Following are the financial statements for **Apple Inc. (“Apple”)** for the fiscal year ended September 30, 2017. Please note that the financial statements have been modified. Lots of information has been redacted, as it is not relevant to this course. In addition, we have modified some of the information to make the problems easier.

We strongly recommend that as you do the problems you only refer to these modified financials. The information that has been redacted will not be helpful to you, and will potentially cause you to make errors.

Please note that TAs and professors are not allowed to answer questions on these financial statements.

Apple Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 30, 2017	**September 24, 2016**	**September 26, 2015**
Net sales	$ 229,234	$ 215,639	$ 233,715
Cost of sales	141,048	131,376	140,089
Gross margin	88,186	84,263	93,626
Operating expenses:			
Research and development	11,581	10,045	8,067
Selling, general and administrative	15,261	14,194	14,329
Total operating expenses	26,842	24,239	22,396
Operating income	61,344	60,024	71,230
Other income/(expense), net	2,845	1,348	1,285
Income before provision for income taxes	64,189	61,372	72,515
Provision for income taxes	15,838	15,685	19,121
Net income	$ 48,351	$ 45,687	$ 53,394
Earnings per share:			
Basic	$ 9.27	$ 8.35	$ 9.28
Diluted	$ 9.21	$ 8.31	$ 9.22
Shares used in computing earnings per share:			
Basic	5,217,242	5,470,820	5,753,421
Diluted	5,251,692	5,500,281	5,793,069
Cash dividends declared per share	$ 2.40	$ 2.18	$ 1.98

See accompanying Notes to Consolidated Financial Statements.

Apple Inc.

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

	September 30, 2017	September 24, 2016
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 20,289	$ 20,484
Short-term marketable securities	53,892	46,671
Accounts receivable, less allowances of $58 and $53, respectively	17,874	15,754
Inventories	4,855	2,132
Vendor non-trade receivables	17,799	13,545
Other current assets	13,936	8,283
Total current assets	128,646	106,869
Long-term marketable securities	194,716	170,430
Property, plant and equipment, net	33,783	27,010
Goodwill	5,718	5,414
Acquired intangible assets, net	2,298	3,206
Other non-current assets	10,161	8,757
Total assets	$ 375,319	$ 321,686
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 49,049	$ 37,294
Accrued expenses	25,743	22,027
Deferred revenue	7,548	8,080
Commercial paper	11,977	8,105
Current portion of long-term debt	6,497	3,500
Total current liabilities	100,814	79,006
Deferred revenue, non-current	2,836	2,930
Long-term debt	97,207	75,427
Other non-current liabilities	40,415	36,074
Total liabilities	241,272	193,437
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, $0.001 par value: 12,600,000 shares authorized; 5,126,201 and 5,336,166 shares issued and outstanding, respectively	35,867	31,251
Retained earnings	98,332	96,364
Accumulated other comprehensive income/(loss)	(150)	634
Total shareholders' equity	134,048	128,249
Total liabilities and shareholders' equity	$ 375,3	$ 321,686

See accompanying Notes to Consolidated Financial Statements.

Apple Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions, except number of shares which are reflected in thousands)

	Common Stock and Additional Paid-In Capital		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances as of September 24, 2016	5,336,166	31,251	96,364	634	128,249
Net income	—	—	48,351	—	48,351
Other comprehensive income/(loss)	—	—	—	(784)	(784)
Dividends and dividend equivalents declared	—	—	(12,804)	—	(12,804)
Repurchase of common stock	(246,496)	—	(32,899)	—	(32,899)
Share-based compensation	—	4,909	—	—	4,909
Common stock issued, net of shares withheld for employee taxes	36,531	(913)	(682)	—	(1,595)
Tax benefit from equity awards, including transfer pricing adjustments	—	620	—	—	620
Balances as of September 30, 2017	5,126,201	$ 35,867	$ 98,330	$ (150)	$ 134,047

See accompanying Notes to Consolidated Financial Statements.

Apple Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended September 30, 2017	September 24, 2016	September 26, 2015
Cash and cash equivalents, beginning of the year	$ 20,484	$ 21,120	$ 13,844
Operating activities:			
Net income	48,351	45,687	53,394
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	10,157	10,505	11,257
Share-based compensation expense	4,840	4,210	3,586
Deferred income tax expense	5,966	4,938	1,382
Other	(166)	486	385
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,093)	527	417
Inventories	(2,723)	217	(238)
Vendor non-trade receivables	(4,254)	(51)	(3,735)
Other current and non-current assets	(5,318)	1,055	(283)
Accounts payable	9,618	1,837	5,001
Deferred revenue	(625)	(1,554)	1,042
Other current and non-current liabilities	(154)	(2,033)	9,058
Cash generated by operating activities	63,599	65,824	81,266
Investing activities:			
Purchases of marketable securities	(159,487)	(142,428)	(166,402)
Proceeds from maturities of marketable securities	31,775	21,258	14,538
Proceeds from sales of marketable securities	94,565	90,536	107,447
Payments made in connection with business acquisitions, net	(329)	(297)	(343)
Payments for acquisition of property, plant and equipment	(12,452)	(12,733)	(11,247)
Payments for acquisition of intangible assets	(344)	(814)	(241)
Payments for strategic investments, net	(395)	(1,388)	—
Other	220	(111)	(26)
Cash used in investing activities	(46,447)	(45,977)	(56,274)
Financing activities:			
Proceeds from issuance of common stock	555	495	543
Excess tax benefits from equity awards	627	407	749
Payments for taxes related to net share settlement of equity awards	(1,874)	(1,570)	(1,499)
Payments for dividends and dividend equivalents	(12,770)	(12,150)	(11,561)
Repurchases of common stock	(32,899)	(29,722)	(35,253)
Proceeds from issuance of term debt, net	28,663	24,954	27,114
Repayments of term debt	(3,500)	(2,500)	—
Change in commercial paper, net	3,852	(397)	2,191
Cash used in financing activities	(17,346)	(20,483)	(17,716)
Increase/(Decrease) in cash and cash equivalents	(195)	(636)	7,276
Cash and cash equivalents, end of the year	$ 20,289	$ 20,484	$ 21,120
Supplemental cash flow disclosure:			
Cash paid for income taxes, net	$ 11,591	$ 10,444	$ 13,252
Cash paid for interest	$ 2,092	$ 1,316	$ 514

See accompanying Notes to Consolidated Financial Statements.

Apple Inc.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

The Company's fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company's fiscal year 2017 included 53 weeks and ended on September 30, 2017. A 14th week was included in the first fiscal quarter of 2017, as is done every five or six years, to realign the Company's fiscal quarters with calendar quarters. The Company's fiscal years 2016 and 2015 ended on September 24, 2016 and September 26, 2015, respectively, and spanned 52 weeks each. 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.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, accessories, and service and support contracts. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable. Product is considered delivered to the customer once it has been shipped and title, risk of loss and rewards of ownership have been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. For payment terms in excess of the Company's standard payment terms, revenue is recognized as payments become due unless the Company has positive evidence that the sales price is fixed or determinable, such as a successful history of collection, without concession, on comparable arrangements. The Company recognizes revenue from the sale of hardware products, software bundled with hardware that is essential to the functionality of the hardware and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry-specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

The Company records deferred revenue when it receives payments in advance of the delivery of products or the performance of services. This includes amounts that have been deferred for unspecified and specified software upgrade rights and non-software services that are attached to hardware and software products. The Company sells gift cards redeemable at its retail and online stores, and also sells gift cards redeemable on iTunes Store, App Store, Mac App Store, TV App Store and iBooks Store for the purchase of digital content and software. The Company records deferred revenue upon the sale of the card, which is relieved upon redemption of the card by the customer. Revenue from AppleCare service and support contracts is deferred and recognized over the service coverage periods. AppleCare service and support contracts typically include extended phone support, repair services, web-based support resources and diagnostic tools offered under the Company's standard limited warranty.

Revenue Recognition for Arrangements with Multiple Deliverables

For multi-element arrangements that include hardware products containing software essential to the hardware product's functionality, undelivered software elements that relate to the hardware product's essential software, and undelivered non-software services, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE") and (iii) best estimate of selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis. For multi-element arrangements accounted for in accordance with industry-specific software accounting guidance, the Company allocates revenue to all deliverables based on the VSOE of each element, and if VSOE does not exist revenue is recognized when elements lacking VSOE are delivered.

Warranty Costs

The Company generally provides for the estimated cost of hardware and software warranties in the period the related revenue is recognized. The Company assesses the adequacy of its accrued warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Software Development Costs

Research and development ("R&D") costs are expensed as incurred. Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established and as a result software development costs were expensed as incurred.

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets and liabilities are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

Financial Instruments

Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. The Company's marketable debt and equity securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classifications at each balance sheet date. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term. Marketable equity securities, including mutual funds, are classified as either short-term or long-term based on the nature of each security and its availability for use in current operations. The Company's marketable debt and equity securities are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of accumulated other comprehensive income/(loss) ("AOCI") in shareholders' equity, with the exception of unrealized losses believed to be other-than-temporary which are reported in earnings in the current period. The cost of securities sold is based upon the specific identification method.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors, including historical experience, age of the accounts receivable balances, credit quality of the Company's customers, current economic conditions and other factors that may affect the customers' abilities to pay.

Inventories

Inventories are stated at the lower of cost, computed using the first-in, first-out method, and net realizable value. Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets, which for buildings is the lesser of 30 years or the remaining life of the underlying building; between one and five years for machinery and equipment, including product tooling and manufacturing process equipment; and the shorter of lease term or useful life for leasehold improvements. The Company capitalizes eligible costs to acquire or develop internal-use software that are incurred subsequent to the preliminary project stage. Capitalized costs related to internal-use software are amortized using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Depreciation and amortization expense on property and equipment was $8.2 billion, $8.3 billion and $9.2 billion during 2017, 2016 and 2015, respectively.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

The Company does not amortize goodwill and intangible assets with indefinite useful lives; rather, such assets are required to be tested for impairment at least annually or sooner if events or changes in circumstances indicate that the assets may be impaired. The Company performs its goodwill and intangible asset impairment tests in the fourth quarter of each year. The Company did not recognize any impairment charges related to goodwill or indefinite lived intangible assets during 2017, 2016 and 2015. For purposes of testing goodwill for impairment, the Company established reporting units based on its current reporting structure. Goodwill has been allocated to these reporting units to the extent it relates to each reporting unit. In 2017 and 2016, the Company's goodwill was primarily allocated to the Americas and Europe reporting units.

The Company amortizes its intangible assets with definite useful lives over their estimated useful lives and reviews these assets for impairment. The Company typically amortizes its acquired intangible assets with definite useful lives over periods from three to seven years.

Note 2 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

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

	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:							
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:							
U.S. Treasury securities	55,255	59	(230)	55,084	865	17,228	36,991
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	253,085	1,279	(694)	253,670	5,773	53,181	194,716
Total	$ 268,400	$ 1,279	$ (782)	$ 268,897	$ 20,289	$ 53,892	$ 194,716

The Company recognized no realized net gains or losses from available-for-sale securities during the year ended September 30, 2017.

Note 3 – Consolidated Financial Statement Details

The following tables show the Company's consolidated financial statement details as of September 30, 2017 and September 24, 2016 (in millions):

Property, Plant and Equipment, Net

	2017	2016
Land and buildings	$ 13,587	$ 10,185
Machinery, equipment and internal-use software	54,210	44,543
Leasehold improvements	7,279	6,517
Gross property, plant and equipment	75,076	61,245
Accumulated depreciation and amortization	(41,293)	(34,235)
Total property, plant and equipment, net	$ 33,783	$ 27,010

Other Non-Current Liabilities

	2017	2016
Deferred tax liabilities	$ 31,504	$ 26,019
Other non-current liabilities	8,911	10,055
Total other non-current liabilities	$ 40,415	$ 36,074

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 September 30, 2017 and September 24, 2016 (in millions):

	2017			2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived and amortizable acquired intangible assets	$ 7,507	$ (5,309)	$ 2,198	$ 8,912	$ (5,806)	$ 3,106
Indefinite-lived and non-amortizable acquired intangible assets	100	—	100	100	—	100
Total acquired intangible assets	$ 7,607	$ (5,309)	$ 2,298	$ 9,012	$ (5,806)	$ 3,206

Amortization expense related to acquired intangible assets was $1.2 billion, $1.5 billion and $1.3 billion in 2017, 2016 and 2015, respectively.

Note 5 – Income Taxes

The provision for income taxes for 2017, 2016 and 2015, consisted of the following (in millions):

	2017	2016	2015
Federal:			
Current	$ 7,942	$ 7,652	$ 11,730
Deferred	5,980	5,043	3,408
Total (1)	13,922	12,695	15,138
State:			
Current	259	990	1,265
Deferred	2	(138)	(220)
Total	261	852	1,045
Foreign:			
Current	1,671	2,105	4,744
Deferred	(16)	33	(1,806)
Total	1,655	2,138	2,938
Provision for income taxes	$ 15,838	$ 15,685	$ 19,121

(1) Includes taxes of $7.9 billion, $6.7 billion and $7.3 billion provided on foreign pre-tax earnings in 2017, 2016 and 2015, respectively.

The foreign provision for income taxes is based on foreign pre-tax earnings of $44.7 billion, $41.1 billion and $47.6 billion in 2017, 2016 and 2015, respectively. The Company's consolidated financial statements provide for any related tax liability on undistributed earnings that the Company does not intend to be indefinitely reinvested outside the U.S. Substantially all of the Company's undistributed international earnings intended to be indefinitely reinvested in operations outside the U.S. were generated by subsidiaries organized in Ireland, which has a statutory tax rate of 12.5%. As of September 30, 2017, U.S. income taxes have not been provided on a cumulative total of $128.7 billion of such earnings. The amount of unrecognized deferred tax liability related to these temporary differences is estimated to be $42.2 billion.

As of September 30, 2017 and September 24, 2016, $252.3 billion and $216.0 billion, respectively, of the Company's cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate to income before provision for income taxes for 2017, 2016 and 2015, is as follows (dollars in millions):

	2017	2016	2015
Computed expected tax	$ 22,431	$ 21,480	$ 25,380
State taxes, net of federal effect	185	553	680
Indefinitely invested earnings of foreign subsidiaries	(6,035)	(5,582)	(6,470)
Domestic production activities deduction	(209)	(382)	(426)
Research and development credit, net	(678)	(371)	(171)
Other	144	(13)	128
Provision for income taxes	$ 15,838	$ 15,685	$ 19,121

As of September 30, 2017 and September 24, 2016, the significant components of the Company's deferred tax assets and liabilities were (in millions):

	2017	2016
Deferred tax assets:		
Accrued liabilities and other reserves	$ 4,019	$ 4,135
Basis of capital assets	1,230	2,107
Deferred revenue	1,531	1,717
Deferred cost sharing	667	667
Share-based compensation	703	601
Other	834	788
Total deferred tax assets, net of valuation allowance of $0	8,984	10,015
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	36,355	31,436
Other	207	485
Total deferred tax liabilities	36,562	31,921
Net deferred tax liabilities	$ (27,578)	$ (21,906)

Deferred tax assets and liabilities reflect the effects of tax losses, credits and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Note 6 Long-term Debt

As of September 30, 2017, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of $104.0 billion (collectively the "Notes"). The Notes are senior unsecured obligations, and interest is payable in arrears. The following table provides a summary of the Company's long-term debt as of September 30, 2017 and September 24, 2016:

	Maturities	2017 Amount (in millions)	2017 Effective Interest Rate	2016 Amount (in millions)	2016 Effective Interest Rate
2013 debt issuance:					
Floating-rate notes	2018	$ 2,000	1.10%	$ 2,000	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:					
Floating-rate notes	2019	1,000	1.61%	2,000	0.86% – 1.09%
Fixed-rate 2.100% – 4.450% notes	2019 – 2044	8,500	1.61% – 4.48%	10,000	0.85% – 4.48%
2015 debt issuances:					
Floating-rate notes	2019 – 2020	1,549	1.56% – 1.87%	1,781	0.87% – 1.87%
Fixed-rate 0.350% – 4.375% notes	2019 – 2045	24,522	0.28% – 4.51%	25,144	0.28% – 4.51%
2016 debt issuances:					
Floating-rate notes	2019 – 2021	1,350	1.45% – 2.44%	1,350	0.91% – 1.95%
Fixed-rate 1.100% – 4.650% notes	2018 – 2046	23,645	1.13% – 4.78%	23,609	1.13% – 4.58%
Second quarter 2017 debt issuance:					
Floating-rate notes	2019 – 2022	2,000	1.39% – 1.81%	—	—%
Fixed-rate 1.100% – 4.650% notes	2018 – 2047	9,000	1.59% – 4.30%	—	—%
Third quarter 2017 debt issuance:					
Floating-rate notes	2020 – 2022	1,250	1.38% – 1.66%	—	—%
Fixed-rate 1.100% – 4.650% notes	2020 – 2027	9,595	1.84% – 3.37%	—	—%
Fourth quarter 2017 debt issuance:					
Fixed-rate 1.500% notes	2019	1,000	1.54%	—	—%
Fixed-rate 2.100% notes	2022	1,000	1.92%	—	—%
Fixed-rate 2.513% notes	2024	2,017	2.66%	—	—%
Fixed-rate 2.900% notes	2027	2,000	2.55%	—	—%
Fixed-rate 3.650% notes	2047	1,000	4.00%	—	—%
Unamortized discount and issuance costs, net		(224)		(174)	
Total long-term debt		$ 103,704		$ 78,927	

The effective interest rates for the Notes include the interest on the Notes, amortization of the discount or premium and, if applicable, adjustments related to hedging. The Company recognized $2.2 billion, $1.4 billion and $722 million of interest expense on its long-term debt for 2017, 2016 and 2015, respectively.

As of September 30, 2017 and September 24, 2016, the fair value of the Company's total long-term debt, based on Level 2 inputs, was $106.4 billion and $81.7 billion, respectively.

Note 7 – Shareholders' Equity

Share Repurchase Program

In May 2017, the Company's Board of Directors increased the share repurchase authorization from $175 billion to $210 billion of the Company's common stock, of which $166 billion had been utilized as of September 30, 2017. The Company's share repurchase program does not obligate it to acquire any specific number of shares. When the Company repurchases shares of its common stock, it retires them upon repurchase.

Note 8 – Comprehensive Income

Comprehensive income consists of two components, net income and OCI. OCI refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Company's OCI consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges and unrealized gains and losses on marketable securities classified as available-for-sale.

The following table shows the pre-tax amounts reclassified from AOCI into the Consolidated Statements of Operations, and the associated financial statement line item, for 2017 and 2016 (in millions):

Comprehensive Income Components	Financial Statement Line Item	2017	2016
Unrealized (gains)/losses on derivative instruments:			
Foreign exchange contracts	Revenue	$ (662)	$ (865)
	Cost of sales	(654)	(130)
	Other income/(expense), net	(638)	111
Interest rate contracts	Other income/(expense), net	2	12
		(1,952)	(872)
Unrealized (gains)/losses on marketable securities	Other income/(expense), net	(99)	87
Total amounts reclassified from AOCI		$ (2,051)	$ (785)

The following table shows the changes in AOCI by component for 2017 and 2016 (in millions):

	Cumulative Foreign Currency Translation	Unrealized Gains/Losses on Derivative Instruments	Unrealized Gains/Losses on Marketable Securities	Total
Balances as of September 26, 2015	$ (653)	$ 772	$ (464)	$ (345)
Other comprehensive income/(loss) before reclassifications	67	14	2,445	2,526
Amounts reclassified from AOCI	—	(872)	87	(785)
Tax effect	8	124	(894)	(762)
Other comprehensive income/(loss)	75	(734)	1,638	979
Balances as of September 24, 2016	(578)	38	1,174	634
Other comprehensive income/(loss) before reclassifications	301	1,793	(1,207)	887
Amounts reclassified from AOCI	—	(1,952)	(99)	(2,051)
Tax effect	(77)	(3)	460	380
Other comprehensive income/(loss)	224	(162)	(846)	(784)
Balances as of September 30, 2017	$ (354)	$ (124)	$ 328	$ (150)

Note 10 – Commitments and Contingencies

Accrued Warranty and Indemnification

The following table shows changes in the Company's accrued warranties and related costs for 2017, 2016 and 2015 (in millions):

	2017	2016	2015
Beginning accrued warranty and related costs	$ 3,702	$ 4,780	$ 4,159
Cost of warranty claims	(4,322)	(4,663)	(4,401)
Accruals for product warranty	4,454	3,585	5,022
Ending accrued warranty and related costs	$ 3,834	$ 3,702	$ 4,780

Other Off-Balance Sheet Commitments

Operating Leases

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. As of September 30, 2017, the Company's total future minimum lease payments under noncancelable operating leases were $9.8 billion. The Company's retail store and other facility leases typically have original terms not exceeding 10 years and generally contain multi-year renewal options.

Rent expense under all operating leases, including both cancelable and noncancelable leases, was $1.1 billion, $939 million and $794 million in 2017, 2016 and 2015, respectively. Future minimum lease payments under noncancelable operating leases having initial or remaining terms in excess of one year as of September 30, 2017, are as follows (in millions):

2018	$ 1,200
2019	1,200
2020	1,200
2021	1,200
2022	1,200
Thereafter	4,800
Total	$ 10,800

Contingencies

Apple Inc. v. Samsung Electronics Co., Ltd., et al.

On August 24, 2012, a jury returned a verdict awarding the Company $1.05 billion in its lawsuit against Samsung Electronics Co., Ltd. and affiliated parties in the United States District Court, Northern District of California, San Jose Division. On March 6, 2014, the District Court entered final judgment in favor of the Company in the amount of approximately $930 million. On May 18, 2015, the U.S. Court of Appeals for the Federal Circuit affirmed in part, and reversed in part, the decision of the District Court. As a result, the Court of Appeals ordered entry of final judgment on damages in the amount of approximately $548 million, with the District Court to determine supplemental damages and interest, as well as damages owed for products subject to the reversal in part. Samsung paid $548 million to the Company in December 2015, which was included in net sales in the Consolidated Statement of Operations. On December 6, 2016, the U.S. Supreme Court remanded the case to the U.S. Court of Appeals for the Federal Circuit for further proceedings related to the $548 million in damages. On February 7, 2017, the U.S. Court of Appeals for the Federal Circuit remanded the case to the District Court to determine what additional proceedings, if any, are needed. On October 22, 2017, on remand from the U.S. Supreme Court, the District Court ordered a new trial on damages.