for continuing to use LCD screens, and it has pushed the visual technology in LCD screens further than most manufacturers - the screens on the iPhone 7 and iPhone 7 Plus are testament to that.

Secondly, it is not going to go into mass production until 2018 at the earliest. That means the iPhone 8 will not benefit from the technology - but given the rumors indicate the iPhone 8 will be Apple's first smartphone to use OLED technology that's not a surprise. Given that curved screen is going to be behind glass, it's clear that Apple is doing some long-term planning either for new form factors on the high-end handsets and a return to the LCD technology it has perfected, or a potential follow-up to the lower-priced iPhone SE in 2018 with a plastic-based LCD assembly.

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"Perhaps most importantly, it means that Apple would not be reliant on working with Samsung Displays for a key component of its smartphone and potentially second in line to any new research and technology."

Perhaps most importantly, it means that Apple would not be reliant on working with Samsung Displays for a key component of its smartphone and potentially second in line to any new research and technology. If you don't want to go full-on Sun Tzu avoid giving resources and position to your enemy, it would allow Tim Cook and his negotiation team to have two suppliers for a single component and the resulting financial benefits of competition in the supply chain.

A bendable or foldable iPhone may not be Apple's endgame here. If this technology is used inside upcoming iPhones then the flex and movement offered by the panel would see reduced forces caused by impact damage. Measured over tens of millions of iPhone devices sold, that could reduce the cost of warranty repairs and the incidences of out-of-warranty repairs required by customers. It could offer new design choices for the Apple Watch to allow a more form-fitting screen to be used in the wearable. Or it could be for a mythical VR headset to allow for better wraparound screen in a user's field of vision.

We may not know exactly what Tim Cook has planned for this technology, but there are a number of ways that it will be of benefit to Apple.

forbes.com

Mergers and Acquisitions

PayPal Has Been Talking With Amazon On Payments, CEO Says

January 27, 2017

Amazon.com Inc. and PayPal Holdings Inc. have discussed letting shoppers pay for Amazon purchases using their PayPal accounts, highlighting how PayPal can attract new partners since its 2015 split from Amazon rival EBay Inc.

"We have been in conversations with Amazon," PayPal Chief Executive Officer Dan Schulman said Thursday in an interview with Bloomberg. "We're closing in on 200 million users on our platform right now. At that scale, it's hard for any retailer to think about not accepting PayPal."

There are no details to announce, but Schulman said the conversations have focused on "how to use one another's assets to the mutual benefit of our customers."

A spokesman for Seattle-based Amazon declined to comment. PayPal stock pared its decline in extended trading Thursday by about 1.7 percent on the news. The shares were down 1.5 percent to \$40.90 early Friday.

PayPal separated from EBay -- Amazon's onetime arch rival -- to concentrate on expanding its electronic transactions business without being shackled to the slow-growing online marketplace. Schulman, who became CEO after the split, has been forging agreements in an effort to increase the number of people using PayPal and the frequency with which they use it.

Amazon has its own payment ambitions and hired Patrick Gauthier from San Jose, California-based PayPal in 2015 to lead its initiative. Amazon is balancing its desire to control payments with its customer-centric philosophy, given PayPal's reach. PayPal on Thursday reported 197 million active customer accounts in the fourth quarter, with 31 transactions per account in the trailing 12 months. Amazon shoppers have asked whether the company would accept PayPal in Amazon customer discussion forums.

Amazon revived its own payments business in 2013 by letting shoppers use Amazon accounts to make purchases with other online merchants.

bloomberg.com

Speculation Builds On A Verizon-Charter Tie-Up, No Offer Made

January 26, 2017

"Speculation over a combination of the companies underscores the pressure the nation's largest wireless carrier faces to do a deal in the wake of AT&T Inc.'s planned \$85.4 billion takeover of Time Warner Inc. Verizon and other carriers also face a saturated smartphone market."

Verizon Communications Inc. is interested in exploring a combination with U.S. cable company Charter Communication Inc. as part of a long list of acquisition targets, but no proposal has been made for a tie-up between the two companies, sources told Reuters on Thursday.

Speculation over a combination of the companies underscores the pressure the nation's largest wireless carrier faces to do a deal in the wake of AT&T Inc.'s planned \$85.4 billion takeover of Time Warner Inc. Verizon and other carriers also face a saturated smartphone market.

Verizon said in July that it struck a deal to buy Yahoo Inc.'s core internet properties, but the deal was cast into doubt after Yahoo disclosed data breaches last year.

"I think the market is predictably impatient and wants Verizon to do something yesterday," said Craig Moffett, an analyst at MoffettNathanson. "The market inevitably draws the comparison to AT&T that, for better or worse, has made its biggest strategic bet."

After rising as much as 10 percent and hitting a session high of \$341.50 on the news, Charter shares eased and were trading up 6.5 percent at \$330.59. Verizon shares were down 1.4 percent at \$49.08.

Charter and Verizon declined to comment.

A Charter acquisition would signal that Verizon has a drastically different strategic vision than rival AT&T, which has sought to diversify away from the wireless business through its deal for Time Warner and earlier acquisition of satellite-TV provider DirecTV.

Instead, a deal for Charter would indicate Verizon is betting on infrastructure. On its earnings conference call with investors on Tuesday, Chief Financial Officer Matt Ellis said that 5G wireless technology was a focus for Verizon.

"The great irony could be that the cable operators are better positioned to compete in 5G wireless than the wireless operators themselves," Moffett said. Speculation over a tie-up with Charter has been building steadily since last month when Verizon Chief Executive Officer Lowell McAdam told Wall Street analysts that such a deal would make "industrial sense," according to a December note by BTIG analyst Walter Piecyk.

With Charter, Verizon would gain a fiber and cable network across 49 million homes, including markets in California, Texas, and Florida, that the wireless carrier recently divested to Frontier Communications Corp, JPMorgan analysts said in a note in December.

From a traditional antitrust point of view, the combination of a phone company and a cable company would not raise competition issues that cannot be overcome, said George Bittlingmayer, a professor at the University of Kansas School of Business.

"The wildcard here is whether people's unhappiness with their cable and mobile phone providers would translate into some grandstanding and arm-twisting on the part of the new administration for political benefit," he said.

Phil Cusick, an analyst at JPMorgan, said in an email on Thursday that he expects \$2 billion in annual synergies from a Charter deal but added that the deal's math is "difficult to make work," noting that a combined company would be heavily leveraged.

The Wall Street Journal, which first reported a preliminary approach between the companies, said it was unclear if Charter's executives would be open to a transaction and that there was no guarantee a deal would be struck.

Verizon had a market capitalization of \$203 billion as of Wednesday's close, while Charter was valued at nearly \$84 billion, according to Thomson Reuters data.

reuters.com

Industry Reports

Microsoft Exceeds Sales, Profit Estimates On Cloud Gains

January 26, 2017

"As long as cloud is growing, people are happy," said Mark Moerdler, an analyst at Sanford C. Bernstein & Co., who rates the shares outperform. "If margins are growing, people are even happier."

Microsoft Corp.'s second-quarter sales and profit exceeded analysts' projections, bolstered by rising customer sign-ups for cloud-based services and a stabilizing personal-computer market.

Profit excluding certain items, such as a few weeks of results from newly acquired LinkedIn Corp., was 84 cents a share on adjusted sales of \$25.8 billion, the software maker said Thursday in a statement. Analysts on average had estimated profit would be 79 cents on revenue of \$25.3 billion in the period ended Dec. 31, according to data compiled by Bloomberg.

Chief Executive Officer Satya Nadella is reformulating the company as a seller of internet-based corporate services for running applications, storing data, collaborating and enhancing worker productivity. Azure cloud services revenue almost doubled, keeping up its steady pace of growth, and both consumers and corporations continue to purchase Office 365, which includes software like Word and Excel, Microsoft said. Another surprising bright spot was the PC market, which is showing signs of life after years of contraction.

"As long as cloud is growing, people are happy," said Mark Moerdler, an analyst at Sanford C. Bernstein & Co., who rates the shares outperform. "If margins are growing, people are even happier."

On Dec. 8, the company completed its biggest acquisition, the \$26.2 billion purchase of LinkedIn, whose data and professional networking tools will augment Microsoft's own productivity products. LinkedIn contributed revenue of \$228 million in the quarter following the deal's close.

Microsoft shares gained 1.2 percent in extended trading following the report. The muted reaction to the better-than-forecast results followed the stock's 23 percent surge in the past year to an all-time closing high of \$64.27, reached Thursday in New York.

Cloud Surge

Azure revenue almost doubled in the recent quarter, and corporate versions of Office 365 saw sales increase 47 percent. Almost 25 million consumers are now subscribed to Office 365, the company said.

Redmond, Washington-based Microsoft has been spending on data centers and adding products to win new cloud customers. Chief Financial Officer Amy Hood said in July that gross margins, a measure of profitability, for the commercial cloud business would "materially improve" in the current year. That's because previous years of investment are starting to pay off as those data centers support more customers. Second-quarter commercial cloud gross margin was 48 percent, 2 percent wider than a year earlier.

Microsoft has pledged to reach annualized revenue of \$20 billion in its corporate cloud business by the fiscal year that ends in June 2018. That metric stood at more than \$14 billion at the end of the second quarter. The company has been adding customers for its Azure services, which let clients run and store applications in Microsoft's data centers, as well as for cloud-based versions of Microsoft's Office applications. During the quarter, Microsoft announced a corporate chat service called Teams, aimed at taking on Slack Inc.

"Microsoft is the plumbing in the cloud," Moerdler said. "Amazon is much bigger, but still Amazon and Microsoft are pulling away from the pack. More and more you hear CTOs talking about both, or more of them are talking about Microsoft that weren't before."

Revenue in the recent period was lowered by 2 percentage points because of a strong dollar, said Hood, who had forecast a smaller impact.

"It was a bit more of a headwind," she said.

PC Business

Second-quarter sales in the company's More Personal Computing business, including Windows and Xbox, fell 5 percent to \$11.8 billion. That compares with the \$11.44 billion average estimate of five analysts polled by Bloomberg. Gaming revenue for Xbox and PC fell 3 percent.

Worldwide PC shipments in the December quarter declined 1.5 percent, a slower pace than in the previous period, but the industry remains in a multiyear slump. The company is seeing the market stabilize and even improve, and Windows sales are doing even better than the overall PC market, Hood said.

"That segment outperformed even more than with the others," she said of the More Personal Computing unit.

Revenue from sales of Windows to PC maker partners rose 5 percent, and Windows commercial products and cloud services increased at the same rate. Windows sales are growing in the corporate PC market and among consumers purchasing pricey machines, and Windows PC makers were able to take some share from Apple, Hood said.

In the Intelligent Cloud unit, comprised of Azure and server software deployed in customers' own data centers, sales increased 8 percent to \$6.9 billion, compared with the \$6.68 billion average analyst estimate. Productivity revenue climbed 10 percent to \$7.4 billion. Analysts had estimated \$7.02 billion.

Including LinkedIn and other items, net income in the second quarter rose to \$5.2 billion, or 66 cents a share.

On a conference call, Microsoft said third-quarter sales in Productivity will be \$7.65 billion to \$7.85 billion. Intelligent Cloud revenue will be \$6.45 billion to \$6.65 billion, and More Personal Computing sales will be \$9.05 billion to \$9.35 billion.

bloomberg.com

For AT&T, The Future Is (DirecTV) Now

January 25, 2017

"In its defense, AT&T can now point to the 200,000 customers it added since the Nov. 30 launch, far higher than Wall Street expected. The numbers, released last week, were likely buoyed by the introductory promotional offer of 100 channels for \$35 a month."

You get only one chance to make a first impression.

If that's the case, AT&T may have dropped the ball with many customers who signed up for its DirecTV Now streaming TV service. The telecommunications giant saw its service choke under the demands of its users, marking an embarrassing start for the company.

It was bad enough that T-Mobile CEO John Léger on Wednesday, ahead of AT&T's earnings report, said he would offer any AT&T customer who switched a year of Hulu service to make up for the bumpy start of DirecTV Now. Léger upped his troll game after claiming Tuesday that Verizon is suffering from a midlife crisis.

In its defense, AT&T can now point to the 200,000 customers it added since the Nov. 30 launch, far higher than Wall Street expected. The numbers, released last week, were likely buoyed by the introductory promotional offer of 100 channels for \$35 a month.

On a call with analysts, AT&T CEO Randall Stephenson acknowledged that "we're still not completely there on the plumbing" on DirecTV Now, but called it a "very elegant experience."

DirecTV Now represents AT&T's push to transform itself into more than just a phone company, taking control of the content you watch and of how you watch it. AT&T made its push to own the distribution through last year's acquisition of DirecTV, and with its pending deal to buy Time Warner, it wants to be the company behind "Game of Thrones" and Superman.

Its eagerness to evolve arises in part from the harsh competition in its core wireless business, in which smaller rivals Sprint and T-Mobile are scooping up its subscribers. It's the same trend that has forced Verizon to make its own acquisitive bets, although they're relatively smaller ones, in AOL and Yahoo.

The fourth quarter saw more of the same for AT&T. While the company added 1.5 million connections, 1.3 million came from lower-revenue connected devices. It also lost 67,000 so-called postpaid customers -- people who pay at the end of the month and tend to be more loyal. Much of its postpaid growth came from connecting tablets.

Meanwhile, it saw a jump in prepaid users through its Cricket and GoPhone arms.

Stephenson warned that 2017 would continue to see a competitive environment with more promotions. AT&T will likely compete through bundles, he said.

As with previous quarters, AT&T said that the customers who left were feature phone users and that its higher-end customers stuck with the service.

On the video side, the company added 235,000 satellite TV subscribers in the period, although it lost 262,000 U-Verse TV subscribers. Stephenson noted that after U-Verse launch, it took a year and a half to add the number of customers DirecTV Now garnered in a month.

Most people will be looking at the DirecTV Now numbers, since the company is betting on the "over the top" streaming strategy to eventually win out. But even AT&T's aid there isn't enough data to see how loyal customers will be.

AT&T posted a fourth-quarter profit of \$2.4 billion, or 39 cents a share, down from 65 cents a year ago. Remove one-time items like merger and acquisition costs, and earnings were 66 cents a share versus 63 cents a share a year ago.

Revenue slipped slightly to \$41.8 billion.

Earnings fell right in line with expectations, although revenue was slightly disappointing relative to analysts' expectations, according to Yahoo Finance.

For 2017, AT&T expects adjusted earnings in the mid-single digit range and revenue in the low-single digit range.

AT&T shares slipped 0.2 percent to \$41.32 in after-hours trading.

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