AMERISOURCEBERGEN CORP
Form 10-K
November 21, 2017

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2017

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

AMERISOURCEBERGEN CORPORATION
(Exact name of registrant as specified in its charter)

Commission File Number	Registrant, State of Incorporation Address and Telephone Number	I.R.S. Employer Identification Number
1-16671	AmerisourceBergen Corporation (a Delaware Corporation) 1300 Morris Drive Chesterbrook, PA 19087-5594 610-727-7000	23-3079390

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value per share	Registered on New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ
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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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 o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No þ

The aggregate market value of voting stock held by non-affiliates of the registrant on March 31, 2017 based upon the closing price of such stock on the New York Stock Exchange on March 31, 2017 was $11,765,213,718.

The number of shares of common stock of AmerisourceBergen Corporation outstanding as of October 31, 2017 was 218,082,051.

Documents Incorporated by Reference

Portions of the following document are incorporated by reference in the Part of this report indicated below:

Part III — Registrant's Proxy Statement for the 2018 Annual Meeting of Stockholders.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

As used herein, the terms "Company," "AmerisourceBergen," "we," "us," or "our" refer to AmerisourceBergen Corporation, a Delaware corporation.

AmerisourceBergen is one of the largest global pharmaceutical sourcing and distribution services companies, helping both healthcare providers and pharmaceutical and biotech manufacturers improve patient access to products and enhance patient care. We deliver innovative programs and services designed to increase the effectiveness and efficiency of the pharmaceutical supply chain in both human and animal health. More specifically, we distribute a comprehensive offering of brand-name, specialty brand-name, and generic pharmaceuticals, over-the-counter healthcare products, home healthcare supplies and equipment, outsourced compounded sterile preparations, and related services to a wide variety of healthcare providers located in the United States and select global markets, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order pharmacies, medical clinics, long-term care and alternate site pharmacies, physician practices, medical and dialysis clinics, veterinarians, and other customers. Additionally, we furnish healthcare providers and pharmaceutical manufacturers with an assortment of related services, including data analytics, outcomes research, reimbursement and pharmaceutical consulting services, niche premium logistics services, inventory management, pharmacy automation, pharmacy management, and packaging solutions

Industry Overview

Pharmaceutical sales in the United States, as recently estimated by IQVIA (formerly known as QuintilesIMS), an independent third party provider of information to the pharmaceutical and healthcare industry, are expected to grow at a compound annual growth rate of approximately 4.4% from 2016 through 2021, and the growth rate is dependent, in part, on pharmaceutical manufacturer price increases.

In addition to general economic conditions, factors that impact the growth of the pharmaceutical industry in the United States and other industry trends include:

Aging Population. The number of individuals age 65 and over in the United States is expected to exceed 58 million by 2021 and is the most rapidly growing segment of the population. This age group suffers from more chronic illnesses and disabilities than the rest of the population and accounts for a substantial portion of total healthcare expenditures in the United States.

Introduction of New Pharmaceuticals. Traditional research and development, as well as the advent of new research, production, and delivery methods, such as biotechnology and gene therapy, continue to generate new pharmaceuticals and delivery methods that are more effective in treating diseases. We believe ongoing research and development expenditures by the leading pharmaceutical manufacturers will contribute to continued growth of the industry. In particular, we believe ongoing research and development of biotechnology and other specialty pharmaceutical drugs will provide opportunities for the continued growth of our specialty pharmaceuticals business.

Increased Use of Generic Pharmaceuticals. A number of patents for widely used brand-name pharmaceutical products will continue to expire during the next several years. In addition, increased emphasis by managed care and other third party payors on utilization of generics has accelerated their growth. We consider the increase in generic usage a favorable trend because generic pharmaceuticals have historically provided us with a greater gross profit margin opportunity than brand-name products, although their lower prices reduce revenue growth. Generic pharmaceuticals currently account for approximately 90% of the prescription volume in the United States.

Increased Use of Drug Therapies. In response to rising healthcare costs, governmental and private payors have adopted cost containment measures that encourage the use of efficient drug therapies to prevent or treat diseases. While national attention has been focused on the overall increase in aggregate healthcare costs, we believe drug therapy has had a beneficial impact on healthcare costs by reducing expensive surgeries and prolonged hospital stays. Pharmaceuticals currently account for approximately 12% of overall healthcare costs. Pharmaceutical manufacturers' continued emphasis on research and development is expected to result in the continuing introduction of cost-effective drug therapies and new uses for existing drug therapies.

1

Table of Contents

Legislative Developments. In recent years, regulation of the healthcare industry has changed significantly in an effort to increase drug utilization and reduce costs. In 2010, the federal government enacted major health reform legislation designed to expand access to health insurance, which increased the number of people in the United States who are eligible to be reimbursed for all or a portion of prescription drug costs. The health reform law provides for sweeping changes to Medicare and Medicaid policies (including drug reimbursement policies), expanded disclosure requirements regarding financial arrangements within the healthcare industry, enhanced enforcement authority to prevent fraud and abuse, and new taxes and fees on pharmaceutical and medical device manufacturers. These policies and other legislative developments (including potential revisions to or repeal of any portions of the health reform legislation) may affect our businesses directly and/or indirectly (see Government Regulation on page 6 for further details).

Other economic conditions and certain risk factors could adversely affect our business and prospects (see Item 1A. Risk Factors on page 8).

The Company

We currently serve our customers (healthcare providers, pharmaceutical and biotech manufacturers) through a geographically diverse network of distribution service centers and other operations in the United States and selected global markets. In our pharmaceutical distribution business, we are typically the primary supplier of pharmaceutical and related products to our healthcare provider customers. We offer a broad range of services to our customers designed to enhance the efficiency and effectiveness of their operations, which allow them to improve the delivery of healthcare to patients and to lower overall costs in the pharmaceutical supply channel.

Strategy

Our business strategy is focused on the global pharmaceutical supply channel where we provide value-added distribution and global commercialization services to healthcare providers (primarily pharmacies, health systems, medical and dialysis clinics, physicians, and veterinarians) and pharmaceutical manufacturers that increase channel efficiencies and improve patient outcomes. We recently began to reorganize to further align our organization to our customer' needs in a more seamless and unified way, while supporting corporate strategy and accelerating growth. Implementing this disciplined, focused strategy has allowed us to significantly expand our business, and we believe we are well-positioned to grow revenue and increase operating income through the execution of the following key elements of our business strategy:

- Optimize and Grow Our Pharmaceutical Distribution and Strategic Global Sourcing Businesses. We believe we are well-positioned in size and market breadth to continue to grow our distribution businesses as we invest to improve our operating and capital efficiencies. Distribution, including specialty pharmaceuticals, anchors our growth and position in the pharmaceutical supply channel as we provide superior distribution services and deliver value-added solutions, which improve the efficiency and competitiveness of both healthcare providers and pharmaceutical manufacturers, thus allowing the pharmaceutical supply channel to better deliver healthcare to patients.

We are a leader in distribution and services to community oncologists and have leading positions in other physician-administered products. We distribute plasma and other blood products, injectable pharmaceuticals, vaccines, and other specialty products. We are well-positioned to service and support many of the new biotechnology therapies that are expected to be coming to market in the near future.

With the continued growth of generic pharmaceuticals in the U.S. market, we have introduced strategies to enhance our position in the generic marketplace, including our generic product private label program based in Ireland. We source generics globally, offer a value-added generic formulary program to our healthcare provider customers, and monitor our customers' compliance with our generics program. We also provide data and other valuable services to our manufacturing customers, which includes the expansion of our international presence into Switzerland, where we lead our global manufacturer relations and commercialization strategy.

We offer value-added services and solutions to assist healthcare providers and pharmaceutical manufacturers to improve their efficiency and their patient outcomes. Services for manufacturers include: assistance with rapid new product launches, promotional and marketing services to accelerate product sales, product data reporting, and

logistical support.

Our provider solutions include: our Good Neighbor Pharmacy® program, which enables independent community pharmacies to compete more effectively through pharmaceutical benefit and merchandising programs; Elevate Provider Network®, our managed care network, which connects our retail pharmacy customers to payor plans throughout the country and is one of the largest in the United States; generic product purchasing and private label services; hospital pharmacy consulting designed to improve operational efficiencies; and packaging solutions for institutional and retail healthcare providers.

Table of Contents

We believe we have one of the lowest cost operating structures among all pharmaceutical distributors. Pharmaceutical Distribution Services has a distribution facility network totaling 28 distribution facilities in the United States. This network includes a national distribution center in Columbus, OH, which offers pharmaceutical manufacturers a single shipping destination. We continue to seek opportunities to achieve increased productivity and operating income gains as we invest in and continue to implement warehouse automation technology, adopt "best practices" in warehousing activities, and increase operating leverage by increasing volume per full-service distribution facility. We continue to seek opportunities to expand our offerings in our Pharmaceutical Distribution and Strategic Global Sourcing businesses.

- Optimize and Grow Our Global Commercialization Services and Animal Health Businesses. Our consulting service businesses help global pharmaceutical and biotechnology manufacturers commercialize their products in the channel. We believe we are the largest provider of reimbursement services that assist pharmaceutical companies in supporting access to branded drugs. We also provide outcomes research, contract field staffing, patient assistance and copay assistance programs, adherence programs, risk mitigation services, and other market access programs to pharmaceutical companies. World Courier is a leading global specialty transportation and logistics provider for the biopharmaceutical industry. World Courier further strengthens our service offerings to global pharmaceutical manufacturers and provides an established platform for the introduction of our specialty services outside North America. MWI Animal Health (“MWI”) sells pharmaceuticals, vaccines, parasiticides, diagnostics, micro feed ingredients, and various other products to customers in both the companion animal and production animal markets. MWI also offers its customers a variety of value-added services, including its e-commerce platform, technology management systems, pharmacy fulfillment, inventory management system, equipment procurement consultation, special order fulfillment, and educational seminars, which we believe closely integrate MWI with its customers' day-to-day operations and provide them with meaningful incentives to continue doing business with MWI. We continue to seek opportunities to expand our offerings in our Global Commercialization Services and Animal Health businesses.

- Acquisitions. In order to grow our core strategic offerings and to enter related markets, we have acquired businesses and will continue to consider additional acquisitions.

- Divestitures. In order to allow us to concentrate on our strategic focus areas, we have divested certain non-core businesses and may, from time to time, consider additional divestitures.

Operations

Operating Structure. We are organized based upon the products and services we provide to our customers. Our operations as of September 30, 2017 are comprised of the Pharmaceutical Distribution Services reportable segment and other operating segments that are not significant enough to require separate reportable segment disclosure, and, therefore, have been included in Other for the purpose of reportable segment presentation. Effective September 30, 2017, we reorganized our operating structure resulting in the combination of the legacy AmerisourceBergen Drug Corporation ("ABDC") and AmerisourceBergen Specialty Group ("ABSG") operating segments into a single operating segment, Pharmaceutical Distribution Services. In addition, in connection with the completion of this reorganization, our non-title third party logistics business, which was included within the Pharmaceutical Distribution Services reportable segment, was combined with the World Courier operating segment in Other, while the AmerisourceBergen Consulting Services (“ABCS”) distribution business (previously included in Other) is included in the Pharmaceutical Distribution Services reportable segment. See Note 15 of the Notes to Consolidated Financial Statements for reportable segment information.

Pharmaceutical Distribution Services Segment

Servicing healthcare providers in the pharmaceutical supply channel, the Pharmaceutical Distribution Services segment's operations provide drug distribution, strategic global sourcing and related services designed to reduce healthcare costs and improve patient outcomes.

The Pharmaceutical Distribution Services reportable segment distributes a comprehensive offering of brand-name, specialty brand-name and generic pharmaceuticals, over-the-counter healthcare products, home healthcare supplies and equipment, outsourced compounded sterile preparations, and related services to a wide variety of healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order pharmacies, medical clinics, long-term care and alternate site pharmacies, and other customers. Through a number of operating businesses, the Pharmaceutical Distribution Services reportable segment provides pharmaceutical distribution (including plasma and other blood products, injectible pharmaceuticals, vaccines, and other specialty pharmaceutical products) and additional services to physicians who specialize in a variety of disease states, especially oncology, and to other healthcare providers, including hospitals and dialysis clinics. Additionally, the Pharmaceutical Distribution Services reportable segment provides data analytics, outcomes research, and additional services for

Table of Contents

biotechnology and pharmaceutical manufacturers. The Pharmaceutical Distribution Services reportable segment also provides pharmacy management, staffing and additional consulting services, and supply management software to a variety of retail and institutional healthcare providers. Additionally, it delivers packaging solutions to institutional and retail healthcare providers.

Other

Other consists of operating segments that focus on global commercialization services and animal health and includes ABCS, World Courier, and MWI.

ABCS, through a number of operating businesses, provides a full suite of integrated manufacturer services that range from clinical trial support to product post-approval and commercialization support. World Courier, which operates in more than 50 countries, is a leading global specialty transportation and logistics provider for the biopharmaceutical industry. MWI is a leading animal health distribution company in the United States and in the United Kingdom. MWI sells pharmaceuticals, vaccines, parasiticides, diagnostics, micro feed ingredients, and various other products to customers in both the companion animal and production animal markets. Additionally, MWI offers demand-creating sales force services to manufacturers.

Sales and Marketing. The majority of Pharmaceutical Distribution Services' sales force is led nationally, with geographic focus and specialized by either healthcare provider type or size. Customer service representatives are centralized in order to respond to customer needs in a timely and effective manner. Pharmaceutical Distribution Services also has support professionals focused on its various technologies and service offerings. Pharmaceutical Distribution Services' sales teams also serve national account customers through close coordination with local distribution centers and ensure that our customers are receiving service offerings that meet their needs. Our other operating segments each have independent sales forces that specialize in their respective product and service offerings. In addition, we have an enterprise-wide marketing group that coordinates branding and all other marketing activities across the Company.

Customers. We have a diverse customer base that includes institutional and retail healthcare providers as well as pharmaceutical manufacturers. Institutional healthcare providers include acute care hospitals, health systems, mail order pharmacies, long-term care and other alternate care pharmacies, and providers of pharmacy services to such facilities, physicians, and physician group practices. Retail healthcare providers include national and regional retail drugstore chains, independent community pharmacies, pharmacy departments of supermarkets and mass merchandisers, and veterinarians. We are typically the primary source of supply for our healthcare provider customers. Our manufacturing customers include branded, generic, and biotechnology manufacturers of prescription pharmaceuticals, as well as over-the-counter product and health and beauty aid manufacturers. In addition, we offer a broad range of value-added solutions designed to enhance the operating efficiencies and competitive positions of our customers, thereby allowing them to improve the delivery of healthcare to patients and consumers.

Our two largest customers, Walgreens Boots Alliance, Inc. ("WBA") and Express Scripts, Inc. ("Express Scripts"), accounted for approximately 30% and approximately 15%, respectively, of revenue in the fiscal year ended September 30, 2017. Our top 10 customers, including governmental agencies and group purchasing organizations ("GPOs"), represented approximately 66% of revenue in the fiscal year ended September 30, 2017. The loss of any major customer or GPO relationship could adversely affect future revenue and results of operations. If those contracts are not renewed or are renewed at less favorable terms, they may negatively impact our revenue, results of operations, and cash flows.

Suppliers. We obtain pharmaceutical and other products from manufacturers, none of which accounted for 10% or more of our purchases in the fiscal year ended September 30, 2017. The loss of a supplier could adversely affect our business if alternate sources of supply are unavailable since we are committed to be the primary source of pharmaceutical products for a majority of our customers. We believe that our relationships with our suppliers are strong. The 10 largest suppliers in fiscal year ended September 30, 2017 accounted for approximately 48% of our purchases.

Information Systems. The Pharmaceutical Distribution Services operating segment operates its full-service wholesale pharmaceutical distribution facilities in the United States on two primary enterprise resource planning ("ERP")

systems. Pharmaceutical Distribution Services' ERP systems provide for, among other things, electronic order entry by customers, invoice preparation and purchasing, and inventory tracking. All of our other operating segments operate the majority of their businesses on their own common, centralized ERP systems resulting in operating efficiencies as well as the ability to rapidly deploy new capabilities. We are currently making significant investments to enhance and upgrade the ERP systems utilized by our other operating segments.

Additionally, we are improving our entity-wide infrastructure environment to drive efficiency, capabilities, and speed to market.

We will continue to invest in advanced information systems and automated warehouse technology. For example, in an effort to comply with future pedigree and other supply chain custody requirements (see Risk Factor - Increasing governmental

Table of Contents

efforts to regulate the pharmaceutical supply channel and pharmaceutical compounding may increase our costs and reduce our profitability), we expect to continue to make significant investments in our secure supply chain information systems.

In the fiscal 2017, Pharmaceutical Distribution Services continued making significant investments in its electronic ordering systems. Pharmaceutical Distribution Services' systems are intended to strengthen customer relationships by allowing the customer to lower operating costs and by providing a platform for a number of the basic and value-added services offered to our customers, including product demand data, inventory replenishment, single-source billing, third party claims processing, real-time price and incentive updates, and price labels.

Pharmaceutical Distribution Services processes a substantial portion of its purchase orders, invoices, and payments electronically. However, it continues to make substantial investments to expand its electronic interface with its suppliers. Pharmaceutical Distribution Services has warehouse operating systems, which are used to manage the majority of Pharmaceutical Distribution Services' transactional volume. The warehouse operating systems have improved Pharmaceutical Distribution Services' productivity and operating leverage.

A significant portion of our information technology activities are outsourced to IBM Global Services and other third party service providers.

Competition

We face a highly competitive global environment in the distribution of pharmaceuticals and related healthcare services. Our largest competitors are McKesson Corporation ("McKesson"), Cardinal Health, Inc. ("Cardinal"), FFF Enterprises, Henry Schein, Inc. and UPS Logistics, among others. Pharmaceutical Distribution Services competes with both McKesson and Cardinal, as well as national generic distributors and regional distributors within pharmaceutical distribution. In addition, we compete with manufacturers who sell directly to customers, chain drugstores who manage their own warehousing, specialty distributors, and packaging and healthcare technology companies. Our ABCS, World Courier, and MWI businesses also face competition from a variety of competitors. In all areas, competitive factors include price, product offerings, value-added service programs, service and delivery, credit terms, and customer support.

Intellectual Property

We use a number of trademarks and service marks. All of the principal trademarks and service marks used in the course of our business have been registered in the United States and, in some cases, in foreign jurisdictions or are the subject of pending applications for registration.

We have developed or acquired various proprietary products, processes, software, and other intellectual property that are used either to facilitate the conduct of our business or that are made available as products or services to customers. We generally seek to protect such intellectual property through a combination of trade secret, patent and copyright laws, and through confidentiality and other contractually imposed protections.

We hold patents and have patent applications pending that relate to certain of our products, particularly our automated pharmacy dispensing equipment, our medication and supply dispensing equipment, certain warehousing equipment, and some of our proprietary packaging solutions. We seek patent protection for our proprietary intellectual property from time to time as appropriate.

Although we believe that our patents or other proprietary products and processes do not infringe upon the intellectual property rights of any third parties, third parties may assert infringement claims against us from time to time.

Employees

As of September 30, 2017, we had approximately 20,000 employees, of which approximately 19,000 were full-time employees. Approximately 2% of our employees are covered by collective bargaining agreements. We believe that our relationship with our employees is good. If any of our employees in locations that are unionized should engage in strikes or other such bargaining tactics in connection with the negotiation of new collective bargaining agreements upon the expiration of any existing collective bargaining agreements, such tactics could be disruptive to our operations and adversely affect our results of operations, but we believe we have adequate contingency plans in place to assure delivery of pharmaceuticals to our customers in the event of any such disruptions.

5

Table of Contents

Government Regulation

We are subject to extensive oversight by various federal and state governmental entities and we are subject to, and affected by, a variety of federal and state laws, regulations, and policies.

The U.S. Drug Enforcement Administration ("DEA"), the U.S. Food and Drug Administration ("FDA"), and various other federal and state regulatory authorities regulate the compounding, purchase, storage, and/or distribution of pharmaceutical products, including controlled substances. Wholesale distributors of controlled substances and entities that compound pharmaceuticals that contain controlled substances must hold valid DEA licenses, meet various security and operating standards, and comply with regulations governing the sale, marketing, compounding, packaging, holding, and distribution of controlled substances. Our Section 503B outsourcing facilities must comply with current Good Manufacturing Practices ("GMPs") and are inspected by the FDA periodically to determine that we are complying with such GMPs. The DEA, FDA, and state regulatory authorities have broad enforcement powers, including the ability to suspend our distribution centers or Section 503B outsourcing facilities from distributing pharmaceutical products including controlled substances, seize or recall products, and impose significant criminal, civil, and administrative sanctions. We have all necessary licenses or other regulatory approvals and believe that we are in compliance with all applicable pharmaceutical compounding and wholesale distribution requirements needed to conduct our current operations.

We and our customers are subject to fraud and abuse laws, including the federal anti-kickback statute. The anti-kickback statute prohibits persons from soliciting, offering, receiving, or paying any remuneration in order to induce the purchasing, leasing, or ordering, induce a referral to purchase, lease, or order, or arrange for or recommend purchasing, leasing, or ordering items or services that are in any way paid for by Medicare, Medicaid, or other federal healthcare programs. The fraud and abuse laws and regulations are broad in scope and are subject to frequent and varied interpretation.

In recent years, some states have passed or proposed laws and regulations that are intended to protect the safety of the pharmaceutical supply channel. These laws and regulations are designed to prevent the introduction of counterfeit, diverted, adulterated, or mislabeled pharmaceuticals into the distribution system. At the federal level, the supply chain security legislation known as the Drug Quality and Security Act (“DQSA”) became law in 2013. The DQSA establishes federal traceability standards requiring drugs to be labeled and tracked at the lot level, preempts state drug pedigree requirements, and will eventually require all supply-chain stakeholders to participate in an electronic, interoperable prescription drug traceability system. The DSQA also establishes new requirements for drug wholesale distributors and third party logistics providers, including licensing requirements in states that had not previously licensed such entities. Over the next few years, the FDA, and eventually comparable state agencies, will promulgate implementing regulations governing wholesale distributor and third party logistics providers. One additional change resulting from the DQSA is the creation of 503B outsourcing facilities as a new category for providers of compounded sterile preparations ("CSP"), allowing such facilities to voluntarily register with the FDA. Our CSP business locations have registered with the FDA as Section 503B outsourcing facilities and have implemented policies and procedures to achieve compliance with current federal and state requirements for such facilities. There can be no assurance that we are fully compliant with the new DQSA requirements, or with additional state regulatory and licensing requirements for 503B outsourcing facilities, and any failure to comply may result in additional costs to bring our operations into compliance. These and other requirements will continue to increase the cost of our operations.

Federal insurance and health care reform legislation known as the Affordable Care Act became law in 2010. The Affordable Care Act is intended to expand health insurance, including coverage for at least a portion of drug costs, through a combination of insurance market reforms, an expansion of Medicaid, subsidies, and health insurance mandates. The Affordable Care Act contains many provisions designed to generate the revenues necessary to fund the coverage expansions and reduce the costs of Medicare and Medicaid. Among other things, the Affordable Care Act changed the formula for Medicaid federal upper payment limits for multiple source drugs available for purchase by retail community pharmacies on a nationwide basis to no less than 175% of the weighted average manufacturer price. Further, implementing regulations require state Medicaid programs to apply payment mechanisms for branded prescription drugs which are consistent with pharmacies' "actual acquisition costs" for drugs. These provisions could

reduce prescription drug reimbursement levels under state Medicaid programs.

As a result of political, economic, and regulatory influences, scrutiny of the healthcare delivery system in the United States can be expected to continue at both the state and federal levels. This process may result in additional legislation and/or regulation governing the production, delivery, or pricing of pharmaceutical products, as well as additional changes to the structure of the present healthcare delivery system. In addition, changes in the interpretations of existing regulations may result in significant additional compliance costs or the discontinuation of our ability to continue to operate our distribution centers or Section 503B outsourcing facilities, which may have a material adverse effect on our financial condition and results of operations.

Any future reductions in Medicare or Medicaid reimbursement rates could negatively impact our customers' businesses and their ability to continue to purchase drugs from us. We cannot predict what additional initiatives, if any, will be adopted, when they may be adopted, or what impact they may have on us.

Table of Contents

We are subject to various federal, state, and local environmental laws, including with respect to the sale, transportation, storage, handling, and disposal of hazardous or potentially hazardous substances, as well as laws relating to safe working conditions and laboratory practices.

The costs, burdens, and/or impacts of complying with federal and state regulations could be significant and the failure to comply with any such legal requirements could have a significant impact on our results of operations and financial condition.

See "Risk Factors" below for a discussion of additional legal and regulatory developments, as well as enforcement actions or other litigation that may arise out of our failure to adequately comply with applicable laws and regulations that may negatively affect our results of operations and financial condition.

Health Information and Privacy Practices

The Health Information Portability and Accountability Act of 1996 ("HIPAA") and its implementing regulations set forth privacy and security standards designed to protect the privacy of and provide for the security of protected health information, as such term is defined under the HIPAA regulations. Some of our businesses collect, maintain, and/or access protected health information and are subject to the HIPAA regulations. Our operations, depending on their location, may also be subject to state or foreign regulations affecting personal data protection and the manner in which information services or products are provided. Significant criminal and civil penalties may be imposed for violation of HIPAA standards and other such laws. We have a HIPAA compliance program to facilitate our ongoing efforts to comply with the HIPAA regulations.

The Health Information Technology for Economic and Clinical Health Act ("HITECH Act"), enacted as part of the 2009 American Recovery and Reinvestment Act ("ARRA"), strengthened federal privacy and security provisions governing protected health information. Among other things, the HITECH Act expanded certain aspects of the HIPAA privacy and security rules, imposed new notification requirements related to health data security breaches, broadened the rights of the U.S. Department of Health and Human Services ("HHS") to enforce HIPAA, and directed HHS to publish more specific security standards. On January 25, 2013, the Office for Civil Rights of HHS published the HIPAA omnibus final rule ("HIPAA Final Rule"), which amended certain aspects of the HIPAA privacy, security, and enforcement rules pursuant to the HITECH Act, extending certain HIPAA obligations to business associates and their subcontractors. Certain components of our business act as "business associates" within the meaning of HIPAA and are subject to these additional obligations under the HIPAA Final Rule.

Some of our businesses collect, maintain, and/or access other personal information (including sensitive personal information) that is subject to federal and state laws protecting such information, in addition to the requirements of HIPAA, the HITECH Act, and the implementing regulations. Personally identifiable information is also highly regulated in many other countries in which we operate. As such regulations continue to evolve, we need to comply with applicable privacy and security requirements of these countries, including but not limited to those in the European Union. Most notably certain aspects of our business will be subject to the General Data Protection Regulation which becomes effective in the European Union on May 25, 2018.

There can be no assurances that compliance with these requirements will not impose new costs on our business.

Available Information

For more information about us, visit our website at www.amerisourcebergen.com. The contents of the website are not part of this Form 10-K. Our electronic filings with the Securities and Exchange Commission (including all Forms 10-K, 10-Q, and 8-K, and any amendments to these reports) are available free of charge through the "Investor Relations" section of our website immediately after we electronically file with or furnish them to the Securities and Exchange Commission and may also be viewed using their website at www.sec.gov.

Table of Contents

ITEM 1A. RISK FACTORS

The following discussion describes certain risk factors that we believe could affect our business and prospects. These risk factors are in addition to those set forth elsewhere in this report.

Our results of operations could be adversely impacted by manufacturer pricing changes and fewer generic pharmaceutical launches.

In fiscal 2017, we experienced unfavorable trends in brand and generic pharmaceutical pricing which negatively impacted our Pharmaceutical Distribution Services reportable segment profit and our consolidated operating earnings. Those trends are expected to continue in fiscal 2018, and could have a material and adverse effect on our results of operations.

Certain distribution service agreements that we have entered into with branded and generic pharmaceutical manufacturers continue to have an inflation-based compensation component to them. As a result, our gross profit from brand-name and generic manufacturers continues to be subject to fluctuation based upon the timing and extent of manufacturer price increases, which we do not control. If the frequency or rate of branded and generic pharmaceutical price increases slows, our results of operations could be adversely affected. In addition, generic pharmaceuticals are also subject to price deflation. If the frequency or rate of generic pharmaceutical price deflation accelerates, the negative impact on our results of operations will be greater. A decline in the number of generic pharmaceutical launches, or launches that are less profitable than those in the past, could also adversely impact our results of operations.

Competition and industry consolidation may erode our profit.

As described in greater detail in the “Competition” section beginning on page 5, the industries in which we operate are highly competitive. In addition, in recent years the healthcare industry has been subject to increasing consolidation, including among pharmaceutical manufacturers. If we do not compete successfully, it could have a material and adverse effect on our business and results of operations. The impact on us will be greater if consolidation among our customers, suppliers, and competitors gives the resulting enterprises greater bargaining power, which could lead to greater pressure on us to reduce prices for our products and services.

Increasing governmental efforts to regulate the pharmaceutical supply channel and pharmaceutical compounding may increase our costs and reduce our profitability.

The healthcare industry in the United States is highly regulated at the federal and state levels. There have been increasing efforts by Congress and state and federal agencies, including state boards of pharmacy, departments of health, and the FDA, to regulate the pharmaceutical distribution system and pharmacy compounding activities. Regulation of pharmaceutical distribution is intended to prevent diversion and the introduction of counterfeit, adulterated, and/or mislabeled drugs into the pharmaceutical distribution system. Consequently, we are subject to the risk of changes in various federal and state laws, which include operating and security standards of the DEA, the FDA, various state boards of pharmacy and comparable agencies. In recent years, some states have passed or proposed laws and regulations that are intended to protect the safety and security of the supply channel but that also may substantially increase the costs and burden of pharmaceutical distribution and pharmaceutical compounding.

At the federal level, final regulations issued pursuant to the Prescription Drug Marketing Act impose pedigree tracking and other chain of custody requirements that increase the costs and/or burden to us of selling to other pharmaceutical distributors and handling product returns. In addition, the FDA Amendments Act of 2007 requires the FDA to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards include track-and-trace and/or authentication technologies that leverage 2D data matrix barcodes that are applied by the manufacturer to the sellable units and cases. The FDA is also required to develop a standardized numerical identifier ("SNI") for prescription drugs. In March 2010, the FDA issued guidance regarding the development of SNIs for prescription drugs in which the FDA mandated package-level SNIs, as an initial step in the FDA's development of additional measures to secure the drug supply chain. In November 2013, Congress passed the Drug Quality and Security Act ("DQSA"). The DQSA establishes federal traceability standards requiring drugs to be labeled and tracked at the lot level, preempts state drug pedigree requirements, and will

eventually require all supply-chain stakeholders to participate in an electronic, interoperable prescription drug traceability system. The DSQA also establishes new requirements for drug wholesale distributors and third party logistics providers, including licensing requirements in states that had not previously licensed such entities.

One additional change resulting from the DQSA is the creation of Section 503B outsourcing facilities as a new category for producers of compounded sterile preparations ("CSPs"), allowing such facilities to voluntarily register with the FDA. Our CSP business locations have registered with the FDA as Section 503B outsourcing facilities and have implemented policies and procedures to achieve compliance with current DQSA requirements for such facilities. However, there can be no assurance that

Table of Contents

we are fully compliant with the new requirements, and any failure to comply may result in additional costs to bring our CSP facilities into compliance. Moreover, the FDA will continue to issue draft and final guidance and to promulgate regulations in its efforts to implement the requirements in the DQSA, including those relating to current good manufacturing practices ("GMPs") and other matters related to 503B outsourcing facilities, which may require changes to our CSP business, some of which may be significant. Complying with these and other chain of custody and pharmaceutical compounding requirements will increase our costs and could otherwise adversely affect our results of operations.

Legal, regulatory and legislative changes may adversely affect our business and results of operations.

Both our business and our customers' businesses may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services or changing the methodology by which reimbursement levels are determined. Additionally, on occasion, price increases on certain branded and generic pharmaceuticals have been the subject of U.S. Congressional inquiries. Any law or regulation impacting pharmaceutical pricing, including as a result of pricing controls or legislative efforts at the federal or state level, could adversely affect our operations.

Federal insurance and health care reform legislation known as the Affordable Care Act ("ACA") became law in March 2010. The ACA is intended to expand health insurance coverage, including coverage for at least a portion of drug costs, through a combination of insurance market reforms, an expansion of Medicaid, subsidies, and health insurance mandates. The ACA contains many provisions designed to generate the revenues necessary to fund the coverage expansions and reduce the costs of Medicare and Medicaid. Given the scope of the changes made by the ACA and the ongoing implementation efforts, we cannot predict the impact of every aspect of the law on our operations. Likewise, we cannot predict the impact of any efforts to change or repeal any provisions of the ACA.

The ACA changed the formula for Medicaid federal upper payment limits (“FULs”) for multiple source drugs available for purchase by retail community pharmacies on a nationwide basis to a limit of not less than 175% of the weighted average manufacturer price ("AMP"). On February 1, 2016, CMS published its final rule to implement the ACA's Medicaid covered outpatient drug provisions, under which CMS calculates FULs for multiple source drugs as 175% of the weighted average of AMPs, with certain exceptions. In addition, the rule requires state Medicaid programs to implement payment methods for brand (non-multiple source) products designed to be consistent with the actual acquisition cost of such drugs. The rule was generally effective on April 1, 2016, and states had until May 2016 to implement the FULs and have until April 1, 2017 to implement any changes necessary in light of the actual acquisition cost standard. Medicaid reimbursement for drugs calculated under the final rule may represent significant reductions from prior reimbursement levels, although the impact of the changes depends upon how the changes are implemented by each state Medicaid program. Any reduction in the Medicaid reimbursement rates to our customers may indirectly impact the prices that we can charge our customers for multisource pharmaceuticals and cause corresponding declines in our profitability.

The ACA also amended the Medicaid rebate statute to increase minimum Medicaid rebates paid by pharmaceutical manufacturers and made other changes expected to result in increased Medicaid rebate payments by pharmaceutical manufacturers, which could indirectly impact our business. In addition, the Bipartisan Budget Act of 2015 extended to generic drugs inflation-based Medicaid drug rebates similar to those that are paid on brand drugs. The federal government and state governments could take other actions in the future that impact Medicaid reimbursement and rebate amounts or the cost of drugs.

There can be no assurance that recent or future changes in Medicaid prescription drug reimbursement policies will not have an adverse impact on our business. Unless we are able to develop plans to mitigate the potential impact of these legislative and regulatory changes, these changes in reimbursement and related reporting requirements could adversely affect our results of operations.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 significantly expanded Medicare coverage for outpatient prescription drugs through the Medicare Part D program. The Part D program has increased the use of pharmaceuticals in the supply channel, which has had a positive impact on our revenues and profitability. There have been additional legislative and regulatory changes to the Part D program since its enactment. There can be

no assurances that recent and future changes to the Part D program will not have an adverse impact on our business. The federal government may adopt measures in the future that would further reduce Medicare and/or Medicaid spending or impose additional requirements on health care entities. For instance, under the "sequestration" provision of the Budget Control Act of 2011 (as amended), a 2% cut is being made to Medicare provider and plan payments, generally effective for services provided on or after April 1, 2013. Any future reductions in Medicare reimbursement rates could negatively impact our customers' businesses and their ability to continue to purchase such drugs from us. At this time, we can provide no assurances that future Medicare and/or Medicaid payment or policy changes, if adopted, would not have an adverse effect on our business.

Table of Contents

Our business may be adversely affected in the future by the impact of declining reimbursement rates for pharmaceuticals and other economic factors.

Our Pharmaceutical Distribution Services segment sells specialty drugs directly to physicians and community oncology practices and provides a number of services to or through physicians. Drugs that are administered in a physician's office, such as drugs that are infused or injected, are typically covered under Medicare Part B. Declining reimbursement rates for Medicare Part B drugs and other economic factors have caused a number of physician practices, including some of our customers, to move from private practice to hospital settings, where they may purchase their specialty drugs under hospital prime vendor arrangements rather than from specialty distributors. Although this trend has slowed down in the past year, it could increase in the future due to various factors, including legislative and regulatory requirements that affect how CMS reimburses for Medicare Part B drugs, as well as the ability of certain hospitals to purchase drugs at significant, statutorily-mandated discounts pursuant to the federal 340B drug discount program for groups of patients. In addition, federal changes in drug reimbursement policy could reduce the rate of reimbursement for drugs covered under Medicare Part B or physician services under Medicare, which could negatively impact our customers' businesses and their ability to continue to purchase such drugs from us, and thereby result in corresponding declines in our profitability. On September 20, 2017, CMS issued a request for information seeking recommendations for payment models, which could include prescription drug models under Medicare Parts B and D and state Medicaid programs. CMS noted its interest in drug pricing and value-based purchasing models involving "novel arrangements between plans, manufacturers, and stakeholders across the supply chain." Additionally, CMS published a proposed rule on July 20, 2016 that would cut Medicare outpatient hospital reimbursement for separately payable drugs (other than vaccines) purchased through the 340B drug pricing program at average sales price (ASP) minus 22.5% (with certain exceptions), rather than ASP plus 6%. CMS finalized this rule on November 1, 2017. At this time, we can provide no assurances that future Medicare reimbursement or policy changes, if adopted, would not have an adverse effect on our business.

Changes to the U.S. healthcare environment may negatively impact our business and our profitability.

Our products and services are intended to function within the structure of the healthcare financing and reimbursement system currently existing in the United States. In recent years, the healthcare industry has undergone significant changes in an effort to reduce costs and government spending. These changes include an increased reliance on managed care; cuts in certain Medicare funding affecting our healthcare provider customer base; consolidation of competitors, suppliers and customers; and the development of large, sophisticated purchasing groups. We expect the healthcare industry to continue to change significantly in the future. Some of these potential changes, such as a reduction in governmental funding at the state or federal level for certain healthcare services or adverse changes in legislation or regulations governing prescription drug pricing, pharmaceutical compounding, healthcare services or mandated benefits, may cause healthcare industry participants to reduce the amount of our products and services they purchase or the price they are willing to pay for our products and services. We expect continued government and private payor pressure to reduce pharmaceutical pricing. Changes in pharmaceutical manufacturers' pricing or distribution policies could also significantly reduce our profitability.

If we fail to comply with laws and regulations in respect of healthcare fraud and abuse, we could suffer penalties or be required to make significant changes to our operations.

We are subject to extensive and frequently changing federal and state laws and regulations relating to healthcare fraud and abuse. The federal government continues to strengthen its scrutiny of practices potentially involving healthcare fraud affecting Medicare, Medicaid and other government healthcare programs. Our relationships with healthcare providers and pharmaceutical manufacturers subject our business to laws and regulations on fraud and abuse which, among other things, (i) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or the ordering or purchasing of items or services that are in any way paid for by Medicare, Medicaid or other government-sponsored healthcare programs and (ii) impose a number of restrictions upon referring physicians and providers of designated health services under Medicare and Medicaid programs. Legislative provisions relating to healthcare fraud and abuse give federal enforcement personnel substantially increased funding, powers and remedies to pursue suspected fraud and abuse, and these enforcement

authorities were further expanded by the ACA. While we believe that we are in compliance with applicable laws and regulations, many of the regulations applicable to us, including those relating to marketing incentives offered in connection with pharmaceutical sales, are vague or indefinite, and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could be subject to civil and criminal penalties, including the loss of licenses or our ability to participate in Medicare, Medicaid, and other federal and state healthcare programs.

Table of Contents

Public concern over the abuse of opioid medications, including increased legal and regulatory action, could negatively affect our business.

Certain governmental and regulatory agencies, as well as state and local jurisdictions, are focused on the abuse of opioid medications in the United States. State and local governmental agencies are investigating us, other pharmaceutical wholesale distributors, and others in the supply chain regarding our actions in connection with the distribution of opioid medications. In addition, multiple lawsuits have been filed against us and other pharmaceutical wholesale distributors alleging, among other claims, that we failed to provide effective controls and procedures to guard against the diversion of controlled substances, acted negligently by distributing controlled substances to pharmacies that serve individuals who abuse controlled substances, and failed to report suspicious orders of controlled substances in accordance with regulations. Additional governmental entities have indicated an intent to sue. We have sophisticated systems in place to detect and report suspicious orders (including through the use of data analytics), engage in significant due diligence of customers, and are committed to diversion control efforts. While we are vigorously defending ourselves in these lawsuits, the allegations may negatively affect our business in various ways, including through increased costs and harm to our reputation. Since these matters are at an early stage, we are unable to predict the outcome. The adverse resolution of any of these lawsuits or investigations could have an adverse effect on our business, results of operations, cash flows, and the price of our common stock.

Our business, results of operations, and cash flows could be adversely affected by qui tam litigation or other legal proceedings.

Our business involves the manufacture, distribution, and dispensing of healthcare products, which may cause us to become involved in legal disputes or proceedings. The defense and resolutions of these current and future proceedings could have a material adverse effect on our results of operations and financial condition. Violations of various federal and state laws governing the marketing, sale, purchase, and dispensing of pharmaceutical products can result in criminal, civil, and administrative liability for which there can be significant financial damages, criminal and civil penalties, and possible exclusion from participation in federal and state health programs. Any settlement, judgment or fine that is in excess of our insurance limits, or that is not otherwise covered, could adversely affect our results of operations.

Among other things, statutory and/or regulatory violations can form the basis for qui tam complaints to be filed. The qui tam provisions of the federal and various state civil False Claims Acts authorize a private person, known as a relator, to file civil actions under these statutes on behalf of the federal and state governments. Under False Claims Acts, the filing of a qui tam complaint by a relator imposes obligations on government authorities to investigate the allegations and determine whether or not to intervene in the action. Such cases may involve allegations around the marketing, sale, purchase, and/or dispensing of branded and/or generic pharmaceutical products and wrongdoing in the marketing, sale, purchase, and/or dispensing of such products. Such complaints are filed under seal and remain sealed until the applicable court orders otherwise.

We have learned that there are filings in one or more federal district courts that are under seal and may involve allegations against us (and/or our subsidiaries or businesses, including our group purchasing organization for oncologists and our oncology distribution business) relating to its distribution of certain pharmaceutical products to providers. With regard to any of these filings, our business, and results of operations could be adversely affected if qui tam complaints are filed against us for alleged violations of any health laws and regulations and damages arising from resultant false claims, if the litigation proceeds whether or not government authorities decide to intervene in any such matters and/or if we are found liable for all or any portion of violations alleged in any such matters.

Our revenue, results of operations, and cash flows may suffer upon the loss, or renewal at less favorable terms, of a significant customer or group purchasing organization.

WBA accounted for approximately 30% of our revenue in the fiscal year ended September 30, 2017. Express Scripts accounted for approximately 15% of our revenue in the fiscal year ended September 30, 2017. Our top ten customers, including governmental agencies and GPOs, represented approximately 66% of revenue in the fiscal year ended

September 30, 2017. We may lose a significant customer or GPO relationship if any existing contract with such customer or GPO expires without being extended, renewed, renegotiated or replaced or is terminated by the customer or GPO prior to expiration, to the extent such early termination is permitted by the contract. A number of our contracts with significant customers or GPOs are typically subject to expiration each year and we may lose any of these customers or GPO relationships if we are unable to extend, renew, renegotiate or replace the contracts. The loss of any significant customer or GPO relationship could adversely affect our revenue, results of operations, and cash flows. Additionally, from time to time, significant contracts may be renewed prior to their expiration date. If those contracts are renewed at less favorable terms, they may also negatively impact our revenue, results of operations, and cash flows.

Table of Contents

The anticipated ongoing strategic and financial benefits of our relationship with WBA may not be realized.

In May 2016, we extended to 2026 our strategic arrangement with WBA - specifically, our distribution agreement under which we distribute drugs to Walgreens pharmacies and our generics purchasing services arrangement under which Walgreens Boots Alliance Development GmbH ("WBAD") provides a variety of services, including negotiating acquisition pricing with generic manufacturers on our behalf. This reflected our expectation that partnering strategically with WBA would result in various benefits including, among other things, continued cost savings as a result of our generics purchasing services arrangement with WBAD, as well as the potential for exploring innovation together and sharing best practices. The processes and initiatives needed to achieve and maintain these benefits are complex, costly and time-consuming. Achieving the anticipated benefits from the arrangement on an ongoing basis is subject to a number of significant challenges and uncertainties, including: the potential inability to realize and/or delays in realizing potential benefits resulting from participation in our generics purchasing services arrangement with WBAD, including improved generic drug pricing and terms, improved service fees from generic manufacturers, cost savings, innovations, or other benefits due to its inability to negotiate successfully with generic manufacturers or otherwise to perform as expected; the potential disruption of our plans and operations as a result of the terms under which we extended the duration of the distribution agreement and generics purchasing services agreement, including any disruption of our cash flow and ability to return value to our stockholders in accordance with our past practices and any reduction in our operational, strategic or financial flexibility; potential changes in supplier relationships and terms; unexpected or unforeseen costs, fees, expenses and charges incurred by us related to the transaction or the overall strategic relationship; unforeseen changes in the economic terms under which we distribute pharmaceuticals to WBA; and any potential issues that could impede our ability to continue to work collaboratively with WBA in an efficient and effective manner in furtherance of the anticipated strategic and financial benefits of the relationship.

In addition, WBA has the right, but not the obligation, under the transactions contemplated by the Framework and Shareholder Agreements dated March 18, 2013 to make certain additional investments in our common stock. WBA also has the right to sell any of the shares of our common stock that it has acquired so long as WBA has held the shares beyond the requisite dates specified in the Shareholder Agreement. Any sales in the public market of common stock currently held by WBA or acquired by WBA pursuant to open market purchases could adversely affect prevailing market prices of our common stock. We could also encounter unforeseen costs, circumstances, or issues with respect to the transactions and collaboration we anticipate pursuing with WBA. Many of these potential circumstances are outside of our control and any of them could result in increased costs, decreased revenue, decreased benefits and the diversion of management time and attention. If we are unable to achieve our objectives within the anticipated time frame, or at all, the expected future benefits may not be realized fully or at all, or may take longer to realize than expected, which could have a material adverse impact on our business, financial condition, and results of operations and the price of our common stock.

A disruption in our distribution or generic purchasing services arrangements with WBA could adversely affect our business and financial results.

We are the primary distributor of pharmaceutical products for WBA. Our generic pharmaceutical program has also benefited from the generics purchasing services arrangement with WBA. If the operations of WBA are seriously disrupted for any reason, whether by natural disaster, labor disruption, regulatory or governmental action, or otherwise, it could adversely affect our business and our sales and profitability. If the generics purchasing services arrangement does not continue to be successful, our margins and results of operations could also be adversely affected.

If our operations are seriously disrupted for any reason, we may have an obligation to pay or credit WBA for failure to supply products. In addition, upon the expiration or termination of the distribution agreement or generics purchasing services arrangement, there can be no assurance that we or WBA will be willing to renew, on terms favorable to us or at all.

In addition, our business may be adversely affected by any operational, financial or regulatory difficulties that WBA experiences, including any disruptions of certain of its existing distribution facilities or retail pharmacies resulting

from ongoing inspections by the DEA and/or state regulatory agencies and possible revocation of the controlled substance registrations for those facilities and pharmacies.

Tax legislation or challenges to our tax positions could adversely affect our results of operations and financial condition.

We are a large corporation with operations in the United States and select global markets. As such, we are subject to tax laws and regulations of the U.S. federal, state and local governments, and of various foreign jurisdictions. From time to time, various legislative initiatives, such as the repeal of last-in, first-out ("LIFO") treatment, may be proposed that could adversely affect our tax positions and/or our tax liabilities. There can be no assurance that our effective tax rate or tax payments will not be adversely affected by legislation resulting from these initiatives. We believe that our historical tax positions are consistent with applicable laws, regulations, and existing precedent. In addition, U.S. federal, state and local, as well as foreign, tax laws and

Table of Contents

regulations, are extremely complex and subject to varying interpretations. There can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

The suspension or revocation by federal or state authorities of any of the registrations that must be in effect for our distribution and 503B outsourcing facilities to purchase, compound, store, and/or distribute pharmaceuticals and controlled substances, the refusal by such authorities to issue a registration to any such facility, or any enforcement action or other litigation that arises out of our failure to comply with applicable laws and regulations governing distribution and 503B outsourcing facilities may adversely affect our reputation, our business and our results of operations.

The DEA, FDA, and various other federal and state regulatory authorities regulate the distribution of pharmaceuticals and controlled substances and the compounding of pharmaceuticals that contain controlled substances. We are required to hold valid DEA and state-level licenses, meet various security and operating standards and comply with the Controlled Substances Act and its implementing regulations governing the sale, marketing, packaging, compounding, holding and distribution of controlled substances. Government authorities may from time to time investigate whether we are in compliance with various security and operating standards applicable to the distribution of controlled substances including whether we are adequately detecting and preventing the illegal diversion of controlled substances. Although we have procedures in place that are intended to ensure compliance with such laws and regulations, there can be no assurance that a regulatory agency or tribunal would conclude that our operations are compliant with applicable laws and regulations. If we were found to be non-compliant with such laws and regulations, federal and state authorities have broad enforcement powers, including (i) the ability to suspend our distribution centers' and 503B outsourcing facilities' licenses to distribute and compound pharmaceutical products (including controlled substances), (ii) seize or recall products, and (iii) impose significant criminal, civil and administrative sanctions for violations of these laws and regulations, each of which could have a material adverse effect on our reputation, business and results of operations.

We have received, and may in the future receive, requests for information, letters and subpoenas from the DEA, FDA, various U.S. Attorneys' Offices of the U.S. Department of Justice, and/or state attorneys general and state regulatory authorities and agencies related to our distribution of controlled substances and our order monitoring program, which is designed to prevent and detect the illegal diversion of controlled substances, or other matters. We generally respond to subpoenas, requests, letters, and other authority and/or agency correspondence in a thorough and timely manner. These responses require time and effort and can result in considerable costs being incurred by us, such as costs related to addressing the observations listed on FDA Form 483 reports. Such subpoenas, requests and letters can also lead to the assertion of claims or the commencement of civil, criminal, or regulatory legal proceedings against us, as well as to settlements and the suspension or revocation of registrations required by our distribution and 503B outsourcing facilities, each of which could have a material adverse effect on our reputation, business and results of operations.

The FDA and other governmental entities enforce compliance with applicable current GMP requirements through periodic risk-based inspections. It is common for FDA Form 483 reports to be provided in connection with inspections of 503B outsourcing facilities, and FDA observations may be followed by warning letters or subsequent enforcement actions. Prior to our acquisition of the business, PharMEDium received a warning letter from the FDA in 2014 following the inspection of PharMEDium's Mississippi, New Jersey, Tennessee and Texas 503B outsourcing facilities in 2013. The FDA reinspected all of these facilities in 2015 and 2016 and issued FDA Form 483 reports at each of the facilities as well as at PharMEDium’s headquarters in Lake Forest, Illinois. We cannot be assured that the FDA will be satisfied with the sufficiency or timing of PharMEDium’s corrective actions in response to the FDA's Form 483 reports, including PharMEDium's meeting with the FDA on November 18, 2016, and, as such, we cannot predict when or if the FDA will consider the agency’s observations to be fully resolved. A failure to adequately address observations identified by the FDA in Form 483 reports or warning letters issued by the FDA or observations identified by any other federal and state regulatory authority, including a failure to resolve the observations identified by the FDA in the 2014 warning letter and subsequent FDA Form 483 reports relating to PharMEDium’s 503B outsourcing facilities, could lead to an enforcement action, monetary penalties and/or license revocation, each of which could have a material adverse effect on our reputation, business and results of operations.

The products compounded by our CSP business are administered by our customers to patients intravenously, and failures or errors in production, labeling or packaging could contribute to patient harm or death, which may subject us to significant liabilities and reputational harm.

The production, labeling, and packaging of CSPs is inherently risky. Our CSP business sells CSPs to acute care hospitals, freestanding hospital outpatient departments, and ambulatory surgery centers, who then administer the CSPs to patients intravenously or through other injectable routes of administration. There are a number of factors that could result in the injury or death of a patient who receives one of our CSPs, including quality issues, manufacturing or labeling flaws, improper packaging or unanticipated or improper uses of the products, any of which could result from human or other error. Any of these situations could lead to a recall of, or safety alert relating to, one or more of our products. In addition, in the ordinary course of business, we may voluntarily recall or retrieve products. Any recall or retrieval, whether voluntary or requested by the FDA or state regulatory

Table of Contents

authorities, could result in significant costs and negative publicity. Negative publicity, including regarding a quality or safety issue, whether accurate or inaccurate, could reduce market acceptance of our products, harm our reputation, decrease demand for our products, result in the loss of customers, lead to product withdrawals, and harm our ability to successfully launch new products and services. These problems could also result in enforcement actions by state and federal authorities or other healthcare self-regulatory bodies, or product liability claims or lawsuits, including those brought by individuals or groups seeking to represent a class or establish multidistrict litigation proceedings. Any such action, litigation, recall or reputational harm resulting from patient harm or death caused by CSPs prepared by a competitor or a hospital pharmacy could result in a material adverse effect on our business, results of operations, financial condition and liquidity. Our current or future insurance coverage may prove insufficient to cover any liability claims brought against us. Because of the increasing cost of insurance coverage, we may not be able to maintain insurance coverage at a reasonable cost or obtain insurance coverage that will be adequate to satisfy any liability that may arise.

We may not realize the expected benefits from our reorganization and other business process initiatives.

In June 2017 we announced a new organizational structure, described in the Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 below, designed to further align the organization to its customer needs in a more seamless and unified way, while supporting corporate strategy, accelerating growth, and improving efficiency. There can be no assurance that we will realize, in full or in part, the anticipated benefits of these changes. Our financial goals assume a level of productivity improvement from our business optimization initiatives. Our ability to successfully manage and execute these initiatives and realize expected savings and benefits is important to our business success. The reorganization and other initiatives could yield unintended consequences such as distraction of our management and employees, business disruption, attrition, inability to attract or retain key personnel, and reduced employee productivity which could negatively affect our business, sales, financial condition, and results of operations. Moreover, our restructuring and business process initiatives may result in charges and expenses that impact our operating results. There can be no assurance that the activities under any restructuring and business initiative will result in the desired benefits.

Our results of operations and financial condition may be adversely affected if we undertake acquisitions of businesses that do not perform as we expect or that are difficult for us to integrate.

As part of our strategy we seek to pursue acquisitions of other companies. At any particular time, we may be in various stages of assessment, discussion, and negotiation with regard to one or more potential acquisitions, not all of which will be consummated. We make public disclosure of pending and completed acquisitions when appropriate and required by applicable securities laws and regulations.

Acquisitions involve numerous risks and uncertainties and may be of businesses in which we lack operational experience. If we complete one or more acquisitions, our results of operations and financial condition may be adversely affected by a number of factors, including: regulatory or compliance issues that could arise; changes in regulations and laws; the failure of the acquired businesses to achieve the results we have projected in either the near or long term; the assumption of unknown liabilities, including litigation risks; the fair value of assets acquired and liabilities assumed not being properly estimated; the difficulties of imposing adequate financial and operating controls on the acquired companies and their management and the potential liabilities that might arise pending the imposition of adequate controls; the difficulties in the integration of the operations, technologies, services and products of the acquired companies; and the failure to achieve the strategic objectives of these acquisitions.

Violations of anti-bribery, anti-corruption and/or international trade laws to which we are subject could have a material adverse effect on our business, financial position, and results of operations.

We are subject to laws concerning our business operations and marketing activities in foreign countries where we conduct business. For example, we are subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"), U.S. export control and trade sanction laws, and similar anti-corruption and international trade laws in certain foreign countries, such as the U.K. Bribery Act, any violation of which could create substantial liability for us and also cause a loss of

reputation in the market. The FCPA generally prohibits U.S. companies and their officers, directors, employees, and intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business abroad or otherwise obtaining favorable treatment. The FCPA also requires that U.S. public companies maintain books and records that fairly and accurately reflect transactions and maintain an adequate system of internal accounting controls. If we are found to have violated the FCPA, we may face sanctions including civil and criminal fines, disgorgement of profits, and suspension or debarment of our ability to contract with government agencies or receive export licenses. From time to time, we may face audits or investigations by one or more domestic or foreign government agencies relating to our international business activities, compliance with which could be costly and time-consuming, and could divert our management and key personnel from our business operations. An adverse outcome under any such investigation or audit could subject us to fines or other penalties, which could adversely affect our business, financial position, and results of operations.

Table of Contents

Our results of operations and our financial condition may be adversely affected by our global operations.

Our operations in jurisdictions outside of the United States are subject to various risks inherent in global operations. We currently have operations in over 50 countries worldwide. We may conduct business in additional foreign jurisdictions in the future, which may carry operational risks in addition to the risks of acquisition described above. At any particular time, our global operations may be affected by local changes in laws, regulations, and the political and economic environments, including inflation, recession, currency volatility, and competition. Any of these factors could adversely affect our business, financial position, and results of operations.

Declining economic conditions could adversely affect our results of operations and financial condition.

Our operations and performance depend on economic conditions in the United States and other countries where we do business. Deterioration in general economic conditions could adversely affect the amount of prescriptions that are filled and the amount of pharmaceutical products purchased by consumers and, therefore, could reduce purchases by our customers, which would negatively affect our revenue growth and cause a decrease in our profitability. Negative trends in the general economy, including interest rate fluctuations, financial market volatility or credit market disruptions, may also affect our customers' ability to obtain credit to finance their businesses on acceptable terms and reduce discretionary spending on health products. Reduced purchases by our customers or changes in payment terms could adversely affect our revenue growth and cause a decrease in our cash flow from operations. Bankruptcies or similar events affecting our customers may cause us to incur bad debt expense at levels higher than historically experienced. Declining economic conditions may also increase our costs. If the economic conditions in the United States or in the countries where we do business do not improve or deteriorate, our results of operations or financial condition could be adversely affected.

Our stock price and our ability to access credit markets may be adversely affected by financial market volatility and disruption.

If the capital and credit markets experience significant disruption and volatility in the future, there can be no assurance that we will not experience downward movement in our stock price without regard to our financial condition or results of operations or an adverse effect, which may be material, on our ability to access credit. Although we believe that our operating cash flow and existing credit arrangements give us the ability to meet our financing needs, there can be no assurance that disruption and volatility will not increase our costs of borrowing, impair our liquidity, or adversely impact our business.

Our revenue and results of operations may suffer upon the bankruptcy, insolvency, or other credit failure of a significant customer.

Most of our customers buy pharmaceuticals and other products and services from us on credit. Credit is made available to customers based upon our assessment and analysis of creditworthiness. Although we often try to obtain a security interest in assets and other arrangements intended to protect our credit exposure, we generally are either subordinated to the position of the primary lenders to our customers or substantially unsecured. Volatility of the capital and credit markets, general economic conditions, and regulatory changes, including changes in reimbursement, may adversely affect the solvency or creditworthiness of our customers. The bankruptcy, insolvency, or other credit failure of any customer that has a substantial amount owed to us could have a material adverse effect on our operating revenue and results of operations. As of September 30, 2017, our two largest trade receivable balances due from customers represented approximately 49% and 9% of accounts receivable, net.

Our results of operations may suffer upon the bankruptcy, insolvency or other credit failure of a significant supplier.

Our relationships with pharmaceutical suppliers, including generic pharmaceutical manufacturers, give rise to substantial amounts that are due to us from the suppliers, including amounts owed to us for returned goods or defective goods, chargebacks, and amounts due to us for services provided to the suppliers. Volatility of the capital and credit markets, general economic conditions, and regulatory changes may adversely affect the solvency or creditworthiness of our suppliers. The bankruptcy, insolvency or other credit failure of any supplier at a time when the supplier has a substantial account payable balance due to us could have a material adverse effect on our results of operations.

15

Table of Contents

Risks generally associated with our sophisticated information systems may adversely affect our business and results of operations.

Our businesses rely on sophisticated information systems to obtain, rapidly process, analyze, and manage data to facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers; to receive, process, and ship orders on a timely basis; to account for other product and service transactions with customers; to manage the accurate billing and collections for thousands of customers; and to process payments to suppliers. Certain of our businesses continue to make substantial investments in information systems, including, but not limited to, the new patient support technology ecosystem, Fusion, at ABCS's services business and the implementation of a new ERP system at World Courier, and third party service providers are also responsible for managing a significant portion of our information systems. To the extent our information systems are not successfully implemented or fail, our business and results of operations may be adversely affected. Our business and results of operations may also be adversely affected if a third party service provider does not perform satisfactorily, or if the information systems are interrupted or damaged by unforeseen events, including due to the actions of third parties.

Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber attacks. A failure in or breach of our operational or information security systems, or those of our third party service providers, as a result of cyber attacks or information security breaches could disrupt our business, result in the disclosure or misuse of confidential or proprietary information or personal data, damage our reputation, increase our costs and/or cause losses. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. Although we believe that we have robust information security procedures and other safeguards in place, as cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

Risks generally associated with data privacy regulation and the international transfer of personal data.

We are required to comply with increasingly complex and changing data privacy regulations both in the United States and beyond that regulate the collection, use and transfer of personal data, including particularly the transfer of personal data between or among countries. Many of these foreign data privacy regulations (including the General Data Protection Regulation, which becomes effective in the European Union on May 25, 2018) are more stringent than those in the United States. We may also face audits or investigations by one or more domestic or foreign government agencies relating to our compliance with these regulations. An adverse outcome under any such investigation or audit could subject us to fines or other penalties. That or other circumstances related to our collection, use and transfer of personal data could cause a loss of reputation in the market and/or adversely affect our business and financial position.

Our goodwill or intangible assets may become impaired, which would require us to record a significant charge to earnings in accordance with generally accepted accounting principles.

U.S. generally accepted accounting principles ("GAAP") require us to test our goodwill and indefinite-lived intangible assets for impairment on an annual basis, or more frequently if indicators for potential impairment exist. Indicators that are considered include significant changes in performance relative to expected operating results, significant negative industry or economic trends or a significant decline in our stock price and/or market capitalization for a sustained period of time. In addition, we periodically review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets may not be recoverable include slower growth rates, the loss of a significant customer, or divestiture of a business or asset for below its carrying value. The testing required by GAAP involves estimates and judgments by management. Although we believe our assumptions and estimates are reasonable and appropriate, any changes in key assumptions, including a failure to meet business plans or other unanticipated events and circumstances such as a rise in interest rates, may affect the accuracy or validity of such estimates. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or intangible assets is determined. Any such charge could have a material adverse impact on our results of operations.

Natural disasters or other unexpected events may disrupt our operations, adversely affect our results of operations and financial condition, and may not be covered by insurance.

The occurrence of one or more unexpected events, including fires, tornadoes, tsunamis, hurricanes, earthquakes, floods, and other forms of severe hazards in the United States or in other countries in which we operate or are located could adversely affect our operations and financial performance. Extreme weather, natural disasters, power outages or other unexpected events could result in physical damage to and complete or partial closure of one or more of distribution centers or outsourcing facilities, temporary or long-term disruption in the supply of products, delay in the delivery of products to our distribution centers, and/or

Table of Contents

disruption of our ability to deliver products to customers. Further, the long-term effects of climate change on general economic conditions and the pharmaceutical distribution industry in particular are unclear, and changes in the supply, demand or available sources of energy and the regulatory and other costs associated with energy production and delivery may affect the availability or cost of goods and services, including natural resources, necessary to run our businesses. Existing insurance arrangements may not provide protection for the costs that may arise from such events, particularly if such events are catastrophic in nature or occur in combination. Any long-term disruption in our ability to service our customers from one or more distribution centers or outsourcing facilities could have a material adverse effect on our operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of September 30, 2017, we conducted our business from office and operating facilities at owned and leased locations throughout the United States (including Puerto Rico) and select global markets. In the aggregate, our facilities occupy approximately 14 million square feet of office and warehouse space, which is either owned or leased under agreements that expire from time to time through 2040.

We lease approximately 185,000 square feet in Chesterbrook, Pennsylvania and approximately 106,000 square feet in Conshohocken, Pennsylvania for our corporate headquarters.

Pharmaceutical Distribution Services has 28 full-service wholesale pharmaceutical distribution facilities in the United States, ranging in size from approximately 53,000 square feet to 408,000 square feet. The operations of Pharmaceutical Distribution Services comprise approximately 7.2 million square feet. Significant leased facilities are located in Puerto Rico plus the following states: Arizona, Colorado, Florida, Georgia, Hawaii, Indiana, Kentucky, Minnesota, Mississippi, New York, North Carolina, Utah, and Washington. Owned facilities are located in the following states: Alabama, California, Illinois, Massachusetts, Michigan, Missouri, Ohio, Pennsylvania, Texas, and Virginia.

As of September 30, 2017, the Consulting Group's operations were conducted in leased locations, comprising approximately 0.9 million square feet. Its headquarters are located in South Carolina and its other operations are primarily located in North Carolina and Maryland and internationally in Canada.

As of September 30, 2017, World Courier's office and operating facilities are located in over 50 countries throughout the world. Its headquarters are located in London, England. Most of the facilities are leased. Significant owned facilities are located in New York, and internationally in Germany, Japan, Singapore, and South Africa.

As of September 30, 2017, MWI's operations were conducted in the United States and in the United Kingdom, ranging from approximately 41,000 square feet to 225,000 square feet, with an aggregate of approximately 2.0 million square feet. Leased facilities are located in California, Colorado, Florida, Georgia, Idaho, Indiana, Kansas, Massachusetts, Minnesota, North Carolina, Pennsylvania, Texas, Washington, and internationally in the United Kingdom. Significant owned facilities are located in Idaho, Texas and internationally in the United Kingdom. Its headquarters are located in Idaho.

We consider all of our operating and office properties to be in satisfactory condition.

ITEM 3. LEGAL PROCEEDINGS

Legal proceedings in which we are involved are discussed in Note 13 (Legal Matters and Contingencies) of the Notes to Consolidated Financial Statements appearing in this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a list of our executive officers and their ages and positions as of October 31, 2017.

Name	Age	Current Position with the Company
Steven H. Collis	56	Chairman, President, and Chief Executive Officer
John G. Chou	61	Executive Vice President and Chief Legal & Business Officer
Gina K. Clark	60	Executive Vice President and Chief Communications & Administration Officer
James F. Cleary, Jr.	54	Executive Vice President and Group President, Global Commercialization Services & Animal Health
Dale Danilewitz	55	Executive Vice President and Chief Information Officer
Kathy H. Gaddes	54	Executive Vice President and Chief Human Resources Officer
Tim G. Guttman	58	Executive Vice President and Chief Financial Officer
Peyton R. Howell	50	Executive Vice President and President, Health Systems & Specialty Care Solutions
Robert P. Mauch	50	Executive Vice President and Group President, Pharmaceutical Distribution & Strategic Global Sourcing
Sun Park	41	Executive Vice President, Strategy and Development

Unless indicated to the contrary, the business experience summaries provided below for our executive officers describe positions held by the named individuals during the last five years.

Mr. Collis has been President and Chief Executive Officer of the Company since July 2011 and Chairman since March 2016. From November 2010 to July 2011, he served as President and Chief Operating Officer. He served as Executive Vice President and President of AmerisourceBergen Drug Corporation from September 2009 to November 2010. He was Executive Vice President and President of AmerisourceBergen Specialty Group from September 2007 to September 2009 and was Senior Vice President of the Company and President of AmerisourceBergen Specialty Group from August 2001 to September 2007. Mr. Collis has been employed by the Company or one of its predecessors for 23 years.

Mr. Chou has been Executive Vice President of the Company since August 2011 and became the Chief Legal & Business Officer in June 2017. He served as General Counsel of the Company from January 2007 to June 2017. From January 2007 to August 2011, Mr. Chou was a Senior Vice President. He served as Secretary of the Company from February 2006 to May 2012. He was Vice President and Deputy General Counsel from November 2004 to January 2007 and Associate General Counsel from July 2002 to November 2004. Mr. Chou has been employed by the Company for 15 years.

Ms. Clark has been Executive Vice President since November 2014 and became Chief Communication & Administration Officer in June 2017. She served as Chief Marketing Officer from November 2014 to June 2017. Ms. Clark was named Senior Vice President and Chief Marketing Officer in June 2011. She previously served as Senior Vice President of Marketing and Business Development for AmerisourceBergen Specialty Group from January 2007 to June 2011. Prior to joining the Company, she worked in executive leadership roles at Premier Inc. and HealthSouth, including Senior Vice President of Marketing and Alliance Relations, Group Vice President of Relationship Management, and Senior Vice President of Managed Care and National Contracting.

Mr. Cleary has been Executive Vice President since March 2015 and became Group President, Global Commercialization Services & Animal Health in June 2017. He served as President, MWI Veterinary Supply from March 2015 to June 2017. Prior to joining the Company, he was President and Chief Executive Officer of MWI Veterinary Supply, Inc. from June 2002.

Mr. Danilewitz became Executive Vice President and Chief Information Officer in November 2014. Mr. Danilewitz has been Senior Vice President and Chief Information Officer since June 2012. He served as Chief Information Officer of AmerisourceBergen Specialty Group from March 1999 to May 2012. Prior to joining the Company, he held management positions within American Airlines and The Sabre Group. He also worked for Whirlpool Corporation in the Advanced Technology Group.

Ms. Gaddes became Executive Vice President and Chief Human Resources Officer in April 2016. She served as Vice President, Group General Counsel and Secretary from May 2012 to April 2016. She served as Assistant General

Counsel, Corporate and Securities from December 2011 to May 2012. Prior to joining the Company, Ms. Gaddes was Associate Corporate Secretary at ARCO Chemical Company.

Mr. Guttman became Executive Vice President and Chief Financial Officer in November 2014. Mr. Guttman was named Senior Vice President and Chief Financial Officer in May 2012. He served as Acting Chief Financial Officer from February 2012

Table of Contents

to May 2012. He was Vice President and Corporate Controller from August 2002 to May 2012. Mr. Guttman has been employed by the Company for 15 years.

Ms. Howell has been Executive Vice President since November 2014 and became President, Health Systems & Specialty Care Solutions in June 2017. She served as President, Global Sourcing & Manufacturer Relations from November 2014 to June 2017. Ms. Howell previously served as Senior Vice President and President, Global Sourcing and Manufacturer Relations since December 2012. She served as Senior Vice President, Business Development and President of AmerisourceBergen Consulting Services from May 2010 to December 2012. She was President of Consulting Services and Health Policy, AmerisourceBergen Specialty Group from October 2007 to May 2010. She was President of Lash Group and AmerisourceBergen Specialty Group Manufacturer Services from November 1999 to October 2007. Ms. Howell has been employed by the Company or one of its predecessors for 26 years.

Mr. Mauch has been Executive Vice President since February 2015 and became Group President, Pharmaceutical Distribution & Strategic Global Sourcing in June 2017. He served as President, AmerisourceBergen Drug Corporation from February 2015 to June 2017. He previously served as Senior Vice President Chief Operating Officer, AmerisourceBergen Drug Corporation from March 2014 to February 2015. He was Senior Vice President, Operations, AmerisourceBergen Drug Corporation from April 2012 to March 2014. He was Senior Vice President of Sales and Marketing, AmerisourceBergen Drug Corporation from April 2011 to April 2012. He was Senior Vice President, Alternate Care Sales and Marketing, AmerisourceBergen Drug Corporation from May 2010 to April 2011. Mr. Mauch has been employed by the Company or one of its predecessors for 23 years.

Mr. Park became Executive Vice President, Strategy and Development in May 2016. He served as Senior Vice President, Business Development from November 2012 to May 2016. Prior to joining the Company, Mr. Park served in various leadership roles at MedImmune and AstraZeneca, and held positions at Charterhouse Group International and Merrill Lynch & Company.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange under the trading symbol "ABC." As of October 31, 2017, there were 2,650 record holders of the Company's common stock. The following sets forth the high and low closing sale prices of the Company's common stock for the periods indicated.

PRICE RANGE OF COMMON STOCK

	High	Low
Fiscal Year Ended September 30, 2017		
First Quarter	$81.33	$69.03
Second Quarter	$92.23	$81.53
Third Quarter	$96.38	$80.94
Fourth Quarter	$95.22	$78.04
Fiscal Year Ended September 30, 2016		
First Quarter	$105.02	$92.71
Second Quarter	$103.36	$83.62
Third Quarter	$91.89	$73.66
Fourth Quarter	$89.89	$80.16

In November 2015, our board of directors increased the quarterly dividend by 17% from $0.29 per share to $0.34 per share. In November 2016, our board of directors increased the quarterly dividend by 7% from $0.34 per share to $0.365 per share. In November 2017, our board of directors increased the quarterly dividend by 4% from $0.365 per share to $0.380 per share. The Company anticipates that it will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of the Company's board of directors and will depend upon the Company's future earnings, financial condition, capital requirements, and other factors.

Computershare is the Company's transfer agent. Computershare can be reached at (mail) AmerisourceBergen Corporation c/o Computershare, P.O. Box 30170, College Station, TX 77842; (telephone): Domestic 1-877-296-3711, Domestic TDD 1-800-231-5469, International 1-201-680-6578 or International TDD 1-201-680-6610; and (internet) www.computershare.com.

Table of Contents

ISSUER PURCHASES OF EQUITY SECURITIES

The following sets forth the total number of shares purchased, the average price paid per share, the total number of shares purchased as part of publicly announced programs, and the approximate dollar value of shares that may yet be purchased under the programs during each month in the fiscal year ended September 30, 2017.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
October 1 to October 31	—	$ —	—	$ 118,760,836
November 1 to November 30	2,925,923	$ 63.07	2,814,017	$ 943,157,508
December 1 to December 31	702,488	$ 77.26	702,450	$ 888,885,792
January 1 to January 31	—	$ —	—	$ 888,885,792
February 1 to February 28	328	$ 89.28	—	$ 888,885,792
March 1 to March 31	—	$ —	—	$ 888,885,792
April 1 to April 30	—	$ —	—	$ 888,885,792
May 1 to May 31	621	$ 82.49	—	$ 888,885,792
June 1 to June 30	3,417	$ 93.58	—	$ 888,885,792
July 1 to July 31	—	$ —	—	$ 888,885,792
August 1 to August 31	1,253,534	$ 79.76	1,253,534	$ 788,906,335
September 1 to September 30	907	$ 80.24	—	$ 788,906,335
Total	4,887,218	$ 69.42	4,770,001	

(a) In May 2016, the Company's board of directors authorized a share repurchase program that, together with the availability remaining under the existing August 2013 share repurchase program, permitted the Company to purchase up to $750 million of its outstanding shares or common stock, subject to market conditions. In September 2016, the Company entered into an Accelerated Share Repurchase ("ASR") transaction with a financial institution. The ASR transaction was settled in November 2016, at which time the financial institution delivered an additional 0.5 million shares of the Company's common stock. In addition to the ASR transaction settlement, the Company purchased 1.6 million shares of its common stock for a total of $118.8 million to complete its authorization under this program.

(b) In November 2016, the Company's board of directors authorized a new share repurchase program allowing the Company to purchase up to $1.0 billion of its outstanding shares of common stock, subject to market conditions. During the fiscal year ended September 30, 2017, the Company purchased 2.7 million shares of its common stock for a total of $211.1 million under this program. As of September 30, 2017, the Company had $788.9 million of availability remaining under the November 2016 share repurchase program.

(c) Employees surrendered 117,217 shares during the fiscal year ended September 30, 2017 to meet minimum tax-withholding obligations upon vesting of restricted stock.

Table of Contents

STOCK PERFORMANCE GRAPH

This graph depicts the Company's five year cumulative total stockholder returns relative to the performance of the Standard and Poor's 500 Composite Stock Index, the S&P Health Care Index, and an index of peer companies selected by the Company from the market close on September 30, 2012 to September 30, 2017. The graph assumes $100 invested at the closing price of the common stock of the Company and of each of the other indices on the New York Stock Exchange on September 30, 2012. The points on the graph represent fiscal year-end index levels based upon the last trading day in each fiscal quarter. The Peer Group index (which is weighted on the basis of market capitalization) consists of the following companies engaged primarily in wholesale pharmaceutical distribution and related services: McKesson Corporation and Cardinal Health, Inc.

* $100 invested on September 30, 2012 in stock or index, including reinvestment of dividends.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following should be read in conjunction with the consolidated financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 24.

	As of or for the Fiscal Year Ended September 30,				
(Amounts in thousands, except per share amounts)	2017(a)	2016(b)	2015(c)	2014(d)	2013(e)
Statement of Operations Data:					
Revenue	$153,143,826	$146,849,686	$135,961,803	$119,569,127	$87,959,167
Gross profit	4,546,002	4,272,606	3,529,313	2,982,366	2,507,819
Operating expenses	3,485,660	2,746,832	3,107,093	2,200,275	1,605,417
Operating income	1,060,342	1,525,774	422,220	782,091	902,402
Interest expense, net	145,185	139,912	109,036	83,634	80,326
Income (loss) from continuing operations	364,484	1,427,929	(138,165)	281,776	491,901
Net income (loss)	364,484	1,427,929	(138,165)	274,230	432,173
Earnings per share from continuing operations — diluted	$1.64	$6.32	$(0.63)	$1.20	$2.09
Earnings per share — diluted	$1.64	$6.32	$(0.63)	$1.16	$1.84
Cash dividends declared per common share	$1.46	$1.36	$1.16	$0.94	$0.84
Weighted average common shares outstanding — diluted	221,602	225,959	217,786	235,405	235,345
Balance Sheet Data:					
Cash and cash equivalents	$2,435,115	$2,741,832	$2,167,442	$1,808,513	$1,231,006
Accounts receivable, net	10,303,324	9,175,876	8,222,951	6,312,883	6,051,920
Merchandise inventories	11,461,428	10,723,920	9,755,094	8,593,852	6,981,494
Property and equipment, net	1,797,945	1,530,682	1,192,510	1,044,831	907,562
Total assets	35,316,470	33,637,501	27,962,982	21,677,432	19,022,639
Accounts payable	25,404,042	23,926,320	20,886,439	15,592,834	13,335,792
Long-term debt, including current portion	3,442,055	4,186,703	3,493,048	1,995,632	1,396,606
Stockholders' equity	2,064,461	2,129,404	616,386	1,943,043	2,308,143
Total liabilities and stockholders' equity	$35,316,470	$33,637,501	$27,962,982	$21,677,432	$19,022,639

(a) Includes $101.1 million of LIFO credit, net of income tax expense of $56.7 million, a $0.9 million gain from antitrust litigation settlements, net of income tax expense of $0.5 million, and $937.4 million of employee severance, litigation, and other costs, net of income tax benefit of $21.9 million.

(b) Includes $367.2 million of Warrants income, net of income tax benefit of $507.5 million, $120.9 million of LIFO expense, net of income tax benefit of $79.3 million, an $80.8 million gain from antitrust litigation settlements, net of income tax expense of $53.0 million, $62.1 million of employee severance, litigation, and other costs, net of income tax benefit of $40.8 million, and a $28.7 million pension settlement charge, net of income tax benefit of $18.9 million.

(c) Includes $887.5 million of Warrants expense, net of income tax benefit of $25.3 million, $336.2 million of LIFO expense, net of income tax benefit of $206.6 million, a $40.6 million gain from antitrust litigation settlements, net of income tax expense of $24.9 million, a $30.6 million impairment charge on an equity investment, with no income tax benefit, and $23.5 million of employee severance, litigation, and other costs, net of income tax benefit of $14.4 million.

(d) Includes $397.5 million of Warrants expense, net of income tax benefit of $25.2 million, $214.6 million of LIFO expense, net of income tax benefit of $133.4 million, $20.3 million of loss on early retirement of debt, net of income tax benefit of $12.7 million, a $15.1 million gain from antitrust litigation settlements, net of income tax expense of $9.3 million, and $5.1 million of employee severance, litigation, and other costs, net of income tax benefit of $3.1 million.

(e) Includes $169.8 million of LIFO expense, net of income tax benefit of $107.2 million, $76.3 million of Warrants expense, net of income tax benefit of $13.7 million, $14.7 million of employee severance, litigation, and other costs, net of income tax benefit of $8.8 million, and a $14.3 million gain from antitrust litigation settlements, net of income tax expense of $8.6 million.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto contained herein.

We are one of the largest global pharmaceutical sourcing and distribution services companies, helping both healthcare providers and pharmaceutical and biotech manufacturers improve patient access to products and enhance patient care. We deliver innovative programs and services designed to increase the effectiveness and efficiency of the pharmaceutical supply chain in both human and animal health. We are organized based upon the products and services we provide to our customers. Our operations are comprised of the Pharmaceutical Distribution Services reportable segment and other operating segments that are not significant enough to require separate reportable segment disclosure, and, therefore, have been included in Other for the purpose of our reportable segment presentation.

Pharmaceutical Distribution Services Segment

Effective September 30, 2017, we reorganized our operating structure resulting in the combination of the legacy AmerisourceBergen Drug Corporation ("ABDC") and AmerisourceBergen Specialty Group ("ABSG") operating segments into a single operating segment, Pharmaceutical Distribution Services. In addition, in connection with the completion of this reorganization, our non-title third party logistics business, which was included within the Pharmaceutical Distribution Services reportable segment, was combined with the World Courier operating segment in Other, while the AmerisourceBergen Consulting Services ("ABCS") distribution business (previously included in Other) is now included in the Pharmaceutical Distribution Services reportable segment. We revised our previously-reported segment disclosures to reflect the aforementioned changes to our reporting structure. These changes did not have a material impact to our historical reportable segment operating results.

The Pharmaceutical Distribution Services reportable segment distributes a comprehensive offering of brand-name, specialty brand-name and generic pharmaceuticals, over-the-counter healthcare products, home healthcare supplies and equipment, outsourced compounded sterile preparations, and related services to a wide variety of healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order pharmacies, medical clinics, long-term care and alternate site pharmacies, and other customers. Through a number of operating businesses, the Pharmaceutical Distribution Services reportable segment provides pharmaceutical distribution (including plasma and other blood products, injectible pharmaceuticals, vaccines, and other specialty pharmaceutical products) and additional services to physicians who specialize in a variety of disease states, especially oncology, and to other healthcare providers, including hospitals and dialysis clinics. Additionally, the Pharmaceutical Distribution Services reportable segment provides data analytics, outcomes research, and additional services for biotechnology and pharmaceutical manufacturers. The Pharmaceutical Distribution Services reportable segment also provides pharmacy management, staffing and additional consulting services, and supply management software to a variety of retail and institutional healthcare providers. Additionally, it delivers packaging solutions to institutional and retail healthcare providers.

Other

Other consists of operating segments that focus on global commercialization services and animal health and includes ABCS, World Courier, and MWI Animal Health ("MWI").

ABCS, through a number of operating businesses, provides a full suite of integrated manufacturer services that range from clinical trial support to product post-approval and commercialization support. World Courier, which operates in over 50 countries, is a leading global specialty transportation and logistics provider for the biopharmaceutical industry. MWI is a leading animal health distribution company in the United States and in the United Kingdom. MWI sells pharmaceuticals, vaccines, parasiticides, diagnostics, micro feed ingredients, and various other products to customers in both the companion animal and production animal markets. Additionally, MWI offers demand-creating sales force services to manufacturers.

24

Table of Contents

Executive Summary

This executive summary provides highlights from the results of operations that follow:

- Revenue increased 4.3% from the prior fiscal year primarily due to the revenue growth of our Pharmaceutical Distribution Services segment;
- Total gross profit increased 6.4% from the prior fiscal year primarily due to the reduction of last-in, first-out ("LIFO") expense, which was a credit of $157.8 million in the current fiscal year, in comparison to an expense of $200.2 million in the prior fiscal year and an increase in gross profit in Other, offset in part by a decrease in gains from antitrust litigation settlements of $132.4 million and a decrease in gross profit in Pharmaceutical Distribution Services. The LIFO credit in the current fiscal year was primarily driven by lower brand inflation and greater generic deflation for the fiscal year ended September 30, 2017 in comparison to the prior fiscal year;
- Distribution, selling, and administrative expenses increased 1.8% from the prior fiscal year and as a percentage of revenue was 1.39% in the current fiscal year; a 3 basis point decline compared to the prior fiscal year. The decrease in expense as a percentage of revenue in comparison to the prior fiscal year was primarily due to initiatives taken in second half of the fiscal 2016 to improve operating efficiency across many of our businesses and certain administrative functions;
- Total operating expenses increased $738.8 million from the prior fiscal year, primarily due to litigation settlements and accruals of $914.4 million recognized during the fiscal year ended September 30, 2017. The increase in litigation costs was offset in part by a decrease in Warrants expense of $140.3 million and a $47.6 million pension settlement charge, both of which were recognized during the fiscal year ended September 30, 2016; and
- Our effective tax rates were 60.3% and (2.7)% in the fiscal years ended September 30, 2017 and 2016, respectively. Our effective tax rate in the fiscal year ended September 30, 2017 was negatively impacted by legal settlements and accrual charges that we currently estimate to be non-deductible (see Note 13 of the Notes to Consolidated Financial Statements), offset in part by certain discrete items, the growth of our international businesses in Switzerland and Ireland that have significantly lower income tax rates, and the benefit from stock option exercises and restricted stock vesting. Prior to the fiscal year ended September 30, 2017, tax benefits resulting from share-based compensation were recorded as adjustments to Additional Paid-In Capital within Stockholders' Equity (see Note 1 of the Notes to Consolidated Financial Statements). Our effective tax rate in the fiscal year ended September 30, 2016 primarily benefited from the receipt of an Internal Revenue Service ("IRS") private letter ruling that entitled us to an income tax deduction equal to the fair value of the Warrants on the dates of exercise.

Table of Contents

Results of Operations

Year ended September 30, 2017 compared with Year ended September 30, 2016

Revenue

(dollars in thousands)	Fiscal Year Ended September 30, 2017	2016	Change
Pharmaceutical Distribution Services	$147,453,495	$141,701,997	4.1%
Other	5,747,863	5,207,095	10.4%
Intersegment eliminations	(57,532)	(59,406)	(3.2)%
Revenue	$153,143,826	$146,849,686	4.3%

Revenue increased by 4.3% from the prior fiscal year. See discussions below under "Pharmaceutical Distribution Services Segment" and "Other" for commentary regarding our revenue growth.

Based on our recently announced plan to acquire H.D. Smith (see Note 18 of the Notes to Consolidated Financial Statements), we currently expect our revenue in fiscal 2018 to increase between 8% and 11%. Our future revenue growth will continue to be affected by various factors such as industry growth trends, including drug utilization, the introduction of new innovative brand therapies (including biosimilars), the likely increase in the number of generic drugs that will be available over the next few years as a result of the expiration of certain drug patents held by brand-name pharmaceutical manufacturers and the rate of conversion from brand products to those generic drugs, price increases and price deflation, general economic conditions in the United States, competition within the industry, customer consolidation, changes in pharmaceutical manufacturer pricing and distribution policies and practices, increased downward pressure on government and other third party reimbursement rates to our customers, and changes in federal government rules and regulations.

Pharmaceutical Distribution Services Segment

The Pharmaceutical Distribution Services segment grew its revenue by 4.1% from the prior fiscal year. Intrasegment revenue between legacy ABDC and legacy ABSG has been eliminated in the presentation of total Pharmaceutical Distribution Services revenue. Intrasegment revenues primarily consisted of legacy ABSG sales directly to legacy ABDC customer sites or legacy ABSG sales to legacy ABDC facilities. Intrasegment revenues were $9.5 billion and $7.6 billion in the fiscal years ended September 30, 2017 and 2016, respectively.

Legacy ABDC's revenue of $124.6 billion increased 4.0% from the prior fiscal year (before intrasegment eliminations). The increase in revenue was primarily due to the growth of some of its largest customers and due to overall market growth within the retail customer segment, offset in part by a decline in sales of products that treat Hepatitis C.

Legacy ABSG's revenue of $31.5 billion increased 10.5% from the prior fiscal year (before intrasegment eliminations). The increase in revenue was primarily due to strong overall performance, especially in the sale of oncology products, and increased sales in our third party logistics business.

A number of our contracts with customers, including GPOs, are typically subject to expiration each year. We may lose a significant customer if any existing contract with such customer expires without being extended, renewed, or replaced. During the fiscal year ended September 30, 2017, no significant contracts expired without being renewed. Over the next twelve months, there are no significant contracts scheduled to expire. Additionally, from time to time, other significant contracts may be renewed prior to their expiration dates. If those contracts are renewed at less favorable terms, they may also negatively impact our revenue, results of operations, and cash flows.

Other

Revenue in Other increased 10.4% from the prior fiscal year, primarily due to increased revenue from MWI due to strong growth in its companion animal business and ABCS due to its growth in manufacturer service programs. ABCS service program revenue growth can be significantly impacted by manufacturer product growth and launches.

Table of Contents

Gross Profit

	Fiscal Year Ended September 30,		
(dollars in thousands)	2017	2016	Change
Pharmaceutical Distribution Services	$3,182,836	$3,232,873	(1.5)%
Other	1,204,545	1,106,309	8.9%
Intersegment eliminations	(556)	(104)	
Gain from antitrust litigation settlements	1,395	133,758	
LIFO credit (expense)	157,782	(200,230)	
Gross profit	$4,546,002	$4,272,606	6.4%

Gross profit increased 6.4%, or $273.4 million, from the prior fiscal year. The increase in gross profit from the prior fiscal year was primarily due to a decrease in LIFO expense of $358.0 million and an increase in gross profit in Other, offset in part by a decrease in gains from antitrust litigation settlements of $132.4 million and a decrease in gross profit in Pharmaceutical Distribution Services. The LIFO credit in the current fiscal year was primarily driven by lower brand inflation and greater generic deflation for fiscal year ended September 30, 2017 in comparison to the prior fiscal year.

Our costs of goods sold includes a LIFO provision that is affected by expected changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences, many of which are difficult to predict. Changes to any of the above factors may have a material impact to our annual LIFO provision.

Pharmaceutical Distribution Services gross profit decreased 1.5%, or $50.0 million, from the prior fiscal year. Gross profit in the current fiscal year was adversely impacted primarily by the prior year Kaiser contract renewal effective July 1, 2016 at less favorable terms, a prior year GPO customer contract renewal effective April 1, 2016 at less favorable terms, lower price appreciation, and a lower contribution from PharMEDium as it shipped fewer units while we increased our investment in quality control and quality assurance systems to enhance product quality and patient safety and to meet all of PharMEDium's commitments to the U.S. Food and Drug Administration ("FDA") pursuant to the new federal requirements for outsourcing facilities, all of which was offset in part by an increase in revenue. As a percentage of revenue, Pharmaceutical Distribution Services gross profit margin of 2.16% in the current fiscal year decreased 12 basis points from the prior fiscal year. The decrease from the prior fiscal year was primarily due to the above-mentioned contract renewals, lower price appreciation, and increased sales to some of our larger customers that typically have a lower gross profit margin.

Gross profit in Other increased 8.9%, or $98.2 million, from the prior fiscal year. The increase was primarily due to revenue growth of ABCS and MWI. As a percentage of revenue, gross profit margin in Other of 20.96% in the current fiscal year decreased from 21.25% in the prior fiscal year.

We recognized gains from antitrust litigation settlements with pharmaceutical manufacturers of $1.4 million and $133.8 million during the fiscal years ended September 30, 2017 and 2016, respectively. The gains were recorded as reductions to cost of goods sold (see Note 14 of the Notes to Consolidated Financial Statements).

Operating Expenses

	Fiscal Year Ended September 30,		
(dollars in thousands)	2017	2016	Change
Distribution, selling, and administrative	$2,128,730	$2,091,237	1.8%
Depreciation and amortization	397,603	364,735	9.0%
Warrants expense	—	140,342	
Employee severance, litigation, and other	959,327	102,911	
Pension settlement	—	47,607	
Total operating expenses	$3,485,660	$2,746,832	26.9%

Distribution, selling, and administrative expenses increased 1.8%, or $37.5 million from the prior fiscal year and as a percentage of revenue, was 1.39% in the current fiscal year; a 3 basis point decline compared to the prior fiscal year. The decrease in expense as a percentage of revenue in comparison to the prior fiscal year was primarily due to initiatives taken in the second half of fiscal 2016 to improve operating efficiency across many of our businesses and certain administrative functions.

Depreciation expense increased 11.7% from the prior fiscal year due to an increase in the amount of property and equipment placed into service relating to our distribution infrastructure and various technology assets. Amortization expense increased 5.3%

Table of Contents

from the prior fiscal year primarily due to the amortization of intangible assets originating from our November 6, 2015 acquisition of PharMEDium.

There was no Warrants expense in the current fiscal year as the Warrants were exercised in the fiscal year ended September 30, 2016. Warrants expense in the fiscal year ended September 30, 2016 was $140.3 million.

Employee severance, litigation, and other for the fiscal year ended September 30, 2017 included $38.1 million of costs related to employee severance and other costs, $914.4 million for litigation settlements and accruals (see Note 13 of the Notes to Consolidated Financial Statements for further details), and $6.8 million of deal-related transaction costs. During the fiscal year ended September 30, 2017, we began to reorganize to further align our organization to our customers' needs in a more seamless and unified way, while supporting corporate strategy and accelerating growth, and as a result, numerous positions were eliminated. Employee severance, litigation, and other for the fiscal year ended September 30, 2016 included $53.5 million of employee severance and other costs, $19.2 million of deal-related transaction costs (primarily related to professional fees with respect to the PharMEDium acquisition), a $17.1 million charge related to the transfer of surplus assets from our settled salaried defined benefit pension plan to our defined contribution 401(k) plan, and $13.0 million of costs related to customer contract extensions (primarily related to the settlement of certain disputed items). During the fiscal year ended September 30, 2016, we reorganized certain of our business units and corporate functions to improve operating efficiency, and as a result, numerous positions were eliminated.

Operating Income

	Fiscal Year Ended September 30,		
(dollars in thousands)	2017	2016	Change
Pharmaceutical Distribution Services	$1,643,629	$1,702,725	(3.5)%
Other	373,797	327,746	14.1%
Intersegment eliminations	(556)	(103)	
Total segment operating income	2,016,870	2,030,368	(0.7)%
Gain from antitrust litigation settlements	1,395	133,758	
LIFO credit (expense)	157,782	(200,230)	
Acquisition-related intangibles amortization	(156,378)	(147,262)	
Warrants expense	—	(140,342)	
Employee severance, litigation, and other	(959,327)	(102,911)	
Pension settlement	—	(47,607)	
Operating income	$1,060,342	$1,525,774	

Segment operating income is evaluated before gain from antitrust litigation settlements; LIFO credit (expense); acquisition-related intangibles amortization; Warrants expense; employee severance, litigation, and other; and pension settlement.

Pharmaceutical Distribution Services operating income decreased 3.5%, or $59.1 million, from the prior fiscal year primarily due to the decrease in gross profit. As a percentage of revenue, Pharmaceutical Distribution Services operating income margin of 1.11% decreased 9 basis points from the prior fiscal year primarily due to the prior year contract renewals at less favorable terms, lower price appreciation, and increased sales to some of our larger customers that typically have lower gross profit margin, offset in part by our initiatives to improve operating efficiency.

Operating income in Other increased 14.1%, or $46.1 million, from the prior fiscal year primarily due to the gross profit increases of ABCS and MWI, offset in part by an increase in operating expenses.

Table of Contents

Interest expense, net and the respective weighted average interest rates were as follows:

	Fiscal Year Ended September 30,			
	2017		2016	
(dollars in thousands)	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Interest expense	$149,042	2.99%	$144,349	2.72%
Interest income	(3,857)	0.52%	(4,437)	0.45%
Interest expense, net	$145,185		$139,912	

Interest expense, net increased 3.8%, or $5.3 million, from the prior fiscal year. The increase in interest expense, net from the prior fiscal year was primarily due to an increase in our financing obligations related to leased construction assets, offset in part by a decrease of approximately $500 million in average borrowings from the prior fiscal year. Our interest expense in future periods may vary significantly depending upon changes in net borrowings, interest rates, amendments to our current borrowing facilities, and strategic decisions to deploy our invested cash.

Our effective tax rates were 60.3% and (2.7)% in the fiscal years ended September 30, 2017 and 2016, respectively. Our effective tax rate in the fiscal year ended September 30, 2017 was negatively impacted by legal settlements and accrual charges that we currently estimate to be non-deductible (see Note 13 of the Notes to Consolidated Financial Statements), offset in part by certain discrete items, the growth of our international businesses in Switzerland and Ireland that have significantly lower income tax rates, and the benefit from stock option exercises and restricted stock vesting. Prior to the fiscal year ended September 30, 2017, tax benefits resulting from share-based compensation were recorded as adjustments to Additional Paid-In Capital within Stockholders' Equity. Our effective tax rate in the fiscal year ended September 30, 2016 primarily benefited from the receipt of an IRS private letter ruling that entitled us to an income tax deduction equal to the fair value of the Warrants on the dates of exercise.

Net income was $364.5 million and $1,427.9 million in the fiscal years ended September 30, 2017 and 2016.

Year ended September 30, 2016 compared with Year ended September 30, 2015

Revenue

	Fiscal Year Ended September 30,		
(dollars in thousands)	2016	2015	Change
Pharmaceutical Distribution Services	$141,701,997	$132,383,820	7.0%
Other	5,207,095	3,586,879	45.2%
Intersegment eliminations	(59,406)	(8,896)	
Revenue	$146,849,686	$135,961,803	8.0%

Revenue increased by 8.0% from the prior fiscal year. See discussions below under "Pharmaceutical Distribution Services" and "Other" for commentary regarding our revenue growth.

Pharmaceutical Distribution Services Segment

The Pharmaceutical Distribution Services segment grew its revenue by 7.0% from the prior fiscal year. Intrasegment revenues between legacy ABDC and legacy ABSG have been eliminated in the presentation of total Pharmaceutical Distribution Services revenue. Intrasegment revenues primarily consisted of legacy ABSG sales directly to legacy ABDC customer sites or legacy ABSG sales to legacy ABDC facilities. Intrasegment revenues were $7.6 billion and $6.4 billion in the fiscal years ended September 30, 2016 and 2015, respectively.

Legacy ABDC's revenue of $119.8 billion increased 5.6% from the prior fiscal year (before intrasegment eliminations). The increase in legacy ABDC's revenue was primarily due to overall market growth, including sales to WBA. Revenue in the fiscal year ended September 30, 2016 was negatively impacted by lower sales of products that treat Hepatitis C.

Legacy ABSG's revenue of $28.5 billion increased 17.1% from the prior fiscal year (before intrasegment eliminations). The increase in legacy ABSG's revenue was due to the continued growth in our oncology business (including an increase in sales to community oncologists), increased sales in our third party logistics business, and increases in our blood products, vaccine, and physician office distribution businesses.

29

Table of Contents

During the fiscal year ended September 30, 2016, no significant contracts expired. However, a significant contract with a GPO was renewed, effective April 1, 2016, and our agreement with Kaiser was renewed for a five-year term commencing on July 1, 2016, both at less favorable terms than the previous contracts.

Other

Revenue in Other increased 45.2% from the prior fiscal year, primarily due to incremental revenue contribution from MWI, which was acquired in February 2015.

Gross Profit

	Fiscal Year Ended September 30,		
(dollars in thousands)	2016	2015	Change
Pharmaceutical Distribution Services	$3,232,873	$3,137,351	3.0%
Other	1,106,309	869,276	27.3%
Intersegment eliminations	(104)	—	
Gain from antitrust litigation settlements	133,758	65,493	
LIFO expense	(200,230)	(542,807)	
Gross profit	$4,272,606	$3,529,313	21.1%

Gross profit increased 21.1%, or $743.3 million, from the prior fiscal year. The increase was due to the $342.6 million decrease in LIFO expense from the prior fiscal year, the increase in the gross profit of Other, the increase in gross profit of Pharmaceutical Distribution Services, and the $68.3 million increase in gains from antitrust litigation settlements from the prior fiscal year. The decrease in LIFO expense was primarily due to lower brand inflation and higher generic drug deflation.

Pharmaceutical Distribution Services gross profit increased 3.0%, or $95.5 million, from the prior fiscal year. The increase was due to the contribution from our fiscal 2016 PharMEDium acquisition and the growth of legacy ABSG's revenue. Gross profit growth in the current fiscal year benefited from the incremental income from legacy ABDC's participation in the WBA generic purchasing services arrangement and was adversely impacted by lower generic price appreciation, an increase in generic price deflation, and contract renewals with the the Department of Defense, a significant GPO customer, and Kaiser, all at less favorable terms. As a percentage of revenue, Pharmaceutical Distribution Services gross profit margin of 2.28% in the current fiscal year decreased 9 basis points from the prior fiscal year. The decrease from the prior fiscal year was primarily due to lower generic price appreciation, an increase in generic price deflation, contract renewals at less favorable terms, and increased sales to our larger customers that typically have a lower gross profit margin.

Gross profit in Other increased 27.3%, or $237.0 million, from the prior fiscal year. The increase was primarily due to the contribution of our February 2015 acquisition of MWI, and, to a lesser extent, the increase in legacy ABCS's revenue. As a percentage of revenue, gross profit margin in Other of 21.25% in the current fiscal year decreased from 24.23% in the prior fiscal year. The decrease from the prior fiscal year was primarily due to the addition of MWI, which has a lower gross profit margin in comparison to other businesses within Other.

We recognized gains from antitrust litigation settlements with pharmaceutical manufacturers of $133.8 million and $65.5 million during the fiscal years ended September 30, 2016 and 2015, respectively.

Operating Expenses

	Fiscal Year Ended September 30,		
(dollars in thousands)	2016	2015	Change
Distribution, selling, and administrative	$2,091,237	$1,907,840	9.6%
Depreciation and amortization	364,735	248,635	46.7%
Warrants expense	140,342	912,724	
Employee severance, litigation, and other	102,911	37,894	
Pension settlement	47,607	—	
Total operating expenses	$2,746,832	$3,107,093	(11.6)%

Distribution, selling, and administrative expenses increased 9.6%, or $183.4 million from the prior fiscal year primarily due to our February 2015 acquisition of MWI, and to a lesser extent, our November 2015 acquisition of PharMEDium. As a percentage of revenue, distribution, selling, and administrative expenses were 1.42% in the current fiscal year, and represents an

Table of Contents

increase of 2 basis points compared to the prior fiscal year. The increase of 2 basis points was primarily due to the addition of MWI, which has higher operating expenses as a percentage of revenue in comparison to the Pharmaceutical Distribution Services segment, offset in part by an initiative to improve operating efficiency across many of our businesses and certain administrative functions.

Depreciation expense increased 10.5% from the prior fiscal year due to an increase in the amount of property and equipment placed into service. Amortization expense increased 169.9% from prior fiscal year primarily due to the amortization of intangible assets originating from our MWI and PharMEDium acquisitions.

Warrants expense decreased significantly from the prior fiscal year primarily due to the decline in our stock price since September 30, 2015. The Warrants were issued in March 2013 in connection with the agreements and arrangements that define our strategic relationship with WBA. The Warrants were exercised by WBA in full in the fiscal year ended September 30, 2016.

Employee severance, litigation, and other for the fiscal year ended September 30, 2016 included $53.5 million of employee severance and other costs, $19.2 million of deal-related transaction costs (primarily related to professional fees with respect to the PharMEDium acquisition), a $17.1 million charge related to the transfer of surplus assets from our settled salaried defined benefit pension plan to our defined contribution 401(k) plan, and $13.0 million of costs related to customer contract extensions (primarily related to the settlement of certain disputed items). Employee severance, litigation, and other for the fiscal year ended September 30, 2015 included $5.3 million of employee severance and other costs and $32.6 million of deal-related transaction costs (primarily related to professional fees with respect to the MWI acquisition).

We recorded a pension settlement charge of $47.6 million in the fiscal year ended September 30, 2016 related to the final settlement of our salaried defined benefit plan (see Note 9 of the Notes to Consolidated Financial Statements).

Operating Income

	Fiscal Year Ended September 30,		
(dollars in thousands)	2016	2015	Change
Pharmaceutical Distribution Services	$1,702,725	$1,666,110	2.2%
Other	327,746	238,137	37.6%
Intersegment eliminations	(103)	—	
Total segment operating income	2,030,368	1,904,247	6.6%
Gain from antitrust litigation settlements	133,758	65,493	
LIFO expense	(200,230)	(542,807)	
Acquisition-related intangibles amortization	(147,262)	(54,095)	
Warrants expense	(140,342)	(912,724)	
Employee severance, litigation, and other	(102,911)	(37,894)	
Pension settlement	(47,607)	—	
Operating income	$1,525,774	$422,220	

Segment operating income is evaluated before gain from antitrust litigation settlements; LIFO expense; acquisition-related intangibles amortization; Warrants expense; employee severance, litigation, and other; and pension settlement.

Pharmaceutical Distribution Services operating income increased 2.2%, or $36.6 million, from the prior fiscal year due to the increase in gross profit, offset in part by the increase in operating expenses. As a percentage of revenue, Pharmaceutical Distribution Services operating income margin decreased 6 basis points from the prior fiscal year primarily due to lower generic price appreciation, an increase in generic price deflation, contract renewals at less favorable terms, and increased sales to our larger customers that typically have a lower gross profit margin, offset in part by our initiative to improve operating efficiency.

Operating income in Other increased 37.6%, or $89.6 million, from the prior fiscal year primarily due to the February 2015 acquisition of MWI.

31

Table of Contents

Interest expense, net and the respective weighted average interest rates were as follows:

	Fiscal Year Ended September 30,			
	2016		2015	
(dollars in thousands)	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Interest expense	$144,349	2.72%	$112,021	2.88%
Interest income	(4,437)	0.45%	(2,985)	0.18%
Interest expense, net	$139,912		$109,036	

Interest expense, net increased 28.3%, or $30.9 million, from the prior fiscal year due to an increase of $1.3 billion in average borrowings from the prior fiscal year primarily due to the February 2015 issuance of senior notes totaling $1.0 billion and the February 2015 and November 2015 variable-rate term loan borrowings to finance a portion of the MWI and PharMEDium acquisitions, respectively. Our average borrowing rate was lower during the current fiscal year primarily as a result of the recent variable-rate financings, which bear interest at lower rates.

Our effective tax rates were (2.7%) and 151.4% in the fiscal years ended September 30, 2016 and 2015, respectively. Our effective tax rate in the fiscal year ended September 30, 2016 primarily benefited from an IRS private letter ruling that entitled us to an income tax benefit equal to the fair value of the Warrants on the dates of exercise. Our effective tax rate was also favorably impacted in fiscal 2016 by growth of our international businesses in Switzerland and Ireland that have significantly lower income tax rates.

Net income was $1,427.9 million in the fiscal year ended September 30, 2016. Net loss was $138.2 million in the fiscal year ended September 30, 2015.

Critical Accounting Policies and Estimates

Critical accounting policies are those policies which involve accounting estimates and assumptions that can have a material impact on our financial position and results of operations and require the use of complex and subjective estimates based upon past experience and management's judgment. Actual results may differ from these estimates due to uncertainties inherent in such estimates. Below are those policies applied in preparing our financial statements that management believes are the most dependent on the application of estimates and assumptions. For a complete list of significant accounting policies, see Note 1 of the Notes to Consolidated Financial Statements.

Allowance for Doubtful Accounts and Reserve for Customer Sales Returns

Trade receivables are primarily comprised of amounts owed to us for our pharmaceutical distribution and services activities and are presented net of an allowance for doubtful accounts and a reserve for customer sales returns. Our customer sales return policy generally allows customers to return products only if the products can be resold at full value or returned to suppliers for full credit. We record an accrual for estimated customer sales returns at the time of sale to the customer based upon historical customer return trends.

In determining the appropriate allowance for doubtful accounts, we consider a combination of factors, such as the aging of trade receivables, industry trends, and our customers' financial strength, credit standing, and payment and default history. Changes in the aforementioned factors, among others, may lead to adjustments in our allowance for doubtful accounts. The calculation of the required allowance requires judgment by our management as to the impact of these and other factors on the ultimate realization of our trade receivables. Each of our business units performs ongoing credit evaluations of its customers' financial condition and maintains reserves for probable bad debt losses based upon historical experience and for specific credit problems when they arise. We write off balances against the reserves when collectability is deemed remote. Each business unit performs formal, documented reviews of the allowance at least quarterly, and our largest business units perform such reviews monthly. There were no significant changes to this process during the fiscal years ended September 30, 2017, 2016, and 2015, and bad debt expense was computed in a consistent manner during these periods. The bad debt expense for any period presented is equal to the changes in the period end allowance for doubtful accounts, net of write-offs, recoveries, and other adjustments. Schedule II of this Form 10-K sets forth a rollforward of the allowance for doubtful accounts and reserve for customer sales returns.

Bad debt expense for the fiscal years ended September 30, 2017, 2016, and 2015 was $8.9 million, $13.1 million, and $8.1 million, respectively. An increase or decrease of 0.1% in the 2017 allowance as a percentage of trade receivables would result in an increase or decrease in the provision on accounts receivable of approximately $10.4 million. The allowance for doubtful accounts was $66.6 million and $69.8 million as of September 30, 2017 and 2016, respectively.

Table of Contents

Business Combinations

The assets acquired and liabilities assumed from the acquired business are recorded at fair value, with the residual of the purchase price recorded as goodwill. We engage third party appraisal firms to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant judgments, estimates, and assumptions, especially with respect to intangible assets. Management makes estimates of fair value based upon assumptions it believes to be reasonable. These estimates are based upon historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets include, but are not limited to: discount rates and future expected cash flows from and economic lives of customer relationships, trade names, existing technology, and other intangible assets. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions or estimates.

Equity Investments

We use the equity method of accounting for our investments in entities in which we have significant influence; generally, this represents an ownership interest of between 20% and 50%. Unrealized losses that are determined to be other-than-temporary impairment losses are recorded as a component of earnings in the period in which that determination is made. We recorded an impairment charge of $30.6 million in the fiscal year ended September 30, 2015 related to our minority ownership interest in a pharmaceutical wholesaler in Brazil. The impairment charge was based upon our determination that the decline in the pharmaceutical wholesaler's stock price from the date on which the investment was made to September 30, 2015 was other-than-temporary. There were no impairment charges on equity investments in the fiscal years ended September 30, 2017 or 2016.

Goodwill and Intangible Assets

Goodwill and other intangible assets with indefinite lives, certain trademarks and trade names, are not amortized; rather, they are tested for impairment at least annually. For the purpose of these impairment tests, we can elect to perform a qualitative assessment to determine if it is more likely than not that the fair values of its reporting units and indefinite lived intangible assets are less than the respective carrying values of those reporting units and indefinite lived intangible assets, respectively. We elected to bypass performing the qualitative assessment and, in the fourth quarter of fiscal 2017, went directly to performing our annual quantitative assessments of the goodwill and indefinite-lived intangible assets for the current year. We also completed a qualitative assessment immediately after our reorganization in the fourth quarter of fiscal 2017. We may elect to perform the qualitative annual assessment in future periods.

The goodwill impairment test requires us to compare the carrying value of the reporting unit's net assets to the fair value of the reporting unit. If the fair value exceeds the carrying value, no further evaluation is required, and no impairment loss is recognized. If the carrying amount exceeds the fair value, the difference between the carrying value and the fair value is recorded as an impairment loss, the amount of which not to exceed the total amount of goodwill allocated to the reporting unit.

We identify our reporting units based upon our management reporting structure, and our reporting units are the same as our operating segments. Generally, goodwill arises from acquisitions of specific operating companies and is assigned to the reporting unit in which a particular operating company resides.

We utilize an income-based approach to value our reporting units. The income-based approach relies on a discounted cash flow analysis, which considers forecasted cash flows discounted at an appropriate discount rate, to determine the fair value of each reporting unit. We believe that market participants would use a discounted cash flow analysis to determine the fair value of our reporting units in a sale transaction. The annual goodwill impairment test requires us to make a number of assumptions and estimates concerning future levels of revenue growth, operating margins, depreciation, amortization, capital expenditures, and working capital requirements, which are based upon our long-range plan. The discount rate is an estimate of the overall after-tax rate of return required by a market participant whose weighted average cost of capital includes both debt and equity, including a risk premium. While we use the best available information to prepare our cash flow and discount rate assumptions, actual future cash flows and/or market conditions could differ significantly resulting in future impairment charges related to recorded goodwill

balances. While there are always changes in assumptions to reflect changing business and market conditions, our overall methodology and the population of assumptions used have remained unchanged.

The impairment test for indefinite-lived intangibles other than goodwill (certain trademarks and trade names) consists of a comparison of the fair value of the indefinite-lived intangible asset to the carrying value of the asset as of the impairment testing date. We estimate the fair value of our indefinite-lived intangibles using the relief from royalty method. We believe the relief from royalty method is a widely used valuation technique for such assets. The fair value derived from the relief from royalty method is measured as the discounted cash flow savings realized from owning such trademarks and trade names and not having to pay a royalty for their use.

Table of Contents

We completed our required annual impairment tests relating to goodwill and other intangible assets in the fourth quarter of the fiscal years ended September 30, 2017, 2016, and 2015, and determined that there were no impairments.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and uncertain tax positions reflect management's assessment of estimated future taxes to be paid on items in the financial statements. Deferred income taxes arise from temporary differences between financial reporting and tax reporting bases of assets and liabilities, as well as net operating loss and tax credit carryforwards for tax purposes.

We have established a valuation allowance against certain deferred tax assets for which the ultimate realization of future benefits is uncertain. Expiring carryforwards and the required valuation allowances are adjusted annually. After application of the valuation allowances described above, we anticipate that no limitations will apply with respect to utilization of any of the other deferred income tax assets described above.

We prepare and file tax returns based upon our interpretation of tax laws and regulations and record estimates based upon these judgments and interpretations. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax law resulting from legislation, regulation, and/or as concluded through the various jurisdictions' tax court systems. Significant judgment is exercised in applying complex tax laws and regulations across multiple global jurisdictions where we conduct our operations. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, including resolutions of any related appeals or litigation processes, based upon the technical merits of the position.

We believe that our estimates for the valuation allowances against deferred tax assets and the amount of benefits recognized in our financial statements for uncertain tax positions are appropriate based upon current facts and circumstances. However, others applying reasonable judgment to the same facts and circumstances could develop a different estimate and the amount ultimately paid upon resolution of issues raised may differ from the amounts accrued.

The significant assumptions and estimates described in the preceding paragraphs are important contributors to the ultimate effective tax rate in each year. If any of our assumptions or estimates were to change, an increase or decrease in our effective tax rate by 1% on income before income taxes would have caused income tax expense to change by $9.2 million in the fiscal year ended September 30, 2017.

Loss Contingencies

In the ordinary course of business, we become involved in lawsuits, administrative proceedings, government subpoenas, government investigations, and other disputes, including antitrust, commercial, environmental, product liability, intellectual property, regulatory, employment discrimination, and other matters. Significant damages or penalties may be sought in some matters, and some matters may require years to resolve. We record a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. We also perform an assessment of the materiality of loss contingencies where a loss is either not probable or it is reasonably possible that a loss could be incurred in excess of amounts accrued. If a loss or an additional loss has at least a reasonable possibility of occurring and the impact on the financial statements would be material, we provide disclosure of the loss contingency in the footnotes to our financial statements. We review all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or the range of the loss can be made.

Merchandise Inventories

Inventories are stated at the lower of cost or market. Cost for approximately 80% of our inventories as of September 30, 2017 and 2016 has been determined using the LIFO method. If we had used the first-in, first-out method of inventory valuation, which approximates current replacement cost, inventories would have been approximately $1,467.0 million and $1,624.8 million higher than the amounts reported as of September 30, 2017 and 2016, respectively. We recorded a LIFO credit of $157.8 million in the fiscal year ended September 30, 2017 and LIFO expense of $200.2 million and $542.8 million in fiscal years ended September 30, 2016 and 2015, respectively.

The annual LIFO provision is affected by changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences, many of which are difficult to predict. Changes to any of the above factors can have a material impact to our annual LIFO provision.

Table of Contents

Share-Based Compensation

We account for the compensation cost of all share-based payments at fair value. We utilize a binomial option pricing model to determine the fair value of share-based compensation expense, which involves the use of several assumptions, including expected term of the option, expected volatility, risk-free interest rate, dividend yield, and forfeiture rate. The expected term of options represents the period of time that the options granted are expected to be outstanding and is based upon historical experience. Expected volatility is based upon historical volatility of our common stock as well as other factors, such as implied volatility. The fair value of performance stock units is determined by the grant date market price of our common stock and the compensation expense associated with the non-vested performance stock units is dependent on our periodic assessment of the probability of financial targets being achieved and our estimate of the number of shares that will ultimately be issued.

Supplier Reserves

We establish reserves against amounts due from our suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them. These reserve estimates are established based upon the judgment of management after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs, and any other pertinent information available to us. We evaluate the amounts due from our suppliers on a continual basis and adjust the reserve estimates when appropriate based upon changes in factual circumstances. An increase or decrease of 0.1% in the 2017 supplier reserve balances as a percentage of trade payables would result in an increase or decrease in cost of goods sold by approximately $25.4 million. The ultimate outcome of any outstanding claim may be different from our estimate.

Liquidity and Capital Resources

The following illustrates our debt structure as of September 30, 2017, including availability under the multi-currency revolving credit facility, the receivables securitization facility, the revolving credit note, and the overdraft facility:

(in thousands)	Outstanding Balance	Additional Availability
Fixed-Rate Debt:		
$400,000, 4.875% senior notes due 2019	$398,399	$—
$500,000, 3.50% senior notes due 2021	497,877	—
$500,000, 3.40% senior notes due 2024	496,766	—
$500,000, 3.25% senior notes due 2025	494,950	—
$500,000, 4.25% senior notes due 2045	494,082	—
Total fixed-rate debt	2,382,074	—
Variable-Rate Debt:		
Revolving credit note	—	75,000
Receivables securitization facility due 2019	500,000	950,000
Term loans due in 2020	547,860	—
Multi-currency revolving credit facility due 2021	—	1,400,000
Overdraft facility due in 2021 (£30,000)	12,121	28,066
Total variable-rate debt	1,059,981	2,453,066
Total debt	$3,442,055	$2,453,066

Our operating results have generated cash flows, which, together with availability under our debt agreements and credit terms from suppliers, have provided sufficient capital resources to finance working capital and cash operating requirements, and to fund capital expenditures, acquisitions, repayment of debt, the payment of interest on outstanding debt, dividends, and repurchases of shares of our common stock.

Our primary ongoing cash requirements will be to finance working capital, fund the repayment of debt, fund the payment of interest on debt, fund repurchases of our common stock, fund the payment of dividends, finance acquisitions, and fund capital expenditures and routine growth and expansion through new business opportunities. Future cash flows from operations and borrowings are expected to be sufficient to fund our ongoing cash

requirements.

As of September 30, 2017 and 2016, our cash and cash equivalents held by foreign subsidiaries were $995.7 million and $582.9 million, respectively, and are generally based in U.S. dollar denominated holdings. We expect that our cash and cash equivalents held by foreign subsidiaries may continue to grow. Amounts held outside of the United States are generally utilized

Table of Contents

to support non-U.S. liquidity needs, including future acquisitions of non-U.S. entities, although a portion of these amounts may from time to time be subject to short-term intercompany loans to U.S. subsidiaries. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the United States. We do not have any plans to repatriate these amounts to the United States, as our foreign subsidiaries intend to indefinitely reinvest this cash in foreign investments or foreign operations.

We have increased seasonal needs related to our inventory build during the December and March quarters that, depending on our cash balance, can require the use of our credit facilities to fund short-term capital needs. Our cash balance in the fiscal years ended September 30, 2017 and 2016 needed to be supplemented by intra-period credit facility borrowings to cover short-term working capital needs. Our cash balance in the fiscal year ended September 30, 2016 also needed to be supplemented by intra-period credit facility borrowings to cover a portion of the purchase price of PharMEDium in advance of securing long-term financing. The largest amount of intra-period borrowings under our revolving and securitization credit facilities that was outstanding at any one time during the fiscal years ended September 30, 2017 and 2016 was $626.1 million and $1,018.2 million, respectively. We had $9,324.7 million, $8,333.7 million, and $111.1 million of cumulative intra-period borrowings that were repaid under our credit facilities during the fiscal years ended September 30, 2017, 2016, and 2015, respectively. Additionally, in the fiscal year ended September 30, 2016, we borrowed $500.0 million under our receivables securitization facility that we used to finance principal payments that we elected to make on the November 2015 Term Loan (see below).

In the fiscal year ended September 30, 2017, we repaid the $600 million of 1.15% senior notes that became due, and we repaid $150 million of amounts outstanding under our term loans.

We have a $1.4 billion multi-currency senior unsecured revolving credit facility ("Multi-Currency Revolving Credit Facility"), which expires in November 2021, with a syndicate of lenders. Interest on borrowings under the Multi-Currency Revolving Credit Facility accrues at specified rates based upon our debt rating and ranges from 70 basis points to 110 basis points over CDOR/LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (91 basis points over CDOR/LIBOR/EURIBOR/Bankers Acceptance Stamping Fee as of September 30, 2017) and from 0 basis points to 10 basis points over the alternate base rate and Canadian prime rate, as applicable. We pay facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based upon our debt rating, ranging from 5 basis points to 15 basis points, annually, of the total commitment (9 basis points as of September 30, 2017). We may choose to repay or reduce our commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants, including compliance with a financial leverage ratio test, as well as others that impose limitations on, among other things, indebtedness of subsidiaries and asset sales, with which we were compliant as of September 30, 2017.

We have a commercial paper program whereby we may from time to time issue short-term promissory notes in an aggregate amount of up to $1.4 billion at any one time. Amounts available under the program may be borrowed, repaid, and re-borrowed from time to time. The maturities on the notes will vary, but may not exceed 365 days from the date of issuance. The notes will bear interest, if interest bearing, or will be sold at a discount from their face amounts. The commercial paper program does not increase our borrowing capacity as it is fully backed by our Multi-Currency Revolving Credit Facility. There were no borrowings outstanding under our commercial paper program as of September 30, 2017 and 2016.

We have a $1,450 million receivables securitization facility ("Receivables Securitization Facility"), which expires in November 2019. In fiscal 2016, we utilized the capacity to borrow $500 million on the Receivables Securitization Facility to finance $500 million of principal payments that we elected to make on the November 2015 Term Loan (defined below), as the Receivables Securitization Facility bears interest at a lower rate. We have available to us an accordion feature whereby the commitment on the Receivables Securitization Facility may be increased by up to $250 million, subject to lender approval, for seasonal needs during the December and March quarters. Interest rates are based upon prevailing market rates for short-term commercial paper or LIBOR plus a program fee. We pay a customary unused fee at prevailing market rates, annually, to maintain the availability under the Receivables Securitization Facility. The Receivables Securitization Facility contains similar covenants to the Multi-Currency Revolving Credit Facility, with which we were compliant as of September 30, 2017.

In connection with the Receivables Securitization Facility, AmerisourceBergen Drug Corporation sells on a revolving basis certain accounts receivable to Amerisource Receivables Financial Corporation, a wholly-owned special purpose entity, which in turn sells a percentage ownership interest in the receivables to financial institutions and commercial paper conduits sponsored by financial institutions. AmerisourceBergen Drug Corporation is the servicer of the accounts receivable under the Receivables Securitization Facility. As sold receivables are collected, additional receivables may be sold up to the maximum amount available under the facility. We use the facility as a financing vehicle because it generally offers an attractive interest rate relative to other financing sources.

We have an uncommitted, unsecured line of credit available to us pursuant to a revolving credit note ("Revolving Credit Note"). The Revolving Credit Note provides us with the ability to request short-term unsecured revolving credit loans from time to time in a principal amount not to exceed $75 million. The Revolving Credit Note may be decreased or terminated by the bank

Table of Contents

or us at any time without prior notice. We also have a £30 million uncommitted U.K. overdraft facility ("Overdraft Facility"), which expires in February 2021, to fund short-term, normal trading cycle fluctuations related to our MWI business.

In February 2015, we entered into a $1.0 billion variable-rate term loan ("February 2015 Term Loan"), which matures in 2020. Through September 30, 2017, we elected to make principal payments, prior to the scheduled repayment dates, of $775 million on the February 2015 Term Loan, and as a result, our next required principal payment is due upon maturity. The February 2015 Term Loan bears interest at a rate equal either to a base rate plus a margin, or LIBOR, plus a margin. The margin is based upon our public debt ratings and ranges from 75 basis points to 125 basis points over LIBOR (100 basis points as of September 30, 2017) and 0 to 25 basis points over a base rate. The February 2015 Term Loan contains similar covenants to the Multi-Currency Revolving Credit Facility, with which we were compliant as of September 30, 2017. We used the proceeds from the February 2015 Term Loan to finance a portion of the cash consideration paid in connection with the acquisition of MWI.

In November 2015, we entered into a $1.0 billion variable-rate term loan ("November 2015 Term Loan"), which matures in 2020. Through September 30, 2017, we made a scheduled principal payment, as well as other principal payments prior to the scheduled repayment dates totaling $675 million on the November 2015 Term Loan, and as a result, our next required principal payment is due upon maturity. The November 2015 Term Loan bears interest at a rate equal either to a base rate, plus a margin, or LIBOR, plus a margin. The margin is based upon our public debt ratings and ranges from 75 basis points to 125 basis points over LIBOR (100 basis points as of September 30, 2017) and 0 basis points to 25 basis points over a base rate. The November 2015 Term Loan contains similar covenants to the Multi-Currency Revolving Credit Facility, with which we are compliant as of September 30, 2017. We used the proceeds from the November 2015 Term Loan to finance a portion of the cash consideration paid in connection with the acquisition of PharMEDium.

We have $400 million of 4.875% senior notes due November 15, 2019, $500 million of 3.50% senior notes due November 15, 2021, $500 million of 3.40% senior notes due May 15, 2024, $500 million of 3.25% senior notes due March 1, 2025, and $500 million of 4.25% senior notes due March 1, 2045 (collectively, the "Notes"). Interest on the Notes is payable semiannually in arrears.

In August 2013, our board of directors authorized a program allowing us to purchase up to $750 million in shares of our common stock, subject to market conditions. During the fiscal years ended September 30, 2014 and 2015, we purchased $174.7 million and $300.8 million, respectively, under this share repurchase program. During the six months ended March 31, 2016, we purchased $100.0 million of our common stock under this program. In May 2016, our board of directors authorized a new share purchase program that, together with availability remaining under the existing August 2013 share repurchase program, permitted us to purchase up to $750 million in shares of our common stock, subject to market conditions. In September 2016, we entered into an Accelerated Share Repurchase ("ASR") transaction with a financial institution and paid $400 million for shares of our common stock. The initial payment of $400 million funded stock purchases of $380.0 million and a share holdback of $20.0 million. The ASR transaction was settled in November 2016, at which time the financial institution delivered additional shares to us. The number of shares ultimately received was based upon the volume-weighted average price of our common stock during the term of the ASR. We applied the $400 million ASR to the May 2016 share repurchase program. In addition to the ASR, during the fiscal year ended September 30, 2016, we purchased $231.2 million of our common stock under the May 2016 program. During the fiscal year ended September 30, 2017, we purchased $118.8 million of our common stock to complete our authorization under this program.

In November 2016, our board of directors authorized a new share repurchase program allowing us to purchase up to $1.0 billion in shares of our common stock, subject to market conditions. During the fiscal year ended September 30, 2017, we purchased $211.1 million of our common stock under this program. As of September 30, 2017, we had $788.9 million of availability remaining under this program.

In March 2013, we and WBA entered into various agreements and arrangements pursuant to which subsidiaries of WBA were granted the right to purchase a minority equity position in us, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of our common stock in open market transactions (approximately 7%

of our common stock on a fully diluted basis as of the date of issuance of the Warrants described below, assuming their exercise in full). In connection with these arrangements, wholly-owned subsidiaries of WBA were issued (a) warrants to purchase up to an aggregate of 22,696,912 shares of our common stock at an exercise price of $51.50 per share, exercisable during a six-month period beginning in March 2016 (the "2016 Warrants"), and (b) warrants to purchase up to 22,696,912 shares of our common stock at an exercise price of $52.50 per share, exercisable during a six-month period beginning in March 2017 (the "2017 Warrants" and together with the 2016 Warrants, the "Warrants").

In June 2013, we commenced a hedging strategy by entering into a contract with a financial institution pursuant to which we executed a series of issuer capped call transactions ("Capped Calls"). The Capped Calls gave us the right to buy shares of our common stock subject to the Warrants at specified prices at maturity. This hedge transaction was completed in January 2014 and included the purchase of Capped Calls on a total of 27.2 million shares of our common stock for a total premium of $368.7 million.

Table of Contents

Subsequently, we paid a premium of $100.0 million in January 2015 to increase the cap price on certain of the Capped Calls subject to the 2016 Warrants. The Capped Calls allowed us to acquire shares of our common stock at strike prices of $51.50 and $52.50 and have expiration dates ranging from February 2016 through October 2017. The Capped Calls permitted net share settlement, which is limited by caps on the market price of our common stock. We accounted for the Capped Calls as equity contracts and therefore the above premiums were recorded as a reduction to paid-in capital.

In the fiscal years ended September 30, 2014 and 2015, we purchased $1,774.1 million of our common stock under special share repurchase programs to further mitigate the potentially dilutive effect of the Warrants and supplement our previously executed warrant hedging strategy.

In March 2015, we further supplemented our hedging strategy by entering into a contract with a financial institution pursuant to which we executed a series of issuer call options ("Call Options"). The Call Options gave us the right to buy shares of our common stock subject to the Warrants at specified prices between April 2015 and October 2015. In total, we purchased Call Options on six million shares of our common stock for a total premium of $80.0 million. We accounted for the Call Options as equity contracts and therefore, the above premium was recorded as a reduction to paid-in capital.

In September 2015, our board of directors authorized a special share repurchase program allowing us to purchase up to $2.4 billion in shares of our common stock, subject to market conditions. During the fiscal year ended September 30, 2016, we purchased $1,535.1 million of our common stock under (all under the Call Options and Capped Calls) this program. We had $740.9 million of availability remaining under this special share repurchase program as of September 30, 2016. However, this availability will not be utilized as the earnings per share dilutive effect of the Warrants was fully mitigated by us concurrent with the August 2016 exercise of the 2017 Warrants (see below).

In March 2016, the 2016 Warrants were exercised for $1,168.9 million in cash. In August 2016, the 2017 Warrants were amended so that they became exercisable in whole or in part during the six-month period beginning in August 2016 at an exercise price of $52.50. In August 2016, the 2017 Warrants were exercised by WBA for $1,191.6 million in cash.

The earnings per share dilutive effect of the Warrants was fully mitigated by our hedging a portion of our obligation to deliver common stock with a financial institution and repurchasing additional shares of our common stock under the special share repurchase programs, as described above, for our own account over time.

The following is a summary of our contractual obligations for future principal and interest payments on our debt, minimum rental payments on our noncancelable operating leases and financing obligations, and minimum payments on our other commitments as of September 30, 2017:

Payments Due by Period (in thousands)	Debt, Including Interest Payments	Operating Leases	Financing Obligations [1]	Other Commitments	Total
Within 1 year	$126,298	$61,676	$ 28,706	$ 50,585	$267,265
1-3 years	1,332,536	95,338	62,477	35,661	1,526,012
4-5 years	963,936	61,952	58,656	6,061	1,090,605
After 5 years	2,052,750	76,511	159,345	—	2,288,606
Total	$4,475,520	$295,477	$ 309,184	$ 92,307	$5,172,488

[1] Represents the portion of future minimum lease payments relating to facility leases where we were determined to be the accounting owner (see Note 1 of the Notes to Consolidated Financial Statements). These payments are recognized as reductions to the financing obligation and as interest expense and exclude the future non-cash termination of the financing obligation.

We outsource to IBM Global Services a significant portion of our data center operations. The remaining commitment under our arrangement, which expires in January 2021, is approximately $67.7 million as of September 30, 2017, of which $35.0 million represents our commitment in fiscal 2018, and is included in "Other commitments" in the above table.

Our liability for uncertain tax positions was $338.4 million (including interest and penalties) as of September 30, 2017. This liability represents an estimate of tax positions that we have taken in our tax returns which may ultimately not be sustained upon examination by taxing authorities. Since the amount and timing of any future cash settlements cannot be predicted with reasonable certainty, the estimated liability has been excluded from the above contractual obligations table.

During the fiscal year ended September 30, 2017, our operating activities provided $1,504.1 million of cash in comparison to cash provided of $3,178.5 million in the prior fiscal year. Cash provided by operations in the fiscal year ended September 30, 2017 was principally the result of an increase in accounts payable of $1,473.4 million, an increase in accrued expenses of $661.2 million, non-cash items of $672.5 million, and net income of $364.5 million, offset in part by an increase in accounts receivable of $1,277.9 million and an increase in merchandise inventories of $431.5 million. The non-cash items were comprised primarily

Table of Contents

of $262.4 million of depreciation expense, $169.9 million of amortization expense, a LIFO credit of $157.8 million, and $319.1 million of deferred income tax expense. The increase in accounts payable was primarily driven by the increase in merchandise inventories and the timing of scheduled payments to our suppliers. We increased our merchandise inventories as of September 30, 2017 to support the increase in business volume. The increase in accrued expenses was primarily driven by a current year litigation accrual of $625.0 million (see Note 13 of the Notes to Consolidated Financial Statements). The increase in accounts receivable was the result of our revenue growth and a gradual change in payment terms with our largest customer that occurred between May 2016 and February 2017 as part of a contract amendment that, among other things, extended the term of our relationship with the customer.
Deterioration in general economic conditions, among other factors, could adversely affect the amount of prescriptions that are filled and the amount of pharmaceutical products purchased by consumers and, therefore, could reduce purchases by our customers. In addition, volatility in financial markets may also negatively impact our customers' ability to obtain credit to finance their businesses on acceptable terms. Reduced purchases by our customers or changes in the ability of our customers to remit payments to us could adversely affect our revenue growth, our profitability, and our cash flow from operations.
We use days sales outstanding, days inventory on hand, and days payable outstanding to evaluate our working capital performance. The below financial metrics are calculated based upon an annual average and can be impacted by the timing of cash receipts and disbursements, which can vary significantly depending upon the day of the week in which the month ends.

	Fiscal Year Ended September 30,		
	2017	2016	2015
Days sales outstanding	23.8	21.6	20.0
Days inventory on hand	30.1	30.0	29.5
Days payable outstanding	57.4	56.9	51.9

The increase in days sales outstanding from the prior fiscal year was the result of a gradual change in payment terms with our largest customer that occurred between May 2016 and February 2017.
Our cash flows from operating activities can vary significantly from period to period based upon fluctuations in our period end working capital. Additionally, any changes to payment terms with a significant customer or manufacturer supplier could have a material impact to our cash flows from operations. Operating cash flows during the fiscal year ended September 30, 2017 included $125.3 million of interest payments and $105.0 million of income tax payments, net of refunds. Operating cash flows during the fiscal year ended September 30, 2016 included $123.5 million of interest payments and $17.5 million of income tax payments, net of refunds.
During the fiscal year ended September 30, 2016, our operating activities provided $3,178.5 million of cash in comparison to cash provided by operations of $3,922.2 million in fiscal 2015. Cash provided by operations in fiscal 2016 was principally the result of an increase in accounts payable of $3,011.5 million, net income of $1,427.9 million, and non-cash items of $722.4 million, offset in part by an increase in accounts receivable of $912.7 million and an increase in merchandise inventories of $1,107.3 million. The non-cash items were comprised primarily of $232.5 million of depreciation expense, $200.2 million of LIFO expense, and $159.6 million of amortization expense. The increase in accounts payable was primarily driven by the increase in merchandise inventories and the timing of scheduled payments to our suppliers. Accounts receivable and merchandise inventories increased as a result of our overall revenue growth.
Capital expenditures in the fiscal years ended September 30, 2017, 2016, and 2015 were $466.4 million, $464.6 million, and $231.6 million, respectively. Significant capital expenditures in fiscal 2017 included costs associated with expanding distribution capacity and technology initiatives, including costs related to enhancing and upgrading our enterprise resource planning systems ("ERP"). Significant capital expenditures in fiscal 2016 included costs associated with expanding distribution capacity, technology initiatives, including costs related to the development of

track-and-trace technology, and the expansion of support facilities. Significant capital expenditures in fiscal 2015 included technology initiatives, including costs related to the further development of our primary ERP system, costs associated with building our national distribution center, and expansion of support facilities.

We currently expect to spend approximately $325 million for capital expenditures during fiscal 2018. Larger 2018 capital expenditures include technology initiatives to support customer ordering, track-and-trace technology, and new operating systems for our business units.

Cost of acquired companies, net of cash acquired, in the fiscal year ended September 30, 2016 was $2,731.4 million and primarily consisted of our PharMEDium acquisition. Cost of acquired companies, net of cash acquired, in the fiscal year ended September 30, 2015 was $2,633.4 million and primarily consisted of our MWI acquisition.

Table of Contents

Net cash used in financing activities in the fiscal year ended September 30, 2017 primarily included the $600 million repayment of our 1.15% senior notes, $329.9 million in purchases of our common stock, and $320.3 million in cash dividends paid on our common stock.

Net cash provided by financing activities in the fiscal year ended September 30, 2016 primarily included $2,360.5 million received upon the exercise of the Warrants by WBA and $1.0 billion of borrowings under our November 2015 Term Loan, offset in part by $2,266.3 million in purchases of our common stock. We used a portion of the proceeds from the exercise of the Warrants to purchase our common stock under our special share repurchase program.We used the proceeds from the November 2015 Term Loan to fund a portion of our November 2015 acquisition of PharMEDium.

Net cash used in financing activities in the fiscal year ended September 30, 2015 primarily included $1.0 billion of borrowings under our February 2015 Term Loan and $996.4 million of proceeds related to the February 2015 issuance of our 2025 Notes and 2045 Notes, offset in part by $1,859.1 million in purchases of our common stock and $180.0 million to purchase or amend Capped Calls and Call Options, to hedge the potential dilution associated with the Warrants upon their exercise. We used the proceeds from these financing activities to fund a portion of our February 2015 acquisition of MWI.

Our board of directors approved the following quarterly dividend increases:

Dividend Increases

	Per Share		
Date	New Rate	Old Rate	% Increase
November 2014	$0.290	$0.235	23%
November 2015	$0.340	$0.290	17%
November 2016	$0.365	$0.340	7%
November 2017	$0.380	$0.365	4%

We anticipate that we will continue to pay quarterly cash dividends in the future. However, the payment and amount of future dividends remain within the discretion of our board of directors and will depend upon our future earnings, financial condition, capital requirements, and other factors.

Market Risk

We have market risk exposure to interest rate fluctuations relating to our debt. We manage interest rate risk by using a combination of fixed-rate and variable-rate debt. The amount of variable-rate debt fluctuates during the year based upon our working capital requirements. We had $1.1 billion of variable-rate debt outstanding as of September 30, 2017. We periodically evaluate financial instruments to manage our exposure to fixed and variable interest rates. However, there are no assurances that such instruments will be available in the combinations we want and/or on terms acceptable to us. There were no such financial instruments in effect as of September 30, 2017.

We also have market risk exposure to interest rate fluctuations relating to our cash and cash equivalents. We had $2,435.1 million in cash and cash equivalents as of September 30, 2017. The unfavorable impact of a hypothetical decrease in interest rates on cash and cash equivalents would be partially offset by the favorable impact of such a decrease on variable-rate debt. For every $100 million of cash invested that is in excess of variable-rate debt, a 10 basis point decrease in interest rates would increase our annual net interest expense by $0.1 million.

We have minimal exposure to foreign currency and exchange rate risk from our non-U.S. operations. Our largest exposure to foreign exchange rates exists primarily with the Euro, the U.K. Pound Sterling, the Canadian Dollar, and the Brazilian Real. Revenue from our foreign operations is approximately one percent of our consolidated revenue. We may utilize foreign currency denominated forward contracts to hedge against changes in foreign exchange rates. We may use derivative instruments to hedge our foreign currency exposure, but not for speculative or trading purposes. As of September 30, 2017, we had one foreign currency denominated contract outstanding that hedges the foreign currency exchange risk of a C$27.6 million outstanding note.

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words such as "expect," "likely," "outlook," "forecast," "would," "could," "should," "can," "will," "project," "intend," "plan," "continue," "sustain," "synergy," "on track," "believe," "seek," "estimate," "anticipate," "may," "possible," "assume," variations of such words, and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and change in circumstances. These statements are not guarantees of future performance and are based on assumptions that could prove incorrect or could cause actual results to vary materially from those indicated. Among the factors that could cause actual results to differ materially from those projected, anticipated, or implied are the following: unfavorable trends in brand and generic pharmaceutical pricing, including in rate or frequency of price inflation or deflation; competition and industry consolidation of both customers and suppliers resulting in increasing pressure to reduce prices for our products and services; changes in pharmaceutical market growth rates; changes in the United States healthcare and regulatory environment, including changes that could impact prescription drug reimbursement under Medicare and Medicaid; increasing governmental regulations regarding the pharmaceutical supply channel and pharmaceutical compounding; declining reimbursement rates for pharmaceuticals; federal and state government enforcement initiatives to detect and prevent suspicious orders of controlled substances and the diversion of controlled substances; increased public concern over the abuse of opioid medications; prosecution or suit by federal, state and other governmental entities of alleged violations of laws and regulations regarding controlled substances, and any related disputes, including shareholder derivative lawsuits; increased federal scrutiny and litigation, including qui tam litigation, for alleged violations of laws and regulations governing the marketing, sale, purchase and/or dispensing of pharmaceutical products or services, and associated reserves and costs, including the reserve recorded in connection with the proceedings with the United States Attorney’s Office for the Eastern District of New York; material adverse resolution of pending legal proceedings; the retention of key customer or supplier relationships under less favorable economics or the adverse resolution of any contract or other dispute with customers or suppliers; changes to customer or supplier payment terms; risks associated with the strategic, long-term relationship between Walgreens Boots Alliance, Inc. and the Company, including principally with respect to the pharmaceutical distribution agreement and/or the global generic purchasing services arrangement; changes in tax laws or legislative initiatives that could adversely affect the Company's tax positions and/or the Company's tax liabilities or adverse resolution of challenges to the Company's tax positions; regulatory action in connection with the production, labeling or packaging of products compounded by our compounded sterile preparations (CSP) business; failure to realize the expected benefits from our reorganization and other business process initiatives; the acquisition of businesses that do not perform as expected, or that are difficult to integrate or control, including the integration of H. D. Smith and PharMEDium, or the inability to capture all of the anticipated synergies related thereto; managing foreign expansion, including non-compliance with the U.S. Foreign Corrupt Practices Act, anti-bribery laws and economic sanctions and import laws and regulations; declining economic conditions in the United States and abroad; financial market volatility and disruption; substantial defaults in payment, material reduction in purchases by or the loss, bankruptcy or insolvency of a major customer; the loss, bankruptcy or insolvency of a major supplier; changes to the customer or supplier mix; malfunction, failure or breach of sophisticated information systems to operate as designed; risks generally associated with data privacy regulation and the international transfer of personal data; natural disasters or other unexpected events that affect the Company’s operations; the impairment of goodwill or other intangible assets, resulting in a charge to earnings; the disruption of the Company's cash flow and ability to return value to its stockholders in accordance with its past practices; interest rate and foreign currency exchange rate fluctuations; and other economic, business, competitive, legal, tax, regulatory and/or operational factors affecting the Company's business generally. Certain additional factors that management believes could cause actual outcomes and results to differ materially from those described in forward-looking statements are set forth (i) elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations, (ii) in Item 1A (Risk Factors), (iii) Item 1 (Business), (iv) elsewhere in this report, and (v) in

other reports filed by the Company pursuant to the Securities Exchange Act.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's most significant market risks are the effects of changing interest rates, foreign currency risk, and the changes in the price of the Company's common stock. See discussion on page 40 under the heading "Market Risk," which is incorporated by reference herein.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of AmerisourceBergen Corporation

We have audited the accompanying consolidated balance sheets of AmerisourceBergen Corporation and subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AmerisourceBergen Corporation and subsidiaries at September 30, 2017 and 2016, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AmerisourceBergen Corporation's internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated November 21, 2017 expressed an unqualified opinion thereon.

/s/ Ernst &
Young LLP

Philadelphia, Pennsylvania
November 21, 2017

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	September 30, 2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$2,435,115	$2,741,832
Accounts receivable, less allowances for returns and doubtful accounts: 2017 — $1,050,361; 2016 — $905,345	10,303,324	9,175,876
Merchandise inventories	11,461,428	10,723,920
Prepaid expenses and other	103,432	210,219
Total current assets	24,303,299	22,851,847
Property and equipment, at cost:		
Land	40,302	40,290
Buildings and improvements	979,589	859,148
Machinery, equipment, and other	2,071,314	1,717,298
Total property and equipment	3,091,205	2,616,736
Less accumulated depreciation	(1,293,260)	(1,086,054)
Property and equipment, net	1,797,945	1,530,682
Goodwill	6,044,281	5,991,497
Other intangible assets	2,833,281	2,967,849
Other assets	337,664	295,626
TOTAL ASSETS	$35,316,470	$33,637,501
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$25,404,042	$23,926,320
Accrued expenses and other	1,402,002	743,839
Short-term debt	12,121	610,210
Total current liabilities	26,818,165	25,280,369
Long-term debt	3,429,934	3,576,493
Long-term financing obligation	351,635	275,991
Deferred income taxes	2,492,612	2,214,774
Other liabilities	159,663	160,470
Stockholders' equity:		
Common stock, $0.01 par value — authorized, issued, and outstanding: 2017 — 600,000,000 shares, 280,584,076 shares and 217,993,598 shares; 2016 — 600,000,000 shares, 277,753,762 shares and 220,050,502 shares	2,806	2,778
Additional paid-in capital	4,517,635	4,333,001
Retained earnings	2,395,218	2,303,941
Accumulated other comprehensive loss	(95,850)	(114,308)

Treasury stock, at cost: 2017 — 62,590,478 shares; 2016 — 57,703,260 shares	(4,755,348)	(4,396,008)
Total stockholders' equity	2,064,461	2,129,404
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$35,316,470	$33,637,501

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year Ended September 30,		
(in thousands, except per share data)	2017	2016	2015
Revenue	$153,143,826	$146,849,686	$135,961,803
Cost of goods sold	148,597,824	142,577,080	132,432,490
Gross profit	4,546,002	4,272,606	3,529,313
Operating expenses:			
Distribution, selling, and administrative	2,128,730	2,091,237	1,907,840
Depreciation	237,100	212,242	192,144
Amortization	160,503	152,493	56,491
Warrants	—	140,342	912,724
Employee severance, litigation, and other	959,327	102,911	37,894
Pension settlement	—	47,607	—
Operating income	1,060,342	1,525,774	422,220
Other (income) loss	(2,730)	(5,048)	13,598
Impairment charge on equity investment	—	—	30,622
Interest expense, net	145,185	139,912	109,036
Income before income taxes	917,887	1,390,910	268,964
Income tax expense (benefit)	553,403	(37,019)	407,129
Net income (loss)	$364,484	$1,427,929	$(138,165)
Earnings per share:			
Basic	$1.67	$6.73	$(0.63)
Diluted	$1.64	$6.32	$(0.63)
Weighted average common shares outstanding:			
Basic	218,375	212,206	217,786
Diluted	221,602	225,959	217,786

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Net income (loss)	$364,484	$1,427,929	$(138,165)
Other comprehensive income (loss):			
Net change in foreign currency translation adjustments	16,540	(9,311)	(84,142)
Benefit plan funded status adjustments net of tax of $928, $333, and $1,055, respectively	1,657	(562)	(4,607)
Pension plan adjustment, net of tax of $19,054	—	31,538	—
Other	261	360	4,462
Total other comprehensive income (loss)	18,458	22,025	(84,287)
Total comprehensive income (loss)	$382,942	$1,449,954	$(222,452)

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury	Total
September 30, 2014	$ 2,711	$2,749,185	$1,556,573	$ (52,046)	$(2,313,380)	$1,943,043
Net loss			(138,165)			(138,165)
Other comprehensive loss				(84,287)		(84,287)
Cash dividends, $1.16 per share			(253,919)			(253,919)
Exercises of stock options	36	105,839				105,875
Excess tax benefits related to share-based compensation		88,116				88,116
Share-based compensation expense		60,944				60,944
Common stock purchases for employee stock purchase plan		(328)				(328)
Warrants expense		912,724				912,724
Purchases of call options		(180,000)				(180,000)
Purchases of common stock					(1,823,106)	(1,823,106)
Employee tax withholdings related to restricted share vesting					(14,511)	(14,511)
Other	3	(3)				—
September 30, 2015	2,750	3,736,477	1,164,489	(136,333)	(4,150,997)	616,386
Net income			1,427,929			1,427,929
Other comprehensive income				22,025		22,025
Cash dividends, $1.36 per share			(288,477)			(288,477)
Exercises of stock options	22	74,746				74,768
Share-based compensation expense		64,992				64,992
Common stock purchases for employee stock purchase plan		(548)				(548)
Warrants expense		140,342				140,342
Exercises of warrants		336,998			2,023,481	2,360,479
Purchases of common stock					(1,866,344)	(1,866,344)
Accelerated share repurchase transaction		(20,000)			(380,000)	(400,000)
Employee tax withholdings related to restricted share vesting					(22,148)	(22,148)
Other	6	(6)				—
September 30, 2016	2,778	4,333,001	2,303,941	(114,308)	(4,396,008)	2,129,404
Adoption of ASU 2016-09 (see Note 1)			47,063			47,063
Net income			364,484			364,484
Other comprehensive income				18,458		18,458
Cash dividends, $1.46 per share			(320,270)			(320,270)
Exercises of stock options	25	102,898				102,923
Share-based compensation expense		62,206				62,206
Common stock purchases for employee stock purchase plan		(467)				(467)

Purchases of common stock					(329,929)	(329,929)
Settlement of fiscal 2016 accelerated share repurchase transaction		20,000			(20,000)	—
Employee tax withholdings related to restricted share vesting					(9,411)	(9,411)
Other	3	(3)				—
September 30, 2017	$ 2,806	$4,517,635	$2,395,218	$ (95,850)	$(4,755,348)	$2,064,461

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
OPERATING ACTIVITIES			
Net income (loss)	$364,484	$1,427,929	$(138,165)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, including amounts charged to cost of goods sold	262,420	232,538	193,290
Amortization, including amounts charged to interest expense	169,911	159,628	62,698
Provision for doubtful accounts	8,934	13,124	8,119
Provision (benefit) for deferred income taxes	319,069	(130,927)	20,826
Warrants expense	—	140,342	912,724
Share-based compensation expense	62,206	64,992	60,944
LIFO (credit) expense	(157,782)	200,230	542,807
Pension settlement	—	47,607	—
(Gain) loss on sale of businesses	(3,677)	—	12,953
Impairment charge on equity investment	—	—	30,622
Other	11,421	(5,171)	(11,604)
Changes in operating assets and liabilities, excluding the effects of acquisitions and divestitures:			
Accounts receivable	(1,277,896)	(912,724)	(1,478,793)
Merchandise inventories	(431,454)	(1,107,252)	(1,379,189)
Prepaid expenses and other assets	33,646	(46,159)	(37,131)
Accounts payable	1,473,389	3,011,508	4,957,227
Accrued expenses	661,174	(43,267)	152,762
Income taxes and other liabilities	8,293	126,099	12,138
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,504,138	3,178,497	3,922,228
INVESTING ACTIVITIES			
Capital expenditures	(466,397)	(464,616)	(231,585)
Cost of acquired companies, net of cash acquired	(61,648)	(2,731,356)	(2,633,412)
Cost of equity investments	(11,347)	(19,034)	—
Proceeds from sales of businesses	12,094	—	17,163
Proceeds from sales of investment securities available-for-sale	74,778	101,829	—
Purchases of investment securities available-for-sale	(48,635)	(42,083)	(86,214)
Other	3,114	(13,919)	2,883
NET CASH USED IN INVESTING ACTIVITIES	(498,041)	(3,169,179)	(2,931,165)
FINANCING ACTIVITIES			
Term loan and senior notes borrowings	—	1,000,000	1,996,390
Senior notes and term loan repayments	(750,000)	(800,000)	(500,000)
Borrowings under revolving and securitization credit facilities	9,336,400	8,846,876	111,100
Repayments under revolving and securitization credit facilities	(9,335,953)	(8,333,662)	(111,100)
Purchases of common stock	(329,929)	(2,266,344)	(1,859,106)
Exercises of warrants	—	2,360,479	—
Exercises of stock options, including excess tax benefits of $88,116 in fiscal 2015	102,923	74,768	193,991
Cash dividends on common stock	(320,270)	(288,477)	(253,919)

Purchases of call options	—	—	(180,000)
Employee tax withholdings related to restricted share vesting	(9,411)	(22,148)	(14,511)
Other	(6,574)	(6,420)	(14,979)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,312,814)	565,072	(632,134)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(306,717)	574,390	358,929
Cash and cash equivalents at beginning of year	2,741,832	2,167,442	1,808,513
CASH AND CASH EQUIVALENTS AT END OF YEAR	$2,435,115	$2,741,832	$2,167,442

See notes to consolidated financial statements.

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017

Note 1. Summary of Significant Accounting Policies

AmerisourceBergen Corporation (the "Company") is one of the largest global pharmaceutical sourcing and distribution services companies, helping both healthcare providers and pharmaceutical and biotech manufacturers improve patient access to products and enhance patient care. The Company delivers innovative programs and services designed to increase the effectiveness and efficiency of the pharmaceutical supply chain in both human and animal health.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as of the dates and for the fiscal years indicated. All intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimated amounts due to uncertainties inherent in such estimates. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Certain reclassifications have been made to prior-period amounts in order to conform to the current year presentation.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 specifies that debt issuance costs related to a debt liability shall be reported on the balance sheet as a direct reduction from the face amount of the debt liability. In August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"). ASU 2015-15 specifies that debt issuance costs related to line-of-credit arrangements may be presented as an asset on the balance sheet and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. As of October 1, 2016, the Company adopted ASU 2015-03 and ASU 2015-15 on a retrospective basis, which resulted in the reclassification of $18.7 million of debt issuance costs from Other Assets to Short-Term Debt of $0.9 million and to Long-Term Debt of $17.8 million on the Company's September 30, 2016 Consolidated Balance Sheet. The adoption had no impact on the Company’s results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also allows an employer to repurchase more of an employee's shares than it may currently for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016 and interim periods within those fiscal years. Entities are permitted to adopt the standard early in any interim or annual period. During the quarter ended December 31, 2016, the Company early adopted ASU 2016-09, which resulted in a cumulative adjustment to retained earnings and the establishment of a deferred tax asset as of October 1, 2016 of $47.1 million for previously unrecognized tax benefits. The Company elected to adopt the Statement of Cash Flows presentation of the excess tax benefits prospectively. During the fiscal year ended September 30, 2017, the Company recognized tax benefits of $36.7 million in Income Tax Expense on the Company's Consolidated Statement of Operations. The tax benefits recognized in the fiscal year ended September 30, 2017 are not necessarily indicative of amounts that may arise in future periods.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 removes Step 2 of the goodwill impairment test,

which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Entities are permitted to adopt the standard early for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. During the quarter ended September 30, 2017, in conjunction with its annual goodwill impairment test, the Company early adopted ASU 2017-04 . The adoption had no impact on the Company's results of operations, cash flows, or financial position.

Table of Contents

Recently Issued Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification 605 - "Revenue Recognition" and most industry-specific guidance throughout the Codification. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard's core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 was originally scheduled to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. In July 2015, the FASB deferred the effective date of ASU 2014-09 by one year.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations" ("ASU 2016-08"), which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing" ("ASU 2016-10"), which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The Company must adopt ASU 2016-08 and ASU 2016-10 with ASU 2014-09. Entities are permitted to adopt the standards as early as the original public entity effective date of ASU 2014-09, and either full or modified retrospective application is required.

The Company continues to evaluate the impact of adopting ASU 2016-08, ASU 2016-10, and ASU 2014-09. It has conducted a preliminary assessment of the Pharmaceutical Distribution Services reportable segment and the operating segments in Other and does not expect adoption of the new standard to have a material impact on its consolidated financial statements. For example, the majority of the Pharmaceutical Distribution Services reportable segment's revenue is generated from sales of pharmaceutical products, which will continue to be recognized when control of goods is transferred to the customer. This preliminary assessment is subject to change prior to adoption. Additionally, the Company expects to adopt this standard in the the first quarter of fiscal 2019, and it is still evaluating the method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842) ("ASU 2016-02")." ASU 2016-02 aims to increase transparency and comparability across organizations by requiring lease assets and lease liabilities to be recognized on the balance sheet as well as key information to be disclosed regarding lease arrangements. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018 and interim periods within those fiscal years. Entities are permitted to adopt the standard early, and a modified retrospective application is required. The Company anticipates that the adoption of this new accounting standard will have a material impact on the Company's Consolidated Balance Sheets. However, the Company is continuing to evaluate the impact of adopting this new accounting guidance and, therefore, cannot reasonably estimate the impact on the results of operations or cash flows at this time.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 aims to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those fiscal years. Entities are permitted to adopt the standard early in any interim or annual period, and a retrospective application is required. The Company is currently evaluating the impact of adopting this new accounting guidance and, therefore, cannot reasonably estimate the impact that the adoption of this standard will have on its financial statements.

As of September 30, 2017, there were no other recently issued accounting standards that may have a material impact on the Company's financial position, results of operations, or cash flows upon their adoption.

Business Combinations

The assets acquired and liabilities assumed from the acquired business are recorded at fair value, with the residual of the purchase price recorded as goodwill. The results of operations of the acquired businesses are included in the Company's operating results from the dates of acquisition.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

Concentrations of Credit Risk and Allowance for Doubtful Accounts

The Company sells its merchandise inventories to a large number of customers in the healthcare industry that include institutional and retail healthcare providers. Institutional healthcare providers include acute care hospitals, health systems, mail order pharmacies, long-term care and other alternate care pharmacies and providers of pharmacy services to such facilities, and physician offices. Retail healthcare providers include national and regional retail drugstore chains, independent community

Table of Contents

pharmacies, pharmacy departments of supermarkets and mass merchandisers, and veterinarians. The financial condition of the Company's customers can be affected by changes in government reimbursement policies as well as by other economic pressures in the healthcare industry.

The Company's trade accounts receivables are exposed to credit risk. Revenue from the various agreements and arrangements with the Company's largest customer in the fiscal year ended September 30, 2017, Walgreens Boots Alliance, Inc. ("WBA"), accounted for approximately 30% of revenue and represented approximately 49% of accounts receivable, net of incentives, as of September 30, 2017. Express Scripts, Inc., the Company's second largest customer in the fiscal year ended September 30, 2017, accounted for approximately 15% of revenue and represented approximately 9% of accounts receivable, net as of September 30, 2017. The Company generally does not require collateral for trade receivables. In determining the appropriate allowance for doubtful accounts, the Company considers a combination of factors, such as the aging of trade receivables, industry trends, and its customers' financial strength, credit standing, and payment and default history. Changes in these factors, among others, may lead to adjustments in the Company's allowance for doubtful accounts. The calculation of the required allowance requires judgment by Company management as to the impact of those and other factors on the ultimate realization of its trade receivables. Each of the Company's business units performs ongoing credit evaluations of its customers' financial condition and maintains reserves for probable bad debt losses based upon historical experience and for specific credit problems when they arise. There were no significant changes to this process during the fiscal years ended September 30, 2017, 2016, and 2015, and bad debt expense was computed in a consistent manner during these periods.

The Company maintains cash and cash equivalents with several financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. These deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and, therefore, bear minimal credit risk. The Company seeks to mitigate such risks by monitoring the risk profiles of these counterparties. The Company also seeks to mitigate risk by monitoring the investment strategy of money market accounts in which it is invested, which are classified as cash equivalents.

Contingencies

Loss Contingencies: In the ordinary course of its business, the Company becomes involved in lawsuits, administrative proceedings, government subpoenas, government investigations, and other disputes, including antitrust, commercial, environmental, product liability, intellectual property, regulatory, employment discrimination, and other matters. Significant damages or penalties may be sought from the Company in some matters, and some matters may require years for the Company to resolve. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. The Company also performs an assessment of the materiality of loss contingencies where a loss is either not probable or it is reasonably possible that a loss could be incurred in excess of amounts accrued. If a loss or an additional loss has at least a reasonable possibility of occurring and the impact on the financial statements would be material, the Company provides disclosure of the loss contingency in the notes to its financial statements. The Company reviews all contingencies at least quarterly to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or the range of the loss can be made (see Note 13).

Gain Contingencies: The Company records gain contingencies when they are realized. Gains from antitrust litigation settlements are realized upon the receipt of cash and recorded as a reduction to cost of goods sold because they represent a recovery of amounts historically paid to manufacturers to originally acquire the pharmaceuticals that were the subject of the antitrust litigation settlements (see Note 14).

Derivative Financial Instruments

The Company records all derivative financial instruments on the balance sheet at fair value and complies with established criteria for designation and effectiveness of hedging relationships. The Company's policy prohibits it from entering into derivative financial instruments for speculative or trading purposes.

The Company had one foreign currency denominated contract outstanding that hedges the foreign currency exchange risk of a C$27.6 million note outstanding as of September 30, 2017.

Equity Method Investments

The Company uses the equity method of accounting for its investments in entities in which it has significant influence; generally, this represents an ownership interest of between 20% and 50% (see Note 3). A decline in value that is determined to be other-than-temporary is recorded as an impairment charge as a component of earnings in the period in which that determination is made.

The Company recorded an impairment charge of $30.6 million in the fiscal year ended September 30, 2015 related to its minority interest in a pharmaceutical wholesaler in Brazil. The impairment charge was based upon the determination by the

Table of Contents

Company that the decline in the pharmaceutical wholesaler's stock price from the date on which the investment was made to September 30, 2015 was other-than temporary. There were no impairment charges on equity investments in the fiscal years ended September 30, 2017 or 2016.

Foreign Currency

When the functional currency of the Company's foreign operations is the applicable local currency, assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated at the weighted average exchange rates for the period. The resulting translation adjustments are recorded as a component of Accumulated Other Comprehensive Loss within Stockholders' Equity.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets with indefinite lives, certain trademarks and trade names, are not amortized; rather, they are tested for impairment at least annually. For the purpose of these impairment tests, the Company can elect to perform a qualitative assessment to determine if it is more likely than not that the fair values of its reporting units and indefinite-lived intangible assets are less than the respective carrying values of those reporting units and indefinite-lived intangible assets, respectively. The Company elected to bypass performing the qualitative assessment and, in the fourth quarter of fiscal 2017, performed its annual quantitative assessments of the goodwill and indefinite-lived intangible assets for the current year. The Company also completed a qualitative assessment immediately after its reorganization in the fourth quarter of fiscal 2017 (see Note 15). The Company may elect to perform qualitative annual assessments in future years.

The goodwill impairment test requires the Company to compare the carrying value of the reporting unit's net assets to the fair value of the reporting unit. If the fair value exceeds the carrying value, no further evaluation is required, and no impairment loss is recognized. If the carrying value exceeds the fair value, the difference between the carrying value and the fair value is recorded as an impairment loss, the amount of which not to exceed the total amount of goodwill allocated to the reporting unit.

The Company identifies its reporting units based upon its management reporting structure, and its reporting units are the same as its operating segments. Generally, goodwill arises from acquisitions of specific operating companies and is assigned to the reporting unit in which a particular operating company resides.

The Company uses an income-based approach to value its reporting units. The income-based approach relies on a discounted cash flow analysis, which considers forecasted cash flows discounted at an appropriate discount rate, to determine the fair value of each reporting unit. The Company believes that market participants would use a discounted cash flow analysis to determine the fair value of its reporting units in a sale transaction. The annual goodwill impairment test requires the Company to make a number of assumptions and estimates concerning future levels of revenue growth, operating margins, depreciation, amortization, capital expenditures, and working capital requirements, which are based upon the Company's long-range plan. The discount rate is an estimate of the overall after-tax rate of return required by a market participant whose weighted average cost of capital includes both debt and equity, including a risk premium. While the Company uses the best available information to prepare its cash flow and discount rate assumptions, actual future cash flows and/or market conditions could differ significantly resulting in future impairment charges related to recorded goodwill balances. While there are always changes in assumptions to reflect changing business and market conditions, the Company's overall methodology and the population of assumptions used have remained unchanged.

The impairment test for indefinite-lived intangibles other than goodwill (certain trademarks and trade names) consists of a comparison of the fair value of the indefinite-lived intangible asset to the carrying value of the asset as of the impairment testing date. The Company estimates the fair value of its indefinite-lived intangibles using the relief from royalty method. The Company believes the relief from royalty method is a widely used valuation technique for such assets. The fair value derived from the relief from royalty method is measured as the discounted cash flow savings realized from owning such trademarks and trade names and not having to pay a royalty for their use.

The Company completed its required annual impairment tests relating to goodwill and other intangible assets in the fourth quarter the of fiscal years ended September 30, 2017, 2016, and 2015, and, as a result, determined that there were no impairments.

Finite-lived intangible assets are amortized using the straight-line method over the estimated useful lives of the assets.

Income Taxes

The Company accounts for income taxes using a method that requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities (commonly known as the asset and liability method). In assessing the need to establish a valuation allowance on deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Table of Contents

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, including resolutions of any related appeals or litigation processes, based upon the technical merits of the position. Tax benefits associated with uncertain tax positions that have met the recognition criteria are measured and recorded based upon the highest probable outcome that is more than 50% likely to be realized after full disclosure and resolution of a tax examination.

Investment Securities Available-For-Sale

The Company's marketable debt 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 evaluates the classifications at each balance sheet date. The Company classifies its marketable debt securities as either short-term or long-term based upon 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. The Company's marketable debt securities are carried at fair value, with unrealized gains and losses reported as a component of Accumulated Other Comprehensive Loss in Stockholders' 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. As of September 30, 2017, the Company had no investment securities available-for-sale. As of September 30, 2016, the fair value of the Company's investment securities available-for-sale was $26.1 million, all of which was within Prepaid Expenses and Other on the Company's Consolidated Balance Sheet.

Leases

The Company is often involved in the construction of its distribution facilities. In certain cases, the Company makes payments for certain structural components included in the lessor's construction of the leased assets, which result in the Company being deemed the owner of the leased assets for accounting purposes. As a result, regardless of the significance of the payments, Accounting Standards Codification 840, Leases, ("ASC 840") defines those payments as automatic indicators of ownership and requires the Company to capitalize the lessor's total project cost with a corresponding financing obligation. Upon completion of the lessor's project, the Company performs a sale-leaseback analysis pursuant to ASC 840 to determine if these assets and the related financing obligations can be derecognized from the Company's Consolidated Balance Sheet. If the Company is deemed to have "continuing involvement," the leased assets and the related financing obligations remain on the Company's Consolidated Balance Sheet and are amortized over the life of the assets and the lease term, respectively. All other leases are considered operating leases in accordance with ASC 840. Assets subject to an operating lease and the related lease payments are not recorded on the Company's Consolidated Balance Sheet. Rent expense is recognized on a straight-line basis over the expected lease term and is recorded in Distribution, Selling, and Administrative in the Company's Consolidated Statements of Operations.

Manufacturer Incentives

The Company considers fees and other incentives received from its suppliers relating to the purchase or distribution of inventory to represent product discounts, and, as a result, they are recognized within cost of goods sold upon the sale of the related inventory.

Merchandise Inventories

Inventories are stated at the lower of cost or market. Cost for approximately 80% of the Company's inventories as of September 30, 2017 and 2016 has been determined using the last-in, first-out ("LIFO") method. If the Company had used the first-in, first-out method of inventory valuation, which approximates current replacement cost, inventories would have been approximately $1,467.0 million and $1,624.8 million higher than the amounts reported as of September 30, 2017 and 2016, respectively. The Company recorded a LIFO credit of $157.8 million in the fiscal year ended September 30, 2017 and LIFO expense of $200.2 million and $542.8 million in the fiscal years ended September 30, 2016 and 2015, respectively. The annual LIFO provision is affected by changes in inventory quantities, product mix, and manufacturer pricing practices, which may be impacted by market and other external influences, many of which are difficult to predict. Changes to any of the above factors can have a material impact to the Company's annual LIFO provision.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years for buildings and improvements and from 3 to 10 years for machinery, equipment, and other. The costs of repairs and maintenance are charged to expense as incurred.

The Company capitalizes project costs relating to computer software developed or obtained for internal use when the activities related to the project reach the application development stage. Costs that are associated with preliminary stage activities,

Table of Contents

training, maintenance, and all other post-implementation stage activities are expensed as they are incurred. Software development costs are depreciated using the straight-line method over the estimated useful lives, which range from 3 to 10 years.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, products have been delivered or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. Revenue, as reflected in the accompanying Consolidated Statements of Operations, is net of estimated sales returns and allowances, and other customer incentives.

The Company's customer sales return policy generally allows customers to return products only if the products can be resold at full value or returned to suppliers for full credit. The Company records an accrual for estimated customer sales returns at the time of sale to the customer. As of September 30, 2017 and 2016, the Company's accrual for estimated customer sales returns was $1,001.7 million and $856.3 million, respectively.

The Company reports the gross dollar amount of bulk deliveries to customer warehouses in revenue and the related costs in cost of goods sold. Bulk delivery transactions are arranged by the Company at the express direction of the customer, and involve either drop shipments from the supplier directly to customers' warehouse sites or cross-dock shipments from the supplier to the Company for immediate shipment to the customers' warehouse sites. The Company is a principal to these transactions because it is the primary obligor and has the ultimate and contractual responsibility for fulfillment and acceptability of the products purchased, and it bears full risk of delivery and loss for products, whether the products are drop-shipped or shipped via cross-dock. The Company also bears full credit risk associated with the creditworthiness of any bulk delivery customer. As a result, the Company records bulk deliveries to customer warehouses as gross revenues. Gross profit earned by the Company on bulk deliveries was not material in any year presented.

Share-Based Compensation

The Company accounts for the compensation cost of all share-based payments at fair value. The Company estimates the fair value of option grants using a binomial option pricing model. The fair value of restricted stock, restricted stock units, and performance stock units is based upon the grant date market price of the Company’s common stock.

Share-based compensation expense is recognized over the requisite service period within Distribution, Selling, and Administrative in the Consolidated Statements of Operations to correspond with the same line item as the cash compensation paid to employees. Compensation expense associated with nonvested performance stock units is dependent on the Company's periodic assessment of the probability of the targets being achieved and its estimate of the number of shares that will ultimately be issued.

The income tax effects of awards is recognized when the awards vest or are settled and are recognized in Income Tax Expense in the Company’s Consolidated Statements of Operations and in cash flows from operations in the Consolidated Statements of Cash Flows. The Company recognized tax benefits of $36.7 million in the fiscal year ended September 30, 2017. Prior to fiscal 2017, tax benefits from share-based compensation were recorded as adjustments to Additional Paid-in Capital within Stockholders’ Equity and as cash flows from financing activities within the Statement of Cash Flows (see Recently Adopted Accounting Pronouncements). There were no tax benefits related to share-based compensation for the fiscal year ended September 30, 2016. Tax benefits related to share-based compensation were $88.1 million for the fiscal year ended September 30, 2015.

Shipping and Handling Costs

Shipping and handling costs include all costs to warehouse, pick, pack, and deliver inventory to customers. These costs, which were $517.3 million, $494.7 million, and $419.2 million for the fiscal years ended September 30, 2017, 2016, and 2015, respectively, are included in Distribution, Selling, and Administrative in the Company's Consolidated Statements of Operations.

Supplier Reserves

The Company establishes reserves against amounts due from its suppliers relating to various price and rebate incentives, including deductions or billings taken against payments otherwise due to them from the Company. These reserve estimates are established based upon the judgment of Company management after carefully considering the status of current outstanding claims, historical experience with the suppliers, the specific incentive programs, and any other pertinent information available to the Company. The Company evaluates the amounts due from its suppliers on a continual basis and adjusts the reserve estimates when appropriate based upon changes in factual circumstances. The ultimate outcome of any outstanding claim may be different than the Company's estimate.

Table of Contents

Warrants

The Company accounted for the warrants issued to subsidiaries of WBA (collectively, the "Warrants") in accordance with the guidance for equity-based payments to non-employees. Using a binomial lattice model approach, the fair value of the Warrants was initially measured at the date of issuance, and the related expenses were recognized over the vesting period as an operating expense. The fair value of the Warrants was remeasured at the end of each reporting period, and an adjustment was recorded in the statement of operations to record the impact as if the newly measured fair value of the awards had been used in recognizing expense starting when the awards were originally issued and through the remeasurement date. In the fiscal year ended September 30, 2016, the Warrants were exercised by WBA in full (see Note 7).

Note 2. Acquisitions

On February 24, 2015, the Company acquired MWI Veterinary Supply, Inc. ("MWI" or "MWI Animal Health") for a purchase price of $2.6 billion. MWI is a leading animal health distribution company in the United States and in the United Kingdom. For reportable segment presentation, MWI's operating results are included within Other.

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their fair values on the date of the acquisition. The purchase price exceeded the fair value of the net tangible and intangible assets acquired by $1.2 billion, which was allocated to goodwill. The fair value of accounts receivable, inventory, and accounts payable acquired was $346.9 million, $440.0 million, and $327.1 million, respectively. The fair value of the intangible assets acquired totaled $1.5 billion and consisted of customer relationships of $1.1 billion, trade name of $344.0 million, and software technology of $11.0 million. The Company established a deferred tax liability of $570.7 million primarily in connection with the intangible assets acquired. The Company is amortizing the fair values of the acquired customer relationships and software technology over the remaining useful lives of 20 years and 8 years, respectively. The trade name was determined to have an indefinite life. Goodwill and intangibles resulting from the acquisition are not deductible for income tax purposes.

On November 6, 2015, the Company acquired PharMEDium Healthcare Holdings, Inc. ("PharMEDium") for $2.7 billion in cash, which included certain purchase price adjustments. PharMEDium is a leading national provider of outsourced compounded sterile preparations to acute care hospitals in the United States. PharMEDium's operating results are included within the Pharmaceutical Distribution Services reportable segment.

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their fair values on the date of the acquisition. The purchase price exceeded the fair value of the net tangible and intangible assets acquired by $1.8 billion, which was allocated to goodwill. The fair value of accounts receivable, inventory, and accounts payable acquired was $63.2 million, $43.1 million, and $22.8 million, respectively. The fair value of the intangible assets acquired of $1.1 billion consisted of customer relationships of $882.7 million, trade name of $167.6 million, and software technology of $52.6 million. The Company established a deferred tax liability of $356.1 million primarily in connection with the intangible assets acquired. The Company is amortizing the fair values of the acquired customer relationships and trade name over their useful lives of 15 years. The fair value of the acquired software technology is being amortized over its estimated useful life of 10 years. Goodwill and intangible assets resulting from the acquisition are not deductible for income tax purposes.

Note 3. Equity Method Investments

In June 2014, the Company completed the acquisition of a minority ownership interest in Profarma Distribuidora de Produtos Farmacêuticos S.A. ("Profarma"), a leading pharmaceutical wholesaler in Brazil. In addition, the Company and Profarma launched a joint venture to provide enhanced specialty distribution and services to the Brazilian marketplace. The Company invested a total of $117.8 million to acquire both a minority ownership interest in Profarma of approximately 19.9% and a 50% ownership interest in the specialty joint venture.

The Company accounts for its interest in both Profarma and the specialty joint venture as equity method investments, which are reported in Other Assets on the Consolidated Balance Sheets.

In the fiscal year ended September 30, 2015, the Company recorded an impairment charge of $30.6 million relating to its 19.9% minority ownership interest in Profarma. The impairment charge was based upon the determination by the

Company that the decline in Profarma's stock price from the date on which the investment was made to September 30, 2015 was other-than-temporary.

In the fiscal year ended September 30, 2016, the Company invested an additional $17.2 million in Profarma and the specialty joint venture. In the fiscal year ended September 30, 2017, the Company invested an additional $8.3 million in Profarma. As of September 30, 2017, the Company held a minority interest in Profarma of approximately 24.5% and a 50% ownership interest in the specialty joint venture.

Table of Contents

As of September 30, 2017 and 2016, the carrying value of the Company's equity method investments in Brazil was $57.6 million and $56.7 million, respectively, after adjusting for changes in exchange rates, earnings, and impairment.

Note 4. Income Taxes

The following illustrates domestic and foreign income before income taxes:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Domestic	$394,721	$906,415	$55,545
Foreign	523,166	484,495	213,419
Total	$917,887	$1,390,910	$268,964

The income tax provision (benefit) is as follows:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Current provision:			
Federal	$141,071	$11,892	$310,847
State and local	35,950	26,741	46,240
Foreign	57,313	55,275	29,216
	234,334	93,908	386,303
Deferred provision (benefit):			
Federal	265,074	(119,218)	1,283
State and local	54,995	(11,490)	18,201
Foreign	(1,000)	(219)	1,342
	319,069	(130,927)	20,826
Provision (benefit) for income taxes	$553,403	$(37,019)	$407,129

A reconciliation of the statutory U.S. federal income tax rate to the effective income tax rate is as follows:

	Fiscal Year Ended September 30,		
	2017	2016	2015
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State and local income tax rate, net of federal tax benefit	5.4	0.6	10.4
Foreign	(14.6)	(8.4)	(20.4)
Warrants	—	(32.8)	109.7
Valuation allowance	2.2	2.2	9.2
Excess tax benefits related to share-based compensation	(3.8)	—	—
Non-deductible litigation settlements and accruals (see Note 13)	34.3	—	—
Other	1.8	0.7	7.5
Effective income tax rate	60.3%	(2.7)%	151.4%

In March 2013, the Company issued Warrants (as defined in Note 7) in connection with various agreements and arrangements with WBA, as successor in interest to Walgreen Co. ("Walgreens") and Alliance Boots GmbH ("Alliance Boots"). At that time, the Company determined that the Warrants had a fair value of $242.4 million on the date of issuance, which was an estimate of the approximate tax deductible amount that would be deducted ratably on the Company's income tax return over the 10-year term of the various agreements, and that any value in excess of the initial fair value of the Warrants on the date of issuance would not be tax deductible. The Company reevaluated its position, and in November 2015, the Company received a private letter ruling from the Internal Revenue Service ("IRS"), which entitled it to an income tax deduction equal to the fair value of the Warrants on the date of exercise. As a result, the Company recorded a deferred tax asset and recognized a tax benefit adjustment of approximately $456 million, which represented the estimated benefit from the tax deduction for the increase in the fair value of the

Warrants from the issuance date through September 30, 2015. This tax benefit adjustment had a significant impact to the Company's effective tax rate in the fiscal year ended September 30, 2016. In March 2016 and August 2016, the Warrants were exercised in full by WBA. In the aggregate, the total fair value of the Warrants based upon their respective exercise dates was

Table of Contents

$1,565.9 million. An additional tax benefit of approximately $52 million was recognized primarily related to the change in the fair value of the Warrants from September 30, 2015 to their respective exercise dates in the fiscal year ended September 30, 2016.

Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts. Significant components of the Company's deferred tax liabilities (assets) are as follows:

	September 30,	
(in thousands)	2017	2016
Merchandise inventories	$1,519,779	$1,281,364
Property and equipment	150,240	123,443
Goodwill and other intangible assets	1,214,597	1,248,297
Other	1,126	6,709
Gross deferred tax liabilities	2,885,742	2,659,813
Net operating loss and tax credit carryforwards	(320,180)	(321,541)
Capital loss carryforwards	(64,346)	(65,535)
Allowance for doubtful accounts	(25,871)	(25,272)
Accrued expenses	(36,188)	(37,842)
Employee and retiree benefits	(17,121)	(17,759)
Share-based compensation	(59,495)	(52,238)
Other	(81,009)	(90,383)
Gross deferred tax assets	(604,210)	(610,570)
Valuation allowance for deferred tax assets	211,080	165,531
Deferred tax assets, net of valuation allowance	(393,130)	(445,039)
Net deferred tax liabilities	$2,492,612	$2,214,774

The following tax carryforward information is presented as of September 30, 2017. The Company had $26.5 million of potential tax benefits from federal net operating loss carryforwards expiring in 1 to 19 years, $118.1 million of potential tax benefits from state net operating loss carryforwards expiring in 1 to 20 years, and $23.8 million of potential tax benefits from foreign net operating loss carryforwards, which have varying expiration dates. The Company had $64.3 million of potential tax benefits from capital loss carryforwards expiring in 1 to 3 years. The Company had $12.3 million of foreign tax credit carryforwards expiring in 1 to 9 years. The Company had $2.6 million of state tax credit carryforwards and $140.0 million in federal alternative minimum tax credit carryforwards and $2.1 million in foreign alternative minimum tax credit carryforwards. The Company had $9.9 million in federal research and development tax credit carryforwards expiring in 18 to 20 years.

In the fiscal year ended September 30, 2017, the Company increased the valuation allowance on deferred tax assets by $45.5 million due to the addition of certain state and foreign net operating loss carryforwards. Included in the $45.5 million valuation allowance is a $17.1 million valuation allowance that was established in connection with the adoption of ASU 2016-09 (see Note 1). This amount was not recognized in the Consolidated Statement of Operations in the fiscal year ended September 30, 2017. In the fiscal year ended September 30, 2016, the Company increased the valuation allowance on deferred tax assets by $33.4 million primarily due to the addition of certain state and foreign net operating loss carryforwards.

In the fiscal year ended September 30, 2017, tax benefits of $36.7 million related to the exercise of employee stock options and lapses of restricted shares were recorded in Income Tax Expense in the Company's Consolidated Statement of Operations. In the fiscal year ended September 30, 2016, there were no tax benefits related to the exercise of employee stock options and lapses of restricted shares. In the fiscal year ended September 30, 2015, tax benefits of $88.1 million related to the exercise of employee stock options and lapses of restricted shares were recorded within Additional Paid-In Capital (see Note 1).

Income tax payments, net of refunds, were $105.0 million, $17.5 million, and $299.6 million in the fiscal years ended September 30, 2017, 2016, and 2015, respectively.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or foreign income tax examinations by tax authorities for years before 2013.

As of September 30, 2017 and 2016, the Company had unrecognized tax benefits, defined as the aggregate tax effect of differences between tax return positions and the benefits recognized in the Company's financial statements, of $338.4 million and $88.2 million, respectively ($304.2 million and $63.1 million, net of federal benefit, respectively). If recognized in the fiscal years ended September 30, 2017 and 2016, $289.2 million and $48.0 million, respectively, of these benefits would have reduced income

Table of Contents

tax expense and the effective tax rate. As of September 30, 2017 and 2016, included in the unrecognized tax benefits are $14.5 million and $12.4 million of interest and penalties, respectively, which the Company records in Income Tax Expense in the Company's Consolidated Statements of Operations.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Unrecognized tax benefits at beginning of period	$75,766	$44,722	$42,908
Additions of tax positions of the current year	252,866	24,145	3,616
Additions to tax positions of the prior years	1,049	11,840	—
Reductions of tax positions of the prior years	(668)	(1,407)	(871)
Settlements with taxing authorities	(3,285)	(2,589)	(33)
Expiration of statutes of limitations	(1,859)	(945)	(898)
Unrecognized tax benefits at end of period	$323,869	$75,766	$44,722

Included in the additions of unrecognized tax positions in the fiscal year ended September 30, 2017 is approximately $235.1 million for an uncertain tax position related to the $625.0 million civil litigation reserve recognized during the fiscal year ended September 30, 2017 (see Note 13). During the next 12 months, it is reasonably possible that state tax audit resolutions and the expiration of statutes of limitations could result in a reduction of unrecognized tax benefits by approximately $5.2 million.

Cumulative undistributed earnings of international subsidiaries were $1.3 billion at September 30, 2017. No deferred federal income taxes were provided for the undistributed earnings as they are permanently reinvested in the Company's international operations. It is not practicable to estimate the amount of U.S. tax that would result upon the eventual repatriation of such earnings.

Note 5. Goodwill and Other Intangible Assets

The following is a summary of the changes in the carrying value of goodwill for the fiscal years ended September 30, 2017 and 2016:

(in thousands)	Pharmaceutical Distribution Services	Other	Total
Goodwill as of September 30, 2015	$ 2,438,437	$1,705,954	$4,144,391
Goodwill recognized in connection with acquisitions	1,832,113	18,196	1,850,309
Foreign currency translation	—	(3,203)	(3,203)
Goodwill as of September 30, 2016	4,270,550	1,720,947	5,991,497
Goodwill recognized in connection with acquisitions	—	54,151	54,151
Goodwill disposed in connection with divestiture	—	(3,564)	(3,564)
Foreign currency translation	—	2,197	2,197
Goodwill as of September 30, 2017	$ 4,270,550	$1,773,731	$6,044,281

The following is a summary of other intangible assets:

	September 30, 2017				September 30, 2016		
(dollars in thousands)	Weighted Average Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived trade names		$685,088	$—	$685,088	$684,991	$—	$684,991
Finite-lived:							
Customer relationships	15 years	2,329,665	(408,636)	1,921,029	2,322,404	(273,638)	2,048,766

Trade names and other	11 years	325,353	(98,189)	227,164	307,234	(73,142)	234,092
Total other intangible assets		$3,340,106	$(506,825)	$2,833,281	$3,314,629	$(346,780)	$2,967,849

Amortization expense for other intangible assets was $160.5 million, $152.5 million, and $56.5 million in the fiscal years ended September 30, 2017, 2016, and 2015, respectively. Amortization expense for finite-lived intangible assets is estimated to

Table of Contents

be $161.8 million in fiscal 2018, $157.2 million in fiscal 2019, $152.8 million in fiscal 2020, $150.8 million in fiscal 2021, $149.6 million in 2022, and $1,376.0 million thereafter.

Note 6. Debt

Debt consisted of the following:

	September 30,	
(in thousands)	2017	2016
Revolving credit note	$—	$—
Receivables securitization facility due 2019	500,000	500,000
Term loans due in 2020	547,860	697,055
Multi-currency revolving credit facility due 2021	—	—
Overdraft facility due in 2021	12,121	11,275
$600,000, 1.15% senior notes due 2017	—	598,935
$400,000, 4.875% senior notes due 2019	398,399	397,669
$500,000, 3.50% senior notes due 2021	497,877	497,361
$500,000, 3.40% senior notes due 2024	496,766	496,276
$500,000, 3.25% senior notes due 2025	494,950	494,266
$500,000, 4.25% senior notes due 2045	494,082	493,866
Total debt	$3,442,055	$4,186,703
Less current portion	12,121	610,210
Total, net of current portion	$3,429,934	$3,576,493

Multi-Currency Revolving Credit Facility

The Company has a $1.4 billion multi-currency senior unsecured credit facility ("Multi-Currency Revolving Credit Facility"), which expires in November 2021, with a syndicate of lenders. Interest on borrowings under the Multi-Currency Revolving Credit Facility accrues at specified rates based upon the Company's debt rating and ranges from 70 basis points to 110 basis points over CDOR/LIBOR/EURIBOR/Bankers Acceptance Stamping Fee, as applicable (91 basis points over CDOR/LIBOR/EURIBOR/Bankers Acceptance Stamping Fee as of September 30, 2017) and from 0 basis points to 10 basis points over the alternate base rate and Canadian prime rate, as applicable. The Company pays facility fees to maintain the availability under the Multi-Currency Revolving Credit Facility at specified rates based upon its debt rating, ranging from 5 basis points to 15 basis points, annually, of the total commitment (9 basis points as of September 30, 2017). The Company may choose to repay or reduce its commitments under the Multi-Currency Revolving Credit Facility at any time. The Multi-Currency Revolving Credit Facility contains covenants, including compliance with a financial leverage ratio test, as well as others that impose limitations on, among other things, indebtedness of subsidiaries and asset sales, with which the Company was compliant as of September 30, 2017.

Commercial Paper Program

The Company has a commercial paper program whereby it may from time to time issue short-term promissory notes in an aggregate amount of up to $1.4 billion at any one time. Amounts available under the program may be borrowed, repaid, and re-borrowed from time to time. The maturities on the notes will vary, but may not exceed 365 days from the date of issuance. The notes will bear interest, if interest bearing, or will be sold at a discount from their face amounts. The commercial paper program does not increase the Company's borrowing capacity as it is fully backed by the Company's Multi-Currency Revolving Credit Facility. There were no borrowings outstanding under the commercial paper program as of September 30, 2017 and 2016.

Receivables Securitization Facility

The Company has a $1,450 million receivables securitization facility ("Receivables Securitization Facility"), which expires in November 2019. The Company has available to it an accordion feature whereby the commitment on the Receivables Securitization Facility may be increased by up to $250 million, subject to lender approval, for seasonal needs during the December and March quarters. Interest rates are based upon prevailing market rates for short-term commercial paper or LIBOR, plus a program fee. The Company pays a customary unused fee at prevailing market

rates, annually, to maintain the availability under the Receivables Securitization Facility.

In connection with the Receivables Securitization Facility, AmerisourceBergen Drug Corporation sells on a revolving basis certain accounts receivable to Amerisource Receivables Financial Corporation, a wholly-owned special purpose entity, which in turn sells a percentage ownership interest in the receivables to financial institutions and commercial paper conduits sponsored

Table of Contents

by financial institutions. AmerisourceBergen Drug Corporation is the servicer of the accounts receivable under the Receivables Securitization Facility. As sold receivables are collected, additional receivables may be sold up to the maximum amount available under the facility. The facility is a financing vehicle utilized by the Company because it generally offers an attractive interest rate relative to other financing sources. The Company securitizes its trade accounts, which are generally non-interest bearing, in transactions that are accounted for as borrowings. The Receivables Securitization Facility contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of September 30, 2017.

Revolving Credit Note and Overdraft Facility

The Company has an uncommitted, unsecured line of credit available to it pursuant to a revolving credit note ("Revolving Credit Note"). The Revolving Credit Note provides the Company with the ability to request short-term, unsecured revolving credit loans from time to time in a principal amount not to exceed $75 million. The Revolving Credit Note may be decreased or terminated by the bank or the Company at any time without prior notice. The Company also has a £30 million uncommitted U.K. overdraft facility ("Overdraft Facility"), which expires in February 2021, to fund short-term normal trading cycle fluctuations related to its MWI business.

Term Loans

In February 2015, the Company entered into a $1.0 billion variable-rate term loan ("February 2015 Term Loan"), which matures in 2020. Through September 30, 2017, the Company elected to make principal payments, prior to the scheduled repayment dates, of $775 million on the February 2015 Term Loan, and as a result, the Company's next required principal payment is due upon maturity. The February 2015 Term Loan bears interest at a rate equal either to a base rate plus a margin, or LIBOR, plus a margin. The margin is based upon the public debt ratings of the Company and ranges from 75 basis points to 125 basis points over LIBOR (100 basis points as of September 30, 2017) and 0 to 25 basis points over a base rate. The February 2015 Term Loan contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of September 30, 2017.

In November 2015, the Company entered into a $1.0 billion variable-rate term loan ("November 2015 Term Loan"), which matures in 2020. Through September 30, 2017, the Company made a scheduled principal payment, as well as other principal payments prior to the scheduled repayment dates totaling $675 million on the November 2015 Term Loan, and as a result, the Company's next required principal payment is due upon maturity. The November 2015 Term Loan bears interest at a rate equal either to a base rate, plus a margin, or LIBOR, plus a margin. The margin is based upon the public debt ratings of the Company and ranges from 75 basis points to 125 basis points over LIBOR (100 basis points as of September 30, 2017) and 0 basis points to 25 basis points over a base rate. The November 2015 Term Loan contains similar covenants to the Multi-Currency Revolving Credit Facility, with which the Company was compliant as of September 30, 2017.

Senior Notes

In May 2017, the Company repaid the $600 million of 1.15% senior notes that became due.

The senior notes are collectively referred to as the "Notes." Interest on the Notes is payable semiannually in arrears. The Notes were sold at small discounts to the principal amounts and, therefore, have effective yields that are greater than the stated interest rates in the table above. Costs incurred in connection with the issuance of the Notes were deferred and are being amortized over the terms of the Notes. The indentures governing the Notes contain restrictions and covenants, which include limitations on additional indebtedness; distributions to stockholders; the repurchase of stock and the making of other restricted payments; issuance of preferred stock; creation of certain liens; transactions with subsidiaries and other affiliates; and certain corporate acts such as mergers, consolidations, and the sale of substantially all assets. An additional covenant requires compliance with a financial leverage ratio test, with which the Company was compliant as of September 30, 2017.

Other Information

Scheduled future principal payments of debt are $12.1 million in fiscal 2018, $1.1 billion in fiscal 2020, $325.0 million in fiscal 2021, $500.0 million in fiscal 2022, and $1.5 billion thereafter.

Interest paid on the above indebtedness during the fiscal years ended September 30, 2017, 2016, and 2015 was $125.3 million, $123.5 million, and $91.5 million, respectively.

Total amortization of financing fees and the accretion of original issue discounts, which are recorded as components of Interest Expense, Net on the Consolidated Statements of Operations, were $6.2 million, $6.3 million, and $5.2 million, for the fiscal years ended September 30, 2017, 2016, and 2015, respectively.

Table of Contents

Note 7. Stockholders' Equity and Earnings per Share

The authorized capital stock of the Company consists of 600,000,000 shares of common stock, par value $0.01 per share (the "common stock"), and 10,000,000 shares of preferred stock, par value $0.01 per share (the "Preferred Stock").

The board of directors is authorized to provide for the issuance of shares of Preferred Stock in one or more series with various designations and preferences and relative, participating, optional, or other special rights and qualifications, limitations, or restrictions. Except as required by law, or as otherwise provided by the board of directors of the Company, the holders of Preferred Stock will have no voting rights and will not be entitled to notice of meetings of stockholders. Holders of Preferred Stock will be entitled to receive, when declared by the board of directors, out of legally available funds, dividends at the rates fixed by the board of directors for the respective series of Preferred Stock, and no more, before any dividends will be declared and paid, or set apart for payment, on common stock with respect to the same dividend period. No shares of Preferred Stock have been issued as of September 30, 2017.

The holders of the Company's common stock are entitled to one vote per share and have the exclusive right to vote for the board of directors and for all other purposes as provided by law. Subject to the rights of holders of the Company's Preferred Stock, holders of common stock are entitled to receive ratably on a per share basis such dividends and other distributions in cash, stock, or property of the Company as may be declared by the board of directors from time to time out of the legally available assets or funds of the Company.

The following illustrates the components of Accumulated Other Comprehensive Loss, net of income taxes:

	September 30,	
(in thousands)	2017	2016
Pension and postretirement adjustments (see Note 9)	$(4,186)	$(5,843)
Foreign currency translation	(92,164)	(108,704)
Other	500	239
Total accumulated other comprehensive loss	$(95,850)	$(114,308)

In August 2013, the Company's board of directors authorized a share repurchase program allowing the Company to purchase up to $750 million of its outstanding shares of common stock, subject to market conditions. During the fiscal year ended September 30, 2014, the Company purchased 2.4 million shares of its common stock for a total of $174.7 million under this program, which included $18.0 million of fiscal 2014 purchases that cash settled in October 2014. During the fiscal year ended September 30, 2015, the Company purchased 3.3 million shares of its common stock for a total of $300.8 million under this program. During the six months ended March 31, 2016, the Company purchased 1.1 million shares of its common stock for a total of $100.0 million under this program. In May 2016, the Company's board of directors authorized a new share purchase program that, together with availability remaining under the existing August 2013 share repurchase program, permitted the Company to purchase up to $750 million of its outstanding shares of common stock, subject to market conditions. In September 2016, the Company entered into an Accelerated Share Repurchase ("ASR") transaction with a financial institution and paid $400.0 million for the delivery of 4.5 million shares of its common stock. The initial payment of $400.0 million funded stock purchases of $380.0 million and a share holdback of $20.0 million. The ASR transaction was settled in November 2016, at which time the financial institution delivered an additional 0.5 million shares of the Company's common stock. The number of shares ultimately received was based upon the volume-weighted average price of the Company's common stock during the term of the ASR. The Company applied the 4.5 million shares from the ASR to the May 2016 share repurchase program. In addition to the ASR, the Company purchased 2.9 million shares of its common stock in fiscal 2016 for a total of $231.2 million under this program. During the fiscal year ended September 30, 2017, the Company purchased 2.1 million shares of its common stock (includes 0.5 million shares of common stock received as part of the settlement of the ASR) for a total of $118.8 million to complete its authorization under this program.

In November 2016, the Company's board of directors authorized a new share repurchase program allowing the Company to purchase up to $1.0 billion of its outstanding shares of common stock, subject to market conditions. During the fiscal year ended September 30, 2017, the Company purchased 2.7 million shares of its common stock for a total of $211.1 million under this program. As of September 30, 2017, the Company had $788.9 million of

availability remaining under this program.

Warrants and Related Hedging Activity

In March 2013, the Company and WBA entered into various agreements and arrangements pursuant to which subsidiaries of WBA were granted the right to purchase a minority equity position in the Company, beginning with the right, but not the obligation, to purchase up to 19,859,795 shares of the Company's common stock in open market transactions (approximately 7%

Table of Contents

of the Company's common stock on a fully diluted basis as of the date of issuance of the Warrants described below, assuming their exercise in full). In connection with these arrangements, wholly-owned subsidiaries of WBA were issued (a) warrants to purchase up to an aggregate of 22,696,912 shares of the Company's common stock at an exercise price of $51.50 per share, exercisable during a six-month period beginning in March 2016 (the "2016 Warrants"), and (b) warrants to purchase up to an aggregate of 22,696,912 shares of the Company's common stock at an exercise price of $52.50 per share, exercisable during a six-month period beginning in March 2017 (the "2017 Warrants" and, together with the 2016 Warrants, the "Warrants").

In June 2013, the Company commenced a hedging strategy by entering into a contract with a financial institution pursuant to which it executed a series of issuer capped call transactions ("Capped Calls"). The Capped Calls gave the Company the right to buy shares of its common stock subject to the Warrants at specified prices at maturity. This hedge transaction was completed in January 2014 and included the purchase of Capped Calls on a total of 27.2 million shares of the Company's common stock for a total premium of $368.7 million.

Subsequently, the Company paid a premium of $100.0 million in January 2015 to increase the cap price on certain of the Capped Calls subject to the 2016 Warrants. The Capped Calls allowed the Company to acquire shares of its common stock at strike prices of $51.50 and $52.50 and had expiration dates ranging from February 2016 through October 2017. The Capped Calls permitted net share settlement, which was limited by caps on the market price of the Company's common stock. The Company accounted for the Capped Calls as equity contracts, and therefore, the above premium was recorded as a reduction to paid-in capital.

In May 2014, the Company's board of directors authorized a special program that allowed the Company to purchase up to $650 million of its outstanding shares of common stock, subject to market conditions, as an opportunity to further mitigate the potentially dilutive effect of the Warrants and supplement the Company's previously executed warrants hedging strategy. During the fiscal year ended September 30, 2014, the Company purchased 3.4 million shares of its common stock for a total of $252.0 million under this program, which included $18.0 million of purchases that cash settled in October 2014. During the fiscal year ended September 30, 2015, the Company purchased 4.3 million shares (1.6 million under the Call Options for a total of $151.2 million, as defined below) of its common stock for a total of $398.0 million under this program, which excluded $18.0 million of purchases that cash settled in October 2014, to complete its authorization under this program.

In March 2015, the Company further supplemented its hedging strategy by entering into a contract with a financial institution pursuant to which it executed a series of issuer call options ("Call Options"). The Call Options gave the Company the right to buy shares of its common stock subject to the Warrants at specified prices between April 2015 and October 2015. In total, the Company purchased Call Options on six million shares of its common stock for a total premium of $80.0 million. The Company accounted for the Call Options as equity contracts, and therefore, the above premium was recorded as a reduction to paid-in capital.

In April 2015, the Company's board of directors authorized a special share repurchase program allowing it to repurchase up to $1.0 billion in shares of its common stock, subject to market conditions, to further mitigate the potentially dilutive effect of the Warrants as part of its warrants hedging strategy. During the fiscal year ended September 30, 2015, the Company purchased 10.0 million shares (2.9 million under the Call Options for a total of $276.3 million) of its common stock for a total of $1.0 billion to complete its authorization under this program.

In September 2015, the Company's board of directors authorized a special share repurchase program allowing the Company to repurchase up to $2.4 billion in shares of its common stock, subject to market conditions. During the fiscal year ended September 30, 2015, the Company purchased 1.2 million shares of its common stock for a total of $124.1 million under this program. During the fiscal year ended September 30, 2016, the Company purchased 26.3 million shares of its common stock for a total of $1,535.1 million under this program. The Company had $740.9 million of availability remaining under this special share repurchase program as of September 30, 2016. However, this availability will not be utilized as the earnings per share dilution effect of the Warrants was fully mitigated by the Company concurrent with the August 2016 exercise of the 2017 Warrants (see below).

In March 2016, the 2016 Warrants were exercised by WBA for $1,168.9 million in cash. The shares issued for the 2016 Warrants were from the Company's treasury stock on a first-in, first-out basis, and were originally purchased for

$866.0 million. The Company recognized a reissuance gain in Additional Paid-in Capital of $302.9 million.
In August 2016, the Company and WBA amended the 2017 Warrants so that they became exercisable in whole or in part during the six-month period beginning in August 2016 at an exercise price of $52.50. In August 2016, the 2017 Warrants were exercised by WBA for $1,191.6 million in cash. The shares issued for the 2017 Warrants were from the Company's treasury stock on a first-in, first-out basis, and were originally purchased for $1,157.5 million. The Company recognized a reissuance gain in Additional Paid-in Capital of $34.1 million.

Table of Contents

The earnings per share dilutive effect of the Warrants was fully mitigated by the Company hedging a portion of its obligation to deliver common stock with a financial institution and repurchasing additional shares of its common stock under the special share repurchase programs, as described above, for the Company's own account over time.

Common Shares Outstanding

Basic earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock outstanding during the periods presented, plus the dilutive effect of stock options, restricted stock, restricted stock units, the unsettled ASR transaction, and the Warrants.

The following illustrates the components of diluted weighted average shares outstanding:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Weighted average common shares outstanding — basic	218,375	212,206	217,786
Effect of dilutive securities — stock options, restricted stock, restricted stock units, and the unsettled ASR transaction	3,227	3,338	—
Dilutive effect of the Warrants	—	10,415	—
Weighted average common shares outstanding — diluted	221,602	225,959	217,786

The potentially dilutive shares from employee stock options, restricted stock, restricted stock units, the unsettled ASR transaction, and the Warrants that were antidilutive for the fiscal years ended September 30, 2017, 2016, and 2015 were 4.1 million, 3.1 million, and 18.6 million, respectively.

Note 8. Related Party Transactions

WBA owns more than 10% of the Company's outstanding common stock and is, therefore, considered a related party. The Company operates under various agreements and arrangements with WBA, including a pharmaceutical distribution agreement pursuant to which the Company distributes pharmaceutical products to WBA and an agreement that provides the Company the ability to access favorable economic pricing and generic products through a generic purchasing services arrangement with Walgreens Boots Alliance Development GmbH. Both of these agreements expire in 2026.

Revenue from the various agreements and arrangements with WBA was $45.4 billion, $43.4 billion, and $40.5 billion in the fiscal years ended September 30, 2017, 2016, and 2015, respectively. The Company's receivable from WBA, net of incentives, was $5.0 billion and $4.0 billion as of September 30, 2017 and 2016, respectively.

Note 9. Retirement and Other Benefit Plans

The Company sponsors various retirement benefit plans and a deferred compensation plan covering eligible employees.

The Compensation and Succession Planning Committee ("Compensation Committee") of the Company's board of directors has delegated the administration of the Company's retirement and other benefit plans to its Benefits Committee, an internal committee, comprised of senior finance, human resources, and legal executives. The Benefits Committee is responsible for the investment options under the Company's savings plans, as well as performance of the investment advisers and plan administrators.

Defined Benefit Plans

The Company approved the termination, effective August 1, 2014, of a salaried defined benefit pension plan, under which approximately 3,200 participants, including 500 active employees, had accrued benefits. In fiscal 2015, the Company obtained regulatory approval from the IRS to settle the plan.

In December 2015, the Company completed the settlement of plan benefits through the combination of lump-sum distributions to participants and the purchase of a nonparticipating annuity contract, which transferred the remaining obligation from the plan. Plan assets were sufficient to satisfy the obligations of the plan. During the fiscal year ended September 30, 2016, the Company recorded a pension settlement charge of $47.6 million, which primarily consisted

of the recognition of unrecognized actuarial losses that were included in Accumulated Other Comprehensive Loss, net of the related deferred tax assets.

Table of Contents

In June 2016, the Company transferred the surplus plan assets to its defined contribution 401(k) plan and recorded a charge of $17.1 million to Employee Severance, Litigation, and Other in the Company's Consolidated Statement of Operations.

Defined Contribution Plans

The Company sponsors the AmerisourceBergen Employee Investment Plan, which is a defined contribution 401(k) plan covering salaried and certain hourly employees. Eligible participants may contribute to the plan from 1% to 25% of their regular compensation before taxes. Prior to January 1, 2017, the Company contributed $1.00 for each $1.00 invested by the participant up to the first 3% of the participant's salary and $0.50 for each additional $1.00 invested by the participant of up to an additional 2% of salary. Effective January 1, 2017, the Company contributes $1.00 for each $1.00 invested by the participant up to the first 3% of the participant's salary. An additional discretionary contribution, in an amount not to exceed the limits established by the Internal Revenue Code ("IRC"), may also be made depending upon the Company's performance. In connection with the termination of the salaried defined benefit plan, as discussed above, $17.1 million was transferred to the 401(k) plan in June 2016. In March 2017, the funds were contributed to participants who were eligible to participate in the 401(k) plan as of December 31, 2015, based upon their eligible calendar 2016 earnings. There were no discretionary contributions made for the fiscal years ended September 30, 2017 and 2015. All contributions are invested at the direction of the employee in one or more funds. All contributions vest immediately except for the discretionary contributions made by the Company, which vest in full after five years of credited service.

The Company also sponsors the AmerisourceBergen Corporation Benefit Restoration Plan. This unfunded plan provides benefits to selected key management, including all of the Company's executive officers. Prior to January 1, 2017, the Company contributed an amount equal to 4% of the participant's total cash compensation to the extent that his or her compensation exceeded the annual compensation limit established by Section 401(a) (17) of the IRC. Effective January 1, 2017, this plan will provide eligible participants with an annual amount equal to 3% of the participant's total cash compensation to the extent that his or her compensation exceeds the annual compensation limit established by Section 401(a) (17) of the IRC.

Costs of the defined contribution plans charged to expense for the fiscal years ended September 30, 2017, 2016, and 2015 were $28.3 million, $34.4 million, and $23.5 million, respectively.

Deferred Compensation Plan

The Company sponsors the AmerisourceBergen Corporation 2001 Deferred Compensation Plan. This unfunded plan, under which 2.96 million shares of common stock are authorized for issuance, allows eligible officers, directors, and key management employees to defer a portion of their annual compensation. The amount deferred may be allocated by the employee to cash, mutual funds, or stock credits. Stock credits, including dividend equivalents, are equal to the full and fractional number of shares of common stock that could be purchased with the participant's compensation allocated to stock credits based upon the average of closing prices of common stock during each month, plus, at the discretion of the board of directors, up to one-half of a share of common stock for each full share credited. Stock credit distributions are made in shares of common stock. No shares of common stock have been issued under the deferred compensation plan through September 30, 2017. The Company's liability relating to its deferred compensation plan as of September 30, 2017 and 2016 was $26.3 million and $23.6 million, respectively.

Note 10. Share-Based Compensation

Stock Options

The Company's employee stock option plans provide for the granting of incentive and nonqualified stock options to acquire shares of common stock to employees at a price not less than the fair market value of the common stock on the date the option is granted. Option terms and vesting periods are determined at the date of grant by the Compensation Committee of the board of directors. Employee options generally vest ratably, in equal amounts, over a four-year service period and expire in seven years (ten years for all grants issued prior to February 2008). The Company's non-employee director stock option plans provide for the granting of nonqualified stock options to acquire shares of common stock to non-employee directors at the fair market value of the common stock on the date of the grant. Non-employee director options vest ratably, in equal amounts, over a three-year service period and expire in ten

years. Non-employee director options have not been granted since February 2011.

As of September 30, 2017, employee and non-employee director stock options for an additional 18.1 million shares may be granted under the AmerisourceBergen Corporation Omnibus Incentive Plan (the "Plan").

The estimated fair value of options granted is expensed on a straight-line basis over the requisite service periods of the awards and are net of estimated forfeitures. The Company estimates the fair values of option grants using a binomial option pricing model. Expected volatilities are based upon the historical volatility of the Company's common stock and other factors, such as implied market volatility. The Company uses historical exercise data, taking into consideration the optionees' ages at grant date, to estimate the terms for which the options are expected to be outstanding. The Company anticipates that the terms of options

Table of Contents

granted in the future will be similar to those granted in the past. The risk-free rates during the terms of such options are based upon the U.S. Treasury yield curve in effect at the time of grant.

The weighted average fair values of the options granted during the fiscal years ended September 30, 2017, 2016, and 2015 were $13.57, $17.43, and $14.91, respectively. The following weighted average assumptions were used to estimate the fair values of options granted:

	Fiscal Year Ended September 30,		
	2017	2016	2015
Risk-free interest rate	1.26%	1.40%	1.23%
Expected dividend yield	1.80%	1.38%	1.29%
Volatility of common stock	26.78%	25.05%	23.12%
Expected life of the options	3.74 years	3.72 years	3.73 years

Changes to the above valuation assumptions could have a significant impact on share-based compensation expense. During the fiscal years ended September 30, 2017, 2016, and 2015, the Company recognized stock option expense of $28.6 million, $33.1 million, and $30.2 million, respectively.

A summary of the Company's stock option activity and related information for its option plans for the fiscal year ended September 30, 2017 is presented below:

(in thousands, except exercise price and contractual term)	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of September 30, 2016	11,004	$63	4 years	$247,586
Granted	2,106	$76		
Exercised	(2,510)	$41		
Forfeited	(284)	$86		
Expired	(29)	$92		
Outstanding as of September 30, 2017	10,287	$70	4 years	$170,856
Exercisable as of September 30, 2017	5,535	$58	3 years	$149,760
Expected to vest after September 30, 2017	4,586	$84	5 years	$20,376

The intrinsic value of stock option exercises during the fiscal years ended September 30, 2017, 2016, and 2015 was $116.6 million, $120.9 million, and $240.2 million, respectively.

A summary of the status of the Company's nonvested options as of September 30, 2017 and changes during the fiscal year ended September 30, 2017 is presented below:

(in thousands, except grant date fair value)	Options	Weighted Average Grant Date Fair Value
Nonvested as of September 30, 2016	5,061	$14
Granted	2,106	$14
Vested	(2,131)	$12
Forfeited	(284)	$15
Nonvested as of September 30, 2017	4,752	$15

During the fiscal years ended September 30, 2017, 2016, and 2015, the total fair values of options vested were $25.2 million, $24.4 million, and $20.7 million, respectively. Expected future compensation expense relating to the 4.8 million nonvested options outstanding as of September 30, 2017 is $31.8 million, which will be recognized over a weighted average period of 2.2 years.

Table of Contents

Restricted Stock and Restricted Stock Units

Restricted shares vest in full after three years. The estimated fair value of restricted shares under the Company's restricted stock plans is determined by the product of the number of shares granted and the grant date market price of the Company's common stock. The estimated fair value of restricted shares is expensed on a straight-line basis over the requisite service period and are net of estimated forfeitures. During the fiscal years ended September 30, 2017, 2016, and 2015, the Company recognized restricted stock expense of $25.1 million, $19.5 million, and $20.1 million, respectively.

A summary of the status of the Company's nonvested restricted shares as of September 30, 2017 and changes during the fiscal year ended September 30, 2017 are presented below:

(in thousands, except grant date fair value)	Restricted Shares	Weighted Average Grant Date Fair Value
Nonvested as of September 30, 2016	608	$85
Granted	467	$76
Vested	(201)	$69
Forfeited	(55)	$89
Nonvested as of September 30, 2017	819	$84

During the fiscal years ended September 30, 2017, 2016, and 2015, the total fair values of restricted shares vested were $13.8 million, $17.8 million, and $10.9 million, respectively. Expected future compensation expense relating to the 0.8 million restricted shares outstanding as of September 30, 2017 is $23.4 million, which will be recognized over a weighted average period of 1.5 years.

Performance Stock Units

Performance stock units are granted to certain executive employees under the Plan and represent common stock potentially issuable in the future. Performance stock units vest at the end of a three-year performance period based upon achievement of specific performance goals. Based upon the extent to which the targets are achieved, vested shares may range from 0% to 150% of the target award amount. The fair value of performance stock units is determined by the grant date market price of the Company's common stock. Compensation expense associated with nonvested performance stock units is recognized over the requisite service period and is dependent on the Company's periodic assessment of the probability of the targets being achieved and its estimate of the number of shares that will ultimately be issued. During the fiscal years ended September 30, 2017, 2016, and 2015, the Company recognized performance stock expense of $8.4 million, $12.3 million, and $10.6 million, respectively.

A summary of the status of the Company's nonvested performance stock units as of September 30, 2017 and changes during the fiscal year ended September 30, 2017 is presented below (based upon target award amounts).

(in thousands, except grant date fair value)	Performance Stock Units	Weighted Average Grant Date Fair Value
Nonvested as of September 30, 2016	164	$93
Granted	119	$76
Vested	(82)	$89
Nonvested as of September 30, 2017	201	$85

Shares that vested over the three-year performance period ended September 30, 2017 were distributed to employees in November 2017.

Employee Stock Purchase Plan

The AmerisourceBergen Corporation Employee Stock Purchase Plan provides for an aggregate of 4,000,000 shares of common stock that may be sold to eligible employees (generally defined as employees with at least 30 days of service with the Company). The participants may elect to have the Company withhold up to 25% of his or her base salary to

purchase shares of the Company's common stock at a price equal to 95% of the fair market value of the stock on the last business day of each six-month purchase period. Each participant is limited to $25,000 of purchases during each calendar year. During the fiscal years ended September 30, 2017, 2016, and 2015, the Company acquired 75,904 shares, 71,016 shares, and 53,434 shares, respectively, from the open market for issuance to participants in this plan. As of September 30, 2017, the Company has withheld $1.5 million from eligible employees for the purchase of additional shares of common stock.

Table of Contents

Note 11. Leases and Other Commitments

The Company has long-term leases for facilities and equipment. In the normal course of business, leases are generally renewed or replaced by other leases. Certain leases include escalation clauses. During the fiscal years ended September 30, 2017, 2016, 2015, the Company recorded rental expense of $80.7 million, $88.8 million, and $78.6 million, respectively, in Distribution, Selling, and Administrative in the Consolidated Statements of Operations.

As of September 30, 2017, future minimum rental payments under noncancelable operating leases and financing obligations were as follows:

Payments Due by Fiscal Year (in thousands)	Operating Leases	Financing Obligations [1]	Total
2018	$61,676	$ 28,706	$90,382
2019	50,165	30,913	81,078
2020	45,173	31,564	76,737
2021	34,631	30,182	64,813
2022	27,321	28,474	55,795
Thereafter	76,511	159,345	235,856
Total minimum lease payments	$295,477	$ 309,184	$604,661

[1] Represents the portion of future minimum lease payments relating to facility leases where the Company was determined to be the accounting owner (see Note 1). These payments are recognized as reductions to the financing obligation and as interest expense and exclude the future non-cash termination of the financing obligation.

The Company outsources to IBM Global Services a significant portion of its data center operations. The remaining commitment under the Company's arrangement, which expires in January 2021, is approximately $67.7 million as of September 30, 2017, of which $35.0 million represents the Company's commitment in fiscal 2018.

Note 12. Employee Severance, Litigation, and Other

The following illustrates the charges incurred by the Company relating to Employee Severance, Litigation, and Other:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Employee severance and other costs	$38,095	$53,519	$5,336
Litigation settlements and accruals	914,400	—	—
Deal-related transaction costs	6,832	19,243	32,558
Transfer of surplus plan assets	—	17,149	—
Customer contract dispute settlements	—	13,000	—
Total employee severance, litigation, and other	$959,327	$102,911	$37,894

During the fiscal year ended September 30, 2017, the Company incurred $38.1 million of costs related to employee severance and other costs, $914.4 million of charges for litigation settlements and accruals (see Note 13), and $6.8 million of deal-related transaction costs. During the fiscal year ended September 30, 2017, the Company began to reorganize to further align the organization to its customers' needs in a more seamless and unified way, while supporting corporate strategy and accelerating growth, and as a result, numerous positions were eliminated. During the fiscal year ended September 30, 2016, the Company incurred $53.5 million of employee severance and other costs, $19.2 million of deal-related transaction costs (primarily related to professional fees with respect to the PharMEDium acquisition), a $17.1 million charge related to the transfer of surplus assets from the Company's settled salaried defined benefit pension plan to its defined contribution 401(k) plan, and $13.0 million of costs related to customer contract extensions (primarily related to the settlement of certain disputed items). During the fiscal year ended September 30, 2016, the Company reorganized certain of its business units and corporate functions to improve

operating efficiency, and as a result, numerous positions were eliminated. During the fiscal year ended September 30, 2015, the Company incurred $5.3 million of employee severance and other costs and $32.6 million of deal-related transaction costs (primarily related to professional fees in connection with the MWI acquisition).
Employees receive their severance benefits over a period of time, generally not in excess of 12 months, or in the form of a lump-sum payment.

Table of Contents

Note 13. Legal Matters and Contingencies

In the ordinary course of its business, the Company becomes involved in lawsuits, administrative proceedings, government subpoenas, government investigations, and other disputes, including antitrust, commercial, environmental, product liability, intellectual property, regulatory, employment discrimination, and other matters. Significant damages or penalties may be sought from the Company in some matters, and some matters may require years for the Company to resolve. The Company records a reserve for these matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. With respect to the specific legal proceedings and claims described below, except as otherwise noted, the amount or range of possible losses is not reasonably estimable. There can be no assurance that the settlement, resolution, or other outcome of one or more matters, including the matters set forth below, during any subsequent reporting period will not have a material adverse effect on the Company's results of operations or cash flows for that period or on the Company's financial condition.

Government Enforcement and Related Litigation Matters

The Company is involved in government investigations and litigation arising from the marketing, promotion, sale, and dispensing of pharmaceutical products in the United States. Some of these investigations originate through what are known as qui tam complaints of the Federal False Claims Act. The qui tam provisions of the Federal Civil False Claims Act and various state and local civil False Claims Acts permit a private person, known as a "relator" or whistleblower, to file civil actions under these statutes on behalf of the federal, state, and local governments. Qui tam complaints are initially filed by the relator under seal (or on a confidential basis) and the filing of the complaint imposes obligations on government authorities to investigate the allegations in the complaint and to determine whether or not to intervene in the action. Qui tam complaints remain sealed until the court in which the case was filed orders otherwise.

Under the Federal False Claims Act, the government (or relators who pursue the claims without the participation of the government in the case) may seek to recover up to three times the amount of damages in addition to a civil penalty for each allegedly false claim submitted to the government for payment. Generally speaking, these cases take several years for the investigation to be completed and, ultimately, to be resolved (either through litigation or settlement) after the complaint is unsealed. In addition, some states have pursued investigations under state false claims statutes or consumer protection laws, either in conjunction with a government investigation or separately. There is often collateral litigation that arises from public disclosures of government investigations, including the filing of class action lawsuits by third party payors or by shareholders alleging violations of the securities laws.

The Federal Food, Drug, and Cosmetic Act ("FDCA") contains provisions relating to the sale and distribution of pharmaceutical products that are alleged to be adulterated or misbranded. The FDCA includes strict-liability criminal offenses that can be pursued by the government for violations of the FDCA and which can result in the imposition of substantial fines and penalties against corporations and individuals.

The Company has learned that there are filings in one or more federal district courts, including a qui tam complaint filed by one of its former employees, that are under seal and may involve allegations against the Company (and/or subsidiaries or businesses of the Company, including its group purchasing organization for oncologists and its oncology distribution business) relating to its distribution of certain pharmaceutical products to providers.

Subpoenas and Ongoing Investigations

From time to time, the Company receives subpoenas or requests for information from various government agencies relating to the Company's business or to the business of a customer, supplier, or other industry participant. The Company generally responds to such subpoenas and requests in a cooperative manner. These responses often require

time and effort and can result in considerable costs being incurred by the Company. Most of these matters are resolved without incident; however, such subpoenas or requests can lead to the assertion of claims or the commencement of civil or criminal legal proceedings against the Company and other members of the health care industry, as well as to substantial settlements.

Since fiscal 2012, the Company and its subsidiary AmerisourceBergen Specialty Group ("ABSG") have been responding to subpoenas from the U.S. Attorney's Office for the Eastern District of New York ("USAO-EDNY") requesting production of documents and information relating to the pre-filled syringe program of ABSG’s subsidiary Medical Initiatives, Inc., ABSG's oncology distribution center, its group purchasing organization for oncologists, and intercompany transfers of certain oncology products. Medical Initiatives, Inc. voluntarily ceased operations in early 2014. The Company has produced documents and witnesses, and has engaged in ongoing dialogue with the USAO-EDNY, since 2012.

Table of Contents

On September 27, 2017, pursuant to the terms of a plea agreement, ABSG entered a guilty plea to a one-count strict-liability misdemeanor violation of the FDCA in the United States District Court of the Eastern District of New York. Under the terms of the agreement, which were approved by the Court, ABSG paid a total criminal fine and forfeiture of $260.0 million in fiscal 2017. The guilty plea resolves the federal criminal investigation related to the failure of Medical Initiatives, Inc. to duly register with the United States Food and Drug Administration. The Company also entered into a Compliance Agreement with the United States Department of Justice for a period of three years. During the year ended September 30, 2017, the Company recognized the $260.0 million settlement in Employee Severance, Litigation, and Other on the Company's Consolidated Statements of Operations.
The USAO-EDNY also indicated that it intended to pursue alleged civil claims under the False Claims Act. ABSG recently reached an agreement in principle with the USAO-EDNY which the Company understands will resolve the alleged civil claims in their entirety. The agreement in principle is subject to negotiation of final terms, approval by the parties, execution of definitive documents, obtaining the satisfactory resolution of related issues with certain other interested parties, including the resolution of any potential administrative action by the Office of Inspector General of the U.S. Department of Health and Human Services, and approval by the Court. Under the terms of the agreement in principle with the USAO-EDNY, ABSG will pay $625.0 million. In connection with the agreement in principle, the Company accrued a $625.0 million reserve in the fiscal year ended September 30, 2017. The Company recognized this accrual in Employee Severance, Litigation, and Other on the Company's Consolidated Statement of Operations for the fiscal year ended September 30, 2017 and in Accrued Expenses and Other on the Company's Consolidated Balance Sheet as of September 30, 2017.

In fiscal 2012, the Company's subsidiary AmerisourceBergen Drug Corporation ("ABDC") received a subpoena from the U.S. Attorney's Office for the District of New Jersey ("USAO-NJ") in connection with a grand jury proceeding requesting documents concerning ABDC's program for controlling and monitoring diversion of controlled substances into channels other than for legitimate medical, scientific, and industrial purposes. ABDC also received a subpoena from the Drug Enforcement Administration ("DEA") in connection with the matter. Since fiscal 2012, ABDC has received and responded to a number of subpoenas from both the USAO-NJ and DEA requesting grand jury testimony and additional information related to electronically stored information, documents concerning specific customers' purchases of controlled substances, and DEA audits. In July 2017, the USAO-NJ and DEA served an administrative subpoena requesting documents relating to ABDC’s diversion control programs from 2013 to the present. The Company is responding to the 2017 subpoena and continues to engage in dialogue with the USAO-NJ, including discussions to attempt to reach a negotiated settlement. No conclusion can be drawn at this time as to any likely outcome in this matter.

Since fiscal 2013, the Company or ABDC has received subpoenas from the U.S. Attorney's Office for the District of Kansas and the U.S. Attorney's Office for the Northern District of Ohio in connection with grand jury proceedings requesting documents concerning ABDC's program for controlling and monitoring diversion of controlled substances into channels other than for legitimate medical, scientific and industrial purposes. As in the USAO-NJ matter described above, in addition to requesting information on ABDC's diversion control program generally, the subpoenas have also requested documents concerning specific customers' purchases of controlled substances. The Company has responded to the subpoenas and requests for information.

The Company’s subsidiary U.S. Bioservices Corporation ("US Bio") settled with the United States Attorney’s Office for the Southern District of New York ("USAO-SDNY") relating to all federal law claims arising from the previously disclosed matter involving the dispensing of one product and US Bio’s relationship with the manufacturer of that product, and it has reached an agreement in principle with various states relating to the state law claims arising from the same matter. In accordance with the executed settlement stipulation, the Court dismissed the matter between US Bio and the USAO-SDNY with prejudice, and the Company paid the United States $10.7 million in fiscal 2017, representing the federal government’s portion of the previously-disclosed $13.4 million settlement. The agreement in

principle with the states, which will include payment by US Bio of $2.8 million, provided all eligible states participate in the settlement, is subject to approval by the parties and execution of definitive documents. Under the terms of the agreement in principle, the participating states agree not to bring and to dismiss with prejudice any state law claims that they have the authority to bring against US Bio. During the year ended September 30, 2017, the Company recognized the $13.4 million settlement in Employee Severance, Litigation, and Other on the Company's Consolidated Statements of Operations.

In January 2017, US Bio received a subpoena for information from the USAO-EDNY relating to US Bio’s activities in connection with billing for products and making returns of potential overpayments to government payers. The Company is engaged in discussions with the USAO-EDNY and will be producing documents in response to the subpoena.

For those matters for which the Company has not recognized a liability, the Company cannot predict the outcome of ongoing investigations or their impact on the Company as uncertainty remains with regard to whether such matters will proceed to trial, whether settlements will be reached and the amount and terms of any such settlements. Outcomes may include settlements

Table of Contents

in significant amounts that are not currently estimable, limitations on the Company's conduct, the imposition of corporate integrity obligations and/or other civil and criminal penalties.

Opioid Lawsuits and Investigations

In June 2012, the Attorney General of the State of West Virginia ("West Virginia AG") filed complaints, which were amended, in the Circuit Court of Boone County, West Virginia, against a number of pharmaceutical wholesale distributors, including the Company's subsidiary ABDC, alleging, among other claims, that the distributors failed to provide effective controls and procedures to guard against diversion of controlled substances for illegitimate purposes in West Virginia, acted negligently by distributing controlled substances to pharmacies that serve individuals who abuse controlled substances, and failed to report suspicious orders of uncontrolled substances in accordance with state regulations. The West Virginia AG was seeking monetary damages and injunctive and other equitable relief. This matter was dismissed with prejudice on January 9, 2017 pursuant to a settlement agreement that provided for the payment of $16.0 million and express denial of the allegations in the complaints and any wrongdoing. During the year ended September 30, 2017, the Company recognized the $16.0 million settlement in Employee Severance, Litigation, and Other on the Company's Consolidated Statements of Operations. The Company paid the $16.0 million settlement in fiscal 2017.

A significant number of counties and municipalities in Alabama, Illinois, Kentucky, New Hampshire, New York, Ohio, Oregon Pennsylvania, Texas, and West Virginia, as well as the State of New Mexico and the Cherokee Nation, have filed lawsuits in various federal and state courts against pharmaceutical wholesale distributors (including the Company and ABDC), pharmaceutical manufacturers and retail chains relating to the distribution of prescription opioid pain medications. Other lawsuits regarding the distribution of prescription opioid pain medications have been filed by two individuals in Kansas and on behalf of a county children’s service in Ohio. The lawsuits, which have been filed in various federal, state and other courts, allege violations of controlled substance laws and various other statutes as well as common law claims, including negligence, public nuisance and unjust enrichment, and seek equitable relief and monetary damages.

On September 25, 2017, the plaintiffs in several of these lawsuits filed a motion before the Judicial Panel on Multidistrict Litigation to have all federal complaints transferred to a single federal court for consolidated and coordinated pretrial proceedings. The Company’s response to this motion was made on October 20, 2017.

The Company is vigorously defending itself in these lawsuits. Other entities, including additional attorneys general’s offices, counties, and cities in multiple states, have indicated their intent to sue. The Company intends to vigorously defend itself against the pending and any threatened lawsuits. The Company is not in a position to assess the likely outcome or its exposure, if any, with respect to these matters.

In addition, on September 18, 2017, the Company received a request for documents and information on behalf of Attorneys General from a coalition of States and Commonwealths who are investigating a number of manufacturers and distributors (including the Company) regarding the distribution of prescription opioid pain medications. The Company is engaged in discussions with the representatives of the Attorneys General regarding this request and will be producing documents in response to it. The Company has also produced documents regarding the distribution of prescription opioid pain medications in response to subpoenas it has received from the Attorneys General from the States of New Hampshire, Alaska, and Mississippi.

Other Litigation

On September 10, 2014, PharMerica Corp., Pharmacy Corporation of America and Chem Rx Pharmacy Services, LLC (collectively, "PMC"), customers of ABDC until March 3, 2015, filed a complaint in Jefferson Circuit Court in Louisville, Kentucky against ABDC. The original complaint alleged that ABDC failed to pay in excess of $8 million in rebates pursuant to a prime vendor agreement between PMC and ABDC under which ABDC distributed pharmaceuticals and other products to PMC. PMC subsequently amended its complaint three times. PMC’s current complaint alleges unpaid-rebate claims in excess of $33 million and additional breaches and damages for unspecified amounts, which amounts may exceed $100 million.

ABDC answered all of the complaints, denied PMC’s allegations, and filed counterclaims alleging, among other things, that PMC failed to pay nearly $50 million in invoices related to pharmaceutical products it received from ABDC. On April 1, 2016, the Jefferson Circuit Court granted ABDC’s motion for partial summary judgment on one counterclaim and entered judgment in the amount of $48.6 million against PMC. On August 1, 2017, ABDC and PMC entered into an agreement in principle to resolve all claims in the litigation, including the pending judgment against PMC, for a one-time payment from PMC to ABDC of $3.1 million. As a result of this agreement in principle, the Company expects no impact to its consolidated results of operations. As part of the agreement in principle, the parties obtained a stay of the judicial proceedings in Jefferson Circuit Court on August 4,

Table of Contents

2017. The settlement of the litigation will not be effective unless and until a newly formed entity controlled by KKR & Co. L.P., with WBA as a minority investor, completes its acquisition of PMC, which is expected to be completed in early 2018.

Note 14. Litigation Settlements

Antitrust Settlements

Numerous class action lawsuits have been filed against certain brand pharmaceutical manufacturers alleging that the manufacturer, by itself or in concert with others, took improper actions to delay or prevent generic drugs from entering the market. The Company has not been a named plaintiff in any of these class actions, but has been a member of the direct purchasers' class (i.e., those purchasers who purchase directly from these pharmaceutical manufacturers). None of the class actions has gone to trial, but some have settled in the past with the Company receiving proceeds from the settlement funds. During the fiscal years ended September 30, 2017, 2016, and 2015, the Company recognized gains of $1.4 million, $133.8 million, and $65.5 million, respectively, relating to the above-mentioned class action lawsuits. These gains, which are net of attorney fees and estimated payments due to other parties, were recorded as reductions to Cost of Goods Sold in the Company's Consolidated Statements of Operations.

Note 15. Business Segment Information

The Company is organized based upon the products and services it provides to its customers. The Company's operations are comprised of the Pharmaceutical Distribution Services reportable segment and other operating segments that are not significant enough to require separate reportable segment disclosure and, therefore, have been included in Other for the purpose of reportable segment presentation. Other consists of operating segments that focus on global commercialization services and animal health and includes AmerisourceBergen Consulting Services ("ABCS"), World Courier, and MWI Animal Health ("MWI").

Effective September 30, 2017, the Company reorganized its operating structure resulting in the combination of the legacy AmerisourceBergen Drug Corporation and AmerisourceBergen Specialty Group operating segments into a single operating segment, Pharmaceutical Distribution Services. In addition, in connection with the completion of this reorganization, the Company's non-title third party logistics business, which was included within the Pharmaceutical Distribution Services reportable segment, was combined with the World Courier operating segment in Other, while the ABCS distribution business (previously included in Other) is now included in the Pharmaceutical Distribution Services reportable segment. The Company revised its previously-reported segment disclosures to reflect the aforementioned changes to the Company's reporting structure. These changes did not have a material impact to the Company's historical reportable segment operating results.

The chief operating decision maker ("CODM") of the Company is the Chairman, President & Chief Executive Officer of the Company, whose function is to allocate resources to, and assess the performance of, the Company's operating segments.

The Pharmaceutical Distribution Services reportable segment distributes a comprehensive offering of brand-name, specialty brand-name and generic pharmaceuticals, over-the-counter healthcare products, home healthcare supplies and equipment, outsourced compounded sterile preparations, and related services to a wide variety of healthcare providers, including acute care hospitals and health systems, independent and chain retail pharmacies, mail order pharmacies, medical clinics, long-term care and alternate site pharmacies, and other customers. Through a number of operating businesses, the Pharmaceutical Distribution Services reportable segment provides pharmaceutical distribution (including plasma and other blood products, injectible pharmaceuticals, vaccines, and other specialty pharmaceutical products) and additional services to physicians who specialize in a variety of disease states, especially oncology, and to other healthcare providers, including hospitals and dialysis clinics. Additionally, the Pharmaceutical Distribution Services reportable segment provides data analytics, outcomes research, and additional services for biotechnology and pharmaceutical manufacturers. The Pharmaceutical Distribution Services reportable segment also provides pharmacy management, staffing and additional consulting services, and supply management software to a variety of retail and institutional healthcare providers. Additionally, it delivers packaging solutions to institutional and retail healthcare providers.

Other consists of operating segments that focus on global commercialization services and animal health and includes ABCS, World Courier, and MWI.

ABCS, through a number of operating businesses, provides a full suite of integrated manufacturer services that range from clinical trial support to product post-approval and commercialization support. World Courier, which operates in over 50 countries, is a leading global specialty transportation and logistics provider for the biopharmaceutical industry. MWI is a leading animal health distribution company in the United States and in the United Kingdom. MWI sells pharmaceuticals, vaccines, parasiticides, diagnostics, micro feed ingredients, and various other products to customers in both the companion animal and production animal markets. Additionally, MWI offers demand-creating sales force services to manufacturers.

Table of Contents

The following illustrates reportable segment revenue information for the periods indicated:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Pharmaceutical Distribution Services	$147,453,495	$141,701,997	$132,383,820
Other	5,747,863	5,207,095	3,586,879
Intersegment eliminations	(57,532)	(59,406)	(8,896)
Revenue	$153,143,826	$146,849,686	$135,961,803

Intersegment eliminations primarily represent the elimination of certain Pharmaceutical Distribution Services reportable segment sales to MWI.

The following illustrates reportable segment operating income information for the periods indicated:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Pharmaceutical Distribution Services	$1,643,629	$1,702,725	$1,666,110
Other	373,797	327,746	238,137
Intersegment eliminations	(556)	(103)	—
Total segment operating income	$2,016,870	$2,030,368	$1,904,247

The following reconciles total segment operating income to income before income taxes:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Total segment operating income	$2,016,870	$2,030,368	$1,904,247
Gain from antitrust litigation settlements	1,395	133,758	65,493
LIFO credit (expense)	157,782	(200,230)	(542,807)
Acquisition-related intangibles amortization	(156,378)	(147,262)	(54,095)
Warrants expense	—	(140,342)	(912,724)
Employee severance, litigation, and other	(959,327)	(102,911)	(37,894)
Pension settlement charge	—	(47,607)	—
Operating income	1,060,342	1,525,774	422,220
Other (income) loss	(2,730)	(5,048)	13,598
Impairment charge on equity investment	—	—	30,622
Interest expense, net	145,185	139,912	109,036
Income before income taxes	$917,887	$1,390,910	$268,964

Segment operating income is evaluated by the CODM of the Company before gain from antitrust litigation settlements; LIFO credit (expense); acquisition-related intangibles amortization; Warrants expense; employee severance, litigation, and other; a pension settlement charge other (income) loss; impairment charge on equity investment; and interest expense, net. All corporate office expenses are allocated to each operating segment.

The following illustrates total assets by reportable segment:

	September 30,		
(in thousands)	2017	2016	2015
Pharmaceutical Distribution Services	$29,691,127	$28,605,047	$23,135,738
Other	5,625,343	5,032,454	4,827,244
Total assets	$35,316,470	$33,637,501	$27,962,982

The CODM does not review assets by operating segment for the purposes of assessing performance or allocating resources.

Table of Contents

The following illustrates depreciation and amortization by reportable segment:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Pharmaceutical Distribution Services	$188,065	$170,973	$153,547
Other	53,160	46,500	40,993
Acquisition-related intangibles amortization	156,378	147,262	54,095
Total depreciation and amortization	$397,603	$364,735	$248,635

Depreciation and amortization includes depreciation and amortization of property and equipment and intangible assets, but excludes amortization of deferred financing costs and other debt-related items, which are included in interest expense.

The following illustrates capital expenditures by reportable segment:

	Fiscal Year Ended September 30,		
(in thousands)	2017	2016	2015
Pharmaceutical Distribution Services	$339,478	$359,391	$179,582
Other	126,919	105,225	52,003
Total capital expenditures	$466,397	$464,616	$231,585

Note 16. Fair Value of Financial Instruments

The recorded amounts of the Company's cash and cash equivalents, accounts receivable, and accounts payable as of September 30, 2017 and 2016 approximate fair value based upon the relatively short-term nature of these financial instruments. Within cash and cash equivalents, the Company had $800.0 million and $650.0 million of investments in money market accounts as of September 30, 2017 and 2016. The fair value of the money market accounts was determined based upon unadjusted quoted prices in active markets for identical assets, otherwise known as Level 1 inputs.

The Company had no investment securities available-for-sale as of September 30, 2017. The Company had $39.1 million of investment securities available-for-sale, $13.0 million of which were within cash and cash equivalents, as of September 30, 2016. The amortized cost of the investments was $39.1 million as of September 30, 2016. The fair value of the investments was based upon inputs other than quoted prices, otherwise known as Level 2 inputs.

The recorded amount of long-term debt (see Note 6) and the corresponding fair value as of September 30, 2017 were $3,429.9 million and $3,522.5 million, respectively. The recorded amount of long-term debt and the corresponding fair value as of September 30, 2016 were $3,576.5 million and $3,750.9 million, respectively. The fair value of long-term debt was determined based upon Level 2 inputs, as defined above.

Table of Contents

Note 17. Quarterly Financial Information (Unaudited)

(in thousands, except per share amounts)	Fiscal Year Ended September 30, 2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenue	$38,169,265	$37,147,402	$38,707,144	$39,120,015	$153,143,826
Gross profit (a)	$1,037,680	$1,256,427	$1,079,875	$1,172,020	$4,546,002
Distribution, selling, and administrative expenses; depreciation; and amortization	616,627	619,512	624,982	665,212	2,526,333
Employee severance, litigation, and other (b)	21,066	11,934	284,517	641,810	959,327
Operating income (loss)	$399,987	$624,981	$170,376	$(135,002)	$1,060,342
Net income (loss)	$247,246	$411,473	$50,352	$(344,587)	$364,484
Earnings per share operations:					
Basic	$1.13	$1.89	$0.23	$(1.58)	$1.67
Diluted	$1.11	$1.86	$0.23	$(1.58)	$1.64

(a) The first quarter of the fiscal year ended September 30, 2017 includes gains from antitrust litigation settlements of $1.4 million. The first quarter of the fiscal year ended September 30, 2017 includes LIFO expense of $28.3 million. The second, third, and fourth quarters of the fiscal year ended September 30, 2017 include LIFO credits of $86.5 million, $24.7 million, and $74.9 million, respectively.

(b) The third quarter of the fiscal year ended September 30, 2017 includes $273.4 million for litigation settlements. The fourth quarter of the fiscal year ended September 30, 2017 includes a $625.0 million litigation accrual.

(in thousands, except per share amounts)	Fiscal Year Ended September 30, 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
Revenue	$36,709,046	$35,698,357	$36,881,680	$37,560,603	$146,849,686
Gross profit (a)	$964,877	$1,075,331	$1,107,863	$1,124,535	$4,272,606
Distribution, selling, and administrative expenses; depreciation; and amortization	608,039	612,302	610,706	624,925	2,455,972
Warrants expense (income)	467,375	(503,946)	(83,704)	260,617	140,342
Employee severance, litigation, and other and pension settlement	67,599	16,493	52,234	14,192	150,518
Operating (loss) income	$(178,136)	$950,482	$528,627	$224,801	$1,525,774
Net income	$329,639	$603,450	$349,155	$145,685	$1,427,929
Earnings per share operations:					
Basic	$1.60	$2.90	$1.62	$0.66	$6.73
Diluted	$1.45	$2.68	$1.55	$0.64	$6.32

(a) The first and third quarters of the fiscal year ended September 30, 2016 include gains from antitrust and litigation settlements of $12.8 million and $121.0 million, respectively. The first, second, and third quarters of the fiscal year ended September 30, 2016 include LIFO expense of $101.6 million, $92.4 million, and $80.4 million, respectively. The fourth quarter of the fiscal year ended September 30, 2016 includes a LIFO credit of $74.1 million.

Table of Contents

Note 18. Subsequent Events

Acquisition

On November 20, 2017, the Company announced that it has signed a definitive agreement to purchase H.D. Smith, the largest independent wholesaler in the United States, for $815.0 million in cash. The Company plans to fund the acquisition through the issuance of new long-term debt. The transaction is subject to regulatory review and other closing conditions and is expected to close in early calendar 2018.

H.D. Smith is the largest, privately held national wholesaler, which provides full-line distribution of brand, generic, and specialty drugs, as well as high-value services and solutions for manufacturers and healthcare providers. H.D. Smith customers include retail pharmacies, specialty pharmacies, long-term care facilities, institutional/hospital systems, and independent physicians and clinics.

The acquisition strengthens the Company's core business, expands and enhances its strategic scale in pharmaceutical distribution, and expands the Company's support for independent community pharmacies.

Dividend Increase

In November 2017, the Company's board of directors increased the quarterly dividend paid on common stock by 4% and declared a regular quarterly cash dividend of $0.38 payable on December 4, 2017 to shareholders of record on November 20, 2017.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are intended to ensure that information required to be disclosed in the Company's reports submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC. These controls and procedures also are intended to ensure that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief Financial Officer, with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a — 15(e) and 15d — 15(e) under the Exchange Act) and have concluded that the Company's disclosure controls and procedures were effective for their intended purposes as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes during the fiscal quarter ended September 30, 2017 in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, those controls.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of AmerisourceBergen Corporation ("AmerisourceBergen" or the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. AmerisourceBergen's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

AmerisourceBergen's management assessed the effectiveness of AmerisourceBergen's internal control over financial reporting as of September 30, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013). Based on management's assessment and those criteria, management has concluded that AmerisourceBergen's internal control over financial reporting was effective as of September 30, 2017.

AmerisourceBergen's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the effectiveness of AmerisourceBergen's internal control over financial reporting. This report is set forth below.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of AmerisourceBergen Corporation

We have audited AmerisourceBergen Corporation and subsidiaries' internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). AmerisourceBergen Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AmerisourceBergen Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AmerisourceBergen Corporation and subsidiaries as of September 30, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2017 of AmerisourceBergen Corporation and subsidiaries and our report dated November 21, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
November 21, 2017

77

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information appearing in our Notice of Annual Meeting of Stockholders and Proxy Statement for the 2018 Annual Meeting of stockholders (the "2018 Proxy Statement"), including information appearing under "Item 1 - Election of Directors," "Codes of Ethics," "Corporate Governance," "Audit Matters," and "Section 16 (a) Beneficial Owner Reporting Compliance," is incorporated herein by reference. We will file the 2018 Proxy Statement with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the close of the fiscal year.

Information with respect to Executive Officers of the Company appears in Part I of this report.

We adopted a Code of Ethics for Designated Senior Officers that applies to our Chief Executive Officer, Chief Financial Officer, and Corporate Controller. A copy of this Code of Ethics is posted on our Internet website, which is www.amerisourcebergen.com. Any amendment to, or waiver from, any provision of this Code of Ethics will be posted on our Internet website.

ITEM 11. EXECUTIVE COMPENSATION

Information contained in the 2018 Proxy Statement, including information appearing under "Additional Information about the Directors, the Board and the Board Committees," "Compensation Committee Matters," and "Executive Compensation" in the 2018 Proxy Statement, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information contained in the 2018 Proxy Statement, including information appearing under "Beneficial Ownership of Common Stock" and "Equity Compensation Plan Information" in the 2018 Proxy Statement, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information contained in the 2018 Proxy Statement, including information appearing under "Additional Information about the Directors, the Board, and the Board Committees," "Corporate Governance," "Employment Agreements," and "Certain Transactions" in the 2018 Proxy Statement, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information contained in the 2018 Proxy Statement, including information appearing under "Audit Matters" in the 2018 Proxy Statement, is incorporated herein by reference.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2) List of Financial Statements and Schedules.

Financial Statements: The following consolidated financial statements are submitted in response to Item 15(a)(1):

Financial Statement Schedule: The following financial statement schedule is submitted in response to Item 15(a)(2):

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

Table of Contents

(a) (3) List of Exhibits.*

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant, dated as of March 4, 2010, as amended by the Certificate of Amendment dated as of February 17, 2011, the Certificate of Amendment dated as of March 6, 2014 and the Certificate of Amendment dated as of March 2, 2017 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017).
3.2	Amended and Restated Bylaws of the Registrant, dated as of March 2, 2017 (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on March 8, 2017).
4.1	Indenture, dated as of November 19, 2009, between the Registrant and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on November 23, 2009).
4.2	First Supplemental Indenture, dated as of November 19, 2009, between the Registrant and U.S. Bank National Association, as trustee, related to the Registrant's 4.875% Senior Notes due 2019 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on November 23, 2009).
4.3	Form of 4.875% Senior Notes due 2019 (incorporated by reference to Exhibit A to First Supplemental Indenture, dated as of November 19, 2009, between the Registrant and U.S. Bank National Association, as trustee, related to the Registrant's 4.875% Senior Notes due 2019, which is filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on November 23, 2009).
4.4	Second Supplemental Indenture, dated as of November 14, 2011, between the Registrant and U.S. Bank National Association, as trustee, related to Registrant's 3.500% Senior Notes due 2021 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on November 14, 2011).
4.5	Form of 3.500% Senior Notes due 2021 (incorporated by reference to Exhibit A to Second Supplemental Indenture, dated as of November 14, 2011, between the Registrant and U.S. Bank National Association, as trustee, related to Registrant's 3.500% Senior Notes due 2021, which is filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on November 14, 2011).
4.6	Fourth Supplemental Indenture, dated as of May 22, 2014, between the Registrant and U.S. Bank National Association, as trustee, related to Registrant's 3.400% Senior Notes due 2024 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on May 22, 2014).
4.7	Form of 3.400% Senior Notes due 2024 (incorporated by reference to Exhibit A to Fourth Supplemental Indenture, dated as of May 22, 2014, between the Registrant and U.S. Bank National Association, as trustee, related to the Registrant's 3.400% Senior Notes due 2024, which is filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on May 22, 2014).
4.8	Fifth Supplemental Indenture, dated as of February 20, 2015, between the Registrant and U.S. Bank National Association, as trustee, related to the Registrant's 3.250% Senior Notes due 2025 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on February 20, 2015).
4.9	Form of 3.250% Senior Notes due 2025 (incorporated by reference to Exhibit A to Fifth Supplemental Indenture, dated as of February 20, 2015 between the Registrant and U.S. Bank National Association, as trustee, related to the Registrant's 3.250% Senior Notes due 2025, which is filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on February 20, 2015).
4.10	Sixth Supplemental Indenture, dated as of February 20, 2015, between the Registrant and U.S. Bank National Association, as trustee, related to the Registrant's 4.250% Senior Notes due 2045 (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on February 20, 2015).
4.11	Form of 4.250% Senior Notes due 2045 (incorporated by reference to Exhibit A to Sixth Supplemental Indenture, dated as of February 20, 2015 between the Registrant and U.S. Bank National Association, as trustee, related to the Registrant's 4.250% Senior Notes due 2045, which is filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on February 20, 2015).

10.1	Framework Agreement, dated as of March 18, 2013, by and among the Registrant, Walgreen Co. and Alliance Boots GmbH (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 20, 2013).
10.2	Shareholders Agreement, dated as of March 18, 2013, by and among the Registrant, Walgreen Co. and Alliance Boots GmbH (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 20, 2013).
‡10.3	AmerisourceBergen Drug Corporation Supplemental Retirement Plan, as amended and restated as of November 24, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2008).

Table of Contents

Exhibit Number	Description
‡10.4	AmerisourceBergen Corporation 2001 Non-Employee Directors' Stock Option Plan, as amended as of November 9, 2005 (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2005).
‡10.5	AmerisourceBergen Corporation 2001 Restricted Stock Plan, as amended and restated as of November 12, 2008 (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2008).
‡10.6	AmerisourceBergen Corporation 2001 Deferred Compensation Plan, as amended and restated as of November 24, 2008 (incorporated by reference to Exhibit 10.19 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2008).
‡10.7	AmerisourceBergen Corporation Equity Incentive Plan, as amended and restated as of January 1, 2011(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 25, 2013).
‡10.8	Form of Nonqualified Stock Option Award Agreement to Employee under the AmerisourceBergen Corporation Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013).
‡10.9	Form of Restricted Stock Award Agreement to Employee under the AmerisourceBergen Corporation Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013).
‡10.10	Form of Restricted Stock Unit Award Agreement to Employee under the AmerisourceBergen Corporation Equity Incentive Plan (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013).
‡10.11	Form of Performance-Based Restricted Stock Unit Award Agreement to Employee under the AmerisourceBergen Corporation Equity Incentive Plan (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2013).
‡10.12	AmerisourceBergen Corporation 2011 Employee Stock Purchase Plan, as amended and restated on May 14, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015).
‡10.13	AmerisourceBergen Corporation Compensation Policy for Non-Employee Directors, effective as of March 3, 2016 (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on March 9, 2016).
‡10.14	AmerisourceBergen Corporation Benefit Restoration Plan, as amended and restated as of December 1, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 5, 2013).
‡10.15	AmerisourceBergen Corporation Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 10, 2014).
‡10.16	Form of Restricted Stock Award Agreement to Non-Employee Director under the AmerisourceBergen Corporation Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on March 10, 2014).
‡10.17	Form of Restricted Stock Unit Agreement to Non-Employee Director under the AmerisourceBergen Corporation Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on form 8-K filed on March 10, 2014).
‡10.18	Form of Nonqualified Stock Option Award Agreement to Employee under the AmerisourceBergen Corporation Omnibus Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on March 10, 2014).
‡10.19	Form of Restricted Stock Unit Agreement to Employee under the AmerisourceBergen Corporation Omnibus Incentive Plan (incorporated by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed

	on March 10, 2014).
‡10.20	Form of Performance Share Award Agreement to Employee under the AmerisourceBergen Corporation Omnibus Incentive Plan (incorporated by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on March 10, 2014).
‡10.21	Amended and Restated Employment Agreement, dated as of November 24, 2008, between the Registrant and John G. Chou (incorporated by reference to Exhibit 10.15 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008).
‡10.22	Letter Agreement, dated January 7, 2009, between the Registrant and John G. Chou (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008).

Table of Contents

Exhibit Number	Description
‡10.23	Employment Agreement, dated as of June 21, 2012, between the Registrant and Gina K. Clark (incorporated by reference to Exhibit 10.25 to Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2015).
‡10.24	Second Amendment and Restatement of Employment Agreement, dated as of November 11, 2010, between the Registrant and Steven H. Collis (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2010).
‡10.25	Stock Option Award to Steven H. Collis, dated as of August 7, 2013 (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on August 9, 2013).
‡10.26	Employment Agreement, dated as of June 4, 2012, between the Registrant and Dale B. Danilewitz (incorporated by reference to Exhibit 10.29 to Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2015).
‡10.27	Employment Agreement, dated as of April 8, 2010, between the Registrant and James D. Frary (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2010).
‡10.28	Employment Agreement, dated as of May 20, 2016, between the Registrant and Kathy H. Gaddes (incorporated by reference to Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016).
‡10.29	Employment Agreement, dated as of May 10, 2012, between the Registrant and Tim G. Guttman (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2012).
‡10.30	Employment Agreement, dated as of November 26, 2010, between the Registrant and Peyton R. Howell (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2011).
‡10.31	Employment Agreement, dated July 15, 2015, between the Registrant and Robert P. Mauch (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2015).
‡10.32	Employment Agreement, dated as of May 20, 2016, between the Registrant and Sun Park (incorporated by reference to Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016).
10.33	Receivables Sale Agreement between AmerisourceBergen Drug Corporation, as originator, and AmeriSource Receivables Financial Corporation, as buyer, dated as of July 10, 2003 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2010).
10.34	First Amendment to Receivables Sale Agreement, dated as of April 29, 2010, by and between AmeriSource Receivables Financial Corporation, as buyer, and AmerisourceBergen Drug Corporation as originator (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on May 5, 2010).
10.35	Second Amendment to Receivables Sales Agreement, dated as of April 28, 2011, between AmeriSource Receivables Financial Corporation, as buyer, and AmerisourceBergen Drug Corporation, as originator (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 4, 2011).
10.36	Third Amendment to Receivables Sale Agreement, dated as of October 28, 2011, between AmeriSource Receivables Financial Corporation, as buyer, and AmerisourceBergen Drug Corporation, as originator (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on October 28, 2011).

10.37	Omnibus Amendment, dated November 4, 2015 to (i) the Amended and Restated Receivables Purchase Agreement, dated as of April 29, 2010, as amended, among AmeriSource Receivables Financial Corporation, as Seller, AmerisourceBergen Drug Corporation, as Servicer, the Purchaser Agents and Purchasers party thereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrator and (ii) the Receivables Sale Agreement, dated as of July 10, 2003, as amended, among AmeriSource Receivables Financial Corporation as Buyer, and AmerisourceBergen Drug Corporation, as originator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 4, 2015).
10.38	Fifth Amendment to Receivables Sale Agreement, dated as of June 21, 2016, among AmeriSource Receivables Financial Corporation, as buyer, and AmerisourceBergen Drug Corporation, as originator (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on June 23, 2016).
10.39	Amended and Restated Receivables Purchase Agreement, dated as of April 29, 2010, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the various purchaser groups party thereto, and Bank of America, National Association, as administrator (incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on May 5, 2010).

Table of Contents

Exhibit Number	Description
10.40	First Amendment to Amended and Restated Receivables Purchase Agreement, dated as of April 28, 2011, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the purchaser agents and purchasers party thereto, and Bank of America, National Association, as administrator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 4, 2011).
10.41	Second Amendment to Amended and Restated Receivables Purchase Agreement, dated as of October 28, 2011, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, servicer, the purchaser agents and purchasers party thereto, and Bank of America, National Association, as administrator (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on October 28, 2011).
10.42	Third Amendment to Amended and Restated Receivables Purchase Agreement, dated as of November 16, 2012, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the purchaser agents and purchasers party thereto, and Bank of America, National Association, as administrator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 21, 2012).
10.43	Fourth Amendment to Amended and Restated Receivables Purchase Agreement, dated as of January 16, 2013, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the purchaser agents and purchasers party thereto, and the Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as administrator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on form 8-K filed on January 17, 2013).
10.44	Fifth Amendment to Amended and Restated Receivables Purchase Agreement, dated as of June 28, 2013, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the purchaser agents and purchasers party thereto, and the Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as administrator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 3, 2013).
10.45	Sixth Amendment to Amended and Restated Receivables Purchase Agreement, dated as of October 7, 2013, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the purchaser agents and purchasers party thereto, Market Street Funding LLC, as assignor, PNC Bank, National Association, as assignee, and the Bank of Tokyo-Mitsubishi UFJ, LTD., New York Branch, as administrator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 10, 2013).
10.46	Seventh Amendment to Amended and Restated Receivables Purchase Agreement, dated as of July 17, 2014, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the purchaser agents and purchasers party thereto and the Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 22, 2014).
10.47	Eighth Amendment to Amended and Restated Receivables Purchase Agreement, dated as of December 5, 2014, by and among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the purchaser agents and purchasers party thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as administrator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 8, 2014).
10.48	Tenth Amendment to Amended and Restated Receivables Purchase Agreement, dated as of June 21, 2016, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the Purchaser Agents and Purchasers party thereto, Working Capital Management Co., LP, as assignor, Advantage Asset Securitization Corp., Mizuho Bank, Ltd., as assignee, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as administrator (incorporated by reference to Exhibit 10.1 to

	the Registrant's Current Report on Form 8-K filed on June 23, 2016).
10.49	Eleventh Amendment to Amended and Restated Receivables Purchase Agreement, dated as of November 18, 2016, among AmeriSource Receivables Financial Corporation, as seller, AmerisourceBergen Drug Corporation, as servicer, the Purchaser Agents and Purchasers party thereto, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as administrator (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on November 22, 2016).
10.50	Amended and Restated Performance Undertaking, dated as of December 2, 2004, executed by the Registrant, as performance guarantor, in favor of AmeriSource Receivables Financial Corporation, as recipient (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2011).
10.51	First Amendment to Amended and Restated Performance Undertaking Agreement, dated as of April 28, 2011, executed by the Registrant, as performance guarantor (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 4, 2011).

Table of Contents

Exhibit Number	Description
10.52	Sixth Amendment and Restatement Agreement, dated as of November 18, 2016, among the Registrant, the borrowing subsidiaries party thereto, the lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 22, 2016).
10.53	Revolving Credit Note, dated as of March 8, 2013, between the Registrant and Citizens Bank of Pennsylvania (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.54	First Amendment to Line of Credit, dated as of April 4, 2014, between the Registrant and Citizens Bank of Pennsylvania (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014).
10.55	Amendment and Restatement Agreement, dated as of November 18, 2016, among the Registrant, the lenders party thereto and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on November 22, 2016).
10.56	Amendment and Restatement Agreement, dated as of November 18, 2016, among the Registrant, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on November 22, 2016).
12	Computation of Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer.
101	Financial statements from the Annual Report on Form 10-K of AmerisourceBergen Corporation for the fiscal year ended September 30, 2017, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

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* Copies of the exhibits will be furnished to any security holder of the Registrant upon payment of the reasonable cost of reproduction.

‡ Each marked exhibit is a management contract or a compensatory plan, contract or arrangement in which a director or executive officer of the Registrant participates or has participated.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERISOURCEBERGEN CORPORATION

/s/ STEVEN H. COLLIS

Date: November 21, 2017 By: Steven H. Collis

Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of November 21, 2017 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
/s/ STEVEN H. COLLIS Steven H. Collis	Chairman, President and Chief Executive Officer (Principal Executive Officer)
/s/ TIM G. GUTTMAN Tim G. Guttman	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ LAZARUS KRIKORIAN Lazarus Krikorian	Senior Vice President and Corporate Controller (Principal Accounting Officer)
_____ Ornella Barra	Director
/s/ DOUGLAS R. CONANT Douglas R. Conant	Director
/s/ D. MARK DURCAN D. Mark Durcan	Director
/s/ RICHARD W. GOCHNAUER Richard W. Gochnauer	Director
/s/ LON R. GREENBERG Lon R. Greenberg	Director

Table of Contents

Signature	Title
/s/ JANE E. HENNEY, M.D. Jane E. Henney, M.D.	Lead Independent Director
/s/ KATHLEEN W. HYLE Kathleen W. Hyle	Director
/s/ MICHAEL J. LONG Michael J. Long	Director
/s/ HENRY W. MCGEE Henry W. McGee	Director

Table of Contents

AMERISOURCEBERGEN CORPORATION AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(In thousands)	Balance at Beginning of Period	Charged to Costs and Expenses (1)	Deductions-Describe (2)	Balance at End of Period (3)
Year Ended September 30, 2017				
Allowances for returns and doubtful accounts	$926,034	$3,157,960	$(3,015,743)	$1,068,251
Year Ended September 30, 2016				
Allowances for returns and doubtful accounts	$923,755	$2,882,914	$(2,880,635)	$926,034
Year Ended September 30, 2015				
Allowances for returns and doubtful accounts	$1,022,052	$2,721,263	$(2,819,560)	$923,755

(1) Represents the provision for returns and doubtful accounts.
(2) Represents accounts receivable written off during year, net of recoveries and reductions to the returns allowance.
(3) Includes an allowance for doubtful accounts for long-term accounts receivable within Other Assets on the Consolidated Balance Sheets of $17,890, $20,689 and $23,991, as of September 30, 2017, 2016, and 2015, respectively.

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2,578,836

Matthew C. Liuzzi

250%

1,000,000

William G. Manias

225%

983,457

David A. Smith

97%

500,000

Sean T. Kimble

175%

538,423

Under the LTIP, the Compensation Committee has the discretion to determine whether any portion of phantom units should be settled in cash upon vesting for the purpose of conserving common units approved for issuance under the LTIP. For the awards made in February 2018, the Compensation Committee recommended to the Board, and on February 9, 2018 the Board approved, the default settlement method for phantom units of 50% in cash (valued based on the closing price on the NYSE of the Partnership's common units on the date of vesting) and 50% in common units. However, the Board also specified that if an employee affirmatively requests in writing that the percentage of cash settlement be set at a specific amount that is less than 50% (and such employee agrees to pay out of his or her own funds the amount of any required federal withholding to the extent that the cash portion is insufficient for the Partnership to withhold and pay such amounts on the employee's behalf), the Board approves in advance such lesser cash settlement percentage.

Each phantom unit granted to an employee, including the NEOs, is granted in tandem with a corresponding DER, which entitles the recipient to receive an amount in cash on a quarterly basis equal to the product of (a) the number of phantom units granted to the grantee that remain outstanding and unvested as of the record date for the distribution on the Partnership's common units for such quarter and (b) the quarterly distribution with respect to the Partnership's common units. With respect to Performance Units, DERs were granted for the target number of underlying common units and were not adjusted up or down depending on actual performance results.

Awards granted pursuant to the LTIP are subject to certain clawback features, and the award may not vest or settle if we determine that the recipient committed certain acts of misconduct, as more particularly described in the LTIP.

Benefit Plans and Perquisites

We provide the NEOs with certain personal benefits and perquisites, which we do not consider to be a significant component of our overall executive compensation program but which we recognize are an important factor in attracting and retaining talented executives. The NEOs are eligible under the same plans as all other employees with respect to our medical, dental, vision, disability and life insurance benefits and a defined contribution plan that is tax-qualified under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). In addition, we currently provide one or more NEOs with (i) an annual automobile allowance; (ii) additional life insurance coverage; (iii) club memberships; and (iv) personal administrative support. The Compensation Committee has determined it is appropriate to offer these perquisites in order to provide compensation opportunities competitive with those offered by similarly situated public companies. In determining the compensation payable to the NEOs, the Compensation Committee considers perquisites in the context of the total compensation the NEOs are eligible to receive. However, given the fact that perquisites represent a relatively small portion of the NEOs' total compensation, the availability of these perquisites does not materially influence the Compensation Committee's decision making with respect to other elements of the total compensation to which the NEOs are entitled or which they are awarded. The value of personal benefits and perquisites we provided to each of the NEOs in 2018 is set forth below in "—Summary Compensation Table."

Table of Contents

Retention Phantom Unit Agreements

On November 1, 2018, the Compensation Committee approved the form of, and the Partnership entered into, a Retention Phantom Unit Agreement (collectively, the "Retention Agreements") under the LTIP with each of Messrs. Long, Liuzzi and Manias, which provide for a grant of Standard Units (the "Retention Units") in the following amounts: (i) 90,000 Retention Units to Mr. Long; (ii) 35,000 Retention Units to Mr. Liuzzi; and (iii) 45,000 Retention Units to Mr. Manias. The Retention Units will vest incrementally, with 60% of the Retention Units vesting on December 5, 2021 and 40% of the Retention Units vesting on December 5, 2023, subject in each case to the NEO's continued employment with the Partnership. Each Retention Unit was granted with a corresponding DER.

The Compensation Committee approved the Retention Agreements in recognition of the importance of Messrs. Long, Liuzzi and Manias to the Partnership's long-term success and to encourage their retention by providing additional time-based compensation. For additional information regarding the Retention Agreements, please see "—Potential Payments upon Termination or Change in Control—Retention Phantom Unit Agreements" below.

Employment Agreements

Each of Messrs. Smith and Kimble is party to an employment agreement with us (together, the "Employment Agreements"), each of which have been extended on a year-to-year basis and will be automatically extended for successive twelve month periods unless either party delivers written notice to the other at least 90 days prior to the end of the current employment term. The employment agreements with Messrs. Long, Liuzzi and Manias were terminated on November 1, 2018. Please see the description of the Employment Agreements under "Potential Payments upon Termination or Change in Control" for further details on the terms of the Employment Agreements.

Risk Assessment Related to Our Compensation Structure

We believe our compensation program for all of our employees, including the NEOs, is appropriately structured and not reasonably likely to result in material risk to us because it is structured in a manner that does not promote excessive risk-taking that could damage our reputation, negatively impact our financial results or reward poor judgment. We have also allocated our compensation among base salary and short and long-term compensation in such a way as to not encourage excessive risk-taking. Furthermore, all business groups and employees receive the same core compensation components of base pay and short-term incentives. We typically offer long-term equity incentives to employees at the director level or above, and we use phantom units rather than unit options for these equity awards because phantom units retain value even in a depressed market, so employees are less likely to take unreasonable risks to get or keep options "in-the-money." Finally, the time-based vesting over three to five years for our long-term incentive awards ensures that our employees' interests align with those of our unitholders with respect to our long-term performance.

Accounting and Tax Considerations

We account for the equity compensation expense for equity awards granted under our LTIP in accordance with U.S. generally accepted accounting principles, which requires us to estimate and record an expense for each equity award over the vesting period of the award. Standard Units are accounted for as a liability and are re-measured at fair value at the end of each reporting period using the market price of the Partnership's common units. Fair value for Performance Units was determined using a Monte Carlo simulation model, which incorporated a number of factors in its valuation, including the vesting period, the expected price volatility of the Partnership's common units, expected distributions and the risk free interest rate. Phantom units granted to independent directors do not have a cash settlement option; therefore we account for these awards as equity. During the requisite service period, compensation cost is recognized using the proportionate amount of the award's fair value that has been earned through service to date.

Because we are a partnership and the General Partner is a limited liability company, Section 162(m) of the Internal Revenue Code (the "Code") does not apply to the compensation paid to the NEOs and, accordingly, the Compensation Committee did not consider its impact in making the compensation recommendations discussed above.

Table of Contents

Compensation Committee Interlocks and Insider Participation

We do not have any Compensation Committee interlocks. Messrs. Joyce and Waldheim are the only members of the Compensation Committee, and during 2018 neither Mr. Joyce nor Mr. Waldheim was an officer or employee of Energy Transfer or any of its affiliates, or served as an officer of any company with respect to which any of our executive officers served on such company's board of directors. In addition, neither Mr. Joyce nor Mr. Waldheim is a former employee of Energy Transfer or any of its affiliates.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the section of this report entitled "Compensation Discussion and Analysis" with management of the Partnership and approved its inclusion in this Annual Report on Form 10-K.

Compensation Committee

Glenn E. Joyce (Chairman)

William S. Waldheim

The foregoing report shall not be deemed to be incorporated by reference by any general statement or reference to this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act, as amended, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those Acts.

Summary Compensation Table

Since our initial public offering ("IPO") in 2013, we have been considered an "emerging growth company" ("EGC") under the Jumpstart Our Business Startups Act. As an EGC we were only required to disclose compensation information for our three most highly compensated individuals, compared to five individuals as is required of companies that do not qualify for reduced disclosure requirements. We ceased to be an EGC on December 31, 2018. Since 2018 is the first fiscal year for which we are required to disclose compensation information for five NEOs, the following table provides a summary of the compensation paid to (i) three NEOs for the years ended December 31, 2018, 2017 and 2016 and (ii) five NEOs for the year ended December 31, 2018.

Table of Contents

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Unit Awards ($) (2)	All Other Compensation ($)		Total ($)
Eric D. Long	2018	644,709	818,597	5,942,922	322,176	(3)	7,728,404
President and Chief Executive Officer	2017	625,233	721,436	1,953,127	755,233		4,055,029
	2016	607,109	773,419	1,892,893	742,412		4,015,833
Matthew C. Liuzzi	2018	387,239	368,763	2,331,734	261,277	(4)	3,349,013
Vice President, Chief Financial Officer and Treasurer	2017	375,538	329,496	782,050	313,209		1,800,293
	2016	362,885	381,399	852,693	306,589		1,903,566
William G. Manias	2018	437,092	443,986	2,682,754	323,631	(5)	3,887,463
Vice President and Chief Operating Officer	2017	423,886	396,711	993,108	389,700		2,203,405
	2016	411,538	416,353	1,069,430	380,616		2,277,937
David A. Smith	2018	502,357	382,710	879,243	136,049	(6)	1,900,359
Vice President and President, Northeast Region							
Sean T. Kimble	2018	307,670	273,457	1,105,336	176,784	(7)	1,863,247
Vice President, Human Resources							

(1) Represents the awards earned under the Bonus Plan for the years ended December 31, 2018, 2017 and 2016 for Messrs. Long, Liuzzi and Manias, and for the year ended December 31, 2018 for Messrs. Smith and Kimble. For a discussion of the determination of the 2018 bonus amounts, see "—Annual Cash Incentive Compensation for 2018" above.

(2) On February 12, 2018, February 13, 2017 and February 11, 2016, each of the NEOs received an award of phantom units comprised of Standard Units and Performance Units under the LTIP. Each phantom unit is the economic equivalent of one common unit, although the Performance Units were eligible to vest at up to 200% of target levels three years after grant, depending on the level of achievement of certain performance goals over the performance period. The phantom unit values reflect the grant date fair value of the awards calculated in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standard Codification ("ASC") Topic 718, disregarding the estimated likelihood of forfeitures. For a discussion of the assumptions utilized in determining the fair value of these awards, please see Note 15 to our consolidated financial statements. Fair value for the Performance Units was determined using a Monte Carlo simulation model, which incorporated a number of factors in its valuation including the vesting periods of our awards, the expected volatility of our units, expected

dividends and the risk free interest rate. In connection with the closing of the Transactions, on the Transactions Date all outstanding, unvested Performance Units vested at 100% of the target level pursuant to the terms of the applicable LTIP award agreements because the Transactions constituted a Change in Control under the LTIP. The value of the Performance Units at vesting was over 25% less than the grant date fair value of the Performance Units reported in this table, as anticipated accelerated vesting in connection with a change in control was not factored into the valuation of the Performance Units under FASB ASC Topic 718. Please see the "Units Vested during the Year Ended December 31, 2018" table below for the actual value realized upon vesting of the Performance Units. In addition, all of Mr. Long's outstanding, unvested Standard Units vested on the Transactions Date pursuant to the terms of Mr. Long's LTIP award agreements in effect at the time.

(3) Includes: (i) $267,728 of DERs; (ii) $18,000 of automobile allowance; (iii) $13,750 of employer contributions under the 401(k) Plan; (iv) $3,897 of parking; (v) $9,623 of club membership dues; and (vi) $9,178 of personal administrative assistant support. Please see a description of the DERs under "—Long-Term Equity Incentive Awards" above.

(4) Includes: (i) $247,828 of DERs; and (ii) $13,449 of employer contributions under the 401(k) Plan.

(5) Includes: (i) $313,391 in DERs; and (ii) $10,240 of employer contributions under the 401(k) Plan.

Table of Contents

(6) Includes: (i) $101,654 of DERs; (ii) $9,960 of automobile allowance; (iii) $13,750 of employer contributions under the 401(k) Plan; (iv) $6,000 of club membership dues; and (v) $4,685 of life insurance premiums.

(7) Includes: (i) $160,015 of DERs; (ii) $13,716 of employer contributions under the 401(k) Plan; and (iii) $3,053 for parking.

Grants of Plan-Based Awards during the Year Ended December 31, 2018

The below reflects awards granted to our NEOs under the LTIP during 2018.

			Estimated Future Payouts Under Equity Incentive Plan Awards (1)				
Name	Grant Date	Approval Date of Equity-Based Awards	Threshold (#)	Target (#)	Maximum (#)	All Other Unit Awards: Number of Units (#) (2)	Grant Date Fair Value of Unit Awards ($) (3)
Eric D. Long	2/12/2018	11/3/2017	10,787	21,574	43,148	86,296	2,036,586
	11/1/2018	11/1/2018	—	—	—	90,000	1,327,500
	12/5/2018	11/1/2018	—	—	—	176,874	2,578,836
Matthew C. Liuzzi	2/12/2018	11/3/2017	4,319	8,639	17,278	34,554	815,484
	11/1/2018	11/1/2018	—	—	—	35,000	516,250
	12/5/2018	11/1/2018	—	—	—	68,587	1,000,000
William G. Manias	2/12/2018	11/3/2017	5,485	10,970	21,940	43,879	1,035,549
	11/1/2018	11/1/2018	—	—	—	45,000	663,750
	12/5/2018	11/1/2018	—	—	—	67,452	983,455
David A. Smith	2/12/2018	11/3/2017	2,008	4,017	8,034	16,070	379,243
	12/5/2018	11/1/2018	—	—	—	34,293	500,000
Sean T. Kimble	2/12/2018	11/3/2017	3,003	6,006	12,012	24,022	566,929
	12/5/2018	11/1/2018	—	—	—	36,927	538,407

(1) The amounts in these columns show the range of potential payouts for the Performance Units at the time of grant by the Compensation Committee on February 12, 2018 pursuant to the LTIP. Fair value for the Performance Units was determined using a Monte Carlo simulation model, which incorporated a number of factors in its valuation including the vesting periods of our awards, the expected volatility of our units, expected dividends and the risk free interest rate. The Performance Units were scheduled to vest (i) on the third anniversary of the date of grant at between 0% and 200% of the granted number of Performance Units based upon our level of TUR relative to a group of peer companies; or (ii) immediately prior to a “Change in Control.” Pursuant to the terms of the applicable LTIP award agreements, the Performance Units granted on February 12, 2018 received accelerated vesting at target levels on the Transactions Date in connection with the Transactions, which constituted a Change in Control

under the LTIP. The value of the Performance Units at vesting was over 25% less than the value of the Performance Units reported in this table, as anticipated accelerated vesting in connection with a change in control was not factored into the valuation of the Performance Units under FASB ASC Topic 718. Please see the "Units Vested during the Year Ended December 31, 2018" table below for the actual value realized upon vesting of the Performance Units.

(2) The Standard Units granted on February 12, 2018 will vest in three equal tranches beginning on February 15, 2019, except for the Standard Units granted to Mr. Long, which vested in full on the Transactions Date in connection with the Transactions pursuant to the terms of his LTIP award agreements in effect at the time. The Retention Units granted on November 1, 2018 to Messrs. Long, Liuzzi and Manias and the Standard Units granted on December 5, 2018 to all of the NEOs will vest incrementally, with 60% of the Retention Units and Standard Units vesting on December 5, 2021 and the remaining 40% of the Retention Units and Standard Units vesting on December 5, 2023. The Retention Units and the Standard Units granted on December 5, 2018 will also vest in full upon a Change in Control (as defined in the LTIP) or the death or Disability (as defined in the LTIP) of the NEO. If Mr. Long retires after attaining the age of 65, 60% of his then-unvested Retention Units will be forfeited, and the remainder will vest, at the time of retirement. With respect to the Standard Units granted December 5, 2018 to all of the NEOs, if the NEO retires after attaining the age of 65, 60% of his then-unvested Standard Units will be forfeited, and the remainder will vest, at the time of retirement. If the NEO is over age 68 at the time of retirement, 50% of his then-unvested Standard Units granted December 5, 2018 will be forfeited, and the remainder will vest, at the time of retirement.

Table of Contents

(3) The reported grant date fair value of unit awards was determined in compliance with FASB ASC Topic 718 as more fully described in Note 15 in "Item 8. Financial Statements and Supplementary Data."

Outstanding Equity Awards as of December 31, 2018

The following table provides information regarding phantom units granted to the NEOs pursuant to the LTIP in each of the years ended December 31, 2016, 2017 and 2018 that were outstanding as of December 31, 2018. None of the NEOs held any outstanding option awards as of December 31, 2016, 2017 or 2018. Also reflected in the table are the outstanding Class B Units in USA Compression Holdings, LLC held by the NEOs as of December 31, 2018.

		Equity Incentive Plan Awards				
Name	Number of Vested and Outstanding Class B Units in USA Compression Holdings, LLC (#) (6)	Number of Outstanding Standard Units (#)		Market Value of Outstanding Standard Units ($) (7)	Number of Unearned Performance Units That Have Not Vested (#)	Market Value Of Unearned Performance Units That Have Not Vested ($)
Eric D. Long	481,250					
2018 Grants		266,874	(1)	3,464,025	—	N/A
Matthew C. Liuzzi	62,500					
2016 Grant		30,290	(2)	393,164	—	N/A
2017 Grant		21,782	(3) (4)	282,730	—	N/A
2018 Grants		138,141	(5)	1,793,070	—	N/A
William G. Manias	125,000					
2016 Grant		37,989	(2)	493,097	—	N/A
2017 Grant		27,660	(3) (4)	359,027	—	N/A
2018 Grants		156,331	(5)	2,029,176	—	N/A
David A. Smith	125,000					
2016 Grant		12,522	(2)	162,536	—	N/A
2017 Grant		10,130	(3) (4)	131,487	—	N/A
2018 Grants		50,363	(5)	653,712	—	N/A
Sean T. Kimble	—					
2016 Grant		21,392	(2)	277,668	—	N/A

2017 Grant	15,142	(3) (4)	196,543	—	N/A
2018 Grants	60,949	(5)	791,118	—	N/A

(1) On November 1, 2018, Mr. Long received a grant of 90,000 Retention Units pursuant to the LTIP and a Retention Agreement entered into by Mr. Long and the General Partner. The Retention Units will vest incrementally, with 60% of the Retention Units vesting on December 5, 2021 and 40% of the Retention Units vesting on December 5, 2023. In the event of cessation of Mr. Long's employment without Cause or for Good Reason (each as defined in his Retention Agreement), all Retention Units that have not vested prior to or in connection with such cessation of service shall automatically vest in full. The Retention Units will also vest in full upon (i) the death or Disability (as defined in the LTIP) of Mr. Long or (ii) a Change in Control (as defined in the LTIP). On December 5, 2018, Mr. Long received a grant of 176,874 Standard Units pursuant to the LTIP with the same vesting schedule as the Retention Units. All of the Standard Units granted on December 5, 2018 will vest in full upon (i) the death or Disability (as defined in the LTIP) of Mr. Long or (ii) a Change in Control (as defined in the LTIP). In the event of the cessation of Mr. Long's employment for any reason (other than death or Disability), all Standard Units that have not vested prior to or in connection with such cessation of service shall automatically be forfeited. Notwithstanding the foregoing, if Mr. Long retires after attaining the age of 65, 60% of his then-unvested Standard Units and Retention Units will be forfeited, and the remainder will vest, at the time of retirement. If Mr. Long is over age 68 at the time of retirement, 50% of his then-unvested Standard Units will be forfeited, and the remainder will vest, at the time of retirement.

(2) Represents the number of Standard Units granted on February 11, 2016 pursuant to the LTIP that had not vested as of December 31, 2018. Each Standard Unit is the economic equivalent of one common unit. The Standard Units vest in three equal annual installments on each subsequent February 15th, beginning with the first installment that vested on February 15, 2017. In the event of cessation of the NEO's service for any reason, all Standard Units that have not vested prior to or in connection with such cessation of service shall automatically be forfeited. In the event of a Change in Control (as defined in the LTIP) followed by a

Table of Contents

termination of the NEO's employment without Cause or for Good Reason (each as defined in the applicable LTIP award agreement), all of the NEO's unvested Standard Units will vest in connection with the NEO's cessation of service.

(3) Represents the number of Standard Units granted on February 13, 2017 pursuant to the LTIP that had not vested as of December 31, 2018. Each Standard Unit is the economic equivalent of one common unit. The Standard Units vest in three equal annual installments on each subsequent February 15th, beginning with the first installment that vested on February 15, 2018. In the event of cessation of the NEO's service for any reason, all Standard Units that have not vested prior to or in connection with such cessation of service shall automatically be forfeited. In the event of a Change in Control (as defined in the LTIP) followed by a termination of the NEO's employment without Cause or for Good Reason (each as defined in the applicable LTIP award agreement), all of the NEO's unvested Standard Units will vest in connection with the NEO's cessation of service.

(4) Includes Standard Units granted pursuant to the LTIP on February 12, 2018 (34,554 for Mr. Liuzzi; 43,879 for Mr. Manias; 16,070 for Mr. Smith and 24,022 for Mr. Kimble) that had not vested as of December 31, 2018. Each Standard Unit is the economic equivalent of one common unit. The Standard Units granted on February 12, 2018 vest in three equal annual installments on each subsequent February 15th, with the first installment vesting on February 15, 2019. In the event of cessation of the NEO's service for any reason, all Standard Units that have not vested prior to or in connection with such cessation of service shall automatically be forfeited. In the event of a Change in Control (as defined in the LTIP) followed by a termination of the NEO's employment without Cause or for Good Reason (each as defined in the applicable LTIP award agreement), all of the NEO's unvested Standard Units will vest in connection with the NEO's cessation of service. Amounts shown also include the following number of Standard Units granted on December 5, 2018 to each of the NEOs: 176,874 to Mr. Long; 68,587 to Mr. Liuzzi; 67,452 to Mr. Manias; 34,293 to Mr. Smith and 36,927 to Mr. Kimble. The Standard Units granted on December 5, 2018 vest incrementally, with 60% of the Standard Units vesting on December 5, 2021 and 40% of the Standard Units vesting on December 5, 2023. All of the Standard Units granted on December 5, 2018 will vest in full upon (i) the death or Disability (as defined in the LTIP) of the NEO or (ii) a Change in Control (as defined in the LTIP). In the event of the cessation of the NEO's service for any reason (other than death or Disability), all Standard Units granted on December 5, 2018 that have not vested prior to or in connection with such cessation of service shall automatically be forfeited. Notwithstanding the foregoing, with respect to the Standard Units granted on December 5, 2018 if the NEO retires after attaining the age of 65, 60% of his then-unvested Standard Units will be forfeited, and the remainder will vest, at the time of retirement. If the NEO is over age 68 at the time of retirement, 50% of his then-unvested Standard Units will be forfeited, and the remainder will vest, at the time of retirement.

(5) Includes Retention Units granted on November 1, 2018 (35,000 for Mr. Liuzzi and 45,000 for Mr. Manias) pursuant to the LTIP and the Retention Agreement entered into by the applicable NEO and the General Partner that had not vested as of December 31, 2018. Each Retention Unit is the economic equivalent of one common unit. The Retention Units vest incrementally, with 60% of the Retention Units vesting on December 5, 2021 and the remaining 40% of the Retention Units vesting on December 5, 2023. In the event of cessation of the NEO's service without Cause or for Good Reason (each as defined in the Retention Agreements), all Retention Units that have not vested prior to or in connection with such cessation of service shall automatically vest in full. The Retention Units will also vest in full upon (i) the death or Disability (as defined in the LTIP) of the NEO or (ii) a Change in Control (as defined in the LTIP).

(6) Represents the number of Class B Units in USA Compression Holdings ("USAC Holdings") that became vested but had not been settled as of December 31, 2018. These Class B Units vested 25% on the one-year anniversary of the date of grant and 1/36 monthly thereafter; provided that with respect to Mr. Long 50% of the then-unvested portion of Class B Units vested at the time of our initial public offering, which occurred on January 18, 2013. There are no distributions or payouts contemplated with respect to the Class B Units in USAC Holdings.

(7) The market value of Standard Units is calculated by multiplying $12.98, the closing price of the Partnership's common units on December 31, 2018, by the number of Standard Units outstanding.

Table of Contents

Units Vested During the Year Ended December 31, 2018

The following table provides information regarding the vesting of Performance Units and Standard Units held by the NEOs during 2018. There are no options outstanding on the Partnership's common units.

	Standard Unit Awards		Performance Unit Awards	
Name	Number of Phantom Units Vested (#)	Value Realized on Vesting ($) (5)	Number of Phantom Units Vested (#) (6)	Value Realized on Vesting ($) (7)
Eric D. Long	327,554 (1)	5,657,930	92,405 (8)	1,564,417
Matthew C. Liuzzi	51,024 (2)	911,799	39,525 (9)	669,158
William G. Manias	63,988 (3)	1,143,466	49,835 (10)	843,707
David A. Smith	21,531	384,759	17,207	291,315
Sean T. Kimble	34,838 (4)	622,555	27,729 (11)	469,452

(1) This number includes 119,618 Standard Units that vested on February 15, 2018 and 207,936 Standard Units that vested on the Transactions Date in connection with the Transactions. Mr. Long settled approximately 50% of his newly vested Standard Units in cash in the amount of $2,828,965 (before taxes), which cash settlement was reported as a disposition of those Standard Units. The remaining 163,777 Standard Units vested following such cash settlement.

(2) Mr. Liuzzi settled approximately 50% of his newly vested Standard Units in cash in the amount of $455,900 (before taxes), which cash settlement was reported as a disposition of those Standard Units. The remaining 25,512 Standard Units vested following such cash settlement.

(3) Mr. Manias settled approximately 50% of his newly vested Standard Units in cash in the amount of $571,733 (before taxes), which cash settlement was reported as a disposition of those Standard Units. The remaining 31,994 Standard Units vested following such cash settlement.

(4) Mr. Kimble settled approximately 50% of his newly vested Standard Units in cash in the amount of $311,278 (before taxes), which cash settlement was reported as a disposition of those Standard Units. The remaining 17,419 Standard Units vested following such cash settlement.

(5) The value realized on vesting of Standard Units was calculated by multiplying $17.87, the closing price of the Partnership's common units on the date of vesting (February 15, 2018) by the number of Standard Units vesting. For Mr. Long, whose outstanding Standard Units vested on the Transactions Date, the value realized on vesting for those units was calculated by multiplying $16.93, the closing price of the Partnership's common units on March 29, 2018 (the last business day before the Transactions Date) by the number of Standard Units vesting.

(6) The Performance Units were scheduled to vest, if at all, (i) on the third anniversary of the date of grant at between 0% and 200% of the granted number of Performance Units based upon our level of TUR relative to a group of peer companies; or (ii) immediately prior to a "Change in Control". In accordance with the applicable LTIP award agreements, the Performance Units received accelerated vesting at target levels in connection with the Transactions on the Transactions Date.

(7) The value realized on vesting was calculated by multiplying $16.93, the closing price of the Partnership's common units on March 29, 2018, by the number of Performance Units vesting.

(8) Mr. Long settled approximately 50% of his newly vested Performance Units for cash in the amount of $782,209 (before taxes), which cash settlement was reported as a disposition of those Performance Units. The remaining 46,202 Performance Units vested following such cash settlement.

(9) Mr. Liuzzi settled approximately 50% of his newly vested Performance Units for cash in the amount of $334,579 (before taxes), which cash settlement was reported as a disposition of those Performance Units. The remaining 19,762 Performance Units vested following such cash settlement.

(10) Mr. Manias settled approximately 50% of his newly vested Performance Units for cash in the amount of $421,854 (before taxes), which cash settlement was reported as a disposition of those Performance Units. The remaining 24,917 Performance Units vested following such cash settlement.

Table of Contents

(11) Mr. Kimble settled approximately 50% of his newly vested Performance Units for cash in the amount of $234,726 (before taxes), which cash settlement was reported as a disposition of those Performance Units. The remaining 13,864 Performance Units vested following such cash settlement.

Potential Payments upon Termination or Change in Control

The NEOs are entitled to severance payments and/or other benefits upon certain terminations of employment and, in certain cases, in connection with a Change in Control (as defined below) of the General Partner. All capitalized terms used in the following description but not defined therein shall have the definitions set forth in the referenced document.

Retention Phantom Unit Agreements

As previously noted, each of Messrs. Long, Liuzzi and Manias entered into a Termination Agreement and Mutual Release (collectively, the “Termination Agreements”) with USAC Management (and, with respect to Mr. Long, the USA Compression Partners, LLC) providing for (i) the termination, effective as of November 1, 2018, of the employment agreements that each of Messrs. Long, Liuzzi and Manias had been party to and (ii) a mutual release by each party to the other(s) of all obligations, claims and causes of action arising under the applicable employment agreement.

On November 1, 2018, each of Messrs. Long, Liuzzi and Manias entered into a Retention Agreement providing for a grant of Retention Units that will vest incrementally, with 60% of the Retention Units vesting on December 5, 2021 and the remaining 40% of the Retention Units vesting on December 5, 2023. The Retention Agreements provide for the vesting of 100% of the then-unvested Retention Units upon (i) the NEO’s termination of employment without Cause or for Good Reason (ii) a Change in Control or (iii) the death or Disability (as defined under the LTIP) of the NEO. In the event of the NEO’s termination of employment without Cause or for Good Reason, provided that the NEO executes and does not revoke a general release and waiver of claims, the NEO will also be entitled to a severance payment intended to capture the value of future distributions associated with Retention Units forfeited for tax withholding purposes upon vesting. Upon Mr. Long’s termination of employment due to retirement, provided that Mr. Long is at least 65 years of age at the time of such retirement, 40% of his then-outstanding, unvested Retention Units will receive accelerated vesting and 60% of his then-outstanding, unvested Retention Units will automatically be forfeited at the time of his retirement pursuant to the terms of Mr. Long’s Retention Agreement.

As used in the Retention Agreements, “Cause” means (1) the commission by the NEO of a criminal or other act that involves dishonesty, misrepresentation or moral turpitude; (2) engagement by the NEO in any willful or deliberate misconduct which causes or is reasonably likely to cause economic damage to the Company, the Partnership or any of its and their subsidiaries or injury to the business reputation of the Company, the Partnership or its or their subsidiaries; (3) engagement in any dishonest or fraudulent conduct by the NEO in the performance of the NEO’s

duties on behalf of the Company, the Partnership or its or their subsidiaries, including, without limitation, the theft or misappropriation of funds or the disclosure of confidential or proprietary information; (4) a knowing breach by the NEO of any fiduciary duty applicable to the NEO in performance of the NEO's duties as contained in the organizational documents of the Company, the Partnership or any of its or their subsidiaries; (5) the continuing failure or refusal of the NEO to satisfactorily perform the essential duties of the NEO for the Company; (6) improper conduct materially prejudicial to the business of the Company, the Partnership or any of its or their subsidiaries; (7) the material disregard or violation by the NEO of any policy or procedure of the Company; or (8) any other conduct materially detrimental (as determined in the sole reasonable judgment of the Company) to the Company's, the Partnership's or its or their subsidiaries' business. With respect to a termination for Cause pursuant to clauses (5), (6), (7) and (8) above, such termination will not be considered for Cause unless the NEO has been given written notice specifying in detail the conduct that allegedly constitutes grounds to terminate for Cause and an opportunity for thirty (30) days after receipt of such notice to cure such grounds, if curable. Termination for Cause under clauses (1), (2), (3) or (4) above cannot be cured by the individual and no such notice to cure will be delivered.

"Good Reason" is defined under the Retention Agreements as the occurrence, during the Restricted Period and without the NEO's prior written consent, of any one or more of the following: (1) a material reduction in the NEO's current title; (2) a more than 10% reduction by the Company in the NEO's rate of annual base salary, annual bonus target or annual long-term incentive target, each determined as of the Grant Date; (3) a material diminution in the NEO's authority, duties, reporting relationship or responsibilities that is inconsistent in a material and adverse respect with the

Table of Contents

NEO's authority, duties, reporting relationship or responsibilities with the Partnership on the date of the Grant Date, provided that such material diminution is also accompanied with any associated reduction in the NEO's annual base salary, annual bonus target or annual long-term incentive target, determined based on the NEO's highest annual base salary, annual bonus target or annual long-term incentive target during the most recent 365-day period prior to the date the change described in this clause (3) occurs; or (4) a change of 50 miles or more in the geographic location of the NEO's principal place of employment as of the Grant Date. For any resignation to be treated as based on "Good Reason" under the Retention Agreement, the following must occur: (x) the NEO must provide written notice to the Company of the existence of the Good Reason condition within a period not to exceed thirty (30) days of the initial existence of the condition; (y) the Company shall have not less than thirty (30) days following its receipt of such during which it may remedy the condition; and (z) the NEO's termination of employment must occur within the ninety (90)-day period after the initial existence of the condition specified in such notice. Further, no act or omission shall be "Good Reason" if the NEO has consented in writing to such act or omission.

"Disability" as defined under the LTIP means, as determined by the Compensation Committee in its discretion exercised in good faith, a physical or mental condition of the NEO that would entitle him or her to payment of disability income payments under the Company's or the Partnership's or one of its subsidiaries' long-term disability insurance policy or plan for employees as then in effect; or in the event that an NEO is not covered, for whatever reason, under the Company's or the Partnership's or one of its subsidiaries' long-term disability insurance policy or plan for employees or the Company's or the Partnership's or one of its subsidiaries' does not maintain such a long-term disability insurance policy, "Disability" means a total and permanent disability within the meaning of Section 22(e)(3) of the Code; provided, however, that if a Disability constitutes a payment event with respect to any Award which provides for the deferral of compensation and is subject to Section 409A of the Code, then, to the extent required to comply with Section 409A of the Code, the NEO must also be considered "disabled" within the meaning of Section 409A(a)(2)(C) of the Code. A determination of Disability may be made by a physician selected or approved by the Compensation Committee and, in this respect, NEOs shall submit to an examination by such physician upon request by the Compensation Committee.

Accelerated Vestings in 2018

Pursuant to the terms of Mr. Long's LTIP grant agreements in effect at the time of the Transactions, 100% of his outstanding, unvested Standard Units received accelerated vesting on the Transactions Date because the Transactions constituted a Change in Control under the LTIP. All unvested Performance Units for all of the NEOs received accelerated vesting at target levels on the Transactions Date in connection with the Transactions pursuant to the terms of the applicable LTIP grant agreements because the Transactions constituted a Change in Control under the LTIP. The potential payments calculated in the "Potential Payments upon Termination or Change in Control" table below only reflect the value of the potential acceleration of LTIP awards that were still outstanding as of December 31, 2018.

Employment Agreements

As previously noted, each of Messrs. Smith and Kimble is party to an Employment Agreement providing for certain payments and benefits upon certain terminations of employment. For the purposes of the following description, the "Company" means USAC Management with respect to Messrs. Smith and Kimble. All capitalized terms used in the following description but not defined therein shall have the definitions set forth in the referenced document.

The Employment Agreements provide for the following in the event of a termination of the NEO without Cause or by the NEO with Good Reason: (i) semi-monthly severance payments for the one year period following the NEO's Separation from Service in an amount totaling the higher of the NEO's Base Salary for (a) the current year and (b) the previous year (the "Severance Payment"); (ii) the entire amount of any earned Annual Bonus for the year preceding the year in which the NEO is terminated by the Company for convenience or resigns for Good Reason; (iii) a pro rata portion (based on the number of days the NEO was employed during the year) of any earned Annual Bonus for the year in which the NEO is terminated without Cause or resigns for Good Reason; (iv) continued health insurance benefits for the NEO and his eligible dependents for a period of 24 months, as follows: (a) for the first 12 months of the Coverage Period, the Company will provide such health insurance coverage at its own expense (other than the NEO's monthly cost-sharing contribution under the Company's group health plan, as in effect at the time of the NEO's Separation from Service); (b) for the following six months of the Coverage Period, such health insurance coverage will be at the NEO's

Table of Contents

sole expense; and (c) for the final six months of the Coverage Period, the Company will be responsible for the proportion of the cost of such health insurance coverage that the NEO covered in the first 12 months of the Coverage Period; and the NEO will be responsible for the proportion that the Company covered during the first 12 months of the Coverage Period; and (v) within 30 days of the NEO's Separation from Service, all earned but unpaid base salary and paid time off.

In the event of the termination of Mr. Smith's or Mr. Kimble's employment by the Company without Cause or by the NEO with Good Reason within two years of a "change in control event" within the meaning of Treasury Regulation 1.409A-3(i)(5), the Severance Payment will be paid in a lump sum on the Company's first regular payroll date that occurs on or before 30 days after the date of the NEO's Separation from Service.

In the event of a termination of Mr. Smith's or Mr. Kimble's employment due to death or Disability (as defined in the Employment Agreements), the Company shall pay the following to the NEO or the NEO's estate: (i) the Severance Payment and (ii) the entire amount of any earned but unpaid Annual Bonus for the year preceding the year in which the NEO dies or becomes Disabled; (iii) a pro rata portion (based on the number of days employed during the year) of any earned Annual Bonus for the year in which the NEO dies or becomes Disabled; and (iv) all earned but unpaid base salary and paid time off. In the event of the NEO's death during the Severance Period, the Severance Payment will be paid in a lump sum within 30 days of his death.

As used in the Employment Agreements, a termination for "convenience" means an involuntary termination for any reason, including a failure to renew the employment agreement at the end of an initial term or any renewal term, other than a termination for "Cause." "Cause" is defined in the Employment Agreements to mean (i) any material breach of the Employment Agreement, including the material breach of any representation, warranty or covenant made under the Employment Agreement by the NEO, (ii) the NEO's breach of any applicable duties of loyalty to the Company or any of its affiliates, gross negligence or misconduct, or a significant act or acts of personal dishonesty or deceit, taken by the NEO, in the performance of the duties and services required of the NEO that is demonstrably and significantly injurious to the Company or any of its affiliates, (iii) conviction of a felony or crime involving moral turpitude, (iv) the NEO's willful and continued failure or refusal to perform substantially the NEO's material obligations pursuant to the Employment Agreement or follow any lawful and reasonable directive from the CEO or the Board, other than as a result of the NEO's incapacity, or (v) a violation of federal, state or local law or regulation applicable to the business of the Company that is demonstrably and significantly injurious to the Company.

"Good Reason" is defined in Employment Agreements to mean (i) a material breach by the Company of the Employment Agreement or any other material agreement with the NEO, (ii) a material reduction in the NEO's base salary, other than a reduction that is generally applicable to all similarly situated employees of the Company, (iii) a material reduction in the NEO's duties, authority, responsibilities, job title or reporting relationships, (iv) a material reduction by the Company in the facilities or perquisites available to the NEO, other than a reduction that is generally applicable to all similarly situated employees, or (v) the relocation of the geographic location of the NEO's current principal place of employment by more than fifty miles from the location of the NEO's principal place of employment as of the Effective Date of the Employment Agreement.

On January 1, 2013, we entered into a services agreement with USAC Management (as amended, the "Services Agreement"), pursuant to which USAC Management provides to us and the General Partner management, administrative and operating services and personnel to manage and operate our business. Pursuant to the Services Agreement, we will reimburse USAC Management for the allocable expenses for the services performed, including the salary, bonus, cash incentive compensation and other amounts paid to our NEOs. See Part III, Item 13 ("Certain Relationships and Related Party Transactions, and Director Independence").

Change in Control Benefits—LTIP

We have historically included double-trigger change in control provisions for our outstanding LTIP awards, such that in order for accelerated vesting of phantom units to occur in connection with a change in control, such change in control must be followed by a termination of employment by the Company without Cause or by the NEO with Good Reason (each as defined in the applicable phantom unit award agreement). However, in 2018, 2017 and 2016 we granted

Table of Contents

awards of Performance Units that received accelerated vesting at target levels upon the Change in Control (as defined under the LTIP and as set forth below) triggered by the Transactions. The following number of Performance Units vested upon the Change in Control in connection with the Transactions: 92,405 for Mr. Long, 39,525 for Mr. Liuzzi, 49,835 for Mr. Manias, 17,207 for Mr. Smith and 27,729 for Mr. Kimble. Mr. Long also received immediate vesting of all of his then-outstanding Standard Units in connection with the Transactions pursuant to the terms of his LTIP award agreements in effect at the time.

Under the LTIP award agreements entered into prior to the Transactions, in the event of cessation of the NEO's service for any reason, all Standard Units that have not vested prior to or in connection with such cessation of service shall automatically be forfeited. With respect to unvested Standard Units held by the NEOs, those Standard Units will receive accelerated vesting in the event that that the NEO is terminated by the Company without Cause or by the NEO for Good Reason (as each term is defined in the applicable LTIP award agreement) in connection with a change in control event.

If a termination occurred immediately following the Transactions, the following number of incremental Standard Units would have vested for each of the NEOs (other than Mr. Long): 86,626 for Mr. Liuzzi; 109,528 for Mr. Manias; 38,722 for Mr. Smith; and 60,556 for Mr. Kimble. If a termination were to occur on December 31, 2018 following a Change in Control, the following number of Standard Units would vest: 176,874 for Mr. Long, 155,213 for Mr. Liuzzi, 176,980 for Mr. Manias, 73,015 for Mr. Smith and 97,483 for Mr. Kimble. Additionally, the following number of Retention Units would vest in the event of a termination following a Change in Control on December 31, 2018: 90,000 for Mr. Long, 35,000 for Mr. Liuzzi and 45,000 for Mr. Manias.

On November 1, 2018, the Board approved and adopted the First Amendment to the LTIP which, among other things, (i) updated the definition of Change in Control to refer to Energy Transfer with respect to awards granted on or after April 3, 2018; (ii) increased the number of common units of the Partnership available to be awarded under the LTIP by 8,590,000 common units (which brings the total number of common units available to be awarded under the LTIP to 10,000,000 common units); and (iii) extended the term of the LTIP until November 1, 2028.

A "Change in Control" is defined under the LTIP as follows:

(a) with respect to Awards granted before April 3, 2018, the occurrence of any of the following events: (i) any "person" or "group" within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act, other than the Company, Riverstone Holdings LLC or an Affiliate of the Company (as determined immediately prior to such event) or Riverstone Holdings LLC, shall become the beneficial owner, by way of merger, consolidation, recapitalization, reorganization or otherwise, of 50% or more of the combined voting power of the equity interests in the Company or the Partnership; (ii) the limited partners of the Partnership approve, in one or a series of transactions, a plan of complete liquidation of the Partnership; (iii) the sale or other disposition by either the Company or the Partnership of all or substantially all of its assets in one or more transactions to any Person other than the Company, the Partnership, Riverstone Holdings LLC or an Affiliate of the Company, the Partnership or Riverstone Holdings LLC; or (iv) a transaction resulting in a

Person other than the Company, Riverstone Holdings LLC or an Affiliate of the Company (as determined immediately prior to such event) or Riverstone Holdings LLC being the sole general partner of the Partnership; and

(b) with respect to Awards granted on or after April 3, 2018, means the occurrence of any of the following events: (i) any "person" or "group" within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act, other than the Company, Energy Transfer LP, a Delaware limited partnership ("ET"), Energy Transfer Operating, L.P., a Delaware limited partnership ("ETO"), an Affiliate of the Company (as determined immediately prior to such event), or an Affiliate of, or successor to, ET or ETO, shall become the beneficial owner, by way of merger, consolidation, recapitalization, reorganization or otherwise, of 50% or more of the combined voting power of the equity interests in the Company or the Partnership; (ii) the limited partners of the Partnership approve, in one or a series of transactions, a plan of complete liquidation of the Partnership; (iii) the sale or other disposition by either the Company or the Partnership of all or substantially all of its assets in one or more transactions to any Person other than the Company, the Partnership, ET, ETO, an Affiliate of the Company (as determined immediately prior to such event), the Partnership, or an Affiliate of, or successor to, ET or ETO; or (iv) a transaction resulting in a Person other than the Company, ET, ETO, an

Table of Contents

Affiliate of the Company (as determined immediately prior to such event), or an Affiliate of, or successor to, ET or ETO being the sole general partner of the Partnership.

However, if an LTIP award is subject to section 409A of the Internal Revenue Code, a “Change in Control” will be defined in accordance with section 409A of the Internal Revenue Code and the regulations promulgated thereunder.

Also on November 1, 2018, the Board adopted the New Award Agreement, which (i) provides for incremental vesting of Standard Units over five years (60% on the third December 5 following the grant and 40% on the fifth December 5 following the grant) and (ii) provides for vesting of 100% of the outstanding, unvested Standard Units in the event of (a) a Change in Control (as defined under the LTIP and set forth above) or (b) the death or Disability of the NEO. Also, under the New Award Agreement, if the NEO is at least 65 at the time of his voluntary retirement, 60% of his then-unvested Standard Units will be forfeited, and the remainder will vest, at the time of retirement. If the NEO is over age 68 at the time of his retirement, 50% of his then-unvested Standard units will be forfeited, and the remainder will vest, at the time of retirement.

Table of Contents

Potential Payments upon Termination or Change in Control

Except as otherwise noted, the values in the table below assume that a Change in Control occurred on December 31, 2018 and/or that the NEO's employment terminated on that date, as applicable. The amounts actually payable to any NEO can only be calculated with certainty upon actual termination or a Change in Control. The value of the acceleration of the LTIP awards was calculated using the value of $12.98, which was the closing price of the Partnership's common units on December 31, 2018.

Executive Benefits and Payments	Change in Control followed by termination without "Cause" or for "Good Reason" ($) (2)	Termination of Employment without "Cause" or for "Good Reason" ($) (2)	Termination of Employment because of Death or Disability ($) (3)	Termination by the Executive Other Than for "Good Reason" ($) (4)	Continued Employment Following Change of Control ($) (5)
Eric D. Long					
Salary (1)	17,663	17,663	17,663	17,663	—
Bonus (1)	—	—	—	—	—
Accelerated Vesting of Standard Units (7)	—	—	2,295,825	—	2,295,825
Accelerated Vesting of Retention Units (8)	1,168,200	1,168,200	1,168,200	—	1,168,200
Severance Payment under Retention Agreements (9)	359,100	359,100	—	—	—
Totals	1,544,963	1,544,963	3,481,688	17,663	3,464,025
Matthew C. Liuzzi					
Salary (1)	10,609	10,609	10,609	10,609	—
Bonus (1)	—	—	—	—	—
Accelerated Vesting of Standard Units (7)	2,014,664	1,124,405	890,259	—	890,259
Accelerated Vesting of Retention Units (8)	454,300	454,300	454,300	—	454,300
Severance Payment under Retention Agreements (9)	139,650	139,650	—	—	—
Totals	2,619,223	1,728,964	1,355,168	10,609	1,344,559
William G. Manias					
Salary (1)	11,975	11,975	11,975	11,975	—
Bonus (1)	—	—	—	—	—
Accelerated Vesting of Standard Units (7)	2,297,200	1,421,673	875,527	—	875,527

Accelerated Vesting of Retention Units (8)	584,100	584,100	584,100	—	584,100
Severance Payment under Retention Agreements (9)	179,550	179,550	—	—	—
Totals	3,072,825	2,197,298	1,471,602	11,975	1,459,627
David A. Smith					
Salary (1)	554,763	554,763	554,763	13,763	—
Bonus (1)	382,710	382,710	382,710	—	—
Accelerated Vesting of Standard Units (7)	947,735	502,612	445,123	—	445,123
Health and Welfare Plan Benefits (6)	24,102	24,102	—	—	—
Totals	1,909,310	1,464,187	1,382,596	13,763	445,123
Sean T. Kimble					
Salary (1)	330,950	330,950	330,950	8,429	—
Bonus (1)	273,457	273,457	273,457	—	—
Accelerated Vesting of Standard Units (7)	1,265,329	786,017	479,312	—	479,312
Health and Welfare Plan Benefits (6)	24,102	24,102	—	—	—
Totals	1,893,838	1,414,526	1,083,719	8,429	479,312

Table of Contents

(1) The listed salary for each of Messrs. Smith and Kimble represents his annualized rate of pay as of December 31, 2018, plus, with respect to the first three columns of the table, his accrued but unused paid time off as of December 31, 2018. The listed bonus amount for each of Messrs. Smith and Kimble is his bonus awarded with respect to the year ended December 31, 2018. Because the assumed termination date for each NEO is December 31, 2018, no pro rata bonus amounts based on a partial year of continued employment prior to termination are included. The amount shown for each of Messrs. Long, Liuzzi and Manias represents the amount of earned but unpaid base salary he would be entitled to receive.

(2) The Employment Agreements for each of Messrs. Smith and Kimble provide that upon termination by the Company without Cause or by the NEO for Good Reason, the NEO is entitled to receive one times his base salary, payable in equal semimonthly installments over the course of one year (or, if such termination occurs within two years after a “change in control event” within the meaning of Treasury Regulation 1.409A-3(i)(5), in a lump sum within 30 days of termination of employment).

(3) Upon the death or Disability of Mr. Kimble or Mr. Smith during the Severance Period (as defined in the Employment Agreements), his salary payment will be accelerated and he (or his estate) will be entitled to the same bonus payment as if the death or Disability had not occurred.

(4) In the event of the termination of employment by any of the NEOs without Good Reason, the NEO will be entitled to all earned but unpaid annual base salary.

(5) The NEOs are not entitled to a certain level of compensation in the event of continued employment following a Change in Control, but for purposes of this table it is assumed that the NEO would continue to receive a level of base salary, bonus, benefits and other compensation in the event of continued employment following a Change in Control that is the same as, or similar to, the amounts shown in the Summary Compensation Table. Accordingly, no additional amounts are shown for salary, bonus or health and welfare plan benefits because those amounts would remain as in effect at the time of the Change in Control.

(6) In the event of Mr. Smith’s or Mr. Kimble’s termination by the Company without Cause or by the NEO with Good Reason, he and his eligible dependents will be entitled to continued health insurance benefits for a period of 24 months following his Separation from Service (the “Coverage Period”), as follows: (i) for the first twelve months of the Coverage Period, the Company will provide such health insurance coverage at its own expense (other than the NEO’s monthly cost-sharing contribution under the Company’s group health plan, as in effect at the time of the NEO’s Separation from Service) (ii) for the following six months of the Coverage Period, such health insurance coverage will be at the NEO’s sole expense; and (iii) for the final six months of the Coverage Period, the Company will be responsible for the proportion of the cost of such health insurance coverage that the NEO covered in the first 12 months of the Coverage Period; and the NEO will be responsible for the proportion that the Company covered during the first 12 months of the Coverage Period. The amount shown represents the Company’s contribution to the NEO’s health insurance benefits during the first half of the Coverage Period. Messrs. Long, Liuzzi and Manias are not currently party to any contractual arrangements providing for continued health insurance coverage by the Company following a termination of employment.

(7)

In the event of the NEO's cessation of service for any reason (other than death or Disability), 100% of the NEO's Standard Units that have not vested prior to or in connection with such cessation of service shall be automatically forfeited. Notwithstanding the foregoing, with respect to the Standard Units granted on December 5, 2018, if the NEO retires after attaining the age of 65, 60% of his then-unvested Standard Units will be forfeited, and the remainder will vest, at the time of retirement. For the Standard Units granted on December 5, 2018, if the NEO is over age 68 at the time of retirement, 50% of his then-unvested Standard Units will be forfeited, and the remainder will vest, at the time of retirement. For the Standard Units granted on December 5, 2018, in the event of the death or Disability of the NEO, 100% of the then-unvested Standard Units shall vest in full immediately prior to such cessation of service due to death or Disability. In the event of a Change in Control (as defined under the LTIP), 100% of the NEO's outstanding, unvested Standard Units granted on December 5, 2018 would vest.

(8) The Retention Agreements for Messrs. Long, Liuzzi and Manias provide that 100% of the outstanding, unvested Retention Units held by the applicable NEO will vest immediately prior to the NEO's Separation from Service for the following reasons: (i) termination of the NEO by the Company without Cause or by the NEO with Good Reason, (ii) upon a Change in Control, and (iii) upon the death or Disability of the NEO. Also, if Mr. Long terminates his employment due to retirement, if he is at the time of retirement 65 years of age or older, 40% of his then-unvested Retention Units will vest and the remaining 60% of his then-unvested Retention Units will be forfeited.

(9) For Messrs. Long, Liuzzi and Manias, provided that the NEO executes and does not revoke a general release and waiver of claims, the NEO will be entitled to a severance payment intended to capture the value of future distributions associated with Retention Units forfeited for tax withholding purposes.

Table of Contents

Director Compensation

For the year ended December 31, 2018, our CEO was the only NEO who also served as a director, and he did not receive additional compensation for his service on the Board. Mr. Long's compensation as an NEO is reflected in the Summary Compensation Table above. Other than Mr. Hartman, all of the independent members of the Board receive cash and equity compensation for their service as directors.

The following table shows the total fees earned and other compensation paid in cash to each independent director during 2018.

Name	Fees Earned or Paid in Cash ($)	Unit Awards ($) (1)	All Other Compensation ($) (2)	Total ($)
Robert F. End (3) (4)	55,250	—	10,692	65,942
Jerry L. Peters (3) (5)	55,250	—	—	55,250
Forrest E. Wylie (3) (6)	51,500	—	21,386	72,886
Matthew S. Hartman (7) (8)	—	—	—	—
Glenn E. Joyce (7)	122,500	140,350	9,130	271,980
William S. Waldheim (7)	124,375	140,350	9,130	273,855

(1) Represents the grant date fair value of our Standard Units, calculated in accordance with ASC 718. For a detailed discussion of the assumptions utilized in coming to these values, please see Note 15 to our consolidated financial statements. As of December 31, 2018, the independent members of the Board who receive equity awards held the following number of outstanding equity awards under the LTIP: Mr. Joyce: 8,695 Standard Units; and Mr. Waldheim: 8,695 Standard Units. Mr. Joyce's and Mr. Waldheim's respective totals include the following grants made on July 30, 2018: (i) a one-time director onboarding grant of 2,500 Standard Units and (ii) an annual grant of Standard Units with a value of $100,000, based on the closing price of the Partnership's common units on the date of grant. The Standard Units held by Messrs. Joyce and Waldheim vest incrementally, with 60% of the Standard Units vesting on December 5, 2020 and the remaining 40% of the Standard Units vesting on December 5, 2022. In the event of the director's cessation of service to due death, Disability or a Change in Control, 100% of his outstanding, unvested Standard Units will vest immediately prior to such event.

(2) Amounts in this column reflect the value of DERs, received by the directors with respect to their outstanding phantom unit awards. For Messrs. Joyce and Waldheim, the amount shown includes DERs paid with respect to the Partnership's quarterly distribution on its common units with respect to the second and third quarters of 2018.

(3) Effective as of the Transactions Date, Messrs. End, Peters and Wylie resigned from the Board in connection with the Transactions; therefore this table reflects their compensation for the period from January 1, 2018 to the Transactions Date.

(4) Consists of (i) $36,500 in cash retainer and meeting attendance fees (a) for the fourth quarter of 2017 (which were paid in the first quarter of 2018) and (b) earned in the first quarter of 2018; (ii) $18,750 in cash in lieu of a grant of the annual grant of phantom units under the LTIP, which payment was approved by the Board on March 29, 2018 and the amount of which represents one quarter of the value of the annual grant of phantom units that the director would have otherwise received; and (iii) $10,692 of DERs.

(5) Consists of (i) $36,500 in cash retainer and meeting attendance fees (a) for the fourth quarter of 2017 (which were paid in the first quarter of 2018) and (b) earned in the first quarter of 2018; and (ii) $18,750 in cash in lieu of a grant of the annual grant of phantom units under the LTIP, which payment was approved by the Board on March 29, 2018 and the amount of which represents one quarter of the value of the annual grant of phantom units that the director would have otherwise received.

(6) Consists of (i) a $32,750 in cash retainer and meeting attendance fees (a) for the fourth quarter of 2017 (which were paid in the first quarter of 2018) and (b) earned in the first quarter of 2018; (ii) $18,750 in cash in lieu of a grant of the annual grant of phantom units under the LTIP, which payment was approved by the Board on March 29, 2018 and the amount of which represents one quarter of the value of the annual grant of phantom units that the director would have otherwise received; (iii) $21,386 of DERs.

Table of Contents

(7) Messrs. Hartman, Joyce and Waldheim were appointed to the Board on the Transactions Date in connection with the Transactions; therefore, this table reflects their compensation for the period from the Transactions Date through December 31, 2018. For Mr. Joyce, the amount shown consists of (i) $122,500 in cash retainer for service on the Board, as Chair of the Compensation Committee and as a member of the Audit Committee; (ii) $140,350 in Standard Units awarded; and (iii) $9,130 of DERs. For Mr. Waldheim, the amount shown consists of (i) $124,375 in cash retainer for service on the Board, as Chair of the Audit Committee and as a member of the Compensation Committee; (ii) $140,350 in Standard Units awarded; and (iii) $9,130 of DERs.

(8) Mr. Hartman was appointed to the Board pursuant to that certain Board Representation Agreement entered to among us, the General Partner, ETE and EIG on the Transactions Date in connection with our private placement to EIG of Preferred Units and Warrants. Mr. Hartman does not receive compensation for his service on the Board.

Officers, employees or paid consultants or advisors of us or the General Partner or its affiliates who also serve as directors do not receive additional compensation for their service as directors. Other than Mr. Hartman, our directors who are not officers, employees or paid consultants or advisors of us or the General Partner or its affiliates receive cash and equity based compensation for their services as directors. Our director compensation program is subject to revision by the Board from time to time.

On July 30, 2018 the Board adopted the Amended and Restated Outside Director Compensation Policy (the “New Director Compensation Policy”) effective on the Transactions Date. The New Director Compensation Policy differs from the previous director compensation plan (the “Previous Director Compensation Policy”) in several ways. The New Director Compensation Policy makes the following changes to bring our director compensation program more in line with Energy Transfer’s director compensation program and consistent with the levels of director compensation at similarly situated companies: (i) increases the annual cash retainer for the independent directors from $75,000 to $100,000 and removes the option for the director to elect to receive such retainer in common units rather than cash; (ii) increases the cash retainer for acting as Chairman of a standing committee; (iii) awards different levels of annual cash retainer for acting as the Chairman of the Audit Committee and acting as Chairman of the Compensation Committee; (iv) adds a retainer for membership on a standing committee; (v) discontinues per meeting attendance fees; (vi) increases the value of the annual equity grant from $75,000 to $100,000; (vii) provides for a one-time director onboarding equity of 2,500 Standard Units; (viii) alters the vesting schedule for the Standard Units from vesting in full on the one year anniversary of the grant to incremental vesting over five years; and (ix) provides for vesting in full of all outstanding, unvested Standard Units in the event of the director’s death, Disability or upon a Change in Control.

Table of Contents

The following chart summarizes the key differences between the Previous Director Compensation Policy and the New Director Compensation Policy.

Compensation Element	Previous Director Compensation Policy	New Director Compensation Policy
Annual Cash Retainer	$75,000 (or in common units at director's election)	$100,000
Committee Chair Cash Retainer	Any Standing Committee: $15,000	Audit Committee: $25,000 Compensation Committee: $15,000
Committee Membership Retainer (if not Committee Chair)	None	Audit Committee: $15,000 Compensation Committee: $7,500
Initial Phantom Unit Award	None	2,500 Standard Units
Annual Phantom Unit Award	$75,000 value	$100,000 value
DERs on Unvested Phantom Units	Yes (paid on a current or deferred basis as determined at the time of grant)	Yes (paid on a current basis)
Phantom Unit Vesting Schedule	Vest in full 1 year from grant date	60% vest on third December 5 following grant 40% vest on fifth December 5 following grant
Change-in-Control	Unvested phantom units vest in full, but if director ceases service, all unvested phantom units forfeited	Unvested phantom units vest in full
Cessation of Service due to Death or Disability	All unvested phantom units forfeited	Unvested phantom units vest in full
Attendance Fee Per Meeting	$2,000	None
	Yes	Yes

Reimbursement of Out-of-Pocket Expenses		
Indemnification	Yes, to fullest extent permitted under Delaware law	Yes, to fullest extent permitted under Delaware law

ITEM 12.Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters

Pursuant to the terms of the Equity Restructuring Agreement the Partnership entered into on January 15, 2018, at any time after the first anniversary of the Transactions Date, ETO has the right to contribute (or cause any of its subsidiaries to contribute) to the Partnership all of the outstanding equity interests in any of its subsidiaries that owns the General Partner Interest (as defined in the Equity Restructuring Agreement) in exchange for $10,000,000 (the “GP Contribution”); provided that the GP Contribution will occur automatically if at any time following the Transactions Date (i) ETO or one of its affiliates (including ET LP) owns, directly or indirectly, the General Partner Interest and (ii) ETO and its affiliates (including ET LP) collectively own less than 12,500,000 of the Partnership’s common units.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the beneficial ownership of the Partnership’s common units and Series A Preferred Units as of February 14, 2019 held by:

· each person who beneficially owns 5% or more of the Partnership’s outstanding common units;

Table of Contents

· all of the directors of the General Partner;

· each NEO of the General Partner; and

· all directors and NEOs of the General Partner as a group.

As of February 14, 2019, there were 90,000,504 common units outstanding. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all common units shown as beneficially owned by them and their address is 100 Congress Avenue, Suite 450, Austin, Texas 78701.

Name of Beneficial Owner	Common Units Beneficially Owned	Percentage of Common Units	
Energy Transfer Operating, L.P. (1) (2)	39,658,263	44.07	%
Oppenheimer Funds, Inc. (3)	18,084,216	20.10	%
EIG Veteran Equity Aggregator, L.P. (4)	12,619,921	14.02	%
Eric D. Long (5)	489,940	*	
Matthew C. Liuzzi (6)	175,289	*	
William G. Manias (7)	225,989	*	
David A. Smith (8)	106,545	*	
Sean T. Kimble (9)	93,877	*	
Michael Bradley	—	*	
Christopher R. Curia	—	*	
Matthew S. Hartman	—	*	
Glenn E. Joyce	—	*	
Thomas E. Long	—	*	
Thomas P. Mason	—	*	
Matthew S. Ramsey	—	*	
William S. Waldheim	—	*	
All directors and officers as a group (14 persons) (10)	1,110,203	1.23	%

*Less than 1%.

(1) Energy Transfer Operating, L.P. has sole voting and dispositive power over 39,658,263 common units based on a Schedule 13D filed on April 11, 2018 with the SEC. The principal business address of Energy Transfer Operating, L.P. is 8111 Westchester Drive, Suite 600, Dallas, Texas 75225.

(2) Includes 8,000,000 common units held by USA Compression GP, LLC.

(3) Oppenheimer Funds, Inc. has the shared power to dispose or to direct the disposition of 18,084,216 common units based on Amendment No. 10 to Schedule 13G filed on January 14, 2019 with the SEC. Pursuant to the provisions of the Partnership Agreement providing that the holder of 20% or more of any class of the Partnership's securities may not, subject to certain exceptions, vote any of those securities, Oppenheimer Funds, Inc. does not have the shared power to vote or direct the vote with respect to any of the common units it owns. The principal business address of Oppenheimer Funds, Inc. is Two World Financial Center, 225 Liberty Street, New York, New York 10281.

(4) EIG Veteran Equity Aggregator, L.P. holds Warrants to acquire (i) 4,206,240 common units of the Partnership at an exercise price of $17.03 per common unit and (ii) 8,413,281 common units of the Partnership at an exercise price of $19.59 per common unit. The Warrants become exercisable on April 2, 2019 and will expire on April 2, 2028. Upon exercise of the Warrants in full and assuming the Partnership does not elect to settle the Warrants in common units on a net basis, EIG would have sole voting and dispositive power over 12,619,921 common units of the Partnership based on the Schedule 13D filed on February 4, 2019 with the SEC. The principal business address of EIG Veteran Equity Aggregator, L.P. is 333 Clay Street, Suite 3500, Houston, Texas 77002.

(5) Includes 414,926 common units held directly by Mr. Long, 17,592 common units held by Aladdin Partners, L.P., a limited partnership affiliated with Mr. Long, 55,248 common units held by certain trusts of which Mr. Long is the trustee and 2,174

Table of Contents

common units held by Mr. Long's spouse. Mr. Long disclaims any beneficial ownership of the units held by Mr. Long's spouse, except to the extent of his pecuniary interest therein.

(6) Includes 52,699 common units that Mr. Liuzzi has the right to acquire within 60 days upon the vesting and/or settlement of his Standard Units and Retention Units, subject to Compensation Committee discretion.

(7) Includes 66,446 common units that Mr. Manias has the right to acquire within 60 days upon the vesting and/or settlement of his Standard Units and Retention Units, subject to Compensation Committee discretion.

(8) Includes 22,944 common units that Mr. Smith has the right to acquire within 60 days upon the vesting and/or settlement of his Standard Units, subject to Compensation Committee discretion.

(9) Includes 36,971common units that Mr. Kimble has the right to acquire within 60 days upon the vesting and/or settlement of his Standard Units, subject to Compensation Committee discretion.

(10) Includes 186,509 common units that certain of our directors and executive officers have the right to receive within 60 days upon the vesting and/or settlement of phantom units held by such directors and executive officers.

Securities Authorized for Issuance Under Equity Compensation Plans

In connection with our IPO on January 18, 2013, the Board adopted the LTIP. On November 1, 2018, the Board approved and adopted the First Amendment to the LTIP (the "First Amendment") with immediate effectiveness. The First Amendment (i) increased the number of common units available to be awarded under the LTIP by 8,590,000 common units (which brings the total number of common units available to be awarded under the LTIP to 10,000,000 common units); (ii) provided that common units withheld to satisfy the exercise price or tax withholding obligations with respect to an award will not be considered to be common units that have been delivered under the LTIP; (iii) for awards granted on or after April 3, 2018, modifies the definition of "Change in Control" under the LTIP to refer to Energy Transfer Operating, L.P., Energy Transfer LP and their Affiliates (as defined under the LTIP) and successors; (iv) updated the tax withholding provision of the LTIP and (v) extended the term of the LTIP until November 1, 2028.

The following table provides certain information with respect to the LTIP as of December 31, 2018:

			Number of securities remaining available for

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	future issuance under equity compensation plan (excluding securities reflected in the first column)	
Equity compensation plans approved by security holders	—	N/A	—	
Equity compensation plans not approved by security holders	1,429,078	N/A	10,000,000	(1)

(1) As of December 31, 2018, the number of common units that may be delivered pursuant to awards under the LTIP was 10,000,000 common units before giving effect to any outstanding awards. Phantom units withheld to satisfy the exercise price or tax withholdings of an award and phantom units that are forfeited, cancelled, paid or otherwise terminate or expire without the actual delivery of common units will be available for delivery pursuant to other awards. Currently, only phantom unit awards are outstanding under the LTIP. Pursuant to the terms of the LTIP, each phantom unit is the economic equivalent of one common unit and, other than director phantom unit awards, may be settled in cash or common units at the discretion of the Board or a committee thereof. Any phantom unit settled in cash will not result in the actual delivery of a common unit.

For more information about the LTIP, please see Note 15 to our consolidated financial statements.

Table of Contents

ITEM 13.Certain Relationships and Related Party Transactions, and Director Independence

Certain Relationships and Related Party Transactions

Services Agreement

In connection with our formation and IPO, we and other parties have entered into the agreements described below. These agreements were not the result of arm's length negotiations, and they, or any of the transactions that they provide for, may not be effected on terms as favorable to the parties to these agreements as could have been obtained from unaffiliated third parties.

We entered into that certain Services Agreement with USAC Management, a wholly owned subsidiary of the General Partner, effective on January 1, 2013 (the "Services Agreement"), pursuant to which USAC Management provides to us and the General Partner management, administrative and operating services and personnel to manage and operate our business. We or one of our subsidiaries pays USAC Management for the allocable expenses it incurs in its performance under the Services Agreement. These expenses include, among other things, salary, bonus, cash incentive compensation and other amounts paid to persons who perform services for us or on our behalf and other expenses allocated by USAC Management to us. USAC Management has substantial discretion to determine in good faith which expenses to incur on our behalf and what portion to allocate to us.

On November 3, 2017, the Services Agreement was amended to extend its term to December 31, 2022. The Services Agreement may be terminated at any time by (i) the Board upon 120 days' written notice for any reason in its sole discretion or (ii) USAC Management upon 120 days' written notice if: (a) we or the General Partner experience a Change of Control (as defined in the Services Agreement); (b) we or the General Partner breach the terms of the Services Agreement in any material respect following 30 days' written notice detailing the breach (which breach remains uncured after such period); (c) a receiver is appointed for all or substantially all of our or the General Partner's property or an order is made to wind up our or the General Partner's business; (d) a final judgment, order or decree that materially and adversely affects the ability of us or the General Partner to perform under the Services Agreement is obtained or entered against us or the General Partner, and such judgment, order or decree is not vacated, discharged or stayed; or (e) certain events of bankruptcy, insolvency or reorganization of us or the General Partner occur. USAC Management will not be liable to us for their performance of, or failure to perform, services under the Services Agreement unless its acts or omissions constitute gross negligence or willful misconduct.

Transactions with Energy Transfer

We provide compression services to entities affiliated with Energy Transfer, which became a related party of ours on the Transactions Date as a result of the Transactions and its resultant ownership and control of the General Partner and ownership of approximately 44% of our limited partner interests as of December 31, 2018 (including the 8,000,000 common units owned by the General Partner and before giving effect to the conversion of the 6,397,965 Class B Units to common units that will occur in 2019). We recognized $17.1 million in revenue from compression services from entities affiliated with Energy Transfer for the year ended December 31, 2018. We may provide compression services to entities affiliated with Energy Transfer in the future, and any significant transactions will be disclosed.

Table of Contents

The following table summarizes payments and accounts receivable and payable between us and Energy Transfer during 2018.

Transaction	Explanation	Amount/Value
2018 quarterly distributions on limited partner interests (three quarters)	Represents the aggregate amount of distributions made to Energy Transfer in respect of the Partnership's common units during 2018.	$62.5 million
Revenue for compression services	Represents the aggregate amount of revenue recognized for providing compression services to entities affiliated with Energy Transfer for the full year 2018.	$17.1 million
Sales Tax Contingency	Receivable from ETP as of December 31, 2018 related to indemnification for sales tax contingencies incurred by the USA Compression Predecessor.	$44.9 million
Accounts receivable	Receivables for compression services provided to entities affiliated with Energy Transfer as of December 31, 2018.	$2.7 million
Accounts payable	Payables to entities affiliated with Energy Transfer as of December 31, 2018.	$0.4 million

Other Related Party Transactions

We provide compression services to entities affiliated with Riverstone/Carlyle Global Energy and Power Fund IV, L.P. ("Riverstone"), which owned a majority of the membership interests in USA Compression Holdings, LLC, ("USAC Holdings"), which owned and controlled the General Partner and owned approximately 40% of our limited partner interests before the Transactions. We recognized $0.3 million and $0.7 million in revenue from compression services from such affiliated entities for the years ended December 31, 2018 and 2017.

On the Transactions Date and in connection with the Transactions, three NEOs who held Class A Units in USAC Holdings received cash distributions from USAC Holdings in the following amounts pursuant to the terms of the Amended and Restated Limited Liability Company Agreement of USA Compression Holdings, LLC (the "Holdings LLC Agreement"): Eric D. Long, approximately $1.1 million; William G. Manias, approximately $374,000; and David A. Smith, approximately $374,000. On June 15, 2018, USAC Holdings sold 5,000,000 common units of the Partnership in a secondary offering (the "Secondary Offering"). In connection with the Secondary Offering, in June 2018 two NEOs who held Class A Units in USAC Holdings received cash distributions from USAC Holdings in the following amounts pursuant to the terms of the Holdings LLC Agreement: Eric D. Long, approximately $420,000; and David A. Smith, approximately $140,000.

As of August 30, 2018, Riverstone was no longer a related party due to its sale of the General Partner to Energy Transfer in connection with the Transactions and its divestiture of all of its remaining common units in a privately negotiated block trade (the "August Trade"), as reported on Amendment No. 15 to Schedule 13D Riverstone filed with

the SEC on August 30, 2018. In connection with the August Trade, in September 2018 two NEOs who held Class A Units in USAC Holdings received cash distributions from USAC Holdings in the following amounts pursuant to the terms of the Holdings LLC Agreement: Eric D. Long, approximately $537,000; and David A. Smith, approximately $179,000.

Conflicts of Interest

Conflicts of interest exist and may arise in the future as a result of the relationships between the General Partner and its affiliates, including Energy Transfer, on the one hand, and the Partnership and its limited partners, on the other hand. The directors and officers of the General Partner have fiduciary duties to manage the General Partner in a manner beneficial to its owners. At the same time, the General Partner has a fiduciary duty to manage the Partnership in a manner beneficial to us and our unitholders.

Whenever a conflict arises between the General Partner or its affiliates, on the one hand, and the Partnership and its limited partners, on the other hand, the General Partner will resolve that conflict. The Partnership Agreement contains provisions that modify and limit the General Partner’s fiduciary duties to the Partnership’s unitholders. The Partnership

Table of Contents

Agreement also restricts the remedies available to the Partnership's unitholders for actions taken by the General Partner that, without those limitations, might constitute breaches of its fiduciary duty.

The Partnership Agreement provides that the General Partner will not be in breach of its obligations under the Partnership Agreement or its fiduciary duties to us or our unitholders if a transaction with an affiliate or the resolution of a conflict of interest is (a) approved by the conflicts committee of the Board, although the General Partner is not obligated to seek such approval; (b) approved by the vote of a majority of our outstanding common units, excluding any common units owned by the General Partner and its affiliates; (c) on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or (d) fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to us.

The General Partner may, but is not required to, seek the approval of such resolution from the conflicts committee of the Board. In connection with a situation involving a conflict of interest, any determination by the General Partner must be made in good faith, provided that, if the General Partner does not seek approval from the conflicts committee and the Board determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in subclauses (c) or (d) above, then it will conclusively be deemed that, in making its decision, the Board acted in good faith. Unless the resolution of a conflict is specifically provided for in the Partnership Agreement, the General Partner or the conflicts committee may consider any factors that it determines in good faith to be appropriate when resolving a conflict. When the Partnership Agreement provides that someone act in good faith, it requires that person to reasonably believe he is acting in the best interests of the Partnership. Please read Part I, Item 1A ("Risk Factors—Risks Inherent in an Investment in Us").

Procedures for Review, Approval and Ratification of Related Person Transactions

If a conflict or potential conflict of interest arises between the General Partner and its affiliates, including Energy Transfer, on the one hand and the Partnership and its limited partners, on the other hand, the resolution of any such conflict or potential conflict is addressed as described under "–Conflicts of Interest."

Pursuant to the Partnership's Code of Business Conduct and Ethics and Corporate Governance Guidelines, directors, officers and employees are required to disclose any situations that reasonably would be expected to give rise to a conflict of interest and report it to their supervisor, the Partnership's general counsel or the Board, as appropriate.

Director Independence

Please see Part III, Item 10 (“Directors, Executive Officers and Corporate Governance—Board of Directors”) for a discussion of director independence matters.

ITEM 14.Principal Accountant Fees and Services

The following table sets forth fees paid for professional services rendered by KPMG LLP, our independent registered public accounting firm until April 5, 2018, during the year ended December 31, 2017:

	Year Ended December 31, 2017 (in millions)
Audit Fees (1)	$ 0.6
Audit-Related Fees	—
Tax Fees	—
All Other Fees	—
Total	$ 0.6

(1) Expenditures classified as “Audit Fees” above were billed to the Partnership and include the audits of our annual financial statements, work related to the registration statements, reviews of our quarterly financial statements, and fees associated with comfort letters and consents related to securities offerings and registration statements.

Table of Contents

The following table sets forth fees paid for professional services rendered by Grant Thornton LLP ("Grant Thornton"), our independent registered public accounting firm since April 5, 2018, during the year ended December 31, 2018:

	Year Ended December 31, 2018 (1)
	(in millions)
Audit Fees (2)	$ 1.5
Audit-Related Fees	—
Tax Fees	—
All Other Fees	—
Total	$ 1.5

(1) In connection with the Transactions, we appointed Grant Thornton as our independent registered public accounting firm on April 5, 2018.

(2) Expenditures classified as "Audit Fees" above were billed to the Partnership and include the audits of our annual financial statements and internal control over financial reporting, reviews of our quarterly financial statements, and fees associated with comfort letters and consents related to securities offerings and registration statements.

The Audit Committee has adopted the Audit Committee Charter, which is available on our website and which requires the Audit Committee to pre-approve all audit and non-audit services to be provided by our independent registered public accounting firm. The Audit Committee does not delegate its pre-approval responsibilities to management or to an individual member of the Audit Committee. The Audit Committee approved 100% of the services described above.

Table of Contents

PART IV

ITEM 15.Exhibits and Financial Statement Schedules

(a) Documents filed as a part of this report.

1. Financial Statements. See “Index to Consolidated Financial Statements” set forth on Page F-1.

2. Financial Statement Schedule

All other schedules have been omitted because they are not required under the relevant instructions.

3. Exhibits

The following documents are filed as exhibits to this report:

Table of Contents

Exhibit Number	Description
2.1	Contribution Agreement dated as of January 15, 2018, by and among USA Compression Partners, LP, Energy Transfer Partners, L.P., Energy Transfer Partners GP, L.P., ETC Compression, LLC and, solely for certain purposes therein, Energy Transfer Equity, L.P. (incorporated by reference to Exhibit 2.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on January 16, 2018)
2.2	Equity Restructuring Agreement, dated as of January 15, 2018, by and among Energy Transfer Equity, L.P., USA Compression Partners, LP and USA Compression GP, LLC (incorporated by reference to Exhibit 2.2 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on January 16, 2018)
3.1	Certificate of Limited Partnership of USA Compression Partners, LP (incorporated by reference to Exhibit 3.1 to Amendment No. 3 of the Partnership's registration statement on Form S-1 (Registration No. 333-174803) filed on December 21, 2011)
3.2	Second Amended and Restated Agreement of Limited Partnership of USA Compression Partners, LP (incorporated by reference to Exhibit 3.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on April 6, 2018)
4.1	Indenture, dated as of March 23, 2018 by and among USA Compression Partners, LP, USA Compression Finance Corp., the subsidiary guarantors party thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on March 26, 2018)
4.2	First Supplemental Indenture, dated as of April 2, 2018, among USA Compression Partners, LP, USA Compression Finance Corp., the guarantors named on the signature pages thereto and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on April 6, 2018)
4.3	Form of 6.875% Senior Note due 2026 (incorporated by reference to Exhibit 4.2 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on March 26, 2018)
4.4	Registration Rights Agreement, dated as of March 23, 2018, by and among USA Compression Partners, LP, USA Compression Finance Corp., the subsidiary guarantors named therein and J.P. Morgan Securities LLC and Barclays Capital Inc., as representatives of the initial purchasers named therein (incorporated by reference to Exhibit 4.3 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on March 26, 2016).
4.5	Registration Rights Agreement, dated as of April 2, 2018, by and among USA Compression Partners, LP, ETE, ETP and USA Compression Holdings, LLC (incorporated by reference to Exhibit 4.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on April 6, 2018)
4.6	Registration Rights Agreement, dated as of April 2, 2018, by and between USA Compression Partners, LP and the Purchasers party thereto (incorporated by reference to Exhibit 4.2 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on April 6, 2018)
4.7	

	Board Representation Agreement, dated as of April 2, 2018, by and among USA Compression Partners, LP, USA Compression GP, LLC, Energy Transfer Equity, L.P. and the Purchasers party thereto (incorporated by reference to Exhibit 4.3 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on April 6, 2018)
10.1	Fifth Amended and Restated Credit Agreement dated as of December 13, 2013, by and among USA Compression Partners, LP, USAC OpCo 2, LLC and USAC Leasing 2, LLC, as guarantors, USA Compression Partners, LLC and USAC Leasing, LLC, as borrowers, the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as agent and LC issuer, J.P. Morgan Securities LLC, as lead arranger and sole book runner, Wells Fargo Bank, N.A., as documentation agent, and Regions Bank, as syndication agent (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on December 17, 2013)

Table of Contents

10.2	Letter Agreement by and among USA Compression Partners, LLC, USAC Leasing, LLC, USA Compression Partners, LP, USAC Leasing 2, LLC, USAC OpCo 2, LLC, the Lenders party thereto and JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders, dated as of June 30, 2014 (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on July 3, 2014)
10.3	Second Amendment to the Fifth Amended and Restated Credit Agreement, dated as of January 6, 2015, by and among USA Compression Partners, LP, as guarantor, USA Compression Partners, LLC, USAC Leasing, LLC, USAC OpCo 2, LLC and USAC Leasing 2, LLC, as borrowers, the lenders party thereto and JPMorgan Chase Bank, N.A., as agent and LC issuer (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on January 9, 2015)
10.4	Third Amendment to the Fifth Amended and Restated Credit Agreement, dated as of March 18, 2016, by and among USA Compression Partners, LP, as guarantor, USA Compression Partners, LLC, USAC Leasing, LLC, USAC OpCo2, LLC and USAC Leasing 2, LLC, as borrowers, the lenders party thereto and JP Morgan Chase Bank, N.A., as agent and LC issuer (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on March 21, 2016)
10.5	Fourth Amendment to the Fifth Amended and Restated Credit Agreement, dated as of January 29, 2018, by and among USA Compression Partners, LP, as guarantor, USA Compression Partners, LLC, USAC Leasing, LLC, USAC OpCo2, LLC and USAC Leasing 2, LLC, as borrowers, the lenders party thereto and JP Morgan Chase Bank, N.A., as agent and LC issuer and Swingline Lender (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on February 2, 2018)
10.6	Sixth Amended and Restated Credit Agreement, dated as of April 2, 2018, by and among the Partnership, as borrower, USAC OpCo 2, LLC, USAC Leasing 2, LLC, USA Compression Partners, LLC, USAC Leasing, LLC, CDM Resource Management LLC and CDM Environmental & Technical Services LLC and USA Compression Finance Corp., the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as agent and an LC issuer, JPMorgan Chase Bank, N.A., Barclays Bank PLC, Regions Capital Markets, a division of Regions Bank, RBC Capital Markets and Wells Fargo Bank, N.A., as joint lead arrangers and joint book runners, Barclays Bank PLC, Regions Bank, RBC Capital Markets and Wells Fargo Bank, N.A., as syndication agents, and MUFG Union Bank, N.A., SunTrust Bank and The Bank of Nova Scotia, as senior managing agents (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on April 6, 2018)
10.7†	Long-Term Incentive Plan of USA Compression Partners, LP (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on January 18, 2013)
10.8†	First Amendment to the USA Compression Partners, LP 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Partnership's Quarterly Report on Form 10-Q (File No. 001-35779) filed on November 6, 2018)
10.9†	Employment Agreement, dated December 23, 2010, between USA Compression Partners, LLC and Eric D. Long (incorporated by reference to Exhibit 10.5 to Amendment No. 4 of the Partnership's registration statement on Form S-1 (Registration No. 333-174803) filed on February 13, 2012)
10.10†	Employment Agreement, dated April 17, 2013, between USA Compression Management Services, LLC and Matthew C. Liuzzi (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on January 15, 2015)

10.11† Employment Agreement, dated July 15, 2013, between USA Compression Management Services, LLC and William G. Manias (incorporated by reference to Exhibit 10.7 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-35779) filed on February 11, 2016)

10.12† Employment Agreement, dated December 23, 2010, between USA Compression Partners, LLC and David A. Smith (incorporated by reference to Exhibit 10.8 to Amendment No. 4 of the Partnership's registration statement on Form S-1 (Registration No. 333-174803) filed on February 13, 2012)

Table of Contents

10.13†*	Employment Agreement, dated July 1, 2016, between USA Compression Management Services, LLC and Sean T. Kimble
10.14	Services Agreement, dated effective January 1, 2013, by and among USA Compression Partners, LP, USA Compression GP, LLC and USA Compression Management Services, LLC (incorporated by reference to Exhibit 10.11 to Amendment No. 10 of the Partnership's registration statement on Form S-1 (Registration No. 333-174803) filed on January 7, 2013)
10.15	Amendment No. 1 to Services Agreement, dated effective November 3, 2017, by and among USA Compression Partners, LP, USA Compression GP, LLC and USA Compression Management Services, LLC (incorporated by reference to Exhibit 10.1 to the Partnership's Quarterly Report on Form 10-Q (File No. 001-35779) filed on November 7, 2017)
10.16†	USA Compression Partners, LP 2013 Long-Term Incentive Plan—Form of Director Phantom Unit Agreement (incorporated by reference to Exhibit 10.8 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-35779) filed on March 28, 2013)
10.17†	USA Compression Partners, LP 2013 Long-Term Incentive Plan—Form of Employee Phantom Unit Agreement (incorporated by reference to Exhibit 10.10 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-35779) filed on February 20, 2014)
10.18†	USA Compression Partners, LP 2013 Long-Term Incentive Plan—Form of Director Phantom Unit Agreement (in lieu of Annual Cash Retainer) (incorporated by reference to Exhibit 10.10 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-35779) filed on March 28, 2013)
10.19†	USA Compression Partners, LP 2013 Long-Term Incentive Plan—Form of Director Phantom Unit Agreement (incorporated by reference to Exhibit 10.5 to the Partnership's Quarterly Report on form 10-Q (File No. 001-35779) filed on November 6, 2018)
10.20†	USA Compression Partners, LP Annual Cash Incentive Program (incorporated by reference to Exhibit 10.12 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2013 (File No. 001-35779) filed on February 20, 2014)
10.21†*	USA Compression Partners, LP Amended and Restated Annual Cash Incentive Plan
10.22†	USA Compression Partners, LP 2013 Long-Term Incentive Plan—Form of Employee Phantom Unit Agreement (with updated performance metrics) (incorporated by reference to Exhibit 10.13 to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2015 (File No. 001-35779) filed on February 11, 2016)
10.23†	USA Compression Partners, LP 2013 Long-Term Incentive Plan – Form of Employee Phantom Unit Agreement (incorporated by reference to Exhibit 10.6 to the Partnership's Quarterly Report on Form 10-Q (File No. 001-35779) filed on November 6, 2018)

10.24†	USA Compression Partners, LP 2018 Long-Term Incentive Plan – Form of Retention Phantom Unit Agreement (incorporated by reference to Exhibit 10.2 to the Partnership's Quarterly Report on Form 10-Q (File No. 001-35779) filed on November 6, 2018)
10.25	Form of Termination Agreement and Mutual Release (incorporated by reference to Exhibit 10.3 to the Partnership's Quarterly Report on Form 10-Q (File No. 001-35779) filed on November 6, 2018)
10.26†	USA Compression GP, LLC Amended and Restated Outside Director Compensation Policy (incorporated by reference to Exhibit 10.4 to the Partnership's Quarterly Report on Form 10-Q (File No. 001-35779) filed on November 6, 2018)
10.27	Series A Preferred Unit and Warrant Purchase Agreement, dated January 15, 2018, among USA Compression Partners, LP and the purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Partnership's Current Report on Form 8-K (File No. 001-35779) filed on January 16, 2018)

Table of Contents

16.1	Letter of KPMG LLP, dated April 9, 2018, regarding change in independent registered accounting firm (incorporated by reference to Exhibit 16.1 to the Partnership's Current Report on Form 8-K/A (File No. 001-35779) filed on April 9, 2018)
21.1*	List of subsidiaries of USA Compression Partners, LP
23.1*	Consent of Grant Thornton LLP
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1#	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2#	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1*	Unaudited pro forma condensed consolidated statement of operations of USA Compression Partners, LP and the CDM Compression Business for the year ended December 31, 2018
101.INS*	XBRL Instance Document
101.SCH*	XBRL Extension Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document
101.LAB*	XBRL Label Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document

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*Filed Herewith.

#Furnished herewith; not considered to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

†Management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA COMPRESSION PARTNERS, LP

By: USA Compression GP, LLC,
its General Partner

By: /s/ Eric D. Long
Eric D. Long
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 19, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 19, 2019.

Name	Title
/s/ Eric D. Long Eric D. Long	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Matthew C. Liuzzi Matthew C. Liuzzi	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ G. Tracy Owens G. Tracy Owens	Vice President, Finance and Chief Accounting Officer (Principal Accounting Officer)
/s/ Michael Bradley Michael Bradley	Director
/s/ Christopher R. Curia Christopher R. Curia	Director
/s/ Matthew S. Hartman	

Matthew S. Hartman	Director
/s/ Glenn E. Joyce Glenn E. Joyce	Director
/s/ Thomas E. Long Thomas E. Long	Director
/s/ Thomas P. Mason Thomas P. Mason	Director
/s/ Matthew S. Ramsey Matthew S. Ramsey	Director
/s/ William S. Waldheim William S. Waldheim	Director

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of USA Compression GP, LLC and

Unitholders of USA Compression Partners, LP

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of USA Compression Partners, LP (a Delaware limited partnership) and subsidiaries (the "Partnership") as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in partners' capital and predecessor parent company net investment, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Partnership's internal control over financial reporting as of December 31, 2018, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 19, 2019 expressed an unqualified opinion thereon.

Basis for opinion

These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the Partnership's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Partnership's auditor since 2017.

Houston, Texas

February 19, 2019

Table of Contents

USA COMPRESSION PARTNERS, LP

Consolidated Balance Sheets

(in thousands)

	December 31, 2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 99	$ 4,013
Accounts receivable, net:		
Trade, net	75,572	32,696
Other	3,809	—
Related party receivables	47,661	45
Inventory, net	89,007	33,221
Prepaid expenses and other assets	1,592	4,209
Total current assets	217,740	74,184
Installment receivable	6,924	—
Property and equipment, net	2,521,488	1,192,921
Identifiable intangible assets, net	392,550	198,215
Goodwill	619,411	253,428
Other assets	16,536	205
Total assets	$ 3,774,649	$ 1,718,953
Liabilities, Partners' Capital and Predecessor Parent Company Net Investment		
Current liabilities:		
Accounts payable	$ 23,804	$ 1,383
Related party payables	395	1,977
Accrued liabilities	94,028	41,513
Deferred revenue	31,372	2,220
Total current liabilities	149,599	47,093
Long-term debt, net	1,759,058	—
Other liabilities	9,827	6,990
Total liabilities	1,918,484	54,083
Preferred Units	477,309	—
Commitments and contingencies		
Partners' capital:		
Limited partner interest:		
Common units, 89,984 units issued and outstanding as of December 31, 2018	1,289,731	—
Class B Units, 6,398 units issued and outstanding as of December 31, 2018	75,146	—
Warrants	13,979	—
Predecessor parent company net investment	—	1,664,870
Total partners' capital and predecessor parent company net investment	1,378,856	1,664,870

Total liabilities, partners' capital and predecessor parent company net investment	$ 3,774,649	$ 1,718,953

See accompanying notes to consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP

Consolidated Statements of Operations

(in thousands, except per unit amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Contract operations	$ 546,896	$ 249,346	$ 239,143
Parts and service	20,402	10,085	7,921
Related party	17,054	17,240	16,873
Total revenues	584,352	276,671	263,937
Costs and expenses:			
Cost of operations, exclusive of depreciation and amortization	214,724	125,204	112,898
Selling, general and administrative	68,995	24,944	22,739
Depreciation and amortization	213,692	166,558	155,134
Loss (gain) on disposition of assets	12,964	(367)	120
Impairment of compression equipment	8,666	—	—
Impairment of goodwill	—	223,000	—
Total costs and expenses	519,041	539,339	290,891
Operating income (loss)	65,311	(262,668)	(26,954)
Other income (expense):			
Interest expense, net	(78,377)	—	—
Other	41	(223)	(153)
Total other expense	(78,336)	(223)	(153)
Net loss before income tax expense (benefit)	(13,025)	(262,891)	(27,107)
Income tax expense (benefit)	(2,474)	1,843	(163)
Net loss	(10,551)	(264,734)	(26,944)
Less: distributions on Preferred Units	(36,430)	—	—
Net loss attributable to common and Class B unitholders' interests	$ (46,981)	$ (264,734)	$ (26,944)
Net loss attributable to:			
Common units	$ (32,053)		
Class B units	$ (14,928)		
Weighted average common units outstanding - basic and diluted	74,481		
Weighted average Class B Units outstanding - basic and diluted	6,398		
Basic and diluted net loss per common unit	$ (0.43)		
Basic and diluted net loss per Class B Unit	$ (2.33)		

Distributions declared per common unit	$ 1.575

See accompanying notes to consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP

Consolidated Statements of Changes in Partners' Capital

And Predecessor Parent Company Net Investment

(in thousands)

	Common Units	Class B Units	Warrants	Predecessor Parent Company Net Investment	Total
Ending balance, December 31, 2015	$ —	$ —	$ —	$ 2,042,996	$ 2,042,996
Predecessor net loss	—	—	—	(26,944)	(26,944)
Predecessor parent company net distributions	—	—	—	(86,829)	(86,829)
Ending balance, December 31, 2016	—	—	—	1,929,223	1,929,223
Predecessor net loss	—	—	—	(264,734)	(264,734)
Predecessor parent company net contributions	—	—	—	381	381
Ending balance, December 31, 2017	—	—	—	1,664,870	1,664,870
Predecessor net loss for the period January 1, 2018 to April 1, 2018	—	—	—	(23,370)	(23,370)
Predecessor parent company net contribution for the period January 1, 2018 to April 1, 2018	—	—	—	26,730	26,730
Allocation of Predecessor parent company net investment	1,668,230	—	—	(1,668,230)	—
Deemed distribution for additional interest in USA Compression Predecessor	(36,111)	—	—	—	(36,111)
Purchase Price Adjustment for USA Compression Partners, LP	(654,340)	—	—	—	(654,340)
Issuance of common units for the Equity Restructuring	135,440	—	—	—	135,440
Issuance of common units for the CDM Acquisition	324,910	—	—	—	324,910
Issuance of Class B Units for the CDM Acquisition	—	86,125	—	—	86,125
Issuance of Warrants	—	—	13,979	—	13,979
Vesting of phantom units	5,283	—	—	—	5,283
Distributions and distribution equivalent rights	(141,694)	—	—	—	(141,694)
Issuance of common units under the DRIP	645	—	—	—	645

Net loss for the period April 2, 2018 to December 31, 2018	(12,632)	(10,979)	—	—	(23,611)
Partners' capital ending balance, December 31, 2018	$ 1,289,731	$ 75,146	$ 13,979	$ —	$ 1,378,856

See accompanying notes to consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net loss	$ (10,551)	$ (264,734)	$ (26,944)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	213,692	166,558	155,134
Bad debt expense (recovery)	633	(1,777)	(593)
Amortization of debt issue costs	5,080	—	—
Unit-based compensation expense	11,740	4,048	3,539
Deferred income tax expense (benefit)	(2,663)	1,801	(155)
Loss (gain) on disposition of assets	12,964	(367)	120
Impairment of compression equipment	8,666	—	—
Impairment of goodwill	—	223,000	—
Changes in assets and liabilities, net of effects of business combination:			
Accounts receivable, net	(50,029)	9,331	25,578
Inventory, net	(6,736)	(698)	(515)
Prepaid expenses and other current assets	9,298	(3,569)	(167)
Other noncurrent assets	(59)	8	(34)
Accounts payable and related party payables	(5,140)	2,531	(2,291)
Other current liabilities	(4,879)	228	(1,769)
Accrued liabilities and deferred revenue	44,324	(404)	(21,840)
Net cash provided by operating activities	226,340	135,956	130,063
Cash flows from investing activities:			
Capital expenditures, net	(266,566)	(157,292)	(61,575)
Proceeds from disposition of property and equipment	7,466	14,834	24,808
Proceeds from insurance recovery	409	—	—
Acquisition of USA Compression Predecessor	(1,231,478)	—	—
Assumed cash acquired in business combination of USA Compression Partners, LP	710,506	—	—
Net cash used in investing activities	(779,663)	(142,458)	(36,767)
Cash flows from financing activities:			
Proceeds from revolving credit facility	697,684	—	—
Payments on revolving credit facility	(467,199)	—	—
Proceeds from issuance of Preferred Units and Warrants, net	479,100	—	—
Cash paid related to net settlement of unit-based awards	(4,447)	—	—
Cash distributions on common units	(142,324)	—	—
Cash distributions on Preferred Units	(24,242)	—	—
Financing costs	(17,683)	—	—

Contributions from (distributions to) Parent, net	28,520	(3,666)	(90,367)
Net cash provided by (used in) financing activities	549,409	(3,666)	(90,367)
Increase (decrease) in cash and cash equivalents	(3,914)	(10,168)	2,929
Cash and cash equivalents, beginning of year	4,013	14,181	11,252
Cash and cash equivalents, end of year	$ 99	$ 4,013	$ 14,181
Supplemental cash flow information:			
Cash paid for interest, net of capitalized amounts	$ 61,021	$ —	$ —
Cash paid for income taxes	$ 183	$ —	$ —
Supplemental non-cash transactions:			
Non-cash distributions to certain common unitholders (DRIP)	$ 645	$ —	$ —
Predecessor's Non-cash contribution (to) from Predecessor's Parent	$ (1,790)	$ 4,047	$ 3,538
Transfers to inventory from property and equipment	$ (10,602)	$ —	$ —
Transfer from long-term installment receivable to short-term	$ (2,809)	$ —	$ —
Transfer from long-term liabilities to short-term	$ 914	$ —	$ —
Change in capital expenditures included in accounts payable and accrued liabilities	$ (32,168)	$ 17,300	$ (3,678)
Deemed distribution for additional interest in USA Compression Predecessor	$ (36,111)	$ —	$ —
Issuance of common units for the CDM Acquisition	$ 324,910	$ —	$ —
Issuance of Class B Units for the CDM Acquisition	$ 86,125	$ —	$ —
Issuance of common units for the Equity Restructuring	$ 135,440	$ —	$ —

See accompanying notes to consolidated financial statements.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

(1) Organization and Description of Business

Unless the context otherwise requires or where otherwise indicated, the terms “our”, “we”, “us”, “the Partnership” and similar language when used in the present or future tense and for periods on or subsequent to April 2, 2018 (the “Transactions Date”) refer to USA Compression Partners, LP, collectively with its consolidated operating subsidiaries, including the USA Compression Predecessor. Unless the context otherwise requires or where otherwise indicated, the term “USA Compression Predecessor,” as well as the terms “our,” “we,” “us” and “its” when used in an historical context or in reference to periods prior to the Transactions Date, refers to CDM Resource Management LLC (“CDM Resource”) and CDM Environmental & Technical Services LLC (“CDM E&T”) collectively, which has been deemed to be the predecessor of the Partnership for financial reporting purposes.

We are a Delaware limited partnership. Through our operating subsidiaries, we provide compression services under fixed-term contracts with customers in the natural gas and crude oil industries, using natural gas compression packages that we design, engineer, own, operate and maintain. We primarily provide compression services in a number of shale plays throughout the United States, including the Utica, Marcellus, Permian Basin, Delaware Basin, Eagle Ford, Mississippi Lime, Granite Wash, Woodford, Barnett, Haynesville, Niobrara and Fayetteville shales.

USA Compression GP, LLC, a Delaware limited liability company, serves as our general partner and is referred to herein as the “General Partner”. The General Partner was wholly owned by Energy Transfer Equity, L.P. (“ETE”), through its wholly owned subsidiary, Energy Transfer Partners, L.L.C. (“ETP LLC”). In October 2018, ETE and Energy Transfer Partners, L.P. (“ETP”) completed the merger of ETP with a wholly owned subsidiary of ETE in a unit-for-unit exchange (the “ETE Merger”). Following the closing of the ETE Merger, ETE changed its name to “Energy Transfer LP” and ETP changed its name to “Energy Transfer Operating, L.P.” Upon the closing of the ETE Merger, ETE contributed to ETP 100% of the limited liability company interests in the General Partner. References herein to “ETP” refer to Energy Transfer Partners, L.P. for periods prior to the ETE Merger and Energy Transfer Operating, L.P. following the ETE Merger, and references to “ETE” refer to Energy Transfer Equity, L.P. for periods prior to the ETE Merger and Energy Transfer LP following the ETE Merger.

The USA Compression Predecessor owned and operated a fleet of compressors used to provide natural gas compression services for customer specific systems. The USA Compression Predecessor also owned and operated a fleet of equipment used to provide treating services, such as carbon dioxide and hydrogen sulfide removal, natural gas cooling, and dehydration. The USA Compression Predecessor had operations located in Texas, Oklahoma, Louisiana, Arkansas, Pennsylvania, New Mexico, Colorado, Ohio, and West Virginia.

Certain of our operating subsidiaries are borrowers under a revolving credit facility and the Partnership is a guarantor of that revolving credit facility (see Note 10). The accompanying consolidated financial statements include the accounts of the Partnership and its operating subsidiaries, all of which are wholly owned by us.

Net loss is allocated to our common units and Class B Units using the two-class income allocation method. All intercompany balances and transactions have been eliminated in consolidation. Our common units trade on the New York Stock Exchange under the ticker symbol “USAC”.

USA Compression Management Services, LLC (“USAC Management”), a wholly owned subsidiary of the General Partner, performs certain management and other administrative services for us, such as accounting, corporate development, finance and legal. All of our employees, including our executive officers, are employees of USAC Management. As of December 31, 2018, USAC Management had 864 full time employees. None of our employees are subject to collective bargaining agreements.

CDM Acquisition

On the Transactions Date, we consummated the transactions contemplated by the Contribution Agreement dated January 15, 2018, pursuant to which, among other things, we acquired all of the issued and outstanding membership interests of the USA Compression Predecessor from ETP (the “CDM Acquisition”) in exchange for aggregate consideration of approximately $1.7 billion, consisting of (i) 19,191,351 common units representing limited partner

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

interests in us (the "common units"), (ii) 6,397,965 Class B units representing limited partner interests in us ("Class B Units") and (iii) $1.2 billion in cash (including customary closing adjustments).

General Partner Purchase Agreement

On the Transactions Date, and in connection with the closing of the CDM Acquisition, we consummated the transactions contemplated by the Purchase Agreement dated January 15, 2018, by and among ETE, ETP LLC, USA Compression Holdings, LLC ("USA Compression Holdings") and, solely for certain purposes therein, R/C IV USACP Holdings, L.P. and ETP, pursuant to which, among other things, ETE acquired from USA Compression Holdings (i) all of the outstanding limited liability company interests in the General Partner and (ii) 12,466,912 common units for cash consideration paid by ETE to USA Compression Holdings equal to $250.0 million (the "GP Purchase"). Upon the closing of the ETE Merger, ETE contributed all of the interests in the General Partner and the 12,466,912 common units to ETP.

Equity Restructuring Agreement

On the Transactions Date, and in connection with the closing of the CDM Acquisition, we consummated the transactions contemplated by the Equity Restructuring Agreement dated January 15, 2018, pursuant to which, among other things, the Partnership, the General Partner and ETE agreed to cancel the Partnership's Incentive Distribution Rights ("IDRs") and convert the General Partner Interest (as defined in the Equity Restructuring Agreement) into a non-economic general partner interest, in exchange for the Partnership's issuance of 8,000,000 common units to the General Partner (the "Equity Restructuring").

The CDM Acquisition, GP Purchase and Equity Restructuring are collectively referred to as the "Transactions."

(2) Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The Partnership

The consolidated financial statements give effect to the business combination and the Transactions discussed above under the acquisition method of accounting, and the business combination has been accounted for in accordance with the applicable reverse merger accounting guidance. ETE acquired a controlling financial interest in us through the acquisition of the General Partner. As a result, the USA Compression Predecessor is deemed to be the accounting acquirer of the Partnership because its ultimate parent company obtained control of the Partnership through its control of the General Partner. Consequently, the USA Compression Predecessor is deemed to be the predecessor of the Partnership for financial reporting purposes, and the historical financial statements of the Partnership now reflect the USA Compression Predecessor for all periods prior to the closing of the Transactions. The closing of the Transactions occurred on the Transactions Date.

The USA Compression Predecessor's assets and liabilities retained their historical carrying values. Additionally, the Partnership's assets acquired and liabilities assumed by the USA Compression Predecessor in the business combination have been recorded at their fair values measured as of the Transactions Date. The excess of the assumed purchase price of the Partnership over the estimated fair values of the Partnership's net assets acquired has been recorded as goodwill. The assumed purchase price and fair value of the Partnership has been determined using acceptable fair value methods. Additionally, because the USA Compression Predecessor is reflected at ETE's historical cost, the difference between the $1.7 billion in consideration paid by the Partnership and ETE's historical carrying values (net book value) at the Transactions Date has been recorded as a decrease to partners' capital in the amount of $36.1 million.

Our accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). As noted above, the historical consolidated financial statements of the Partnership now reflect the historical consolidated financial statements of the USA Compression Predecessor in accordance with the

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

applicable accounting and financial reporting guidance. Therefore, the historical consolidated financial statements are comprised of the balance sheet and statement of operations of the USA Compression Predecessor as of and for periods prior to the Transactions Date. The historical consolidated financial statements are also comprised of the consolidated balance sheet and statement of operations of the Partnership, which includes the USA Compression Predecessor, as of and for all periods subsequent to the Transactions Date. The presentation of certain line items in historical periods have been conformed to the Partnership's current year presentation for comparability.

USA Compression Predecessor

ETP allocated various corporate overhead expenses to the USA Compression Predecessor based on a percentage of assets, net income (loss), or adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"). These allocations are not necessarily indicative of the cost that the USA Compression Predecessor would have incurred had it operated as an independent standalone entity. The USA Compression Predecessor also historically relied upon ETP for funding operating and capital expenditures as necessary. As a result, the historical financial statements of the USA Compression Predecessor may not fully reflect or be necessarily indicative of what the USA Compression Predecessor's balance sheet, results of operations and cash flows would have been or will be in the future.

Certain expenses incurred by ETP are only indirectly attributable to the USA Compression Predecessor. As a result, certain assumptions and estimates are made in order to allocate a reasonable share of such expenses to the USA Compression Predecessor, so that the accompanying financial statements reflect substantially all costs of doing business. The allocations and related estimates and assumptions are described more fully in Note 14.

Certain amounts of the USA Compression Predecessor's revenues are derived from related party transactions, as described more fully in Note 14.

Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances. We consider investments in highly liquid financial instruments purchased with an original maturity of 90 days or less to be cash equivalents.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Our determination of the allowance for doubtful accounts requires us to make estimates and judgments regarding our customers' ability to pay amounts due. We continuously evaluate the financial strength of our customers based on payment history, the overall business climate in which our customers operate and specific identification of customer bad debt and make adjustments to the allowance as necessary. Our evaluation of our customers' financial strength is based on the aging of their respective receivables balance, customer correspondence, financial information and third-party credit ratings. Our evaluation of the business climate in which our customers operate is based on a review of various publicly-available materials regarding our customers' industries, including the solvency of various companies in the industry.

The USA Compression Predecessor determined its allowance for doubtful accounts based upon historical write-off experience and specific identification of unrecoverable amounts.

Inventory

Inventory consists of serialized and non-serialized parts used primarily in the repair of compression units. All inventory is stated at the lower of cost or net realizable value. Serialized parts inventory is determined using the specific identification method, while non-serialized parts inventory is determined using the weighted average cost method. Purchases of these assets are considered operating activities in the Consolidated Statements of Cash Flows.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

Property and Equipment

Property and equipment are carried at cost except for (i) certain acquired assets which are recorded at fair value on their respective acquisition dates and (ii) impaired assets which are recorded at fair value on the last impairment evaluation date for which an adjustment was required. Overhauls and major improvements that increase the value or extend the life of compression equipment are capitalized and depreciated over 3 to 5 years. Ordinary maintenance and repairs are charged to cost of operations, exclusive of depreciation and amortization.

When property and equipment is retired or sold, its carrying value and the related accumulated depreciation are removed from our accounts and any associated gains or losses are recorded on our statements of operations in the period of sale or disposition.

Capitalized interest is calculated by multiplying the Partnership’s monthly effective interest rate on outstanding debt by the amount of qualifying costs, which include upfront payments to acquire certain compression units. Capitalized interest was $0.3 million for the year ended December 31, 2018. The USA Compression Predecessor had no capitalized interest for the years ended December 31, 2017 or 2016, as it did not hold any debt during either period.

Impairments of Long-Lived Assets

Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written-down to estimated fair value. We test long-lived assets for impairment when events or circumstances indicate that the assets’ carrying value may not be recoverable or will no longer be utilized in the operating fleet. The most common circumstance requiring compression units to be tested for impairment is when idle units do not meet the performance characteristics of our active revenue generating horsepower.

The carrying value of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows associated with the operating fleet, an impairment loss equal to the amount of the carrying value exceeding the fair value of the asset is recognized. The fair value of the asset is measured using quoted market prices or, in the absence of quoted market prices, based on an estimate of discounted cash flows, the expected net sale proceeds compared to the other similarly configured fleet units we recently sold or a review of other units recently offered for sale by third parties, or the estimated component value of the equipment we plan to use.

Refer to Note 7 for more detailed information about impairment charges during the year ended December 31, 2018.

Identifiable Intangible Assets

Identifiable intangible assets are recorded at cost and amortized using the straight-line method over their estimated useful lives, which is the period over which the assets are expected to contribute directly or indirectly to our future cash flows. The estimated useful lives range from 15 to 25 years.

We assess identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We did not record any impairment of identifiable intangible assets for the years ended December 31, 2018, 2017 or 2016.

Goodwill

Goodwill represents consideration paid in excess of the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized, but is reviewed for impairment annually based on the carrying values as of October 1, or more frequently if impairment indicators arise that suggest the carrying value of goodwill may not be recovered.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

The Partnership did not record any goodwill impairment during the year ended December 31, 2018. The USA Compression Predecessor recorded $223 million of goodwill impairment for the year ended December 31, 2017 and no goodwill impairment for the year ended December 31, 2016. Refer to the Goodwill section in Note 7 for more information about the goodwill impairment assessment performed during the years ended December 31, 2018 and 2017.

Predecessor Parent Company Net Investment

The USA Compression Predecessor participated in a centralized cash management function managed by ETP. Balances payable to or due from ETP generated under this arrangement are reflected in Predecessor parent company net investment.

ETP’s net investment in the operations of the USA Compression Predecessor is presented as Predecessor parent company net investment within the consolidated balance sheets. Predecessor parent company net investment represents the accumulated net earnings of the operations of the USA Compression Predecessor and accumulated net contributions from ETP. Net contributions for the period January 1, 2018 to April 1, 2018 were primarily comprised of intercompany operations and expense, cash clearing and other financing activities, and general and administrative cost allocations to the USA Compression Predecessor.

Income Taxes

These consolidated financial statements do not include a provision for income taxes as the Partnership is treated as a partnership for U.S. federal and state income tax purposes, with each partner being separately taxed on its distributive share of the Partnership’s items of income, gain, loss, or deduction. While the Partnership is generally not subject to entity-level income taxes, Texas imposes an entity-level income tax on partnerships. Refer to Note 9 for more detailed information about the Texas Franchise Tax for the years ended December 31, 2018, 2017 and 2016.

Pass Through Taxes

Sales taxes incurred on behalf of, and passed through to, customers are accounted for on a net basis.

Fair Value Measurements

Accounting standards on fair value measurements establish a framework for measuring fair value and stipulate disclosures about fair value measurements. The standards apply to recurring and non-recurring financial and non-financial assets and liabilities that require or permit fair value measurements. Among the required disclosures is the fair value hierarchy of inputs we use to value an asset or a liability. The three levels of the fair value hierarchy are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

As of December 31, 2018, our financial instruments consisted primarily of cash and cash equivalents, trade accounts receivable, trade accounts payable and long-term debt. The book values of cash and cash equivalents, trade accounts receivable, and trade accounts payable are representative of fair value due to their short-term maturities. The carrying amount of our revolving credit facility approximates fair value due to the floating interest rates associated with the debt.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

The fair value of our 6.875% Senior Notes due 2026 (the "Senior Notes") was estimated using quoted prices in inactive markets and is considered a Level 2 measurement. The following table summarizes the carrying amount and fair value of these assets and liabilities (in thousands):

	December 31,	
Assets (Liabilities)	2018	2017
Carrying amount of Senior Notes (1)	$ 709,511	$ —
Fair value of Senior Notes	696,000	—

(1) Carrying amount is shown net of unamortized deferred financing costs. As of December 31, 2018, the outstanding aggregate principal amount of our Senior Notes was $725.0 million. See Note 10 for further details.

As of December 31, 2017, the USA Compression Predecessor did not have financial instruments with fair values determined using available market information and valuation methodologies. The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value due to their short-term maturities.

As part of the impairment analysis of goodwill as of December 31, 2017, the fair value of the USA Compression Predecessor's goodwill was re-measured using Level 3 inputs. Refer to the Goodwill section in Note 7 for more information about this valuation as of December 31, 2017.

Use of Estimates

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and the accompanying results. Although these estimates are based on management's available knowledge of current and expected future events, actual results could differ from these estimates.

Operating Segment

We operate in a single business segment, the compression services business.

(3) Acquisitions

The USA Compression Predecessor is deemed to be the accounting acquirer of the Partnership in the business combination because its ultimate parent company obtained control of the Partnership through its control of the General Partner. Consequently, the USA Compression Predecessor's assets and liabilities retained their historical carrying values. The Partnership's assets acquired and liabilities assumed by the USA Compression Predecessor have been recorded at their fair values measured as of the Transactions Date. The excess of the assumed purchase price of the Partnership over the estimated fair values of the Partnership's net assets acquired has been recorded as goodwill. The assumed purchase price and fair value of the Partnership was determined using a combination of an income and cost valuation methodology, the fair value of the Partnership's common units as of the Transactions Date and the consideration paid by ETE for the General Partner and IDRs. The valuation and purchase price allocation is considered final.

The property and equipment of the USA Compression Predecessor is reflected at historical carrying value, which is less than the consideration paid for the business. The excess of the consideration paid over the historical carrying value was $36.1 million and is reflected as a decrease to partners' capital.

The Partnership incurred $21.7 million in transaction-related expenses prior to the Transactions Date, which were recognized by the Partnership when incurred in the periods prior to the Transactions Date, and therefore are not included within the results of operations presented within the consolidated financial statements for the year ended December 31, 2018.

For the period from April 2, 2018 to December 31, 2018, we recognized $269.2 million in revenues and $23.1 million in net income attributable to the Partnership's historical assets.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

The following table summarizes the assumed purchase price and fair value and the allocation to the assets acquired and liabilities assumed (in thousands):

Assumed purchase price allocation to USA Compression Partners, LP	
Current assets	$ 786,258
Fixed assets	1,331,850
Other long-term assets	15,018
Customer relationships	221,500
Total identifiable assets acquired	2,354,626
Current liabilities	(110,465)
Long-term debt	(1,526,865)
Other long-term liabilities	(1,538)
Total liabilities assumed	(1,638,868)
Net identifiable assets acquired	715,758
Goodwill (1)	365,983
Net assets acquired	$ 1,081,741
April 2, 2018 Transactions:	
Cash assumed in the CDM Acquisition	(710,506)
Issuance of Preferred Units	(465,121)
Issuance of Class B Units for the CDM Acquisition	(86,125)
Issuance of Warrants	(13,979)
Issuance of common units for the Equity Restructuring	(135,440)
Issuance of common units for the CDM Acquisition	(324,910)
Purchase Price Adjustment for USA Compression Partners, LP	$ (654,340)

(1) Goodwill recognized from the business combination primarily relates to the value attributed to additional growth opportunities, synergies and operating leverage within the Partnership’s areas of operation. The valuation of goodwill recognized from the business combination is final.

Transition Services Agreement

In connection with the closing of the Transactions, we entered into an agreement with the USA Compression Predecessor and ETP pursuant to which ETP and its affiliates provided certain services to us with respect to the business and operations of the USA Compression Predecessor’s existing assets, including information technology, accounting and emissions testing services, for a period of three months following the closing of the Transactions. Expenses associated with the transition services agreement were $0.7 million for the year ended December 31, 2018.

Unaudited Pro Forma Financial Information

The following unaudited pro forma condensed financial information for the years ended December 31, 2018 and 2017 gives effect to the Transactions as if they had occurred on January 1, 2017. The unaudited pro forma condensed financial information has been included for comparative purposes only and is not necessarily indicative of the results that might have occurred had the Transactions taken place on the dates indicated and is not intended to be a projection of future events. The pro forma adjustments for the periods presented consist of (i) adjustments to combine the USA Compression Predecessor's and the Partnership's historical results of operations for the periods, (ii) adjustments to interest expense to include interest expense for additional revolving credit facility borrowings and include the interest expense associated with our Senior Notes (see Note 10), (iii) adjustments to depreciation and amortization expense attributable to adjustments recorded as a result of the purchase price allocation to the Partnership's assets and liabilities and (iv) adjustments to net loss attributable to common units and Class B Units attributable to distributions on the Partnership's Series A Preferred Units (the "Preferred Units").

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

The following table presents the unaudited pro forma revenues, net loss and basic and diluted net loss per unit information for each period:

	Year Ended December 31,	
	2018	2017
Total revenues	$ 662,091	$ 556,893
Net loss	$ (44,894)	$ (344,995)
Net loss attributable to common and Class B unitholders' interests	$ (93,644)	$ (393,745)
Basic and diluted net loss per common unit and Class B Unit	$ (0.98)	$ (4.14)

The pro forma net loss for the year ended December 31, 2018 includes expenses that were a direct result of the Transactions, including $1.0 million in employee severance charges attributable to employees not retained by the Partnership subsequent to the Transactions and $21.7 million in transaction expenses, including advisory, audit and legal fees. These expenses were recognized by the Partnership as they were incurred during the period from January 1, 2018 to April 1, 2018, but because the USA Compression Predecessor’s historical condensed consolidated financial statements are now reflected for that period, the condensed consolidated financial statements presented in accordance with GAAP for the year ended December 31, 2018 do not reflect such expenses incurred as a direct result of the Transactions.

(4) Trade Accounts Receivable

The allowance for doubtful accounts, which was $1.7 million and $0.8 million as of December 31, 2018 and 2017, respectively, is our best estimate of the amount of probable credit losses included in our existing accounts receivable. During the year ended December 31, 2018, we increased our allowance for doubtful accounts by $0.9 million, due primarily to estimated uncollectible amounts from customers of the USA Compression Predecessor.

The USA Compression Predecessor reduced its allowance for doubtful accounts by $4.1 million and $1.0 million during the years ended December 31, 2017 and 2016, respectively, due to write-offs of receivables and collections on accounts previously reserved. Due to the decrease in the allowance for doubtful accounts during 2017 and 2016, the USA Compression Predecessor recognized a reduction of bad debt expense of $1.8 million and $0.6 million for the years ended December 31, 2017 and 2016, respectively.

(5) Inventory

Components of inventory were as follows (in thousands):

	December 31,	
	2018	2017
Serialized parts	$ 45,568	$ —
Non-serialized parts	43,439	34,335
Total Inventory, gross	89,007	34,335
Less: obsolete and slow moving reserve	—	(1,114)
Total Inventory, net	$ 89,007	$ 33,221

(6) Installment Receivable

We granted a bargain purchase option to a customer with respect to certain compressor packages leased to the customer. The bargain purchase option provides the customer with an option to acquire the equipment at a value significantly less than the fair market value at the end of the lease term, which is July 31, 2021.

We accounted for this option as a sales type lease resulting in a current installment receivable included in other accounts receivable of $3.7 million and a long-term installment receivable of $6.9 million as of December 31, 2018. The USA Compression Predecessor had no capital lease installment receivables as of December 31, 2017.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

Revenue and interest income related to the capital lease is recognized over the lease term. We recognize maintenance revenue within Contract operations revenue and interest income within Interest expense, net. Maintenance revenue was $1.0 million for the year ended December 31, 2018. Interest income was $0.7 million for the year ended December 31, 2018. The USA Compression Predecessor had no capital lease revenue or maintenance revenue related to capital lease for the years ended December 31, 2017 or 2016.

(7) Property and Equipment, Identifiable Intangible Assets and Goodwill

Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 31, 2018	2017
Compression and treating equipment	$ 3,239,831	$ 1,799,151
Furniture and fixtures	1,129	780
Automobiles and vehicles	32,490	41,796
Computer equipment	54,806	25,049
Buildings	9,314	13,891
Land	77	77
Leasehold improvements	5,377	2,051
Total Property and equipment, gross	3,343,024	1,882,795
Less: accumulated depreciation and amortization	(821,536)	(689,874)
Total Property and equipment, net	$ 2,521,488	$ 1,192,921

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Compression equipment, acquired new	25 years
Compression equipment, acquired used	5 - 25 years
Furniture and fixtures	3 - 10 years

Vehicles and computer equipment	1 - 10 years
Buildings	5 years
Leasehold improvements	5 years

Depreciation expense on property and equipment was $186.5 million, $146.0 million and $134.6 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The Partnership implemented a change in the estimated useful lives of the USA Compression Predecessor's property and equipment to conform to the Partnership's historical asset lives, which is accounted for as a change in accounting estimate beginning on the Transactions Date on a prospective basis. This change resulted in a $33.8 million increase to both operating income and net income for the year ended December 31, 2018, and a $0.42 increase to both basic and diluted earnings per common unit and Class B Unit for year ended December 31, 2018.

As of December 31, 2018 and 2017, there was $7.9 million and $14.6 million, respectively, of property and equipment purchases in accounts payable and accrued liabilities.

During the year ended December 31, 2018, there were net losses on the disposition of assets of $13.0 million, primarily attributable to disposals of various property and equipment by the USA Compression Predecessor. During the years ended December 31, 2017 and 2016, the USA Compression Predecessor recognized a $0.4 million net loss and $0.1 million net gain on disposition of assets, respectively.

For the year ended December 31, 2018, we evaluated the future deployment of our idle fleet under then-current market conditions and determined to retire and re-utilize key components of 103 compressor units, or approximately 33,000 horsepower, that were previously used to provide services in our business. As a result, we recorded $8.7 million

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

in impairment of compression equipment for the year ended December 31, 2018. The primary causes for this impairment were: (i) units were not considered marketable in the foreseeable future, (ii) units were subject to excessive maintenance costs or (iii) units were unlikely to be accepted by customers due to certain performance characteristics of the unit, such as the inability to meet then-current quoting criteria without excessive retrofitting costs. These compression units were written down to their respective estimated salvage values, if any.

The USA Compression Predecessor did not record any impairment of long-lived assets during the years ended December 31, 2017 or 2016.

Identifiable Intangible Assets

Identifiable intangible assets, net consisted of the following (in thousands):

	Customer Relationships	Trade Names	Total
Gross Balance at December 31, 2016	$ 263,662	$ 65,500	$ 329,162
Accumulated amortization	(106,111)	(24,836)	(130,947)
Net Balance at December 31, 2017	$ 157,551	$ 40,664	$ 198,215
Gross Balance at December 31, 2017	$ 263,662	$ 65,500	$ 329,162
Additions	221,500	—	221,500
Accumulated amortization	(130,001)	(28,111)	(158,112)
Net Balance at December 31, 2018	$ 355,161	$ 37,389	$ 392,550

Amortization expense for the year ended December 31, 2018 was $27.2 million and for each of the years ended December 31, 2017 and 2016 was $20.5 million. The expected amortization of the intangible assets for each of the five succeeding years is $29.4 million.

Goodwill

As of October 1, 2018, we performed a qualitative assessment and concluded that it is not more likely than not that the fair value of our single reporting unit was less than its carrying value and that our goodwill was not impaired.

For the year ended December 31, 2017 and in accordance with its early adoption of Accounting Standards Update ("ASU") 2017-04, the USA Compression Predecessor performed a quantitative assessment for its annual goodwill impairment test and determined its fair value using a weighted combination of the discounted cash flow method and the guideline company method. Determining the fair value of a reporting unit requires judgment and the use of significant estimates and assumptions. Such estimates and assumptions include revenue growth rates, operating margins, weighted average costs of capital and future market conditions, among others. The USA Compression Predecessor believed the estimates and assumptions used in the impairment assessment were reasonable and based on available market information, but variations in any of the assumptions could have result in materially different calculations of fair value and determinations of whether or not an impairment is indicated. Under the discounted cash flow method, the USA Compression Predecessor determined fair value based on estimated future cash flows including estimates for capital expenditures, discounted to present value using the risk-adjusted industry rate, which reflects the overall level of inherent risk of the company. Cash flow projections were derived from one year budgeted amounts and five year operating forecasts plus an estimate of later period cash flows, all of which were developed by management. Subsequent period cash flows were developed using growth rates that management believed were reasonably likely to occur. Under the guideline company method, the USA Compression Predecessor determined its estimated fair value by applying valuation multiples of comparable publicly-traded companies to the projected EBITDA of the company and then averaging that estimate with similar historical calculations using a three-year average. In addition, the USA Compression Predecessor estimated a reasonable control premium representing the incremental value that accrues to the predecessor's majority owner from the opportunity to dictate the strategic and operational actions of the business. Additionally, the USA Compression Predecessor considered the presence and probability of subsequent events on market transactions in estimating the fair value of the company, such as the Transactions discussed in Note 1.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

Based on the completion of the annual goodwill impairment testing as described above, the USA Compression Predecessor recorded a $223.0 million impairment equal to the excess of the carrying value over fair value for the year ended December 31, 2017. There was no goodwill impairment for the year ended December 31, 2016.

As of December 31, 2018, the Partnership had $619.4 million of goodwill, of which $366.0 million was determined as part of the purchase price allocation to the Partnership's assets acquired by the USA Compression Predecessor.

(8) Other Current Assets and Other Current Liabilities

As of December 31, 2018, accrued liabilities included $44.9 million of accrued sales tax contingency (Note 17), $16.4 million of accrued interest expense, $10.7 million of accrued payroll and benefits and $7.9 million of accrued capital expenditures.

As of December 31, 2017, the USA Compression Predecessor recognized $27.8 million of accrued equipment and other asset purchases, $8.3 million of accrued payroll and benefits and $0.7 million of accrued property taxes within accrued liabilities and $3.8 million of miscellaneous prepaid expenses within prepaid expenses and other current assets.

(9) Income Tax Expense

We, including the USA Compression Predecessor, are subject to the Texas Franchise Tax, which applies a tax to our gross margin. We do not conduct business in any other state where a similar tax is applied. The Texas Franchise Tax requires certain forms of legal entities, including limited partnerships, to pay a tax of 0.75% on its "margin," as defined in the law, based on annual results. The tax base to which the tax is applied is the least of (1) 70% of total revenues for federal income tax purposes, (2) total revenue less cost of goods sold or (3) total revenue less compensation for federal income tax purposes.

Components of our income tax expense (benefit) are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current tax expense (benefit)	$ 189	$ 42	$ (8)
Deferred tax expense (benefit)	(2,663)	1,801	(155)
Total income tax expense (benefit)	$ (2,474)	$ 1,843	$ (163)

Deferred income tax balances are the direct effect of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the taxes are actually paid or recovered. The tax effects of temporary differences related to property and equipment that give rise to deferred tax liabilities, included in other liabilities, are as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax liability - Property and equipment	$ 2,540	$ 3,791

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 740 Income Taxes ("ASC Topic 740") provides guidance on measurement and recognition in accounting for income tax uncertainties and provides related guidance on derecognition, classification, disclosure, interest, and penalties. As of December 31, 2018, we had no material unrecognized tax benefits (as defined in ASC Topic 740). We do not expect to incur interest charges or penalties related to our tax positions, but if such charges or penalties are incurred, our policy is to account for interest charges as Interest expense, net and penalties as Income tax expense in the Consolidated Statements of Operations.

The Bipartisan Budget Act of 2015 provides that any tax adjustments (including any applicable penalties and interest) resulting from partnership audits will generally be determined at the partnership level for tax years beginning after December 31, 2017. To the extent possible under the new rules, our general partner may elect to either pay the taxes

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

(including any applicable penalties and interest) directly to the Internal Revenue Service or, if we are eligible, issue a revised information statement to each unitholder and former unitholder with respect to an audited and adjusted return. The Bipartisan Budget Act of 2015 allows a partnership to elect to apply these provisions to any return of the partnership filed for partnership taxable years beginning after the date of the enactment, November 2, 2015. We do not intend to elect to apply these provisions for any tax return filed for partnership taxable years beginning before January 1, 2018.

(10) Long-Term Debt

Our long-term debt, of which there is no current portion, consisted of the following (in thousands):

	December 31, 2018	2017
Revolving Credit Facility	$ 1,049,547	$ —
Senior Notes, aggregate principal	725,000	—
Less: deferred financing costs, net of amortization	(15,489)	—
Senior Notes, net	709,511	—
Total long-term debt, net	$ 1,759,058	$ —

Revolving Credit Facility

On the Transactions Date, we entered into the Sixth Amended and Restated Credit Agreement (the “Credit Agreement”) by and among the Partnership, as borrower, USAC OpCo 2, LLC, USAC Leasing 2, LLC, USA Compression Partners, LLC, USAC Leasing, LLC, CDM Resource, CDM E&T and USA Compression Finance Corp. (“Finance Corp”), the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as agent and a Letter of Credit (“LC”) issuer, JPMorgan Chase Bank, N.A., Barclays Bank PLC, Regions Capital Markets, a division of Regions Bank, RBC Capital Markets and Wells Fargo Bank, N.A., as joint lead arrangers and joint book runners, Barclays Bank PLC, Regions Bank, RBC Capital Markets and Wells Fargo Bank, N.A., as syndication agents, and MUFG Union Bank, N.A., SunTrust Bank and The Bank of Nova Scotia, as senior managing agents.

The Credit Agreement has an aggregate commitment of $1.6 billion (subject to availability under our borrowing base), with a further potential increase of $400 million, and has a maturity date of April 2, 2023.

The Credit Agreement permits us to make distributions of available cash to unitholders so long as (a) no default under the facility has occurred, is continuing or would result from the distribution, (b) immediately prior to and after giving effect to such distribution, we are in compliance with the facility's financial covenants and (c) immediately after giving effect to such distribution, we have availability under the revolving credit facility of at least $100 million. In addition, the Credit Agreement contains various covenants that may limit, among other things, our ability to (subject to exceptions):

- grant liens;
- make certain loans or investments;
- incur additional indebtedness or guarantee other indebtedness;
- enter into transactions with affiliates;
- merge or consolidate;
- sell our assets; or
- make certain acquisitions.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

The revolving credit facility also contains various financial covenants, including covenants requiring us to maintain:

- a minimum EBITDA to interest coverage ratio of 2.5 to 1.0, determined as of the last day of each fiscal quarter; and

- a maximum funded debt to EBITDA ratio, determined as of the last day of each fiscal quarter, for the annualized trailing three months of (a) 5.75 to 1.0 through the end of the fiscal quarter ending March 31, 2019, (b) 5.5 to 1.0 through the end of the fiscal quarter ending December 31, 2019 and (c) 5.00 to 1.0 thereafter, in each case subject to a provision for increases to such thresholds by 0.5 in connection with certain future acquisitions for the six consecutive month period following the period in which any such acquisition occurs.

If a default exists under the Credit Agreement, the lenders will be able to accelerate the maturity on the amount then outstanding and exercise other rights and remedies.

In connection with entering into the amended Credit Agreement, we paid certain upfront fees and arrangement fees to the arrangers, syndication agents and senior managing agents of the Credit Agreement in the amount of $14.3 million during the year ended December 31, 2018. These fees were capitalized to loan costs and will be amortized through April 2023. Amounts borrowed and repaid under the Credit Agreement may be re-borrowed.

As of December 31, 2018, we were in compliance with all of our covenants under the Credit Agreement.

As of December 31, 2018, we had outstanding borrowings under the Credit Agreement of $1.1 billion, $550.5 million of borrowing base availability and, subject to compliance with the applicable financial covenants, available borrowing capacity of $550.5 million. The borrowing base consists of eligible accounts receivable, inventory and compression units. The largest component, representing 95% of the borrowing base as of December 31, 2018, was eligible compression units. Eligible compression units consist of compressor packages that are leased, rented or under service contracts to customers and carried in the financial statements as fixed assets. Our interest rate in effect for all borrowings under the Credit Agreement as of December 31, 2018 was 4.97%, with a weighted-average interest rate of 4.69% for the period from the Transactions Date to December 31, 2018. There were no LCs issued as of December 31, 2018.

The Credit Agreement matures in April 2023 and we expect to maintain it for the term. The Credit Agreement is a “revolving credit facility” that includes a lock box arrangement, whereby remittances from customers are forwarded to a bank account controlled by the administrative agent and are applied to reduce borrowings under the facility.

Senior Notes

On March 23, 2018, the Partnership and its wholly owned finance subsidiary, Finance Corp, co-issued $725.0 million aggregate principal amount of the Senior Notes that mature on April 1, 2026. The Senior Notes accrue interest from March 23, 2018 at the rate of 6.875% per year. Interest on the Senior Notes is payable semi-annually in arrears on April 1 and October 1, with the first such payment having occurred on October 1, 2018.

At any time prior to April 1, 2021, we may redeem up to 35% of the aggregate principal amount of the Senior Notes at a redemption price equal to 106.875% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, in an amount not greater than the net proceeds from one or more equity offerings, provided that at least 65% of the aggregate principal amount of the Senior Notes remains outstanding immediately after the occurrence of such redemption (excluding Senior Notes held by us and our subsidiaries) and redemption occurs within 180 days of the date of the closing of such equity offering.

Prior to April 1, 2021, we may redeem all or a part of the Senior Notes at a redemption price equal to the sum of (i) the principal amount thereof, plus (ii) a make-whole premium at the redemption date, plus accrued and unpaid interest, if any, to the redemption date.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

On or after April 1, 2021, we may redeem all or a part of the Senior Notes at redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest, if any, to the applicable redemption date. If we experience a change of control followed by a ratings decline, unless we have previously exercised or concurrently exercise the right to redeem the Senior Notes (as described above), we may be required to offer to repurchase the Senior Notes at a purchase price equal to 101% of the principal amount repurchased, plus accrued and unpaid interest, if any, to the repurchase date.

Year	Percentages	
2021	105.156	%
2022	103.438	%
2023	101.719	%
2024 and thereafter	100.000	%

The Indenture governing the Senior Notes (the “Indenture”) contains a Fixed Charge Coverage Ratio (as defined in the Indenture) that we must comply with in order to make certain Restricted Payments (as defined in the Indenture).

In connection with issuing the Senior Notes, we incurred certain issuance costs in the amount of $17.3 million which is amortized over the term of the Senior Notes using the effective interest method.

The Senior Notes are fully and unconditionally guaranteed (the “Guarantees”), jointly and severally, on a senior unsecured basis by all of our existing subsidiaries (other than Finance Corp), and will be fully and unconditionally guaranteed, jointly and severally, by each of our future restricted subsidiaries that either borrows under, or guarantees, our revolving credit facility or guarantees certain of our other indebtedness (collectively, the “Guarantors”). The Senior Notes and the Guarantees are general unsecured obligations and rank equally in right of payment with all of the Guarantors’ and our existing and future senior indebtedness and senior to the Guarantors’ and our future subordinated indebtedness, if any. The Senior Notes and the Guarantees are effectively subordinated in right of payment to all of the Guarantors and our existing and future secured debt, including debt under our revolving credit facility and guarantees thereof, to the extent of the value of the assets securing such debt, and are structurally subordinated to all indebtedness of any of our subsidiaries that do not guarantee the Senior Notes.

We have no assets or operations independent of our subsidiaries, and there are no significant restrictions upon our ability to obtain funds from our subsidiaries by dividend or loan. Each of the Guarantors is 100% owned by us. None of the assets of our subsidiaries represent restricted net assets pursuant to Rule 4-08(e)(3) of Regulation S-X under the Securities Act of 1933, as amended (“Securities Act”).

On January 14, 2019, the Partnership closed an exchange offer whereby holders of the Senior Notes exchanged all of the Senior Notes for an equivalent amount of senior notes ("Exchange Notes") registered under the Securities Act. The Exchange Notes are substantially identical to the Senior Notes, except that the Exchange Notes have been registered and do not contain transfer restrictions, restrictive legends, registration rights or additional interest provisions of the Senior Notes.

Subsidiary Guarantors

On April 20, 2017, the Partnership filed a Registration Statement on Form S-3 (the "Registration Statement") with the SEC to register the issuance and sale of, among other securities, debt securities, which may be co-issued by Finance Corp (together with the Partnership, the "Issuers") and fully and unconditionally guaranteed on a joint and several basis by the Partnership's operating subsidiaries for the benefit of each Holder and the Trustee. Such guarantees will be subject to release, subject to certain limitations, as follows (i) upon the sale, exchange or transfer, by way of a merger or otherwise, to any Person that is not our Affiliate, of all of our direct or indirect limited partnership or other equity interest in such Subsidiary Guarantor; or (ii) upon delivery by an Issuer of a written notice to the Trustee of the release or discharge of all guarantees by such Subsidiary Guarantor of any Debt of the Issuers other than obligations arising under the indenture governing such debt and any debt securities issued under such indenture, except a discharge or release by or as a result of payment under such guarantees. Capitalized terms used but not defined in this paragraph are defined in the Form of Indenture filed as Exhibit 4.1 to the Registration Statement.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

Maturities of long-term debt for each of the five succeeding years are as follows (in thousands):

Year Ending December 31,	
2019	$ —
2020	—
2021	—
2022	—
2023	1,049,547
Total Debt	$ 1,049,547

The USA Compression Predecessor did not hold any debt as of December 31, 2017.

(11) Preferred Units and Warrants

Series A Preferred Unit and Warrant Private Placement

On the Transactions Date, we completed a private placement of $500 million in the aggregate of (i) newly authorized and established Preferred Units and (ii) warrants to purchase common units (the “Warrants”) pursuant to a Series A Preferred Unit and Warrant Purchase Agreement dated January 15, 2018, with certain investment funds managed or advised by EIG Global Energy Partners (collectively, the “Preferred Unitholders”). We issued 500,000 Preferred Units with a face value of $1,000 per Preferred Unit and issued two tranches of Warrants to the Preferred Unitholders, which included Warrants to purchase 5,000,000 common units with a strike price of $17.03 per unit and 10,000,000 common units with a strike price of $19.59 per unit. The Warrants may be exercised by the holders thereof at any time beginning April 2, 2019 and before April 2, 2028.

On November 13, 2018, the Partnership filed a Registration Statement on Form S-3 to register 41,202,553 common units that are potentially issuable upon conversion of the Preferred Units and exercise of the Warrants.

The Preferred Units rank senior to the common units with respect to distributions and rights upon liquidation. The Preferred Unitholders are entitled to receive cumulative quarterly distributions equal to $24.375 per Preferred Unit and which may be paid in cash or, subject to certain limits, a combination of cash and additional Preferred Units as determined by the General Partner with respect to any quarter ending on or prior to June 30, 2019. For the three months ended June 30, 2018, the distribution was pro-rated for the period the Preferred Units were outstanding, which resulted in an initial distribution of $24.107 per Preferred Unit which was paid on August 10, 2018. For the three months ended September 30, 2018, the quarterly distribution was equal to $24.375 per Preferred Unit and was paid on November 9, 2018. The distribution attributable to the quarter ended December 31, 2018 was paid on February 8, 2019 to Preferred Unitholders of record as of the close of business on January 28, 2019.

The Preferred Units are convertible, at the option of the Preferred Unitholders, into common units as follows: one third on or after April 2, 2021, two thirds on or after April 2, 2022, and the remainder on or after April 2, 2023. The conversion rate for the Preferred Units shall be the quotient of (a) the sum of (i) $1,000, plus (ii) any unpaid cash distributions on the applicable Preferred Unit, divided by (b) $20.0115 for each Preferred Unit. The Preferred Unitholders are entitled to vote on an as-converted basis with the common unitholders and (as proportionately adjusted for unit splits, unit distributions and similar transactions) will have certain other class voting rights with respect to any amendment to the Partnership Agreement that would adversely affect any rights, preferences or privileges of the Preferred Units. In addition, upon certain events involving a change of control the Preferred Unitholders may elect, among other potential elections, to convert their Preferred Units to common units at the then change of control conversion rate.

On or after April 2, 2023, we have the option to redeem all or any portion of the Preferred Units then outstanding. On or after April 2, 2028, the Preferred Unitholders have the right to require us to redeem all or a portion of the Preferred Units then outstanding, the purchase price for which we may elect to pay up to 50% in common units, subject to certain additional limits. The Preferred Units are presented as temporary equity in the mezzanine section of the Consolidated Balance Sheets because the redemption provisions on or after April 2, 2028 are outside the Partnership’s control. The

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

Preferred Units have been recorded at their issuance date fair value, net of issuance cost. Net income allocations increase the carrying value and declared distributions decrease the carrying value of the Preferred Units. As the Preferred Units are not currently redeemable and it is not probable that they will become redeemable, adjustment to the initial carrying amount is not necessary and would only be required if it becomes probable that the Preferred Units would become redeemable.

Changes in the Preferred Units balance from December 31, 2017 through December 31, 2018 are summarized below (in thousands):

	Preferred Units
Balance at December 31, 2017	$ —
Issuance of Preferred Units on April 2, 2018, net	465,121
Net income allocated for April 2, 2018 through December 31, 2018	36,430
Cash distributions on Preferred Units	(24,242)
Balance at December 31, 2018	$ 477,309

The Warrants are presented within the equity section of the Consolidated Balance Sheets in accordance with GAAP as they are indexed to the Partnership's own stock and require physical settlement or net share settlement. The Warrants were valued using the Black-Scholes-Merton model.

Refer to Note 14 for information about the rights EIG Veteran Equity Aggregator, L.P. (along with its affiliated funds, "EIG") has to designate one of the members of the Board.

(12) Partners' Capital

Common Units

As of December 31, 2018, we had 89,983,790 common units outstanding. As of December 31, 2018, ETP held 39,658,263 common units, including 8,000,000 common units held by the General Partner and controlled by ETP.

USA Compression Holdings, which controlled the General Partner and its IDRs until the Transactions Date, sold all of its remaining common units during the year ended December 31, 2018.

The limited partners holding our common units have the following rights, among others:

· Right to receive distributions of our available cash (as defined in our Second Amended and Restated Agreement of Limited Partnership of the Partnership (the "Partnership Agreement")) within 45 days after the end of each quarter, so long as we have paid the required distributions on the Preferred Units for such quarter;

· Right to transfer limited partner unit ownership to substitute limited partners;

· Right to approve certain amendments of the Partnership Agreement;

· Right to electronic access of an annual report, containing audited financial statements and a report on those financial statements by our independent public accountants within 90 days after the close of the fiscal year end; and

· Right to receive information reasonably required for tax reporting purposes within 90 days after the close of the calendar year.

Class B Units

As of December 31, 2018, we had 6,397,965 Class B Units outstanding which represent limited partner interests in the Partnership, all of which are held by ETP. Each Class B Unit will automatically be converted into one common unit

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

following the record date attributable to the quarter ending June 30, 2019. Each Class B Unit has all of the rights and obligations of a common unit, except the right to participate in distributions made prior to conversion of the Class B Units into common units.

Cash Distributions

As the USA Compression Predecessor is deemed to be the predecessor of the Partnership for financial reporting purposes, cash distributions made by the Partnership in periods prior to the Transactions Date are not included within the results of operations presented within the consolidated financial statements for the year ended December 31, 2018.

We have declared quarterly distributions per unit to our limited partner unitholders of record, including holders of our common and phantom units, as follows (dollars in millions, except distribution per unit):

Payment Date	Distribution per Limited Partner Unit	Amount Paid to Common Unitholders	Amount Paid to Phantom Unitholders	Total Distribution
May 11, 2018	$ 0.525	$ 47.2	$ 0.4	$ 47.6
August 10, 2018	0.525	47.2	0.4	47.6
November 9, 2018	0.525	47.2	0.5	47.7
2018 Total Distributions	$ 1.575	$ 141.6	$ 1.3	$ 142.9

Announced Quarterly Distribution

On January 17, 2019, we announced a cash distribution of $0.525 per unit on our common units. The distribution was paid on February 8, 2019 to unitholders of record as of the close of business on January 28, 2019.

Distribution Reinvestment Plan

During the year ended December 31, 2018, distributions of $0.6 million were reinvested under the Distribution Reinvestment Plan (the “DRIP”) resulting in the issuance of 39,280 common units.

Earnings Per Common Unit

The computations of earnings per unit are based on the weighted average number of participating securities outstanding during the period. Basic earnings per unit is determined by dividing net loss allocated to participating securities after deducting the amount distributed on Preferred Units, by the weighted average number of participating securities outstanding during the period. Net loss is allocated to participating securities based on their respective shares of the distributed and undistributed earnings for the period. To the extent cash distributions exceed net income (loss) for the period, the excess distributions are allocated to all participating securities outstanding based on their respective ownership percentages. Diluted earnings per unit are computed using the treasury stock method, which considers the potential issuance of limited partner units associated with our long-term incentive plan and warrants. The classes of participating securities include common units, Class B Units, and certain equity-based compensation awards. Unvested phantom units and unexercised warrants are not included in basic earnings per unit, as they are not considered to be participating securities, but are included in the calculation of diluted earnings per unit to the extent that they are dilutive, and in the case of warrants to the extent they are considered “in the money”. For the year ended December 31, 2018, approximately 208,000 incremental unvested phantom units were excluded from the calculation of diluted earnings per unit because the impact was anti-dilutive. Our outstanding warrants are not applicable to the computation as of December 31, 2018 as they are not considered “in the money” for the period. Earnings per unit is not applicable to the USA Compression Predecessor as the USA Compression Predecessor had no outstanding common units prior to the Transactions.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

(13) Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of our services or goods. Revenue is measured at the amount of consideration we expect to receive in exchange for providing services or transferring goods. Sales taxes incurred on behalf of, and passed through to, customers are excluded from revenue. Incidental items, if any, that are immaterial in the context of the contract are recognized as expense.

Adoption of ASC Topic 606, “Revenue from Contracts with Customers”

On January 1, 2018, we adopted ASC Topic 606 Revenue from Contracts with Customers (“ASC Topic 606”) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605.

We identified no material impact on our historical revenues upon initial application of ASC Topic 606, and as such have not recognized any cumulative catch-up effect to the opening balance of our partners’ capital as of January 1, 2018. Additionally, the application of ASC Topic 606 has no material impact on any current financial statement line items.

The following table disaggregates our revenue by type of service (in thousands):

	Year Ended December 31,		
	2018	2017 (1)	2016 (1)
Contract operations revenue	$ 563,416	$ 266,130	$ 255,560
Retail parts and services revenue	20,936	10,541	8,377
Total revenues	$ 584,352	$ 276,671	$ 263,937

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method of ASC Topic 606.

The following table disaggregates our revenue by timing of provision of services or transfer of goods (in thousands):

	Year Ended December 31,		
	2018	2017 (1)	2016 (1)
Services provided or goods transferred at a point in time	$ 20,936	$ 10,541	$ 8,377
Services provided over time:			
Primary term	288,299	128,864	158,313
Month-to-month	275,117	137,266	97,247
Total revenues	$ 584,352	$ 276,671	$ 263,937

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method of ASC Topic 606.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

Contract operations revenue

Revenue from contracted compression, station, gas treating and maintenance services is recognized ratably under our fixed-fee contracts over the term of the contract as services are provided to our customers. Initial contract terms typically range from six months to five years, however we usually continue to provide compression services at a specific location beyond the initial contract term, either through contract renewal or on a month-to-month or longer basis. We primarily enter into fixed-fee contracts whereby our customers are required to pay our monthly fee even during periods of limited or disrupted throughput. Services are generally billed monthly, one month in advance of the commencement of the service month, except for certain customers who are billed at the beginning of the service month, and payment is generally due 30 days after receipt of our invoice. Amounts invoiced in advance are recorded as deferred revenue until earned, at which time they are recognized as revenue. The amount of consideration we receive and revenue we recognize is based upon the fixed fee rate stated in each service contract.

Variable consideration exists in select contracts when billing rates vary based on actual equipment availability or volume of total installed horsepower.

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenues to each performance obligation based on its relative standalone service fee. We generally determine standalone service fees based on the service fees charged to customers or use expected cost plus margin.

The majority of our service performance obligations are satisfied over time as services are rendered at selected customer locations on a monthly basis and based upon specific performance criteria identified in the applicable contract. The monthly service for each location is substantially the same service month to month and is promised consecutively over the service contract term. We measure progress and performance of the service consistently using a straight-line, time-based method as each month passes, because our performance obligations are satisfied evenly over the contract term as the customer simultaneously receives and consumes the benefits provided by our service. If variable consideration exists, it is allocated to the distinct monthly service within the series to which such variable consideration relates. We have elected to apply the invoicing practical expedient to recognize revenue for such variable consideration, as the invoice corresponds directly to the value transferred to the customer based on our performance completed to date.

There are typically no material obligations for returns or refunds. Our standard contracts do not usually include material non-cash consideration.

Retail parts and services revenue

Retail parts and services revenue is earned primarily on freight and crane charges that are directly reimbursable by our customers and maintenance work on units at our customers' locations that are outside the scope of our core maintenance activities. Revenue from retail parts and services is recognized at the point in time the part is transferred or service is provided and control is transferred to the customer. At such time, the customer has the ability to direct the use of the benefits of such part or service after we have performed our services. We bill upon completion of the service or transfer of the parts, and payment is generally due 30 days after receipt of our invoice. The amount of consideration we receive and revenue we recognize is based upon the invoice amount. There are typically no material obligations for returns, refunds, or warranties. Our standard contracts do not usually include material variable or non-cash consideration.

Contract assets and trade accounts receivable

We record contract assets when we have completed performance under a contract but our right to consideration is not yet unconditional. We had no contract assets as of December 31, 2018 and the USA Compression Predecessor had no contract assets as of December 31, 2017. Trade accounts receivable are recorded when our right to consideration becomes unconditional and increased by $36.2 million during the year ended December 31, 2018 as a result of the USA Compression Predecessor's acquisition of the Partnership for financial reporting purposes. There were no significant changes to our trade accounts receivable balances due to contract modifications or adjustments, or changes in time frame for a right to consideration to become unconditional during the period.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

Deferred revenue

We record deferred revenue when cash payments are received or due in advance of our performance. The increase in the deferred revenue balance for the year ended December 31, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations under a contract and the addition of $31.0 million of deferred revenue from the USA Compression Predecessor's acquisition of the Partnership, offset by $1.0 million of revenues recognized that were included in the deferred revenue balance of the USA Compression Predecessor as of December 31, 2017. There was no significant change to our deferred revenue balance as a result of changes in time frame for a performance obligation to be satisfied during the period.

Practical expedients and exemptions

We have elected to apply the practical expedient in ASC 606-10-50-14 and as such do not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Costs to fulfill a contract

We sometimes incur non-reimbursable costs for loading, transporting and unloading equipment to and from our storage locations and customer locations. We defer and amortize these costs using the straight-line method over the life of the contract. We had no costs to fulfill a contract as of December 31, 2018 and $0.1 million in amortization expense of costs to fulfill a contract for the year ended December 31, 2018. The USA Compression Predecessor had no costs to fulfill a contract as of December 31, 2017 and amortization expense was zero for the year ended December 31, 2017.

(14) Transactions with Related Parties

We provide compression services to entities affiliated with ETP, which as of December 31, 2018, owned approximately 48% of our limited partner interests, including all of the Class B Units, and 100% of the General Partner. During the year ended December 31, 2018, we recognized $17.1 million in revenue from such affiliated entities. As of December 31, 2018, we had $2.7 million in related party receivables from such affiliated entities and

$0.4 million in related party payables to such affiliated entities. Additionally, the Partnership had a $44.9 million related party receivable from ETP as of December 31, 2018 related to indemnification for sales tax contingencies incurred by the USA Compression Predecessor. See Note 17 for more information related to such sales tax contingencies.

The USA Compression Predecessor also provided compression services to entities affiliated with ETP. During the years ended December 31, 2017 and 2016, the USA Compression Predecessor recognized $17.2 million and $16.9 million, respectively, in revenue from such affiliated entities. As of December 31, 2017, the USA Compression Predecessor recognized $45,000 in related party receivables from such affiliated entities and $2.0 million in related party payables to such affiliated entities.

Accounts receivable and payable that related to revenues and expenses between the USA Compression Predecessor and ETP were reclassified to Predecessor parent company net investment as there was no expectation that those amounts would be settled in cash.

ETP provided certain benefits to the USA Compression Predecessor employees which did not continue following the Transactions Date. ETP provided medical, dental and other healthcare benefits to the USA Compression Predecessor employees. The total amount incurred by ETP for the benefit of the USA Compression Predecessor employees for the years ended December 31, 2018, 2017 and 2016 was $1.9 million, $7.4 million and $5.8 million, respectively, which was allocated to the USA Compression Predecessor and recorded in operation and maintenance and general and administrative expenses, as appropriate. ETP also provided a matching contribution to the USA Compression Predecessor employees' 401(k) accounts. The total amount of matching contributions incurred for the benefit of the USA Compression Predecessor employees for the years ended December 31, 2018, 2017 and 2016 was $0.9 million, $3.0 million and $2.7 million, respectively, which was allocated to the USA Compression Predecessor and recorded in operation and maintenance and general and administrative expenses, as appropriate. ETP also provided a 3% profit

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

sharing contribution to the 401(k) accounts for all USA Compression Predecessor employees with base compensation below a specified threshold. The contribution was in addition to the 401(k) matching contribution and employees became vested in the profit sharing contribution based on years of service.

ETP allocated certain overhead costs associated with general and administrative services, including salaries and benefits, facilities, insurance, information services, human resources and other support departments to the USA Compression Predecessor which did not continue following the Transactions Date. Where costs incurred on the USA Compression Predecessor's behalf could not be determined by specific identification, the costs were primarily allocated to the USA Compression Predecessor based on an average percentage of fixed assets, net income (loss) and adjusted EBITDA. The USA Compression Predecessor believes these allocations were a reasonable reflection of the utilization of services provided. However, the allocations may not fully reflect the expenses that would have been incurred had the USA Compression Predecessor been a standalone company during the periods presented. During the years ended December 31, 2018, 2017 and 2016 ETP allocated general and administrative expenses of $1.8 million, $3.6 million and $4.7 million, respectively, to the USA Compression Predecessor.

An independent director of the General Partner serves as a director of one of our customers. During the period of such director's appointment as a director of the General Partner during the year ended December 31, 2018, we recognized $0.3 million in revenue on compression services and $0 in accounts receivable from this customer on the Consolidated Balance Sheets as of December 31, 2018.

Pursuant to that certain Board Representation Agreement entered into by us, the General Partner, ETE and EIG in connection with our private placement of Preferred Units and Warrants to EIG, EIG Management Company, LLC has the right to designate one of the members of the Board for so long as the holders of the Preferred Units hold more than 5% of the Partnership's outstanding common units in the aggregate (taking into account the common units that would be issuable upon conversion of the Preferred Units and exercise of the Warrants).

(15) Unit-Based Compensation

Long-Term Incentive Plan

In connection with the Partnership's initial public offering in January 2013, the board of directors of the General Partner (the "Board") adopted the USA Compression Partners, LP 2013 Long-Term Incentive Plan ("LTIP") for certain employees, consultants and directors of the General Partner and any of its affiliates who perform services for us. The

LTIP provides for awards of unit options, unit appreciation rights, restricted units, phantom units, distribution equivalent rights ("DERs"), unit awards, profits interest units and other unit-based awards. On November 1, 2018 and effective the same day, the Board approved and adopted The First Amendment to the LTIP which, among other things, increased the number of common units of the Partnership available to be awarded under the LTIP by 8,590,000 common units (which brings the total number of common units available to be awarded under the LTIP to 10,000,000 common units) and extends the term of the LTIP until November 1, 2028. Awards that are forfeited, cancelled, paid or otherwise terminate or expire without the actual delivery of common units will be available for delivery pursuant to other awards. The LTIP is administered by the Board or a committee thereof.

The General Partner's executive officers, certain of its employees and certain of its independent directors were granted these awards to incentivize them to help drive our future success and to share in the economic benefits of that success. All employees with phantom units have a portion of their award settled in cash and a portion settled in common units upon vesting, unless otherwise approved by the Board. The amount that can be settled in cash is in excess of the employee's minimum statutory tax-withholding rate. ASC Topic 718 Compensation-Stock Compensation, requires the entire amount of an award with such features to be accounted for as a liability. Under the liability method of accounting for unit-based compensation, we re-measure the fair value of the award at each financial statement date until the award vests or is cancelled. The fair value is measured using the market price of the Partnership's common units. During the requisite service period (the vesting period of the awards), compensation cost is recognized using the proportionate amount of the award's fair value that has been earned through service to date. Phantom units granted to independent directors do not have a cash settlement option and as such we account for these awards as equity. Each phantom unit is granted in tandem with a corresponding DER, which entitles the recipient to receive an amount in cash on a quarterly basis equal to the product of (a) the number of the recipient's outstanding, unvested phantom units on the record date for

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

such quarter and (b) the quarterly distribution declared by the Board for such quarter with respect to the Partnership's common units.

During the period from the Transactions Date to December 31, 2018, an aggregate of 1,136,447 phantom units (including the corresponding DERs) were granted under the LTIP to the General Partner's executive officers and certain of its employees and independent directors. The phantom units (including the corresponding DERs) awarded are subject to restrictions on transferability, customary forfeiture provisions and time vesting provisions. Phantom unit awards granted after July 30, 2018 vest incrementally, with 60% of the phantom units vesting at the end of the third year following the grant and the remaining 40% vesting at the end of the fifth year following the grant. Phantom unit awards that were granted to employees of USAC Management prior to July 30, 2018 vest evenly over a three-year service period.

Phantom units granted prior to July 30, 2018 vest in full in the event of a change in control followed by a termination of employment, and phantom units granted on or after July 30, 2018 vest in full upon a change in control. Award recipients do not have all the rights of a unitholder in the Partnership with respect to the phantom units until the units have vested.

On the Transactions Date and in connection with the closing of the CDM Acquisition, and pursuant to the change in control provisions of our outstanding phantom unit awards, all of the performance-based phantom units granted during 2018, 2017 and 2016 and outstanding as of the Transactions Date, vested immediately upon the change in control event at 100% of the target level. In addition, all outstanding time-based phantom units held by our CEO vested immediately upon the change in control event. As such, 563,544 outstanding phantom units vested resulting in $6.8 million of compensation expense recognized during the year ended December 31, 2018.

ETP had a long-term incentive plan for the USA Compression Predecessor's employees, officers and directors. ETP had granted restricted unit awards to the USA Compression Predecessor's employees that vested on a pro-rata basis incrementally over a five-year vesting period, with vesting based on continued employment as of each applicable vesting date. Upon vesting, ETP common units were issued. These restricted unit awards also entitled the recipients of the unit awards to receive, with respect to each ETP common unit subject to such award that had not vested or been forfeited, a corresponding DER entitling the recipient to a cash payment equal to the cash distribution per ETP common unit paid by ETP to its unitholders promptly following each such distribution. All unit-based compensation awards were treated as equity within the USA Compression Predecessor financial statements.

The unit and per-unit amounts disclosed in the remainder of this note for periods prior to the Transactions Date reflect amounts related to ETP. These amounts have been retrospectively adjusted to reflect a 1.5 to one unit-for-unit

exchange related to the merger of ETP and Sunoco Logistics Partners L.P. in April 2017 and a 0.4124 to one unit-for unit exchange related to the merger of ETP and Regency Energy Partners LP in April 2015. The unit and per-unit amounts do not reflect the conversion of ETP units to ETE units as a result of the ETE Merger in October 2018.

On the Transactions Date and in connection with the closing of the CDM Acquisition, and pursuant to the change in control provisions of the USA Compression Predecessor's outstanding phantom unit awards, all of the USA Compression Predecessor's outstanding phantom unit awards were forfeited.

As of December 31, 2018, our total unit-based compensation liability was $3.6 million. During the years ended December 31, 2018, 2017 and 2016, we recognized $11.7 million, $4.0 million and $3.5 million of compensation expense associated with these awards, respectively, recorded in selling, general and administrative expense. During the years ended December 31, 2018, 2017 and 2016, amounts paid related to the cash settlement of vested awards under the LTIP were $4.4 million, $0.6 million and $0.9 million, respectively.

The total fair value and intrinsic value of the phantom units vested under the LTIP was $9.7 million for the period from the Transactions Date to December 31, 2018, and $1.6 million and $1.0 million during the years ended December 31, 2017 and 2016, respectively.

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

The following table summarizes information regarding phantom unit awards for the periods presented:

	Number of Units	Weighted-Average Grant Date Fair Value per Unit (1)
USA Compression Predecessor's phantom units outstanding at December 31, 2015	334,354	$ 32.98
Granted	147,384	24.22
Vested	(42,964)	40.28
Forfeited	(9,239)	28.58
USA Compression Predecessor's phantom units outstanding at December 31, 2016	429,535	$ 29.34
Granted	2,500	18.75
Vested	(95,499)	36.94
Forfeited	(11,614)	27.41
USA Compression Predecessor's phantom units outstanding at December 31, 2017	324,922	$ 27.10
Forfeited upon change in control, April 2, 2018	(324,922)	27.10
Assumed upon change in control, April 2, 2018 (2)	1,010,522	14.24
Granted (2)	1,136,447	15.47
Vested (2)	(571,892)	14.79
Forfeited (2)	(144,013)	17.85
Phantom units outstanding at December 31, 2018	1,431,064	$ 14.98

(1) Determined by dividing the aggregate grant date fair value of awards by the number of units issued.

(2) Following the Transactions Date, the outstanding unvested phantom units granted by the USA Compression Predecessor were forfeited and the outstanding unvested phantom units granted by the Partnership prior to the Transactions Date were maintained. The number of units assumed upon change in control represent the Partnership’s unvested outstanding phantom units as of March 31, 2018. The subsequent number of units granted, vested and forfeited reflect activity following the Transactions Date through December 31, 2018.

The unrecognized compensation cost associated with phantom unit awards was an aggregate $15.0 million as of December 31, 2018. We expect to recognize the unrecognized compensation cost for these awards on a weighted-average basis over a period of 2.2 years.

(16) Employee Benefit Plans

A 401(k) plan is available to all of our employees. The plan permits employees to contribute up to 20% of their salary, up to the statutory limits, which was $18,500 for 2018. The plan provides for discretionary matching contributions by us on an annual basis. Aggregate matching contributions made to employees' 401(k) plans were $3.2 million for the year ended December 31, 2018, including $0.9 million made by ETP to employees of the USA Compression Predecessor prior to the Transactions Date.

Refer to Note 14 for information about the 401(k) plan provided by ETP to employees of the USA Compression Predecessor.

(17) Commitments and Contingencies

(a) Leases

We maintain both capital leases and operating leases, primarily related to office space, warehouse facilities and certain corporate equipment. We held $7.6 million and $7.6 million of capital leases, in property and equipment as of December 31, 2018 and 2017, respectively, representing the present value of the future minimum lease payments over the term of the lease determined at the inception of the lease and $4.9 million and $3.8 million of accumulated amortization on assets recorded under capital leases, respectively. Amortization expense on assets recorded under capital

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

leases is included within depreciation and amortization expense on the consolidated statements of operations. We recorded $1.1 million and $1.2 million as of December 31, 2018 and 2017, respectively, as the current portion of the lease obligation, which is included in accrued liabilities, and $2.1 million and $3.2 million as of December 31, 2018 and 2017, respectively, as the long-term portion of the lease obligation, included in other non-current liabilities on the consolidated balance sheets.

Total rent expense for operating leases, including those leases with terms of less than one year, was $4.4 million, $3.6 million and $4.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Commitments for future minimum lease payments for non-cancelable leases, with lease terms in excess of one year, are as follows (in thousands):

2019	$ 3,773
2020	1,563
2021	854
2022	569
2023	509
Thereafter	642
Total minimum lease payments	$ 7,910
Less: Amount representing minimum operating lease payments	(3,938)
Total minimum capital lease payments	3,972
Less: Amount representing estimated taxes, maintenance and insurance costs included in total amounts above	(652)
Net minimum capital lease payments	3,320
Less: Amount representing interest	(121)
Present value of net minimum lease payments	$ 3,199
Less: Current maturities of capital lease obligations	(1,085)
Long-term capital lease obligations	$ 2,114

(b) Major Customers

Neither we nor the USA Compression Predecessor had revenue from any single customer representing 10% or more of total revenue for the years ended December 31, 2018, 2017 or 2016.

(c) Litigation

From time to time, we and our subsidiaries may be involved in various claims and litigation arising in the ordinary course of business. In management's opinion, the resolution of such matters is not expected to have a material adverse effect on our consolidated financial position, results of operations or cash flows.

(d) Equipment Purchase Commitments

Our future capital commitments are comprised of binding commitments under purchase orders for new compression units ordered but not received. The commitments as of December 31, 2018 were $107.5 million, all of which is expected to be settled within the next twelve months.

(e) Sales Tax Contingency

Our compliance with state and local sales tax regulations is subject to audit by various taxing authorities. The Office of the Texas Comptroller of Public Accounts ("Comptroller") has claimed that specific operational processes, which we and others in our industry regularly conduct, result in transactions that are subject to state sales taxes. We and other companies in our industry have disputed these claims based on existing tax statutes which provide for manufacturing

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

exemptions on the transactions in question. The manufacturing exemptions are based on the fact that our natural gas compression equipment is used in the process of treating natural gas for ultimate use and sale.

The USA Compression Predecessor has several open audits with the Comptroller for certain periods prior to the Transactions Date wherein the Comptroller has challenged the applicability of the manufacturing exemption. Any liability for the periods prior to the Transactions Date will be covered by an indemnity between us and ETP. As of December 31, 2018, we have recorded a $44.9 million accrued liability and $44.9 million related party receivable from ETP.

During the year ended December 31, 2018, we entered into a compromise and settlement agreement with the Comptroller for the audit of the Partnership for the period from January 2009 to August 2012 for a $0.2 million refund to the Partnership.

(f) Environmental

The Partnership’s operations are subject to federal, state and local laws and rules and regulations regarding water quality, hazardous and solid waste management, air quality control and other environmental matters. These laws, rules and regulations require the Partnership to conduct its operations in a specified manner and to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections and other approvals. Failure to comply with applicable environmental laws, rules and regulations may expose the Partnership to significant fines, penalties and/or interruptions in operations. The Partnership’s environmental policies and procedures are designed to achieve compliance with such applicable laws and regulations. These evolving laws and regulations and claims for damages to property, employees, other persons and the environment resulting from current or past operations may result in significant expenditures and liabilities in the future.

(18) Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments- Credit Losses (“ASC Topic 326”): Measurement of Credit Losses on Financial Instruments. The amendment in ASC Topic 326 require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets. The amendments in this update are effective for interim and annual periods beginning after January 1, 2020, with early adoption permitted by one year. We plan to adopt this new standard on January 1, 2020 and expect that our adoption of this standard will not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASC Topic 842 Leases ("ASC Topic 842"). ASC Topic 842 is a new leasing standard that increases transparency and comparability among organizations by, among other things, requiring lessees to recognize most lease assets and lease liabilities on the balance sheet and requiring both lessees and lessors to disclose expanded qualitative and quantitative information about leasing arrangements. ASC Topic 842 becomes effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2018. Early adoption of this standard is permitted. In March 2018, the FASB approved amendments to ASC Topic 842 which allow the additional transition method of using the effective date as the date of initial application, as compared to the beginning of the earliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings as of the effective date. We adopted this new standard on January 1, 2019 and plan to use the current period adjustment method. Upon adoption, we will recognize the cumulative effect of adoption as an adjustment to the opening balance of our partners' capital. Comparative information will continue to be reported under the accounting standards in effect for those periods.

Additionally, in July 2018, the FASB approved amendments to ASC Topic 842 (the "July 2018 amendment") which provided lessors with a practical expedient to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under ASC Topic 606 and certain conditions are met. The July 2018 amendment also provided clarification on whether ASC Topic 842 or ASC Topic 606 is applicable to the combined component based on determination of the predominant component. An entity that elects the lessor practical expedient also should provide certain disclosures. We have evaluated the impact of the July 2018 amendment on our contract operations services

Table of Contents

USA COMPRESSION PARTNERS, LP

Notes to Consolidated Financial Statements

agreements and have concluded that the services non-lease component is predominant, which would result in the ongoing recognition of revenue following ASC Topic 606 guidance.

We have completed the collection of our lease data for the effective date and are using information technology tools to assist in our continuing lease data collection and analysis. We are updating our accounting policies and internal controls that are impacted by the new guidance. We do not believe the standard will materially affect our consolidated balance sheets, statements of operations or cash flows. Our preliminary estimate of the impact of recording lease assets and lease liabilities on our consolidated balance sheet upon adoption does not exceed $4.0 million, with no material impact to our consolidated statements of operations.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (“ASC Topic 820”): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments to ASC Topic 820 eliminate, add and modify certain disclosure requirements for fair value measurements as part of the FASB’s disclosure framework project. The amendments in this update are effective for interim and annual periods beginning on January 1, 2020, with early adoption permitted. We are currently evaluating the impact, if any, of the amendments to ASC Topic 820 on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (“ASC Subtopic 350-40”): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments to ASC Subtopic 350-40 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments to ASC Subtopic 350-40. The amendments in this update are effective for interim and annual periods beginning on January 1, 2020, with early adoption permitted. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the impact, if any, of the amendments to ASC Subtopic 350-40 on our consolidated financial statements.

(19) Subsequent Events

Phantom Units

In January 2019, an aggregate of 15,150 phantom units (including the corresponding DERs) were granted under the LTIP to two of the independent directors of the General Partner. The phantom units (including the corresponding DERs) awarded are subject to restrictions on transferability, customary forfeiture provisions and will vest incrementally, with 60% of the phantom units vesting on December 5, 2021 and 40% of the phantom units vesting on December 5, 2023. The phantom units will vest in full upon a change in control of the Partnership.

Table of Contents

Supplemental Selected Quarterly Financial Data

(Unaudited)

In the opinion of our management, the summarized quarterly financial data below (in thousands, except per unit amounts) contains all appropriate adjustments, all of which are normally recurring adjustments, considered necessary to present fairly our financial position and the results of operations for the respective periods.

	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Revenue	$ 76,530	$ 166,898	$ 168,947	$ 171,977
Gross profit (1)	$ 39,195	$ 109,365	$ 104,638	$ 116,430
Net loss attributable to common and Class B unitholders' interests	$ (23,370)	$ (8,857)	$ (12,751)	$ (2,003)
Net income (loss) per common unit - basic and diluted (2)		$ (0.06)	$ (0.10)	$ 0.01
Net loss per Class B Unit - basic and diluted (2)		$ (0.58)	$ (0.62)	$ (0.51)

	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Revenue	$ 65,271	$ 67,372	$ 71,089	$ 72,939
Gross profit (1)	$ 36,729	$ 37,025	$ 39,422	$ 38,291
Net loss	$ (10,448)	$ (9,715)	$ (12,355)	$ (232,216)

(1) Gross profit is defined as revenue less cost of operations, exclusive of depreciation and amortization expense.

(2) Earnings per unit is not applicable to the USA Compression Predecessor for periods prior to the Transactions Date as the USA Compression Predecessor had no outstanding common units prior to the Transactions.