APPLE INC
Form 10-Q
February 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 30, 2017
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 001-36743

Apple Inc.
(Exact name of Registrant as specified in its charter)

California	94-2404110
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Infinite Loop Cupertino, California	95014
(Address of principal executive offices)	(Zip Code)

(408) 996-1010
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes No
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

5,074,013,000 shares of common stock, par value $0.00001 per share, issued and outstanding as of January 19, 2018

Apple Inc.

Form 10-Q
For the Fiscal Quarter Ended December 30, 2017
TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
Apple Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions, except number of shares which are reflected in thousands and per share amounts)

	Three Months Ended	
	December 30, 2017	December 31, 2016
Net sales	$88,293	$ 78,351
Cost of sales	54,381	48,175
Gross margin	33,912	30,176
Operating expenses:		
Research and development	3,407	2,871
Selling, general and administrative	4,231	3,946
Total operating expenses	7,638	6,817
Operating income	26,274	23,359
Other income/(expense), net	756	821
Income before provision for income taxes	27,030	24,180
Provision for income taxes	6,965	6,289
Net income	$20,065	$ 17,891
Earnings per share:		
Basic	$3.92	$ 3.38
Diluted	$3.89	$ 3.36
Shares used in computing earnings per share:		
Basic	5,112,877	5,298,661
Diluted	5,157,787	5,327,995
Cash dividends declared per share	$0.63	$ 0.57

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(In millions)

	Three Months Ended	
	December 30, 2017	December 31, 2016
Net income	$ 20,065	$ 17,891
Other comprehensive income/(loss):		
Change in foreign currency translation, net of tax effects of $(1) and $76, respectively	40	(375)
Change in unrealized gains/losses on derivative instruments:		
Change in fair value of derivatives, net of tax benefit/(expense) of $(66) and $(228), respectively	88	1,468
Adjustment for net (gains)/losses realized and included in net income, net of tax expense/(benefit) of $(21) and $(211), respectively	102	306
Total change in unrealized gains/losses on derivative instruments, net of tax	190	1,774
Change in unrealized gains/losses on marketable securities:		
Change in fair value of marketable securities, net of tax benefit/(expense) of $464 and $989, respectively	(846)	(1,808)
Adjustment for net (gains)/losses realized and included in net income, net of tax expense/(benefit) of $41 and $(11), respectively	(75)	20
Total change in unrealized gains/losses on marketable securities, net of tax	(921)	(1,788)
Total other comprehensive income/(loss)	(691)	(389)
Total comprehensive income	$ 19,374	$ 17,502

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In millions, except number of shares which are reflected in thousands and par value)

	December 30, 2017	September 30, 2017
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 27,491	$ 20,289
Short-term marketable securities	49,662	53,892
Accounts receivable, less allowances of $59 and $58, respectively	23,440	17,874
Inventories	4,421	4,855
Vendor non-trade receivables	27,459	17,799
Other current assets	11,337	13,936
Total current assets	143,810	128,645
Long-term marketable securities	207,944	194,714
Property, plant and equipment, net	33,679	33,783
Goodwill	5,889	5,717
Acquired intangible assets, net	2,149	2,298
Other non-current assets	13,323	10,162
Total assets	$ 406,794	$ 375,319
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 62,985	$ 49,049
Accrued expenses	26,281	25,744
Deferred revenue	8,044	7,548
Commercial paper	11,980	11,977
Current portion of long-term debt	6,498	6,496
Total current liabilities	115,788	100,814
Deferred revenue, non-current	3,131	2,836
Long-term debt	103,922	97,207
Other non-current liabilities	43,754	40,415
Total liabilities	266,595	241,272
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, $0.00001 par value: 12,600,000 shares authorized; 5,081,651 and 5,126,201 shares issued and outstanding, respectively	36,447	35,867
Retained earnings	104,593	98,330
Accumulated other comprehensive income/(loss)	(841)	(150)
Total shareholders' equity	140,199	134,047
Total liabilities and shareholders' equity	$ 406,794	$ 375,319

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Three Months Ended	
	December 30, 2017	December 31, 2016
Cash and cash equivalents, beginning of the period	$20,289	$ 20,484
Operating activities:		
Net income	20,065	17,891
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	2,745	2,987
Share-based compensation expense	1,296	1,256
Deferred income tax expense/(benefit)	(33,737)	1,452
Other	(11)	(274)
Changes in operating assets and liabilities:		
Accounts receivable, net	(5,570)	1,697
Inventories	434	(580)
Vendor non-trade receivables	(9,660)	(375)
Other current and non-current assets	(197)	(1,446)
Accounts payable	14,588	2,460
Deferred revenue	791	42
Other current and non-current liabilities	37,549	2,124
Cash generated by operating activities	28,293	27,234
Investing activities:		
Purchases of marketable securities	(41,272)	(54,272)
Proceeds from maturities of marketable securities	14,048	6,525
Proceeds from sales of marketable securities	16,801	32,166
Payments made in connection with business acquisitions, net	(173)	(17)
Payments for acquisition of property, plant and equipment	(2,810)	(3,334)
Payments for acquisition of intangible assets	(154)	(86)
Payments for strategic investments, net	(94)	—
Other	64	(104)
Cash used in investing activities	(13,590)	(19,122)
Financing activities:		
Payments for taxes related to net share settlement of equity awards	(1,038)	(629)
Payments for dividends and dividend equivalents	(3,339)	(3,130)
Repurchases of common stock	(10,095)	(10,851)
Proceeds from issuance of term debt, net	6,969	—
Change in commercial paper, net	2	2,385
Cash used in financing activities	(7,501)	(12,225)
Increase/(Decrease) in cash and cash equivalents	7,202	(4,113)
Cash and cash equivalents, end of the period	$27,491	$ 16,371
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	$3,551	$ 3,510
Cash paid for interest	$623	$ 497

See accompanying Notes to Condensed Consolidated Financial Statements.

Apple Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 – Summary of Significant Accounting Policies

Apple Inc. and its wholly-owned subsidiaries (collectively "Apple" or the "Company") designs, manufactures and markets mobile communication and media devices and personal computers, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, Apple Watch®, Apple TV®, a portfolio of consumer and professional software applications, iOS, macOS®, watchOS® and tvOS™ operating systems, iCloud®, Apple Pay® and a variety of accessory, service and support offerings. The Company sells and delivers digital content and applications through the iTunes Store®, App Store®, Mac App Store, TV App Store, iBooks Store® and Apple Music® (collectively "Digital Content and Services"). The Company sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and resellers. In addition, the Company sells a variety of third-party Apple-compatible products, including application software and various accessories through its retail and online stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

Basis of Presentation and Preparation

The accompanying condensed consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. In the opinion of the Company's management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior period amounts in the condensed consolidated financial statements and accompanying notes have been reclassified to conform to the current period's presentation. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company's annual consolidated financial statements and the notes thereto included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2017 (the "2017 Form 10-K").

The Company's fiscal year is the 52- or 53-week period that ends on the last Saturday of September. The first quarter of 2018 spanned 13 weeks, whereas a 14th week was added to the first fiscal quarter of 2017, as is done every five or six years, to realign the Company's fiscal quarters with calendar quarters. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years.

Share-Based Compensation

During the first quarter of 2018, the Company adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which modified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification in the statement of cash flows. Historically, excess tax benefits or deficiencies from the Company's equity awards were recorded as additional paid-in capital in its Condensed Consolidated Balance Sheets and were classified as a financing activity in its Condensed Consolidated Statements of Cash Flows. As a result of adoption, the Company will prospectively record any excess tax benefits or deficiencies from its equity awards as part of its provision for income taxes in its Condensed Consolidated Statements of Operations in the reporting periods in which equity vesting occurs. The Company elected to apply the cash flow classification requirements related to excess tax benefits retrospectively to all periods presented, which resulted in an increase to cash generated by operating activities in the Condensed Consolidated Statements of Cash Flows of $178 million for the three months ended December 31, 2016.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include unvested restricted stock units (“RSUs”), unvested restricted stock, outstanding stock options and shares to be purchased by employees under the Company’s employee stock purchase plan. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company’s common stock can result in a greater dilutive effect from potentially dilutive securities.

The following table shows the computation of basic and diluted earnings per share for the three months ended December 30, 2017 and December 31, 2016 (net income in millions and shares in thousands):

	Three Months Ended	
	December 30, 2017	December 31, 2016
Numerator:		
Net income	$20,065	$ 17,891
Denominator:		
Weighted-average shares outstanding	5,112,877	5,298,661
Effect of dilutive securities	44,910	29,334
Weighted-average diluted shares	5,157,787	5,327,995
Basic earnings per share	$3.92	$ 3.38
Diluted earnings per share	$3.89	$ 3.36

Potentially dilutive securities whose effect would have been antidilutive are excluded from the computation of diluted earnings per share.

Note 2 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash and available-for-sale securities by significant investment category as of December 30, 2017 and September 30, 2017 (in millions):

	December 30, 2017						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$9,529	$ —	$ —	$9,529	$ 9,529	$ —	$ —
Level 1 (1):							
Money market funds	8,570	—	—	8,570	8,570	—	—
Mutual funds	800	—	(92)	708	—	708	—
Subtotal	9,370	—	(92)	9,278	8,570	708	—
Level 2 (2):							
U.S. Treasury securities	60,329	4	(502)	59,831	2,268	13,661	43,902
U.S. agency securities	5,384	—	(22)	5,362	1,376	1,980	2,006
Non-U.S. government securities	8,651	206	(60)	8,797	—	223	8,574
Certificates of deposit and time deposits	6,307	—	—	6,307	2,237	3,064	1,006
Commercial paper	5,384	—	—	5,384	3,186	2,198	—
Corporate securities	157,043	506	(681)	156,868	325	27,252	129,291
Municipal securities	971	—	(8)	963	—	110	853
Mortgage- and asset-backed securities	23,052	17	(291)	22,778	—	466	22,312
Subtotal	267,121	733	(1,564)	266,290	9,392	48,954	207,944
Total	$286,020	$ 733	$ (1,656)	$285,097	$ 27,491	$ 49,662	$ 207,944

	September 30, 2017						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$7,982	$ —	$ —	$7,982	$ 7,982	$ —	$ —
Level 1 (1):							
Money market funds	6,534	—	—	6,534	6,534	—	—
Mutual funds	799	—	(88)	711	—	711	—
Subtotal	7,333	—	(88)	7,245	6,534	711	—
Level 2 (2):							
U.S. Treasury securities	55,254	58	(230)	55,082	865	17,228	36,989
U.S. agency securities	5,162	2	(9)	5,155	1,439	2,057	1,659
Non-U.S. government securities	7,827	210	(37)	8,000	9	123	7,868
Certificates of deposit and time deposits	5,832	—	—	5,832	1,142	3,918	772
Commercial paper	3,640	—	—	3,640	2,146	1,494	—
Corporate securities	152,724	969	(242)	153,451	172	27,591	125,688
Municipal securities	961	4	(1)	964	—	114	850
Mortgage- and asset-backed securities	21,684	35	(175)	21,544	—	656	20,888
Subtotal	253,084	1,278	(694)	253,668	5,773	53,181	194,714
Total	$268,399	$ 1,278	$ (782)	$268,895	$ 20,289	$ 53,892	$ 194,714

(1) Level 1 fair value estimates are based on quoted prices in active markets for identical assets or liabilities.

(2) Level 2 fair value estimates are based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The maturities of the Company's long-term marketable securities generally range from one to five years.

The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The Company typically invests in highly rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy generally requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis. As of December 30, 2017, the Company does not consider any of its investments to be other-than-temporarily impaired.

Derivative Financial Instruments

The Company may use derivatives to partially offset its business exposure to foreign currency and interest rate risk on expected future cash flows, on net investments in certain foreign subsidiaries and on certain existing assets and liabilities. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest rates.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company's subsidiaries whose functional currency is the U.S. dollar may hedge a portion of forecasted foreign currency revenue, and subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries' functional currencies. The Company may enter into forward contracts, option contracts or other instruments to manage this risk and may designate these instruments as cash flow hedges. The Company typically hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases, typically for up to 12 months.

To help protect the net investment in a foreign operation from adverse changes in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates. In addition, the Company may use non-derivative financial instruments, such as its foreign currency-denominated debt, as economic hedges of its net investments in certain foreign subsidiaries. In both of these cases, the Company designates these instruments as net investment hedges.

The Company may also enter into non-designated foreign currency contracts to partially offset the foreign currency exchange gains and losses generated by the remeasurement of certain assets and liabilities denominated in non-functional currencies.

The Company may enter into interest rate swaps, options or other instruments to manage interest rate risk. These instruments may offset a portion of changes in income or expense, or changes in fair value of the Company’s term debt or investments. The Company designates these instruments as either cash flow or fair value hedges. The Company’s hedged interest rate transactions as of December 30, 2017 are expected to be recognized within 10 years.

The Company may enter into foreign currency swaps to manage currency risk on its foreign currency-denominated term debt. These instruments may offset a portion of the foreign currency remeasurement gains or losses on the Company’s term debt and related interest payments. The Company designates these instruments as cash flow hedges. The Company’s hedged term debt-related foreign currency transactions as of December 30, 2017 are expected to be recognized within 25 years.

Cash Flow Hedges

The effective portions of cash flow hedges are recorded in accumulated other comprehensive income/(loss) (“AOCI”) until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized in other income/(expense), net in the same period as the related income or expense is recognized. The ineffective portions and amounts excluded from the effectiveness testing of cash flow hedges are recognized in other income/(expense), net.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified into other income/(expense), net in the period of de-designation. Any subsequent changes in fair value of such derivative instruments are reflected in other income/(expense), net unless they are re-designated as hedges of other transactions.

Net Investment Hedges

The effective portions of net investment hedges are recorded in other comprehensive income/(loss) (“OCI”) as a part of the cumulative translation adjustment. The ineffective portions and amounts excluded from the effectiveness testing of net investment hedges are recognized in other income/(expense), net.

Fair Value Hedges

Gains and losses related to changes in fair value hedges are recognized in earnings along with a corresponding loss or gain related to the change in value of the underlying hedged item.

Non-Designated Derivatives

Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates. Amounts recognized in earnings related to non-designated derivatives were not significant for the three-month period ended December 30, 2017. During the three-month period ended December 31, 2016, the Company recognized gains of $273 million, $332 million and $508 million in net sales, cost of sales and other income/(expense), net, respectively.

The Company records all derivatives in the Condensed Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value as of December 30, 2017 and September 30, 2017 (in millions):

	December 30, 2017		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets [1]:			
Foreign exchange contracts	$985	$ 284	$1,269
Interest rate contracts	$100	$ —	$100
Derivative liabilities [2]:			
Foreign exchange contracts	$460	$ 283	$743
Interest rate contracts	$462	$ —	$462

	September 30, 2017		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets [1]:			
Foreign exchange contracts	$1,049	$ 363	$1,412
Interest rate contracts	$218	$ —	$218
Derivative liabilities [2]:			
Foreign exchange contracts	$759	$ 501	$1,260
Interest rate contracts	$303	$ —	$303

(1) The fair value of derivative assets is measured using Level 2 fair value inputs and is recorded as other current assets and other non-current assets in the Condensed Consolidated Balance Sheets.

(2) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as accrued expenses and other non-current liabilities in the Condensed Consolidated Balance Sheets.

The following table shows the pre-tax gains and losses of the Company's derivative and non-derivative instruments designated as cash flow, net investment and fair value hedges in OCI and the Condensed Consolidated Statements of Operations for the three months ended December 30, 2017 and December 31, 2016 (in millions):

	Three Months Ended	
	December 30, 2017	December 31, 2016
Gains/(Losses) recognized in OCI – effective portion:		
Cash flow hedges:		
Foreign exchange contracts	$ 153	$ 1,727
Interest rate contracts	1	7
Total	$ 154	$ 1,734
Net investment hedges:		
Foreign currency debt	$ 2	$ 122
Gains/(Losses) reclassified from AOCI into net income – effective portion:		
Cash flow hedges:		
Foreign exchange contracts	$ (124)	$ (511)
Interest rate contracts	1	(1)
Total	$ (123)	$ (512)
Gains/(Losses) on derivative instruments:		
Fair value hedges:		
Interest rate contracts	$ (274)	$ (872)
Gains/(Losses) related to hedged items:		
Fair value hedges:		
Fixed-rate debt	$ 274	$ 872

The following table shows the notional amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of December 30, 2017 and September 30, 2017 (in millions):

	December 30, 2017		September 30, 2017	
	Notional Amount	Credit Risk Amount	Notional Amount	Credit Risk Amount
Instruments designated as accounting hedges:				
Foreign exchange contracts	$ 48,337	$ 985	$ 56,156	$ 1,049
Interest rate contracts	$ 35,250	$ 100	$ 33,000	$ 218
Instruments not designated as accounting hedges:				
Foreign exchange contracts	$ 77,059	$ 284	$ 69,774	$ 363

The notional amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of the Company's exposure to credit or market loss. The credit risk amounts represent the Company's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency or interest rates at each respective date. The Company's exposure to credit loss and market risk will vary over time as currency and interest rates change. Although the table above reflects the notional and credit risk amounts of the Company's derivative instruments, it does not reflect the gains or losses associated with the exposures and transactions that the instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values in its Condensed Consolidated Balance Sheets. The net cash collateral received by the Company related to derivative instruments under its collateral security arrangements was $230 million and $35 million as of December 30, 2017 and September 30, 2017, respectively, which were recorded as accrued expenses in the Condensed Consolidated Balance Sheets.

Under master netting arrangements with the respective counterparties to the Company's derivative contracts, the Company is allowed to net settle transactions with a single net amount payable by one party to the other. As of December 30, 2017 and September 30, 2017, the potential effects of these rights of set-off associated with the Company's derivative contracts, including the effects of collateral, would be a reduction to both derivative assets and derivative liabilities of $1.3 billion and $1.4 billion, respectively, resulting in a net derivative liability of $66 million and a net derivative asset of $32 million, respectively.

Accounts Receivable

Trade Receivables

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, resellers, small and mid-sized businesses and education, enterprise and government customers. The Company generally does not require collateral from its customers; however, the Company will require collateral in certain instances to limit credit risk. In addition, when possible, the Company attempts to limit credit risk on trade receivables with credit insurance for certain customers or by requiring third-party financing, loans or leases to support credit exposure. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Company generally does not assume any recourse or credit risk sharing related to any of these arrangements.

As of December 30, 2017, the Company had one customer that represented 10% or more of total trade receivables, which accounted for 11%. As of September 30, 2017, the Company had two customers that individually represented 10% or more of total trade receivables, each of which accounted for 10%. The Company's cellular network carriers accounted for 57% and 59% of total trade receivables as of December 30, 2017 and September 30, 2017, respectively.

Vendor Non-Trade Receivables

The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. As of December 30, 2017, the Company had one vendor that represented 10% or more of total vendor non-trade receivables, which accounted for 66%. As of September 30, 2017, the Company had three vendors that individually represented 10% or more of total vendor non-trade receivables, which accounted for 42%, 19% and 10%.

Note 3 – Condensed Consolidated Financial Statement Details

The following tables show the Company's condensed consolidated financial statement details as of December 30, 2017 and September 30, 2017 (in millions):

Property, Plant and Equipment, Net

	December 30, 2017	September 30, 2017
Land and buildings	$ 14,189	$ 13,587
Machinery, equipment and internal-use software	55,479	54,210
Leasehold improvements	7,442	7,279
Gross property, plant and equipment	77,110	75,076
Accumulated depreciation and amortization	(43,431)	(41,293)
Total property, plant and equipment, net	$ 33,679	$ 33,783

Other Non-Current Liabilities

	December 30, 2017	September 30, 2017
Long-term taxes payable	$ 34,913	$ 257
Deferred tax liabilities	548	31,504
Other non-current liabilities	8,293	8,654
Total other non-current liabilities	$ 43,754	$ 40,415

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for the three months ended December 30, 2017 and December 31, 2016 (in millions):

	Three Months Ended	
	December 30, 2017	December 31, 2016
Interest and dividend income	$1,452	$ 1,224
Interest expense	(734)	(525)
Other income, net	38	122
Total other income/(expense), net	$756	$ 821

Note 4 – Acquired Intangible Assets

The Company's acquired intangible assets with definite useful lives primarily consist of patents and licenses. The following table summarizes the components of acquired intangible asset balances as of December 30, 2017 and September 30, 2017 (in millions):

	December 30, 2017			September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived and amortizable acquired intangible assets	$7,540	$ (5,491)	$ 2,049	$7,507	$ (5,309)	$ 2,198
Indefinite-lived and non-amortizable acquired intangible assets	100	—	100	100	—	100
Total acquired intangible assets	$7,640	$ (5,491)	$ 2,149	$7,607	$ (5,309)	$ 2,298

Note 5 – Income Taxes

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act"), which significantly changed U.S. tax law. The Act lowered the Company's U.S. statutory federal income tax rate from 35% to 21% effective January 1, 2018, while also imposing a deemed repatriation tax on deferred foreign income. The Act also created a new minimum tax on certain future foreign earnings. During the first quarter of 2018, the Company recognized a provision for income taxes of $7.0 billion, of which $2.6 billion was considered a provisional estimate under the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118. The Company's provisional estimate of $2.6 billion included $1.8 billion related to the impact of remeasuring the Company's deferred tax balances to reflect the new tax rate and approximately $800 million, net, associated with the deemed repatriation tax.

Deferred Tax Balances

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse. In addition, the Company elected to record certain deferred tax assets and liabilities related to the minimum tax on certain future foreign earnings. The provisional estimate of $1.8 billion incorporates assumptions made based upon the best available interpretation of the Act and may change as the Company receives additional clarification and implementation guidance.

Deemed Repatriation Tax

As of September 30, 2017, the Company had a U.S. deferred tax liability of $36.4 billion for deferred foreign income. As a result of the deemed repatriation tax, which is based on the Company's total post-1986 deferred foreign income, the Company replaced $36.1 billion of its U.S. deferred tax liability with a provisional tax payable of $38.0 billion. The estimate of the deemed repatriation tax is based, in part, on the amount of cash and other specified assets anticipated to be held by the Company's foreign subsidiaries as of September 29, 2018. As a result, the final amount may change as the amounts are finalized. The Company plans to pay the tax payable in installments in accordance with the Act.

Unrecognized Tax Benefits

As of December 30, 2017, the Company recorded gross unrecognized tax benefits of $9.0 billion. These gross unrecognized tax benefits have been offset by certain tax deposits and a $1.1 billion reduction for the estimated impact of the deemed repatriation tax, with the net unrecognized tax benefits classified as other non-current liabilities in the Condensed Consolidated Balance Sheets. Upon recognition, $7.7 billion of the unrecognized tax benefits would affect the Company's effective tax rate. The Company had $1.4 billion of gross interest and penalties accrued as of December 30, 2017, which is also classified as other non-current liabilities in the Condensed Consolidated Balance Sheets.

The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner inconsistent with its expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company believes it is reasonably possible that its gross unrecognized tax benefits could decrease (whether by payment, release or a combination of both) in the next 12 months by as much as $2.9 billion.

European Commission State Aid Decision

On August 30, 2016, the European Commission announced its decision that Ireland granted state aid to the Company by providing tax opinions in 1991 and 2007 concerning the tax allocation of profits of the Irish branches of two subsidiaries of the Company (the "State Aid Decision"). The State Aid Decision orders Ireland to calculate and recover additional taxes from the Company for the period June 2003 through December 2014. Irish legislative changes, effective as of January 2015, eliminated the application of the tax opinions from that date forward. The Company believes the State Aid Decision to be without merit and appealed to the General Court of the Court of Justice of the European Union. Ireland has also appealed the State Aid Decision. Although Ireland is still computing the recovery amount, the Company expects the amount to be in line with the European Commission's announced recovery amount of €13 billion, plus interest of €1 billion. Once the recovery amount is finalized by Ireland, the Company anticipates funding it by placing amounts into escrow in 2018, pending conclusion of all appeals. The Company believes that any incremental Irish corporate income taxes potentially due related to the State Aid Decision would be creditable against U.S. taxes.

Note 6 – Debt

Commercial Paper

The Company issues unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company uses net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of both December 30, 2017 and September 30, 2017, the Company had $12.0 billion of Commercial Paper outstanding with maturities generally less than nine months. The weighted-average interest rate of the Company's Commercial Paper was 1.33% as of December 30, 2017 and 1.20% as of September 30, 2017.

The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for the three months ended December 30, 2017 and December 31, 2016 (in millions):

	Three Months Ended	
	December 30, 2017	December 31, 2016
Maturities less than 90 days:		

Proceeds from/(Repayments of) commercial paper, net	$1,621	$ 1,550
Maturities greater than 90 days:		
Proceeds from commercial paper	3,441	2,544
Repayments of commercial paper	(5,060)	(1,709)
Proceeds from/(Repayments of) commercial paper, net	(1,619)	835
Total change in commercial paper, net	$2	$ 2,385

Term Debt

As of December 30, 2017, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of $111.0 billion (collectively the “Notes”). The Notes are senior unsecured obligations, and interest is payable in arrears, quarterly for the U.S. dollar-denominated and Australian dollar-denominated floating-rate notes, semi-annually for the U.S. dollar-denominated, Australian dollar-denominated, British pound-denominated, Japanese yen-denominated and Canadian dollar-denominated fixed-rate notes and annually for the euro-denominated and Swiss franc-denominated fixed-rate notes. The following table provides a summary of the Company’s term debt as of December 30, 2017 and September 30, 2017:

		December 30, 2017		September 30, 2017	
	Maturities	Amount (in millions)	Effective Interest Rate	Amount (in millions)	Effective Interest Rate
2013 debt issuance of $17.0 billion:					
Floating-rate notes	2018 2018	$2,000	1.10% 1.10%	$2,000	1.10% 1.10%
Fixed-rate 1.000% – 3.850% notes	2018–2043	12,500	1.08%–3.91%	12,500	1.08%–3.91%
2014 debt issuance of $12.0 billion:					
Floating-rate notes	2019 2019	1,000	1.69% 1.69%	1,000	1.61% 1.61%
Fixed-rate 2.100% – 4.450% notes	2019–2044	8,500	1.69%–4.48%	8,500	1.61%–4.48%
2015 debt issuances of $27.3 billion:					
Floating-rate notes	2019–2020	1,544	1.65%–1.87%	1,549	1.56%–1.87%
Fixed-rate 0.350% – 4.375% notes	2019–2045	24,555	0.28%–4.51%	24,522	0.28%–4.51%
2016 debt issuances of $24.9 billion:					
Floating-rate notes	2019–2021	1,350	1.53%–2.59%	1,350	1.45%–2.44%
Fixed-rate 1.100% – 4.650% notes	2018–2046	23,635	1.13%–4.78%	23,645	1.13%–4.78%
2017 debt issuances of $28.7 billion:					
Floating-rate notes	2019–2022	3,250	1.48%–1.90%	3,250	1.38%–1.81%
Fixed-rate 0.875% – 4.300% notes	2019–2047	25,699	1.54%–4.30%	25,705	1.51%–4.30%
First quarter 2018 debt issuance of $7.0 billion:					
Fixed-rate 1.800% notes	2019	1,000	1.83%	—	— %
Fixed-rate 2.000% notes	2020	1,000	2.03%	—	— %
Fixed-rate 2.400% notes	2023	750	1.93%	—	— %
Fixed-rate 2.750% notes	2025	1,500	2.77%	—	— %
Fixed-rate 3.000% notes	2027	1,500	2.13%	—	— %
Fixed-rate 3.750% notes	2047	1,250	3.80%	—	— %
Total term debt		111,033		104,021	
Unamortized premium/(discount) and issuance costs, net		(246)		(225)	
Hedge accounting fair value adjustments		(367			