

The Company anticipates gross margin percentage during the first quarter of 2018 to be between 38.0% and 38.5%. The foregoing statement regarding the Company's expected gross margin percentage in the first quarter of 2018 is forward-looking and could differ from actual results. The Company's future gross margins can be impacted by multiple factors including, but not limited to, those set forth in Part I, Item 1A of this Form 10-K under the heading "Risk Factors" and those described in this paragraph. In general, the Company believes gross margins will remain under downward pressure due to a variety of factors, including continued industry-wide global product pricing pressures, increased competition, compressed product life cycles, product transitions, potential increases in the cost of components, and potential strengthening of the U.S. dollar, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins. In response to competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company's ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company's significant international operations, its financial condition and operating results, including gross margins, could be significantly affected by fluctuations in exchange rates.

## Operating Expenses

Operating expenses for 2017, 2016 and 2015 were as follows (dollars in millions):

	2017	Change	2016	Change	2015
Research and development	\$ 11,581	15%	\$ 10,045	25 %	\$ 8,067
Percentage of total net sales	5%		5%		3%
Selling, general and administrative	\$ 15,261	8%	\$ 14,194	(1)%	\$ 14,329
Percentage of total net sales	7%		7%		6%
Total operating expenses	\$ 26,842	11%	\$ 24,239	8 %	\$ 22,396
Percentage of total net sales	12%		11%		10%

### Research and Development

The year-over-year growth in R&D expense in 2017 and 2016 was driven primarily by increases in headcount-related expenses and material costs to support expanded R&D activities. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace, and to the development of new and updated products and services that are central to the Company's core business strategy.

### Selling, General and Administrative

The year-over-year growth in selling, general and administrative expense in 2017 compared to 2016 was driven primarily by an increase in headcount-related expenses, variable selling expenses and infrastructure-related costs. The decrease in selling, general and administrative expense in 2016 compared to 2015 was due primarily to lower discretionary expenditures and advertising costs, partially offset by an increase in headcount-related expenses.

## Other Income/(Expense), Net

Other income/(expense), net for 2017, 2016 and 2015 was as follows (dollars in millions):

	2017	Change	2016	Change	2015
Interest and dividend income	\$ 5,201		\$ 3,999		\$ 2,921
Interest expense	(2,323)		(1,456)		(733)
Other expense, net	(133)		(1,195)		(903)
Total other income/(expense), net	\$ 2,745	104%	\$ 1,348	5%	\$ 1,285

The year-over-year increase in other income/(expense), net during 2017 was due primarily to higher interest income and the favorable impact of foreign exchange-related items, partially offset by higher interest expense on debt. The year-over-year increase in other income/(expense), net during 2016 was due primarily to higher interest income, partially offset by higher interest expense on debt and the unfavorable impact of foreign exchange-related items. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.99%, 1.73% and 1.49% in 2017, 2016 and 2015, respectively.