

GLOBAL GADGETS



BUS 417 – E100

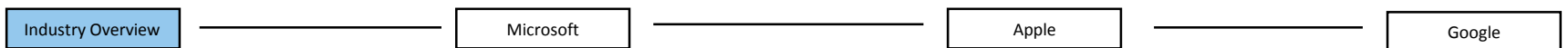
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GROUP 2

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Agenda

1. Industry Overview
2. Google
3. Apple
4. Microsoft



INDUSTRY OVERVIEW

Gadgets Definition

- A small tool, powered by electronic principles, that serves a particular function
- A form of mobile technology
 - Supported by a variety of services
 - Provide connectivity and improve utility
- Always increase productivity and convenience
- Can be used for work or entertainment
- Profits is derived from physical sales and service fees

Industry History

1. The Computer
2. The Internet
3. The Mobile Phone
4. The Smart Phone
5. Growth of Smart Technology
6. Emerging Trends/ Opportunities

The Computer

1936: First freely programmable computer

1951: First commercial computer released

1974: First consumer computers (IBM)

1976: Apple I,II

1984: Apple Macintosh

1985: Microsoft Windows



The Internet

1969: The original internet

1971: First email sent

1990: Archie - the first search engine

- Written by Alan Emtage and Bill Heelan (Montreal)

1991: Internet available for commercial use

1996:

- More email than post mail in the USA
- BackRub search engine created by Google
 - Operated on Stanford servers

1997: Google.com is registered as a domain (googol)



The Mobile Phone

1973: Motorola cell phone created

April 3, 1973: first cell phone call made by Martin Cooper

1983: First cell phones available to consumers

1994: First smartphone introduced by IBM

2001: First Commercial 3g Network

2007: First iPhone released by Apple Inc.

2008: First Android phone released by HTC

2010: First LTE Network



PRODUCTS AND SERVICES

What is a Smart Phone?

- A mobile phone with an advanced mobile operating system
- An all-in-one device
 - Cell phone features
 - Personal digital assistant (PDA) functions
- Variety of third-party applications available
- High-speed Internet Access
- Multimedia



Smartphone Comparison

Samsung unveils the Galaxy S6

Comparison of select flagship smartphones by major manufacturers



| | Samsung Galaxy S6 Edge | Samsung Galaxy S6 | HTC M9 | Google/Motorola Nexus 6 | Apple iPhone 6 Plus | Apple iPhone 6 | Motorola MotoX | Sony Xperia Z3 | LG G3 |
|-------------------------|---------------------------|-----------------------|-----------------------|----------------------------|------------------------|-------------------|--------------------|----------------------|----------------------|
| Display size (diagonal) | 5.1 in | 5.1 in | 5.0 in | 6.0 in | 5.5 in | 4.7 in | 5.2 in | 5.2 in | 5.5 in |
| Resolution (pixels) | 577ppi | 577ppi | 441ppi | 493ppi | 401ppi | 326ppi | 423ppi | 424ppi | 538ppi |
| Weight | 132g | 138g | 157g | 184g | 172g | 129g | 144g | 152g | 149g |
| Size, in mm (H x W x D) | 142.1 x 70.1 x 7.0 | 143.4 x 70.5 x 6.8 | 144.6 x 69.7 x 9.6 | 159.3 x 83 x 10.1 | 158 x 77.8 x 7.1 | 138 x 67 x 6.9 | 140.8 x 72.4 x 9.9 | 146 x 72 x 7.3 (mm) | 146.3 x 74.6 x 8.9 |
| Operating System | Android 5 | Android 5 | Android 5 | Android 5 | iOS 8 | iOS 8 | Android 5 | Android 4.4.4 | Android 4.4.2 |
| RAM | 3GB | 3GB | 3GB | 3GB | 1GB | 1GB | 2GB | 3GB | 2/3GB |
| Processor | 2.1/1.5GHz, octa-core | 2.1/1.5GHz, octa-core | 2.1/1.5GHz, octa-core | 2.7GHz quad-core | 1.4GHz, dual-core | 1.4GHz, dual-core | 2.5GHz quad-core | 2.5GHz quad-core | 2.5 GHz quad-core |
| Internal storage | 32/64/128GB | 32/64/128GB | 32GB | 32/64GB | 16/64/128GB | 16/64/128GB | 16/32GB | 16/32GB | 16/32GB |
| Storage expansion | none | none | Up to 128GB, MicroSD | none | none | none | none | Up to 128GB, MicroSD | Up to 128GB, MicroSD |
| Camera (rear/front) | 16MP/5.0MP | 16MP/5.0MP | 20.7MP/4.0MP | 13MP/2MP | 8MP/1.2MP | 8MP/1.2MP | 13MP/2MP | 20.7MP/2.2MP | 13MP/ 2.1 MP |
| Video recording | 2160p at 30fps | 2160p at 30fps | 1080p at 30fps | 2160 at 30fps | 1080p at 60 fps | 1080p at 60 fps | 2160p at 30fps | 2160p at 30fps | 2160p at 30fps |
| Battery life/ capacity | 2600 mAh | 2550 mAh | 2840 mAh | 3220 mAh | 2915 mAh | 1810 mAh | 2300 mAh | 3100 mAh | 3000 mAh |
| NFC | yes | yes | yes | yes | yes | yes | yes | yes | yes |
| Wireless charging | yes | yes | no | yes | no | no | no | no | yes |
| Water/dust resistant | no | no | no | yes | no | no | yes | yes | no |
| Launch date | April 2015 | April 2015 | March 2015 | October 2014 | September 2014 | September 2014 | October 2014 | September 2014 | May 2014 |

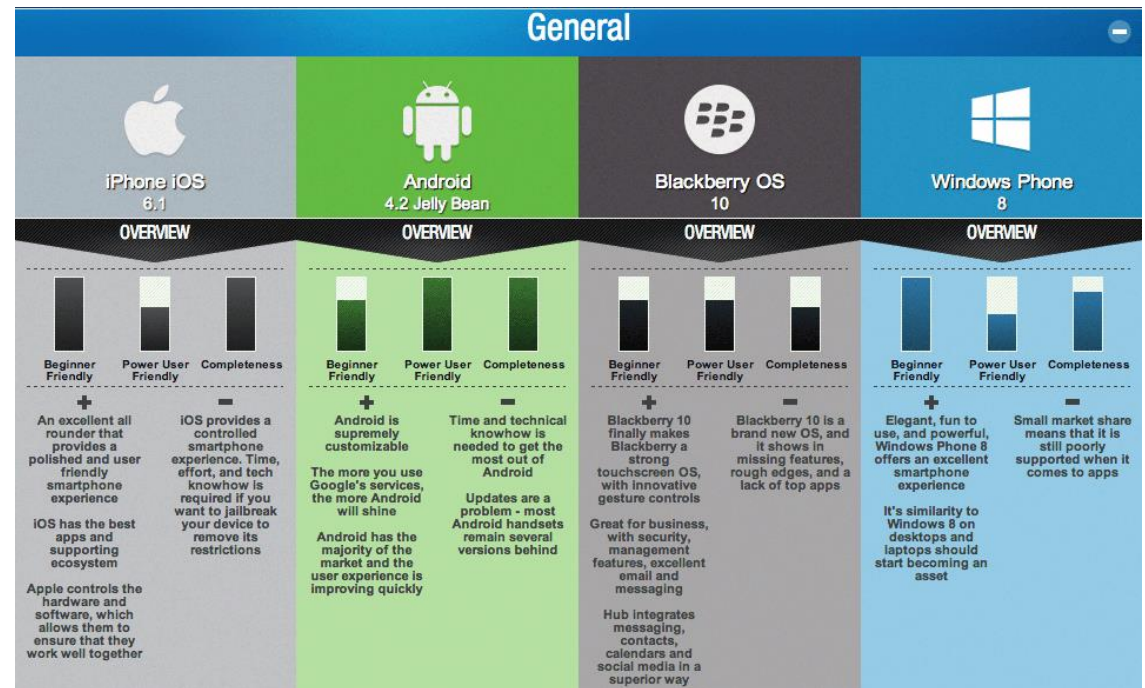
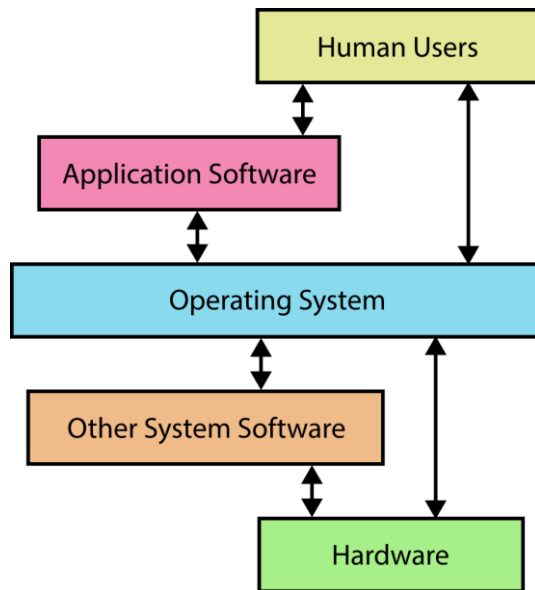
Source: Companies. *Not officially.

C. Inton, 02/03/2015

REUTERS

Operating System Overview

An operating system (OS) is software that manages computer hardware resources and provides services for computer programs.



Smartphone Marketshare

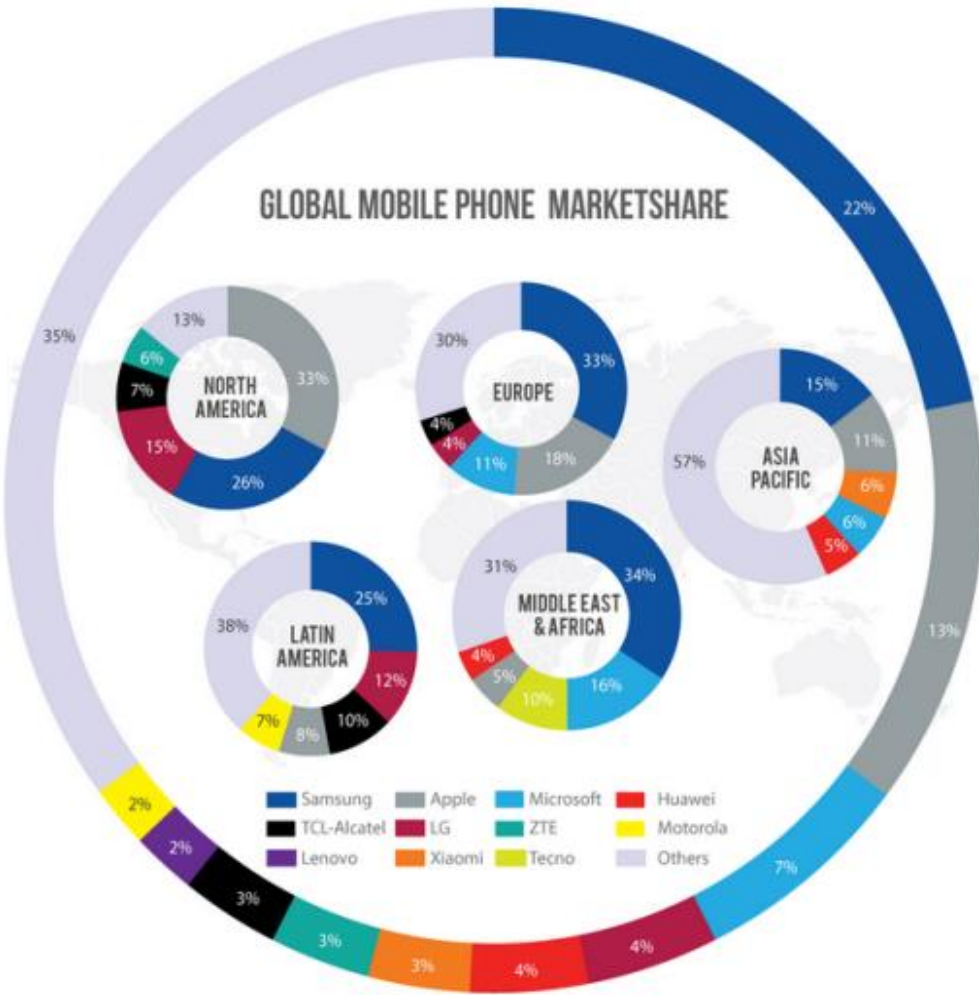
Table 1: Top Ten Smartphone Vendors Based on Market Share

| Rankings | 2014 | | 2015 | | 2016 | |
|-----------------------------|-----------------|--------------|----------|--------------|----------|------------------|
| | Company | Market Share | Company | Market Share | Company | Market Share(E) |
| 1 | Samsung | 27.8% | Samsung | 24.8% | Samsung | 22.2% |
| 2 | Apple | 16.4% | Apple | 17.5% | Apple | 16.8% |
| 3 | Lenovo+Motorola | 7.9% | Huawei | 8.4% | Huawei | 9.3% |
| 4 | Huawei | 6.2% | Xiaomi | 5.6% | Lenovo | 6.1% |
| 5 | LG | 5.4% | Lenovo | 5.4% | Xiaomi | 5.8% |
| 6 | Xiaomi | 5.2% | LG | 5.3% | LG | 5.0% |
| 7 | Coolpad | 4.2% | TCL | 4.0% | TCL | 4.0% |
| 8 | Sony | 3.9% | OPPO | 3.8% | OPPO | 3.9% |
| 9 | TCL | 3.3% | BBK/VIVO | 3.3% | BBK/VIVO | 3.4% |
| 10 | ZTE | 3.1% | ZTE | 3.1% | ZTE | 3.1% |
| | Others | 16.6% | Others | 18.8% | Others | 20.3% |
| Shipment Total (Unit: M) | 1,172.3 | | 1,292.7 | | 1,397.1 | |

Note: Data are preliminary and subject to change.

Source: TrendForce, Jan., 2016

Smartphone Market Share by Region



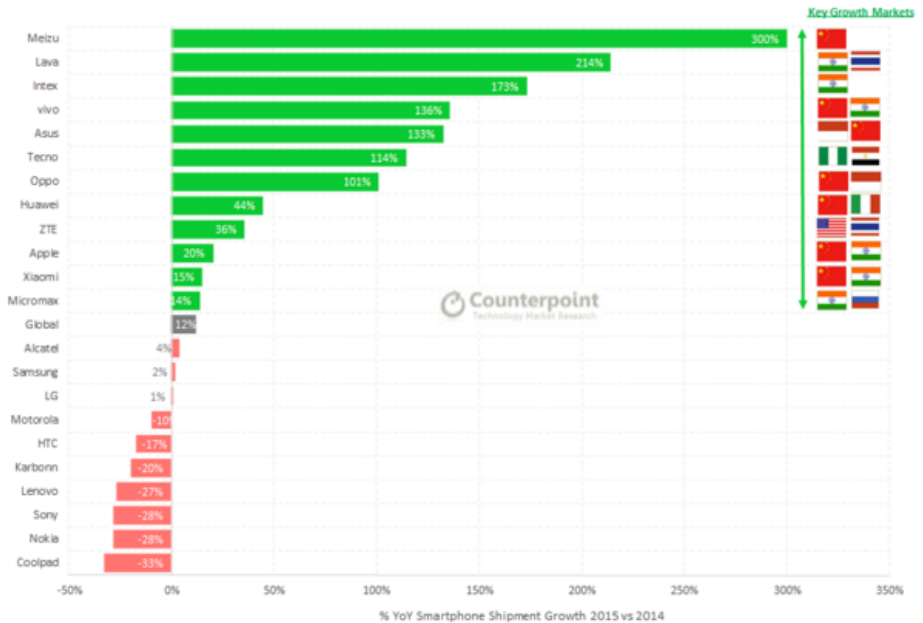
Smartphone Growth

- Smartphone shipment growth 2014 vs 2015:

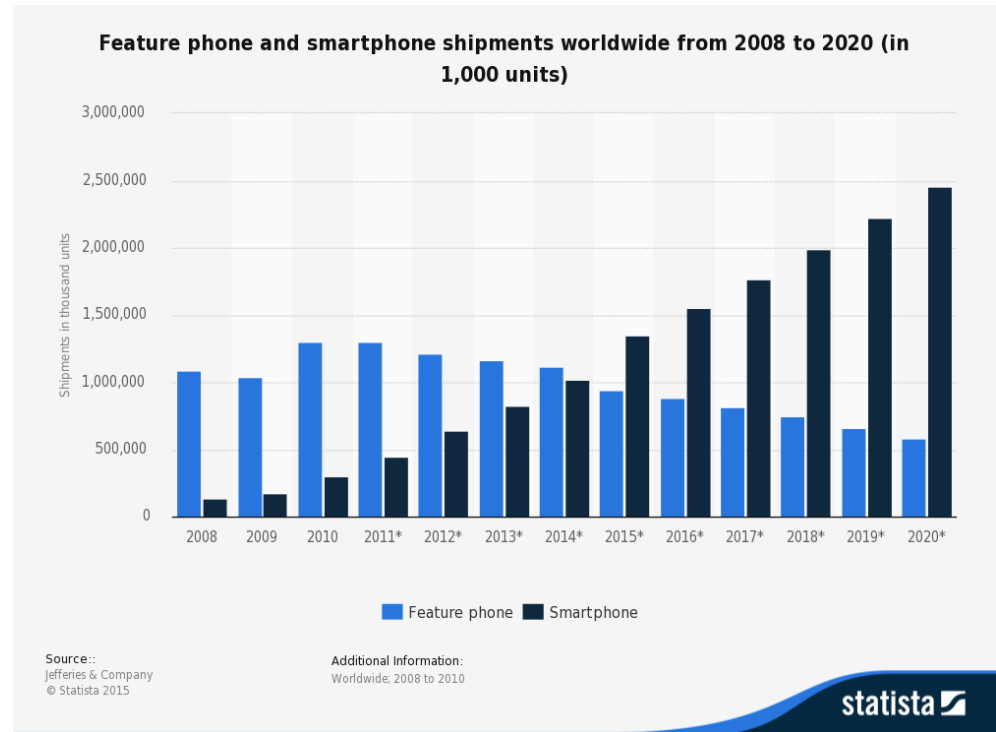
- Global Growth 12%
- Apple Increase 20%
- Samsung Decrease 2%

- Key Growth Markets:

- China
- USA
- India



Smartphone Growth Opportunities










What is a Tablet?





- A mobile computer with a touchscreen display, circuitry, and battery in a single device.
- Can be classified according to the presence and physical appearance of keyboards.
 - **Slates** and **booklets** do not have a physical keyboard and typically feature text input performed through the use of a virtual keyboard projected on a touchscreen-enabled display
- Tablet Functions:
 - Mobile Browsing
 - Portable Media Player
 - Camera
 - Downloadable Apps
 - Finger Recognition








Tablet Comparison (Full Size)

| | | OS | Storage | Camera (Front/Rear) | Wireless | Carrier | Connections | Screen | Size | Weight | Battery life | Price |
|---------------------|---|----------------|---------------------------|---------------------|----------------------|---------------------------------|------------------------------------|------------------------|--------------------------------------|-----------------------------|--------------|--|
| Komando Tab2 |  | Windows 10 | 32GB (expandable MicroSD) | 2MP/ 5MP | Wi-Fi (802.11 b/g/n) | n/a | MicroUSB, miniHDMI | 10.1 inch, 1280 x 800 | 10.1 x 6.5 x 0.36 inches | 2.18 lbs (w/ keyboard case) | 6 hrs. | \$299.95 (includes keyboard case) Buy Now |
| iPad Pro Wi-Fi + 4G |  | iOS 9 | 128GB | 1.2MP/ 8MP | Wi-Fi/3G/4G LTE | AT&T, Sprint, T-Mobile, Verizon | Lightning (HDMI, VGA, SD) | 12.9 inch, 2732x2048 | 12 x 8.68 x 0.27 inches | 1.59 lbs | 10 hrs. | \$1,079 + \$169 Smart Keyboard, \$99 Apple Pencil |
| iPad Pro Wi-Fi |  | iOS 9 | 32GB, 128GB | 1.2MP/ 8MP | Wi-Fi | NA | Lightning (HDMI, VGA, SD) | 12.9 inch, 2732x2048 | 12 x 8.68 x 0.27 inches | 1.57 lbs | 10 hrs. | \$799, \$949 \$169 Smart Keyboard, \$99 Apple Pencil |
| Google Pixel C |  | Android 6.0 | 32GB, 64GB | None | Wi-Fi | NA | USB Type-C | 10.2 inch, 2560x1800 | 10 inches tall, other dimensions TBA | TBA | 10 hrs. | \$499, \$599 \$149 keyboard |
| Google Pixel C |  | Android 6.0 | 32GB, 64GB | None | Wi-Fi | NA | USB Type-C | 10.2 inch, 2560x1800 | 10 inches tall, other dimensions TBA | TBA | 10 hrs. | \$499, \$599 \$149 keyboard |
| Surface Pro 4 |  | Windows 10 Pro | 128GB, 256GB, 512GB, 1TB | 5MP/ 8MP | Wi-Fi | NA | USB 3.0, microSD, Mini DisplayPort | 12.3 inches, 2736x1824 | 11.5 x 7.93 x 0.33 inches | 1.69 lbs | 9 hrs. | Starts \$899 (includes Surface Pen + \$130 Type Cover) |
| Surface Pro 3 |  | Windows 10 Pro | 64GB, 128GB, 256GB, 512GB | 0.9MP/ 0.9MP | Wi-Fi | NA | USB 3.0, microSD, Mini DisplayPort | 12 inches, 2160x1440 | 11.5 x 7.93 x 0.36 inches | 1.76 lbs | 9 hrs. | Starts \$499 (includes Surface Pen + \$130 Type Cover) |







Tablet Comparison (Apple Mini Size)

| | | OS | Storage | Camera (Front/Rear) | Wireless | Carrier | Connections | Screen | Size | Weight | Battery life | Price |
|------------------------|---|-------|-------------------|---------------------|--------------|---------------------------------|---------------------------|-----------------------|-------------------------|----------|--------------|---------------------|
| iPad mini 4 Wi-Fi + 4G |  | iOS 9 | 16GB, 64GB, 128GB | 1.2MP/8MP | Wi-Fi/4G LTE | AT&T, Sprint, T-Mobile, Verizon | Lightning (HDMI, VGA, SD) | 7.9 inches, 2048x1536 | 8 x 5.3 x .24 inches | 0.67 lbs | 10 hrs. | \$529, \$629, \$729 |
| iPad mini 4 Wi-Fi |  | iOS 9 | 16GB, 64GB, 128GB | 1.2MP/8MP | Wi-Fi | NA | Lightning (HDMI, VGA, SD) | 7.9 inches, 2048x1536 | 8 x 5.3 x .24 inches | 0.65 lbs | 10 hrs. | \$399, \$499, \$599 |
| iPad mini 2 Wi-Fi + 4G |  | iOS 9 | 16GB, 32GB | 1.2MP/5MP | Wi-Fi/4G LTE | AT&T, Sprint, T-Mobile, Verizon | Lightning (HDMI, VGA, SD) | 7.9 inches, 2048x1536 | 7.87 x 5.3 x .29 inches | 0.75 lbs | 10 hrs. | \$429, \$479 |
| iPad mini 2 Wi-Fi |  | iOS 9 | 16GB, 32GB | 1.2MP/5MP | Wi-Fi/4G LTE | NA | Lightning (HDMI, VGA, SD) | 7.9 inches, 2048x1536 | 7.87 x 5.3 x .29 inches | 0.75 lbs | 10 hrs. | \$299, \$349 |

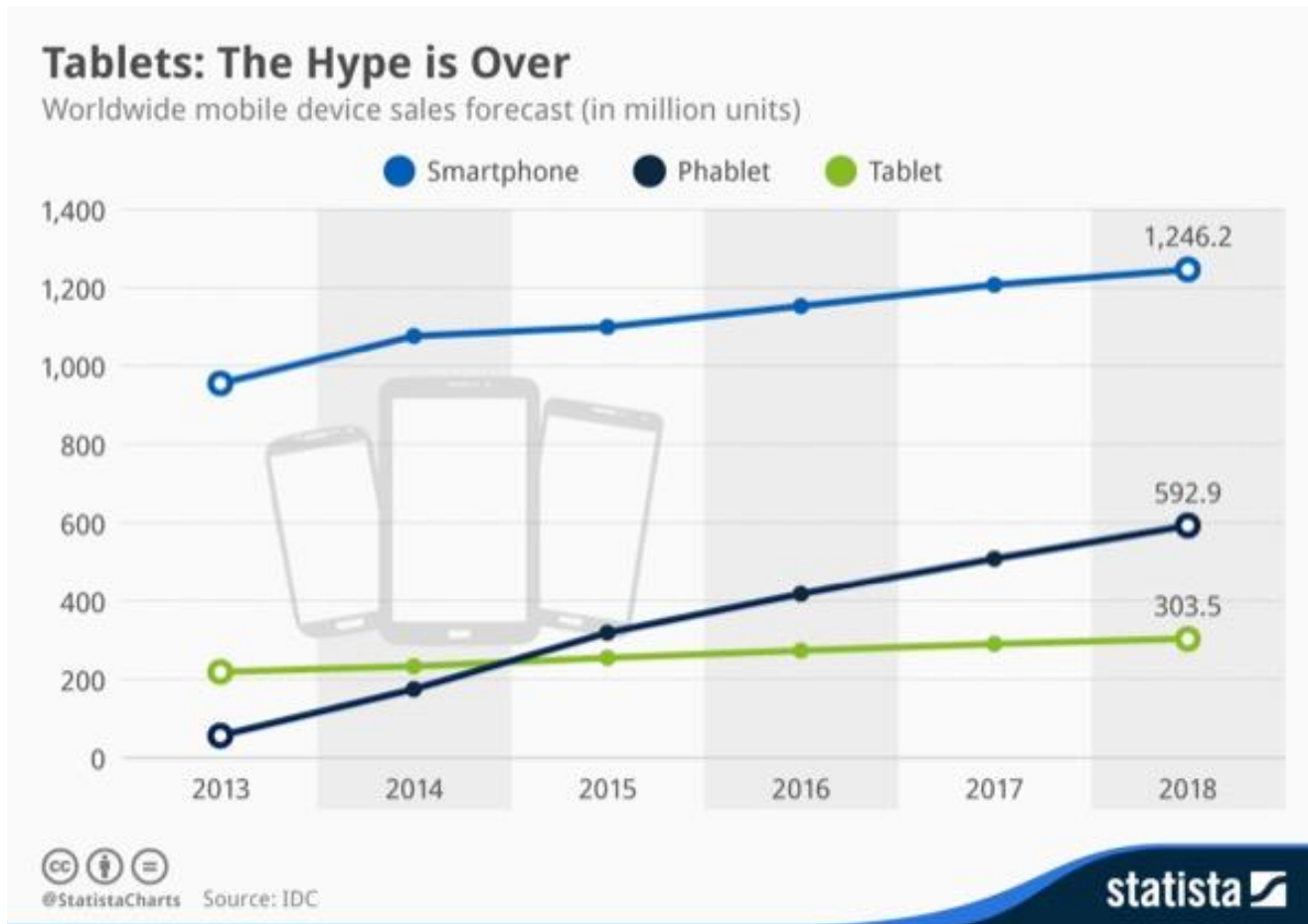
Tablet Comparison (Other Mini Size)

| | | OS | Storage | Camera (Front/Rear) | Wireless | Carrier | Connections | Screen | Size | Weight | Battery life | Price |
|--------------------------|--|------------------------------|------------------|---------------------|-----------------|-------------------|---------------------|-------------------------------|-------------------------|----------|--------------|---------------------|
| Amazon Fire Kids Edition |  | 7 inches, 1024x600 (171 ppi) | Fire OS 5 | 8GB | VGA/2MP | Single-band Wi-Fi | NA | microUSB | 8.6 x 5.4 x 1 inches | 0.89 lbs | 7 hours | \$100 |
| Amazon Fire |  | 7 inches, 1024x600 (171 ppi) | Fire OS 5 | 8GB | VGA/2MP | Single-band Wi-Fi | NA | microUSB | 7.5 x 4.5 x 0.4 inches | 0.69 lbs | 7 hours | \$50 |
| Amazon Fire HD 6 |  | Fire OS | 8GB, 16GB | 0.3MP/2MP | Dual-band Wi-Fi | NA | microUSB | 6 inches, 1280x800 (252 ppi) | 7.5 x 5.0 x 0.42 inches | 0.63 lbs | 8 hrs. | \$114, \$134 |
| Amazon Fire HD 7 |  | Fire OS | 8GB, 16GB | 0.3MP/2MP | Dual-band Wi-Fi | NA | microUSB | 7 inches, 1280x800 (216 ppi) | 7.5 x 5.0 x 0.4 inches | 0.74 lbs | 8 hrs. | \$154, \$174 |
| Amazon Fire HDX |  | Fire OS | 16GB, 32GB, 64GB | HD/NA | Dual-band Wi-Fi | NA | microUSB, microHDMI | 7 inches, 1920x1200 (323 ppi) | 7.3 X 5.0 X 0.35 inches | 0.67 lbs | 11 hrs. | \$214, \$254, \$294 |

Tablet Comparison (Other Mini Size)

| | | OS | Storage | Camera (Front/Rear) | Wireless | Carrier | Connections | Screen | Size | Weight | Battery life | Price |
|------------------------|---|-------------|---------------------------|---------------------|--------------------|----------------|---------------------|-------------------------------|---------------------------|----------|--------------|---------------------|
| Amazon Fire HDX |  | Fire OS | 16GB, 32GB, 64GB | HD/NA | Dual-band Wi-Fi | NA | microUSB, microHDMI | 7 inches, 1920x1200 (323 ppi) | 7.3 X 5.0 X 0.35 inches | 0.67 lbs | 11 hrs. | \$214, \$254, \$294 |
| Amazon Fire HDX 4G |  | Fire OS | 16GB, 32GB, 64GB | HD/NA | Dual-band Wi-Fi/4G | AT&T, Verizon | microUSB, microHDMI | 7 inches, 1920x1200 (323 ppi) | 7.3 X 5.0 X 0.35 inches | 0.69 lbs | 11 hrs. | \$314, \$354, \$394 |
| Galaxy Tab 4 7.0 Wi-Fi |  | Android 4.4 | 8GB (expandable microSD) | 1.3MP/3MP | Wi-Fi | NA | microUSB | 7 inches, 1280x800 | 7.36 x 4.25 x 0.35 inches | 0.61 lbs | 10 hrs. | \$180 |
| Galaxy Tab 4 7.0 4G |  | Android 4.4 | 16GB (expandable microSD) | 1.3MP/3MP | Wi-Fi, 4G LTE | Sprint | microUSB | 7 inches, 1280x800 | 7.36 x 4.25 x 0.35 inches | 0.61 lbs | 10 hrs. | \$300 |
| Galaxy Tab 4 8.0 Wi-Fi |  | Android 4.4 | 16GB (expandable microSD) | 1.3MP/3MP | Wi-Fi | NA | microUSB | 8 inches, 1280x800 | 8.27 x 4.88 x 0.31 inches | 0.72 lbs | 10 hrs. | \$240 |
| Galaxy Tab 4 8.0 4G |  | Android 4.4 | 16GB (expandable microSD) | 1.3MP/3MP | Wi-Fi, 4G LTE | AT&T, T-Mobile | microUSB | 8 inches, 1280x800 | 8.27 x 4.88 x 0.31 inches | 0.72 lbs | 10 hrs. | \$270 |

Tablet Hype Over? Growth Plateau?



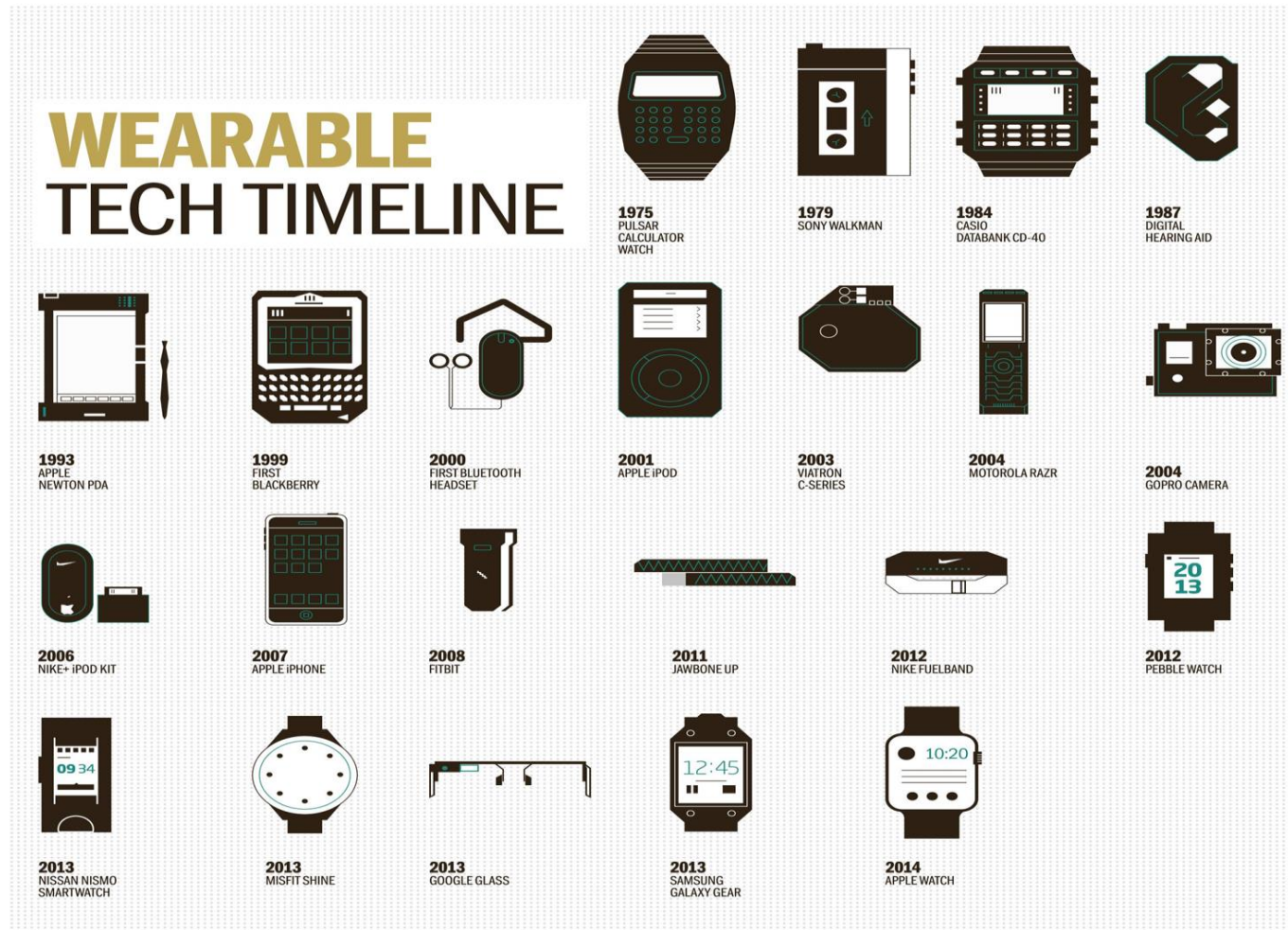
Smart Watch

- A computerized wristwatch with functionality that is enhanced beyond timekeeping.
 - Early models: performed basic tasks such as calculations, translations, and game-playing
 - Modern models: wearable computers! Many run mobile apps, using a mobile operating system

- Functions:
 - Portable media players
 - GPS Trackin
 - Bluetooth
 - SMS messaging
 - Email



Smart Watch



Smartwatch Comparison

Smartwatches compared

Apple's Watch will be on sale starting next month. Here's how it stacks up to the competition.



| | Apple Watch | Huawei Watch | Pebble Time | LG Watch Urbane LTE | Asus ZenWatch | Sony Smartwatch 3 | LG G Watch R | Samsung Galaxy Gear S | Motorola Moto 360 | Pebble Smartwatch |
|-------------------------|-----------------------|----------------------|---------------------|----------------------|---------------------|-----------------------|-------------------|-----------------------|--------------------|---------------------|
| Processor speed | n.a. | 1.2 Ghz | 100Mhz | 1.2 Ghz | 1.2 Ghz | 1.2 Ghz | 1.2 Ghz | 1 Ghz dual-core | 1 Ghz | 80 Mhz |
| Storage | n.a. | 4GB | 2MB | 4GB | 4GB | 4GB | 4GB | 4GB | 4GB | 2MB |
| RAM | n.a. | 512MB | 64KB | 1GB | 512MB | 512MB | 512MB | 512MB | 512MB | 32KB |
| Heart rate monitor | Yes | Yes | No | Yes | Yes | Yes | Yes | Yes | Yes | No |
| Touchscreen | Yes | Yes | No | Yes | Yes | Yes | Yes | Yes | Yes | No |
| NFC | Yes | No | No | Yes | No | Yes | No | No | No | No |
| Built-in GPS/LTE | No/No | n.a. | No/No | Yes/Yes | No/No | Yes/No | No/No | Yes/Yes | No/No | No/No |
| SIM card slot | No | No | No | No | No | No | No | Yes | No | No |
| Connectivity | Proprietary | Micro USB | No | Micro USB | Micro USB | Micro USB | Micro USB | Micro USB | Micro USB | No |
| OS | iOS | Android Wear | Pebble OS | LG WPOS ¹ | Android Wear | Android Wear | Android Wear | Tizen | Android Wear | Pebble OS |
| Camera | No | No | No | No | No | No | No | No | No | No |
| Bluetooth | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.1 | 4.0 | 4.0 |
| Voice control | Siri | Google Now | Yes | Q Voice | Google Now | Google Now | Google Now | S Voice | Google Now | No |
| Body material | Alum.,SS, or gold | SS, Sapphire crystal | Plastic/SS | Stainless steel | Stainless steel | Stainless steel(back) | Stainless steel | Stainless steel | Stainless steel | Plastic / SS |
| Swappable band | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Weight | 72g to 125g with band | n.a. | 42.5g | na | 50g /75g with strap | 45g | 62g | 67g | 49g | 47g / 56g (Steel) |
| Water/dust resistance* | Yes** | Yes** | Yes** | IP67 | IP55 | IP68 | IP67 | IP67 | IP67 | Up to 50 metres |
| Size (L x W) in mm | 38.6 x 33.3/42 x 35.9 | 42 (diameter) | 47 x 40 | 46.5 (diameter) | 50.6 x 39.8 | 51 x 36 | 46.5 (diameter) | 58.1 x 39.9 | 46 x 46 | 51 x 33/46x 34 |
| Display type | OLED | AMOLED | Color, e-paper | Super AMOLED | OLED | LCD | Super AMOLED | AMOLED | LCD | monochrome, e-ink |
| Screen size | 1.5/1.7 in | 1.4 in (diameter) | n.a. | 1.3 in (diameter) | 1.63 in (diagonal) | 1.6 in (diagonal) | 1.3 in (diameter) | 2.0 in (diagonal) | 1.56 in (diameter) | 1.26 in (diagonal) |
| Screen resolution (px) | 340 x 272/390 x 312 | 400 x 400 | 144 x 168 | 320 x 320 | 320 x 320 | 320 x 320 | 320 x 320 | 360 x 480 | 320 x 290 | 144 x 168 |
| Battery capacity | n.a. | 300mAh | n.a. | 700mAh | 369mAh | 420mAh | 410mAh | 300mAh | 320mAh | 130mAh |
| Battery life per charge | Up to 18 hours | n.a. | 7 to 10 days | ~2 days | ~1 day | ~2 days | ~2 days | ~1 day | ~1 day | 5 to 7 days |
| Compatibility | iOS phones | Android phones | iOS and Android | n.a. | Android | Android | Android | Android | Samsung | iOS and Android |
| Price in the U.S. | Starts at \$349 | n.a. | \$199/\$250 (Steel) | n.a. | \$200 | \$300 | \$300 | \$300 | \$250 | \$150/\$249 (Steel) |
| Release | April 2015 | Mid-2015 | July 2015 | n.a. | Nov. 2014 | Nov. 2014 | Nov. 2014 | October 2014 | September 2014 | January 2013 |

Sources: Companies; media reports. *Higher number rating is better. SS=Stainless steel **Rating not available. ¹Wearable Platform OS

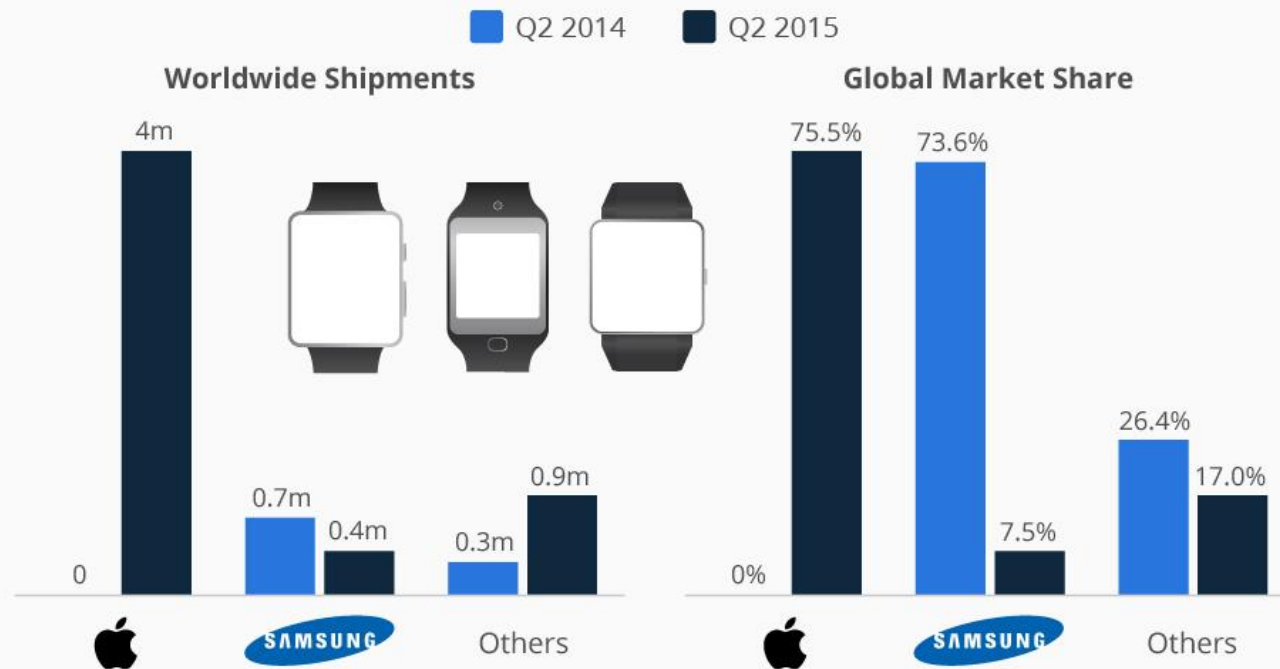
C. Inton, 10/03/2015

REUTERS

Smartwatch Market Share

Apple Is Already Dominating the Smartwatch Market

Estimated unit shipments and global market share of leading smartwatch vendors

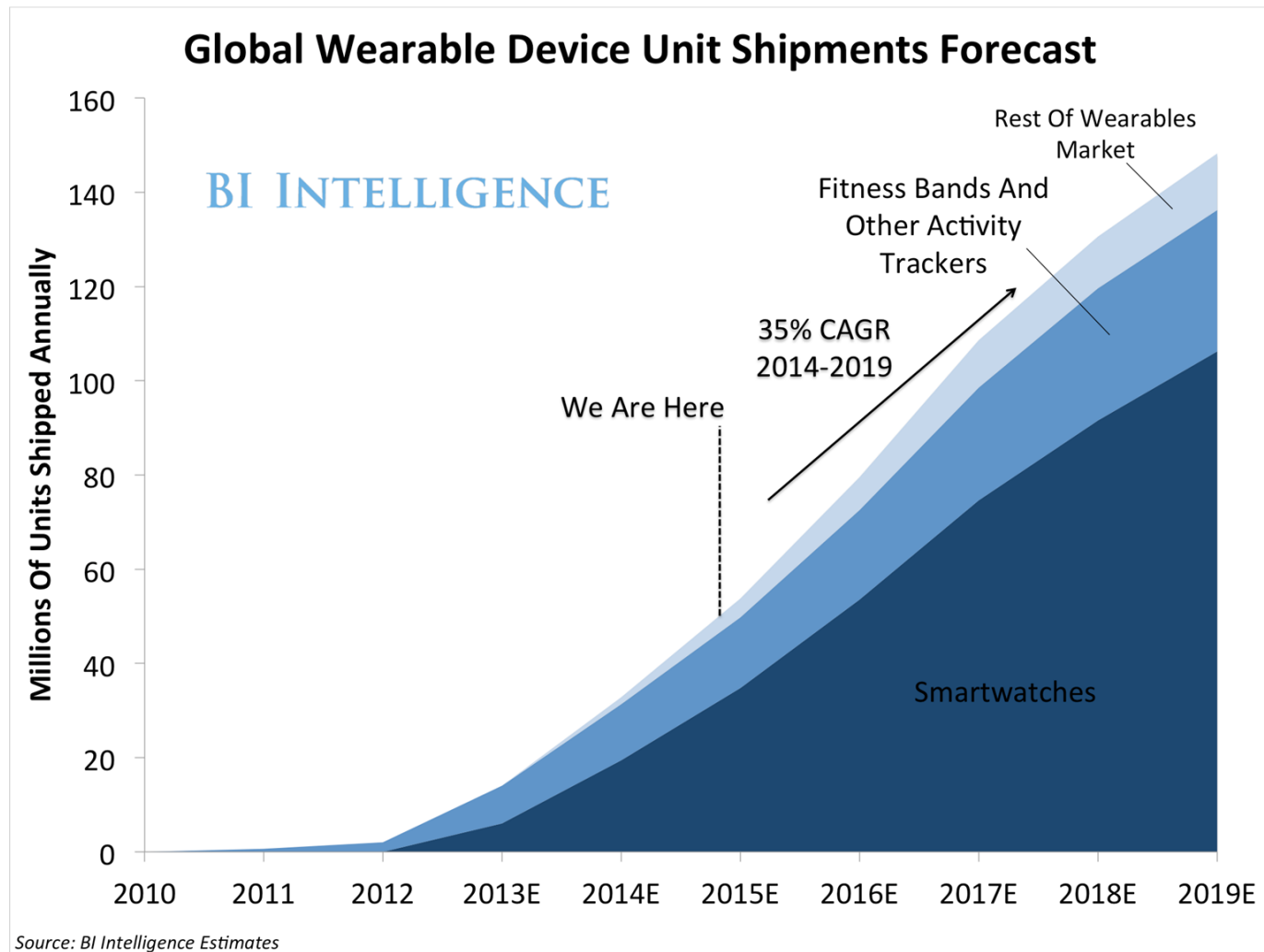


@StatistaCharts

Source: Strategy Analytics

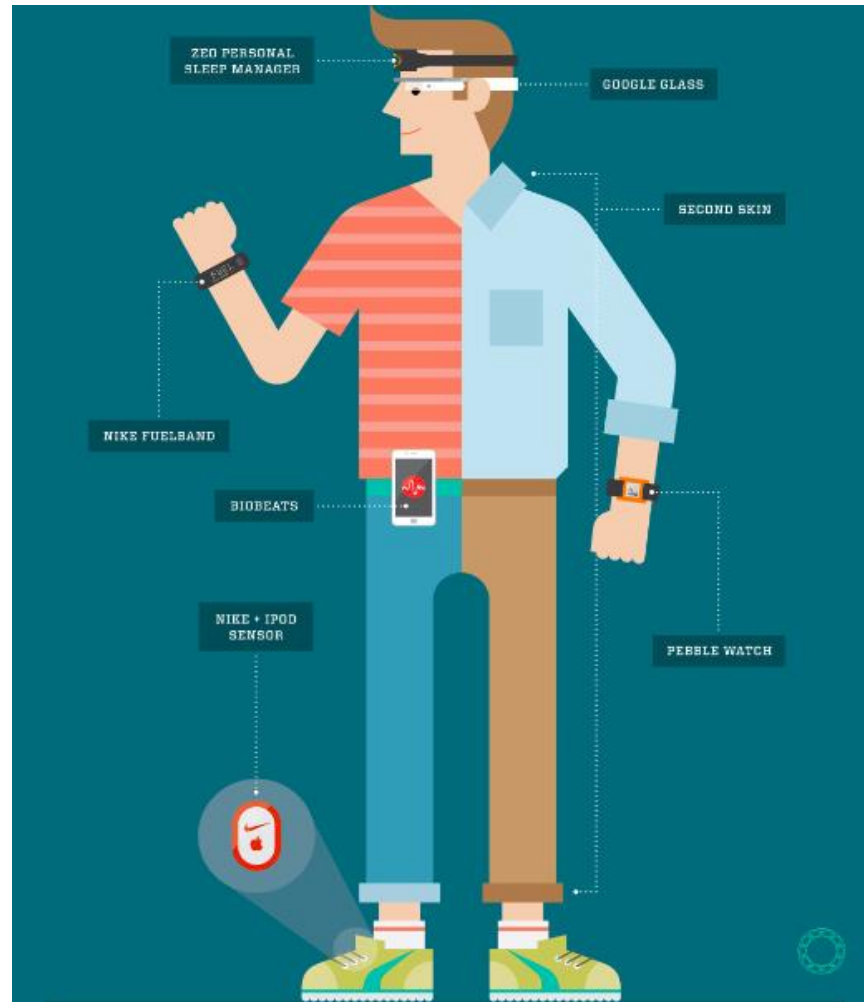
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Smartwatch Growth and Projections



Other Wearable Technology

- Nike Fuel
- Google Glass
- Virtual Reality
- Second Skin
- Nike Run
- Bio Beats



The Internet

JAN 2016

INTERNET RANKINGS

BASED ON INTERNET PENETRATION IN COUNTRIES WITH NATIONAL POPULATIONS OF 50,000 PEOPLE OR MORE

HIGHEST INTERNET PENETRATION

| # | COUNTRY | % | USERS |
|----|---------------|-----|------------|
| 01 | ICELAND | 98% | 324,518 |
| 02 | BERMUDA | 97% | 68,280 |
| 03 | NORWAY | 96% | 5,047,528 |
| 04 | DENMARK | 96% | 5,452,151 |
| 05 | ANDORRA | 96% | 82,148 |
| 06 | UAE | 96% | 8,807,226 |
| 07 | NETHERLANDS | 95% | 16,143,879 |
| 08 | LUXEMBOURG | 95% | 541,206 |
| 09 | FAROE ISLANDS | 95% | 47,762 |
| 10 | SWEDEN | 94% | 9,216,226 |

LOWEST INTERNET PENETRATION

| # | COUNTRY | % | USERS |
|-----|----------------------|-------|-----------|
| 214 | NORTH KOREA | 0.03% | 7,200 |
| 213 | NIGER | 2.0% | 395,990 |
| 212 | CHAD | 2.5% | 356,678 |
| 211 | CONGO (DEM. REP.) | 3.0% | 2,381,254 |
| 210 | ETHIOPIA | 3.7% | 3,700,000 |
| 209 | GUINEA-BISSAU | 3.8% | 70,000 |
| 208 | SIERRA LEONE | 4.0% | 260,000 |
| 207 | CENTRAL AFRICAN REP. | 4.4% | 217,279 |
| 206 | SOMALIA | 4.6% | 500,000 |
| 205 | BURUNDI | 4.6% | 526,372 |

we are social

Sources: ITU, InternetWorldStats, CIA, national government ministries and industry bodies; UN, US Census Bureau for population data.

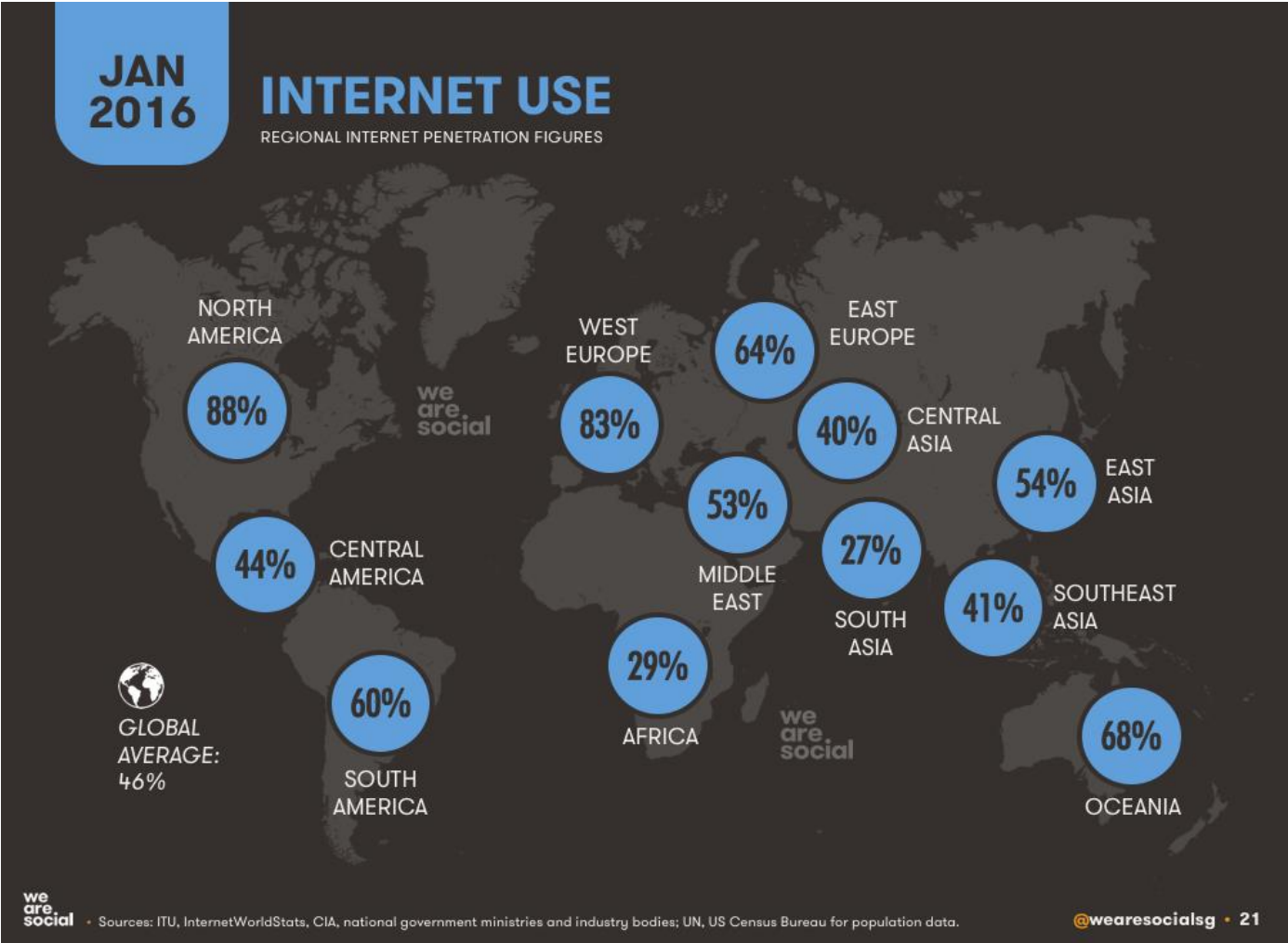
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Internet Penetrations by Countries

Internet Usage



Internet Usage by Region

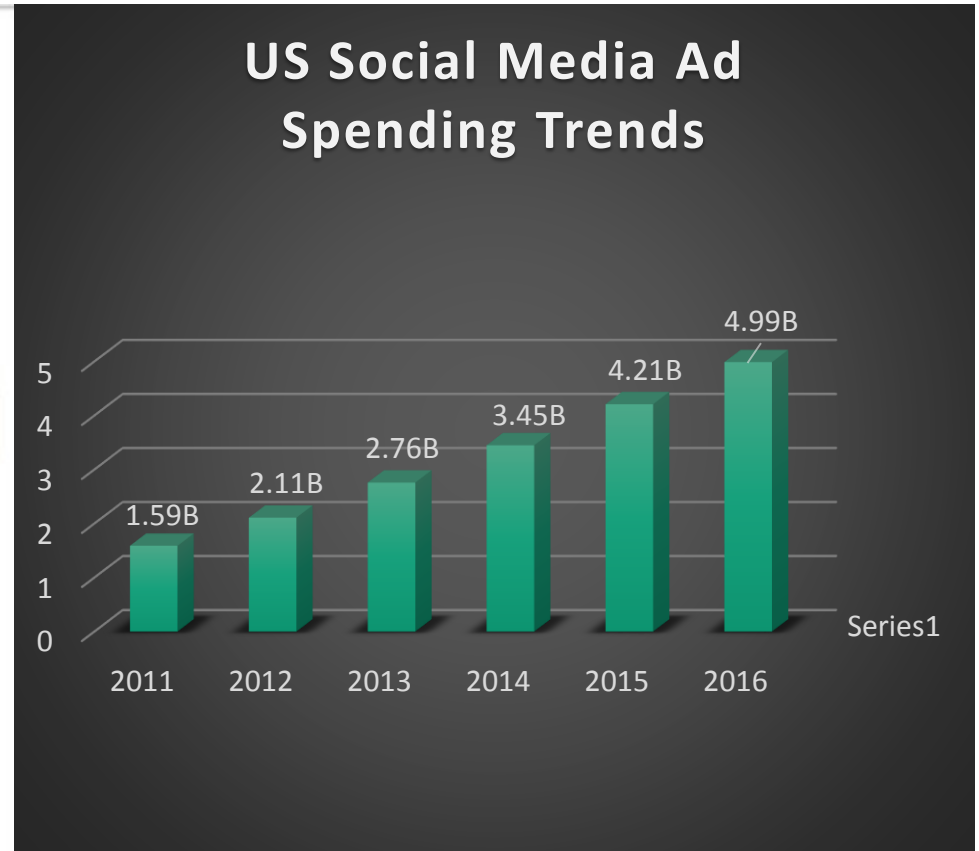
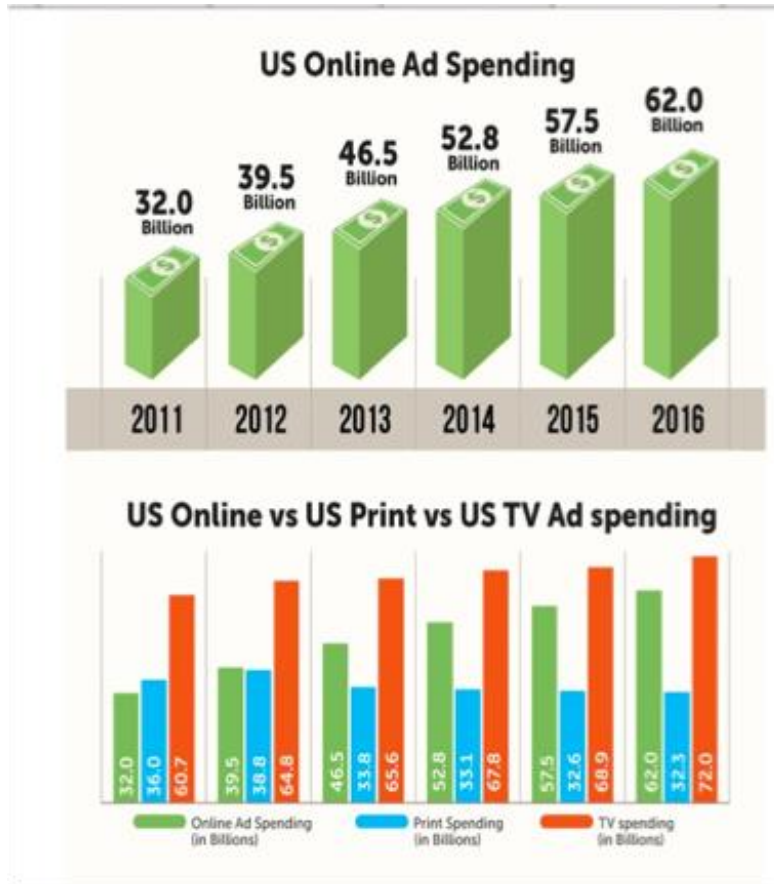


Online Advertising

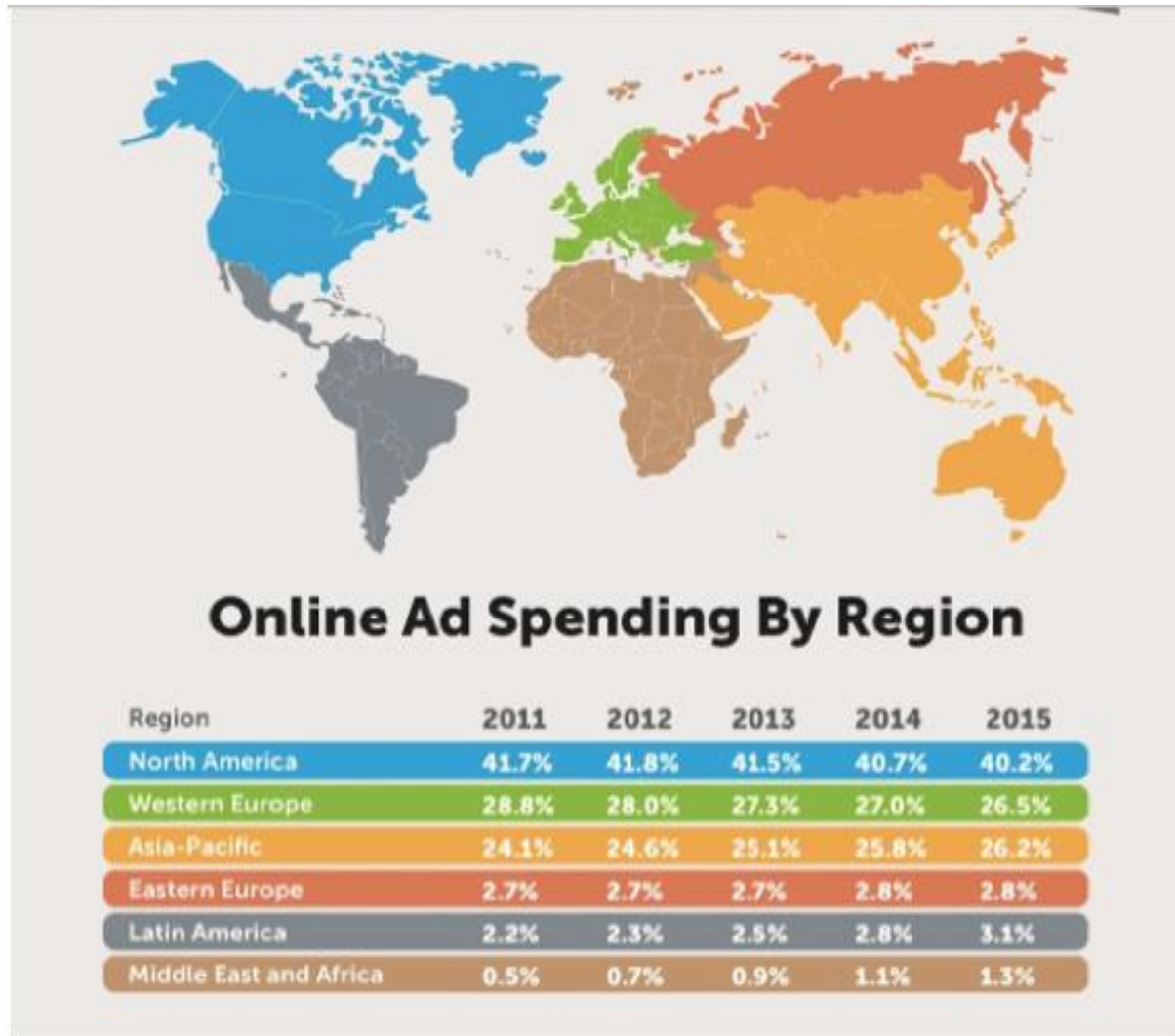
- Uses the Internet to deliver promotional marketing messages to consumers
- Distribution Channels:
 - Email marketing
 - Search engine marketing
 - Social media marketing
 - Mobile advertising
 - Display advertising



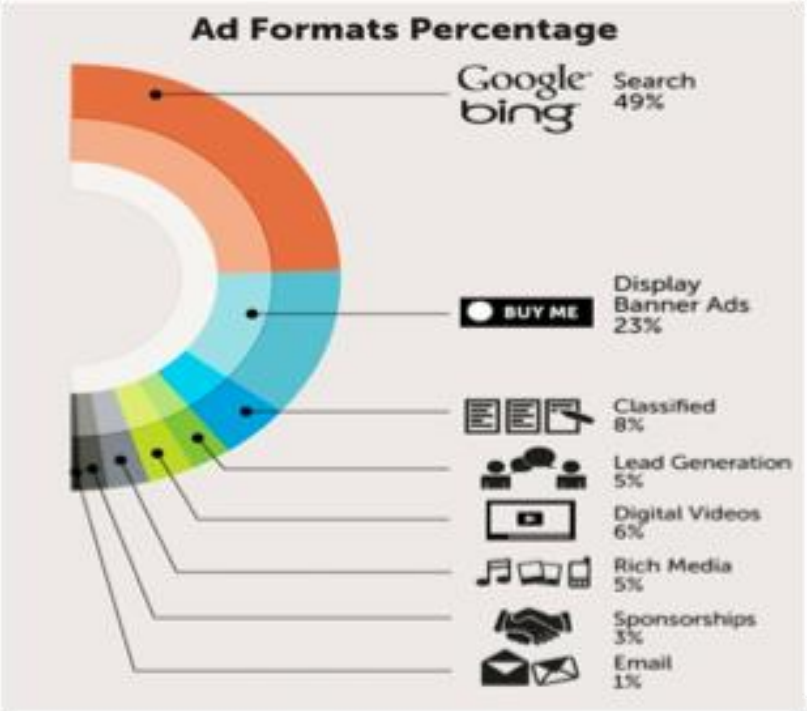
Online Ad Spending in the US



Online Spending by Region



Online Advertising

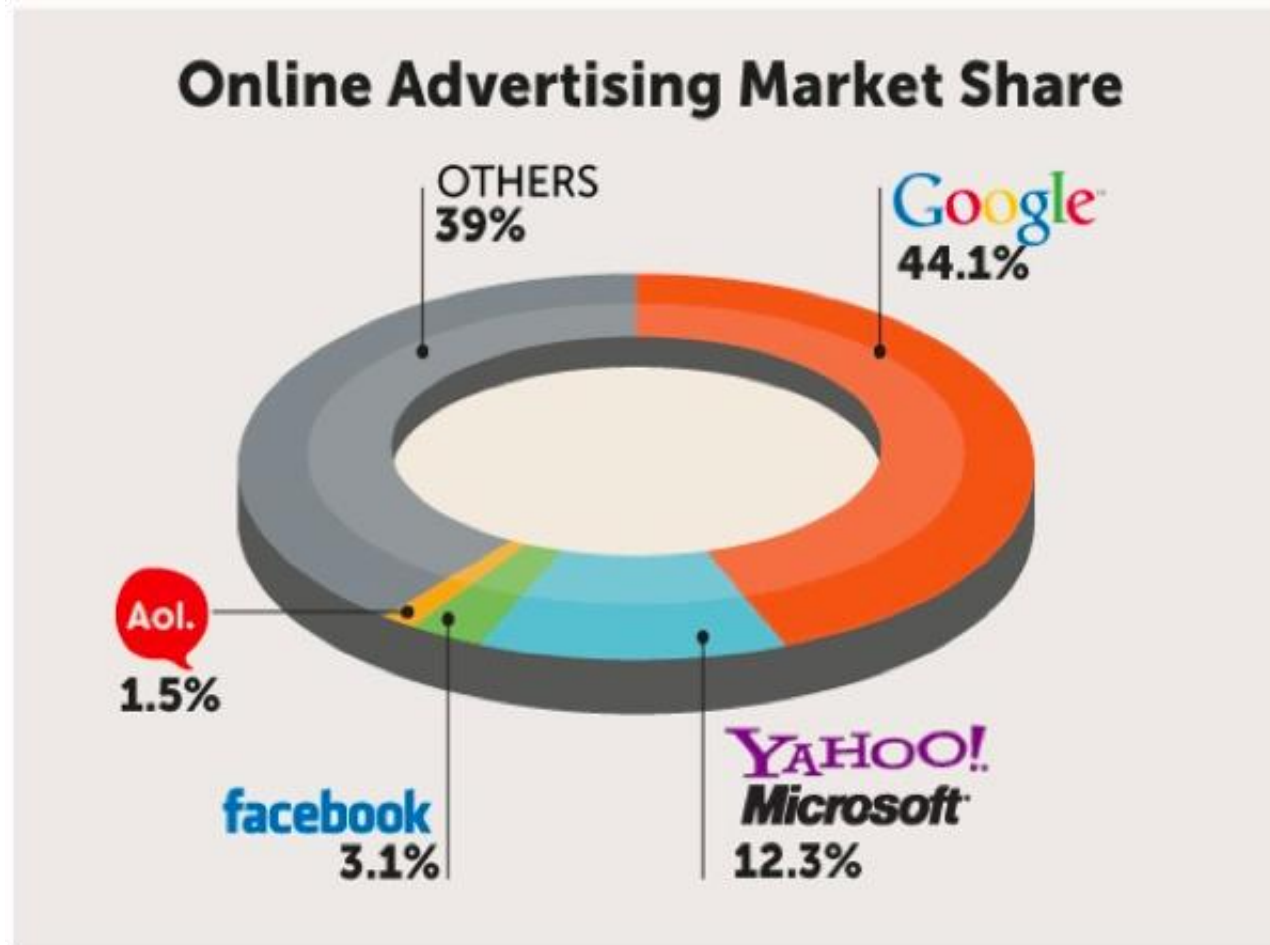


Global Online Ad Spending Vs Total Ad Spend



Online Ad Spending (in Billions)
Total Ad Spending (in Billions)
Online Ad Spending (Growth Percentage)

Online Advertising Marketshare



Application Software

A computer program designed to perform a group of coordinated functions, tasks, or activities for the benefit of the user

- A quickly growing market
- Applications may be bundled with the computer and its system software or published separately
- Available through “app stores”
- Creators of applications may be contracted to produce apps for a particular OS, but many are not



Application Overview



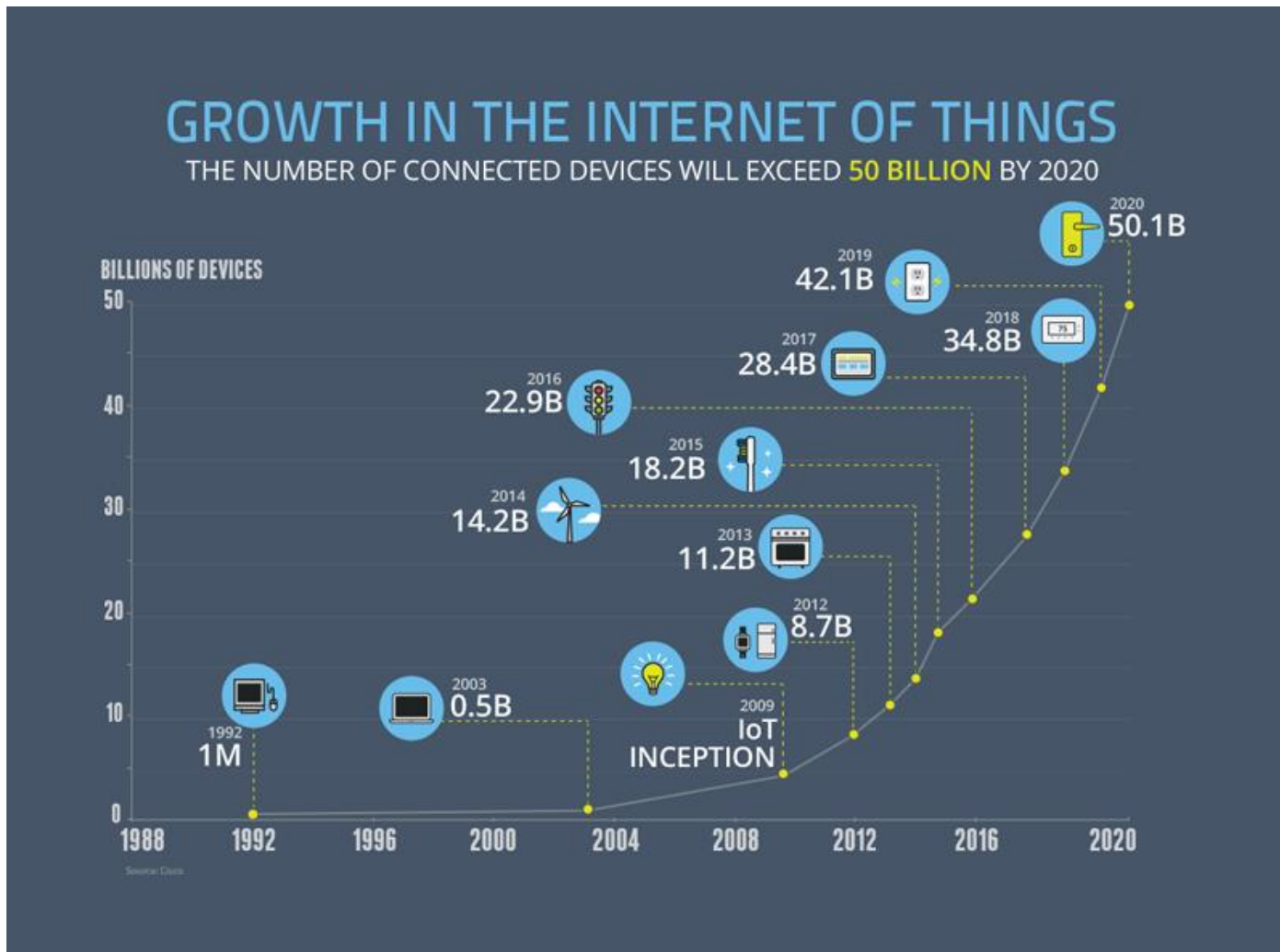
So What is Next?



Internet of Things (IoT)

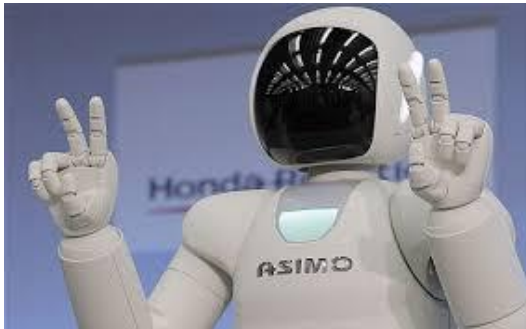
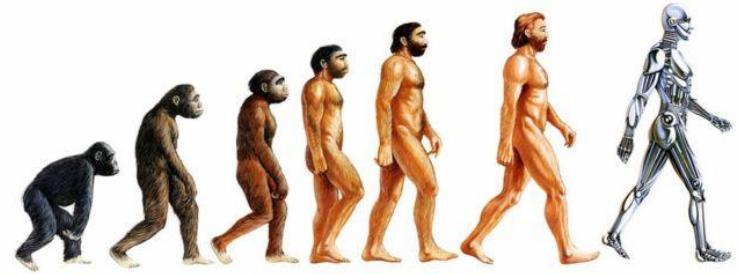
- A network of physical objects (devices, vehicles, buildings and other items embedded with electronics, software, sensors, and network connectivity) that enables these objects to collect and exchange data
- 2013: the vision of the IoT has evolved due to a convergence of multiple technologies, ranging from wireless communication to the Internet
- Technologists predict IoT to be the next tide of innovation; a perfect opportunity for Apple, Google and Microsoft

Internet of Things (IoT)



Artificial Intelligence (AI)

- The intelligence exhibited by machines or software
- The academic field of study which studies how to create computers and computer software that are capable of intelligent behavior.



Attempts at AI

2016: Apple acquired artificial intelligence startup **Emotient**

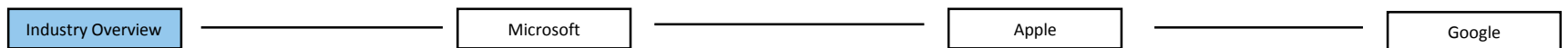
- Facial recognition technology and customers reaction to ads

Search: Google uses autocomplete as a way of understanding and disambiguating language/query intent.

Vision: Google Translate enable the user to correct results.

Email Spam Filters: Google

Microsoft's project **Oxford**: aims to understand its users with face, emotion and speech application program interfaces.



Behind the Scenes

- Google: Filed a patent covering an invention for drawing blood without a needle. This is a small step toward wearable sampling devices.
- Apple: Planning to build solar cells underneath the new iPhone's touchscreen. The panel would recharge during the day and you wouldn't need to plug your phone into the socket any more. Good for the planet, convenient for us. Taking that even further, in January 2015 Apple was awarded a patent that suggests that the company is investigating the idea of a flexible iPhone.
- Microsoft: HoloLens, a new piece of hardware that will run on Windows Holographic, Microsoft's new platform for virtual and augmented-reality experiences.

MICROSOFT CORPORATION

Financial Snapshot



Nasdaq: MSFT

Microsoft Corp

Last (U.S.) \$53.17

Today's change +0.10 +0.19%

P/E 37.863

Market cap 420.54B

52-week range

Updated March 14 4:00 PM EDT. Delayed by at least 15 minutes.



Key company metrics

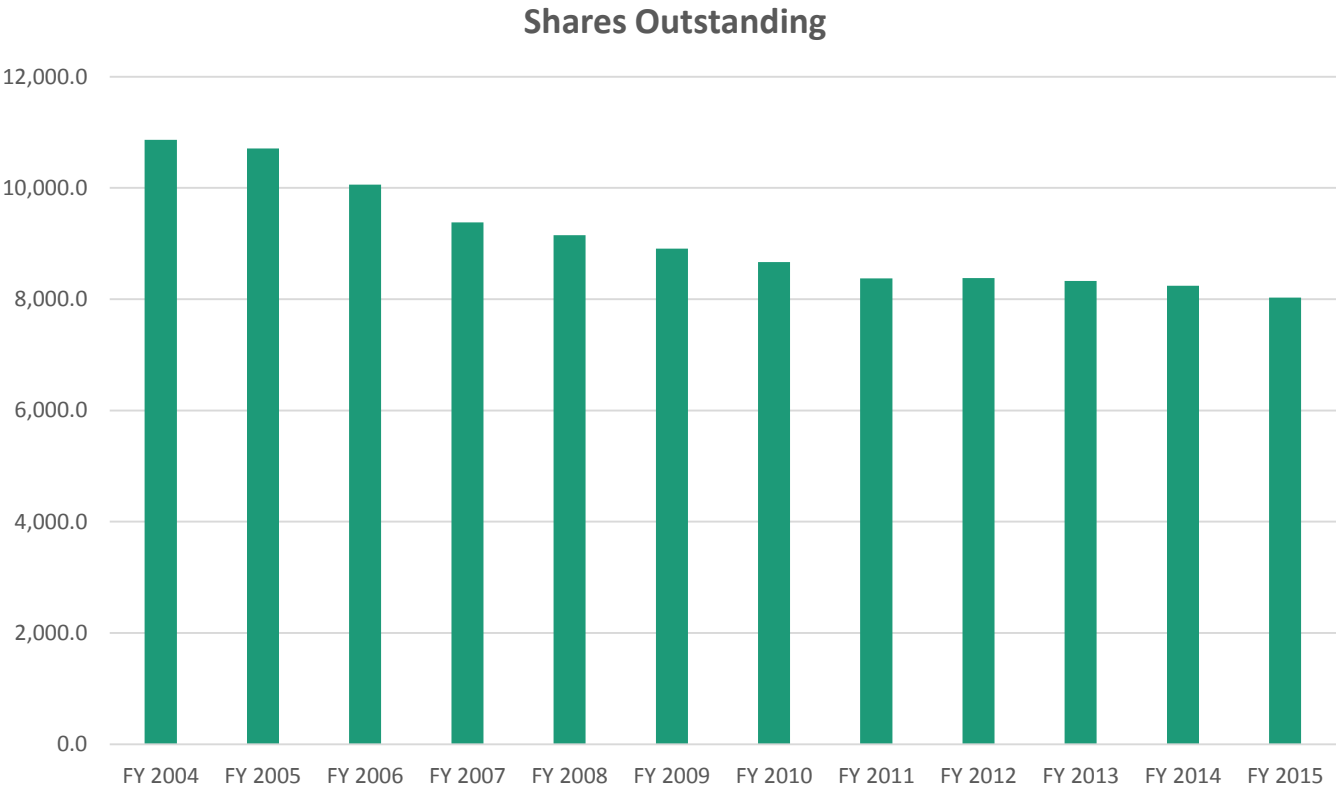
Updated March 14 4:00 PM EDT. Delayed by at least 15 minutes.

| | | | | | |
|----------------|---------------------------------|--------------------------|----------------------------------|---------------------------|---------------|
| Open | (U.S.) \$52.71 | Volume | 23,764,537 | Trailing P/E | 37.86× |
| Previous close | (U.S.) \$53.07 | Average volume (10-day) | 32,260,942 | P/E 1 year forward | 19.24× |
| High | (U.S.) \$53.59 | Average volume (1-month) | 39,644,595 | Forward PEG | 2.01× |
| Low | (U.S.) \$52.63 | Average volume (3-month) | 38,770,415 | Indicated annual dividend | (U.S.) \$1.44 |
| Bid / Ask | (U.S.) \$53.14 / (U.S.) \$53.20 | 52-week range | (U.S.) \$39.72 to (U.S.) \$56.85 | Dividend yield | 2.71% |
| YTD % change | -4.16% | Beta | 0.96 | Trailing EPS | (U.S.) \$1.40 |

Common Share Structure



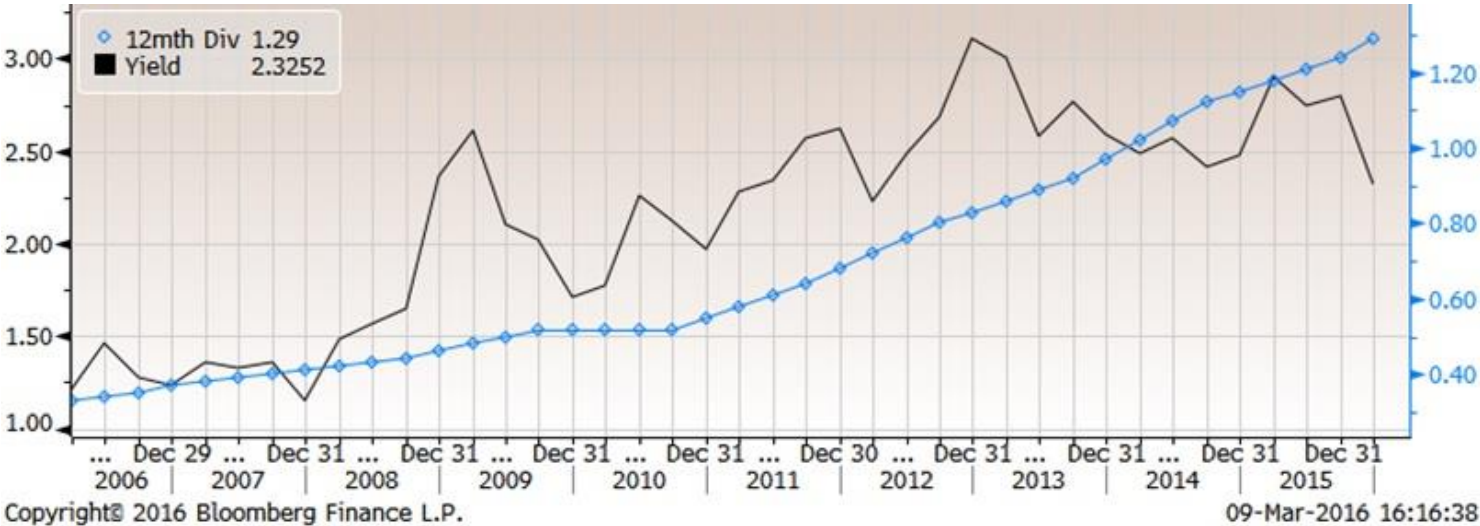
| Year | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Shares Outstanding (In millions) | 10,862 | 10,710 | 10,062 | 9,380 | 9,151 | 8,908 | 8,668 | 8,376 | 8,381 | 8,328 | 8,239 | 8,029 |



Dividend Summary



| | | |
|----------------------|--|-----------|
| 12 Month Yield | | 2.54% |
| Indicated Yield | | 2.73% |
| 1 Yr Dividend Growth | | 13.56% |
| 3 Yr Dividend Growth | | 15.93% |
| 5 Yr Dividend Growth | | 18.23% |
| Last Price | | USD 52.84 |
| Payment Frequency | | Quarterly |



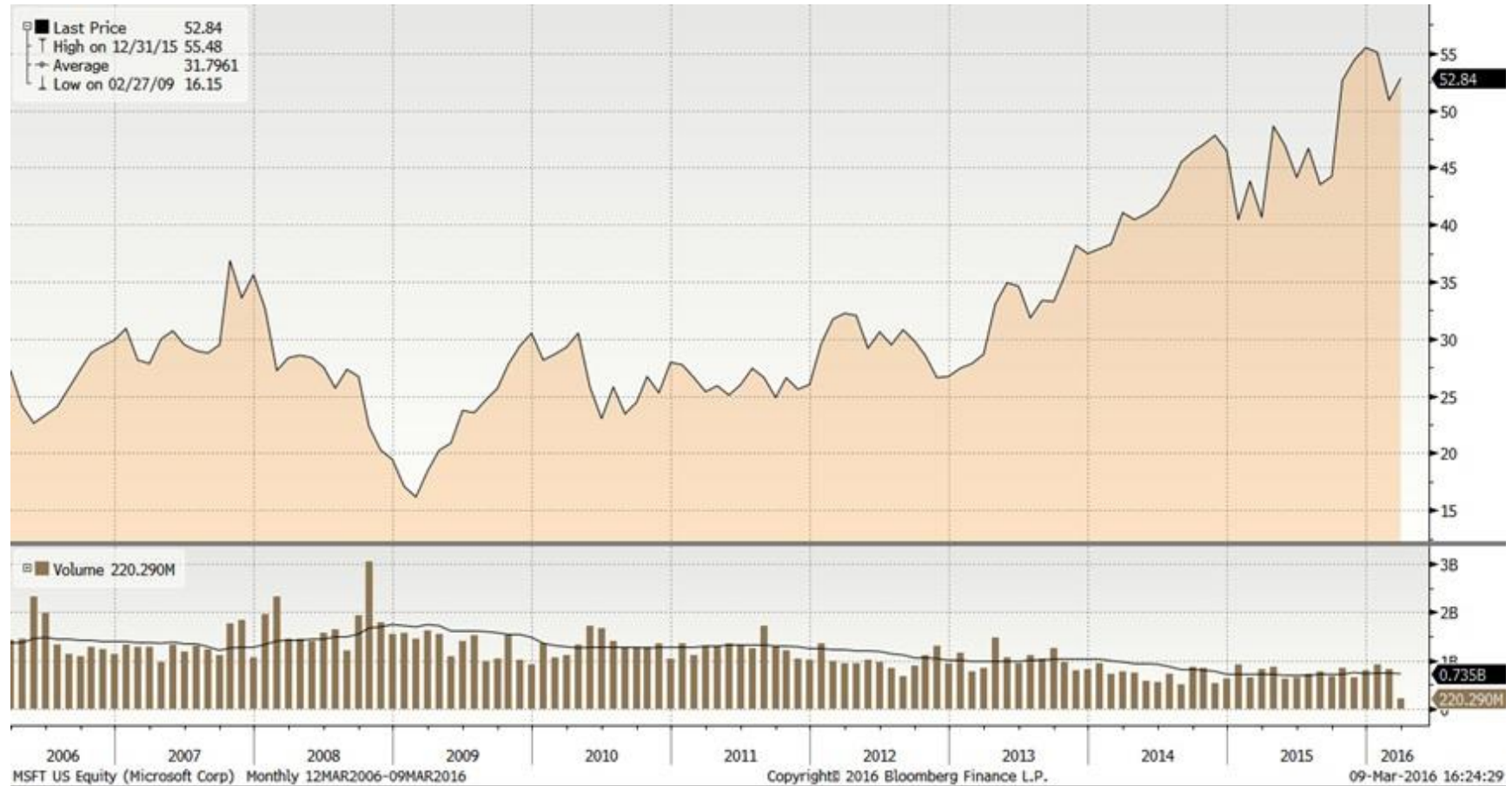
One Year Performance



Five Years Performance



Ten Years Performance



MSFT vs. Nasdaq & S&P 500 (1Y)



MSFT vs. Nasdaq & S&P 500 (5Y)



Founder and Technology Advisor



Technology Advisor/Co-founder (02/2014 –Present)

Co-Chair, Bill & Melinda Gates Foundation (2000 - Present)

Director, Berkshire Hathaway Inc. (2005 - Present)

Chairman, Microsoft (1981-2014)

Chief Software Architect, Microsoft (2000-2008)

CEO, Microsoft (1975-2000)

Education:

Harvard University – Dropped Out

Unparalleled knowledge of Microsoft's history, strategies, technologies, and culture

Met Steve Ballmer and Paul Allen at Harvard College

Mission and Strategy



Mission:

"To Empower every person and every organization on the planet to achieve more"

Strategy:

"To build best-in-class platforms and productivity services for a mobile-first, cloud-first world"

_ Microsoft _

- Reinvent productivity and business processes
- Build the intelligent cloud platform
- Create more personal computing



History of Microsoft



1975

- Microsoft founded in Albuquerque, New Mexico Bill Gates as CEO and Paul Allen as co-founder
- A BASIC computer language for the Altair 8800 launched

1981

- Microsoft incorporates
- MS-DOS launched on the IBM Personal Computer

1986

- Microsoft goes public at \$21.00 per share
- Headquarters move to Redmond, Washington

1990

- Office for Macintosh and Windows 3.0 launched

1994

- US Department of Justice labels Microsoft's royalty payment strategy as anti- competitive

1995

- Windows 95 launched; sells one million copies in four days

2000

- Steve Ballmer becomes the second CEO of Microsoft
- Microsoft labelled as an abusive monopoly in US v. Microsoft

2001

- Windows XP, Office XP, and Xbox launched

2004

- European Union brings antitrust action against Microsoft \$75 billion in dividends and stock buybacks announced

History of Microsoft



2005

- Xbox 360 launched

2007

- Windows Vista and Office 2007 launched

2009

- Windows 7 and Windows Azure launched; first Microsoft Stores open

2010

- Windows Phone 7 launched

2012

- Windows 8, Windows Phone 8, and Surface Pro launched
- Microsoft rebrands with a metro design

2013

- Organizational restructuring occurs
- Surface Pro 2 and Xbox One launched

2014

- Satya Nadella becomes the third CEO of Microsoft
- Windows 8.1 and Surface Pro 3 launched

2015

- Microsoft releases Surface 3, launches Windows 10 and Office 2016
- Microsoft announces Surface Book, Surface Pro 4, Microsoft Band 2, Lumia 950 and Lumia 95 XL

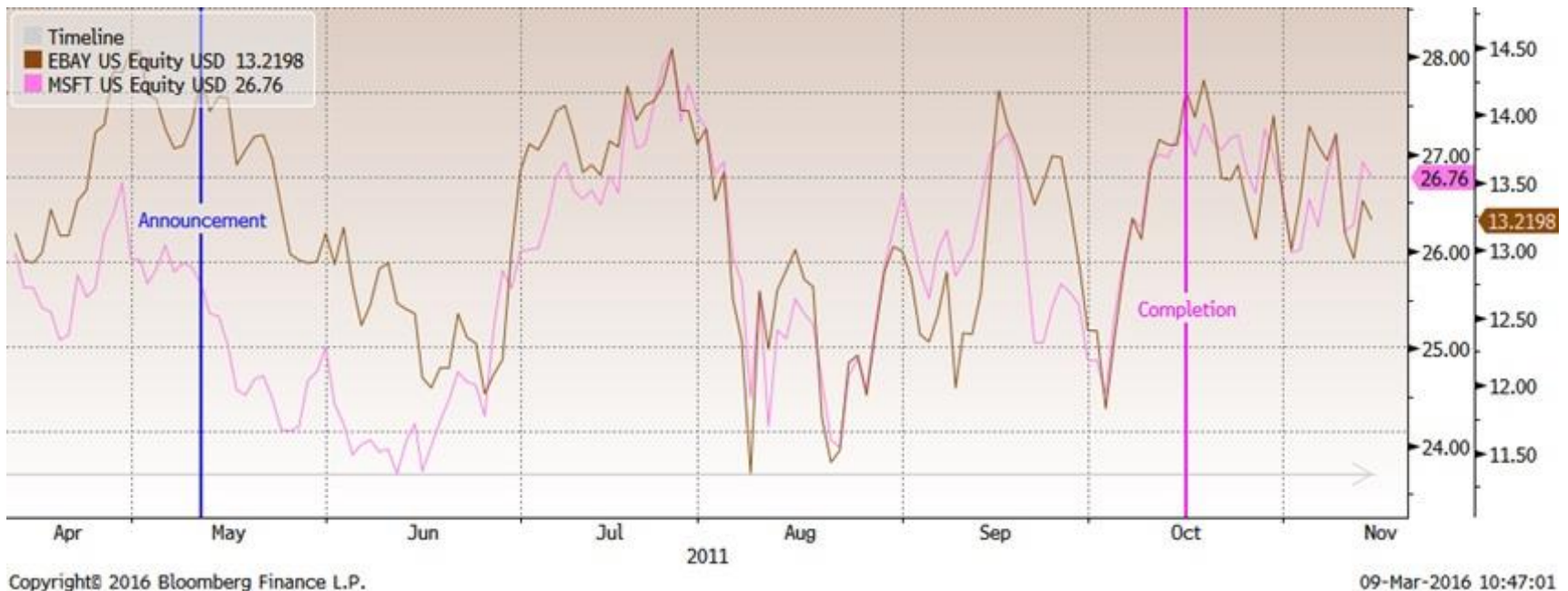
Recent Important Acquisitions



Skype



In 05/10/2011, Microsoft announced to acquire Skype for \$8.5 billion in cash. The transaction completed on 10/14/2011. During that time, Skype was valued at \$2.75 billion.



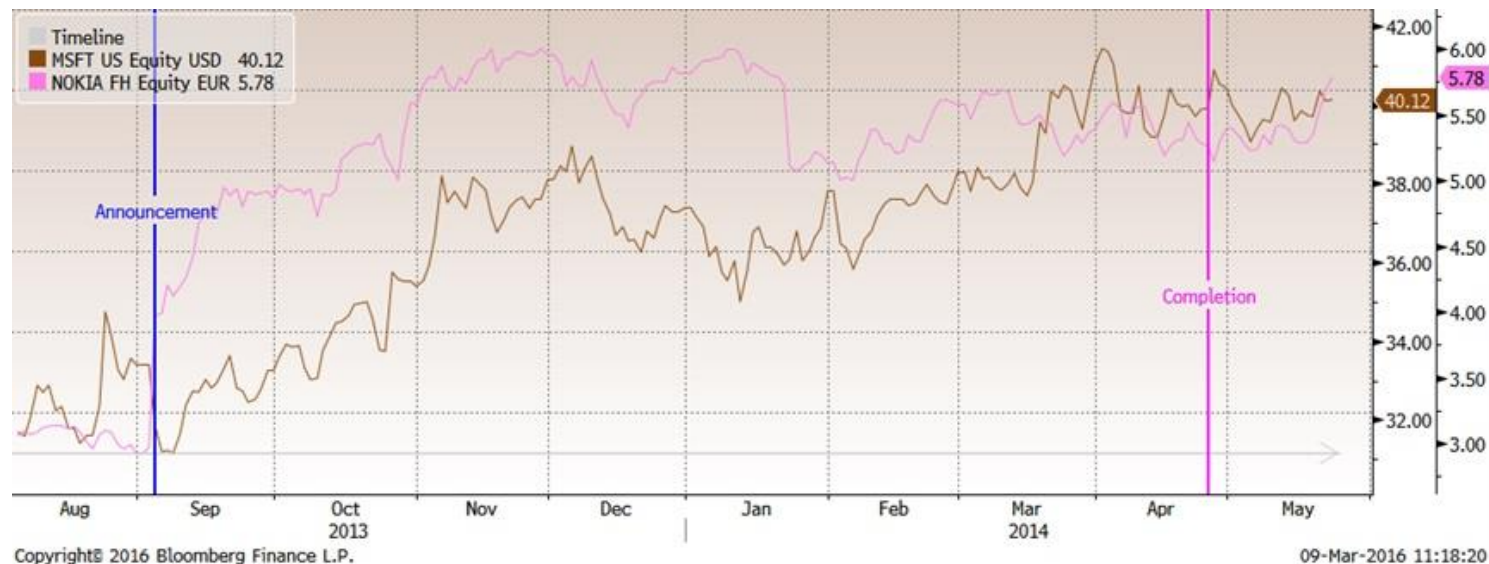
Recent Important Acquisitions



Nokia



In 09/03/ 2013, Microsoft announced to pay EUR 3.79 billion to purchase substantially all of Nokia's Devices & Services business, and EUR 1.65 billion to license Nokia's patents, for a total transaction price of EUR 5.44 billion (~\$7.2 B) in cash. The Transaction was completed on 04/25/2014. This is the third largest takeover by a US company in the telecommunications industry year to date at the time of announcement

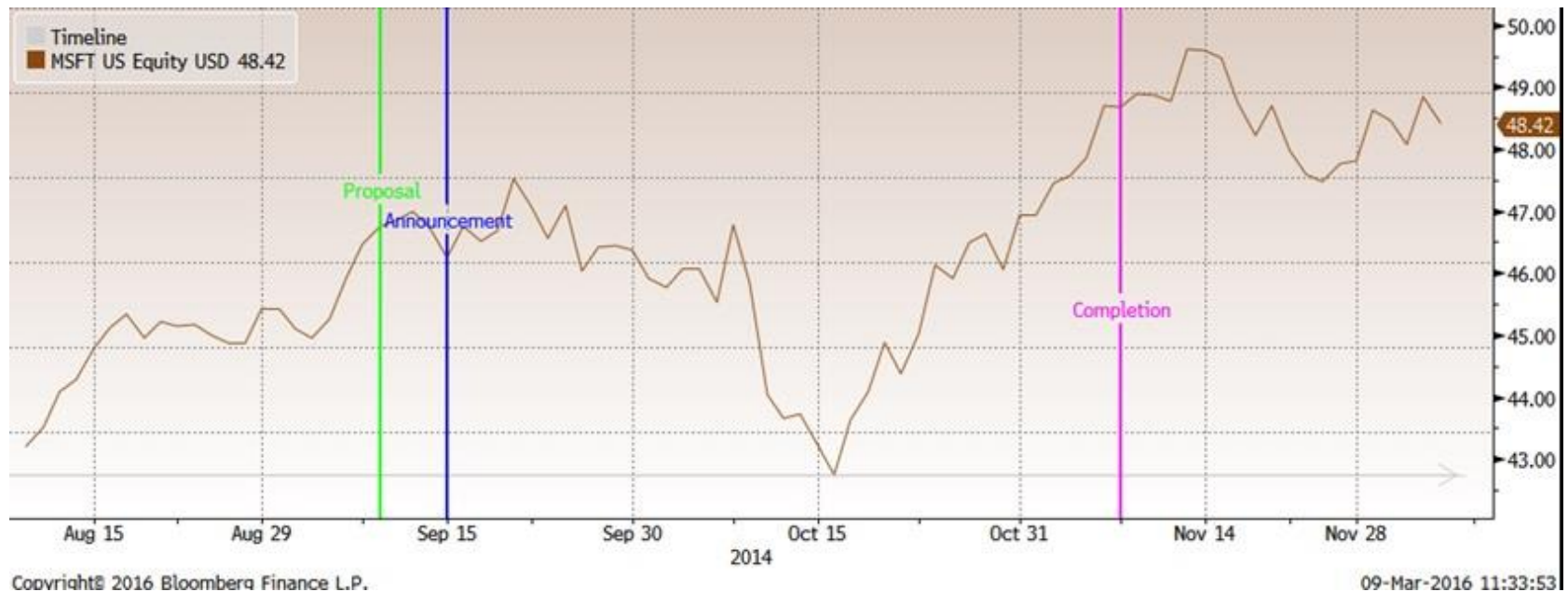


Recent Important Acquisitions

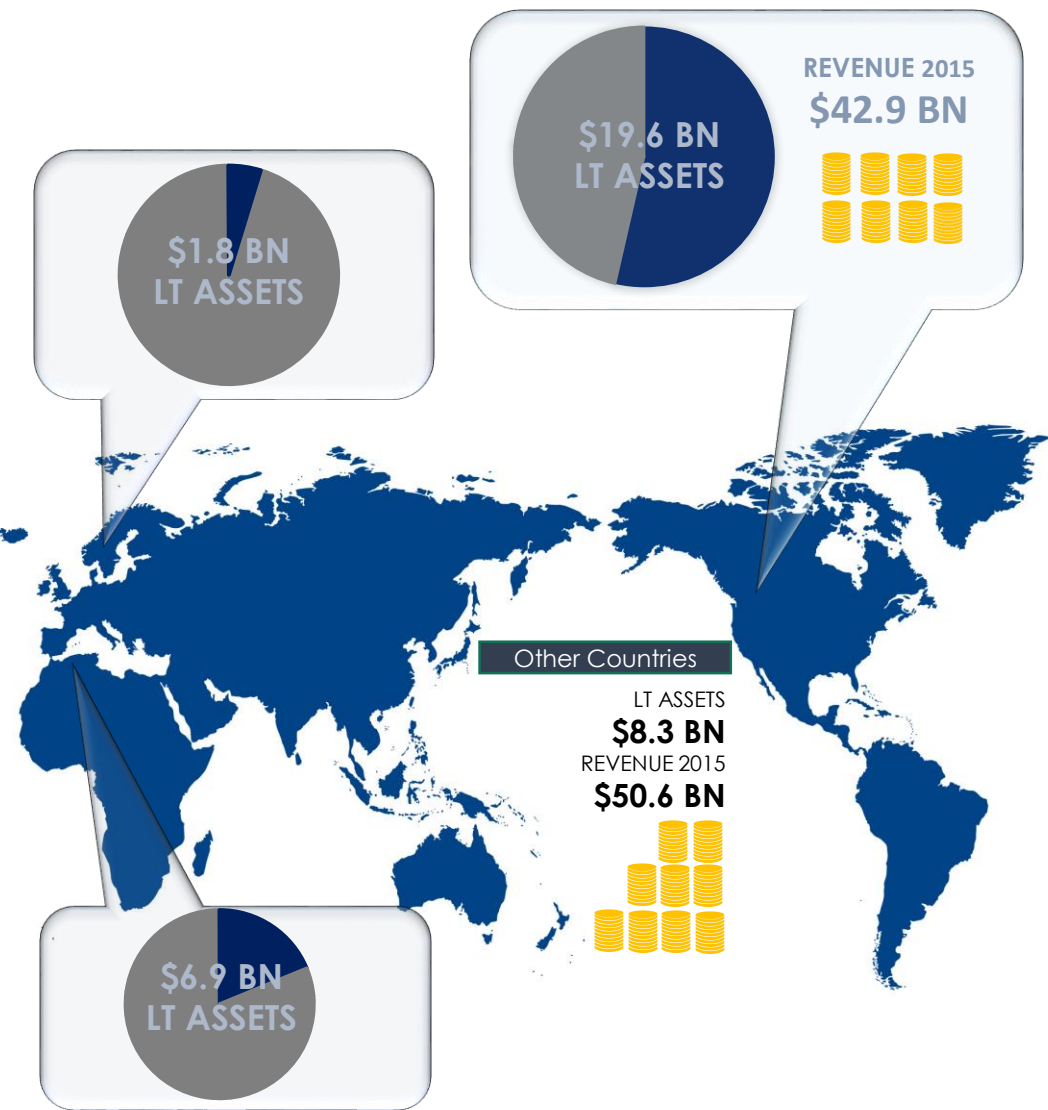


Mojang AB

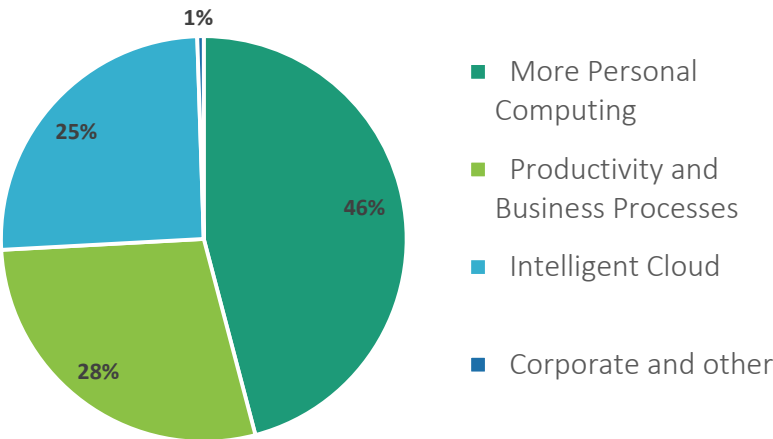
On 09/15/2014, Microsoft Corp announced it agreed to acquire Mojang AB from Notch Development AB for \$2.5 Billion. Mojang AB produces the Minecraft game, popular in multiple platforms. The deal completed on 11/07/2014



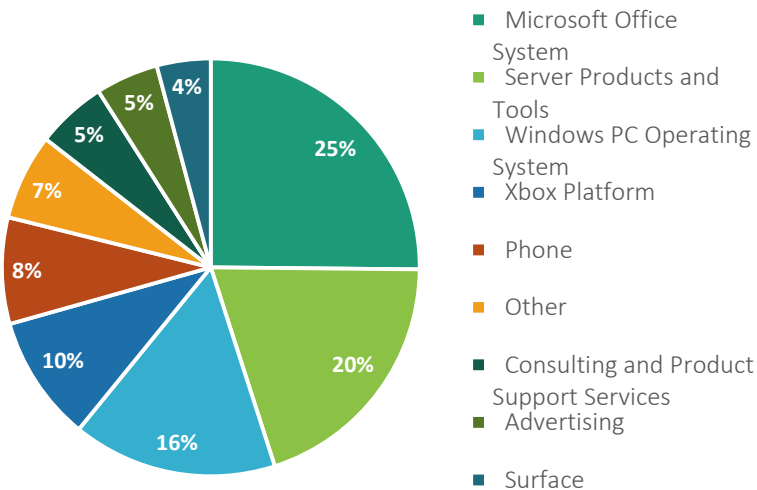
Microsoft Operating Segments



2015 Revenue Segments



2015 Revenue - Supplementary Breakdown



Productivity and Business Processes



- Office Commercial, including volume licensing and subscriptions to Office 365 Commercial for products and services such as Microsoft Office, Exchange, SharePoint, and Skype for Business, and related Client Access Licenses (“CALs”).
- Office Consumer, including Office sold through retail or through an Office 365 Consumer subscription, and Office Consumer Services, including Outlook.com, OneDrive, and consumer Skype services.
- Microsoft Dynamics business solutions, including Dynamics ERP products, Dynamics CRM on-premises, and Dynamics CRM Online (“Microsoft Dynamics”).



Server Products and Services

- Window Server
- Microsoft SQL Server
- Visual Studio
- System Center
- Related Client Access Licenses (“CALs”)
- Microsoft Azure

Enterprise Services

- Premier Support Services
- Microsoft Consulting Services



Provide server system and services to professionals and enterprises

On-site services and cloud-base services

Help customers to devote more resources to development and use of applications

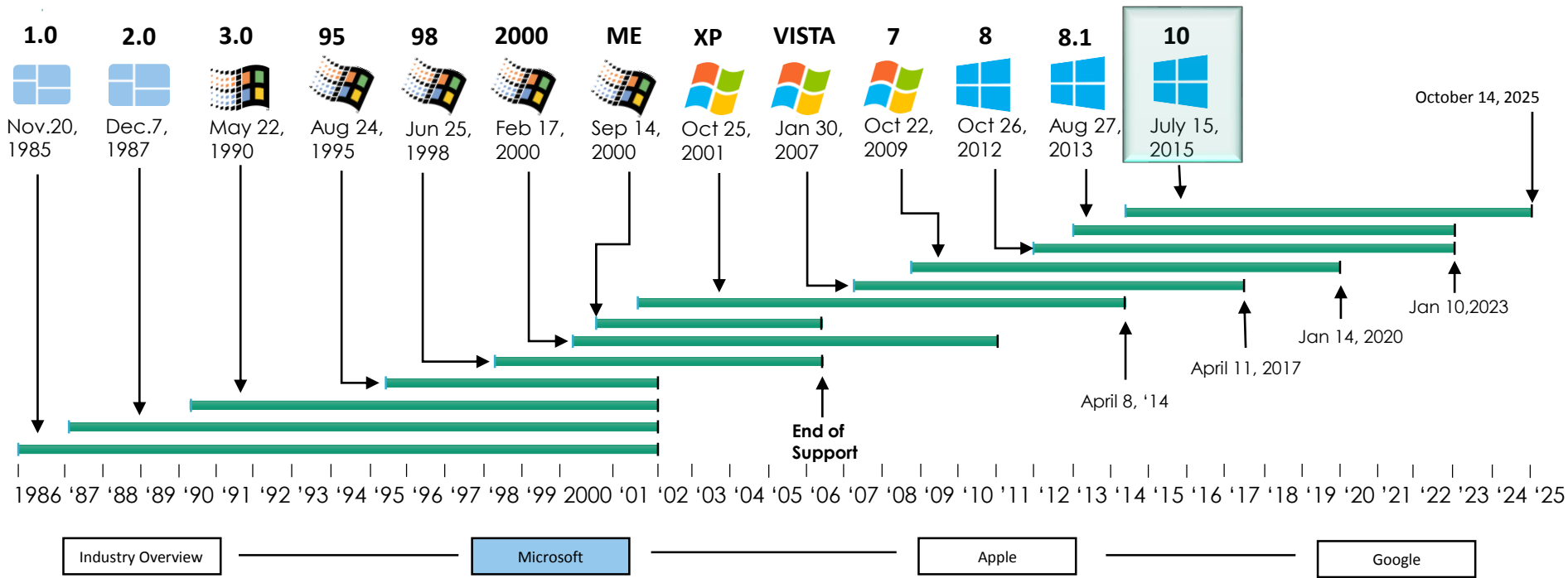
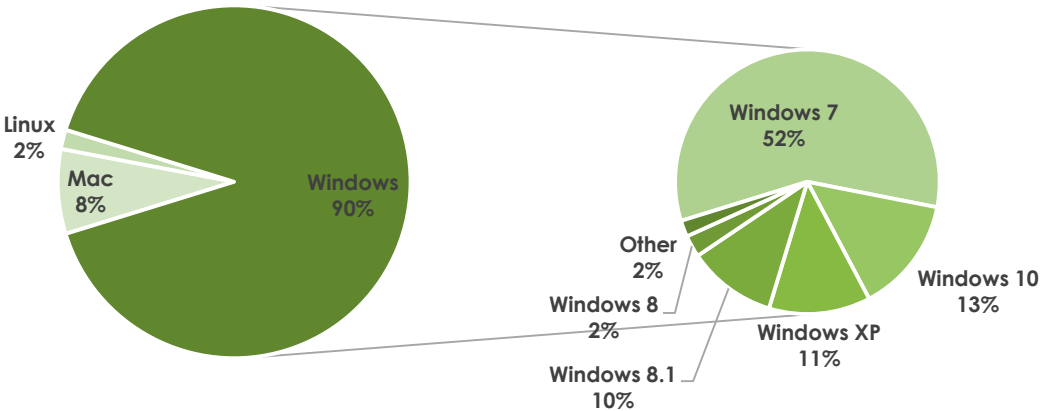
More Personal Computing



Windows

Including Windows OEM licensing ("Windows OEM") and other non-volume licensing of the Windows operating system, volume licensing of the Windows operating system ("Windows VL"), patent licensing, Windows Embedded, MSN display advertising, and Windows Phone licensing.

Total Market Share Breakdown 2016



More Personal Computing



Device

Phone

The principal products provided by the Phone Hardware segment are Lumia phones and other non-Lumia phones, which were begun manufacturing and selling with the acquisition of NDS on April 25, 2014. Other Lumia phones run Windows and are designed to enable people and organizations to connect to people and content that matter most, using integrated Microsoft services such as Outlook, OneDrive, Skype and Office



Surface

Surface is designed to help organizations, students, and consumers to be more productive. The latest Surface devices, the Surface Pro 4 and Surface Book, were released in October 2015



Microsoft HoloLens

Microsoft HoloLens is the first fully untethered holographic computer running Windows 10. It is completely untethered—no wires, phones, or connection to a PC needed. Microsoft HoloLens allows you to place holograms in your physical environment and provides a new way to see your world.



Microsoft Band

A product helps you reach your health and fitness goals by tracking your heart rate, exercise, calorie burn and sleep quality, and be productive with email, text and calendar alerts on your wrist.



Microsoft PC Accessories



More Personal Computing



Gaming

Xbox Hardware

Xbox is a video gaming brand created by Microsoft. It includes a series of video game consoles. The brand was first introduced on November 15, 2001 in the United States, with the launch of the original Xbox console. Microsoft released Xbox 360 and Xbox One in November 2005 and November 2013, respectively.

Xbox Live, Comprising Transactions, Subscriptions, and Advertising

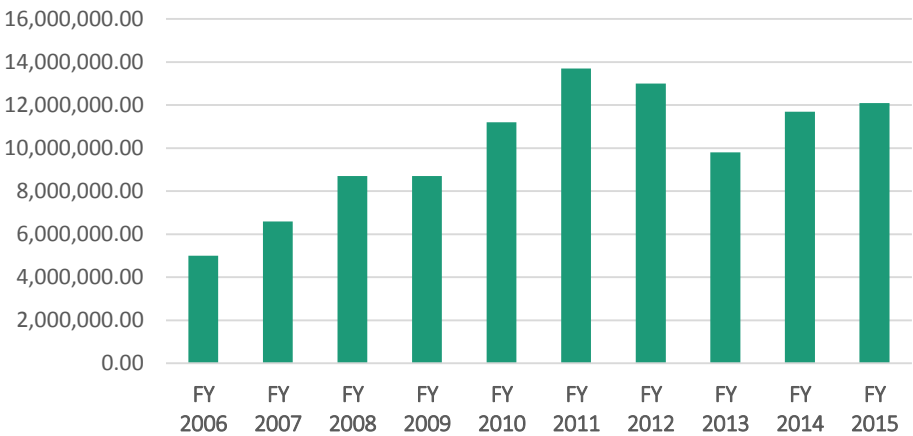
Xbox Live is a online multiplayer gaming and digital media delivery service created and operated by Microsoft. It was first made available to the Xbox system in November 2002. An updated version of the service became available for the Xbox 360 console at the system's launch in November 2005, and a further enhanced version was released in 2013 with the Xbox One.

Video Game

Including second and third-party video game royalties



XBOX Consoles Unit Sold



More Personal Computing

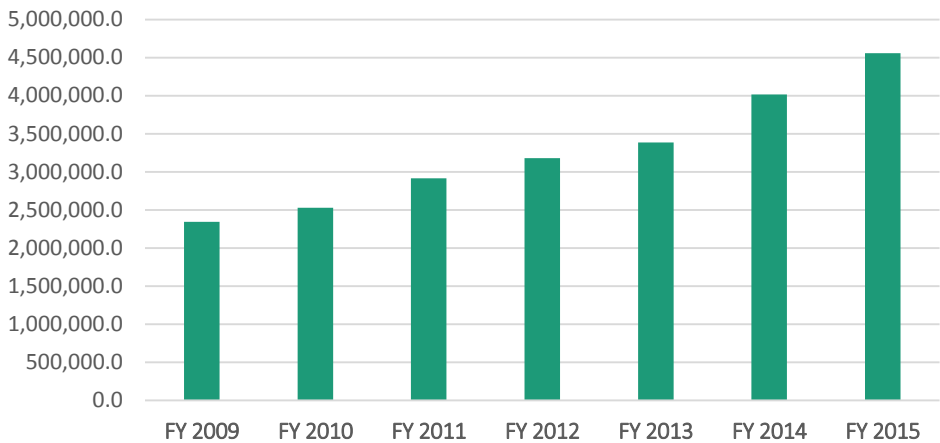


Search Advertising

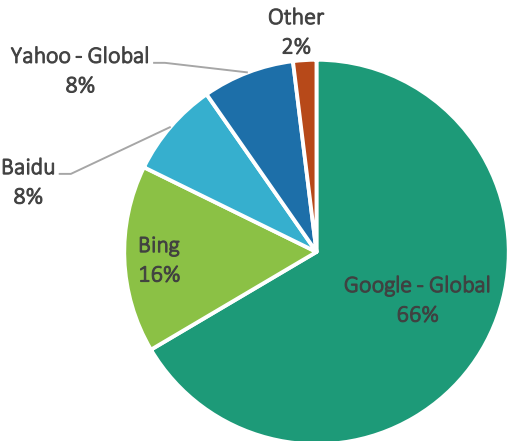
Search and display advertising includes Bing, Bing Ads, MSN. Microsoft has a partnership with Yahoo! in which Microsoft provides algorithmic and paid search platform for Yahoo! websites worldwide. In June 2015, Microsoft entered into agreements with AOL and AppNexus to outsource our display sales efforts.



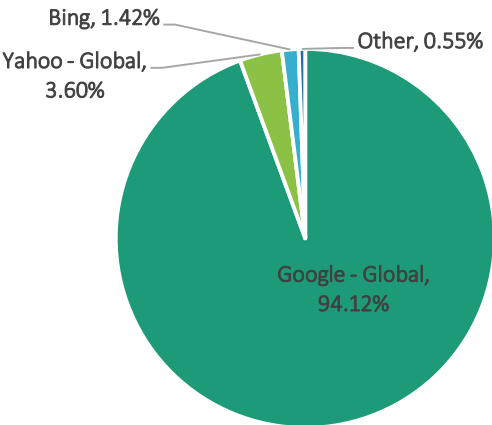
Advertising Revenue (Including search and display advertising)



Desktop Search Engine Market Share



Mobile/Tablet Search Engine Market Share



Mobile first, cloud first

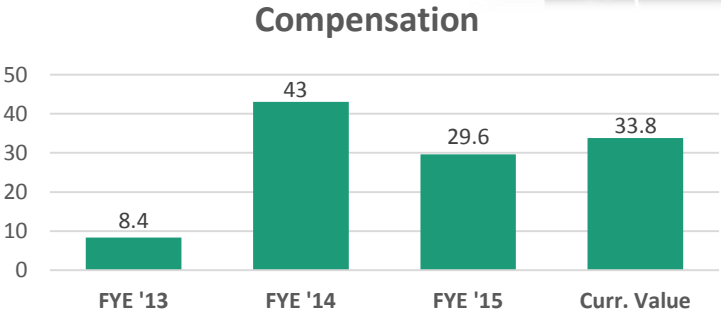
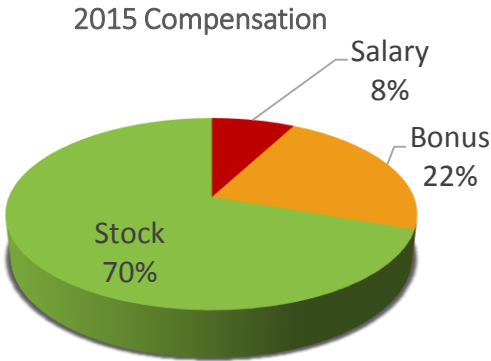
- Transforming the way individuals and organizations use and interact with technology.
- Mobile-first is not about the mobility of devices; it is centered on the mobility of experiences that, in turn, are orchestrated by the cloud
- Cloud computing and storage solutions provide users and enterprises with various applications, and services that accompany Microsoft's customers as they move from setting to setting in their lives

Future opportunity

Microsoft is currently investing significant resources in:

- Delivering new productivity, entertainment, and business processes to improve how people communicate, collaborate, learn, work, play, and interact with one another.
- Establishing the Windows platform across the PC, tablet, phone, server, other devices, and the cloud to drive a thriving ecosystem of developers, unify the cross-device user experience, and increase agility when bringing new advances to market.
- Building and running cloud-based services in ways that unleash new experiences and opportunities for businesses and individuals.
- Developing new devices that have increasingly natural ways to interact with them, including speech, pen, gesture, and augmented reality holograms.
- Applying machine learning to make technology more intuitive and able to act on our behalf, instead of at our command.

Management Team



Pay Highlights

Would get \$20.6 million if terminated without cause as of June 30, 2015

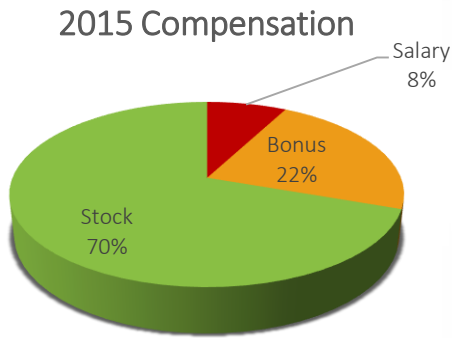
Severance payment includes one year base salary and pro-rate annual cash bonus

All stock grants, except special awards, vest if terminated before Feb. 4, 2016

Satya Nadella – Chief Executive Officer (CEO)

| Career | | |
|--------------------------|---|-------------------|
| Organization | Position | Date |
| Microsoft Corp | Chief Executive Officer | 02/2014 – Present |
| Microsoft Corp | Exec VP: Cloud & Enterprise | 07/2013 – 02/2014 |
| Microsoft Corp | President: Server & Tools | 02/2011 – 07/2013 |
| Microsoft Corp | Senior VP: R&D Online Services | 2009-2011 |
| Microsoft Corp | Senior VP: Search | 2008 – 2009 |
| Microsoft Corp | VP: R&D Advertising Platform | 2007-2008 |
| Microsoft Corp | VP: Business Solutions | 2000 – 2007 |
| Microsoft Corp | | 1992 – 2000 |
| Boards | | |
| Microsoft Corp | Board Member | 02/2014 – Present |
| Riverbed Technology Inc. | Board Member | 03/2013 – 02/2014 |
| Verticalnet Inc. | Board Member | 10/2000 – 02/2002 |
| Education | | |
| University of Wisconsin | Master's Degree in Computer Science | |
| Mangalore University | Bachelor's Degree in Electrical Engineering | |
| University of Chicago | Master of Business Administration | |

Management Team



Brian Kevin Turner – Chief Operating Officer (COO)

Career

| Organization | Position | Date |
|----------------------|------------------------------|-------------------|
| Microsoft Corp | Chief Operating Officer | 09/2005 – Present |
| Wal-Mart Stores Inc. | Exec Vice President | 08/2002 – 2005 |
| Sam’s Club | President/CEO | 2002 – 2005 |
| Wal-Mart Stores Inc. | Exec VP/Global CIO | 09/2001 - 08/2002 |
| Wal-Mart Stores Inc. | Senior VP/CIO | 03/2000 – 09/2001 |
| Wal-Mart Stores Inc. | VP: Applications Development | 1995 – 03/2000 |
| Wal-Mart Stores Inc. | Various Positions | 1987 - 1995 |

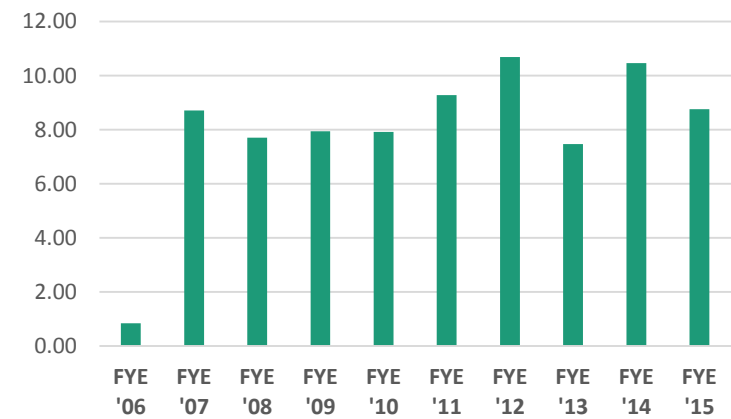
Boards

| | | |
|----------------|--------------|-------------------|
| Nordstrom Inc. | Board Member | 11/2010 – Present |
|----------------|--------------|-------------------|

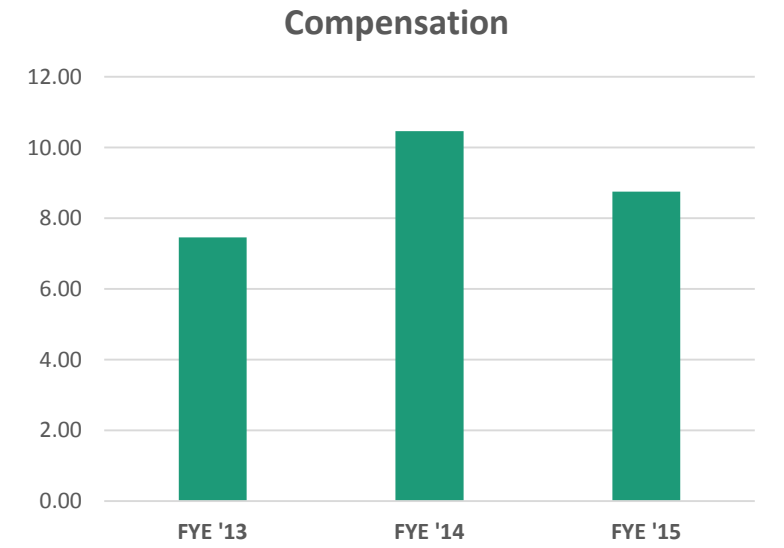
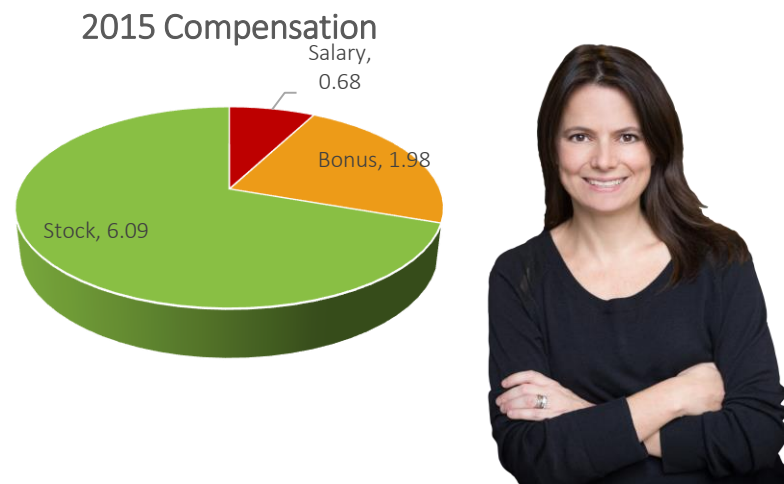
Education

| | |
|-------------------------|--|
| East Central University | Bachelor of Science in Business Administration |
|-------------------------|--|

Compensation



Management Team



Amy Hood – Exec VP and Chief Financial Officer

| Career | | |
|---------------------|--|-------------------|
| Organization | Position | Date |
| Microsoft Corp | Exec VP/CFO | 07/2013 – Present |
| Microsoft Corp | CFO: Business | 05/2013 – 07/2013 |
| Microsoft Corp | CFO: Business Development | 01/2010 – 05/2013 |
| Microsoft Corp | Chief of Staff: Tools Group | Unknown – 01/2010 |
| Microsoft Corp | General Manager: Business Strategy | 2006 – 2009 |
| Microsoft Corp | Investor Relations | 2002 - Unknown |
| Microsoft Corp | Various Positions | 2002 – Unknown |
| Goldman Sachs & Co. | Various Positions | Former |
| Education | | |
| Harvard University | Master’s Degree in Business Administration | |
| Duke University | Bachelor’s Degree in Economics | |

Management Team



Chris Capossela – Exec VP & Chief Marketing Officer

Career

| Organization | Position | Date |
|----------------|---------------------------------|-------------------|
| Microsoft Corp | Exec VP/Chief Marketing Officer | 07/2014 – Present |
| Microsoft Corp | Exec VP/Chief Marketing Officer | 03/2014 – 07/2014 |
| Microsoft Corp | Chief Marketing Officer | 03/2011 – 03/2014 |
| Microsoft Corp | Senior VP: Info Workers | 02/2008 – 03/2011 |
| Microsoft Corp | Vice President | Unknown – 02/2008 |
| Microsoft Corp | Various Positions | 1991 – 11/2003 |
| Microsoft Corp | Senior VP: Consumer Channels | 04/2011 - Unknown |

Education

| | |
|--------------------|---|
| Harvard University | Bachelor’s Degree in Computer Science and Economics |
|--------------------|---|



Terry Myerson – Exec VP: Windows & Devices Group

Career

| Organization | Position | Date |
|----------------|----------------------------------|-------------------|
| Microsoft Corp | Exec VP: Windows & Devices Group | 06/2015 – Present |
| Microsoft Corp | Exec VP: Operating Systems | 07/2013 – 06/2015 |
| Microsoft Corp | VP/Head: Windows Phone Division | 12/2011 – 07/2013 |
| Interse Corp | | Unknown - 1997 |
| Microsoft Corp | | 1997 - Unknown |
| Microsoft Corp | Head: Exchange Team | Former |
| Interse Corp | Founder | Former |

Boards

| | | |
|--------------------|---------|-------------------|
| Seattle Foundation | Trustee | 07/2015 – Present |
|--------------------|---------|-------------------|

Education

| | |
|-----------------|---|
| Duke University | Bachelor’s Degree in Mechanical Engineering |
|-----------------|---|

2016 Q2 Balance Sheet (Assets)



(In millions) (Unaudited)

| | December 31, 2015 | June 30, 2015 |
|--|----------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,185 | \$ 5,595 |
| Short-term investments (including securities loaned of \$360 and \$75) | 95,455 | 90,931 |
| Total cash, cash equivalents, and short-term investments | 102,640 | 96,526 |
| Accounts receivable, net of allowance for doubtful accounts of \$384 and \$335 | 14,507 | 17,908 |
| Inventories | 2,702 | 2,902 |
| Deferred income taxes | 1,618 | 1,915 |
| Other | 6,345 | 5,461 |
| Total current assets | 127,812 | 124,712 |
| Property and equipment, net of accumulated depreciation of \$18,008 and \$17,606 | 15,789 | 14,731 |
| Equity and other investments | 11,514 | 12,053 |
| Goodwill | 17,436 | 16,939 |
| Intangible assets, net | 4,619 | 4,835 |
| Other long-term assets | 2,928 | 2,953 |
| Total assets | <u>\$ 180,098</u> | <u>\$ 176,223</u> |

2016 Q2 BS(Liabilities and S/E)



Liabilities and stockholders' equity

Current liabilities:

| | | |
|-----------------------------------|----------------|---------------|
| Accounts payable | \$ 6,936 | \$ 6,591 |
| Short-term debt | 3,000 | 4,985 |
| Current portion of long-term debt | 750 | 2,499 |
| Accrued compensation | 3,649 | 5,096 |
| Income taxes | 493 | 606 |
| Short-term unearned revenue | 20,929 | 23,223 |
| Securities lending payable | 439 | 92 |
| Other | 6,447 | 6,766 |
| Total current liabilities | 42,643 | 49,858 |
| Long-term debt | 40,679 | 27,808 |
| Long-term unearned revenue | 4,102 | 2,095 |
| Deferred income taxes | 2,194 | 2,835 |
| Other long-term liabilities | 13,700 | 13,544 |
| Total liabilities | 103,318 | 96,140 |

Commitments and contingencies

Stockholders' equity:

| | | |
|--|-------------------|-------------------|
| Common stock and paid-in capital—shares authorized 24,000; outstanding 7,925 and 8,027 | 68,279 | 68,465 |
| Retained earnings | 6,728 | 9,096 |
| Accumulated other comprehensive income | 1,773 | 2,522 |
| Total stockholders' equity | 76,780 | 80,083 |
| Total liabilities and stockholders' equity | \$ 180,098 | \$ 176,223 |

2015 Annual Balance Sheet (Assets)



(In millions)

| June 30, | 2015 | 2014 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,595 | \$ 8,669 |
| Short-term investments (including securities loaned of \$75 and \$541) | 90,931 | 77,040 |
| Total cash, cash equivalents, and short-term investments | 96,526 | 85,709 |
| Accounts receivable, net of allowance for doubtful accounts of \$335 and \$301 | 17,908 | 19,544 |
| Inventories | 2,902 | 2,660 |
| Deferred income taxes | 1,915 | 1,941 |
| Other | 5,461 | 4,392 |
| Total current assets | 124,712 | 114,246 |
| Property and equipment, net of accumulated depreciation of \$17,606 and \$14,793 | 14,731 | 13,011 |
| Equity and other investments | 12,053 | 14,597 |
| Goodwill | 16,939 | 20,127 |
| Intangible assets, net | 4,835 | 6,981 |
| Other long-term assets | 2,953 | 3,422 |
| Total assets | <u>\$ 176,223</u> | <u>\$ 172,384</u> |

2015 Annual BS(Liabilities and S/E)

Liabilities and stockholders' equity

Current liabilities:

| | | |
|-----------------------------------|---------------|---------------|
| Accounts payable | \$ 6,591 | \$ 7,432 |
| Short-term debt | 4,985 | 2,000 |
| Current portion of long-term debt | 2,499 | 0 |
| Accrued compensation | 5,096 | 4,797 |
| Income taxes | 606 | 782 |
| Short-term unearned revenue | 23,223 | 23,150 |
| Securities lending payable | 92 | 558 |
| Other | 6,766 | 6,906 |
| Total current liabilities | 49,858 | 45,625 |
| Long-term debt | 27,808 | 20,645 |
| Long-term unearned revenue | 2,095 | 2,008 |
| Deferred income taxes | 2,835 | 2,728 |
| Other long-term liabilities | 13,544 | 11,594 |
| Total liabilities | 96,140 | 82,600 |

Commitments and contingencies

Stockholders' equity:

| | | |
|--|-------------------|-------------------|
| Common stock and paid-in capital – shares authorized 24,000; outstanding 8,027 and 8,239 | 68,465 | 68,366 |
| Retained earnings | 9,096 | 17,710 |
| Accumulated other comprehensive income | 2,522 | 3,708 |
| Total stockholders' equity | 80,083 | 89,784 |
| Total liabilities and stockholders' equity | \$ 176,223 | \$ 172,384 |

2015 Annual Income Statement



(In millions, except per share amounts)

| Year Ended June 30, | 2015 | 2014 | 2013 |
|--|------------------|------------------|------------------|
| Revenue | \$ 93,580 | \$ 86,833 | \$ 77,849 |
| Cost of revenue | 33,038 | 27,078 | 20,385 |
| Gross margin | 60,542 | 59,755 | 57,464 |
| Research and development | 12,046 | 11,381 | 10,411 |
| Sales and marketing | 15,713 | 15,811 | 15,276 |
| General and administrative | 4,611 | 4,677 | 5,013 |
| Impairment, integration, and restructuring | 10,011 | 127 | 0 |
| Operating income | 18,161 | 27,759 | 26,764 |
| Other income, net | 346 | 61 | 288 |
| Income before income taxes | 18,507 | 27,820 | 27,052 |
| Provision for income taxes | 6,314 | 5,746 | 5,189 |
| Net income | <u>\$ 12,193</u> | <u>\$ 22,074</u> | <u>\$ 21,863</u> |
| Earnings per share: | | | |
| Basic | \$ 1.49 | \$ 2.66 | \$ 2.61 |
| Diluted | \$ 1.48 | \$ 2.63 | \$ 2.58 |
| Weighted average shares outstanding: | | | |
| Basic | 8,177 | 8,299 | 8,375 |
| Diluted | 8,254 | 8,399 | 8,470 |
| Cash dividends declared per common share | \$ 1.24 | \$ 1.12 | \$ 0.92 |

2016 Q2 Income Statement



| (In millions, except per share amounts) (Unaudited) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|------------------------------------|-----------------|----------------------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | \$ 23,796 | \$ 26,470 | \$ 44,175 | \$ 49,671 |
| Cost of revenue | 9,872 | 10,136 | 17,079 | 18,409 |
| Gross margin | 13,924 | 16,334 | 27,096 | 31,262 |
| Research and development | 2,900 | 2,903 | 5,862 | 5,968 |
| Sales and marketing | 3,960 | 4,315 | 7,293 | 8,043 |
| General and administrative | 1,038 | 1,097 | 2,122 | 2,248 |
| Impairment, integration, and restructuring | 0 | 243 | 0 | 1,383 |
| Operating income | 6,026 | 7,776 | 11,819 | 13,620 |
| Other income (expense), net | (171) | 74 | (451) | 126 |
| Income before income taxes | 5,855 | 7,850 | 11,368 | 13,746 |
| Provision for income taxes | 857 | 1,987 | 1,750 | 3,343 |
| Net income | <u>\$ 4,998</u> | <u>\$ 5,863</u> | <u>\$ 9,618</u> | <u>\$ 10,403</u> |
| Earnings per share: | | | | |
| Basic | \$ 0.63 | \$ 0.71 | \$ 1.21 | \$ 1.26 |
| Diluted | \$ 0.62 | \$ 0.71 | \$ 1.20 | \$ 1.25 |
| Weighted average shares outstanding: | | | | |
| Basic | 7,964 | 8,228 | 7,980 | 8,238 |
| Diluted | 8,028 | 8,297 | 8,047 | 8,321 |
| Cash dividends declared per common share | \$ 0.36 | \$ 0.31 | \$ 0.72 | \$ 0.62 |

2015 Annual CF (Operating)



(In millions)

| Year Ended June 30, | 2015 | 2014 | 2013 |
|--|---------------|---------------|---------------|
| Operations | | | |
| Net income | \$ 12,193 | \$ 22,074 | \$ 21,863 |
| Adjustments to reconcile net income to net cash from operations: | | | |
| Goodwill and asset impairments | 7,498 | 0 | 0 |
| Depreciation, amortization, and other | 5,957 | 5,212 | 3,755 |
| Stock-based compensation expense | 2,574 | 2,446 | 2,406 |
| Net recognized losses (gains) on investments and derivatives | (443) | (109) | 80 |
| Excess tax benefits from stock-based compensation | (588) | (271) | (209) |
| Deferred income taxes | 224 | (331) | (19) |
| Deferral of unearned revenue | 45,072 | 44,325 | 44,253 |
| Recognition of unearned revenue | (44,920) | (41,739) | (41,921) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 1,456 | (1,120) | (1,807) |
| Inventories | (272) | (161) | (802) |
| Other current assets | 62 | (29) | (129) |
| Other long-term assets | 346 | (628) | (478) |
| Accounts payable | (1,054) | 473 | 537 |
| Other current liabilities | (624) | 1,075 | 146 |
| Other long-term liabilities | 1,599 | 1,014 | 1,158 |
| Net cash from operations | 29,080 | 32,231 | 28,833 |

2015 Annual CF (Financing and Investing) Microsoft

Financing

Proceeds from issuance of short-term debt, maturities of 90 days or less, net

| | | | |
|---|----------|---------|---------|
| | 4,481 | 500 | 0 |
| Proceeds from issuance of debt | 10,680 | 10,350 | 4,883 |
| Repayments of debt | (1,500) | (3,888) | (1,346) |
| Common stock issued | 634 | 607 | 931 |
| Common stock repurchased | (14,443) | (7,316) | (5,360) |
| Common stock cash dividends paid | (9,882) | (8,879) | (7,455) |
| Excess tax benefits from stock-based compensation | 588 | 271 | 209 |
| Other | 362 | (39) | (10) |
| Net cash used in financing | (9,080) | (8,394) | (8,148) |

Investing

Additions to property and equipment

Acquisition of companies, net of cash acquired, and purchases of intangible and other assets

Purchases of investments

Maturities of investments

Sales of investments

Securities lending payable

| | | | |
|---|----------|----------|----------|
| | (5,944) | (5,485) | (4,257) |
| | (3,723) | (5,937) | (1,584) |
| | (98,729) | (72,690) | (75,396) |
| | 15,013 | 5,272 | 5,130 |
| | 70,848 | 60,094 | 52,464 |
| | (466) | (87) | (168) |
| Net cash used in investing | (23,001) | (18,833) | (23,811) |
| Effect of exchange rates on cash and cash equivalents | (73) | (139) | (8) |
| Net change in cash and cash equivalents | (3,074) | 4,865 | (3,134) |
| Cash and cash equivalents, beginning of period | 8,669 | 3,804 | 6,938 |
| Cash and cash equivalents, end of period | \$ 5,595 | \$ 8,669 | \$ 3,804 |

2016 Q2 Cash Flow (Operating)



| (In millions) (Unaudited) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|------------------------------------|--------------|----------------------------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| Operations | | | | |
| Net income | \$ 4,998 | \$ 5,863 | \$ 9,618 | \$ 10,403 |
| Adjustments to reconcile net income to net cash from operations: | | | | |
| Depreciation, amortization, and other | 1,544 | 1,521 | 3,005 | 2,949 |
| Stock-based compensation expense | 658 | 633 | 1,332 | 1,279 |
| Net recognized losses (gains) on investments and derivatives | 50 | (179) | 151 | (124) |
| Excess tax benefits from stock-based compensation | (20) | (22) | (302) | (524) |
| Deferred income taxes | (247) | 314 | (174) | 615 |
| Deferral of unearned revenue | 12,570 | 10,200 | 22,993 | 18,222 |
| Recognition of unearned revenue | (11,929) | (11,495) | (23,284) | (22,138) |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (3,118) | (3,378) | 3,258 | 3,249 |
| Inventories | 1,104 | 1,070 | 167 | 587 |
| Other current assets | (912) | (159) | (1,192) | (439) |
| Other long-term assets | 56 | 170 | 51 | 449 |
| Accounts payable | 369 | 137 | 234 | (522) |
| Other current liabilities | 105 | (986) | (1,919) | (2,152) |
| Other long-term liabilities | 370 | 651 | 254 | 840 |
| Net cash from operations | 5,598 | 4,340 | 14,192 | 12,694 |

2016 Q2 CF (Financing and Investing)



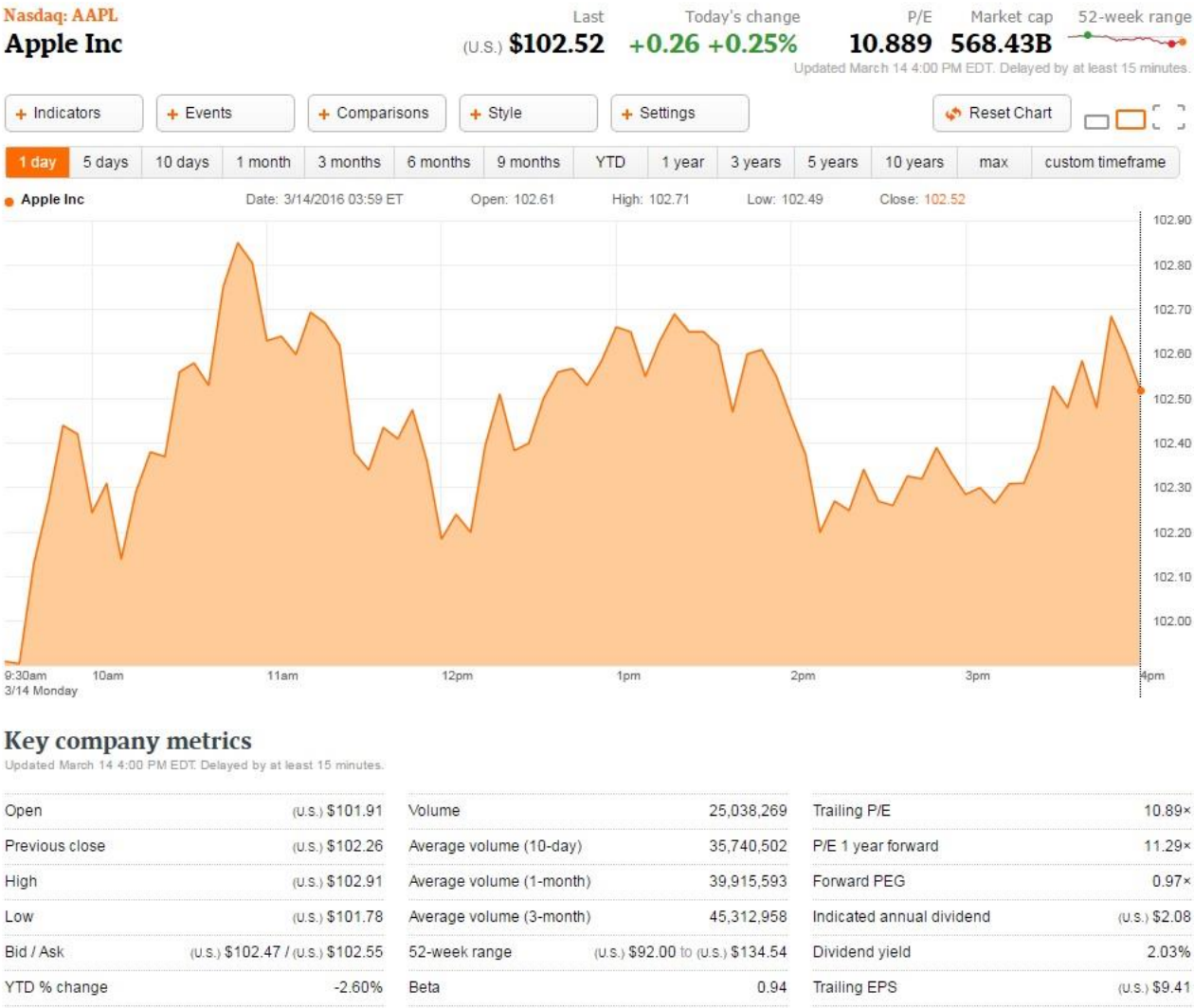
| (In millions) (Unaudited) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|---|------------------------------------|-----------------|----------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Proceeds from issuance (repayments) of short-term debt, maturities of 90 days or less, net | (7,031) | 4,798 | (2,141) | 7,797 |
| Proceeds from issuance of debt | 13,128 | 0 | 13,249 | 0 |
| Repayments of debt | (121) | 0 | (1,871) | (1,500) |
| Common stock issued | 117 | 121 | 336 | 337 |
| Common stock repurchased | (3,678) | (2,145) | (8,435) | (5,033) |
| Common stock cash dividends paid | (2,868) | (2,547) | (5,343) | (4,854) |
| Excess tax benefits from stock-based compensation | 20 | 22 | 302 | 524 |
| Other | (65) | 285 | (243) | 285 |
| Net cash from (used in) financing | (498) | 534 | (4,146) | (2,444) |
| Investing | | | | |
| Additions to property and equipment | (2,024) | (1,490) | (3,380) | (2,772) |
| Acquisition of companies, net of cash acquired, and purchases of intangible and other assets | (381) | (2,794) | (771) | (2,935) |
| Purchases of investments | (34,750) | (19,167) | (72,320) | (43,252) |
| Maturities of investments | 5,351 | 2,389 | 11,037 | 4,082 |
| Sales of investments | 28,191 | 16,108 | 56,693 | 32,553 |
| Securities lending payable | 285 | 238 | 347 | (129) |
| Net cash used in investing | (3,328) | (4,716) | (8,394) | (12,453) |
| Effect of foreign exchange rates on cash and cash equivalents | (18) | (34) | (62) | (40) |
| Net change in cash and cash equivalents | 1,754 | 124 | 1,590 | (2,243) |
| Cash and cash equivalents, beginning of period | 5,431 | 6,302 | 5,595 | 8,669 |
| Cash and cash equivalents, end of period | <u>\$ 7,185</u> | <u>\$ 6,426</u> | <u>\$ 7,185</u> | <u>\$ 6,426</u> |

Recommendation

HOLD

APPLE INC.

Financial Snapshot



One-Year Performance

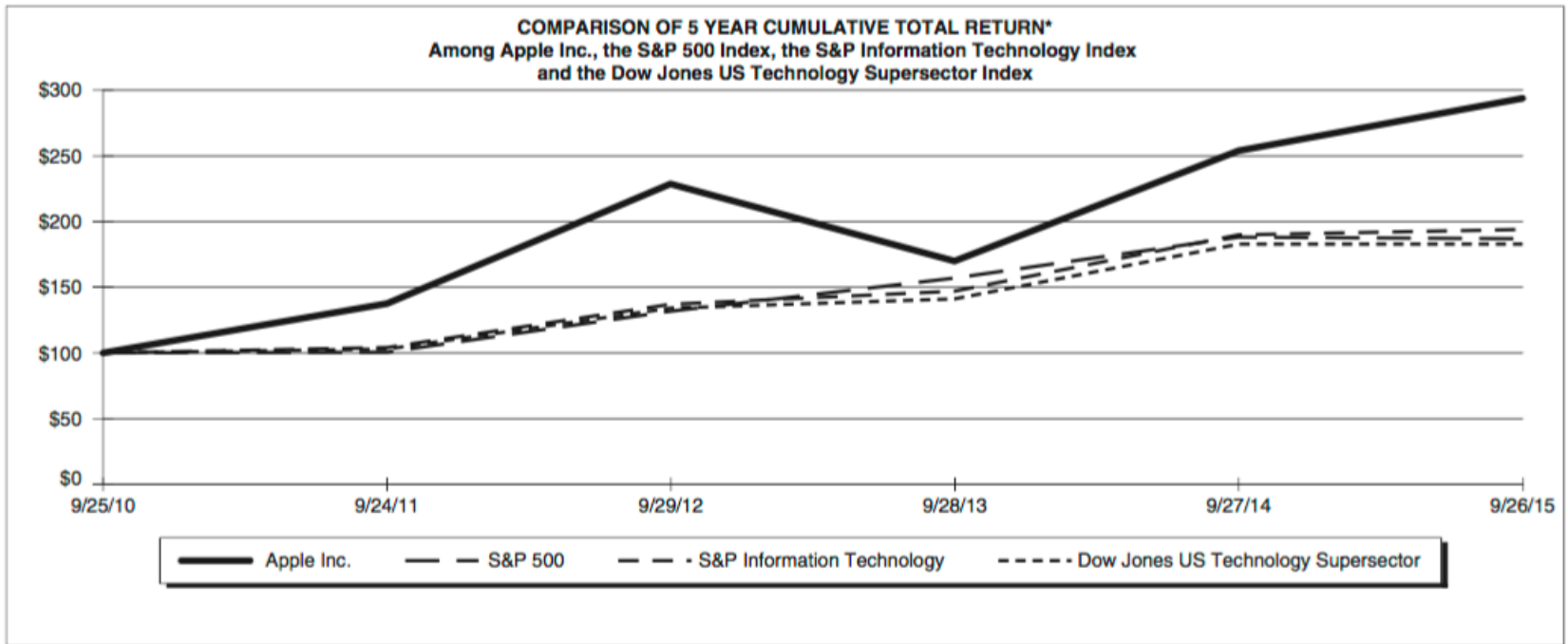


Five-Year Performance



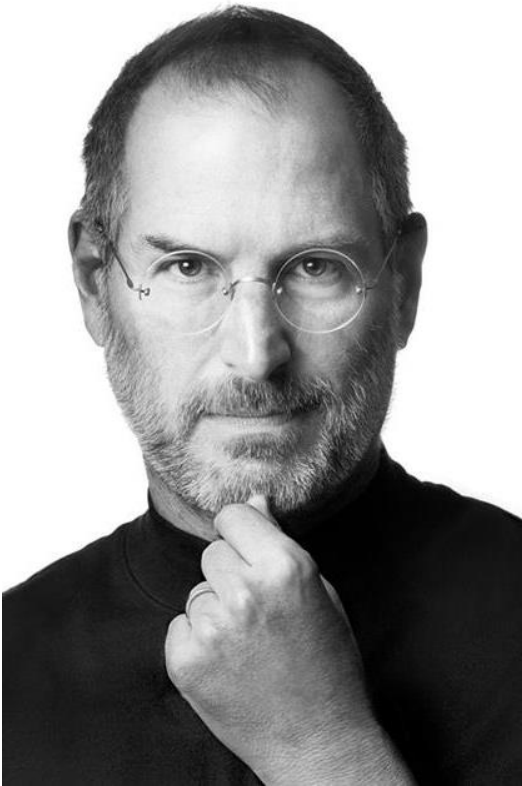
Ten-Year performance





Steve Jobs

Co-Founder and former CEO



- Fired in 1985, came back in 1997
 - NeXT: computer company
 - Pixar: computer animation film studio
- Education:
 - Reed College – Dropped Out
- Oversaw development of iMac, iTunes, iPhone, and iPad on the services side as well as Apple's retail stores
- Leadership style:
 - Perfectionist
 - Innovator
 - Futurist
- Passed away in 2011

Company History and Key Events

- 1976: Apple Computer Company is founded by Steve Wozniak, Steve Jobs, Ron Wayne
 - Apple was created and sold at \$666.66
- 1977: Apple was incorporated
 - Apple II was introduced and sold for \$1,295
- 1980: Apple went public at \$22/share
- 1984: Macintosh – the original Mac – was introduced
- 1985: Jobs resigned from Apple and founded NeXT
- 1987
 - First stock split: 2 for 1
 - Macintosh II was launched
- 1997: Acquisition of NeXT

Company History and Key Events

- 2000: Jobs became CEO
- 2001: Mac OS X and iPod launched
- 2003: First overseas Apple store | Tokyo, Japan
- 2004
 - First Apple store in Europe | London, England
 - iPod Mini launched
- 2005: iPod Shuffle and iPod Nano launched
- 2006: iMac and MacBook Pro
- 2007: iPhone, iPod touch, Apple TV launched
- 2011-2014: Apple vs. Samsung
- 2014: Apple Watch launched

Company Profile

- HQ: Cupertino, California
- The Company designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications
- 115,000 permanent full-time employees
- 463 retail stores worldwide
- Most products are designed in the US but manufactured abroad
- Brand loyalty: 90% as of March 2014

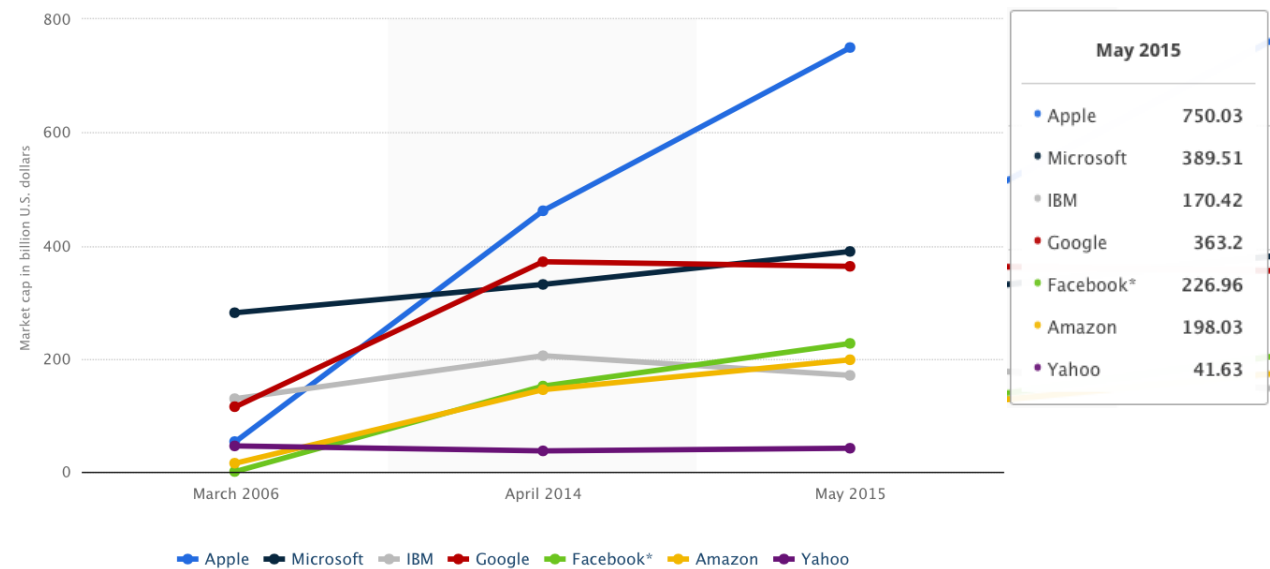
Company Profile

February 9, 2015: the first US company with market value above \$700B

Apple: \$710.4B || \$122.02/share

Google: \$365B

Microsoft: \$349B



Strategy

“The Company believes ongoing investment in research and development (“R&D”), marketing and advertising is critical to the development and sale of innovative products and technologies”

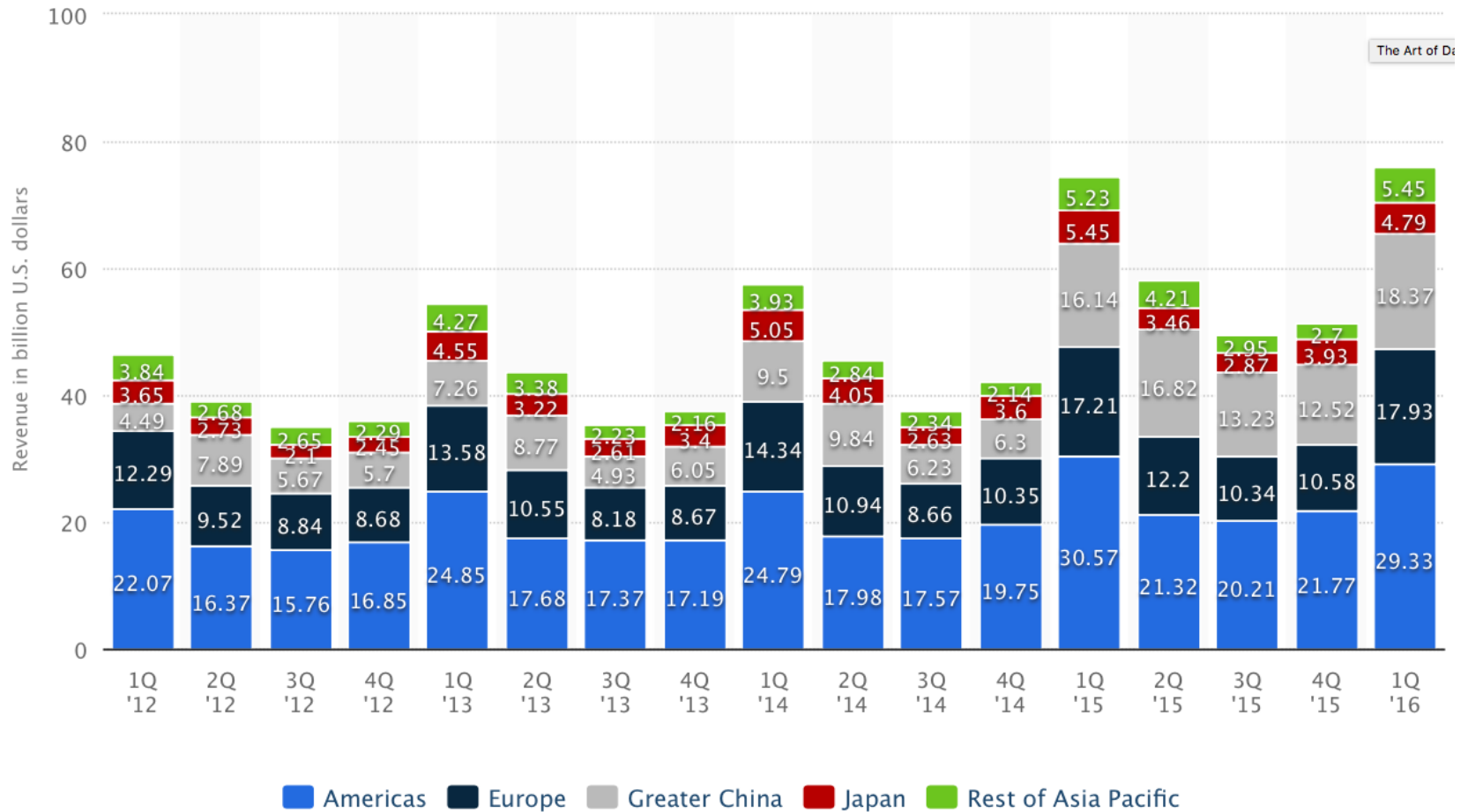
- Bring the best user experience to its customers through its innovative hardware, software and services
- Expand its platform for the discovery and delivery of digital content and applications through its Internet Services
- Build and expand retail and online stores and its third- party distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience
- Support a community for the development of third-party software and hardware products and digital content that complement the Company’s offerings

2015 Net Sales by Regions and Products

| | <u>2015</u> | <u>Change</u> | <u>2014</u> | <u>Change</u> | <u>2013</u> |
|---------------------------------|-------------------|---------------|-------------------|---------------|-------------------|
| Net Sales by Operating Segment: | | | | | |
| Americas | \$ 93,864 | 17% | \$ 80,095 | 4% | \$ 77,093 |
| Europe | 50,337 | 14% | 44,285 | 8% | 40,980 |
| Greater China | 58,715 | 84% | 31,853 | 18% | 27,016 |
| Japan | 15,706 | 3% | 15,314 | 11% | 13,782 |
| Rest of Asia Pacific | 15,093 | 34% | 11,248 | (7)% | 12,039 |
| Total net sales | <u>\$ 233,715</u> | 28% | <u>\$ 182,795</u> | 7% | <u>\$ 170,910</u> |

| | | | | | |
|----------------------------------|-------------------|-------|-------------------|-------|-------------------|
| Net Sales by Product: | | | | | |
| iPhone ⁽¹⁾ | \$ 155,041 | 52% | \$ 101,991 | 12% | \$ 91,279 |
| iPad ⁽¹⁾ | 23,227 | (23)% | 30,283 | (5)% | 31,980 |
| Mac ⁽¹⁾ | 25,471 | 6% | 24,079 | 12% | 21,483 |
| Services ⁽²⁾ | 19,909 | 10% | 18,063 | 13% | 16,051 |
| Other Products ⁽¹⁾⁽³⁾ | 10,067 | 20% | 8,379 | (17)% | 10,117 |
| Total net sales | <u>\$ 233,715</u> | 28% | <u>\$ 182,795</u> | 7% | <u>\$ 170,910</u> |

| | | | | | |
|------------------------|---------|-------|---------|------|---------|
| Unit Sales by Product: | | | | | |
| iPhone | 231,218 | 37% | 169,219 | 13% | 150,257 |
| iPad | 54,856 | (19)% | 67,977 | (4)% | 71,033 |
| Mac | 20,587 | 9% | 18,906 | 16% | 16,341 |



Revenue of Apple by geographical region Q1 2012 – Q1 2016 (in billion USD)

PRODUCTS

Mac

- January 1984: the original Macintosh 128k
- Apple's line of desktop and portable personal computers
 - Desktops: iMac, Mac Mini, Mac Pro
 - Portables: MacBook, MacBook Air, MacBook Pro
- Runs on Mac OS X
 - Intel processors

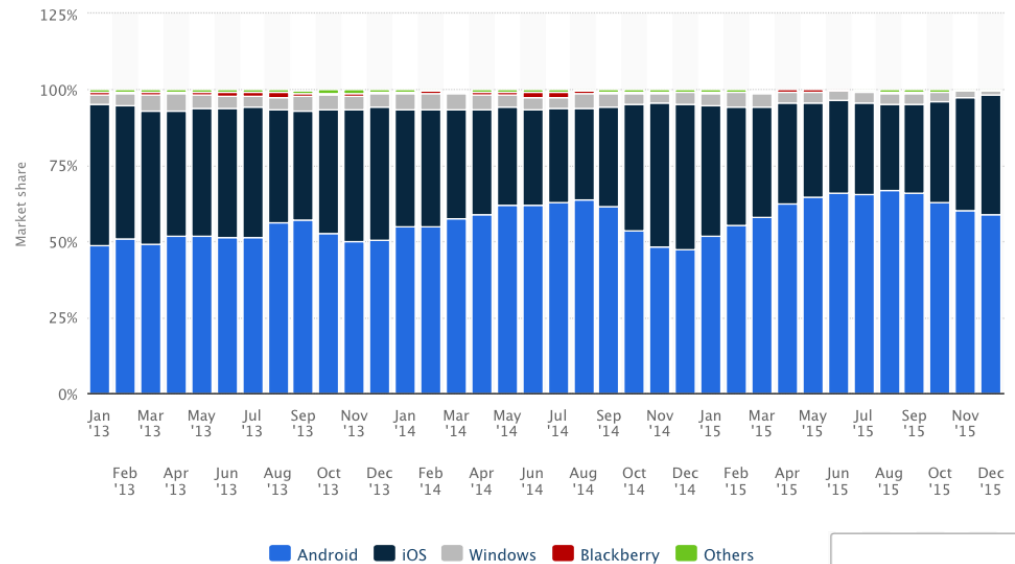


Preliminary Worldwide PC Shipments 2Q15

| | 2Q15 Shipments | 2Q15 Market Share | 2Q14 Shipments | 2Q14 Market Share | 2Q15/2Q14 Growth |
|--------|----------------|-------------------|----------------|-------------------|------------------|
| Lenovo | 13,444 | 20.3% | 14,535 | 19.4% | -7.5% |
| HP | 12,253 | 18.5% | 13,675 | 18.2% | -10.4% |
| Dell | 9,560 | 14.5% | 10,466 | 14% | -8.7% |
| Apple | 5,136 | 7.8% | 4,423 | 5.9% | 16.1% |
| Acer | 4,334 | 6.6% | 5,932 | 7.9% | -26.9% |
| ASUS | 4,330 | 6.5% | 4,693 | 6.3% | -7.7% |
| Others | 17,082 | 25.8% | 21,274 | 28.4% | -19.7% |
| Total | 66,140 | 100% | 74,998 | 100% | -11.8% |

iPhone

- June 2007: iPhone 1
- 2015: iPhone 6s and 6s Plus
 - 13M iPhones sold three days after launch
- Provide synchronization across other Apple's devices
- Siri: voice-controlled assistant
- Retina HD display
- 2015: 66% total net sales
- According to Tim Cook, 30% of customers who purchased iPhones in Q4 2015 were Android users



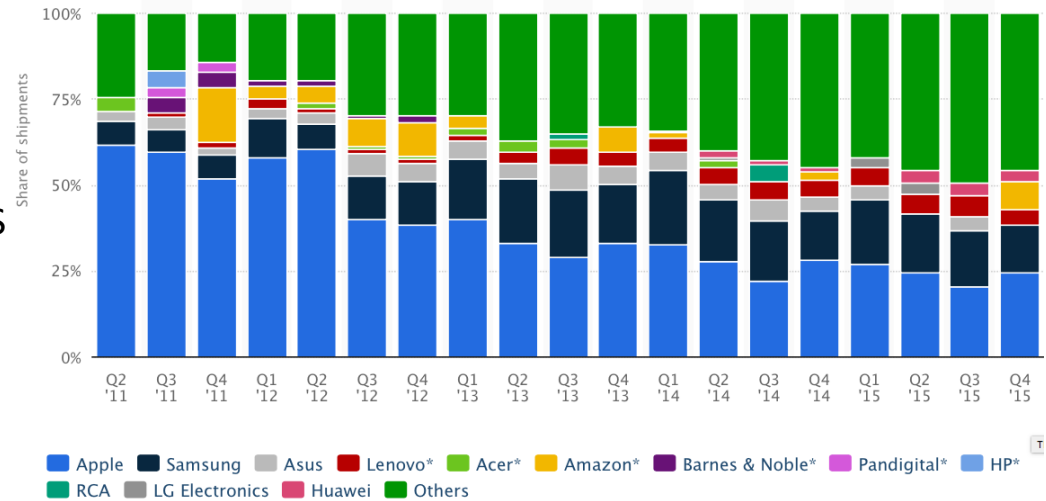
Smartphone market share in the US (2013 – 2015)



| Dec '15 | |
|--------------|-------|
| • Android | 59.1% |
| • iOS | 39.1% |
| • Windows | 1.6% |
| • BlackBerry | 0.1% |
| • Others | 0.1% |

iPad

- April 2010: 1st iPad
- Multi-purpose tablets based on Apple's iOS Multi-Touch operating system
- Lines:
 - iPad Air (9.4")
 - iPad mini (8")
 - iPad Pro (12.9")

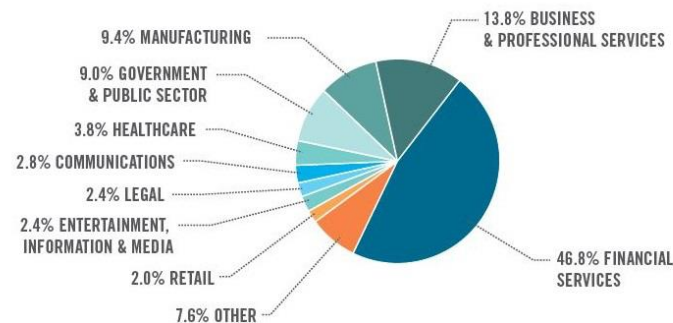


Global market share held by tablet vendors Q2 2011 – Q4 2015



Goodman iPad Activations by Industry Q4 2013: October thru December

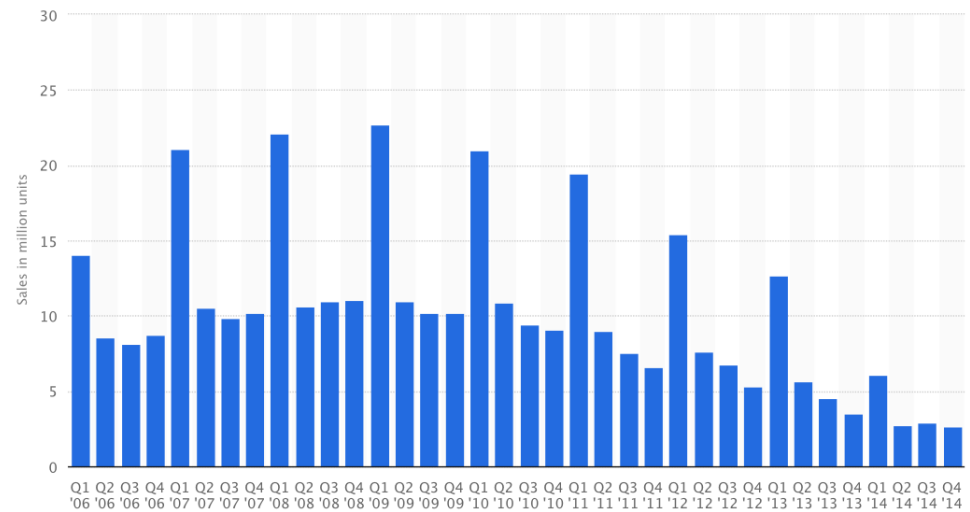
The Financial Services Industry and Business and Professional Services, iPad activations across both also saw significant growth quarter over quarter. After a slight dip last quarter, the Legal sector also saw a bump in activations, as did the Communications sector.



| | |
|-----------|-------|
| • Apple | 24.5% |
| • Samsung | 13.7% |
| • Lenovo* | 4.8% |
| • Amazon* | 7.9% |
| • Huawei | 3.4% |
| • Others | 45.8% |

iPod

- October 2001: 1st release
- Latest: iPod Touch 6th gen
- Portable digital music and media players
- Lines:
 - Classic
 - Nano
 - Mini
 - Shuffle
 - Touch



Global Apple iPod sales Q1 2006 – Q4 2014 (in million units)

Apple Watch

- April 2015: 1st release
- Design:
 - Cases: aluminum, stainless steel, 18-karat gold
 - Sapphire crystal display
 - Straps: stainless steel, leather, etc.
- Price: CA\$499 – 22,000 !!!
- Incorporates fitness tracking and health-oriented capabilities with integration with iOS and other Apple products and services
- Need an iPhone nearby to pair to
 - iPhone 5 and up



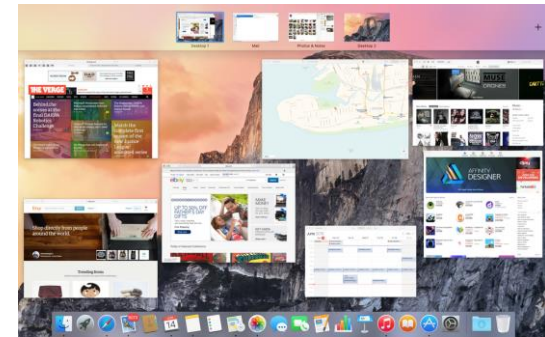
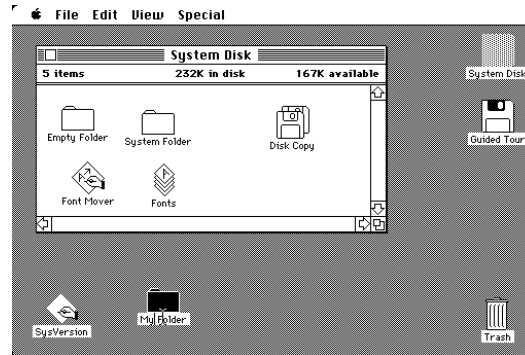
Apple TV

- January 2007: 1st release
- 2015: 4th gen
 - tvOS: enables App Store
- Connects to HD TVs
- Streams digital contents from iTunes Store:
 - Photos, videos, music
 - Movies



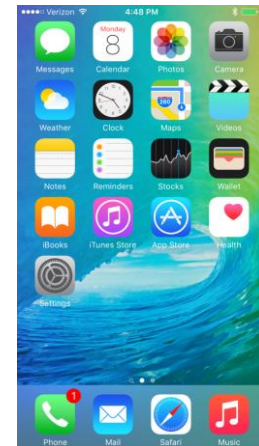
Mac OS

- Apple's operating system for the Macintosh line
- Evolution
 - 1984 – 2000: Classic Mac OS
 - 2001 – present: OS X



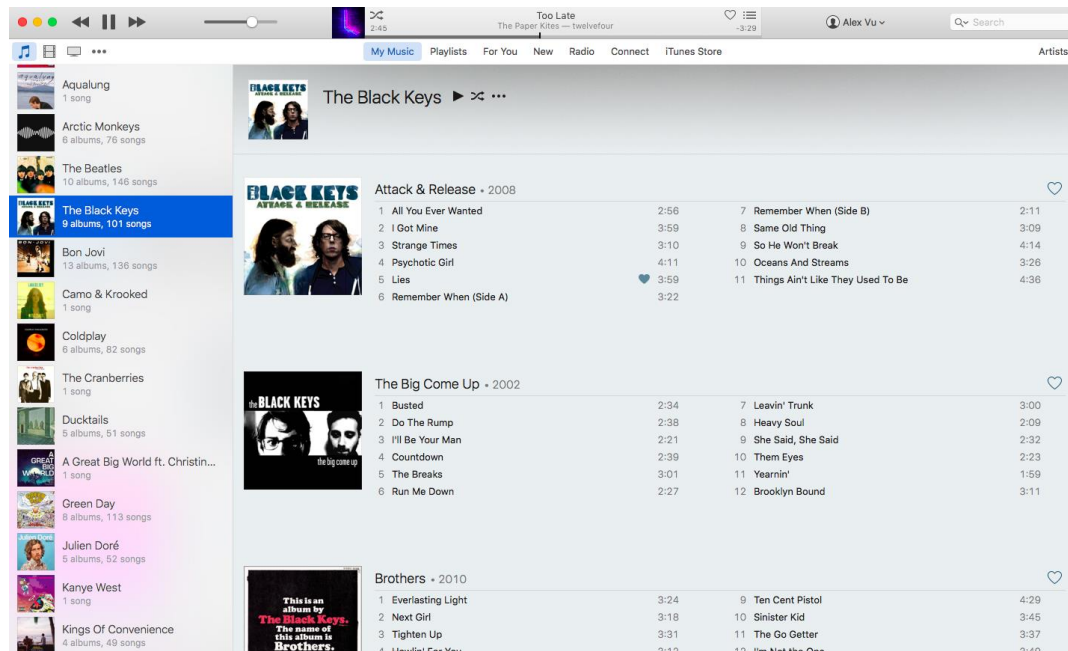
iOS

- Apple's Multi-Touch mobile operating system for iPhone, iPad, iPod Touch
- Latest version: iOS 9.2.1



iTunes

- January 2001: release date
- 2014: iTunes 12
- Keeps users' music, videos, movies, and TV shows organized in one place
- Available for both OS and Windows operating systems
- iTunes Store: the world's largest music vendor since 2010



Apple Pay

- October 2014: release date
- Apple's mobile payment and digital wallet service
 - US and UK: all credit and debit cards
 - Other countries: AmEx only
- Compatibles with iPhone, iPad, and Apple Watch



iCloud

- October 2011: release date
- Stores data such as photos, applications, contacts, calendars, and documents
 - 5GB of free storage
- Keep data up-to-date
 - Wireless backups



MANAGEMENT TEAM

Tim Cook

- CEO (2011 – now)
 - Former Chief Operating Officer
- Education:
 - Auburn University: Industrial Engineering
 - Duke University - MBA
- Prior to joining Apple
 - IBM: Director of NA Fulfillment
 - Intelligent Electronics: Chief operating officer of the Reseller Division
 - Compaq: VP of Corporate Materials



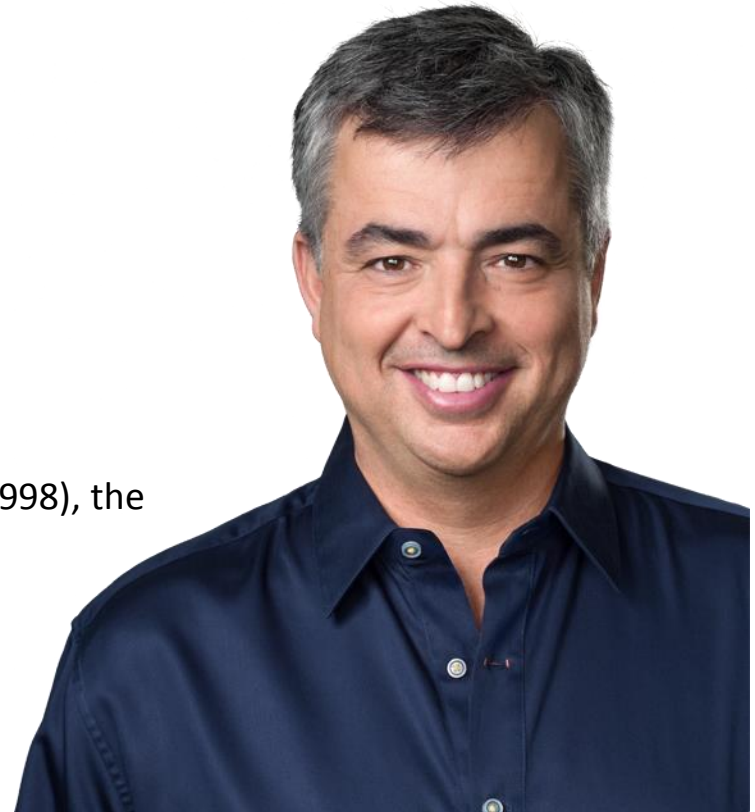
Angela Ahrendts

- Senior VP of Retail and Online Stores
 - Joined Apple in May 2014
- Responsible for the operation and expansion of Apple retail and online stores
 - She unified the online and retail departments internally → Improvements on shopping experience
- Prior to Apple:
 - Burberry: former CEO
- Education: Ball State University
 - Marketing and Merchandising



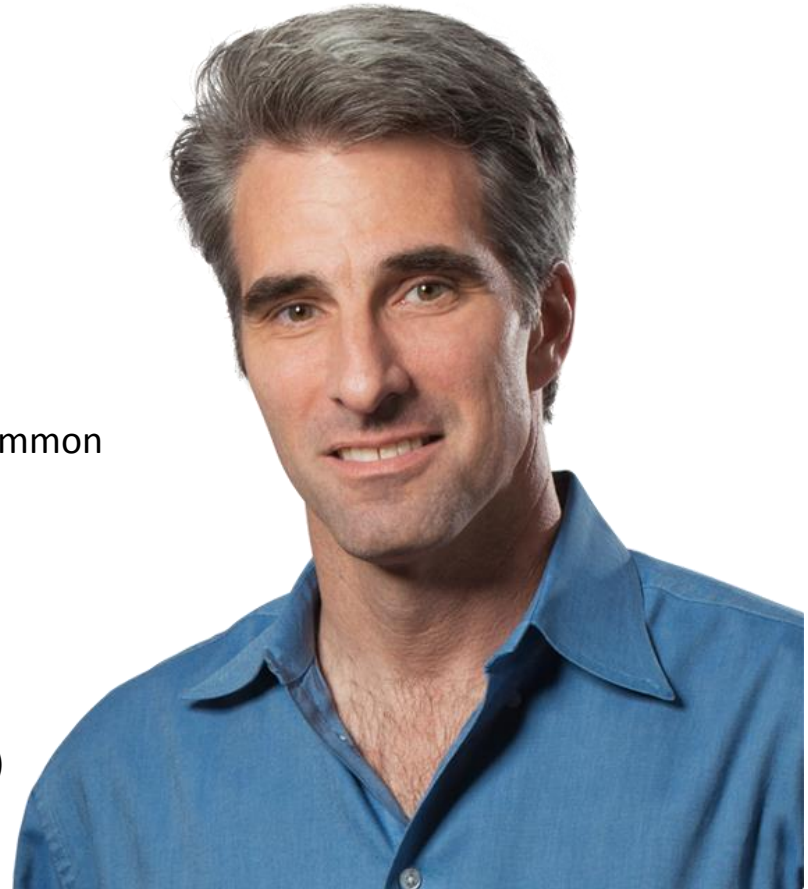
Eddy Cue

- Senior VP of Internet Software and Services
 - Joined Apple in 1989
- Oversees Apple's content stores:
 - iTunes Store, App Store, iBookstore
 - Siri, Maps, iAd, iCloud
- Played a major role in creating the Apple online store (1998), the iTunes Store (2003), and the App Store (2008)
- Education: Duke University
 - Computer Science and Economics (B)



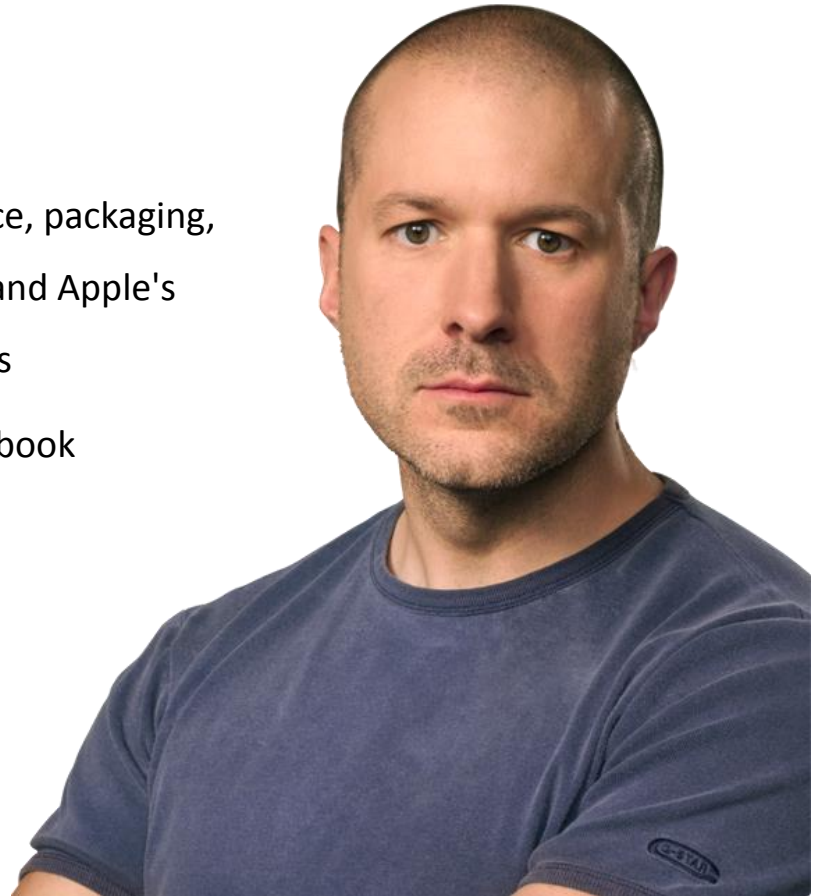
Craig Federighi

- Senior VP of Software Engineering
 - A former NeXT employee
 - Joined Apple in 2009
- Oversees the development of iOS, OS X and Apple's common operating system engineering teams
- Education: University of California
 - Computer Science (B)
 - Electrical Engineering and Computer Science (M)



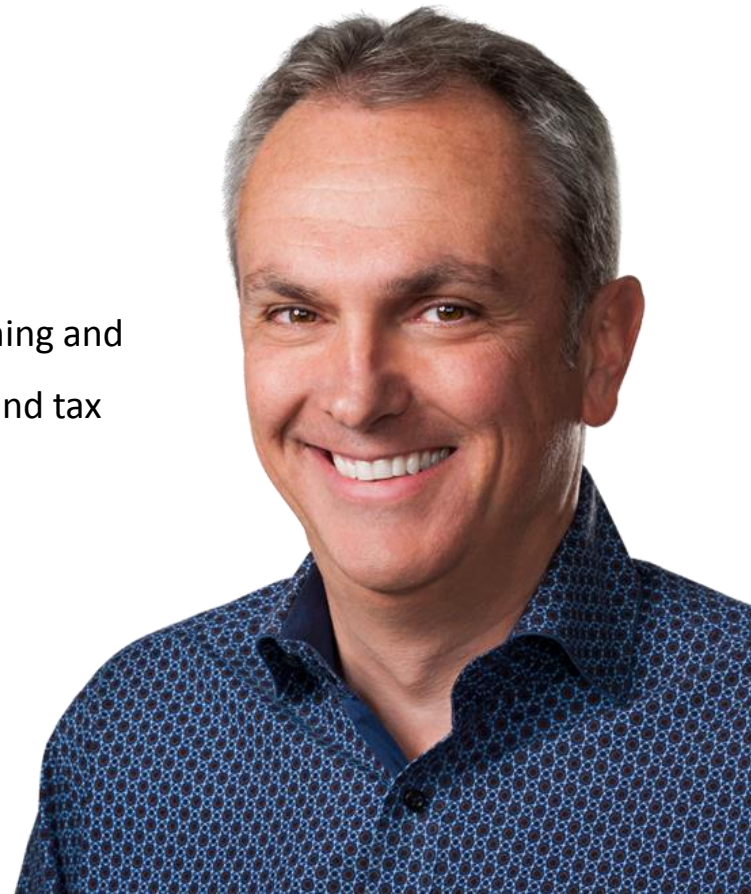
Jonathan Ive

- Chief Design Officer
 - Joined Apple in 1992
- Oversees the designs of Apple hardware, user interface, packaging, major architectural projects such as Apple Campus 2 and Apple's retail stores, as well as new ideas and future initiatives
 - MacBook Pro, iMac, MacBook Air, the new Macbook
 - iPod, iPod Touch, iPhone, iPad, iPad Mini
- Notable honors and awards:
 - 2007: National Design Award (US)
 - 2012: Knight Commander of the British Empire
- Education: Newcastle Polytechnic
 - Bachelor of Arts degree



Luca Maestri

- Senior VP and Chief Financial Officer
 - Joined Apple in 2013
- Oversees the accounting, business support, financial planning and analysis, treasury, M&A, investor relations, internal audit and tax functions at Apple
- Prior to Apple:
 - CFO at Xerox, Nokia Siemens Networks, and GM
- Education:
 - Luiss University in Rome: Economics (B)
 - Boston University: Management (M)



Dan Riccio

- Senior VP, Hardware Engineering
 - Joined Apple in 1998
- Leads the Mac, iPhone, iPad and iPod engineering teams
- Prior to Apple:
 - Compaq: Senior Manager of Mechanical Engineering
- Education: University of Massachusetts Amherst
 - Mechanical Engineering (B)



Phillip W. Schiller

- Senior VP of Worldwide Marketing
 - Joined Apple in 1997
- Prior to Apple:
 - Macromedia, Inc.: VP of Product Marketing
 - FirePower Systems, Inc.: Director of Product Marketing
 - Nolan, Norton & Company: Information Technology Manager
 - Massachusetts General Hospital: Programmer and Systems Analyst
- Education: Boston College
 - Biology (B)



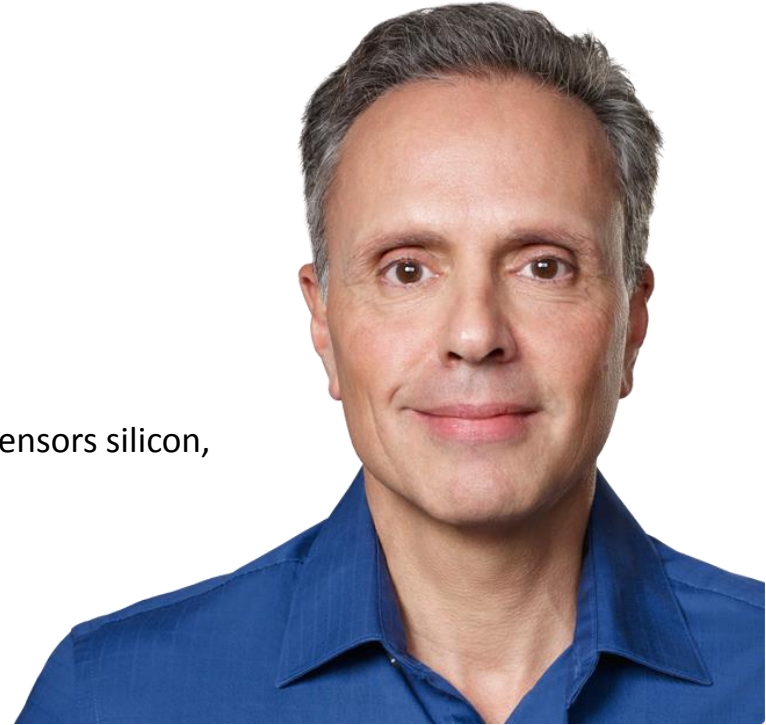
Bruce Sewell

- Senior VP and General Counsel
 - Joined Apple in 2009
- Oversees legal matters:
 - corporate governance
 - intellectual property
 - litigation and securities compliance
 - government affairs
- Prior to Apple
 - Intel: VP and deputy general counsel
- Education:
 - University of Lancaster: Science (B)
 - George Washington University: JD



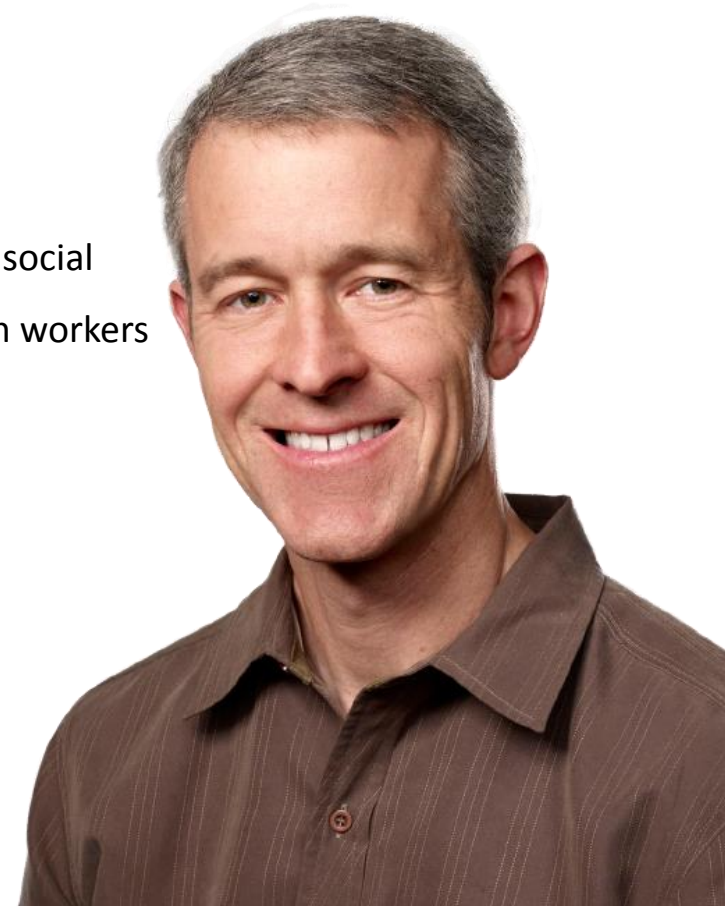
Johnny Srouji

- Senior VP of Hardware Technologies
 - Joined Apple in 2008
- Oversees Apple's custom silicon and hardware technologies:
 - batteries, application processors, storage controllers, sensors silicon, display silicon and other chipsets
- Prior to Apple:
 - Intel and IBM: processor development and design
- Education:
 - Technion, Israel's Institute of Technology: Computer Science (B and M)



Jeff Williams

- Chief Operating Officer
 - Joined Apple in 1998
- Oversees Apple's supply chain, service and support, and the social responsibility initiatives which protect more than one million workers worldwide
- 2013: leads the Apple Watch project
- Prior to Apple:
 - IBM: operations and engineering roles
- Education:
 - North Carolina University: Mechanical Engineering (B)
 - Duke University - MBA



FINANCIAL STATEMENTS

Balance Sheet 10-Q (Q1-2016)

| | December 26, 2015 | September 26, 2015 |
|---|-------------------|--------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 16,689 | \$ 21,120 |
| Short-term marketable securities | 21,385 | 20,481 |
| Accounts receivable, less allowances of \$63 in each period | 12,953 | 16,849 |
| Inventories | 2,451 | 2,349 |
| Vendor non-trade receivables | 11,668 | 13,494 |
| Other current assets | 11,073 | 15,085 |
| Total current assets | 76,219 | 89,378 |
| Long-term marketable securities | 177,665 | 164,065 |
| Property, plant and equipment, net | 22,300 | 22,471 |
| Goodwill | 5,202 | 5,116 |
| Acquired intangible assets, net | 3,924 | 3,893 |
| Other non-current assets | 7,974 | 5,556 |
| Total assets | <u>\$ 293,284</u> | <u>\$ 290,479</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$ 33,312 | \$ 35,490 |
| Accrued expenses | 24,032 | 25,181 |
| Deferred revenue | 8,989 | 8,940 |
| Commercial paper | 7,259 | 8,499 |
| Current portion of long-term debt | 2,500 | 2,500 |
| Total current liabilities | 76,092 | 80,610 |
| Deferred revenue, non-current | 3,546 | 3,624 |
| Long-term debt | 53,204 | 53,463 |
| Other non-current liabilities | 32,175 | 33,427 |
| Total liabilities | 165,017 | 171,124 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock and additional paid-in capital, \$0.00001 par value: 12,600,000 shares authorized; 5,544,487 and 5,578,753 shares issued and outstanding, respectively | 28,253 | 27,416 |
| Retained earnings | 101,494 | 92,284 |
| Accumulated other comprehensive income/(loss) | (1,480) | (345) |
| Total shareholders' equity | 128,267 | 119,355 |
| Total liabilities and shareholders' equity | <u>\$ 293,284</u> | <u>\$ 290,479</u> |

Balance Sheet 10-K

| | September 26, 2015 | September 27, 2014 |
|---|-----------------------|-----------------------|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21,120 | \$ 13,844 |
| Short-term marketable securities | 20,481 | 11,233 |
| Accounts receivable, less allowances of \$82 and \$86, respectively | 16,849 | 17,460 |
| Inventories | 2,349 | 2,111 |
| Deferred tax assets | 5,546 | 4,318 |
| Vendor non-trade receivables | 13,494 | 9,759 |
| Other current assets | 9,539 | 9,806 |
| Total current assets | 89,378 | 68,531 |
| Long-term marketable securities | 164,065 | 130,162 |
| Property, plant and equipment, net | 22,471 | 20,624 |
| Goodwill | 5,116 | 4,616 |
| Acquired intangible assets, net | 3,893 | 4,142 |
| Other assets | 5,556 | 3,764 |
| Total assets | \$ 290,479 | \$ 231,839 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current liabilities: | | |
| Accounts payable | \$ 35,490 | \$ 30,196 |
| Accrued expenses | 25,181 | 18,453 |
| Deferred revenue | 8,940 | 8,491 |
| Commercial paper | 8,499 | 6,308 |
| Current portion of long-term debt | 2,500 | 0 |
| Total current liabilities | 80,610 | 63,448 |
| Deferred revenue, non-current | 3,624 | 3,031 |
| Long-term debt | 53,463 | 28,987 |
| Other non-current liabilities | 33,427 | 24,826 |
| Total liabilities | 171,124 | 120,292 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock and additional paid-in capital, \$0.00001 par value: 12,600,000 shares authorized; 5,578,753 and 5,866,161 shares issued and outstanding, respectively | 27,416 | 23,313 |
| Retained earnings | 92,284 | 87,152 |
| Accumulated other comprehensive income | (345) | 1,082 |
| Total shareholders' equity | 119,355 | 111,547 |
| Total liabilities and shareholders' equity | \$ 290,479 | \$ 231,839 |

Income Statement 10-K

| | Years ended | | |
|--|-----------------------|-----------------------|-----------------------|
| | September 26, 2015 | September 27, 2014 | September 28, 2013 |
| Net sales | \$ 233,715 | \$ 182,795 | \$ 170,910 |
| Cost of sales | 140,089 | 112,258 | 106,606 |
| Gross margin | 93,626 | 70,537 | 64,304 |
| Operating expenses: | | | |
| Research and development | 8,067 | 6,041 | 4,475 |
| Selling, general and administrative | 14,329 | 11,993 | 10,830 |
| Total operating expenses | 22,396 | 18,034 | 15,305 |
| Operating income | 71,230 | 52,503 | 48,999 |
| Other income/(expense), net | 1,285 | 980 | 1,156 |
| Income before provision for income taxes | 72,515 | 53,483 | 50,155 |
| Provision for income taxes | 19,121 | 13,973 | 13,118 |
| Net income | \$ 53,394 | \$ 39,510 | \$ 37,037 |
| Earnings per share: | | | |
| Basic | \$ 9.28 | \$ 6.49 | \$ 5.72 |
| Diluted | \$ 9.22 | \$ 6.45 | \$ 5.68 |
| Shares used in computing earnings per share: | | | |
| Basic | 5,753,421 | 6,085,572 | 6,477,320 |
| Diluted | 5,793,069 | 6,122,663 | 6,521,634 |
| Cash dividends declared per share | \$ 1.98 | \$ 1.82 | \$ 1.64 |

Income Statement Q1-2016

| | Three Months Ended | |
|--|--------------------|-------------------|
| | December 26, 2015 | December 27, 2014 |
| Net sales | \$ 75,872 | \$ 74,599 |
| Cost of sales | 45,449 | 44,858 |
| Gross margin | 30,423 | 29,741 |
| Operating expenses: | | |
| Research and development | 2,404 | 1,895 |
| Selling, general and administrative | 3,848 | 3,600 |
| Total operating expenses | 6,252 | 5,495 |
| Operating income | 24,171 | 24,246 |
| Other income/(expense), net | 402 | 170 |
| Income before provision for income taxes | 24,573 | 24,416 |
| Provision for income taxes | 6,212 | 6,392 |
| Net income | <u>\$ 18,361</u> | <u>\$ 18,024</u> |
| Earnings per share: | | |
| Basic | \$ 3.30 | \$ 3.08 |
| Diluted | \$ 3.28 | \$ 3.06 |
| Shares used in computing earnings per share: | | |
| Basic | 5,558,930 | 5,843,082 |
| Diluted | 5,594,127 | 5,881,803 |
| Cash dividends declared per share | \$ 0.52 | \$ 0.47 |

Cash Flow 10-K

| | September 26, 2015 | September 27, 2014 | September 28, 2013 |
|--|-----------------------|-----------------------|-----------------------|
| Cash and cash equivalents, beginning of the year | \$ 13,844 | \$ 14,259 | \$ 10,746 |
| Operating activities: | | | |
| Net income | 53,394 | 39,510 | 37,037 |
| Adjustments to reconcile net income to cash generated by operating activities: | | | |
| Depreciation and amortization | 11,257 | 7,946 | 6,757 |
| Share-based compensation expense | 3,586 | 2,863 | 2,253 |
| Deferred income tax expense | 1,382 | 2,347 | 1,141 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | 611 | (4,232) | (2,172) |
| Inventories | (238) | (76) | (973) |
| Vendor non-trade receivables | (3,735) | (2,220) | 223 |
| Other current and non-current assets | (179) | 167 | 1,080 |
| Accounts payable | 5,400 | 5,938 | 2,340 |
| Deferred revenue | 1,042 | 1,460 | 1,459 |
| Other current and non-current liabilities | 8,746 | 6,010 | 4,521 |
| Cash generated by operating activities | 81,266 | 59,713 | 53,666 |
| Investing activities: | | | |
| Purchases of marketable securities | (166,402) | (217,128) | (148,489) |
| Proceeds from maturities of marketable securities | 14,538 | 18,810 | 20,317 |
| Proceeds from sales of marketable securities | 107,447 | 189,301 | 104,130 |
| Payments made in connection with business acquisitions, net | (343) | (3,765) | (496) |
| Payments for acquisition of property, plant and equipment | (11,247) | (9,571) | (8,165) |
| Payments for acquisition of intangible assets | (241) | (242) | (911) |
| Other | (26) | 16 | (160) |
| Cash used in investing activities | (56,274) | (22,579) | (33,774) |
| Financing activities: | | | |
| Proceeds from issuance of common stock | 543 | 730 | 530 |
| Excess tax benefits from equity awards | 749 | 739 | 701 |
| Taxes paid related to net share settlement of equity awards | (1,499) | (1,158) | (1,082) |
| Dividends and dividend equivalents paid | (11,561) | (11,126) | (10,564) |
| Repurchase of common stock | (35,253) | (45,000) | (22,860) |
| Proceeds from issuance of term debt, net | 27,114 | 11,960 | 16,896 |
| Change in commercial paper, net | 2,191 | 6,306 | 0 |
| Cash used in financing activities | (17,716) | (37,549) | (16,379) |
| Increase/(decrease) in cash and cash equivalents | 7,276 | (415) | 3,513 |
| Cash and cash equivalents, end of the year | \$ 21,120 | \$ 13,844 | \$ 14,259 |
| Supplemental cash flow disclosure: | | | |
| Cash paid for income taxes, net | \$ 13,252 | \$ 10,026 | \$ 9,128 |
| Cash paid for interest | \$ 514 | \$ 339 | \$ 0 |

Income Statement Q1-2016

| | Three Months Ended | |
|--|--------------------|-------------------|
| | December 26, 2015 | December 27, 2014 |
| Cash and cash equivalents, beginning of the period | \$ 21,120 | \$ 13,844 |
| Operating activities: | | |
| Net income | 18,361 | 18,024 |
| Adjustments to reconcile net income to cash generated by operating activities: | | |
| Depreciation and amortization | 2,954 | 2,575 |
| Share-based compensation expense | 1,078 | 888 |
| Deferred income tax expense | 1,592 | 2,197 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 3,896 | 751 |
| Inventories | (102) | (172) |
| Vendor non-trade receivables | 1,826 | (3,508) |
| Other current and non-current assets | (893) | (1,648) |
| Accounts payable | (852) | 9,003 |
| Deferred revenue | (29) | 945 |
| Other current and non-current liabilities | (368) | 4,667 |
| Cash generated by operating activities | 27,463 | 33,722 |
| Investing activities: | | |
| Purchases of marketable securities | (47,836) | (44,915) |
| Proceeds from maturities of marketable securities | 3,514 | 2,807 |
| Proceeds from sales of marketable securities | 28,262 | 24,166 |
| Payments made in connection with business acquisitions, net | (86) | (23) |
| Payments for acquisition of property, plant and equipment | (3,612) | (3,217) |
| Payments for acquisition of intangible assets | (394) | (48) |
| Other | (298) | 65 |
| Cash used in investing activities | (20,450) | (21,165) |
| Financing activities: | | |
| Proceeds from issuance of common stock | 1 | 80 |
| Excess tax benefits from equity awards | 224 | 264 |
| Payments for taxes related to net share settlement of equity awards | (597) | (512) |
| Payments for dividends and dividend equivalents | (2,969) | (2,801) |
| Repurchase of common stock | (6,863) | (5,030) |
| Proceeds from issuance of term debt, net | 0 | 3,485 |
| Change in commercial paper, net | (1,240) | (2,409) |
| Cash used in financing activities | (11,444) | (6,923) |
| Increase/(decrease) in cash and cash equivalents | (4,431) | 5,634 |
| Cash and cash equivalents, end of the period | \$ 16,689 | \$ 19,478 |
| Supplemental cash flow disclosure: | | |
| Cash paid for income taxes, net | \$ 3,398 | \$ 3,869 |
| Cash paid for interest | \$ 396 | \$ 202 |

BUY!



Financial Snapshot

Nasdaq: **GOOGL**
Alphabet Inc

Last (U.S.) **\$750.24** Today's change **+5.37 +0.72%** P/E **32.879** Market cap **257.17B** 52-week range 

Updated March 14 4:00 PM EDT. Delayed by at least 15 minutes.

+ Indicators

+ Events

+ Comparisons

+ Style

+ Settings

Reset Chart



1 day 5 days 10 days 1 month 3 months 6 months 9 months YTD 1 year 3 years 5 years 10 years max custom timeframe



Key company metrics

Updated March 14 4:00 PM EDT. Delayed by at least 15 minutes.

| | | | | | |
|----------------|-----------------------------------|--------------------------|------------------------------------|---------------------------|----------------|
| Open | (U.S.) \$744.97 | Volume | 1,640,113 | Trailing P/E | 32.88× |
| Previous close | (U.S.) \$744.87 | Average volume (10-day) | 2,321,782 | P/E 1 year forward | 21.59× |
| High | (U.S.) \$754.26 | Average volume (1-month) | 3,080,076 | Forward PEG | 1.32× |
| Low | (U.S.) \$743.66 | Average volume (3-month) | 2,464,878 | Indicated annual dividend | -- |
| Bid / Ask | (U.S.) \$749.90 / (U.S.) \$750.40 | 52-week range | (U.S.) \$529.00 to (U.S.) \$810.35 | Dividend yield | 0.00% |
| YTD % change | -3.57% | Beta | 0.90 | Trailing EPS | (U.S.) \$22.82 |

One Year Performance-2015

Nasdaq: GOOGL
Alphabet Inc

Last
(U.S.) **\$744.87**

Today's change
+12.70 +1.73%

P/E
32.644

Market cap
255.33B

52-week range

Updated March 11 4:00 PM EST. Delayed by at least 15 minutes.

+ Indicators

+ Events

+ Comparisons

+ Style

+ Settings

Reset Chart

1 day

5 days

10 days

1 month

3 months

6 months

9 months

YTD

1 year

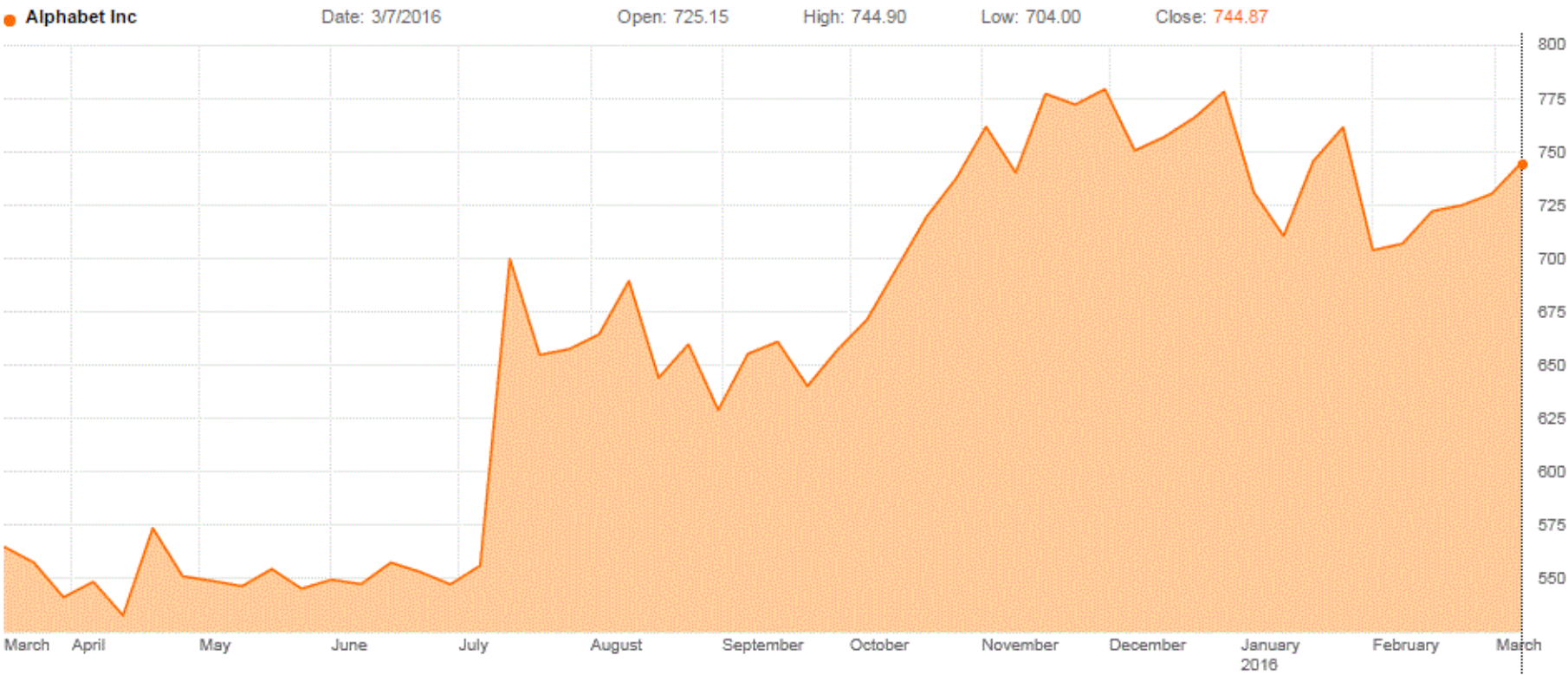
3 years

5 years

10 years

max

custom timeframe



Five Years Performance

Nasdaq: **GOOGL**
Alphabet Inc

Last (U.S.) **\$744.87** Today's change **+12.70 +1.73%** P/E **32.644** Market cap **255.33B** 52-week range 

Updated March 11 4:00 PM EST. Delayed by at least 15 minutes.

+ Indicators

+ Events

+ Comparisons

+ Style

+ Settings

Reset Chart



1 day 5 days 10 days 1 month 3 months 6 months 9 months YTD 1 year 3 years **5 years** 10 years max custom timeframe



Ten Years Performance

Nasdaq: GOOGL

Alphabet Inc

Last
(U.S.) **\$744.87** **+12.70 +1.73%**

Today's change
32.644 **255.33B**

P/E

Market cap

52-week range

Updated March 11 4:00 PM EST. Delayed by at least 15 minutes.

+ Indicators

+ Events

+ Comparisons

+ Style

+ Settings

Reset Chart



1 day

5 days

10 days

1 month

3 months

6 months

9 months

YTD

1 year

3 years

5 years

10 years

max

custom timeframe

Alphabet Inc

Date: 3/1/2016

Open: 721.30

High: 744.90

Low: 704.00

Close: 744.87



Industry Overview

Microsoft

Apple

Google

Google VS. Nasdaq VS. SP500 – YTD



Google VS. Nasdaq VS. SP500 – Five Years



Common Share Structure

Annual Data (in millions of shares)

| | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Shares Outstanding | 533.8 | 586.1 | 618.0 | 625.8 | 630.2 | 635.5 | 642.6 | 649.8 | 660.0 | 671.7 | 680.2 | 687.3 |

Shares Outstanding (in millions)



Common Share Structure

- **Common Shares Outstanding:** 687,348 Million (Balance as of December 31, 2015)
- **Class A (GOOGL)**
 - Listed on the Nasdaq Global Select Market since August 19, 2004
 - 1 vote per share
 - 2015 Q4: 292,297 million shares outstanding
- **Class B**
 - 10 votes per share
 - Only available to Google insiders and executives
 - As of Dec 31, 2015, Larry, Sergey, and Eric owned approximately **92.5% of outstanding Class B common stock**, which represented approximately **58.5% of the voting power** of outstanding capital stock
 - 2015 Q4 : 50,295 million shares outstanding
- **Class C (GOOG) – Capital stock**
 - Listed on the Nasdaq Global Select Market since April 3, 2014
 - no voting rights: maintain control of Google's direction
 - Repurchased 2,391 million shares
 - 2015 Q4 : 344,756 million shares outstanding

History and Milestones

1996: Larry and Sergey create a search engine called BackRub (Operating on Stanford servers). It featured an efficient algorithm named “PageRank”

1997: Google.com is registered as a domain

1998: Andy Bechtolsheim becomes first investor (\$100,000), and Google files for incorporation in California

1999: Venture capital firms Kleiner Perkins Caufield & Byers and Sequoia Capital provide \$25 million; Website officially launched

2000: Google AdWords launched (Paid web links with associated searches)

2001: Eric Schmidt becomes CEO and Chairman of the Board of Directors; “PageRank” granted a patent

2002: Google labs, Google Scholar released,.. AdWords becomes cost-per-click

2003: Re-incorporated in Delaware

2004: Google Local released (became Google Maps), Gmail released, IPO raised \$1.67 billion for 20 million shares at \$85

2005: Google Maps, Google Earth launched

2007: Share prices hit \$700

2011: Android exceeds 10 billion app downloads, growth rate of 1 billion downloads per month, Google Drive launched

2012: Google is the dominant search engine globally with 88.8% market share, Most visited website in the world

2013: 1 billion android devices activated, Calico founded, a company focused on health and well being

2014: Prototypes of self driving cars revealed

2015: In October, Alphabet Inc. was founded as the parent company of Google and several other companies

Key Acquisitions Before 2015

Major Acquisitions before 2015



- Google Inc announced the acquisition of Nest Labs Inc for USD 3,200.00M. The transaction was announced on 01/13/2014 and completed on 02/12/2014. Google purchased the digital thermostat maker as the Internet search company moves deeper into devices



- Space Exploration Technologies Corp raised USD 1000.00M in a financing round by investors Google and Fidelity on 01/20/2015



- A consortium led by Menlo Ventures sold Dropcam Inc to Google Inc for USD 517.00M. The transaction was announced on 06/21/2014 and completed on 07/31/2014

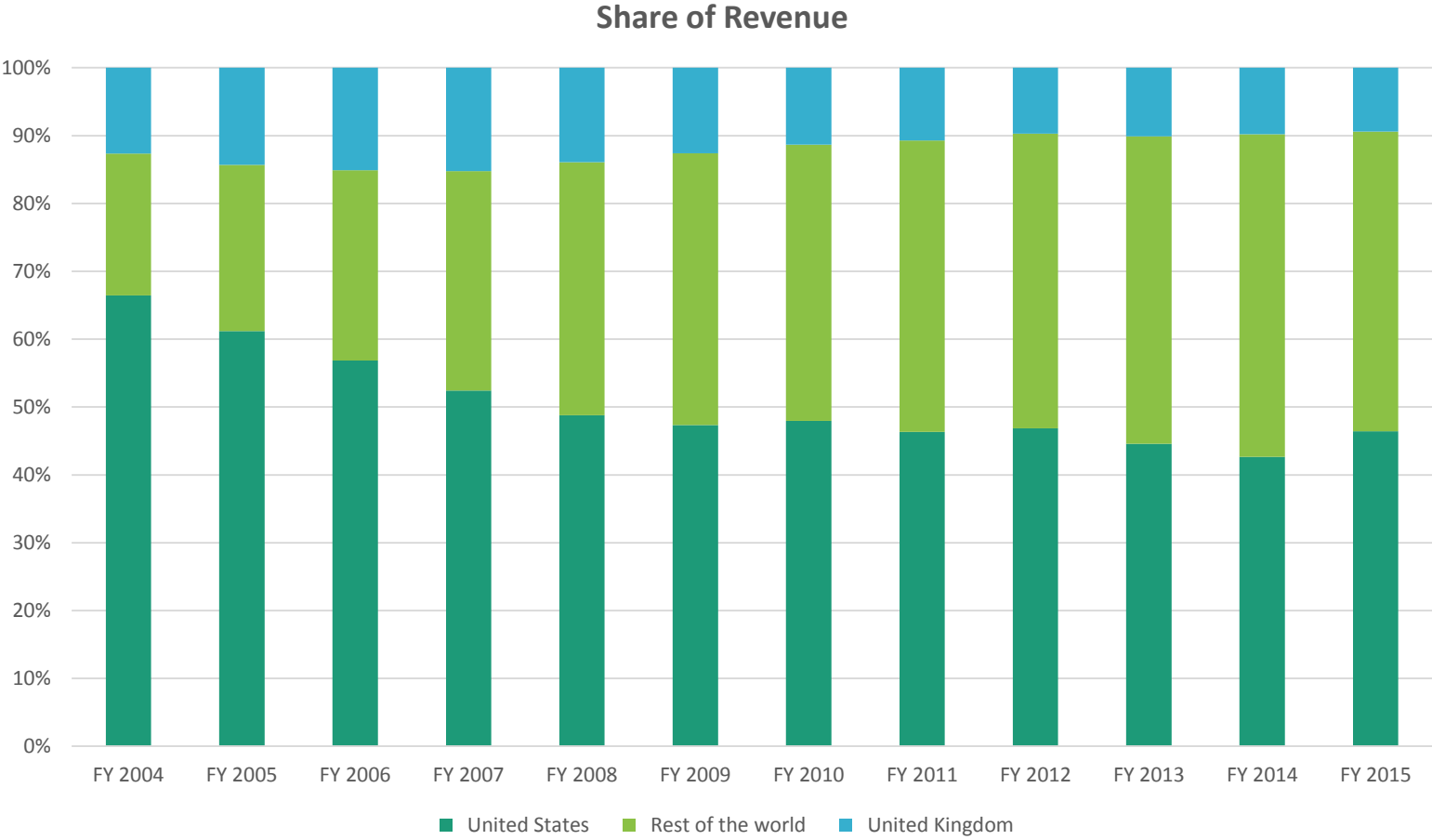


- On 06/10/2014, Skybox Imaging Inc announced it was being acquired by Google for USD 478.00M

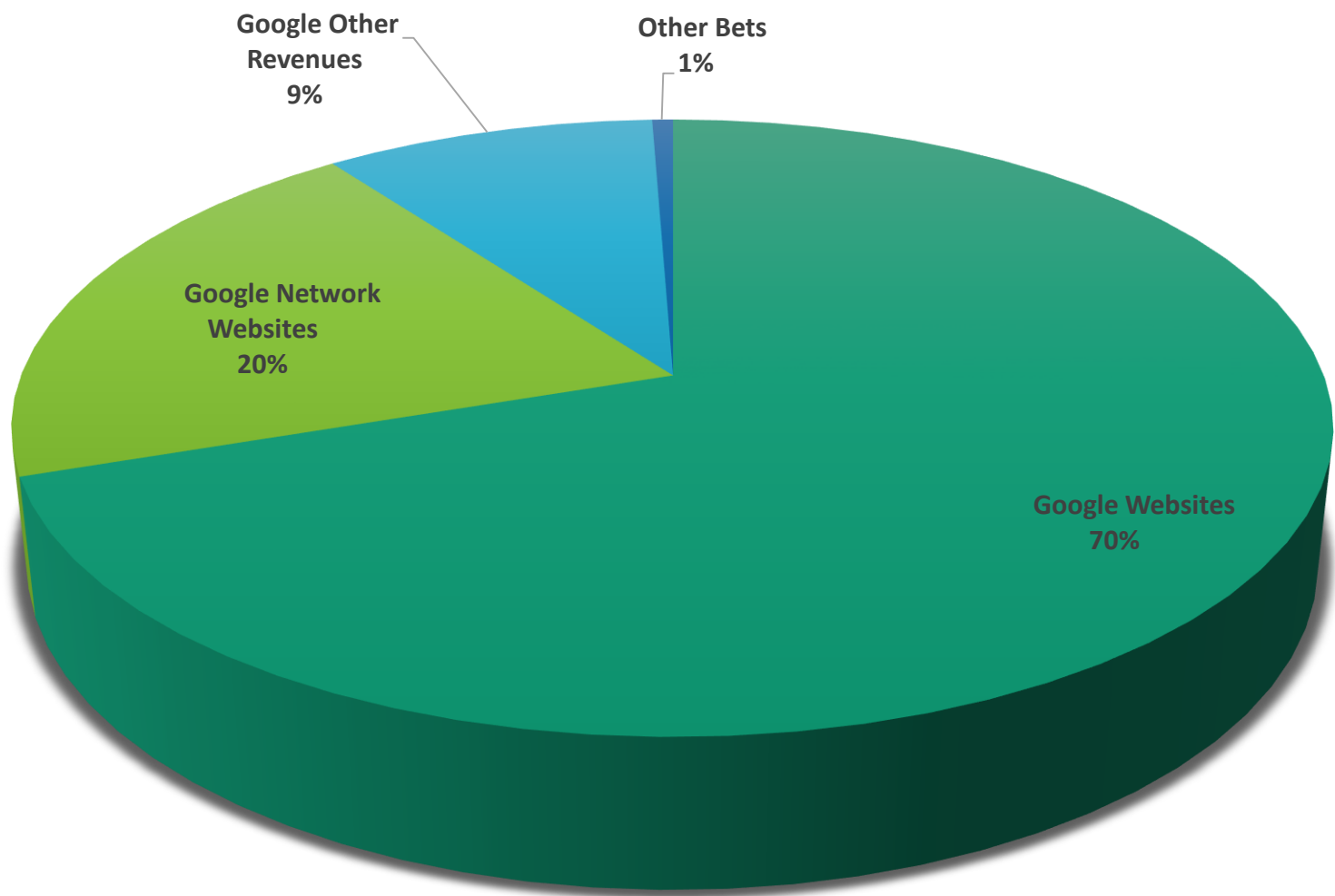
Products and Services

- Flight Explorer
- Google+
- Search
- Google Image
- Google Ads
- Google Docs
- Google Finance
- Google Photos
- Google Calendar
- Google Scholar
- Google Books
- Chrome
- Chrome OS
- Gmail
- Google Wallet
- Google TV
- Translate
- Google Ventures
- Patent Search
- Google Maps
- Google Earth
- Android mobile OS
- Google Play
- Google Blog Search
- Blogger
- YouTube

Revenue by Geography



2015 Revenue Breakdown



Google Websites Google Network Websites Google Other Revenues Other Bets


Company Overview and Business Strategy

- Google is a global technology leader **focused on improving the ways people connect with information.**
- **Their mission is to organize the world's information and make it universally accessible and useful.** Their innovations in web search and advertising have made their website a top internet property and their brand one of the most recognized in the world. Google generates revenues primarily by delivering relevant, cost-effective online advertising. Businesses use Google's AdWords program and AdSense program to promote their products and services with advertising on both Google- owned properties and publishers' sites across the web.
- Their business is primarily focused around the following key areas: **search and display advertising, the Android operating system platform, consumer content through Google Play, enterprise, commerce and hardware products.**



Ad Words

- Advertisers create ads to show alongside Google search results
- Advertisers “bid” in an auction to have their ads displayed alongside certain specific keywords
 - Pay per click
 - Cost-per-thousand

Ad Words



vancouver cars



Web

Images

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Industry Overview


Microsoft

Apple

Google

Google Maps Ads

Julia Web Images Videos **Maps** News Gmail More



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Get directions

My places

cars near Vancouver, BC

Did you mean: cars vancouver near Vancouver, BC

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Ads

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★★★★☆ 20 reviews

new car · automobile · used cars · service center · luxury

"parts delivery sucks" -





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Industry Overview

Microsoft

Apple

Google

Ad Sense

- Google partnerships with publishers within Google Network Members, who sell the ad space of their websites
- Ads are shown on publishers' websites in terms of relevancy to their products
- Google shares profits with the website publishers
 - Per click
 - Per impression

Google Glass

- The beginning of wearable technology
- Searches the web
- Records videos
- GPS navigation
- MP3



YouTube

- The biggest video site in the world
- More and more mobile viewers
- Google has established partnerships with content companies to aid in monetizing video in the mobile space



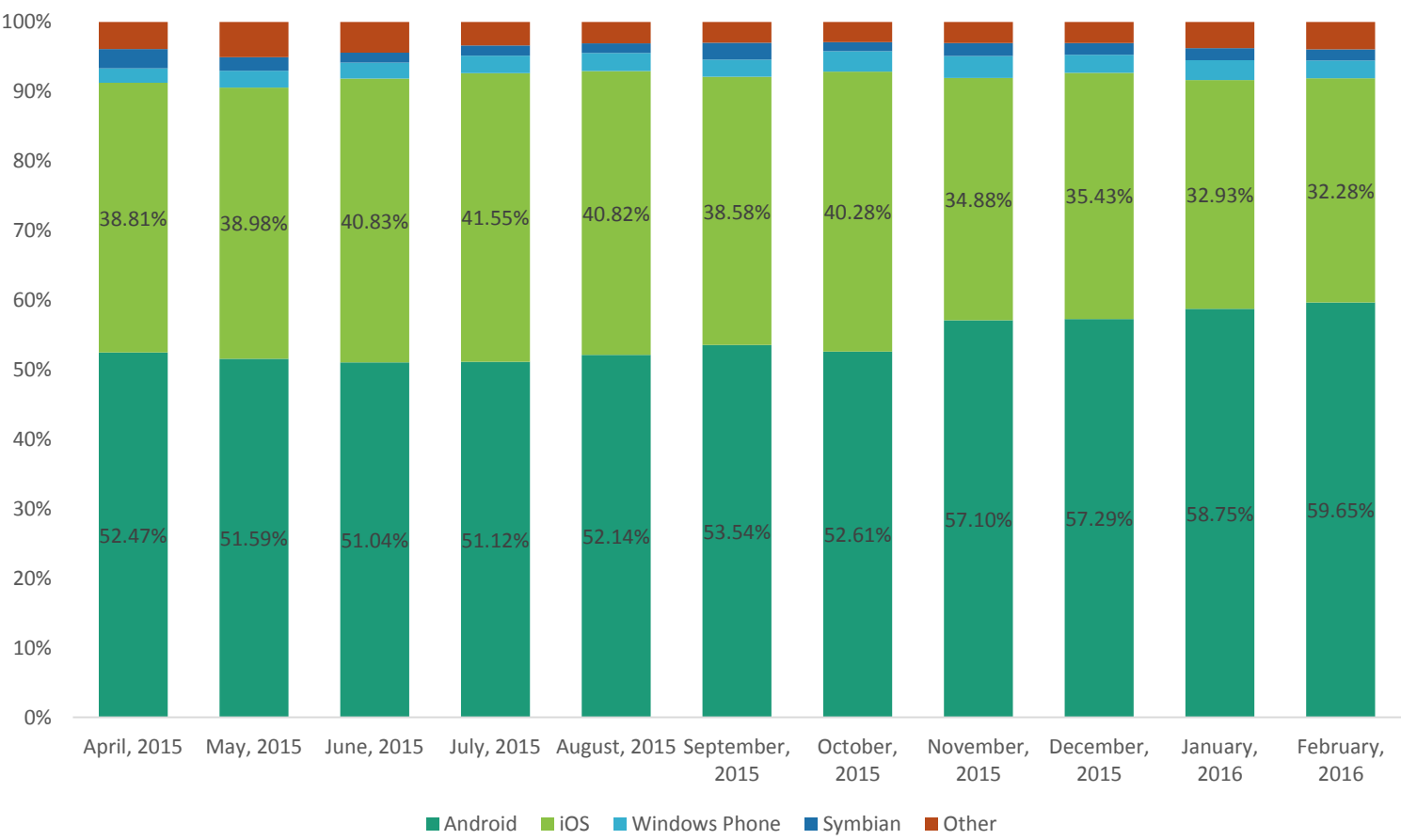
Google+

- Social Network like Facebook
- Integrated to Google owned platforms such as YouTube
- Google Hangout
- An OS designed for touch screen devices
 - Nexus, HTC One, Galaxy, Xperia Z
- Opened sourced



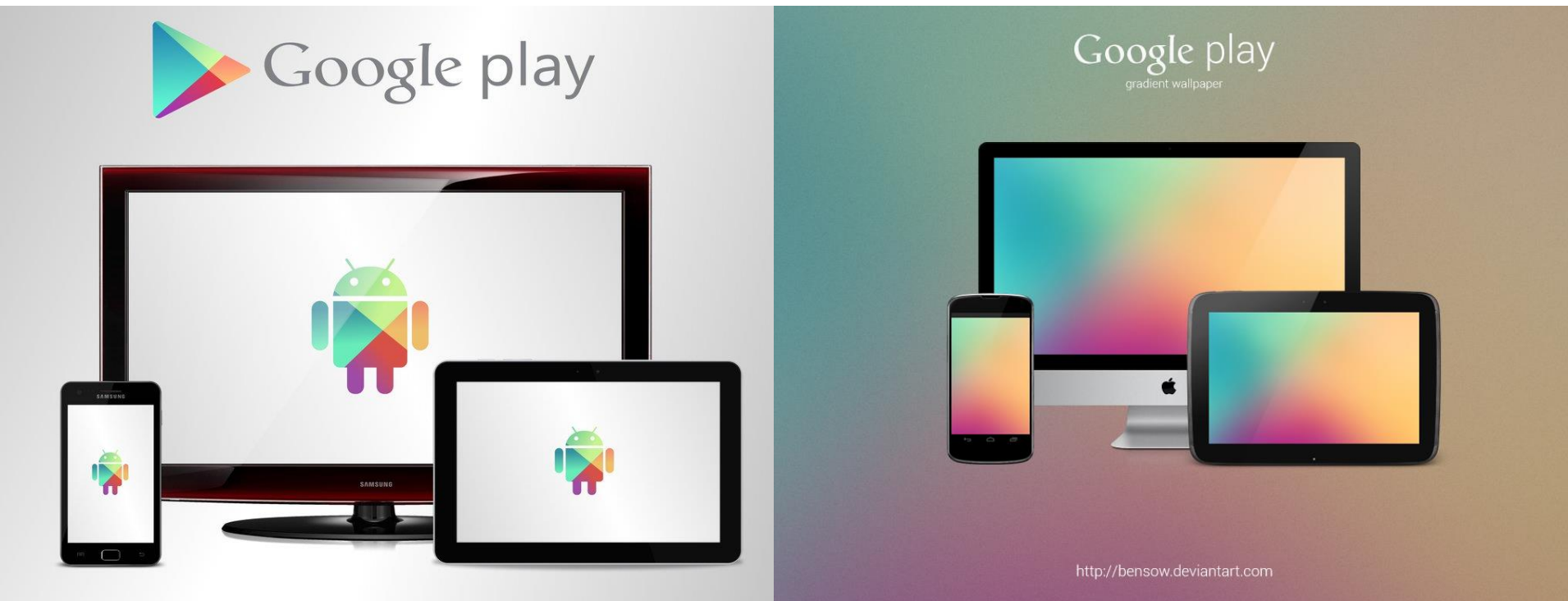
2015 Corporate Highlights

- **Android** - Android operating system continues to grow with more than a billion Android devices activated globally.



2015 Corporate Highlights

- **Google Play** - Google Play is an entirely cloud-based, digital entertainment store with more than a million apps and games plus millions of songs and books and thousands of movies that users can find, enjoy and share on their computer, phone or tablet.



2015 Corporate Highlights

Chromebooks and Chrome - Chromebooks are computers that are built for the way people work and live today. Chromebooks, like the Chrome browser, are built around the core tenets of speed, simplicity, and security.

Today, eight of the top computer manufacturers are making Chromebooks, and Chromebooks are used in more than 5,000 schools. Chrome has made browsing the web simpler, speedier and safer for more than 750 million users around the world.



2015 Corporate Highlights

- **Chromecast** - To help make it easy to bring users' favorite online entertainment to the biggest screen in their house - the TV - Google introduced Chromecast.
- Chromecast is a small and affordable device that users simply plug into their high-definition (HD) TV and it allows users to use their phone, tablet or laptop to "cast" online content to their TV screen. It works with Netflix, YouTube, Google Play Movies & TV, Google Play Music, HBO Go, Hulu Plus and Pandora. With Chromecast, they wanted to create an easy solution that works for everyone, for every TV in the house.



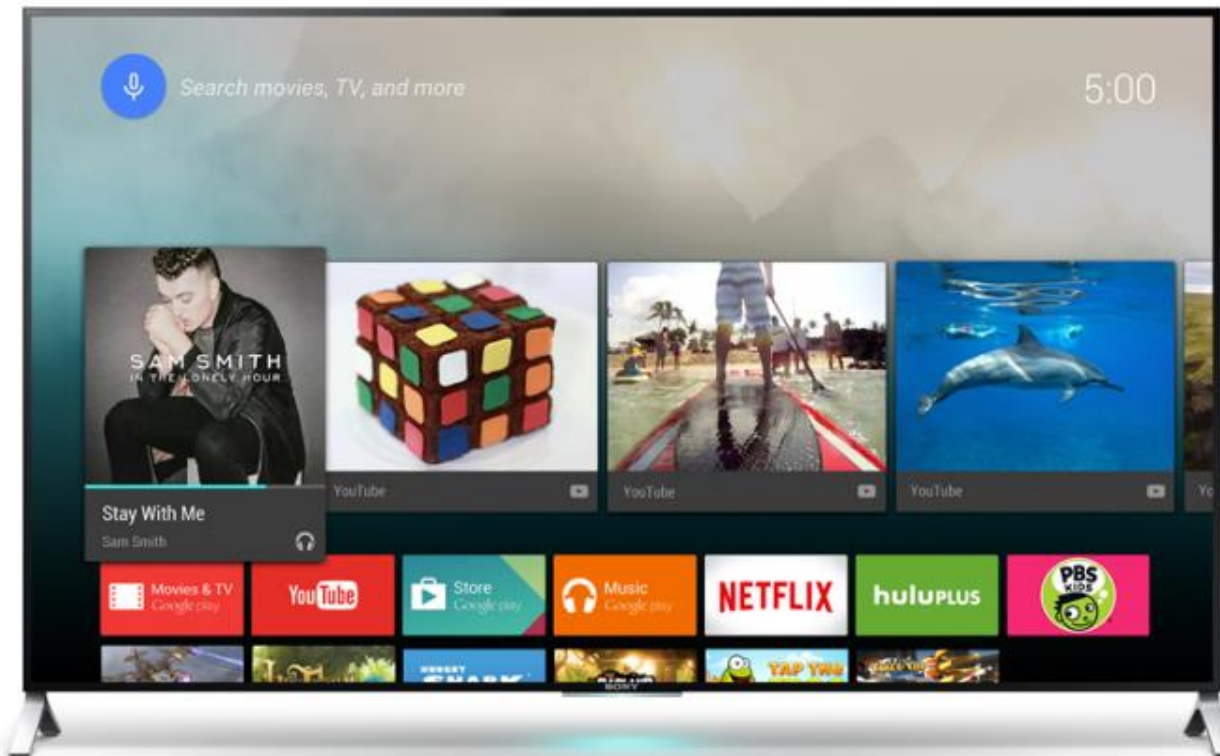
2015 Corporate Highlights

- **Google Now** - Google continues to improve Google Now. In 2013, they added a number of new cards for car rentals, concert tickets, commute sharing, NCAA football and new reminders, as well as improved public transit and updated TV cards, all appearing automatically throughout the day on any device at the moment users need them.



2015 Corporate Highlights

- Android TV is a smart TV platform developed by Google. Running the Android 6.0 ("Marshmallow") operating system, it creates an interactive television experience through a 10-foot user interface. It was announced on June 25, 2014, at Google I/O 2014 as a successor to Google's earlier attempt at smart TV, Google TV.



2015 Corporate Highlights

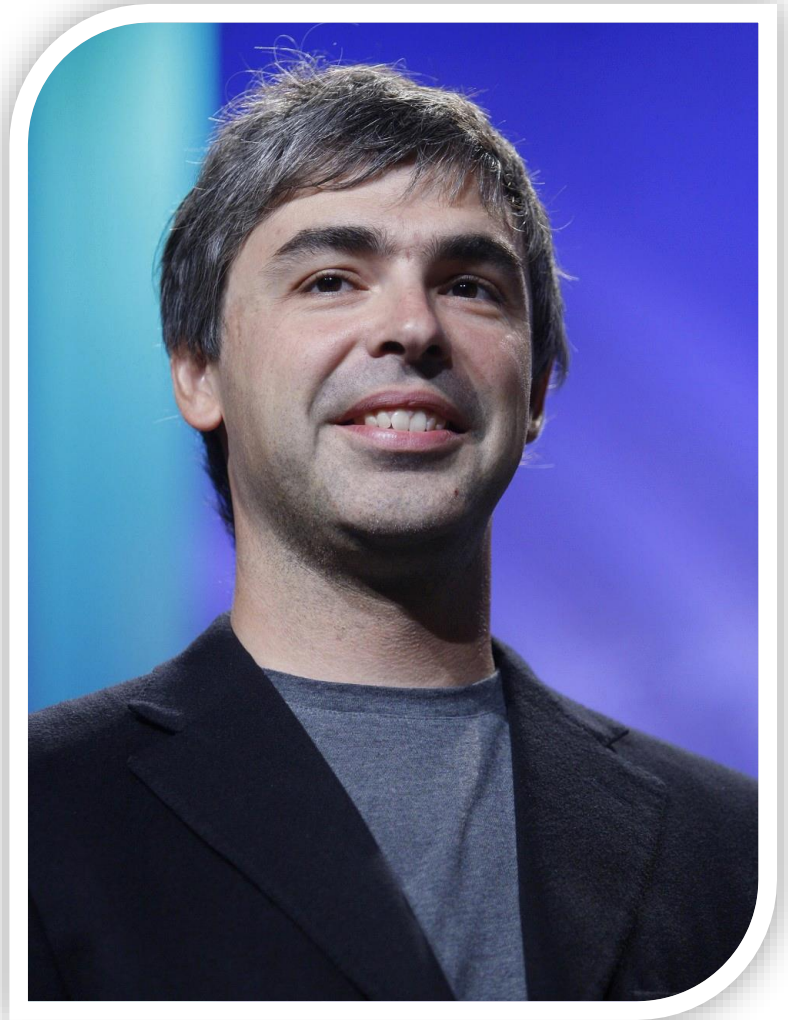
- Android Auto is a smartphone projection standard developed by Google to allow mobile devices running the Android operating system (version 5.0 "Lollipop" and later) to be operated in automobiles through the dashboard's head unit. Android Auto was announced on June 25, 2014, at Google I/O 2014. The Android Auto mobile app was released on March 19, 2015.



Management Team

Larry Page

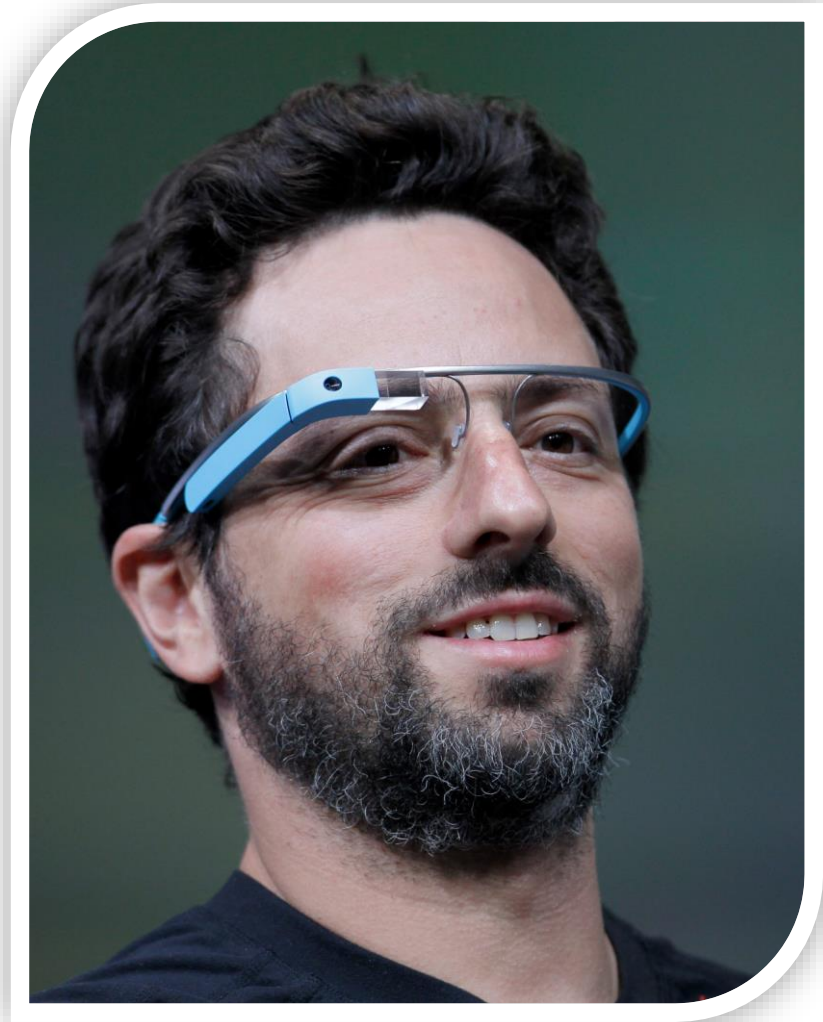
- Co-Founder in 1998
- CEO of Alphabet Inc.(2015-Present)
- CEO of Google (2011-2015)
- Bachelor of Engineering from Michigan
- Master of Computer Science at Stanford
- PhD (dropout) in Computer Science at Stanford



Management Team

Sergey Brin

- Co-Founder in 1998
- President of Alphabet Inc.(2015-Present)
- Served as President of Technology from 2001-2011
- B.Sc. in Math and Computer Science
- Master of Computer Science from Stanford
- PhD (dropout) in Computer Science from Stanford



Management Team

Sundar Pichai

- CEO of Google – August 2015
- Born in Chennai, Tamil Nadu, India
- Joined Google in 2004
- Wharton School of the University of Pennsylvania
- Stanford University
- Indian Institute of Technology Kharagpur



Management Team

Executive Chairman: Eric Schmidt

- Former CEO
- Former CEO of Novell & CTO of Sun Microsystems
- Bachelor of Engineering degree from Princeton
- Master's and PhD in Comp. Sci. from UC Berkley
- Member of President Obama's council of Science and Technology



Management Team

Senior Vice President, Corporate Development and Chief Legal Officer: David Drummond

- Responsible for company's business development (Investments and M&A)
- Previous experience at a leading law firm in US
- Bachelors of Arts – Major in History
- JD in Law from Stanford University



Potential Risks

- Google faces intense competition. If they do not continue to innovate and provide products and services that are useful to users, they may not remain competitive, and their revenues and operating results could be adversely affected.
- Their ongoing investment in new businesses and new products, services, and technologies is inherently risky, and could disrupt their ongoing businesses.

Potential Risks

- More people are using devices other than personal computers to access the internet and accessing new platforms to make search queries. If manufacturers and users do not widely adopt versions of their web search technology, products, or operating systems developed for these devices, their business could be adversely affected.
- They generate a significant portion of their revenues from advertising, and a reduction in spending by or loss of advertisers could seriously harm their business.

2015 Consolidated Balance Sheet

| | As of December 31, 2014 | As of December 31, 2015 |
|--|-------------------------------|-------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 18,347 | \$ 16,549 |
| Marketable securities | 46,048 | 56,517 |
| Total cash, cash equivalents, and marketable securities (including securities loaned of \$4,058 and \$4,531) | 64,395 | 73,066 |
| Accounts receivable, net of allowance of \$225 and \$296 | 9,383 | 11,556 |
| Receivable under reverse repurchase agreements | 875 | 450 |
| Income taxes receivable, net | 591 | 1,903 |
| Prepaid revenue share, expenses and other assets | 3,412 | 3,139 |
| Total current assets | 78,656 | 90,114 |
| Prepaid revenue share, expenses and other assets, non-current | 3,187 | 3,181 |
| Non-marketable investments | 3,079 | 5,183 |
| Deferred income taxes | 176 | 251 |
| Property and equipment, net | 23,883 | 29,016 |
| Intangible assets, net | 4,607 | 3,847 |
| Goodwill | 15,599 | 15,869 |
| Total assets | <u>\$ 129,187</u> | <u>\$ 147,461</u> |
| Liabilities and Stockholders' Equity | | |

2015 Consolidated Balance Sheet

| Liabilities and Stockholders' Equity | | |
|--|------------|------------|
| Current liabilities: | | |
| Accounts payable | \$ 1,715 | \$ 1,931 |
| Short-term debt | 2,009 | 3,225 |
| Accrued compensation and benefits | 3,069 | 3,539 |
| Accrued expenses and other current liabilities | 4,408 | 4,768 |
| Accrued revenue share | 1,952 | 2,329 |
| Securities lending payable | 2,778 | 2,428 |
| Deferred revenue | 752 | 788 |
| Income taxes payable, net | 96 | 302 |
| Total current liabilities | 16,779 | 19,310 |
| Long-term debt | 3,228 | 1,995 |
| Deferred revenue, non-current | 104 | 151 |
| Income taxes payable, non-current | 3,340 | 3,663 |
| Deferred income taxes | 758 | 189 |
| Other long-term liabilities | 1,118 | 1,822 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding | 0 | 0 |
| Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 680,172 (Class A 286,560, Class B 53,213, Class C 340,399) and par value of \$680 (Class A \$287, Class B \$53, Class C \$340) and 687,348 (Class A 292,297, Class B 50,295, Class C 344,756) and par value of \$687 (Class A \$292, Class B \$50, Class C \$345) shares issued and outstanding | 28,767 | 32,982 |
| Accumulated other comprehensive income (loss) | 27 | (1,874) |
| Retained earnings | 75,066 | 89,223 |
| Total stockholders' equity | 103,860 | 120,331 |
| Total liabilities and stockholders' equity | \$ 129,187 | \$ 147,461 |

2015 Consolidated Income Statement

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2013 | 2014 | 2015 |
| Revenues | \$ 55,519 | \$ 66,001 | \$ 74,989 |
| Costs and expenses: | | | |
| Cost of revenues | 21,993 | 25,691 | 28,164 |
| Research and development | 7,137 | 9,832 | 12,282 |
| Sales and marketing | 6,554 | 8,131 | 9,047 |
| General and administrative | 4,432 | 5,851 | 6,136 |
| Total costs and expenses | 40,116 | 49,505 | 55,629 |
| Income from operations | 15,403 | 16,496 | 19,360 |
| Other income (expense), net | 496 | 763 | 291 |
| Income from continuing operations before income taxes | 15,899 | 17,259 | 19,651 |
| Provision for income taxes | 2,739 | 3,639 | 3,303 |
| Net income from continuing operations | \$ 13,160 | \$ 13,620 | \$ 16,348 |
| Net income (loss) from discontinued operations | (427) | 516 | 0 |
| Net income | \$ 12,733 | \$ 14,136 | \$ 16,348 |
| Less: Adjustment Payment to Class C capital stockholders | 0 | 0 | 522 |
| Net income available to all stockholders | \$ 12,733 | \$ 14,136 | \$ 15,826 |
| Basic net income (loss) per share of Class A and B common stock: | | | |
| Continuing operations | \$ 19.77 | \$ 20.15 | \$ 23.11 |
| Discontinued operations | (0.64) | 0.76 | 0.00 |
| Basic net income per share of Class A and B common stock | \$ 19.13 | \$ 20.91 | \$ 23.11 |
| Basic net income (loss) per share of Class C capital stock: | | | |
| Continuing operations | \$ 19.77 | \$ 20.15 | \$ 24.63 |
| Discontinued operations | (0.64) | 0.76 | 0.00 |
| Basic net income per share of Class C capital stock | \$ 19.13 | \$ 20.91 | \$ 24.63 |
| Diluted net income (loss) per share of Class A and B common stock: | | | |
| Continuing operations | \$ 19.42 | \$ 19.82 | \$ 22.84 |
| Discontinued operations | (0.63) | 0.75 | 0.00 |
| Diluted net income per share of Class A and B common stock | \$ 18.79 | \$ 20.57 | \$ 22.84 |
| Diluted net income (loss) per share of Class C capital stock: | | | |
| Continuing operations | \$ 19.42 | \$ 19.82 | \$ 24.34 |
| Discontinued operations | (0.63) | 0.75 | 0.00 |
| Diluted net income per share of Class C capital stock | \$ 18.79 | \$ 20.57 | \$ 24.34 |

2015 – Q4 Income Statement

| | Three Months Ended December 31, 2014 | | Twelve Months Ended December 31, 2014 | |
|---|--|-----------|---|-----------|
| | 2015 | | 2015 ^(a) | |
| | (unaudited) | | (unaudited) | |
| Revenues | \$ 18,103 | \$ 21,329 | \$ 66,001 | \$ 74,989 |
| Costs and expenses: | | | | |
| Cost of revenues | 6,921 | 8,188 | 25,691 | 28,164 |
| Research and development | 2,813 | 3,510 | 9,832 | 12,282 |
| Sales and marketing | 2,377 | 2,679 | 8,131 | 9,047 |
| General and administrative | 1,593 | 1,572 | 5,851 | 6,136 |
| Total costs and expenses | 13,704 | 15,949 | 49,505 | 55,629 |
| Income from operations | 4,399 | 5,380 | 16,496 | 19,360 |
| Other income (expense), net | 128 | (180) | 763 | 291 |
| Income from continuing operations before income taxes | 4,527 | 5,200 | 17,259 | 19,651 |
| Provision for income taxes | 819 | 277 | 3,639 | 3,303 |
| Net income from continuing operations | 3,708 | 4,923 | 13,620 | 16,348 |
| Net income from discontinued operations | 967 | 0 | 516 | 0 |
| Net income | \$ 4,675 | \$ 4,923 | \$ 14,136 | \$ 16,348 |
| Less: Adjustment Payment to Class C capital stockholders | 0 | 0 | 0 | 522 |
| Net income available to all stockholders | \$ 4,675 | \$ 4,923 | \$ 14,136 | \$ 15,826 |
| Basic net income per share of Class A and B common stock: | | | | |
| Continuing operations | \$ 5.46 | \$ 7.16 | \$ 20.15 | \$ 23.11 |
| Discontinued operations | 1.43 | 0.00 | 0.76 | 0.00 |
| Basic net income per share of Class A and B common stock | \$ 6.89 | \$ 7.16 | \$ 20.91 | \$ 23.11 |
| Basic net income per share of Class C capital stock: | | | | |
| Continuing operations | \$ 5.46 | \$ 7.16 | \$ 20.15 | \$ 24.63 |
| Discontinued operations | 1.43 | 0.00 | 0.76 | 0.00 |
| Basic net income per share of Class C capital stock | \$ 6.89 | \$ 7.16 | \$ 20.91 | \$ 24.63 |
| Diluted net income per share of Class A and B common stock: | | | | |
| Continuing operations | \$ 5.38 | \$ 7.06 | \$ 19.82 | \$ 22.84 |
| Discontinued operations | 1.41 | 0.00 | 0.75 | 0.00 |
| Diluted net income per share of Class A and B common stock | \$ 6.79 | \$ 7.06 | \$ 20.57 | \$ 22.84 |
| Diluted net income per share of Class C capital stock: | | | | |
| Continuing operations | \$ 5.38 | \$ 7.06 | \$ 19.82 | \$ 24.34 |
| Discontinued operations | 1.41 | 0.00 | 0.75 | 0.00 |
| Diluted net income per share of Class C capital stock | \$ 6.79 | \$ 7.06 | \$ 20.57 | \$ 24.34 |

^(a) Basic and diluted net income per share for the twelve months ended December 31, 2015 includes impact from Adjustment Payment to Class C capital stockholders.

2015 Consolidated Statement Of Cash Flows

| | Year Ended December 31, | | |
|--|-------------------------|---------------|---------------|
| | 2013 | 2014 | 2015 |
| Operating activities | | | |
| Net income | \$ 12,733 | \$ 14,136 | \$ 16,348 |
| Adjustments: | | | |
| Depreciation and impairment of property and equipment | 2,781 | 3,523 | 4,132 |
| Amortization and impairment of intangible assets | 1,158 | 1,456 | 931 |
| Stock-based compensation expense | 3,343 | 4,279 | 5,203 |
| Excess tax benefits from stock-based award activities | (481) | (648) | (548) |
| Deferred income taxes | (437) | (104) | (179) |
| Gain on divestiture of business | (700) | (740) | 0 |
| (Gain) loss on marketable and non-marketable investments, net | (166) | (390) | 334 |
| Other | 272 | 192 | 212 |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Accounts receivable | (1,307) | (1,641) | (2,094) |
| Income taxes, net | 588 | 591 | (179) |
| Prepaid revenue share, expenses and other assets | (930) | 459 | (318) |
| Accounts payable | 605 | 436 | 203 |
| Accrued expenses and other liabilities | 713 | 757 | 1,597 |
| Accrued revenue share | 254 | 245 | 339 |
| Deferred revenue | 233 | (175) | 43 |
| Net cash provided by operating activities | 18,659 | 22,376 | 26,024 |

Financial Statement-Cash Flows

| | Year Ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2013 | 2014 | 2015 |
| Investing activities | | | |
| Purchases of property and equipment | (7,358) | (10,959) | (9,915) |
| Purchases of marketable securities | (45,444) | (56,310) | (74,368) |
| Maturities and sales of marketable securities | 38,314 | 51,315 | 62,905 |
| Purchases of non-marketable investments | (569) | (1,227) | (2,172) |
| Cash collateral related to securities lending | (299) | 1,403 | (350) |
| Investments in reverse repurchase agreements | 600 | (775) | 425 |
| Proceeds from divestiture of business | 2,525 | 386 | 0 |
| Acquisitions, net of cash acquired, and purchases of intangibles and other assets | (1,448) | (4,888) | (236) |
| Net cash used in investing activities | (13,679) | (21,055) | (23,711) |
| Financing activities | | | |
| Net payments related to stock-based award activities | (781) | (2,069) | (1,612) |
| Excess tax benefits from stock-based award activities | 481 | 648 | 548 |
| Adjustment Payment to Class C capital stockholders | 0 | 0 | (47) |
| Capital transactions with Alphabet | 0 | 0 | (2,543) |
| Proceeds from issuance of debt, net of costs | 10,768 | 11,625 | 13,705 |
| Repayments of debt | (11,325) | (11,643) | (13,728) |
| Net cash used in financing activities | (857) | (1,439) | (3,677) |
| Effect of exchange rate changes on cash and cash equivalents | (3) | (433) | (434) |
| Net increase (decrease) in cash and cash equivalents | 4,120 | (551) | (1,798) |
| Cash and cash equivalents at beginning of period | 14,778 | 18,898 | 18,347 |
| Cash and cash equivalents at end of period | \$ 18,898 | \$ 18,347 | \$ 16,549 |
| Supplemental disclosures of cash flow information | | | |
| Cash paid for taxes | \$ 1,932 | \$ 2,819 | \$ 3,338 |
| Cash paid for interest | 72 | 86 | 96 |

Financial Statement-Cash Flows Q4 2015

| | Three Months Ended | | Twelve Months Ended | |
|--|--------------------|--------------|---------------------|---------------|
| | December 31, | | December 31, | |
| | 2014 | 2015 | 2014 | 2015 |
| | (unaudited) | | (unaudited) | |
| Operating activities | | | | |
| Net income | \$ 4,675 | \$ 4,923 | \$ 14,136 | \$ 16,348 |
| Adjustments: | | | | |
| Depreciation and impairment of property and equipment | 1,010 | 1,153 | 3,523 | 4,132 |
| Amortization and impairment of intangible assets | 257 | 251 | 1,456 | 931 |
| Stock-based compensation expense | 1,187 | 1,436 | 4,279 | 5,203 |
| Excess tax benefits from stock-based award activities | (181) | (194) | (648) | (548) |
| Deferred income taxes | 394 | 387 | (104) | (179) |
| Gain on divestiture of business | (740) | 0 | (740) | 0 |
| (Gain) loss on marketable and non-marketable investments, net | (13) | 302 | (390) | 334 |
| Other | 35 | 55 | 192 | 212 |
| Changes in assets and liabilities, net of effects of acquisitions: | | | | |
| Accounts receivable | (1,151) | (1,758) | (1,641) | (2,094) |
| Income taxes, net | 14 | (1,272) | 591 | (179) |
| Prepaid revenue share, expenses and other assets | (47) | (522) | 459 | (318) |
| Accounts payable | 549 | 371 | 436 | 203 |
| Accrued expenses and other liabilities | 341 | 777 | 757 | 1,597 |
| Accrued revenue share | 209 | 408 | 245 | 339 |
| Deferred revenue | (175) | 98 | (175) | 43 |
| Net cash provided by operating activities | 6,364 | 6,415 | 22,376 | 26,024 |

Financial Statement-Cash Flows Q4 2015

| | Three Months Ended | | Twelve Months Ended | |
|---|--------------------|------------------|---------------------|------------------|
| | December 31, | | December 31, | |
| | 2014 | 2015 | 2014 | 2015 |
| | (unaudited) | | (unaudited) | |
| Investing activities | | | | |
| Purchases of property and equipment | (3,551) | (2,100) | (10,959) | (9,915) |
| Purchases of marketable securities | (13,118) | (18,151) | (56,310) | (74,368) |
| Maturities and sales of marketable securities | 14,665 | 16,045 | 51,315 | 62,905 |
| Purchases of non-marketable investments | (691) | (401) | (1,227) | (2,172) |
| Cash collateral related to securities lending | (626) | (838) | 1,403 | (350) |
| Investments in reverse repurchase agreements | (50) | (50) | (775) | 425 |
| Proceeds from divestiture of business | 386 | 0 | 386 | 0 |
| Acquisitions, net of cash acquired, and purchases of intangibles and other assets | (256) | 8 | (4,888) | (236) |
| Net cash used in investing activities | (3,241) | (5,487) | (21,055) | (23,711) |
| Financing activities | | | | |
| Net payments related to stock-based award activities | (521) | (765) | (2,069) | (2,375) |
| Excess tax benefits from stock-based award activities | 181 | 194 | 648 | 548 |
| Adjustment Payment to Class C capital stockholders | 0 | 0 | 0 | (47) |
| Repurchases of capital stock | 0 | (1,780) | 0 | (1,780) |
| Proceeds from issuance of debt, net of costs | 2,458 | 3,373 | 11,625 | 13,705 |
| Repayments of debt | (2,462) | (3,387) | (11,643) | (13,728) |
| Net cash used in financing activities | (344) | (2,365) | (1,439) | (3,677) |
| Effect of exchange rate changes on cash and cash equivalents | (197) | (82) | (433) | (434) |
| Net increase (decrease) in cash and cash equivalents | 2,582 | (1,519) | (551) | (1,798) |
| Cash and cash equivalents at beginning of period | 15,605 | 18,068 | 18,898 | 18,347 |
| Reclassification of assets previously held for sale | 160 | 0 | 0 | 0 |
| Cash and cash equivalents at end of period | \$ 18,347 | \$ 16,549 | \$ 18,347 | \$ 16,549 |

Recommendation

BUY

The word 'BUY' is rendered in a large, bold, green 3D font. It has a slight shadow and a reflection on the surface below it, giving it a three-dimensional appearance. The letters are thick and blocky, with a slight gradient of green from top to bottom.