THE CARLYLE GROUP

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Carlyle Europe Partners III
Summary Investment Schedule
As of December 31, 2017
Amounts in millions of EUR

			As of December 31, 2017					As of Sep 30, 2017	As of Dec 31, 2016
Portfolio Company or Investment	**Acquisition Date**	**Industry / Sector**	**Equity Invested**	**Cash Received**	**Remaining FMV[1]**	**Total Value**	**Multiple[3]**	**Multiple[3]**	**Multiple[3]**
Realized Investments									
Neochimiki S.A.	May-08	Chemicals	€ 291.0	€ 84.0	€ -	€ 84.0	0.29 x	0.29 x	0.29 x
Talaris	Sep-08	Business Services	€ 167.1	€ 541.7	€ -	€ 541.7	3.24 x	3.24 x	3.24 x
Sermeta	Jul-10	Industrial	€ 164.5	€ 546.6	€ -	€ 546.6	3.32 x	3.32 x	3.32 x
Moncler Group	Oct-08	Consumer	€ 146.0	€ 830.5	€ -	€ 830.5	5.69 x	5.69 x	5.69 x
Altice S.A.	Mar-08	Telecommunications	€ 587.1	€ 928.9	€ -	€ 928.9	1.58 x	1.58 x	1.58 x
Puccini Group	Dec-10	Retail	€ 233.3	€ -	€ -	€ -	0.00 x	0.00 x	0.00 x
Telecable de Asturias, S.A.	Dec-11	Telecommunications	€ 136.4	€ 375.7	€ -	€ 375.7	2.75 x	2.75 x	2.75 x
B&B Hotels	Sep-10	Consumer	€ 221.9	€ 440.5	€ -	€ 440.5	1.99 x	1.99 x	1.99 x
RAC Limited	Sep-11	Consumer	€ 398.5	€ 1,507.1	€ -	€ 1,507.1	3.78 x	3.78 x	3.78 x
Applus Services, S.A.	Nov-07	Business Services	€ 312.6	€ 664.4	€ -	€ 664.4	2.13 x	2.13 x	2.12 x
Axalta Coating Systems	Feb-13	Industrial	€ 244.9	€ 1,207.8	€ -	€ 1,207.8	4.93 x	4.93 x	4.93 x
Sagemcom Group	Aug-11	Business Services	€ 126.8	€ 318.5	€ -	€ 318.5	2.51 x	2.51 x	2.51 x
CommScope, Inc.	Jan-11	Technology	€ 373.8	€ 1,292.0	€ -	€ 1,292.0	3.46 x	3.46 x	3.46 x
B&B Hotels - Property Investments	Dec-10	Hotel	€ 44.3	€ 62.7	€ -	€ 62.7	1.42 x	1.42 x	1.38 x
Zodiac Pool Solutions SAS	Sep-07	Consumer	€ 109.7	€ 72.1	€ -	€ 72.1	0.66 x	0.66 x	0.66 x
Zodiac Pool Solutions SAS – debt purchases	Dec-09	Consumer	€ 38.5	€ 104.7	€ -	€ 104.7	2.72 x	2.72 x	2.72 x
Multi Packaging Solutions, Inc.	Sep-13	Manufacturing	€ 187.5	€ 493.7	€ -	€ 493.7	2.63 x	2.63 x	2.33 x
Applus Services, S.A. -Debt	Sep-13	Business Services	€ 6.4	€ 7.6	€ -	€ 7.6	1.18 x	1.18 x	1.18 x
Puccini Group - Debt	Dec-11	Retail	€ 2.7	€ 4.4	€ -	€ 4.4	1.61 x	1.61 x	1.61 x
Total Realized Investments			**€ 3,793.0**	**€ 9,482.8**	**€ -**	**€ 9,482.8**	**2.50 x**		
Unrealized / Partially Realized Investments									
The Nature's Bounty Co. (formerly NBTY, Inc.)	Oct-10	Consumer	€ 314.4	€ 467.3	€ 79.8	€ 547.2	1.74 x	1.75 x	1.75 x
mydentist (formerly Integrated Dental Holdings Limited)	May-11	Healthcare	€ 293.7	€ 3.2	€ 52.8	€ 56.0	0.19 x	0.29 x	0.60 x
AMEOS Group Holdings	Mar-12	Healthcare	€ 176.9	€ 194.2	€ 195.7	€ 389.9	2.20 x	2.10 x	1.90 x
Twin Set	Jul-12	Consumer	€ 194.1	€ 20.0	€ 271.7	€ 291.7	1.50 x	1.40 x	1.25 x
Addison Lee Group	Apr-13	Transportation	€ 99.8	€ -	€ 112.2	€ 112.2	1.12 x	1.18 x	1.57 x
Marelli Motori Group	Aug-13	Industrial	€ 138.7	€ -	€ 6.9	€ 6.9	0.05 x	0.10 x	0.40 x
Alloheim AG	Sep-13	Healthcare	€ 105.5	€ -	€ 685.6	€ 685.6	6.50 x	3.80 x	2.80 x
Total Unrealized / Partially Realized Investments			**€ 1,323.1**	**€ 684.8**	**€ 1,404.8**	**€ 2,089.6**	**1.58 x**		
Total Investments			**€ 5,116.1**	**€ 10,167.5**	**€ 1,404.8**	**€ 11,572.3**	**2.26 x**	**2.21 x**	**2.20 x**
Total Fund			**€ 5,116.1**	**€ 10,167.5**	**€ 1,404.8**	**€ 11,572.3**			

Appreciation / (Depreciation)[2]:	
% from Prior Quarter	**25%**
% from Year-end	**20%**
% from Prior Year	**20%**
% from Inception	**126%**

Note: For purposes of this Summary Investment Schedule, all information is presented on a gross basis and does not reflect management or advisory fees, carried interest, taxes, transaction costs and other expenses to be borne by an investor which will reduce returns. Unrealized section may contain publicly traded investments that have been determined to trade in an inactive market. Additionally, totals may not foot due to rounding.

[1]Valuations are prepared in accordance with US GAAP. For final valuations, refer to the Fund's financial statements, which are available online to all Fund Investors. A copy of the Fund's valuation policies are available upon request.
[2]Appreciation / (Depreciation) represents unrealized gain / (losses) for the period on a total return basis before fees and expenses. The percentage of return is calculated as: Ending Remaining Investment FMV plus net investment outflow for the period (cash received minus net equity invested) minus Beginning Remaining Investment FMV divided by Beginning Remaining Investment FMV.
[3]Total Value divided by Equity Invested.

NAV at 31 December 2017 totals Euro 848.3 million and shows an increase of Euro 366.9 million with respect to 31 December 2016. The increase is the sum of the net income for the year (Euro 104.1 million) and the capital called up (Euro 273.3 million) less the fourth distribution (Euro 10.5 million).

1.2 Fund portfolio

The table below shows the book values of direct investments of the Fund at 31 December 2017, as well as the book values of indirect investments on the same date, which the Fund holds through its investment vehicles (hereafter "vehicle companies"), and compares them with the values at 31 December 2016:

		% held by Fund		*in millions of euros*		
SPV	**Target company**	**% held by F2i at 31 December 2017**	**% held by F2i at 31 December 2016**	**Book value at 31 December 2017[1]**	**Book value at 31 December 2016[1]**	**Difference**
	2i Rete Gas S.p.A.	**8.11%**	**8.11%**	**76.7**	**65.7**	**11.0**
	SEA S.p.A.	**8.62%**	**8.62%**	**140.1**	**109.1**	**31.1**
F2i Reti Logiche S.r.l.		**100.00%**	**100.00%**	**175.6**	**122.6**	**53.1**
	SIA S.p.A.	*17.05%*	*17.05%*	*104.2*	*104.2*	-
F2i ER 1 S.p.A.		**100.00%**	**100.00%**	**292.0**	**159.1**	**132.9**
	E2i Energie Speciali S.r.l.	*70.00%*	*70.00%*	*199.0*	*235.9*	*(36.9)*
	Veronagest (6 SPV)	*100.00%*	-	*176.4*	-	*176.4*
	San Marco Bioenergie S.p.A.	*100.00%*	-	*33.5*	-	*33.5*
F2i Torri 1 S.r.l.		**100.00%**	**100.00%**	**0.02**	**0.03**	**(0.01)**
F2i LTC S.p.A.		**100.00%**	**100.00%**	**19.0**	**19.0**	-
	KOS S.p.A.	*24.84%*	*24.84%*	*260.7*	*260.7*	-
2i Fiber S.p.A.		**80.00%**	-	**103.3**	-	**103.3**
	Infracom Italia S.p.A.	*77.86%*	-	*79.5*	-	*79.5*
	MC-link S.p.A.	*80.00%*	-	*50.5*	-	*50.5*
	Total book value			**806.7**	**475.4**	**331.3**

(1) the target companies are recognized in the financial statements of the SPV at cost, eventually decreased by long-term value adjustments based on fair value pro-rata. The book value of the vehicle is determined based on the fair value pro-rata of the target company, possibly adjusted for the NFP of SPV, net of liquidity discount as provided by the Bank of Italy regulation.

The book value of the Fund portfolio at 31 December 2017, Euro 806.7 million, shows an increase of Euro 331.3 million with respect to 31 December 2016 as a result of the acquisitions made in the year in the telecommunications and renewable energy sectors (Euro 236.2 million), the disbursement of Euro 14 million by way of a deferred payment for a minority stake in SIA, and valuation gains of Euro 81.1 million.

In the period under review, capital calls amounted to Euro 273.3 million, of which Euro 243.4 million was devolved to new acquisitions (Euro 236.3 million, net of capital called up to cover transaction costs), Euro 15.9 million to the acquisition of KPNQWest Italia (Euro 15.6 million net of the capital called up to cover transaction costs), which was finalized in January 2018 and Euro 14 million in a deferred payment.

The capital calls of Euro 259.3 million for new acquisitions break down as follows:

- Euro 68.5 million (including Euro 1.7 million of transaction costs) called up for the acquisition of 94.1% of Infracom Italia, a telecommunications company;

Project-related liabilities are mostly made up of the costs debited by the SGR for investment projects declared a "success" in the reporting period (*see Section 2.1*). At 31 December 2016, liabilities were Euro 1.2 million and related in the main to the cost of acquisition of initial equity interests in Cellnex Italia (Euro 0.4 million), Admie (Euro 0.3 million) and the wind-power companies of Veronagest (Euro 0.2 million).

Other residual liabilities consist of the negative interest charged by the depositary bank on the cash held in the second half of the year following the postponed closing of the deal for the purchase of the six Veronagest wind-power companies.

The following table displays the changes in the book values of the portfolio companies since 31 December 2016:

		in millions of euros						
			Increases		*Decreases*			
SPV	**Target company**	**Book value at 31 December 2016** [(1)]	**Increases**	**Revaluations**	**Decreases**	**Writedowns**	**Reclassif.**	**Book value at 31 December 2017** [(1)]
	2i Rete Gas S.p.A.	**65.7**	**-**	**11.0**	**-**	**-**	**-**	**76.7**
	SEA S.p.A.	**109.1**	**-**	**31.1**	**-**	**-**	**-**	**140.1**
F2i Reti Logiche S.r.l.		**122.6**	**14.0**	**39.0**	**-**	**-**	**-**	**175.6**
	SIA S.p.A.	*104.2*	-	-	-	-	-	*104.2*
F2i ER 1 S.p.A.		**159.1**	**132.9**	**-**	**-**	**-**	**-**	**292.0**
	E2i Energie Speciali S.r.l.	*235.9*	*7.4*	-	*(44.3)*	-	-	*199.0*
	Veronagest (6 SPV)	*n\a*	*176.4*	-	-	-	-	*176.4*
	San Marco Bioenergie S.p.A.	*n\a*	*33.5*	-	-	-	-	*33.5*
F2i Torri 1 S.r.l.		**0.03**	**-**	**-**	**-**	**(0.01)**	**-**	**0.02**
F2i LTC S.p.A.		**19.0**	**-**	**-**	**-**	**-**	**-**	**19.0**
	KOS S.p.A.	*260.7*	-	-	-	-	-	*260.7*
2i Fiber S.p.A.		**-**	**103.3**	**-**	**-**	**-**	**-**	**103.3**
	Infracom Italia S.p.A.	*n\a*	*79.5*	-	-	-	-	*79.5*
	MC-link S.p.A.	*n\a*	*50.5*	-	-	-	-	*50.5*
	Total book value	**475.4**	**250.2**	**81.1**	**-**	**(0.01)**	**-**	**806.7**

(1) the target companies are recognized in the financial statements of the SPV at cost, eventually decreased by long-term value adjustments based on fair value pro-rata. The book value of the vehicle is determined based on the fair value pro-rata of the target company, possibly adjusted for the NFP of SPV, net of liquidity discount as provided by the Bank of Italy regulation.

The table below reconciles the total capital called up from investors at 31 December 2017 with the total value of the capital committed by the Fund.

in millions of euro	31/12/2017	31/12/2016	Difference
Capital called up from Investors, excluding reimbursements	700.7	427.4	273.3
Contractual commitments of Fund	248.4	170.8	77.6
Commitments approved but subject to development plans	5.0	-	5.0
Remaining callable funds	288.4	644.3	(355.9)
Total *commitment*	**1,242.5**	**1,242.5**	-

Capital called up from investors rose by Euro 273.3 million in the period, and was effected to finance new acquisitions (Euro 259.3 million, of which Euro 7.5 million to cover transaction costs) and to pay the deferred price of Euro 14 million for the purchase of a minority stake in SIA.

The contractual commitments of the Fund as of 31 December 2017 total Euro 248.4 million and are made up of the BtE loan of Euro 156.4 million (including financial charges for Euro 15.4 million) to F2i LTC for the

1. BALANCE SHEET

ASSETS	31/12/2017 Comprehensive value	31/12/2017 as % of total assets	31/12/2016 Comprehensive value	31/12/2016 as % of total assets
A. FINANCIAL INSTRUMENTS	**806,712,174**	**94.48**	**475,401,796**	**98.48**
Unlisted financial instruments				
A1. Controlling interests	589,916,541	69.09	300,684,848	62.29
A2. Non-controlling interests	216,795,633	25.39	174,716,948	36.19
B. PROPERTY AND REAL ESTATE	-	-	-	-
C. ACCOUNTS RECEIVABLES	-	-	-	-
D. BANK DEPOSITS	-	-	-	-
E. OTHER ASSETS	-	-	-	-
F. CASH POSITION	**25,581,948**	**3.00**	**1,747,251**	**0.36**
F1. Cash and cash equivalents	25,581,948	3.00	1,747,251	0.36
G. OTHER ASSETS	**21,555,953**	**2.52**	**5,572,793**	**1.15**
G2. Prepayments and accrued income	5,571,000	0.65	5,572,793	1.15
G4. Sundry assets	15,984,953	1.87		
TOTAL ASSETS	**853,850,075**	**100.00**	**482,721,840**	**100.00**

LIABILITIES AND INVESTORS' EQUITY	31/12/2017	31/12/2016
H. LOANS RECEIVED	-	-
I. DERIVATIVES	-	-
L. PAYABLES TO INVESTORS	-	-
M. OTHER LIABILITIES	**5,574,255**	**1,291,418**
M1. Fees and charges accrued and not paid	101,801	80,229
M4. Sundry liabilities	5,472,454	1,211,189
TOTAL LIABILITIES	**5,574,255**	**1,291,418**
COMPRHENSIVE NET ASSET VALUE OF FUND	**848,275,820**	**481,430,422**
A-Units	578,261,263	328,186,372
B-Units	266,942,331	151,500,439
C-Units	3,072,226	1,743,611
TOTAL NUMBER OF UNITS IN CIRCULATION	**1,688**	**1,688**
A-Units	847	847
B-Units	391	391
C-Units	450	450
Value of Fund units		
A-Units	682,716.958	387,469.153
B-Units	682,716.958	387,469.153
C-Units	6,827.170	3,874.692
Comprehensive value of capital to be called *	**615,615,380**	**888,905,422**
Value of units to be called up		
A-Units	495,465.095	715,416.839
B-Units	495,465.095	715,416.839
C-Units	4,954.651	7,154.168
Reimbursements or distributed proceeds	**133,803,000**	**123,303,000**
A-Units	91,212,186	84,054,440
B-Units	42,106,216	38,801,990
C-Units	484,598	446,570
Unit value of reimbursed capital		
A-Units	107,688.531	99,237.827
B-Units	107,688.531	99,237.827
C-Units	1,076.885	992.378
Subscriptions	**1,242,500,000**	**1,242,500,000**
A-Units	847,000,000	847,000,000
B-Units	391,000,000	391,000,000
C-Units	4,500,000	4,500,000
Unit value of subscribed unit		
A-Units	1,000,000.000	1,000,000.000
B-Units	1,000,000.000	1,000,000.000
C-Units	10,000.000	10,000.000

* the value of the capital to be called up from investors is equal to the difference between the total commitment of the Fund (Euro 1,242.5 million) and capital calls already effected (Euro 700.7 million), increased by the amounts that can be called up again from investors using the proceeds from the sale of F2i Ambiente (Euro 70 million) and to the repayment of the shareholder loan by F2i LTC (Euro 3.8 million), pursuant to Fund Rule 19.3.

Section IV – Net asset value

The following table shows the units issued by the Fund divided between resident and non-resident investors.

	Number of Units	%
Units held by non-residents	643	38.09%
of which:		
A Units	*340*	
B Units	*215*	
C Units	*88*	
Units held by residents	1,045	61.91%
of which:		
A Units	*507*	
B Units	*176*	
C Units	*362*	
Total units issued	**1,688**	**100.00%**

STATEMENT OF CHANGES IN VALUE OF FUND FROM INCEPTION ON 2 OCTOBER 2012 TO 31 DECEMBER 2017

		Amount	As % of paid-up capital
OPENING BALANCE OF FUND (units issued x issue price) (A)		**1,242,500,000**	
TOTAL PAYMENTS INTO FUND (B)		**700,660,104**	**100.0%**
A1.	Final result from management of portfolio assets	356,611,609	50.9%
A2.	Final result from management of other financial instruments	-	0.0%
B.	Final result from management of real estate assets	-	0.0%
C.	Final result from management of receivables	(200,000)	0.0%
D.	Interest income and similar revenue from bank deposits	160,322	0.0%
E.	Final result from management of other assets	-	0.0%
F.	Final result from management of exchange rates	-	0.0%
G.	Final result from other operating activities	-	0.0%
H.	Total financial expenses	(314,041)	(0.0%)
I.	Total operational expenses	(75,409,769)	(10.8%)
L.	Other final income and expenses	570,595	0.1%
M.	Total taxes	-	0.0%
CAPITAL REIMBURSEMENTS		**103,403,000**	**14.8%**
TOTAL PROCEEDS DISTRIBUTED		**30,400,000**	**4.3%**
PRE-TAX RESULT OF OPERATING ACTIVITIES (A.1-M)		**281,418,716**	**40.2%**
NET ASSET VALUE AT 31/12/2017		**848,275,820**	**121.1%**
TOTAL CALLABLE CAPITAL (A)-(B) "recallable" amount included		**615,615,380**	
INTERNAL RATE OF RETURN AT DATE OF STATEMENTS		**16.8%**	

The valuation gains of Euro 81,111,153 refer to the revaluations of portfolio companies, and break down as follows: Euro 39,043,224 for F2i Reti Logiche; Euro 31,062,476 for SEA; and Euro 11,016,209 for 2i Gas Rete (net of a write-down of Euro 10,756 in the value of F2i Torri 1).

Section IV - Deposits with banks

In 2017, the Fund did not tie up its cash in bank deposit accounts.

Section VI - Other operational activities and financial charges

Section VI. 4 – Interest charges on loans

In 2017, the Fund did not borrow from banks.

Section VII - Operating costs

Section VII. 1 – Costs incurred in the year

The following table details the costs incurred by the Fund in FY 2017:

	Total amounts paid				Amounts paid to parties belonging to F2i Group			
OPERATING COSTS	Amount (in thousands of euro)	% of net asset value	% of total assets	% of loan value	Amount (in thousands of euro)	% of net asset value (*)	% of total assets	% of loan value
1) Management fees	11,075.708	1.31%	1.30%					
2) Cost of Unit value calculation								
3) Total expenses ratio of the UCIs in which the Fund invests								
4) Fees for the depositary bank	107.172	0.01%	0.01%					
5) Fees for auditing of the Fund	53.436	0.01%						
6) Charges for the valuation of investments, real estate and real estate titles belonging to the Fund								
7) Fees for independent experts								
8) Expenses for property management								
9) Legal and court fees								
10) Expenses for publication of the value per share and for the possible publication of a prospectus								
11) Other charges to the Fund:								
Cost of broken projects	1,970.987	0.23%						
Translation costs	1.854	0.00%						
Advisory Committee cost		0.00%						
Bank charges	44.105	0.01%						
Cost of successful projects	6,494.796	0.77%						
TOTAL OPERATING COSTS	**19,748.058**	**2.33%**						
12) Incentive fees								
13) Charges for trading of financial instruments of which: - shares - debt securities - derivatives - other (specify)								
14) Financial expenses from debts taken on by Fund								
15) Tax expenses for which Fund is liable		0.00%						
TOTAL EXPENSES	**19,748.058**	**2.33%**						

Report from the Investment Manager to the General Partner of Norvestor VII L.P.

The eighth quarterly investment report, for the period ending 31 December 2017

Executive summary

Following the partnership agreements, Norvestor VII, L.P. (the "Partnership") and Norvestor VII OS, L.P. (together the "Fund" or the "Partnerships") shall co-invest alongside each other into Oil service investments. The Partnerships shall invest and divest at the same time on the same terms and conditions.

The portfolio is valued at 1.1 times investment cost as of 31 December 2017, using the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines. The Q4 2017 valuation is based on the preliminary 2017 results and the 2018 forecast for the portfolio companies. The net increase in valuation during the quarter is NOK 181.3 million on a comparable basis (adjusted for investments, realisations and recapitalisations), compared to the previous report. The increase is mainly driven by an increase in applied EBITDA and peer group multiples for Eneas, partly offset by an increase in NIBD for Eneas and a decrease in EBITDA for READ.

Norvestor VII L.P. (NOKm)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total drawdowns	1,780.4	1,780.4	1,691.2	1,182.6
Total distributions to Investors*	125.7	125.7	91.4	86.4
Net Assets**	1,476.8	1,340.4	1,469.6	1,157.9
Total Assets attributable to Investors***	1,602.5	1,466.1	1,561.0	1,244.3
TVPI***	0.8	0.8	0.9	1.0
Times money	1.1	1.0	1.1	1.2
Gross IRR	4.8 %	n.m.	6.0 %	27.5 %
Net IRR***	n.m.	n.m.	n.m.	8.6 %

*Adjusted for any distributed carried interest
**Adjusted for calculated carried interest
***Adjusted for any distributed and calculated carried interest. The TVPI numbers exclude bridging investments which have been drawn from and distributed to the Limited Partners

Portfolio company (NOKm)	Valuation Q3 2017	Investments Q4 2017	Proceeds Q4 2017	Valuation Q4 2017	Net change in valuation
4Service	411.5	-	-	437.0	25.5
HydraWell	4.2	-	-	4.3	0.1
Eneas	544.1	-	0.0	681.8	137.7
Presserv	80.8	(0.1)	0.0	70.2	(10.5)
Nordic Camping	158.7	29.4	-	166.6	(21.4)
READ CH	81.6	-	-	49.2	(32.4)
IT Gården	41.4	-	-	41.6	0.2
NetNordic	515.1	(0.1)	-	575.1	60.1
Wexus	107.4	(0.9)	-	128.5	22.0
Norvestor VII, L.P.	1,944.8	28.3	0.1	2,154.4	181.3

Investments

4Service Holding AS

Legal and trading name	4Service Holding AS
Location of head office or management	Fornebu, Norway
Sector	Business Service
Investment type	Buyout
Deal source	Structured
Transaction process	Limited competition
Fund's role in the initial investment	Lead
The Fund's initial percentage ownership	70.0 %
The Fund's current percentage ownership	65.3%
- of which Norvestor VII, L.P. 65.3 %	
- of which Norvestor VII OS, L.P. 0 %	
Current ownership of co-investors	
- Founders, sellers, board members and employees	34.7 %
Main Norvestor contact	Fredrik Korterud
Revenues at entry – 2016E	NOK 663.8 million
Adj. EBITDA* at entry – 2016E	NOK 46.6 million
Net debt at entry	NOK 5.9 million
EV/EBITDA multiple at entry	7.0x
Expected EBITDA multiple at exit	7.0x
The investment's expected return at time of investment (times money)	3.2x
Company's equity valuation at time of investment (NOKm)	319.1
Company's net debt at time of investment (NOKm)	5.9
Company's total valuation at time of investment (NOKm)	325.0 – Enterprise Value
Company's fair value as of 31 December 2017 (NOKm)	870.0 – Enterprise Value

	Transaction cost in NOK'000	Transaction date	Transaction currency
Initial investment	253,195	22.01.2016	NOK
Purchase of shares (bridging investment)	18,168	22.12.2016	NOK
Sale of shares (bridging investment)	-6,383	28.12.2016	NOK
Purchase of shares	600	11.01.2017	NOK
Sale of bridging investment	-1,150	20.01.2017	NOK
Total amount currently invested by the Fund	264,430		

NOK '000	**Preliminary 2017**	**Forecast 2018**	**Pro forma 2016**
Revenues	1,360,940	1,542,200	1,054,400
EBITDA[1]	94,550	107,200	71,299
EBITA	89,817	99,500	67,404
EBIT	29,563	32,008	35,314
Interest Bearing Debt	273,633		10,000
Shareholder loans	0		78,600
Cash	73,200		13,500
Equity	400,629		233,900
Total Assets	1,065,905		494,700

* Adjusted for net minority share in joint ventures

2016 and 2017 pro forma figures include Mint Renhold AS, which was acquired in August 2017, Resco AS, which was acquired in June 2017 and Ren Pluss AS and De 3 Stuer AS, which were both acquired in January 2017.

[1] For valuation purposes the applied 2017 EBITDA was NOK 95.9 million and includes adjustments for minority interest of NOK 1.0 million, NOK 0.3 million in Board of Director costs and NOK 2.1 million in one-offs related to downsizing and the bankruptcy in NLI. The applied 2018F EBITDA has been adjusted for NOK 2.1 million in minority interest.

Valuation

The valuation of the Partnership's holding in 4Service (the "Company") is based on an 'Earnings Multiple' approach, which is recommended in the International Private Equity and Venture Capital Valuation Guidelines.

Eneas Group Holding AS

Legal and trading name	Eneas Group Holding AS
Location of head office or management	Drammen, Norway
Sector	Business Services
Investment type	Buyout
Deal source	Network/Own search
Transaction process	Limited competition
Fund's role in the initial investment	Lead
The Fund's initial percentage ownership	81.0 %
The Fund's current percentage ownership	79.0%
- of which Norvestor VII, L.P. 79.0 %	
- of which Norvestor VII OS, L.P. 0.0 %	
Current ownership of co-investors	
- Founders, sellers, board members and employees	21.0 %
Main Norvestor contact	Fredrik Korterud
Revenues at entry – 2016E	NOK 584 million
EBITDA at entry – 2016E	NOK 130 million
Net debt at entry	NOK 465.3 million
EV/EBITDA multiple at entry	7.7x
Expected EBITDA multiple at exit	7.7x
The investment's expected return at time of investment (times money)	3.1x
Company's equity valuation at time of investment (NOKm)	534.7
Company's net debt at time of investment (NOKm)	465.3
Company's total valuation at time of investment (NOKm)	1,000.0 - Enterprise Value
Company's fair value as of 31 December 2017 (NOKm)	1,381.3 - Enterprise Value

	Transaction cost in NOK'000	Transaction date	Transaction currency
Initial investment	406,078	10.08.2016	NOK
Loan to employee shareholders	20,000	10.08.2016	NOK
Sale of shares (bridging investment)	-10,000	05.12.2016	NOK
Total amount currently invested by the Fund	416,078		

NOK '000	**Preliminary 2017**	**Forecast 2018**	**Pro forma 2016**
Revenues	681,926	732,155	641,003
EBITDA[1]	165,177	175,000	146,671
EBITA	157,529	164,183	142,935
EBIT	32,267	26,145	46,407
Interest Bearing Debt	615,155		550,000
Shareholder loans	0		0
Cash	93,046		66,458
Equity	443,866		436,453
Total Assets	1,268,061		1,170,772

2016 and 2017 pro forma figures include Yrittäjäin Sähkönhankinta Oy, acquired in May 2017 and Enegia Market Services acquired in November 2017.

[1] The pro forma 2016 EBITDA is adjusted for a negative contribution of NOK 13.9 million in transaction bonuses, which was compensated for in the Fund's purchase price. For valuation purposes, the applied 2017 EBITDA is NOK 168.8 million and has been adjusted for non-recurring costs of NOK 3.0 million related to IT and office relocation, NOK 0.1 million in costs related to change of auditor, NOK 0.2 million in termination of one employee and NOK 0.3 million in Board of Director costs.

Valuation

The valuation of the Partnership's holding in Eneas Group Holding AS ("Eneas" or the "Company") is based on an 'Earnings Multiple' approach, which is recommended in the International Private Equity and Venture Capital Valuation Guidelines.

The Fair Value of the Partnership's fully diluted interest in Eneas as of 31 December 2017 is NOK 681.8 million.

Business description

NCR is a leading camping site operator, renting or owning and operating 15 camping sites across Sweden at the time of investment providing all basic services to its guests such as infrastructure (e.g. waste handling, electricity, restrooms, shower rooms, camping spaces, rental cabins and lodges), facilitating family and recreationally oriented activities (e.g. mini-golf, swimming pools, saunas, boat and bike rental), and small shops and restaurants. The sites include a number of smaller rental lodges, but the majority of the sites' space is used for housing caravans and RVs. NCR's strategy is to grow through acquisitions of new sites primarily within proximity of larger towns or holiday destinations, develop its existing portfolio and exploit economies of scale.

Financial forecast of investment at entry

Nordic Camping & Resorts	Actual	Norvestor estimates						
P&L and cash flow (SEKm)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Total revenues	**93.4**	**108.1**	**137.6**	**180.8**	**225.8**	**273.2**	**321.1**	**371.4**
Revenue growth		*15.7 %*	*27.3 %*	*31.4 %*	*24.9 %*	*21.0 %*	*17.5 %*	*15.7 %*
EBITDA	**24.8**	**31.6**	**39.9**	**53.1**	**68.3**	**83.0**	**97.9**	**113.6**
EBITDA margin		*29.2 %*	*29.0 %*	*29.4 %*	*30.2 %*	*30.4 %*	*30.5 %*	*30.6 %*
EBITDA growth		*27.3 %*	*26.5 %*	*33.1 %*	*28.5 %*	*21.6 %*	*18.0 %*	*16.0 %*

Investment rationale

NCR represents an interesting investment opportunity as an attractive platform to expand capacity at existing camping sites and for consolidating the Nordic market, and potentially also outside the Nordic market.

Transaction description

A single purpose acquisition vehicle named Nordic Camping & Resort HoldCo AB (previously RCN Interessenter I AB), acquired 100% of Nordic Camping & Resort Holding AB (previously RCN Interessenter II AB), which in turn ultimately will acquire 100% of the shares in the Company through a recommended public cash offer. NCR was previously listed on the Swedish trading platform AktieTorget.

The total investment was SEK 286.5 million (NOK 265.5 million) plus NOK 4.6 million in transaction costs. The transaction was partly financed with a bridge loan facility from the Partnership of SEK 27.3 million (NOK 25.0 million). The Partnership also provided an Expansion Capital Facility of SEK 100.0 million (NOK 91.6 million) to finance potential acquisitions and the proportion of potential expansion investments at existing sites which cannot be financed with bank debt or surplus cash in NCR.

Exit strategy

The Investment Manager believes that there are several large players to whom NCR could be an attractive target. Exit opportunities could be one of the following:

- Trade sale to a larger European camping or holiday operator currently not present in Scandinavia
- Sale to a private equity fund with ambitions to further expand the Company in terms of geography and service offering
- IPO

The Investment Manager believes that a trade sale or sale to a private equity fund are the most likely exit routes.

basis of the proceeds received and receivable. There is no significant change in the value of the investment over the year as the price of the transaction was taken into account as of December 31, 2016. Under the by-laws of the Fund Sofinnova Partners was not authorized to proceed with this transaction. The unitholders have been asked to vote and confirmed their agreement to proceed with the transaction.

Addex Pharmaceuticals - SWX Swiss Exchange [ADXN] is valued at market price of CHF2.29 per share as of December 31, 2017 with a €75k increase in value over the year.
Our overall position in Addex since inception can be analysed as follows as of December 31, 2017:

Unrealized		% inv.	Amount invested	Valuation	Unrealized gain/Loss	MoC
311,667	Common stock		6,609,975			
		38.6%	6,609,975	610,300	(5,999,675)	0.1
Realized		% inv.	Amount invested	Proceeds	Realized gain/Loss	
494,981	Common stock	61.4%	10,497,781	1,372,947	(9,124,833)	0.1
806,648	Common stock	100%	17,107,756	1,983,247	(15,124,508)	0.1

1.3.3 Gross internal rate of return and gross multiple

As of December 31, 2017, the Gross IRR (on the basis of a periodic monthly IRR) and the Gross multiples were as follows:

Gross Multiple as of December 31, 2017	Life Sciences	Technology	Overall Fund
Realized Investments (incl. milestones & escrow)	1.86	0.90	1.44
Residual portfolio	0.09	0.95	0.54
Overall portfolio (Realized & Unrealized)	1.80	0.90	1.40
Gross IRR as of December 31, 2017	**Life Sciences**	**Technology**	**Overall Fund**
Realized Investments (incl. milestones & escrow)	14.2%	(1.9%)	7.9%
Residual portfolio	(17.1%)	(0.5%)	(4.8%)
Overall portfolio (Realized & Unrealized)	13.4%	(1.7%)	7.1%

1.4 Fund performance

1.4.1 Capital calls

As of December 31, 2017, 100% of the Fund's capital, or €330 million, has been paid up. The last tranche of 5% was paid up in May 2008. A breakdown of the capital contributions since creation of the Fund is shown in paragraph 4.1.3.3.

1.4.2 Distributions

There were no distributions during the year.

Overall, the Fund's cumulative distributions to investors as of December 31, 2017 amounted to €376.5 million representing 114.7% of investors' committed and contributed capital of €328.3 million.

Sofinnova Capital IV
Statement of operations
from January 1st to December 31, 2017
(in euros)

	2017	2016
Financial income	8.77	(650.86)
Portfolio income		
Interest	0.00	0.00
Short-term investment income		
Interest	8.77	9.46
Gains on disposal of money market funds	0.00	(871.91)
Foreign exchange gain	0.00	211.59
Other income	0.00	0.00
Financial expenses	4,478.58	8,475.77
Foreign exchange loss	323.11	8,475.77
Losses on disposal of money market funds	4,155.47	0.00
Net financial gain (loss) for the period	(4,469.81)	(9,126.63)
Other expenses	18,444.45	14,080.48
Management fees	0.00	0.00
Custodial fees	9,600.00	9,768.71
Statutory auditors' fees	7,837.69	4,243.38
Venture advisors incentive fee	0.00	0.00
LP meeting expenses	0.00	0.00
Interest on reinvested distributions	0.00	0.00
Registration fees	0.00	0.00
Legal and regulatory compliance costs	0.00	0.00
Litigation fees	0.00	0.00
Fees on sale of securities	0.00	0.00
BDF reporting fees	(1,093.98)	0.00
Bank charges	0.02	0.00
AMF fees	100.72	68.39
Other charges	2,000.00	0.00
Net operating gain (loss) for the period	(22,914.26)	(23,207.11)

Net realised gain (loss) on investments

	2017	2016
Proceeds from sales	598,213.57	0.00
Cost of investments sold	9,274,428.26	0.00
Net realized gain (loss) on investments sold	(8,676,214.69)	0.00

WLR Recovery Fund III, L.P.
Summary of Investment Activity From Inception
Through September 30, 2017

	Investment Date	Invested Capital	Proceeds[1]	Fair Value	Total Value	MOIC[2]	Gross IRR[3]
Realized Investments							
Phoenix International Hldg Co	8/1/2005	$39.1	$39.5	$ -	$39.5	1.01x	1.1%
Collins and Aikman Auto Ltd	8/3/2005	9.3	9.8	-	9.8	1.05x	11.3%
Wagon PLC	8/3/2005	118.1	0.7	-	0.7	0.01x	-100.0%
Delphi Corp	8/5/2005	21.8	22.4	-	22.4	1.03x	23.3%
International Textile Group	9/26/2005	151.7	2.0	0.07	2.1	0.01x	-43.4%
Dana Corp.	10/12/2005	5.7	6.7	-	6.7	1.18x	1004306.3%
HLI Operating Co Inc.	1/17/2006	20.5	25.7	-	25.7	1.26x	26.9%
Blue Ocean Re Holdings Ltd	2/9/2006	22.8	31.4	-	31.4	1.38x	22.3%
Montpelier Re Holding Ltd.	6/1/2006	90.6	125.7	-	125.7	1.39x	9.6%
International Coal Group	6/13/2006	54.4	72.1	-	72.1	1.33x	11.8%
Visteon Corp.	7/31/2006	17.8	19.7	-	19.7	1.10x	757.4%
Panther Re Holdings Ltd.	12/1/2006	60.1	77.9	-	77.9	1.30x	21.7%
IAC North America Investor	7/23/2007	3.9	3.2	-	3.2	0.82x	-7.6%
Ocwen Financial Corporation/Homeward Residential	8/6/2007	229.6	288.2	-	288.2	1.26x	12.5%
Thornburg Mtg Inc.	8/15/2007	5.8	6.7	-	6.7	1.14x	14407762.7%
Assured Guaranty Ltd.	12/31/2007	27.3	34.1	-	34.1	1.25x	4.0%
Alok Industries LTD	2/21/2008	0.5	0.5	-	0.5	1.09x	22.2%
Hayes Lemmerz	2/29/2008	2.1	2.4	-	2.4	1.13x	7.6%
Ambac Financial Group, Inc.	3/19/2008	1.4	1.9	-	1.9	1.35x	60.1%
MBIA, Inc.	3/19/2008	3.2	4.5	-	4.5	1.39x	60.8%
Balrampur Chini Mills	3/27/2008	0.1	0.2	-	0.2	1.53x	8.4%
WLR CLO Acquisition LLC	3/31/2008	40.2	41.3	-	41.3	1.03x	2.9%
Capital One Financial Corp,	6/26/2008	0.1	0.1	-	0.1	1.08x	785.9%
SpiceJet Ltd.	8/14/2008	3.0	4.7	-	4.7	1.56x	23.8%
Phong Phu Corporation	12/15/2008	0.2	0.1	-	0.1	0.50x	-9.6%
Satyam Computer Services	1/27/2009	0.2	0.4	-	0.4	2.74x	357.7%
Global Safety Textiles	2/13/2009	0.1	0.8	-	0.8	8.00x	65.5%
National Fin Partners Corp	3/9/2009	2.8	7.3	-	7.3	2.64x	155.3%
Total Realized Investments		$932.4	$830.1	0.07	$830.1	0.89x	-4.8%
Unrealized/Partially Realized Investments							
IAC Group North America	11/23/2005	$386.9	$164.4	136.00	$300.4	0.78x	-3.6%
IAC Group Brazil	4/10/2006	51.3	29.6	3.4	33.0	0.64x	-19.5%
OCM India Limited	12/31/2006	12.3	2.2	4.1	6.3	0.51x	-7.8%
Compagnie Europeenne De Wagons	5/24/2007	17.3	50.7	0.04	50.7	2.93x	17.0%
Total Unrealized/Partially Realized Investments		$467.8	$246.9	$143.5	$390.4	0.83x	-2.7%
Total Portfolio		$1,400.2	$1,077.0	$143.6	$1,220.6	0.87x	-3.6%

[1] Includes all proceeds from investment including interest, dividends and sale proceeds

[2] MOIC = Total Value / Invested Capital

[3] Represents cash flows to and from portfolio positions and is gross of management fees and operating expenses.

WLR RECOVERY FUND III, L.P. AND SUBSIDIARY AND ALTERNATIVE INVESTMENT VEHICLE

(UNAUDITED)

COMBINED STATEMENT OF FINANCIAL CONDITION

September 30, 2017

Assets

Investments at fair value (cost $273,833,529)	$	143,645,782
Due from broker		3,002,676
Tax refund receivable		89,657
Prepaid Expenses		11,506
Due from Limited Partners		56,616
Total Assets	$	146,806,237

Liabilities and Partners' Capital

Liabilities		
Accrued expenses	$	162,244
Due to affiliate		50,852
Total Liabilities		213,096
Partners' Capital		
Limited Partners		141,455,868
General Partner		5,137,273
Total Partners' Capital		146,593,141
Total Liabilities and Partner's Capital	$	146,806,237

WLR RECOVERY FUND III, L.P. AND SUBSIDIARY AND ALTERNATIVE INVESTMENT VEHICLE

(UNAUDITED)

COMBINED STATEMENT OF OPERATIONS

For the three and nine months ended September 30, 2017

	Current Quarter	Year to Date
Investment Income		
Interest income	$ 4,699	$ 9,161
Total investment income	4,699	9,161
Expenses		
Professional fees	39,062	138,819
Interest expense	-	225
Other expenses	20,209	65,251
Total expenses	59,271	204,295
Net investment income (loss)	(54,572)	(195,134)
Net realized gain (loss) and change in unrealized appreciation/depreciation on investments:		
Net realized gain (loss) on investments	-	(829)
Net change in unrealized appreciation/depreciation on investments	8,840,447	(42,671,854)
Net realized gain (loss) and change in unrealized appreciation/depreciation on investments	8,840,447	(42,672,683)
Net increase (decrease) in partners' capital resulting from operations	$ 8,785,875	$ (42,867,817)

WLR RECOVERY FUND III, L.P. AND SUBSIDIARY AND ALTERNATIVE INVESTMENT VEHICLE

COMBINING STATEMENT OF OPERATIONS
(UNAUDITED)

For the nine months ended September 30, 2017

	WLR RECOVERY FUND III, L.P.	WLR RECOVERY FUND III IAC AIV, L.P.	Total
Investment Income			
Interest income	$ 9,161	$ -	$ 9,161
Total investment income	9,161	-	9,161
Expenses			
Professional fees	122,081	16,738	138,819
Interest expense	225	-	225
Other expenses	65,251	-	65,251
Total expenses	187,557	16,738	204,295
Net investment income (loss)	(178,396)	(16,738)	(195,134)
Net realized gain (loss) and change in unrealized appreciation/depreciation on investments:			
Net realized gain (loss) on investments	(829)	-	(829)
Net change in unrealized appreciation/depreciation on investments	241,218	(42,913,072)	(42,671,854)
Net realized gain (loss) and change in unrealized appreciation/depreciation on investments	240,389	(42,913,072)	(42,672,683)
Net increase (decrease) in partners' capital resulting from operations	$ 61,993	$ (42,929,810)	$ (42,867,817)

WLR RECOVERY FUND III, L.P. AND SUBSIDIARY AND ALTERNATIVE INVESTMENT VEHICLE

COMBINING SCHEDULE OF INVESTMENTS

(UNAUDITED)

September 30, 2017

TRADE DATE	SECURITY	MATURITY	SHARES PRINCIPAL OR NOTIONAL AMOUNT	AVERAGE ACQUISITION PRICE %	COST BASIS	---END OF PERIOD--- FAIR MARKET VALUE	TOTAL FAIR MARKET VALUE	UNREALIZED GAIN/(LOSS)
EQUITY HOLDINGS:								
WLR Recovery Fund III, L.P.								
10-Apr-06	International Automotive Components Group Brazil LLC	n/a	59,002,687	$0.36	$ 22,011,016	$0.06	$ 3,392,518	$ (18,618,498)
20-Oct-06	International Textile Group Holdback	n/a	-	-	-		65,239	65,239
19-Feb-07	OCM India Limited	n/a	35,514,962	$0.35	12,399,107	$0.12	4,138,319	(8,260,788)
19-Jul-14	CEW Germany GmbH (Equity Interest)	n/a	8,030	$0.00	-	$4.44	35,678	35,678
24-May-07	Compagnie Europeenne De Wagons	n/a	90	$33.58	-	$29.63	2,667	2,667
WLR RECOVERY FUND III IAC AIV, L.P.								
31-Mar-07	International Automotive Components Group North America, LLC	n/a	245,197,625	$0.98	239,423,406	$0.55	136,011,361	(103,412,045)
	TOTAL				$ 273,833,529		$ 143,645,782	$ (130,187,747)

WARBURG PINCUS PRIVATE EQUITY XI
AND
WARBURG PINCUS XI PARTNERS
COMBINED SUMMARY OF CHANGES TO PORTFOLIO INVESTMENTS*
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

(000s)
(Unaudited)

Carrying Value of Portfolio Investments at June 30, 2017		$ 13,057,524
Additions to Investments During the Quarter:		
Brigham Resources, LLC	$ 5,240	
China Residential Group Companies:		
Nova Property Investment Co., Ltd	50,060	
Delonex Energy Limited	24,167	
Dude Solutions, Inc.	1,701	
Ecom Express Private Limited	30,195	
Helix Companies:		
Helix OpCo, LLC	18,333	
Independence Resources Management, LLC	13,208	
Nirvana Shopping Mall Platform	47,472	
Sand Hill Petroleum B.V.	12,017	
		202,393
Dividend and Interest Income from Investments:		
Capital First Limited	1,360	
InComm Holdings, Inc.	12,995	
Laurus Labs Limited	907	
Mariner Finance	1,920	
Slickdeals LLC	727	
Vincom Retail Joint Stock Company	26,216	
		44,125
Valuation Adjustments During the Quarter:		
Avalara, Inc.	10,000	
Brigham Resources, LLC	26,813	
Capital First Limited	31,984	
CAR Inc.	(2,054)	

* The portfolio activity shown above reflects activity of Warburg Pincus Private Equity XI ("WP XI") and Warburg Pincus XI Partners on a combined basis. The limited partners of Warburg Pincus XI Partners are principally partners and professionals employed by affiliates of Warburg Pincus. Warburg Pincus XI Partners invests in parallel to WP XI in all portfolio investments pro rata in relation to their available capital. As of September 30, 2017, investments were allocated 95.0% to WP XI and 5.0% to Warburg Pincus XI Partners.

WARBURG PINCUS PRIVATE EQUITY XI
AND
WARBURG PINCUS XI PARTNERS
COMBINED SCHEDULE OF PORTFOLIO INVESTMENTS*
SEPTEMBER 30, 2017

(000s)
(Unaudited)

	Warburg Pincus Private Equity XI		Warburg Pincus XI Partners		Combined	
Portfolio Investment	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
Accelya	$ 180,224	$ 187,525	$ 9,485	$ 9,869	$ 189,709	$ 197,394
Allied Universal Security Services	285,000	356,250	15,000	18,750	300,000	375,000
Ane Logistics Co., Ltd.	53,833	238,735	2,833	12,565	56,666	251,300
Avalara, Inc.	167,458	218,500	8,814	11,500	176,272	230,000
AVTEC Limited	27,664	19,000	1,456	1,000	29,120	20,000
Beijing Amcare Women's & Children's Hospital	100,354	228,000	5,281	12,000	105,635	240,000
Biba Apparels Private Limited	41,137	78,141	2,165	4,112	43,302	82,253
Blue Yonder GmbH	36,421	30,020	1,918	1,580	38,339	31,600
Brigham Resources, LLC	42,011	110,893	2,298	6,065	44,309	116,958
CAGR Gas Resource Limited	144,066	79,800	7,582	4,200	151,648	84,000
Capillary Technologies International Pte. Ltd.	43,200	54,150	2,274	2,850	45,474	57,000
Capital First Limited	99,250	375,645	5,224	19,771	104,474	395,416
CAR Inc.	88,985	147,441	4,684	7,760	93,669	155,201
Car Trade	95,341	138,700	5,018	7,300	100,359	146,000
China Huarong Asset Management Co., Ltd.	150,565	224,536	7,925	11,818	158,490	236,354
China Residential Group Companies:						
Mofang	148,313	269,800	7,806	14,200	156,119	284,000
Nova Property Investment Co., Ltd	208,704	259,350	10,984	13,650	219,688	273,000
Civitas Learning, Inc.	29,574	29,574	1,556	1,556	31,130	31,130
Crossmark Holdings, Inc.	73,758	73,758	3,882	3,882	77,640	77,640
DBRS	71,549	128,250	3,765	6,750	75,314	135,000
Delonex Energy Limited	75,699	58,901	3,985	3,100	79,684	62,001
Dude Solutions, Inc.	97,781	199,500	5,146	10,500	102,927	210,000
Ecom Express Private Limited	137,160	199,685	7,220	10,510	144,380	210,195
eDaijia Inc.	86,527	86,527	4,554	4,554	91,081	91,081
Evercare (Beijing) Holding Group Co., Ltd.	84,234	84,234	4,433	4,433	88,667	88,667
GPS Participações e Empreendimentos S.A.	79,637	170,771	4,192	8,988	83,829	179,759
Haodai Inc.	30,229	33,253	1,591	1,750	31,820	35,003
Hawkwood Energy LLC	322,280	268,802	16,961	14,147	339,241	282,949
Helix Companies:						
Genomics Development, LLC	7,631	7,631	402	402	8,033	8,033
Helix OpCo, LLC	76,574	112,417	4,030	5,916	80,604	118,333

* This schedule shows the combined investments of Warburg Pincus Private Equity XI ("WP XI") and Warburg Pincus XI Partners. The limited partners of Warburg Pincus XI Partners are principally partners and professionals employed by affiliates of Warburg Pincus. Warburg Pincus XI Partners invests in parallel to WP XI in all portfolio investments pro rata in relation to their available capital. As of September 30, 2017, investments were allocated 95.0% to WP XI and 5.0% to Warburg Pincus XI Partners. The enclosed reports describing the fund's portfolio investments refer to the positions of these partnerships on a combined basis.

WARBURG PINCUS PRIVATE EQUITY XI
SCHEDULE OF FUND EXPENSES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(000s)
(Unaudited)

PROFESSIONAL FEES AND OTHER EXPENSES		
Interest and Financing Fees	$	13,859
Legal		3,838
Professional Fees		2,962
Travel and Related		2,630
Accounting and Tax Preparation		1,744
Write-off of Deal in Process*		607
Audit		338
Insurance		244
Other Fund Administration (Net)		(90)
Total Professional Fees and Other	$	26,132
MANAGEMENT FEE EXPENSES		
Gross Management Fee	$	69,031
Offsets to Management Fee During the Period		(53)
Net Management Fee	$	68,978
TOTAL EXPENSES	$	95,110

* Due to the wind-down of Anemka Resources in the first quarter of 2017, the carrying value of the deal in process was reduced to $0 after receiving final proceeds of $201,000, as compared to its cost of $808,000.

Fund VI funded approximately $213 million in the rights offering, including its share of the oversubscription amount, and owns approximately 18% of CAC.

Recent developments

On September 27, 2016, CEC and CEOC announced that they had received confirmation from representatives of CEOC's major creditor groups of those groups' support for the key economic terms of a consensual restructuring with these constituencies. Under the terms of that deal Apollo funds, TPG and co-investors agreed to contribute the full 14% of the equity (held in the name of Hamlet Holdings) that it would have received under the prior plan through its ownership in CEC. This contribution is valued by CEOC at approximately $950m. Senior creditors (1st lien banks and 1st lien bonds) also agreed to reduce their recoveries vs. the prior version of the plan, in order to facilitate a deal. Under the revised plan, CEOC creditors would own approximately 66% of the fully diluted equity in the combined company ("New CEC"), and shareholders of CAC would own approximately 26% (with public CEC shareholders and management owning the remaining 8% of New CEC). Apollo funds, TPG and Hamlet co-investors (that participated in the CAC transaction in 2013) will collectively own approximately 17% of New CEC once the transactions close.

On October 4, 2016, CEOC filed an amended Chapter 11 plan with the bankruptcy court in Chicago. On January 17, 2017, the proposed plan was confirmed in bankruptcy court. With bankruptcy court approval in-hand, the recent focus has been on implementation of the restructuring and the merger of CACQ and CEC, including regulatory approvals, exit financings, and SEC review of the proposed merger. These processes are expected to be completed in Q3 2017, at which point CEOC will emerge from bankruptcy, CACQ will be merged into CEC, and all pending and potential claims against CEC, CACQ, Apollo, Fund VI and others will be dismissed with prejudice and/or released.

Historical financial summary

A summary of consolidated financial information of the company is outlined below:

	Fiscal Year Ended December 31,				LTM
($ in millions, same-stores basis)	2013	2014	2015	2016	6/30/2017
Revenue	$7,851	$7,967	$8,328	$8,418	$8,356
Adjusted EBITDA	$1,709	$1,468	$2,048	$2,210	$2,178
% Growth	*-3.5%*	*-14.1%*	*42.0%*	*6.1%*	--
% Margin	*21.8%*	*18.4%*	*25.0%*	*26.3%*	*26.1%*

Status and valuation

Fund VI owns approximately 18% of CAC on a fully diluted basis as of June 30, 2017. In aggregate, Fund VI valued its investment at $469.2 million ($628.0 million, including proceeds received to-date) as of June 30, 2017, based on the public trading price of CAC at quarter-end. In light of the plan, Fund VI is attributing no value to its share in CEC as of June 30, 2017.

Apollo value-add

- *Significant Synergy Opportunities.* Due to the fact that Henry's and Sprouts were nearly identical concepts with minimal geographic overlap, the combination presented meaningful opportunities for significant cost savings and synergies including buying leverage due to increased scale, distribution and warehousing efficiencies, the implementation of best-practices, reduced marketing spend, and elimination of duplicative corporate overhead.
- *Upgrading of the Financial Team.* The Apollo team assisted the company with recruiting the financial team at Sprouts through the identification and recruitment of a new Chief Financial Officer, who had significant prior experience in driving the financial organization of a sponsor-backed company that went through the process of building the internal systems and controls to become a publicly-traded company.
- *Platform for Add-on Acquisitions.* In addition to Sprouts' strong organic and new store growth prospects, the team believed there were other highly complementary acquisition opportunities in the natural / organic grocery segment. The Apollo team assisted with the identification, negotiation and financing of the accretive Sunflower acquisition by Sprouts in May 2012.
- *Capital Markets Expertise.* Prior to the transaction, Sprouts had never raised syndicated debt financing in the capital markets. The Apollo team worked closely with Sprouts to help secure the acquisition financing with very attractive terms, including a term loan with no maintenance covenants and significant financial flexibility. In April 2013, the Apollo team helped Sprouts raise a $700 million term loan B at an overall yield of 4.625%. The proceeds were used to refinance existing debt and fund a distribution to equity holders, which resulted in $122 million in proceeds to Fund VI, or approximately 67% of the original equity investment. In addition, Apollo helped the company position itself for its IPO. Several pre-IPO store tours and information sessions were hosted with large equity mutual fund institutional accounts across the country as well as with prominent equity research analysts.
- *Leveraging of Apollo's Food Retail Experience.* Apollo has a long track record of successfully investing in food retail businesses and was able to provide strategic direction and perspectives from outside of the "farmers market" niche to management and the board of directors. One area of focus was to help Sprouts refine its decision making and ROI criteria in evaluating new store opportunities.

Historical financial summary

A summary of financial performance of Sprouts is outlined below:

	Fiscal year ended (December),				
($ in millions)	2010	2011	2012	2013	2014
Sales	**$1,490**	**$1,723**	**$1,991**	**$2,438**	**$2,967**
% growth	- -	15.6%	15.6%	22.4%	21.7%
% comp. store sales growth	2.3%	5.1%	9.7%	10.7%	9.9%
Pro Forma Adjusted EBITDA	**$71**	**$80**	**$147**	**$195**	**$265**
% margin	4.8%	4.6%	7.4%	8.0%	8.9%
% growth	- -	12.4%	84.2%	32.5%	36.0%
Net debt	**- -**	**$369**	**$481**	**$360**	**$281**

Note: All figures are pro forma for the combination of Sprouts, Henry's and Sunflower, including the full impact of estimated transaction synergies. Net debt figures include capital and financing lease obligations.

Exit and valuation

On March 10, 2015, Fund VI completed the sale of its remaining shares of Sprouts through a block trade. The aggregate final total realized value of Fund VI's investment in Sprouts was $1.9 billion on an original April 2011 investment of $181.5 million, representing a Fully Realized MOIC of 10.3x. The final profit dollars to Fund VI on the Sprouts investment was $1.7 billion with an overall IRR of 115%.

  - Complex technology solution, which takes years to develop.
  - Large installed base enabling real-time threat detection and continuous product innovation.
  - Trusted consumer security brand with leading performance and service ratings and a strong online global distribution network.
- Highly cash generative, scalable model with very low marginal costs to service an additional user:
  - Installs and distributes its products over the internet and keeps only one single instance of its product running centrally.
  - An almost entirely viral online customer acquisition strategy, and user-driven basic customer support.
  - Highly automated detection, analysis and testing of security threats.
- Minority transaction with strong governance rights and downside protection:
  - The CVC Fund's equity ranks ahead of all non-management shareholders (pari passu for a portion of management equity) providing equity cushion of the CVC Fund's investment.
  - Protective provisions such as (i) the unilateral right to force a recap to at least the original transaction debt multiple as of Mar-2016 (ii) unilateral exit rights after 4 years (iii) the ability to replace the CEO.

CURRENT STRATEGY

We see the following key areas of growth and value creation for Avast:

- Significant revenue synergy potential from recently closed Piriform acquisition; continue successful integration of AVG acquisition
- Continuous upselling of free Avast users to the paid Avast product (at the time of acquisition 2.4% of PC users take the paid product) through improving conversion and renewal rates.
- Whilst the PC market is flat / slightly declining, Avast has levers to drive further market share gains through (i) continuing shift from the "pay only" providers (Norton, McAfee) to the Free-to-Pay players (ii) a strong position in emerging markets, which benefit from further PC and security software penetration.
- Additional upside potential from mobile opportunity (smartphones and tablets) as mobile security risks continue to grow rapidly
- Selective M&A to add new products or expand geographically.

CURRENT PERFORMANCE

US$ million	Avast (excl. AVG)[3]			Avast & AVG PF combined			
	FY Dec-14	FY Dec-15	FY Dec-16	FY Dec-15	FY Dec-16	Q3-16	Q3-17
Billings	**245.8**	**287.3**	**313.5**	**739.0**	**745.3**	**182.9**	**199.0**
Turnover	**217.5**	**268.8**	**293.8**	**734.9**	**736.5**	**182.6**	**194.6**
Adj. Gross Profit	**206.3**	**252.7**	**275.8**	**638.0**	**625.4**	**154.6**	**168.1**
Adj. EBITDA (incl realised synergies)[1,2]	**154.2**	**187.6**	**201.7**	**358.7**	**351.6**	**86.1**	**105.0**
Adj. EBITDA (run-rate synergies)[1,2]					**399.9**	**-**	**107.2**
Adj. EBIT (incl realised synergies)[1,2]	**148.5**	**180.8**	**195.1**	**337.8**	**329.9**	**80.6**	**100.1**
Cost syneriges							**-**
Realised (incl. in EBIT/EBITDA)				*na*	*8.9*	*na*	*25.0*
Annual run-rate				*na*	*57.2*	*na*	*108.9*
Capex adjusted	**(4.4)**	**(4.1)**	**(4.9)**	**(14.9)**	**(17.9)**	**(2.1)**	**(4.0)**
Net bank debt	**277.9**	**126.0**	*na*	*na*	**1,420.1**	**1,469.6**	**1,460.2**
Net debt / LTM EBITDA	*1.8x*	*0.7x*	*na*	*na*	*4.0x*	*4.3x*	*3.6x*
Bookings growth (reported)	*46.5%*	*16.9%*	*9.1%*		*0.9%*	*(0.2%)*	*8.8%*
Adj. EBITDA growth (reported)	*51.5%*	*21.7%*	*7.5%*		*(2.0%)*	*(6.9%)*	*21.9%*
Adj. EBITDA margin (incl. realised syn.)	*70.9%*	*69.8%*	*68.6%*	*48.8%*	*47.7%*	*47.2%*	*53.9%*
Adj. EBITDA margin (incl. run-rate syn.)					*54.3%*	*na*	*55.1%*

Notes:

(1) EBITDA and EBIT adjusted for stock based compensation and non-recurring expenses (incl. integration costs related to AVG acquisition)

(2) As of Q3 2017, Adj. EBITDA includes $25m of synergies realised; annual run-rate effect of these realised synergies is $109m

(3) Up until the end of 2016, Avast billings and revenues were recognised "net" of sales transactions and fees, compared to AVG which applied "gross" recognition and considered the transaction fees as COGS. Further, Avast deferred COGS over the duration of the sucscription period, while AVG expensed them day-1. In 2017 Avast is aligning these two policies, and both companies will apply "gross" recognition for all online sales transacted via e-commerce platforms and defer COGS over the duration of the sucbscription period which is standard in the industry. PF combined financials have been accordingly.

(4) Pro forma for the Piriform acquisition (July 2017) and preferred dividend payment (October 2017), net leverage increased to ~4.2x LTM EBITDA

CURRENT STRATEGY

Our current strategy remains unchanged from the original investment rationale.

CURRENT PERFORMANCE

(US$mm)	Fiscal Year Ended January [1] FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	8 mo ended Sep FY2017	FY2018	LTM FY2018
Total stores [2]	195	198	201	207	213	214	214	215	215
Merchandise Sales	10,509	10,855	10,935	11,111	11,279	11,229	10,460	10,466	11,235
% Growth	*7.6%*	*3.3%*	*0.7%*	*1.6%*	*1.5%*	*(0.4%)*		*0.1%*	
% SSS growth	*4.0%*	*1.2%*	*(1.0%)*	*(0.3%)*	*(0.5%)*	*(2.2%)*		*(1.2%)*	
Adj. EBITDA [3]	383	410	411	410	411	478	457	490	511
% Margin	*3.6%*	*3.8%*	*3.8%*	*3.7%*	*3.6%*	*4.3%*	*4.4%*	*4.7%*	*4.6%*
Adj. EBITA [3]	247	261	254	258	265	329	319	364	374
% Margin	*2.4%*	*2.4%*	*2.3%*	*2.3%*	*2.4%*	*2.9%*	*3.0%*	*3.5%*	*3.3%*
Capital Expenditures	(165)	(157)	(142)	(155)	(112)	(115)	(108)	(109)	(115)
% of Sales	*1.6%*	*1.4%*	*1.3%*	*1.4%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Total Debt	1,670	2,104	2,489	2,354	2,281	2,094	2,089	2,717	2,717
Cash & Cash Equivalents	(40)	(49)	(39)	(37)	(37)	(32)	(116)	(44)	(44)
Net Debt	**1,630**	**2,054**	**2,450**	**2,318**	**2,244**	**2,062**	**1,973**	**2,673**	**2,673**
Net Debt / Adj. EBITDA [4]	4.3x	5.0x	6.0x	5.6x	5.5x	4.5x			5.2x

(1) For purposes of comparability, results for the FYE Jan. 2013 have been adjusted to exclude the impact of a 53rd reporting week.
(2) Excludes five stores closed as part of the Company's restructuring program in 2011.
(3) Adjusted EBITDA and Adjusted EBITA in all periods are calculated pro forma for the incremental rent expense from the sale-leaseback transactions completed at closing and in September 2012 (~$60 million in total). Additionally, EBITDA and EBITA for the fiscal years ended January 2014 and 2015 have been adjusted to reflect the estimated allocation of an $8 million inventory write-down taken in October 2015.
(4) FYE January 2012 net debt / EBITDA multiple is based upon EBITDA prior to the adjustment for the incremental rent associated with the sale-leaseback transactions completed in September 2012.

REVIEW OF CURRENT PERFORMANCE

For the eleven months ended December 2017, BJ's generated total merchandise sales of $10.5 billion, a slight decrease of -0.2% year-over-year. Same-store sales declined by 1.2%, impacted by unseasonably cold and wet weather at the beginning of the year (which impacted store traffic in the Company's summer seasonable business) as well as some softness in perishables and general merchandise. Aside from December, which was negatively affected by inclement weather during the Christmas shopping period, comps in the second half of FY18 have thus far been positive (in line with management's projections), and we expect continued strong performance through fiscal year-end.

In the YTD period, BJ's generated Adj. EBITDA of $490 million, an increase of 7.8% relative to prior year. EBITDA has benefited from better gas sales margins and cost control efforts across utilities, coupon income, and advertising expenses. LTM adjusted EBITDA totaled $511 million.

ESG

BJ's Wholesale Club conducts itself in a manner that is consistent with its values of Team, Community Respect and Integrity. The company takes an active role in reducing hunger and improving education in its communities. The company also works to reduce its environmental impact and to source products responsibly. Some of BJ's Wholesale's recent accomplishments in these areas include:

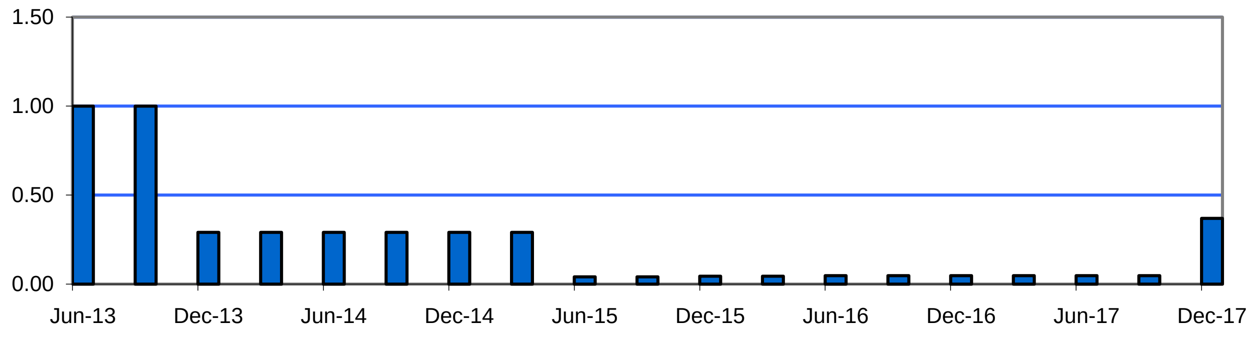
• Donating unsold meat, produce, dairy and bakery items to local food banks
• Awarding dozens of grants to local food banks to improve their ability to store and distribute food
• Becoming the first wholesale club committed to selling "No Dirty Gold," meaning that metals in its jewelry selection are responsibly sourced
• Removing products from its shelves that contain chemicals, called neonicotinoids, that harm the honey bee population
• Restoring and establishing forest lands by planting hundreds of thousands of trees along the East Coast of the United States.
• Helping to ensuring animal welfare through a commitment to source 100% cage-free eggs by 2022.

NOTE: INVESTMENT CASHFLOWS

US$	CVC Fund V
Original investment, December 2012	250,000,000
Add-on investment, November 2017	**27,600,000**
Current cost of investment, December 2017	**277,600,000**
Fair value of investment , December 2017	US$102.6m
As X of current cost	*0.0x*
Cash returned to date	US$0.0m
As X of original cost	*0.0x*
Total returns to date (Cash & FV)	US$102.6m
As X of original cost (MoM)	*0.0x*
CVC Ownership	65.7%
CVC Ownership (fully diluted)[1]	65.3%

(1) Represents unvested preferred equity growth.

NOTE: TOTAL RETURNS PROFILE



NOTE: CAPITAL STRUCTURE

$	CVCEEP V (A)	CVCEEP V (B)	CVCEEP V (C)	CVCEEP V (D)	CVCEEP V (E)	Total
CL Acquisition Holdings Limited						
Preference Shares	86,700,425	86,349,157	90,890,421	6,456,894	7,203,104	277,600,000
Total	**86,700,425**	**86,349,157**	**90,890,421**	**6,456,894**	**7,203,104**	**277,600,000**

II - PORTFOLIO REPORTING AS OF 30 SEPTEMBER 2016

1. New investments and complementary investments

None.

2. Divestments

➢ Sale of TCR:

In April 2016, the Funds Chequers Capital and Chequers Capital XV signed a SPA for the full realisation of TCR to 3i Infrastructure and Deutsche Bank AM. €121.7 million were cashed in late July by Chequers Capital. Including the proceeds from this final exit, the Fund collected a total of €138.2 million of proceeds over the holding period of TCR, which posts a Multiple of Investment Cost of 8.6x and an IRR of 26%.

	€	€	€	€	€	€
Name	Original cost as of 30.06.2016	Investment	Divestment	Original cost as of 30.09.2016	Proceeds	Capital Gain
TCR Capvest *(TCR)*						
- shares	5 828 820		5 828 820		94 973 145	89 144 325
- bonds with warrants	8 518 340		8 518 340		11 123 915	2 605 575
TCR Interantional *(TCR)*						
- bonds with warrants	12 237 170		12 237 170		15 562 498	3 325 328
Total	26 584 330		26 584 330		121 659 558	95 075 228

			€	€		
Name	Date of investment	Date of realisation	Total amount invested	Total proceeds	Multiple of cost	IRR
TCR	July 2006	July 2016	16 107 871	138 744 093	8.6 x	26.0%

VI

Status of the fund and performance indicators

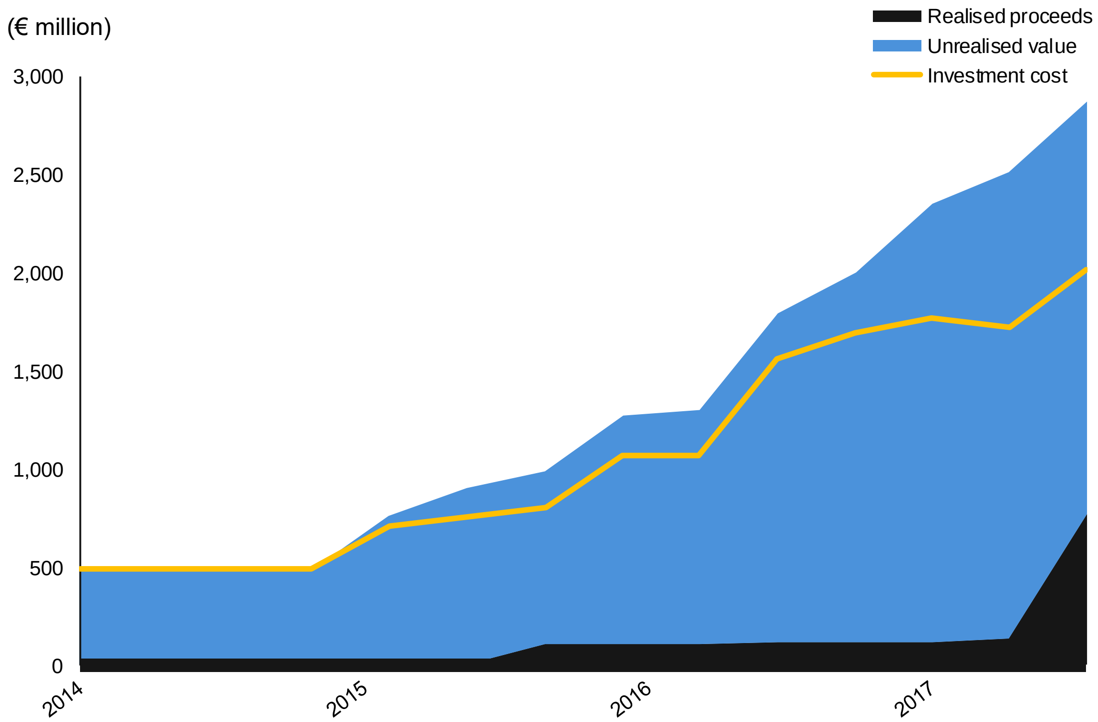
Status of commitments (€ million)	**Total fund**	**% of the commitment**
Total commitments	3,290.8	100.0%
of which LPs	*3,225.0*	*98.0%*
of which GP	*65.8*	*2.0%*
Total drawdowns since inception	1,957.5	59.5%
Undrawn commitment	1,333.3	40.5%
including reserved commitment for investments [7]	*347.4*	*10.6%*

Distributions & valuation to LPs	
Distributions since inception	728.3
Net asset value [8]	1,671.9

Net performance indicators to LPs	
TVPI (Total Value to Paid-In)	1.3x
DPI (Distribution to Paid-In)	0.4x
RVPI (Residual Value to Paid-In)	0.9x

7. €4.5 million for an add-on in Labeyrie, €14.0 million for an add-on in VPS, €20.2 million for an add-on in AS Adventure, €12.0 million for an add-on in Ethypharm, €196.0 million for ELITech and €100.7 million for Cortefiel
8. Please refer to the Net Assets exhibit on page 83 for a breakdown

Fund performance since inception



VI

Roompot

Key events and actions since acquisition

The business has delivered positive financial performance in 2017 with sales growth of +10% compared to last year (both driven by strong Leisure and Project Development performance). Roompot has benefitted both from the favorable sector trends driving the European tourism market and the specific initiatives implemented since acquisition in November 2016:

- Restyling and brand rejuvenation program: the company has spent €10 million on the program in 2017, with positive impact on both price and occupancy of accommodations
- Revenue Management program ongoing, on schedule with full automation expected by H2 2018
- Propco refinancing: Roompot has refinanced part of its property portfolio in 2017, decreasing significantly financing costs. Further refinancings are expected in 2018
- Recruitments: strengthening of the management team with (i) creation of talent management program within Roompot to secure and grow talents and (ii) hiring a brand and marketing manager

New headquarters have been agreed with municipality for the full transfer of Roompot teams during the course of 2019. In addition, the company has been expanding its network with new park partnership agreements.

Key financial figures

Fiscal year (€ million) ending 31 December	**Pre PAI acq. 12/2015** [1]	**12/2016** Actual	**12/2017** LE	**12/2018** Budget
Net sales	269.1	290.4	318.5	336.3
EBITDA	49.8	51.2	61.8	67.9
EBITDA Leisure	*44.4*	*47.8*	*56.4*	*60.4*
EBITDA Project Devt	*5.4*	*3.5*	*5.4*	*7.5*
EBITDA margin (%)	**18.5%**	**17.6%**	**19.4%**	**20.2%**
Net debt	-	338.4	346.9	329.0
Net debt/LTM EBITDA	**-**	**6.6x**	**5.6x**	**4.8x**

VI

Assets

As of 31 December 2017 (€ million)	Investment date	Investment cost	Realised proceeds	Cost of remaining assets	Unrealised value	Total value
Current portfolio			I		II	I + II
EMG	Jul. 2014	74.9	–	74.9	134.2	134.2
Labeyrie [1]	Jul. 2014	93.1	60.6	46.8	137.6	198.2
VPS [2]	Jul. 2014	153.1	–	153.1	0.0	0.0
InnoVista Sensors	Sep. 2014	85.7	161.3	12.7	36.7	198.0
AS Adventure [3]	Apr. 2015	240.1	–	240.1	240.0	240.0
Konecta	Dec. 2015	89.7	–	89.7	157.8	157.8
B&B Hotels	Mar. 2016	234.8	–	234.8	371.9	371.9
Atos Medical	Jul. 2016	203.5	–	203.5	241.5	241.5
Ethypharm [4]	Jul. 2016	240.2	–	240.2	265.5	265.5
Roompot	Nov. 2016	162.4	–	162.4	252.2	252.2
ELITech [5]	Jul. 2017	196.0	–	196.0	198.5	198.5
Cortefiel [6]	Sep. 2017	100.7	–	100.7	102.5	102.5
Realised investment						
DomusVi	Sep. 2014	167.2	546.8	-	–	546.8
Total investment portfolio		**2,041.4**	**768.7**	**1,754.9**	**2,138.4**	**2,907.1**
Cash available					40.8	
Other assets and liabilities					(3.2)	
Equity bridge financing facility [1,2,3,4,5,6]					(347.4)	
Total net assets (LPs and GP)					**1,828.6**	

1. An add-on in Labeyrie was fully financed using PAI Europe VI's equity bridge financing facility for €4.5 million
2. An add-on in VPS was fully financed using PAI Europe VI's equity bridge financing facility for €14.0 million
3. An add-on in AS Adventure was fully financed using PAI Europe VI's equity bridge financing facility for €20.2 million
4. An add-on in Ethypharm was fully financed using PAI Europe VI's equity bridge financing facility for €12.0 million
5. ELITech was fully financed using PAI Europe VI's equity bridge financing facility for €196.0 million
6. Cortefiel was fully financed using PAI Europe VI's equity bridge financing facility for €100.7 million

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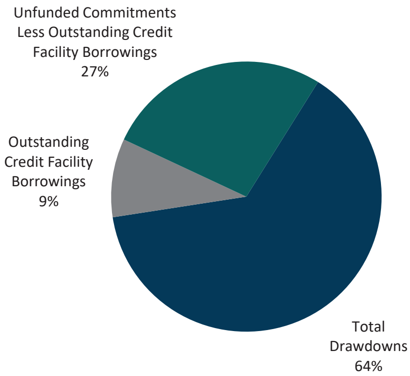
Fund Summary

($ Millions)

Total Original Commitments	$	10,495
Distributions Subject to Recall[1]		637
Release of Commitments		-
Total Commitments		11,132
Total Drawdowns		(7,086)
Unfunded Commitments	$	4,045
Outstanding Credit Facility Borrowings		(1,047)
Unfunded Commitments Less Outstanding Credit Facility Borrowings	$	2,998
Total Number of Investments Since Inception		22
Number of Active Portfolio Companies		21
Total Distributions	$	715
% of Total Drawdowns		10%
% of Total Original Commitments		7%

Commitment Summary



1. Represents proceeds eligible for recycling under the LPA.

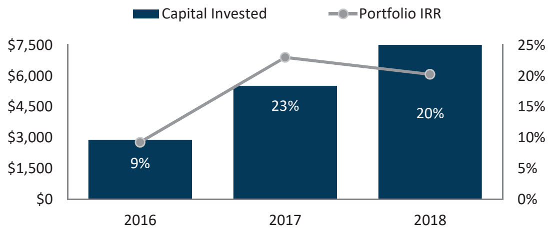
Investor-Level Performance [1]

	Investor Gross[2]	Investor Net[3]	Pro Forma Net[4]
DPI (Distributions to paid-in-capital)	0.1x	0.1x	0.1x
RVPI (Residual value to paid-in-capital)	1.2x	1.1x	1.1x
TVPI (Total value to paid-in-capital)	1.3x	1.2x	1.2x
Recycle Adjusted TVPI	1.4x	1.2x	1.2x
IRR	30%	21%	12%

1. Based on investor cash flows since inception and ending investor capital balance as of 6/30/18, excluding amounts attributable to the general partner, its affiliated entities and "friends of the firm" entities.
2. New performance metric added to our reporting. Calculated to generally approximate gross investor-level performance, excluding management fees, carried interest and fund expenses other than interest expense on the fund's credit facility relating to investments.
3. New label for existing metric (formerly referred to as "Net" in our reporting). Represents net investor-level performance, including management fees, carried interest and fund expenses.
4. New performance metric added to our reporting. Calculated to generally approximate, on a pro forma basis, net investor-level performance assuming no use of the fund's credit facility.
Please see "Disclosures" for further explanation on how metrics are calculated.

Portfolio Performance [1]

Capital Invested[2]	$	7,596
Realized Value		733
Unrealized Value		9,209
Total Value	$	9,942
M-o-M		1.3x
Recycle Adjusted M-o-M		1.3x
IRR		20%

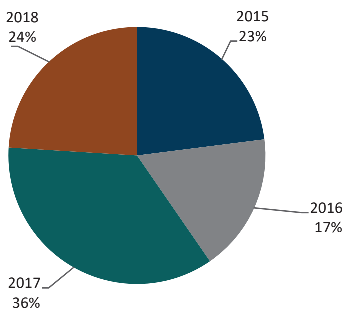


Values as of quarter end for current year and year end for prior years

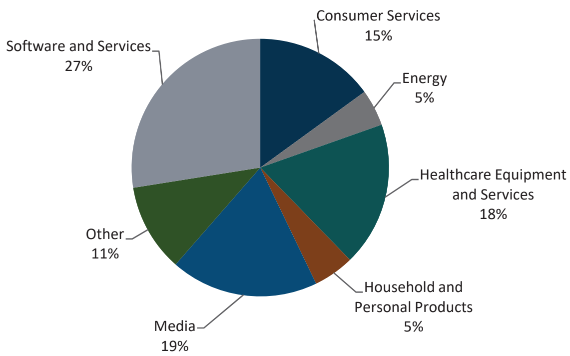
1. New label for existing metrics (formerly referred to as "Gross" in our reporting). Represents performance of the fund's portfolio of investments. Excludes management fees, carried interest and fund expenses.
2. Includes amounts borrowed under the fund's credit facility to fund investments.
Please see "Disclosures" for further explanation on how metrics are calculated.

Portfolio Diversification

Vintage Diversification[1]



Industry Diversification[2]



1. Vintage allocation based on capital invested

2. Industry allocation based on unrealized value

Valuation Summary & Year-to-Date Activity

($ Millions)

The following table summarizes the valuation of the Partnerships' investments including changes in value year-to-date. Please refer to the investment summaries included in Tab II for an update of each portfolio company and details supporting each quarterly valuation.

		12/31/2017	YTD 2018				6/30/2018	QTD 2Q18	
Company Name	**Vintage Year**	**Unrealized Value**	**Capital Invested**	**Realized Value**	**Value Change**	**% Value Change**	**Unrealized Value**	**Value Change**	**% Value Change**
Publicly Traded									
Amneal (NYSE:AMRX)	2018	$ -	$ 225	$ -	$ (23)	(10%)	$ 202	$ (23)	(10%)
Publicly Traded Total		**-**	**225**	**-**	**(23)**	**(10%)**	**202**	**(23)**	**(10%)**
Valued by GP									
Cirque du Soleil	2015	413	-	(36)	(4)	(1%)	373	(4)	(1%)
Cushman & Wakefield	2015	334	-	-	30	9%	364	9	2%
Ellucian	2015	579	-	-	(17)	(3%)	563	(2)	(0%)
Life Time	2015	704	-	-	172	24%	876	38	5%
Poundworld	2015	96	28	(1)	(122)	(99%)	-	(49)	(100%)
Beaver-Visitec International	2016	436	-	-	37	9%	474	24	5%
Enlink Midstream[1]	2016	429	-	(13)	8	2%	423	17	4%
Transporeon	2016	249	-	-	42	17%	290	12	4%
Viking Cruises	2016	392	-	(10)	123	31%	505	120	30%
LLamasoft	2017	195	-	-	17	9%	212	11	6%
McAfee	2017	762	-	-	51	7%	812	11	1%
Mediware	2017	631	-	-	100	16%	731	41	6%
RCN / Grande	2017	840	225	-	13	1%	1,078	-	0%
Transplace Holdings	2017	402	-	-	-	0%	402	-	0%
Vice Media	2017	244	-	-	17	7%	261	8	3%
Allogene Therapeutics	2018	-	50	-	-	0%	50	-	0%
Exactech	2018	-	465	-	-	0%	465	-	0%
Rodan & Fields	2018	-	481	(8)	0	0%	473	0	0%
Uber	2018	-	325	-	52	16%	377	52	16%
Wind River	2018	-	279	-	-	0%	279	-	0%
Valued by GP Total		**6,704**	**1,852**	**(67)**	**518**	**7%**	**9,007**	**288**	**4%**
Portfolio Total		**$ 6,704**	**$ 2,077**	**$ (67)**	**$ 495**	**7%**	**$ 9,209**	**$ 265**	**3%**

Track Record Since Inception (As of June 30, 2018)

($ Millions)

Company Name	**Vintage Year**	**Capital Invested**	**Realized Value**	**Unrealized Value**	**Total Value**	**Gross M-o-M**	**Gross IRR**	**Recyclable Proceeds**	**Recycle Adj Gross M-o-M**
Realized									
Etsy	2017	$ 50	$ 72	$ -	$ 72	1.5x	337%	$ 50	NM
Realized Total		**50**	**72**	**-**	**72**	**1.5x**	**337%**	**50**	**NM**
Publicly Traded									
Amneal (NYSE:AMRX)	2018	225	-	202	202	0.9x	NM	-	0.9x
Publicly Traded Total		**225**	**-**	**202**	**202**	**0.9x**	**NM**	**-**	**0.9x**
Valued by GP									
Cirque du Soleil	2015	319	36	373	408	1.3x	9%	-	1.3x
Cushman & Wakefield	2015	230	-	364	364	1.6x	18%	-	1.6x
Ellucian	2015	555	-	563	563	1.0x	1%	-	1.0x
Life Time	2015	448	-	876	876	2.0x	25%	-	2.0x
Poundworld	2015	196	1	-	1	0.0x	(100%)	-	0.0x
Beaver-Visitec International	2016	382	-	474	474	1.2x	13%	-	1.2x
Enlink Midstream[1]	2016	390	144	423	568	1.5x	19%	123	1.7x
Transporeon	2016	208	-	290	290	1.4x	20%	-	1.4x
Viking Cruises	2016	338	30	505	535	1.6x	36%	17	1.6x
LLamasoft	2017	195	-	212	212	1.1x	9%	-	1.1x
McAfee	2017	648	442	812	1,254	1.9x	113%	442	3.9x
Mediware	2017	536	-	731	731	1.4x	28%	-	1.4x
RCN / Grande	2017	649	-	1,078	1,078	1.7x	59%	-	1.7x
Transplace Holdings	2017	402	-	402	402	1.0x	0%	-	1.0x
Vice Media	2017	227	-	261	261	1.2x	15%	-	1.2x
Allogene Therapeutics	2018	50	-	50	50	1.0x	NM	-	1.0x
Exactech	2018	465	-	465	465	1.0x	NM	-	1.0x
Rodan & Fields	2018	481	8	473	481	1.0x	NM	8	1.0x
Uber	2018	325	-	377	377	1.2x	NM	-	1.2x
Wind River	2018	279	-	279	279	1.0x	NM	-	1.0x
Valued by GP Total		**7,322**	**661**	**9,007**	**9,668**	**1.3x**	**20%**	**589**	**1.3x**
Portfolio Total		**$ 7,596**	**$ 733**	**$ 9,209**	**$ 9,942**	**1.3x**	**20%**	**$ 638**	**1.3x**
Credit Facility									
Outstanding Borrowing for Investments		(1,039)	-	(1,039)	(1,039)	NA	NA	NA	NA
ITD Interest Expense for Investments		93	-	-	-	NA	NA	NA	NA
Investor Gross Metrics		**$ 6,650**	**$ 733**	**$ 8,170**	**$ 8,903**	**1.3x**	**30%**	**$ 638**	**1.4x**
					Investor Net Metrics[2]	**1.2x**	**21%**		**1.2x**

1. EnLink unrealized value is net of a margin loan of $129 million which is shown as a loan payable on the attached Combined Statements of Assets, Liabilities and Partners' Capital.
2. Pro Forma Net Metrics are 1.2x Net MoM, 1.2x Recycled Adjusted Net MoM and 12% Net IRR.
Please see "Disclosures" for an explanation of the above information.

CUSHMAN & WAKEFIELD

Headquartered in Chicago, Illinois, Cushman & Wakefield is a global leader in real estate services with more than 48,000 employees serving clients in over 70 countries. Core services include property and facilities management, investment and asset management and a range of brokerage services including leasing, capital markets and valuation.

Investment Summary • 2Q18

Recent Results and Initiatives

Cushman & Wakefield's positive momentum from 4Q17 continued into 1Q18 with revenue growth over the prior corresponding period remaining above 10%. The strong performance was broad based with Americas (+10% over prior year), EMEA (+25% over prior year) and APAC (+17% over prior year) all achieving double-digit revenue growth over the prior corresponding period.

On an EBITDA basis, the 1Q18 results exhibited strong margin expansion as the Phase 2 cost-out program initiated in 3Q17 began to deliver meaningful realized savings. Together with the flow through impact of higher revenue, the cost savings resulted in a significant uplift in EBITDA over the prior corresponding period with 1Q18 EBITDA up approximately 200% and 1Q18 LTM EBITDA up approximately 20%.

While it is important to note that 1H – and 1Q in particular – are the seasonally smallest periods for the industry, the strong momentum and outperformance against both the prior corresponding period and the 2018 Budget is pleasing and positions the Company well for the remainder of 2018.

The company continues to have good traction with infill M&A with a robust pipeline in place encompassing a variety of geographies and service lines and multiple transactions currently in progress. Given the slower than expected ramp-up in acquired brokers, management continues to prioritize M&A (which is immediately accretive).

Financial Summary

($ Millions)

FYE December 31	LTM @ Entry	FY16 12/31/16	FY17 12/31/17	LTM 3/31/18	QTR 3/31/18	YTD 3/31/18
Revenue	4,774.2	4,839.8	5,319.8	5,462.2	1,246.0	1,246.0
YoY % Growth	*NA*	*(0.4%)*	*9.9%*	*11.7%*	*12.9%*	*12.9%*
EBITDA	350.3	489.7	499.8	549.4	73.4	73.4
YoY % Growth	*NA*	*23.3%*	*2.1%*	*20.2%*	*208.0%*	*208.0%*
EBITDA Margin	*7.3%*	*10.1%*	*9.4%*	*10.1%*	*5.9%*	*5.9%*
Unrestricted Cash	200.0	375.0	405.6	438.7	438.7	438.7
Net Debt	1,889.1	2,305.1	2,450.6	2,660.2	2,660.2	2,660.2
Net Debt/EBITDA	5.4x	4.7x	4.9x	4.8x	4.8x	4.8x
Net Debt/PF EBITDA[1]				4.1x	4.1x	4.1x

1. PF EBITDA includes adjustments for actioned but unrealized cost savings and M&A

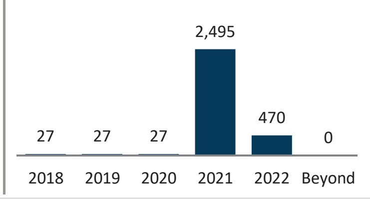
Liquidity

($ Millions) as of 03/31/18

Cash on Hand	438.7
Undrawn Revolver	375.0
Restricted Cash	-
Letters of Credit	(70.8)
Total Liquidity	**742.9**

Schedule of Debt Maturities

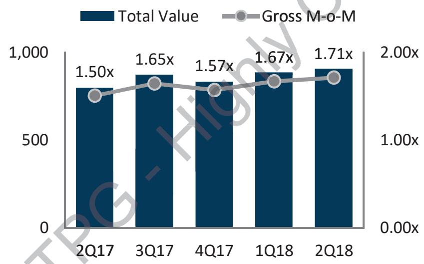
($ Millions) as of 03/31/18



Investment Performance

($ Millions)

	TREP II	Asia VI	TPG VII	Total
Equity Invested	25.0	275.4	229.6	530.0
Realized Value	-	-	-	-
Unrealized Value	39.6	503.5	363.8	906.9
Total Value	39.6	503.5	363.8	906.9
Gross M-o-M	1.58x	1.83x	1.58x	1.71x
Gross IRR	17.9%	19.3%	17.9%	18.8%



Valuation Summary

($ Millions)

Valuation EBITDA[1]	584.7
x Multiple	10.0x
Enterprise Value	5,847.4
- Net Debt[2]	2,888.9
Equity Value	2,958.5
Ownership %	30.7%
TPG Equity Value	906.9
Comp Median - FWD CY18[3]	10.5x
Comp Mean - FWD CY18[3]	10.5x

1. Valuation EBITDA reflects FY18 Forecast consistent with public market reporting
2. Valuation net debt includes deferred consideration associated with M&A and broker recruiting
3. Key Comps: JLL and CBRE

Investment Profile

Acquisition Data (post C&W merger)

Date Acquired:	September 2015
Enterprise Value @ Close:	US$3,432m pre synergies
	US$3,712m post synergies
Entry Multiple	9.7x Dec 2014 LTM EBITDA (pre synergies)
	7.4x post synergies
Net Debt/EBITDA @ Close:	5.3x pre synergies
	4.3x post synergies

Original Investment Thesis

- Opportunity to create a global leader at an attractive discount to historical trading multiples
- Meaningful cost synergy opportunity resulting in attractive margin improvement potential
- Large and fragmented outsourced real estate services market with strong growth tailwinds
- Opportunity to back a proven CEO with an unparalleled track record in the sector
- Attractive time to invest in property cycle upswing

Company Data

Industry:	Real Estate
Executive Chairman:	Brett White
TPG Board Seats:	2
Total Board Seats:	5
Website:	cushmanwakefield.com

TPG Ownership & Security Type

- TREP II (1.3%); Asia VI (17.0%); TPG VII (12.3%)
- Common Shares
- Together with LP co-investors, TPG controls ~50% of institutional (voting) shares

Commentary

At 2Q18, TPG marked its investment in Cushman & Wakefield at 10.0x CY18F EBITDA, implying a valuation of 1.7x, consistent with 1Q18.

Due to the level of unusual items impacting 2017, TPG primarily looked to forward multiples, although LTM multiples were used as a cross-check. The valuation multiple is 10.0x on a EV/FWD EBITDA basis, which is a slight discount to the key peers, CBRE and JLL, which are currently trading at an average of 10.5x. The CY18E EBITDA estimate has been updated to reflect public company reporting which includes the add-back of non-cash broker amortization and reflects the impact of ASC 606 (Revenue Recognition) accounting changes.

On an LTM basis, the valuation implies a multiple of 9.0x Adjusted EBITDA (including actioned but unrealized cost synergies and the run-rate impact of completed M&A), a meaningful discount to the key peers which are trading at an average of 10.6x.

Headquartered in Chanhassen, Minnesota, Life Time designs, builds, and operates sports and athletic, professional fitness, family recreation, and spa centers for organizations, communities, and individuals. The company is a leading operator of fitness clubs in the U.S. and Canada with one million active memberships and ~120 centers.

Investment Summary • 2Q18

Recent Results and Initiatives

In 1Q18 revenues were up +9.5% over prior year, driven by new locations ramping and growth in membership dues. Adjusted EBITDA was up +10.9% over prior year. Same store sales continued to be positive with 1Q18 37-month SSS +1.5% over prior year.

The Company has opened 7 new locations in YTD 2018 (June) and is scheduled to open a total of 12 new locations in 2018. Additionally, Life Time has identified 12+ locations for 2019 openings. Recently-opened clubs have been ramping well and meeting or exceeded our return-on-invested-capital targets.

In April, the Company opened the first Life Time Works co-working space at its new club in Ardmore, PA. The concept is off to a strong start and we are working with management to evaluate additional locations.

Top priorities for the year include efficiently executing the new location pipeline for 2018 and 2019, driving positive same store sales in mature clubs, and keeping a strong focus on operating margins.

Financial Summary

($ Millions)

FYE December 31	LTM @ Entry	FY16 12/31/16	FY17 12/31/17	LTM 3/31/18	QTR 3/31/18	YTD 3/31/18
Revenue	1,309.8	1,486.6	1,594.4	1,630.3	412.5	412.5
YoY % Growth	*NA*	*7.6%*	*7.3%*	*8.2%*	*9.5%*	*9.5%*
Adj. EBITDA[1]	346.2	388.0	409.8	419.9	103.3	103.3
YoY % Growth	*NA*	*NA*	*5.1%*	*5.9%*	*10.9%*	*10.9%*
EBITDA Margin	*26.4%*	*26.1%*	*25.7%*	*25.8%*	*25.0%*	*25.0%*
Unrestricted Cash	75.9	122.7	41.7	165.0	165.0	165.0
Net Debt	1,942.9	1,894.3	1,961.7	2,011.7	2,011.7	2,011.7
CapEx	(437.4)	(306.5)	(454.4)	(495.8)	(124.6)	(124.6)

1. Pro forma for sale leaseback rent

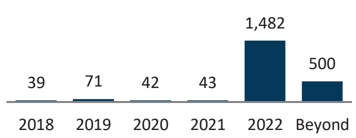
Liquidity

($ Millions)

	as of 3/31/18
Cash on Hand	165.0
Total Debt	2,176.7

Schedule of Debt Maturities

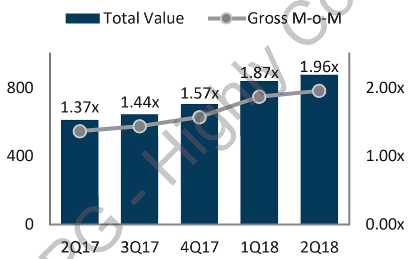
($ Millions) as of 3/31/18



Investment Performance

($ Millions)

	TPG VII
Equity Invested	448.2
Realized Value	-
Unrealized Value	876.4
Total Value	876.4
Gross M-o-M	1.96x
Gross IRR	24.6%



Valuation Summary

($ Millions)

Valuation EBITDA[1]	419.9
x Multiple	11.0x
Enterprise Value	4,619.0
- Valuation Net Debt[2]	1,722.9
Total Equity Value	2,896.1
Ownership %	30.3%
TPG Unrealized Value	876.4
Comp Median - LTM[3]	15.6x
Comp Mean - LTM[3]	15.6x

1. Valuation EBITDA is pro forma for sale leaseback rent
2. Net debt adjusted to add-back $289M of capital for unopened clubs
3. Key Comp: Planet Fitness and Town Sports

Investment Profile

Acquisition Data

Date Acquired:	June 2015
Enterprise Value @ Close:	$3,139.7MM
Entry Multiple:	9.1x Mar 2015 LTM EBITDA
Net Debt/EBITDA @ Close:	5.6x

Original Investment Thesis

- Supportive macro trends in health and wellness
- Market leader in attractive high-end segment of industry
- Long-term track record of growth
- New unit growth opportunity
- Significant underlying real estate
- Option value on other potential upside opportunities not reflected in valuation

Company Data

Industry:	Travel & Leisure
CEO:	Bahram Akradi
TPG Board Seats:	2, option for 3
Total Board Seats:	7
Website:	lifetime.life

TPG Ownership & Security Type

- TPG VII (30.3%)
- Common Shares

Commentary

At 2Q18, TPG marked its investment in Life Time at 11.0x LTM EBITDA, implying a valuation of 1.96x including $289 million of value for capital invested in clubs under construction. For reference, this compared to a mark of 1.87x in 1Q18.

Further, TPG's valuation falls in line with the multiple range for industry public comparables, including Town Sports and Planet Fitness, which trade at 8x and 23x, respectively. The valuation is also in line with industry private market comparables including a recent minority investment in Equinox at 15x.

TPG Partners VII, L.P.
and Affiliated Partnerships

COMBINED STATEMENTS OF ASSETS, LIABILITIES AND PARTNERS' CAPITAL

(Dollars in Thousands)

	June 30, 2018	December 31, 2017
ASSETS		
Investments, at Fair Value (cost of $7,171,889 and $5,088,040, respectively)	$ 9,341,206	$ 6,832,496
Cash and Cash Equivalents	35,973	20,123
Prepaid Management Fees	-	260
Due from Counterparty	-	5,793
Receivable from Affiliates	17,443	1,855
Other Assets	22,909	17,952
	$ 9,417,531	$ 6,878,479
LIABILITIES AND PARTNERS' CAPITAL		
Liabilities		
Secured Revolving Credit Facility	$ 1,047,154	$ 1,213,700
Long Term Note Payable	128,575	128,575
Payable to Affiliates	37,325	27,719
Accrued Expenses	19,453	16,127
Due to Counterparty	2,466	8,956
Other Liabilities	164	164
	1,235,137	1,395,241
Partners' Capital		
General Partners	345,497	310,023
Limited Partners	7,836,897	5,173,215
	8,182,394	5,483,238
	$ 9,417,531	$ 6,878,479

(Dollars in Thousands, Except Share Data)

June 30, 2018

Portfolio Investments	Fair Value Hierarchy	Type of Investment	Description	Cost	Fair Value
North America					
Allogene Therapeutics *Pharmaceuticals, Biotechnology and Life Science*	Level III	Equity	Allogene Therapeutics, Inc. - Series A Preferred Shares - 2,852,071	$ 50,000	$ 50,000
Amneal *Pharmaceuticals, Biotechnology and Life Science*	Level I	Equity	Amneal Pharmaceuticals, Inc. (NYSE: AMRX) - Class B-1 Common Shares - 12,328,767	225,000	202,300
Beaver-Visitec International *Healthcare Equipment and Services*	Level III	Equity	Bedrock Holdings, Inc. - Common Shares - 381,475	381,530	473,600
Cirque du Soleil *Media*	Level III	Equity	Cirque Du Soleil Holdings, LP - Common Units - 318,850,000	318,925	372,600
Cushman & Wakefield *Real Estate*	Level III	Equity	DTZ Jersey Holdings Limited - Ordinary Shares - 191,293,333.33	229,600	363,800
Ellucian *Software and Services*	Level III	Equity	Ensemble Holdings, Inc. - Common Shares - 554,556,346.04	554,600	562,800
EnLink Midstream *Energy*	Level III	Equity	EnLink Midstream Partners, LP - Series B Preferred Units - 31,096,679.61	456,685	552,680
Exactech *Healthcare Equipment and Services*	Level III	Equity	Osteon Holdings, Inc. - Class A Common Shares - 465,000	465,000	465,000
Life Time Fitness *Consumer Services*	Level III	Equity	LTF Holdings, Inc. - Common Shares - 44,810,433.10	448,200	876,400
LLamasoft *Software and Services*	Level III	Equity	Laurel Parent Holdings, Inc. - Common Shares - 1,948,355	194,835	212,100
McAfee *Software and Services*	Level III	Equity	Foundation Technology Worldwide, LLC - Common Units - 27,073,005	206,892	812,200
Mediware *Healthcare Equipment and Services*	Level III	Equity	TPG VII Meso Acquisition, Inc. - Ordinary Shares - 536,467.50	536,467	730,600
RCN / Grande *Media*	Level III	Equity	Radiate Holdings, LP - Class A Units - 423,298,460 Radiate Holdings, LP - Class C Units - 312,500	648,371	1,077,700
Rodan & Fields *Household and Personal Products*	Level III	Equity	Rodan & Fields, LLC - 25% Class D Membership Interest	480,740	473,184
Transplace Holdings *Transportation*	Level III	Equity	Transplace Holdings, Inc. - Common Shares - 905.67	401,898	401,898

Continued

Valuation may include amounts held in deal structure
Securities may be held directly or indirectly

TPG Partners VII, L.P.
and Affiliated Partnerships
COMBINED STATEMENTS OF OPERATIONS
(Dollars in Thousands)

	Six Months Ended June 30, 2018	*Six Months Ended June 30, 2017*
INVESTMENT INCOME		
Dividend Income	$ 77,670	$ 8,069
Total Investment Income	77,670	8,069
EXPENSES		
Management Fees, Net	36,801	36,250
Interest Expense	33,198	23,506
Professional Fees	18,297	21,457
Other	346	2,439
Net Expenses	88,642	83,652
Income (Loss) before Net Gain (Loss) on Investments, Derivatives and Foreign Currency Transactions	(10,972)	(75,583)
NET GAIN (LOSS) ON INVESTMENTS, DERIVATIVES and FOREIGN CURRENCY TRANSACTIONS		
Change in Unrealized Gain (Loss) on Investments, Net	424,861	755,177
Realized Gain (Loss) on Forward Contracts, Net	779	-
Change in Unrealized Gain (Loss) on Derivatives, Net	697	(15,184)
Change in Unrealized Gain (Loss) on Translation of Assets and Liabilities Denominated in Foreign Currencies	(1)	(75)
Net Gain (Loss) on Investments, Derivatives and Foreign Currency Transactions	426,336	739,918
Net Income (Loss)	$ 415,364	$ 664,335

(Dollars in Thousands)

	General Partners	Limited Partners	Total
Balance at December 31, 2016	$ 17,569	$ 2,287,729	$ 2,305,298
Contributions from Partners	18,192	2,422,744	2,440,936
Distributions to Partners	(4,968)	(646,888)	(651,856)
Income (Loss) before Net Gain (Loss) on Investments, Derivatives and Foreign Currency Transactions	(142)	(95,154)	(95,296)
Realized Gain (Loss) on Investments, Net	170	22,195	22,365
Realized Gain (Loss) on Foreign Currency Transaction	(1)	(74)	(75)
Change in Unrealized Gain (Loss) on Investments, Net	279,383	1,206,086	1,485,469
Change in Unrealized Gain (Loss) on Derivatives, Net	(180)	(23,423)	(23,603)
Net Income (Loss)	279,230	1,109,630	1,388,860
Balance at December 31, 2017	310,023	5,173,215	5,483,238
Contributions from Partners	4,947	2,341,837	2,346,784
Distributions to Partners	-	(62,992)	(62,992)
Income (Loss) before Net Gain (Loss) on Investments, Derivatives and Foreign Currency Transactions	(100)	(10,872)	(10,972)
Realized Gain (Loss) on Forward Contracts, Net	6	773	779
Change in Unrealized Gain (Loss) on Investments, Net	278,464	146,397	424,861
Change in Unrealized Gain (Loss) on Derivatives, Net	5	692	697
Change in Unrealized Gain (Loss) on Translation of Assets and Liabilities Denominated in Foreign Currencies	-	(1)	(1)
Partner Transfer	(247,848)	247,848	-
Net Income (Loss)	30,527	384,837	415,364
Balance at June 30, 2018	$ 345,497	$ 7,836,897	$ 8,182,394

(Dollars in Thousands)

		Six Months Ended June 30, 2018		Six Months Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (Loss)	$	415,364	$	664,335
Adjustments to Reconcile Net Income (Loss) to Net Cash				
Provided by (Used in) Operating Activities:				
Net (Gain) Loss on Investments, Derivatives and Foreign Currency Transaction		(426,336)		(739,918)
Purchases of Investments, Net of Coinvestment Proceeds		(2,077,159)		(2,086,427)
Proceeds from Derivatives		779		-
Dividend Paid In-Kind		(6,691)		(388)
Change in Prepaid Management Fees		260		-
Change in Receivable from Affiliates		(15,588)		1,939
Change in Other Assets		(4,957)		(17,293)
Change in Payable to Affiliates		(893)		(6,619)
Change in Accrued Expenses		3,326		(3,480)
Change in Other Liabilities		-		603
Net Cash Provided by (Used in) Operating Activities		(2,111,895)		(2,187,248)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Special Contributions		(39,992)		(2,589)
Contributions from Partners		2,339,228		1,172,549
Distributions to Partners		(55,436)		-
Borrowings on Secured Revolving Credit Facility		2,194,466		2,193,974
Payments on Secured Revolving Credit Facility		(2,361,012)		(1,314,800)
Special Contributions included in Payable to Affiliates		50,491		16,571
Borrowings on Long Term Note Payable		-		125,000
Net Cash Provided by (Used in) Financing Activities		2,127,745		2,190,705
Net Change in Cash and Cash Equivalents		15,850		3,457
Cash and Cash Equivalents at Beginning of Period		20,123		12,254
Cash and Cash Equivalents at End of Period	$	35,973	$	15,711
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash Paid for Interest	$	29,385	$	20,425
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES				
Deemed Contributions from Partners	$	7,556	$	134,385
Deemed Distributions to Partners		(7,556)		(128,500)
Deemed Repayment of Special Contributions included in Payable to Affiliates		-		(5,885)

TPG Partners VII, L.P.
and Affiliated Partnerships

COMBINED SCHEDULE OF NET GAIN (LOSS) ON INVESTMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Dollars in Thousands)

UNREALIZED

	Cost	Fair Value	Unrealized Gain (Loss)
Allogene Therapeutics	$ 50,000	$ 50,000	$ -
Amneal	225,000	202,300	(22,700)
Beaver-Visitec International	381,530	473,600	92,070
Cirque du Soleil	318,925	372,600	53,675
Cushman & Wakefield	229,600	363,800	134,200
Ellucian	554,600	562,800	8,200
EnLink Midstream	456,685	552,680	95,995
Exactech	465,000	465,000	-
Life Time Fitness	448,200	876,400	428,200
LLamasoft	194,835	212,100	17,265
McAfee	206,892	812,200	605,308
Mediware	536,467	730,600	194,133
Poundworld	195,994	-	(195,994)
RCN / Grande	648,371	1,077,700	429,329
Rodan & Fields	480,740	473,184	(7,556)
Transplace Holdings	401,898	401,898	-
Transporeon	208,324	292,866	84,542
Uber	325,046	376,800	51,754
Vice Media	226,546	261,300	34,754
Viking Cruises	338,458	504,600	166,142
Wind River	278,778	278,778	-
Net Unrealized Gain (Loss) at June 30, 2018			2,169,317
Net Unrealized Gain (Loss) at December 31, 2017			1,744,456
Change in Unrealized Gain (Loss) on Investments, Net			$ 424,861

On March 31, 2015, we completed the sale of our AVRL business to Antech. We have reclassified the assets, liabilities, results of operations and the gain on sale of AVRL in our consolidated balance sheets and statements of income for all periods presented to reflect them as discontinued operations. Previously reported financial information have been revised to reflect the reclassification of AVRL within our veterinary market segment as a discontinued operation. See Note 3 to the Consolidated Financial Statements in Part II, Item 8 of this report for additional information.

	Year Ended March 31,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Statements of Income Data:					
Continuing Operations:					
Revenues	$ 227,220	$ 218,901	$ 202,593	$ 162,031	$180,878
Cost of revenues	101,375	95,649	93,623	78,081	79,903
Gross profit	125,845	123,252	108,970	83,950	100,975
Operating expenses:					
Research and development	19,795	18,388	16,327	13,647	13,577
Sales and marketing	45,249	42,526	42,147	34,742	43,800
General and administrative	16,314	15,984	16,192	11,333	12,825
Gain from legal settlement	—	—	—	—	(17,250)
Total operating expenses	81,358	76,898	74,666	59,722	52,952
Income from operations	44,487	46,354	34,304	24,228	48,023
Interest and other income (expense), net	6,625	793	(1,262)	994	253
Income from continuing operations before income tax provision	51,112	47,147	33,042	25,222	48,276
Income tax provision	18,333	16,073	12,239	8,993	17,149
Income from continuing operations	$ 32,779	$ 31,074	$ 20,803	$ 16,229	$ 31,127
Net income per share from continuing operations:					
Basic	$ 1.46	$ 1.37	$ 0.92	$ 0.73	$ 1.42
Diluted	$ 1.44	$ 1.36	$ 0.91	$ 0.72	$ 1.39
Discontinued Operations:					
Loss from discontinued operations, net of tax	$ (63)	$ (3)	$ (1,154)	$ (2,044)	$ (3,668)
Gain on sale of discontinued operations, net of tax	$ —	$ 559	$ 7,682	$ —	$ —
Net income (loss) per share from discontinued operations:					
Basic	$ (0.01)	$ 0.03	$ 0.29	$ (0.09)	$ (0.17)
Diluted	$ —	$ 0.02	$ 0.29	$ (0.09)	$ (0.16)
Consolidated Operations:					
Net income	$ 32,716	$ 31,630	$ 27,331	$ 14,185	$ 27,459
Net income per share:					
Basic	$ 1.45	$ 1.40	$ 1.21	$ 0.64	$ 1.25
Diluted	$ 1.44	$ 1.38	$ 1.20	$ 0.63	$ 1.23
Shares used in the calculation of net income per share:					
Weighted average common shares outstanding - basic	22,515	22,661	22,497	22,270	21,946
Weighted average common shares outstanding - diluted	22,797	22,883	22,787	22,575	22,381
Cash dividends declared per share	$ 0.52	$ 0.44	$ 0.40	$ —	$ 1.00

TABLE OF CONTENTS

	Year Ended March 31,				
	2017	2016	2015	2014	2013
	(In thousands)				
Consolidated Balance Sheets Data[(1)]:					
Cash and cash equivalents	$ 91,332	$ 88,323	$ 107,015	$ 73,589	$ 54,910
Short-term investments	51,561	41,474	26,109	29,102	23,354
Working capital	199,735	183,026	168,576	148,553	132,944
Long-term investments	22,171	22,458	24,181	18,491	17,000
Total assets	305,646	271,380	269,064	217,380	201,763

The following table and the discussion that follows presents revenues, cost of revenues, gross profit and percentage of revenues by operating segments and from certain unallocated items and represents our results from continuing operations for fiscal 2017 and 2016 (in thousands, except percentages):

	Year Ended March 31,				Change	
	2017	Percent of Revenues(1)	2016	Percent of Revenues(1)	Dollar Change	Percent Change
Revenues:						
Medical Market	$ 36,602	100%	$ 37,845	100%	$ (1,243)	(3)%
Percentage of total revenues	16%		17%			
Veterinary Market	186,661	100%	177,667	100%	8,994	5%
Percentage of total revenues	82%		81%			
Other(2)	3,957		3,389		568	17%
Percentage of total revenues	2%		2%			
Total revenues	227,220		218,901		8,319	4%
Cost of revenues:						
Medical Market	19,909	54%	20,223	53%	(314)	(2)%
Veterinary Market	81,249	44%	75,296	42%	5,953	8%
Other(2)	217		130		87	67%
Total cost of revenues	101,375		95,649		5,726	6%
Gross profit:						
Medical Market	16,693	46%	17,622	47%	(929)	(5)%
Veterinary Market	105,412	56%	102,371	58%	3,041	3%
Other(2)	3,740		3,259		481	15%
Gross profit	$ 125,845		$ 123,252		$ 2,593	2%

(1) The percentage reported is based on revenues by operating segment.

(2) Represents unallocated items, not specifically identified to any particular business segment.

Medical Market

Revenues for Medical Market Segment

During fiscal 2017, total revenues in the medical market decreased by 3%, or $1.2 million, as compared to fiscal 2016. The change in the medical market segment was primarily attributable to the following:

- Total revenues from Piccolo chemistry analyzers decreased by 38%, or $3.9 million, during fiscal 2017 as compared to fiscal 2016, primarily attributable to (a) a decrease in the unit sales of Piccolo chemistry analyzers sold in North America to Abbott, (b) a decrease in revenues from Piccolo chemistry analyzers sold to various distributors in Europe and (c) the impact of sales of Piccolo chemistry analyzers to Fuzhou Kelian Medical Devices, Ltd., a point-of-care diagnostics distributor based in China, in the third quarter of fiscal 2016.
- Total revenues from medical reagent discs increased by 10%, or $2.6 million, during fiscal 2017 as compared to fiscal 2016, primarily attributable to an increase in the sales volume of medical reagent discs sold in North America to Abbott, resulting from an expanded installed base of Piccolo chemistry analyzers.

Gross Profit for Medical Market Segment

Gross profit for the medical market segment decreased by 5%, or $0.9 million, during fiscal 2017 as compared to fiscal 2016. Gross profit percentages for the medical market segment during fiscal 2017 and 2016 were 46% and 47%, respectively. In absolute dollars, the net decrease in gross profit was primarily attributable to a decrease in the unit sales of Piccolo chemistry analyzers, partially offset an increase in the unit sales of medical reagent discs.

TABLE OF CONTENTS

Veterinary Market

Revenues for Veterinary Market Segment

During fiscal 2017, 2016 and 2015 our total quarterly dividend payout was $11.7 million, $10.0 million and $9.0 million, respectively, and were made from retained earnings. See Note 22, "Summary of Quarterly Data (Unaudited)" for further information on quarterly dividends declared on our common stock during the past two fiscal years.

See Note 24, "Subsequent Events," for information regarding cash dividends declared by our Board of Directors after March 31, 2017.

Common Stock Warrants

As of March 31, 2017 and 2016, there were no warrants outstanding. As of March 31, 2015, there were warrants to purchase 4,000 shares of common stock outstanding at a weighted average exercise price of $3.00 per share, expiring in fiscal years 2016 through 2017. During fiscal 2016 and 2015, we issued 4,000 and 26,000, respectively, shares of common stock upon the exercise of vested warrants at an exercise price of $3.00 per share. During fiscal 2017, we did not issue any shares of common stock pursuant to the exercise of vested warrants. In March 2015, the terms of our agreement with Kansas State University Institute for Commercialization were amended and accordingly, the vesting of these outstanding warrants was accelerated. During the fourth quarter of fiscal 2015, we recorded expense of $0.2 million related to the vesting acceleration using the Black-Scholes option-pricing model.

TABLE OF CONTENTS

NOTE 18. NET INCOME PER SHARE

The computations for basic and diluted net income from continuing and discontinued operations per share are as follows (in thousands, except share and per share data):

	Year Ended March 31,		
	2017	2016	2015
Income from continuing operations	$ 32,779	$ 31,074	$ 20,803
Loss from discontinued operations, net of tax	(63)	(3)	(1,154)
Gain on sale of discontinued operations, net of tax	—	559	7,682
Net income	$ 32,716	$ 31,630	$ 27,331
Weighted average common shares outstanding:			
Basic	22,515,000	22,661,000	22,497,000
Effect of dilutive securities:			
Stock options	—	—	1,000
Restricted stock units	282,000	221,000	276,000
Warrants	—	1,000	13,000
Diluted	22,797,000	22,883,000	22,787,000
Net income per share:			
Basic			
Continuing operations	$ 1.46	$ 1.37	$ 0.92
Discontinued operations	(0.01)	0.03	0.29
Basic net income per share	$ 1.45	$ 1.40	$ 1.21
Diluted			
Continuing operations	$ 1.44	$ 1.36	$ 0.91
Discontinued operations	—	0.02	0.29
Diluted net income per share	$ 1.44	$ 1.38	$ 1.20

For our PSUs, if the performance criteria are achieved during the period, these awards will be considered outstanding for the purpose of computing diluted net income per share if the effect is dilutive. The performance criteria for our PSUs related to FY2017 PSUs, FY2016 PSUs and FY2015 PSUs were achieved during the applicable performance period, fiscal 2017, 2016 and 2015, respectively, and accordingly, the dilutive effect of the shares were included in the computation of diluted weighted average shares outstanding.

new information and technical insights, and changes in tax laws. Any changes in these factors could result in the recognition of a tax benefit or an additional charge to the tax provision. When applicable, we accrue for the effects of uncertain tax positions and the related potential penalties and interest through income tax expense.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in Note 2. "Summary of Significant Accounting Policies" to our consolidated financial statements in this Report.

Results of Operations

The following table sets forth certain consolidated statements of operations data for the periods indicated as a percentage of total revenues:

	Fiscal Years Ended March 31, 2017	2016	2015
Revenue:			
Product revenue	100.0 %	100.0 %	99.8 %
Funded research and development	-	-	0.2
Total revenue	100.0	100.0	100.0
Costs and expenses as a percentage of total revenue:			
Cost of product revenue	15.9	15.3	17.3
Research and development	14.9	15.1	15.6
Selling, general and administrative	49.0	49.8	54.6
Total costs and expenses	79.8	80.2	87.5
Income from operations	20.2	19.8	12.5
Other income and income tax provision (benefit)	8.5	8.2	(36.9)
Net income as a percentage of total revenue	11.7 %	11.6 %	49.4 %

Fiscal Years Ended March 31, 2017 and March 31, 2016 ("fiscal 2017" and "fiscal 2016")

Revenue

Our revenue is comprised of the following:

	Fiscal Years Ended March 31, 2017	2016
	(in $000's)	
Impella product revenue	$ 423,694	$ 310,138
Service and other revenue	19,116	16,588
Other products	2,385	2,794
Total product revenue	445,195	329,520
Funded research and development	109	23
Total revenue	$ 445,304	$ 329,543

Impella product revenue encompasses Impella 2.5, Impella CP, Impella 5.0, Impella LD, Impella RP and Impella AIC product sales. Service and other revenue represents revenue earned on service maintenance contracts and preventative maintenance calls. Other product revenue includes AB5000 and product accessory revenue.

Total revenue for fiscal 2017 increased $115.8 million, or 35%, to $445.3 million from $329.5 million for fiscal 2016. The increase in total revenue was primarily due to increased Impella product revenue from increased utilization in the U.S. and Germany. Impella product revenue was higher as a result of recent PMA approvals in the U.S. in March 2015 for elective and high risk PCI procedures for Impella 2.5 and in April 2016 for cardiogenic shock for Impella 2.5, Impella CP, Impella 5.0 and Impella LD and in December 2016, to add Impella CP device for use in elective and high risk procedures.

ABIOMED, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(in thousands, except share data)

	March 31, 2017	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,040	$ 48,231
Short-term marketable securities	190,908	163,822
Accounts receivable, net	54,055	42,821
Inventories	34,931	26,740
Prepaid expenses and other current assets	8,024	6,778
Total current assets	326,958	288,392
Long-term marketable securities	47,143	1,000
Property and equipment, net	87,777	23,184
Goodwill	31,045	33,003
In-process research and development	14,482	15,396
Long-term deferred tax assets, net	34,723	58,534
Other assets	8,286	4,422
Total assets	$ 550,414	$ 423,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,620	$ 9,381
Accrued expenses and other liabilities	37,703	28,382
Deferred revenue	10,495	8,778
Current portion of capital lease obligation	799	—
Total current liabilities	69,617	46,541
Other long-term liabilities	3,251	220
Contingent consideration	9,153	7,563
Long-term deferred tax liabilities	783	832
Capital lease obligation, net of current portion	15,539	—
Total liabilities	98,343	55,156
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Class B Preferred Stock, $.01 par value	—	—
Authorized - 1,000,000 shares; Issued and outstanding - none		
Common stock, $.01 par value	437	426
Authorized - 100,000,000 shares; Issued - 45,249,281 shares at March 31, 2017 and 43,973,119 shares at March 31, 2016;		
Outstanding - 43,673,286 shares at March 31, 2017 and 42,596,228 shares at March 31, 2016		
Additional paid in capital	565,962	508,624
Accumulated deficit	(46,959)	(99,075)
Treasury stock at cost - 1,575,995 shares at March 31, 2017 and 1,376,891 shares at March 31, 2016	(46,763)	(26,660)
Accumulated other comprehensive loss	(20,606)	(14,540)
Total stockholders' equity	452,071	368,775
Total liabilities and stockholders' equity	$ 550,414	$ 423,931

The accompanying notes are an integral part of the consolidated financial statements.

ABIOMED, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(in thousands, except per share data)

	Fiscal Years Ended March 31, 2017	2016	2015
Revenue:			
Product revenue	$ 445,195	$ 329,520	$ 229,950
Funded research and development	109	23	361
	445,304	329,543	230,311
Costs and expenses:			
Cost of product revenue	70,627	50,419	39,945
Research and development	66,386	49,759	35,973
Selling, general and administrative	218,153	164,261	125,727
	355,166	264,439	201,645
Income from operations	90,138	65,104	28,666
Other income:			
Investment income, net	1,554	395	196
Other (expense) income, net	(349)	339	(97)
	1,205	734	99
Income before income taxes	91,343	65,838	28,765
Income tax provision (benefit)	39,227	27,691	(84,923)
Net income	$ 52,116	$ 38,147	$ 113,688
Basic net income per share	$ 1.21	$ 0.90	$ 2.80
Basic weighted average shares outstanding	43,238	42,204	40,632
Diluted net income per share	$ 1.17	$ 0.85	$ 2.65
Diluted weighted average shares outstanding	44,658	44,895	42,858

The accompanying notes are an integral part of the consolidated financial statements.

ABIOMED, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
(dollars in thousands)

	Common Stock		Treasury Stock					
	Number of shares	Par value	Number of shares	Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, March 31, 2014	39,916,328	$ 411	1,206,367	$ (16,554)	$ 436,136	$ (250,910)	$ (730)	$ 168,353
Restricted stock units issued	543,420	5	-	-	(5)	-	-	-
Stock options exercised	911,553	9	-	-	10,918	-	-	10,927
Stock issued under employee stock purchase plan	39,095	-	-	-	795	-	-	795
Stock issued to directors	1,954	-	-	-	76	-	-	76
Return of common stock to pay withholding taxes on restricted stock	(76,577)	(12)	76,577	(2,793)	-	-	-	(2,805)
Stock compensation expense	-	-	-	-	16,520	-	-	16,520
Excess tax benefit from stock-based awards	-	-	-	-	606	-	-	606
Other comprehensive loss	-	-	-	-	-	-	(16,600)	(16,600)
Net income	-	-	-	-	-	113,688	-	113,688
Balance, March 31, 2015	41,335,773	$ 413	1,282,944	$ (19,347)	$ 465,046	$ (137,222)	$ (17,330)	$ 291,560
Restricted stock units issued	507,471	5	-	-	(5)	-	-	-
Stock options exercised	829,385	8	-	-	9,763	-	-	9,771
Stock issued under employee stock purchase plan	16,772	-	-	-	1,135	-	-	1,135
Stock issued to directors	774	-	-	-	65	-	-	65
Return of common stock to pay withholding taxes on restricted stock	(93,947)	-	93,947	(7,313)	-	-	-	(7,313)
Stock compensation expense	-	-	-	-	29,053	-	-	29,053
Excess tax benefit from stock-based awards	-	-	-	-	3,567	-	-	3,567
Other comprehensive income	-	-	-	-	-	-	2,790	2,790
Net income	-	-	-	-	-	38,147	-	38,147
Balance, March 31, 2016	42,596,228	$ 426	1,376,891	$ (26,660)	$ 508,624	$ (99,075)	$ (14,540)	$ 368,775
Restricted stock units issued	502,417	5	-	-	(5)	-	-	-
Stock options exercised	754,893	8	-	-	10,652	-	-	10,660
Stock issued under employee stock purchase plan	18,288	-	-	-	1,720	-	-	1,720
Stock issued to directors	564	-	-	-	67	-	-	67
Return of common stock to pay withholding taxes on restricted stock	(199,104)	(2)	199,104	(20,103)	-	-	-	(20,105)
Stock compensation expense	-	-	-	-	32,866	-	-	32,866
Excess tax benefit from stock-based awards	-	-	-	-	12,038	-	-	12,038
Other comprehensive loss	-	-	-	-	-	-	(6,066)	(6,066)
Net income	-	-	-	-	-	52,116	-	52,116
Balance, March 31, 2017	43,673,286	$ 437	1,575,995	$ (46,763)	$ 565,962	$ (46,959)	$ (20,606)	$ 452,071

The accompanying notes are an integral part of the consolidated financial statements.

ABIOMED, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Years Ended March 31, 2017	2016	2015
Operating activities:			
Net income	$ 52,116	$ 38,147	$ 113,688
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,202	3,277	2,770
Bad debt expense	159	42	(5)
Stock-based compensation	32,866	29,053	16,520
Write-down of inventory	3,085	2,094	2,231
Excess tax benefit from stock-based awards	(12,038)	(3,567)	(606)
Deferred tax provision (benefit)	25,803	22,296	(87,094)
Change in fair value of contingent consideration	1,590	1,053	510
Changes in assets and liabilities:			
Accounts receivable	(11,550)	(10,930)	(7,970)
Inventories	(12,284)	(11,473)	(6,967)
Prepaid expenses and other assets	(2,366)	(2,290)	(1,479)
Accounts payable	7,565	(2,645)	3,372
Accrued expenses and other liabilities	22,223	10,020	6,011
Deferred revenue	1,745	1,718	2,309
Net cash provided by operating activities	115,116	76,795	43,290
Investing activities:			
Purchases of marketable securities	(278,501)	(260,975)	(97,658)
Proceeds from the sale and maturity of marketable securities	205,482	219,639	71,530
Acquisition of ECP and AIS, net of cash assumed	—	—	(15,697)
Purchase of other investment	(2,899)	(750)	(2,850)
Purchases of property and equipment	(50,415)	(15,624)	(5,188)
Net cash used for investing activities	(126,333)	(57,710)	(49,863)
Financing activities:			
Proceeds from the exercise of stock options	10,660	9,771	10,927
Excess tax benefit from stock-based awards	12,038	3,567	606
Taxes paid related to net share settlement upon vesting of stock awards	(20,105)	(7,313)	(2,805)
Proceeds from the issuance of stock under employee stock purchase plan	1,720	1,135	795
Principal payments on capital lease obligation	(446)	—	—
Net cash provided by financing activities	3,867	7,160	9,523
Effect of exchange rate changes on cash	(1,841)	(415)	(1,465)
Net increase in cash and cash equivalents	(9,191)	25,830	1,485
Cash and cash equivalents at beginning of year	48,231	22,401	20,916
Cash and cash equivalents at end of year	$ 39,040	$ 48,231	$ 22,401
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 1,405	$ 848	$ 1,215
Cash paid for interest on capital lease obligation	354	—	—
Supplemental disclosure of non-cash investing and financing activities:			
Property and equipment under capital lease obligation	16,784	—	—
Property and equipment in accounts payable and accrued expenses	5,692	1,797	193

The accompanying notes are an integral part of the consolidated financial statements.

and losses recorded in the consolidated statements of operations for the fiscal years ended March 31, 2017, 2016 and 2015 were not significant.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the fiscal year. Diluted net income per share is computed using the treasury stock method by dividing net income by the weighted average number of dilutive common shares outstanding during the fiscal year. Diluted shares outstanding is calculated by adding to the weighted average shares outstanding any potential dilutive securities outstanding for the fiscal year. Potential dilutive securities include stock options, restricted stock awards, restricted stock units, performance-based stock awards and shares to be purchased under the employee stock purchase plan. In fiscal years when a net loss is reported, all common stock equivalents are excluded from the calculation because they would have an anti-dilutive effect, meaning the loss per share would be reduced. Therefore, in periods when a loss is reported basic and dilutive loss per share are the same.

	Fiscal Years Ended March 31, 2017	2016	2015
Basic Net Income Per Share			
Net income	$ 52,116	$ 38,147	$ 113,688
Weighted average shares used in computing basic net income per share	43,238	42,204	40,632
Net income per share - basic	$ 1.21	$ 0.90	$ 2.80

	Fiscal Years Ended March 31, 2017	2016	2015
Diluted Net Income Per Share			
Net income	$ 52,116	$ 38,147	$ 113,688
Weighted average shares used in computing basic net income per share	43,238	42,204	40,632
Effect of dilutive securities	1,420	2,691	2,226
Weighted average shares used in computing diluted net income per share	44,658	44,895	42,858
Net income per share - diluted	$ 1.17	$ 0.85	$ 2.65

For the fiscal years ended March 31, 2017, 2016 and 2015, approximately 24,000, 62,000 and 2,000 shares of common stock underlying outstanding securities primarily related to out-of-the-money stock options and performance-based awards where milestones were not met were not included in the computation of diluted earnings per share because their inclusion would be anti-dilutive.

Stock-Based Compensation

The Company’s stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense over the requisite service period, and includes an estimate of awards that will be forfeited.

The fair value of stock option grants is estimated using the Black-Scholes option pricing model. Use of the valuation model requires management to make certain assumptions with respect to selected model inputs. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a term consistent with the expected life of the stock options. Volatility assumptions are calculated based on historical volatility of the Company’s stock. The Company estimates the expected term of options based on historical exercise experience and estimates of future exercises of unexercised options. In addition, an expected dividend yield of zero is used in the option valuation model because the Company does not pay cash dividends and does not expect to pay any cash dividends in the foreseeable future. Forfeitures are estimated based on an analysis of actual forfeitures, adjusted to the extent historical forfeitures may not be indicative of expected forfeitures in the future.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
	(in $000's)			
March 31, 2016:				
U.S. Treasury mutual fund securities	$ 45,635	$ 21	$ —	$ 45,656
Short-term government-backed securities	118,125	45	(4)	118,166
Long-term government-backed securities	999	1	—	1,000
	$ 164,759	$ 67	$ (4)	$ 164,822

Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 is comprised of unobservable inputs that are supported by little or no market activity. Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flows or similar techniques and at least one significant model assumption or input is unobservable.

The following table presents the Company’s fair value hierarchy for its financial instruments measured at fair value as of March 31, 2017 and 2016:

	Level 1	Level 2	Level 3	Total
March 31, 2017:	(in $000's)			
Assets				
Short-term U.S. Treasury mutual fund securities	$ —	$ 45,186	$ —	$ 45,186
Short-term government-backed securities	—	90,113	—	90,113
Short-term corporate debt securities	—	55,434	—	55,434
Long-term U.S. Treasury mutual fund securities	—	1,995	—	1,995
Long-term government-backed securities	—	43,471	—	43,471
Long-term corporate debt securities	—	1,852	—	1,852
Liabilities				
Contingent consideration	—	—	9,153	9,153

	Level 1	Level 2	Level 3	Total
March 31, 2016:	(in $000's)			
Assets				
U.S. Treasury mutual fund securities	$ —	$ 45,656	$ —	$ 45,656
Short-term government-backed securities	—	118,166	—	118,166
Long-term government-backed securities	—	1,000	—	1,000
Liabilities				
Contingent consideration	—	—	7,563	7,563

Item 6. *Selected Financial Data.*

The following data has been derived from our audited financial statements, including the consolidated balance sheets at December 31, 2017 and 2016 and the related consolidated statements of operations for each of the three years ended December 31, 2017 and related notes appearing elsewhere in this report. The consolidated statement of operations data for the years ended December 31, 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015, 2014 and 2013 are derived from our audited consolidated financial statements that are not included in this report. You should read the selected financial data set forth below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenues:					
Product sales, net	$ 124,901	$ 17,327	$ —	$ —	$ —
Collaborative revenue	—	4	61	120	1,145
Total revenues	124,901	17,331	61	120	1,145
Operating expenses:					
Cost of product sales	9,077	3,075	—	—	—
License fees and royalties	3,983	1,331	2,500	—	—
Research and development	149,189	99,284	73,869	60,602	26,722
Selling, general and administrative	255,062	186,456	88,304	32,748	12,720
Total operating expenses	417,311	290,146	164,673	93,350	39,442
Loss from operations	(292,410)	(272,815)	(164,612)	(93,230)	(38,297)
Interest income, net	4,126	2,763	499	755	349
Loss before income taxes	(288,284)	(270,052)	(164,113)	(92,475)	(37,948)
Income tax expense	1,119	1,341	330	—	—
Net loss	$ (289,403)	$ (271,393)	$ (164,443)	$ (92,475)	$ (37,948)
Net loss per common share, basic and diluted	$ (2.36)	$ (2.34)	$ (1.63)	$ (0.95)	$ (0.44)
Weighted average common shares outstanding, basic and diluted	122,600	115,858	100,630	97,248	85,715

	At December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and investment securities	$ 341,342	$ 529,036	$ 215,132	$ 322,486	$ 185,790
Working capital	324,447	505,312	197,087	308,784	181,381
Total assets	384,506	561,153	221,896	325,458	189,118
Total stockholders' equity	335,285	518,411	199,762	309,489	182,131

Psychosis patients treated with NUPLAZID and randomized, placebo-controlled eight-week studies in predominantly frail and elderly patients that would add to the NUPLAZID safety database by exposing an aggregate of at least 500 patients to NUPLAZID. We will be responsible for all costs incurred for these post-marketing studies.

We use external service providers to manufacture our product candidates and for the majority of the services performed in connection with the preclinical and clinical development of pimavanserin. Historically, we have used our internal research and development resources, including our employees and discovery infrastructure, across several projects and many of our costs have not been attributable to a specific project. Accordingly, we have not reported our internal research and development costs on a project basis. To the extent that external expenses are not attributable to a specific project, they are included in other programs. The following table summarizes our research and development expenses by project for the years ended December 31, 2017, 2016, and 2015 (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Costs of external service providers:			
NUPLAZID (pimavanserin)	$ 83,402	$ 53,622	$ 40,506
Other programs	505	518	890
Subtotal	83,907	54,140	41,396
Internal costs	38,797	27,094	20,302
Stock-based compensation	26,485	18,050	12,171
Total research and development	$ 149,189	$ 99,284	$ 73,869

Although NUPLAZID was approved by the FDA for the treatment of hallucinations and delusions associated with PD Psychosis, at this time, due to the risks inherent in clinical development, we are unable to estimate with certainty the costs we will incur for the ongoing development of pimavanserin in additional indications, including those within dementia-related psychosis, schizophrenia and depression. Due to these same factors, we are unable to determine with any certainty the anticipated completion dates for our current research and development programs. Clinical development and regulatory approval timelines, probability of success, and development costs vary widely. While our current development efforts are primarily focused on advancing the development of pimavanserin in additional indications other than PD Psychosis, we anticipate that we will make determinations as to which programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment of the commercial potential of each opportunity and our financial position. We cannot forecast with any degree of certainty which product opportunities will be subject to future collaborative or licensing arrangements, when such arrangements will be secured, if at all, and to what degree any such arrangements would affect our development plans and capital requirements. Similarly, we are unable to estimate with certainty the costs we will incur for post-marketing studies that we committed to conduct in connection with FDA approval of NUPLAZID.

We expect our research and development expenses to increase and continue to be substantial as we conduct studies pursuant to our post-marketing commitments and pursue the development of pimavanserin in additional indications other than PD Psychosis, including our studies within dementia-related psychosis, schizophrenia and depression indications. The lengthy process of completing clinical trials and supporting development activities and seeking regulatory approval for our product opportunities requires the expenditure of substantial resources. Any failure by us or delay in completing clinical trials, or in obtaining regulatory approvals, could cause our research and development expenses to increase and, in turn, have a material adverse effect on our results of operations.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses consist of salaries and other related costs, including stock-based compensation expense, for our commercial personnel, including our specialty sales force, our medical education professionals, and our personnel serving in executive, finance, business development, and business operations functions. Also included in selling, general and administrative expenses are fees paid to external service providers to support our commercial activities associated with NUPLAZID, professional fees associated with legal and accounting services, costs associated with patents and patent applications for our intellectual property and charitable donations to independent charitable foundations that support Parkinson's disease patients generally. We expect our selling, general and administrative expenses to increase in future periods to support commercial activities associated with NUPLAZID and our further development of pimavanserin in additional indications other than PD Psychosis.

ACADIA PHARMACEUTICALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31, 2017	2016	2015
Cash flows from operating activities			
Net loss	$ (289,403)	$ (271,393)	$ (164,443)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	75,532	55,265	40,194
Amortization of premiums and accretion of discounts on investment securities	(291)	89	(2,060)
Amortization of intangible assets	1,477	985	—
Depreciation	1,236	843	647
Income tax benefit from exercise of stock options	—	(596)	(247)
Loss on disposal of assets	4	5	—
Changes in operating assets and liabilities:			
Accounts receivable, net	(11,440)	(5,903)	—
Interest and other receivables	150	401	(674)
Inventory	(1,012)	(3,305)	—
Prepaid expenses and other current assets	(911)	(4,731)	(804)
Restricted cash	(100)	(2,000)	(375)
Other assets	431	(456)	(42)
Accounts payable	4,874	2,240	(344)
Accrued liabilities	4,206	15,579	6,256
Deferred revenue	(2,644)	2,644	—
Long-term liabilities	34	(75)	97
Net cash used in operating activities	(217,857)	(210,408)	(121,795)
Cash flows from investing activities			
Purchases of investment securities	(478,818)	(683,355)	(269,486)
Maturities of investment securities	572,103	430,937	419,197
Intangible assets	—	(8,000)	—
Purchases of property and equipment	(812)	(1,506)	(2,141)
Net cash provided by (used in) investing activities	92,473	(261,924)	147,570
Cash flows from financing activities			
Proceeds from issuance of common stock, net of issuance costs	31,188	518,896	14,547
Proceeds from settlement agreement	—	14,320	—
Deferred offering costs	—	—	(292)
Income tax benefit from exercise of stock options	—	596	247
Net cash provided by financing activities	31,188	533,812	14,502
Effect of exchange rate changes on cash	(6)	2	7
Net (decrease) increase in cash and cash equivalents	(94,202)	61,482	40,284
Cash and cash equivalents at beginning of period	163,620	102,138	61,854
Cash and cash equivalents at end of period	$ 69,418	$ 163,620	$ 102,138
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 1,367	$ 365	$ 415
Supplemental disclosure of noncash information:			
Property and equipment purchases in accounts payable and accrued liabilities	$ 9	$ 220	$ 156
Stock-based compensation capitalized in inventory	$ (61)	$ 870	$ —

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

pathway inhibition. One of these compounds, ACH-5228, is in phase I clinical testing in healthy volunteers, and an additional compound, ACH-5548, is in late-stage preclinical development. We may seek to advance certain of these additional factor D inhibitors for oral systemic administration to treat PNH, C3G, IC-MPGN, or other diseases.

All costs associated with internal research and development, and research and development services for which we have externally contracted, are expensed as incurred. The costs of obtaining patents for our drug candidates are expensed as incurred as indirect costs. Our research and development expenses for the years ended December 31, 2017, 2016 and 2015 were as follows:

	For the Years Ended December 31,		
	2017	2016 (in thousands)	2015
Direct external costs:			
ACH-4471	$17,073	$26,347	$13,320
ACH-5228	10,844	—	—
ACH-5548	474	—	—
Other next generation factor D inhibitors (oral and intravitreal)	8,053	6,276	—
HCV compounds and combination trials	87	326	20,956
Other	10	—	47
	36,541	32,949	34,323
Direct internal personnel costs	19,746	19,514	17,605
Sub-total direct costs	56,287	52,463	51,928
Indirect costs and overhead	8,600	7,110	5,265
Connecticut research and development tax credit	165	(411)	(640)
Total research and development	$65,052	$59,162	$56,553

The State of Connecticut provides companies with the opportunity to exchange certain research and development credit carryforwards for cash in exchange for foregoing the carryforward of the research and development credit. The program provides for such exchange of the research and development credit at a rate of 65% of the annual research and development credit. The benefit for such exchange is recorded as a reduction of research and development expenditures.

We expect research and development expenses associated with our complement inhibitor program to be substantial and to increase over time. There are numerous existing factors associated with the development and commercialization, if any, of our complement inhibitor program, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will evolve and therefore are expected to impact the development of our complement inhibitor program and plans over time.

Following the termination of the Janssen Agreement on November 8, 2017, we are responsible for all expenses associated with our HCV program. Since we have no plans to advance the HCV program on our own, we expect these expenses will be limited to the intellectual property costs related to our HCV compounds.

The successful development of our drug candidates is highly uncertain. At this time, we cannot reasonably estimate or know the nature, timing and estimated costs of the efforts that will be necessary to complete the remainder of the development of our drug candidates. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the scope, rate of progress and expense of our clinical trials and other research and development activities;

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Item 6. ***Selected Financial Data***

The following table sets forth selected summary historical financial data. We have prepared this table using our consolidated financial statements for the five years ended December 31, 2017. Our consolidated financial statements upon which the selected summary historical financial data is derived were audited by BDO USA, LLP ("BDO"), independent registered public accounting firm, during each of the five years ended December 31, 2017, 2016, 2015, 2014 and 2013. This summary should be read in conjunction with our audited Consolidated Financial Statements and Notes thereto, and "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included herein.

	Years Ended December 31,				
	2017	**2016**	**2015 (1)**	**2014 (1)**	**2013**
(In thousands, except per share data)					
Revenues	$ 841,045	$ 1,116,843	$ 985,076	$ 555,048	$ 317,711
Gross profit	433,147	674,271	596,012	261,360	171,904
Operating (loss) income	(17,656)	327,571	294,611	60,816	88,204
Interest expense, net, amortization of deferred financing costs and other non-operating income (expense), net	(41,542)	(56,271)	(62,455)	(35,474)	(5,309)
Pretax (loss) income from continuing operations	(59,198)	271,300	232,156	25,342	82,895
Income tax (benefit) provision from continuing operations	(34,648)	87,057	81,358	10,954	30,533
(Loss) income from continuing operations	$ (24,550)	$ 184,243	$ 150,798	$ 14,388	$ 52,362
Weighted average shares outstanding:					
Basic	124,790	122,869	116,980	103,480	96,181
Diluted	124,790	125,801	125,762	109,588	113,898
PER SHARE:					
Equity, per diluted share	$ 6.66	$ 6.51	$ 4.94	$ 3.25	$ 2.28
(Loss) income from continuing operations per share:					
Basic	$ (0.20)	$ 1.50	$ 1.29	$ 0.14	$ 0.54
Diluted	$ (0.20)	$ 1.47	$ 1.22	$ 0.13	$ 0.46
Share Price: High	$ 34.00	$ 39.46	$ 57.10	$ 45.25	$ 26.16
Low	$ 17.74	$ 17.57	$ 19.08	$ 20.52	$ 12.44
BALANCE SHEET DATA:					
Current assets	$ 730,151	$ 685,811	$ 708,132	$ 437,750	$ 169,108
Net property, plant & equipment	$ 313,418	$ 238,404	$ 179,614	$ 144,196	$ 82,108
Total assets	$ 1,909,511	$ 1,973,720	$ 2,042,545	$ 1,832,150	$ 426,129
Current liabilities	$ 171,089	$ 175,555	$ 231,376	$ 150,853	$ 61,245
Long-term obligations, less current installments	$ 907,177	$ 978,981	$ 1,189,604	$ 1,324,990	$ 104,704
Shareholders' equity	$ 831,245	$ 819,184	$ 621,565	$ 356,307	$ 260,180
CASH FLOW DATA:					
Cash provided by operating activities	$ 249,264	$ 167,759	$ 297,648	$ 40,442	$ 57,326
Cash used in investing activities	$ (90,555)	$ (72,922)	$ (53,718)	$ (966,874)	$ (66,874)
Cash provided by (used in) financing activities	$ 7,594	$ (240,333)	$ 31,908	$ 963,116	$ 3,118
Effect of changes in exchange rates	$ 1,044	$ 2	$ (251)	$ (183)	$ (173)
Increase/(decrease) in cash and cash equivalents	$ 167,347	$ (145,494)	$ 275,587	$ 36,501	$ (6,603)

	2017		2016		2015	
	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue
Revenues:						
Prescription Pharmaceuticals	$ 772,524	91.9 %	$ 1,053,579	94.3%	$ 924,472	93.8%
Consumer Health	68,521	8.1 %	63,264	5.7%	60,604	6.2%
Total revenues	841,045	100.0 %	1,116,843	100.0%	985,076	100.0%
Gross profit and gross margin percentage:						
Prescription Pharmaceuticals	403,023	52.2 %	645,078	61.2%	566,298	61.3%
Consumer Health	30,124	44.0 %	29,193	46.1%	29,714	49.0%
Total gross profit	433,147	51.5 %	674,271	60.4%	596,012	60.5%
Operating expenses:						
Selling, general & administrative expenses	216,086	25.7 %	197,501	17.7%	162,205	16.5%
Acquisition-related costs	159	— %	364	—%	1,841	0.2%
Research and development expenses	80,502	9.6 %	42,603	3.8%	40,707	4.1%
Amortization of intangibles	61,443	7.3 %	65,713	5.9%	66,272	6.7%
Impairment of intangible assets	92,613	11.0 %	40,519	3.6%	30,376	3.1%
Operating (loss) income	$ (17,656)	(2.1)%	$ 327,571	29.3%	$ 294,611	29.9%
(Loss) income from continuing operations	(24,550)	(2.9)%	184,243	16.5%	150,798	15.3%
Net (loss) income	$ (24,550)	(2.9)%	$ 184,243	16.5%	$ 150,798	15.3%

COMPARISON OF YEARS ENDED DECEMBER 31, 2017 AND 2016

Net revenue was $841.0 million for the twelve-month period ended December 31, 2017, representing a decrease of $275.8 million, or 24.7%, as compared to net revenue of $1,116.8 million for the twelve-month period ended December 31, 2016. The decrease in net revenue in the period was primarily due to $279.1 million decline in organic revenue. The $279.1 million decline in organic revenue was due to approximately $192 million and $87 million declines in volume and price erosion, respectively. The organic revenue decline was principally due to the effect of competition on Ephedrine Sulfate Injection, as well as Lidocaine Ointment. Additionally, other key products, such as Progesterone and Clobetasol Ointment, experienced more significant than expected declines in net revenue as a result of increased competition consistent with observed industry trends in 2017. In addition, the Company experienced more than normal supply disruptions for certain products during the year, resulting in lower net revenue. While the Company received 26 new-to-Akorn ANDA product approvals and launched 21 new products during 2017, it was unable to offset the overall net revenue decline through new product launches or new business opportunities.

The Prescription Pharmaceuticals segment revenues of $772.5 million for the twelve-month period ended December 31, 2017 represented a decrease of $281.1 million, or 26.7%, as compared to revenues of $1,053.6 million for twelve-month period ended December 31, 2016.

The Consumer Health segment revenues of $68.5 million for the twelve-month period ended December 31, 2017 represented an increase of $5.3 million, or 8.3%, as compared to revenues of $63.3 million for twelve-month period ended December 31, 2016.

The net revenue for the twelve-month period ended December 31, 2017 of $841.0 million was net of adjustments totaling $1,510.0 million for chargebacks, rebates, administrative fees and others, product returns, discounts and allowances and advertising, promotions and other. Chargeback expenses for 2017 were $953.3 million, or 40.5% of gross sales, compared to $1,218.6 million, or 42.1% of gross sales, in 2016. The $265.2 million decrease in chargeback expense was due to lower gross sales in the current year as compared to prior year. Rebates, administrative fees and other expenses for the twelve-month period ended December 31, 2017 were $476.6 million, or 20.3% of gross sales, compared to $463.7 million, or 16.0% for twelve-month period ended December 31, 2016. The $12.9 million increase in rebates, administrative fees and other expenses was due to the impact of product and customer mix. Our product returns provision for the twelve-month period ended December 31, 2017 was $26.9 million, or 1.1% of gross sales, compared to $28.3 million, or 1.0% of gross sales, for twelve-month period ended December 31, 2016. Discounts and allowances were $45.3 million or 1.9% of gross sales for the twelve-month period ended December 31, 2017, compared to $55.5 million, or 1.9% of gross sales for the twelve-month period ended

AKORN, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In Thousands, Except Per Share Data)

	Year ended December 31, 2017	2016	2015
REVENUES	$ 841,045	$ 1,116,843	$ 985,076
Cost of sales (exclusive of amortization of intangibles, included within operating expenses below)	407,898	442,572	389,064
GROSS PROFIT	433,147	674,271	596,012
Selling, general and administrative expenses	216,086	197,501	162,205
Acquisition-related costs	159	364	1,841
Research and development expenses	80,502	42,603	40,707
Amortization of intangibles	61,443	65,713	66,272
Impairment of intangible assets	92,613	40,519	30,376
TOTAL OPERATING EXPENSES	450,803	346,700	301,401
OPERATING (LOSS) INCOME	(17,656)	327,571	294,611
Amortization of deferred financing costs	(5,216)	(10,791)	(4,283)
Interest expense, net	(38,070)	(42,734)	(51,973)
Bargain purchase gain	—	—	849
Other non-operating income (expense), net	1,744	(2,746)	(7,048)
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(59,198)	271,300	232,156
Income tax (benefit) provision	(34,648)	87,057	81,358
(LOSS) INCOME FROM CONTINUING OPERATIONS	$ (24,550)	$ 184,243	$ 150,798
CONSOLIDATED NET (LOSS) INCOME	$ (24,550)	$ 184,243	$ 150,798
CONSOLIDATED NET (LOSS) INCOME PER COMMON SHARE:			
(Loss) income from continuing operations, basic	$ (0.20)	$ 1.50	$ 1.29
CONSOLIDATED NET (LOSS) INCOME, BASIC	$ (0.20)	$ 1.50	$ 1.29
(Loss) income from continuing operations, diluted	$ (0.20)	$ 1.47	$ 1.22
CONSOLIDATED NET (LOSS) INCOME, DILUTED	$ (0.20)	$ 1.47	$ 1.22
SHARES USED IN COMPUTING CONSOLIDATED NET (LOSS) INCOME PER COMMON SHARE:			
BASIC	124,790	122,869	116,980
DILUTED	124,790	125,801	125,762
COMPREHENSIVE (LOSS) INCOME:			
Consolidated net (loss) income	$ (24,550)	$ 184,243	$ 150,798
Unrealized holding gain on available-for-sale securities, net of tax of ($157), ($436) and ($61) for the years ended December 31, 2017, 2016 and 2015, respectively.	267	740	104
Foreign currency translation gain (loss) for the years ended December 31, 2017, 2016 and 2015, respectively.	6,150	(1,941)	(2,051)
Pension liability adjustment, net of tax of ($403) and $694 for the year ended December 31, 2017 and 2016, respectively.	1,582	(3,624)	—
COMPREHENSIVE (LOSS) INCOME	$ (16,551)	$ 179,418	$ 148,851

See notes to the consolidated financial statements.

AKORN, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017
(In Thousands)

	Common Stock		Retained Earnings	Other Compre-hensive Loss	Total
	Shares	Amount			
BALANCES AT DECEMBER 31, 2014	111,735	$ 342,252	$ 29,250	$ (15,195)	$ 356,307
Consolidated net income	—	—	150,798	—	150,798
Exercise of stock options	2,514	10,503	—	—	10,503
Employee stock purchase plan issuances	66	1,413	—	—	1,413
Restricted stock units	16	3,814	—	—	3,814
Stock-based compensation expense	—	9,183	—	—	9,183
Foreign currency translation loss	—	—	—	(2,051)	(2,051)
Excess tax benefit – stock compensation	—	47,997	—	—	47,997
Unrealized holding loss on available-for-sale securities	—	—	—	104	104
Convertible note conversions	5,096	43,497	—	—	43,497
Exercise of warrants			—	—	—
BALANCES AT DECEMBER 31, 2015	119,427	$ 458,659	$ 180,048	$ (17,142)	$ 621,565
Consolidated net income	—	—	184,243	—	184,243
Common stock repurchases	(1,808)	—	(45,000)	—	(45,000)
Exercise of stock options	1,792	13,953	—	—	13,953
Restricted stock units	184	4,091	—	—	4,091
Stock-based compensation expense	—	11,321	—	—	11,321
Foreign currency translation loss	—	—	—	(1,941)	(1,941)
Excess tax benefit – stock compensation	(138)	(4,158)	—	—	(4,158)
Unrealized holding loss on available-for-sale securities	—	—	—	740	740
Convertible note conversions	4,933	43,215	—	—	43,215
Akorn AG pension liability adjustment	—	—	—	(3,624)	(3,624)
Other	—	$ (5,221)	$ —	$ —	$ (5,221)
BALANCES AT DECEMBER 31, 2016	124,390	$ 521,860	$ 319,291	$ (21,967)	$ 819,184
Consolidated net loss	—	—	(24,550)	—	(24,550)
Exercise of stock options	625	9,673	—	—	9,673
Restricted stock units	138	7,736	—	—	7,736
Stock-based compensation expense	—	13,282	—	—	13,282
Foreign currency translation gain	—	—	—	6,150	6,150
Stock compensation plan withholdings for employee taxes	(62)	(2,079)	—	—	(2,079)
Unrealized holding loss on available-for-sale securities	—	—	—	267	267
Akorn AG pension liability adjustment	—	—	—	1,582	1,582
Other	—	—	—	—	—
BALANCES AT DECEMBER 31, 2017	125,091	$ 550,472	$ 294,741	$ (13,968)	$ 831,245

See notes to the consolidated financial statements.

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AKORN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year ended December 31,		
	2017	2016	2015
OPERATING ACTIVITIES:			
Consolidated net (loss) income	$ (24,550)	$ 184,243	$ 150,798
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	85,173	87,963	86,924
Impairment of intangible assets	128,127	44,369	33,003
Amortization of deferred financing fees	5,216	10,760	4,350
Amortization of favorable contracts	—	—	71
Amortization of inventory step-up	—	—	4,681
Non-cash stock compensation expense	21,018	15,412	12,997
Non-cash interest expense	—	777	2,778
Non-cash gain on bargain purchase	—	—	(849)
Income from available-for-sale securities	(3,032)	—	—
Deferred income taxes, net	(115,249)	(32,934)	(46,130)
Excess tax benefit from stock compensation	—	—	(47,997)
Loss on extinguishment of debt	—	—	1,243
Gain on sale of available-for-sale security	199	45	237
Other	(307)	(4,888)	—
Changes in operating assets and liabilities:			
Trade accounts receivable, net	141,979	(132,617)	40,287
Inventories, net	(8,367)	10,208	(50,729)
Prepaid expenses and other current assets	(14,120)	(6,494)	17,574
Trade accounts payable	(9,223)	6,139	(4,819)
Accrued expenses and other liabilities	42,400	(15,224)	93,229
NET CASH PROVIDED BY OPERATING ACTIVITIES	249,264	167,759	297,648
INVESTING ACTIVITIES:			
Payments for acquisitions and equity investments, net of cash acquired	—	—	(24,408)
Proceeds from disposal of assets	4,815	5,966	2,459
Payments for other intangible assets	(200)	(3,950)	(3,835)
Purchases of property, plant and equipment	(95,170)	(74,938)	(27,934)
NET CASH USED IN INVESTING ACTIVITIES	(90,555)	(72,922)	(53,718)
FINANCING ACTIVITIES:			
Proceeds under stock option and stock purchase plans	7,594	9,795	11,916
Payments of contingent acquisition liabilities	—	—	(8,991)
Debt financing costs	—	(5,128)	(8,564)
Excess tax benefits from stock compensation	—	—	47,997
Common stock repurchases	—	(45,000)	—
Debt repayment	—	(200,000)	(10,450)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	7,594	(240,333)	31,908
Effect of changes in exchange rates on cash and cash equivalents	1,044	2	(251)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	167,347	(145,494)	275,587
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	200,772	346,266	70,679
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 368,119	$ 200,772	$ 346,266

See notes to the consolidated financial statements.

forfeitures at the time of grant and revises the estimate in subsequent periods, as necessary, if actual forfeitures differ from initial estimates.

Note 3 — Accounts Receivable, Sales and Allowances

The nature of the Company's business inherently involves, in the ordinary course, significant amounts and substantial volumes of transactions and estimates relating to allowances for product returns, chargebacks, rebates, doubtful accounts and discounts given to customers. This is typical of the pharmaceutical industry and not necessarily specific to the Company. Certain rebates, chargebacks and other credits are deducted from the Company's accounts receivable where applicable, based on product and customer specific terms. The process of claiming these deductions depends on wholesalers reporting to the Company the amount of deductions that were earned under the terms of the respective agreement with the end-user customer (which in turn depends on the specific end-user customer, each having its own pricing arrangement, which entitles it to a particular deduction). This process can lead to partial payments against outstanding invoices as the wholesalers take the claimed deductions at the time of payment.

With the exception of the provision for doubtful accounts, which is reflected as part of selling, general and administrative expense, the provisions for the following customer reserves are reflected as a reduction of revenues in the accompanying consolidated statements of comprehensive income. Additionally, with the exception of administrative fees and others, which is included as a current liability, the ending reserve balances are included in trade accounts receivable, net in the Company's consolidated balance sheets.

Trade accounts receivable, net consists of the following (in thousands):

	December 31,	
	2017	2016
Gross accounts receivable (1)	$ 378,759	$ 519,175
Less reserves for:		
Chargebacks (2)	(73,984)	(80,360)
Rebates (2)	(111,945)	(97,935)
Product returns	(41,687)	(43,689)
Discounts and allowances	(7,779)	(12,389)
Advertising and promotions	(1,301)	(688)
Doubtful accounts	(680)	(960)
Trade accounts receivable, net	$ 141,383	$ 283,154

(1) - The reduction in the Gross accounts receivable balance as of December 31, 2017 when compared to the December 31, 2016 balance is due to the decline in Gross sales in the fourth quarter of 2017.

(2) - The reduction in the reserve for chargebacks and increase in the reserve for rebates as of December 31, 2017 compared to December 31, 2016 is primarily due to product mix, customer mix, price erosion, volume declines and payment timing. The price erosion and volume declines were due to increased industry pricing pressure and the competitive nature of our business. The rebates processed during full year 2017 are disclosed under the caption "charges processed," in the table below.

For the years ended December 31, 2017, 2016 and 2015, the Company recorded the following adjustments to gross sales (in thousands):

of $26.9 million which is included as a discrete item in the 2017 income tax benefit. The Company's foreign subsidiaries do not have accumulated earnings that can be distributed; therefore, the provisions of the Act related to the repatriation of foreign earnings are not applicable to the Company at December 31, 2017.

The income tax provision (benefit) from continuing operations consisted of the following (in thousands):

	Current	Deferred	Total
Year ended December 31, 2017			
Federal	$ 78,806	$ (105,006)	$ (26,200)
State	1,706	(9,785)	(8,079)
Foreign	89	(458)	(369)
	$ 80,601	$ (115,249)	$ (34,648)
Year ended December 31, 2016			
Federal	$ 107,818	$ (26,377)	$ 81,441
State	11,247	(4,325)	6,922
Foreign	—	(1,306)	(1,306)
	$ 119,065	$ (32,008)	$ 87,057
Year ended December 31, 2015			
Federal	$ 116,375	$ (41,477)	$ 74,898
State	11,113	(2,620)	8,493
Foreign	—	(2,033)	(2,033)
	$ 127,488	$ (46,130)	$ 81,358

The income tax provision differs from the "expected" tax expense computed by applying the U.S. Federal corporate income tax rates of 35% to income from continuing operations before income taxes, as follows (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Computed "expected" tax provision	$ (20,719)	$ 94,955	$ 81,255
Change in income taxes resulting from:			
State income taxes, net of Federal income tax	(537)	4,501	5,520
Change in state income tax rate, net of Federal income tax	(4,714)	—	—
Foreign income tax provision (benefit)	2,206	1,580	(1,130)
Deduction for domestic production activities	(2,527)	(7,280)	(6,882)
Stock compensation	(1,316)	(11,395)	—
R&D tax credits	(1,200)	(825)	(677)
Nondeductible acquisition fees	1,974	39	165
Interest and penalties from Federal audit	15,650	—	—
Federal rate change	(26,902)	—	—
Discrete adjustments to prior year	1,561	—	—
Other expense, net	1,201	2,564	682
Valuation allowance change	675	2,918	2,425
Income tax provision	$ (34,648)	$ 87,057	$ 81,358

The geographic allocation of the Company's income from continuing operations before income taxes between U.S. and foreign operations was as follows (in thousands):

	2017	2016	2015
Pre-tax (loss) income from continuing U.S. operations	$ (49,572)	$ 287,880	$ 241,665
Pre-tax loss from continuing foreign operations	(9,626)	(16,580)	(9,509)
Total pre-tax (loss) income from continuing operations	$ (59,198)	$ 271,300	$ 232,156

Net deferred income taxes at December 31, 2017 and 2016 include (in thousands):

	December 31,	
	2017	2016
Deferred tax assets:		
Net operating loss carry-forward	$ 25,100	$ 25,657
Stock-based compensation	7,668	8,922
Chargeback reserves	17,802	—
Reserve for product returns	9,479	16,208
Inventory valuation reserve	10,207	11,503
Long-term debt	3,084	6,383
Other	10,805	18,808
Total deferred tax assets	$ 84,145	$ 87,481
Valuation allowance	(10,531)	(9,856)
Net deferred tax assets	$ 73,614	$ 77,625
Deferred tax liabilities:		
Prepaid expenses	$ (1,709)	$ (3,091)
Depreciation & amortization – tax over book	(108,788)	$ (226,855)
Total deferred tax liabilities	$ (110,497)	$ (229,946)
Net deferred income tax asset (liability)	$ (36,883)	$ (152,321)

The Company records a valuation allowance to reduce net deferred income tax assets to the amount that is more likely than not to be realized. In performing its analysis of whether a valuation allowance to reduce the deferred income tax asset was necessary, the Company evaluated the data and determined that as of December 31, 2014 it could not conclude that it was more likely than not that certain of the net operating losses of its Indian and Swiss subsidiaries would be realized. Accordingly, the Company established a valuation allowance of $10.5 million, $9.9 million and $8.8 million against its deferred tax assets as of December 31, 2017, 2016 and 2015, respectively.

The deferred tax balances have been reflected gross on the balance sheet and are netted only if they are in the same jurisdiction.

The Company's net operating loss ("NOL") carry-forwards as of December 31, 2017 consist of three component pieces: (i) U.S. Federal NOL carry-forwards valued at $3.7 million, (ii) foreign (Indian) NOLs of $21.0 million and (iii) foreign (Swiss) NOLs of $0.4 million. The U.S. Federal NOL carry-forwards were obtained through the Merck Acquisition completed in the fourth quarter of 2013. The Indian NOL carry-forwards relate to operating losses by the Company's subsidiary in India, which was acquired in 2012. Of the $21.0 million Indian NOL, $10.1 million expires beginning in 2022; the Company has established a valuation allowance against this entire amount. The remaining $10.9 million of the Indian NOLs can be carried forward indefinitely, and the Company has concluded that they are more likely than not to be utilized and therefore has not established a valuation allowance against them. The Swiss NOL was obtained through the Akorn AG acquisition completed in the first quarter of 2015. It begins to expire in 2023 and, accordingly, the Company has established a valuation allowance against the entire amount.

The Company is currently undergoing an examination of its Federal income tax return for the year ended December 31, 2015 by the Internal Revenue Service. The Company's U.S. Federal income tax returns filed for years 2014 through 2016 are open for examination by the Internal Revenue Service. The majority of the Company's state and local income tax returns filed for years 2014 through 2016 remain open for examination as well.

Our Products and Services

Our net revenues are generated from the sale of the following product offerings:

	Fiscal Year		
Percentage of Net Revenues by Product	**2017**	**2016**	**2015**
Clear Aligner Segment			
Comprehensive Products	69%	72%	78%
Non-Comprehensive Products	14	11	11
Non-Case Products	6	6	6
Total Clear Aligner Segment	89	89	95
Scanners Segment	11	11	5
Total Net Revenues	100%	100%	100%

Clear Aligner Segment

Malocclusion and Traditional Orthodontic Treatment

Malocclusion, or the misalignment of teeth, is one of the most prevalent clinical dental conditions, affecting billions of people, or approximately 60% to 75% of the population. Annually, approximately 10 million people in major developed countries elect treatment by orthodontists worldwide. Most orthodontic patients are treated with the use of traditional methods such as metal arch wires and brackets, referred to as braces, and may be augmented with elastics, metal expanders, headgear or functional appliances, and other ancillary devices as needed. Upon completion of the treatment, the dental professional may, at his or her discretion, have the patient use a retainer appliance. Of the 10 million annual orthodontic cases started, approximately 60% or 6 million are applicable to Invisalign treatment - our served market. In addition, approximately 300 million people with malocclusion could benefit from straightening their teeth, but are unlikely to seek treatment through a doctor's office. This represents an incremental opportunity for us as we expand the market for orthodontics by educating more consumers about the benefits of straighter teeth using Invisalign clear aligners and connect them with an Invisalign doctor of their choice.

The Invisalign System

The Invisalign System is a proprietary method for treating malocclusion based on a series of doctor-prescribed, custom manufactured, clear plastic, removable aligners. The Invisalign System offers a range of treatment options, specialized services, and proprietary software for treatment visualization and is comprised of the following phases:

Orthodontic diagnosis and transmission of treatment data to us. The Invisalign-trained dental professional prepares and sends us a patient's treatment data package which consists of a prescription form, a polyvinyl-siloxane (or "PVS") impression of the relevant dental arches, photographs of the patient and, at the dental professional's election, x-rays of the patient's dentition. The Invisalign-trained dental professional can also submit an intraoral digital scan instead of a physical PVS impression through either Align's iTero scanner or several third-party scanners. See "Third Party Scanners and Digital scans for Invisalign treatment submission." More than 50% of Invisalign case submissions are submitted via digital scan instead of a physical PVS impression.

Preparation of computer-simulated treatment plan. Using propriety software which we do not sell, we generate a proposed custom, three-dimensional treatment plan, called a ClinCheck treatment plan. The ClinCheck treatment plan simulates appropriate tooth movement in stages and details timing and placement of any features or attachments that will be used during treatment. Attachments are tooth-colored "buttons" that are sometimes used to increase the biomechanical force on a specific tooth or teeth in order to effect the desired movement.

Review and approval of the treatment plan by an Invisalign provider. The patient's ClinCheck treatment plan is then made available to the prescribing dental professional via the Invisalign Doctor Site which enables the dental professional to project tooth movement with a level of accuracy not previously possible with metal arch wires and brackets. By reviewing, modifying as needed and approving the treatment plan, the dental professional retains control over the treatment plan.

Manufacture of custom aligners. Upon the dental professional's approval of the ClinCheck treatment plan, we use the data underlying the simulation, in conjunction with stereolithography technology (a form of 3D printing technology), to construct a series of molds depicting the future position of the patient's teeth. Each mold is a replica of the patient's teeth at each stage of the simulated course of treatment. From these molds, aligners are fabricated by pressure-forming polymeric sheets over each

ALIGN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2017	2016	2015
Net revenues	$ 1,473,413	$ 1,079,874	$ 845,486
Cost of net revenues	356,466	264,580	205,376
Gross profit	1,116,947	815,294	640,110
Operating expenses:			
Selling, general and administrative	665,777	490,653	390,239
Research and development	97,559	75,720	61,237
Total operating expenses	763,336	566,373	451,476
Income from operations	353,611	248,921	188,634
Interest and other income (expense), net	11,188	(6,355)	(2,533)
Net income before provision for income taxes and equity in losses of investee	364,799	242,566	186,101
Provision for income taxes	130,162	51,200	42,081
Equity in losses of investee, net of tax	3,219	1,684	—
Net income	$ 231,418	$ 189,682	$ 144,020
Net income per share:			
Basic	$ 2.89	$ 2.38	$ 1.80
Diluted	$ 2.83	$ 2.33	$ 1.77
Shares used in computing net income per share:			
Basic	80,085	79,856	79,998
Diluted	81,832	81,484	81,521

The accompanying notes are an integral part of these consolidated financial statements.

ALIGN TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 449,511	$ 389,275
Marketable securities, short-term	272,031	250,981
Accounts receivable, net of allowance for doubtful accounts and returns of $7,178 and $4,310, respectively	322,825	247,415
Inventories	31,688	27,131
Prepaid expenses and other current assets	80,948	38,176
Total current assets	1,157,003	952,978
Marketable securities, long-term	39,948	59,783
Property, plant and equipment, net	348,793	175,167
Equity method investments	54,606	45,061
Goodwill and intangible assets, net	89,068	81,998
Deferred tax assets	50,059	67,844
Other assets	38,379	13,320
Total assets	$ 1,777,856	$ 1,396,151
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 36,776	$ 28,596
Accrued liabilities	194,198	134,332
Deferred revenues	266,842	191,407
Total current liabilities	497,816	354,335
Income tax payable	114,091	45,133
Other long-term liabilities	15,579	1,294
Total liabilities	627,486	400,762
Commitments and contingencies (*Notes 8 and 9*)		
Stockholders' equity:		
Preferred stock, $0.0001 par value (5,000 shares authorized; none issued)	—	—
Common stock, $0.0001 par value (200,000 shares authorized; 80,040 and 79,553 issued and outstanding, respectively)	8	8
Additional paid-in capital	886,435	864,871
Accumulated other comprehensive income (loss), net	571	(938)
Retained earnings	263,356	131,448
Total stockholders' equity	1,150,370	995,389
Total liabilities and stockholders' equity	$ 1,777,856	$ 1,396,151

The accompanying notes are an integral part of these consolidated financial statements.

The changes in the balance of gross unrecognized tax benefits, which exclude interest and penalties, for the year ended December 31, 2017, 2016 and 2015, are as follows (in thousands):

Unrecognized tax benefit as of December 31, 2014	$	33,067
Tax positions related to current year:		
Additions for uncertain tax positions		6,346
Unrecognized tax benefit as of December 31, 2015		39,413
Tax positions related to current year:		
Additions for uncertain tax positions		6,971
Unrecognized tax benefit as of December 31, 2016		46,384
Tax positions related to current year:		
Additions for uncertain tax positions		1,819
Tax positions related to prior year:		
Additions for uncertain tax positions		1,809
Decreases for uncertain tax positions		(826)
Settlements with tax authorities		(1,527)
Reductions due to lapse of applicable statute of limitations		(3)
Unrecognized tax benefit as of December 31, 2017	$	47,656

As of December 31, 2017, $39.8 million of our unrecognized tax benefits would impact our effective tax rate if recognized.

We have elected to recognize interest and penalties related to unrecognized tax benefits as a component of income taxes. For the year ended December 31, 2017 and 2016, interest and penalties included in tax expense was $0.8 million and $1.4 million, respectively. Our total interest and penalties accrued as of December 31, 2017 and 2016 was $2.9 million and $2.1 million, respectively. We do not expect any significant changes to the amount of unrecognized tax benefit within the next twelve months.

We file U.S. federal, U.S. state, and non-U.S. income tax returns. Our major tax jurisdictions are U.S. federal and the state of California. For U.S. federal and state tax returns, we are no longer subject to tax examinations for years before 2000. With few exceptions, we are no longer subject to examination by foreign tax authorities for years before 2010.

Note 14. Net Income per Share

Basic net income per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted average number of shares of common stock, adjusted for any dilutive effect of potential common stock. Potential common stock, computed using the treasury stock method, includes RSUs, MSUs, stock options and our ESPP.

The following table sets forth the computation of basic and diluted net income per share attributable to common stock (in thousands, except per share amounts):

	Year Ended December 31,		
	2017	2016	2015
Numerator:			
Net income	$ 231,418	$ 189,682	$ 144,020
Denominator:			
Weighted-average common shares outstanding, basic	80,085	79,856	79,998
Dilutive effect of potential common stock	1,747	1,628	1,523
Total shares, diluted	81,832	81,484	81,521
Net income per share, basic	$ 2.89	$ 2.38	$ 1.80
Net income per share, diluted	$ 2.83	$ 2.33	$ 1.77

disclose our confidential information or our competitors might learn of the information in some other way. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to, or independently developed by, a competitor, such event could materially adversely affect our business, results of operations, cash flows and financial condition. For more information, see "Item 1A—Risk Factors."

Table of Contents

Our trademarks, including VIVITROL and ARISTADA, are important to us and are generally covered by trademark applications or registrations in the U.S. Patent and Trademark Office and the patent or trademark offices of other countries. Products using our proprietary technologies also use trademarks that are owned by our licensees, such as the trademarks INVEGA SUSTENNA/XEPLION, INVEGA TRINZA/TREVICTA and RISPERDAL CONSTA, which are registered trademarks of Johnson & Johnson; BYDUREON, which is a registered trademark of Amylin; BYDUREON BCise, which is a registered trademark of AstraZeneca Pharmaceuticals LP; and AMPYRA and FAMPYRA, which are registered trademarks of Acorda. Trademark protection varies in accordance with local law, and continues in some countries as long as the trademark is used and in other countries as long as the trademark is registered. Trademark registrations generally are for fixed but renewable terms.

Revenues and Assets by Region

For the years ended December 31, 2017, 2016 and 2015, our revenue and assets by geographic area are presented below:

(In thousands)	Year Ended December 31, 2017	2016	2015
Revenue by region:			
U.S.	$ 700,090	$ 557,312	$ 448,639
Ireland	9,706	4,407	3,902
Rest of world	193,578	183,975	175,794
Assets by region:			
Current assets:			
U.S.	$ 402,481	$ 382,168	$ 360,154
Ireland	403,167	407,761	394,281
Rest of world	3,196	749	527
Long-term assets:			
U.S.:			
Other	$ 360,641	$ 236,175	$ 294,158
Ireland:			
Intangible assets	$ 256,168	$ 318,227	$ 379,186
Goodwill	92,873	92,873	92,873
Other	278,701	288,470	334,565

Regulatory

Regulation of Pharmaceutical Products

United States

Our current and contemplated activities, and the products and processes that result from such activities, are subject to substantial government regulation. Before new pharmaceutical products may be sold in the U.S., pre-clinical studies and clinical trials of the products must be conducted and the results submitted to the FDA for approval. Clinical trial programs must determine an appropriate dose and regimen, establish substantial evidence of effectiveness and define the conditions for safe use. This is a high-risk process that requires stepwise clinical studies in which the product must successfully meet pre-specified endpoints.

Pre-Clinical Testing: Before beginning testing of any compounds with potential therapeutic value in human subjects in the U.S., stringent government requirements for pre-clinical data must be satisfied. Pre-clinical testing includes both in vitro, or in an artificial environment outside of a living organism, and in vivo, or within a living organism, laboratory evaluation and characterization of the safety and efficacy of a drug and its formulation.

Investigational New Drug Exemption: Pre-clinical testing results obtained from in vivo studies in several animal species, as well as from in vitro studies, are submitted to the FDA, as part of an IND, and are reviewed by the FDA prior to the commencement of human clinical trials. The pre-clinical data must provide an adequate basis for evaluating both the safety and the scientific rationale for the initial clinical studies in human volunteers.

Clinical Trials: Clinical trials involve the administration of the drug to healthy human volunteers or to patients under the supervision of a qualified investigator pursuant to an FDA-reviewed protocol. Human clinical trials are typically conducted in three sequential phases, although the phases may overlap with one another and, depending upon the nature of the clinical program, a specific phase or phases may be skipped altogether. Clinical trials must

Table of Contents

be conducted under protocols that detail the objectives of the study, the parameters to be used to monitor safety, and the efficacy criteria, if any, to be evaluated. Each protocol must be submitted to the FDA as part of the IND.

- Phase 1 clinical trials—test for safety, dose tolerability, absorption, bio-distribution, metabolism, excretion and clinical pharmacology and, if possible, to gain early evidence regarding efficacy.
- Phase 2 clinical trials—involve a relatively small sample of the actual intended patient population and seek to assess the efficacy of the drug for specific targeted indications, to determine dose-response and the optimal dose range and to gather additional information relating to safety and potential adverse effects.
- Phase 3 clinical trials—consist of expanded, large-scale studies of patients with the target disease or disorder to obtain definitive statistical evidence of the efficacy and safety of the proposed product and dosing regimen.

In the U.S., the results of the pre-clinical and clinical testing of a product are then submitted to the FDA in the form of a Biologics License Application ("BLA"), or an NDA. The NDA or BLA also includes information pertaining to the preparation of the product, analytical methods, details of the manufacture of finished products and proposed product packaging and labeling. The submission of an application is not a guarantee that the FDA will find the application complete and accept it for filing. The FDA may refuse to file the application if it is not considered sufficiently complete to permit a review and will inform the applicant of the reason for the refusal. The applicant may then resubmit the application and include the supplemental information.

We incur significant operating costs in Ireland and face exposure to changes in the exchange ratio of the USD and the Euro arising from expenses and payables at our Irish operations that are settled in Euro. The impact of changes in the exchange ratio of the USD and the Euro on our USD denominated revenues earned in countries other than the U.S. is partially offset by the opposite impact of changes in the exchange ratio of the USD and the Euro on operating expenses and payables incurred at our Irish operations that are settled in Euro. For the year ended December 31, 2017, an average 10% weakening in the USD relative to the Euro would have resulted in an increase to our expenses denominated in Euro of approximately $6.9 million.

Item 8. *Financial Statements and Supplementary Data*

Selected Quarterly Financial Data (unaudited)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year Ended December 31, 2017					
REVENUES:					
Manufacturing and royalty revenues	$ 114,679	$ 129,252	$ 122,677	$ 138,700	$ 505,308
Product sales, net	76,456	88,756	93,681	103,941	362,834
License revenues	—	—	—	28,000	28,000
Research and development revenue	643	833	1,027	4,729	7,232
Total revenues	191,778	218,841	217,385	275,370	903,374
EXPENSES:					
Cost of goods manufactured and sold	40,412	39,775	36,054	38,507	154,748
Research and development	104,835	99,153	104,411	104,490	412,889
Selling, general and administrative	102,099	108,950	99,633	110,896	421,578
Amortization of acquired intangible assets	15,302	15,472	15,643	15,642	62,059
Total expenses	262,648	263,350	255,741	269,535	1,051,274
OPERATING (LOSS) INCOME	(70,870)	(44,509)	(38,356)	5,835	(147,900)
OTHER INCOME (EXPENSE), NET	(1,720)	(1,171)	2,566	4,951	4,626
(LOSS) EARNINGS BEFORE INCOME TAXES	(72,590)	(45,680)	(35,790)	10,786	(143,274)
INCOME TAX PROVISION (BENEFIT)	(3,709)	(2,681)	486	20,575	14,671
NET LOSS	$ (68,881)	$ (42,999)	$ (36,276)	$ (9,789)	$ (157,945)
LOSS PER SHARE—BASIC AND DILUTED	$ (0.45)	$ (0.28)	$ (0.24)	$ (0.06)	$ (1.03)

Table of Contents

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Year Ended December 31, 2016					
REVENUES:					
Manufacturing and royalty revenues	$ 106,159	$ 137,034	$ 110,250	$ 133,804	$ 487,247
Product sales, net	49,374	57,519	69,802	79,451	256,146
Research and development revenue	1,241	612	189	259	2,301
Total revenues	156,774	195,165	180,241	213,514	745,694
EXPENSES:					
Cost of goods manufactured and sold	27,711	33,998	35,456	34,957	132,122
Research and development	101,072	97,006	99,444	89,626	387,148
Selling, general and administrative	89,719	96,121	91,145	97,145	374,130
Amortization of acquired intangible assets	15,156	15,157	15,323	15,323	60,959
Total expenses	233,658	242,282	241,368	237,051	954,359
OPERATING LOSS	(76,884)	(47,117)	(61,127)	(23,537)	(208,665)
OTHER EXPENSE, NET	(135)	(596)	(4,215)	(776)	(5,722)
LOSS BEFORE INCOME TAXES	(77,019)	(47,713)	(65,342)	(24,313)	(214,387)
INCOME TAX (BENEFIT) PROVISION	404	(520)	(2,655)	(3,172)	(5,943)
NET LOSS	$ (77,423)	$ (47,193)	$ (62,687)	$ (21,141)	$ (208,444)
LOSS PER SHARE—BASIC AND DILUTED	$ (0.51)	$ (0.31)	$ (0.41)	$ (0.14)	$ (1.38)

All financial statements required to be filed hereunder, other than the quarterly financial data required by Item 302 of Regulation S-K summarized above, are filed as exhibits hereto, are listed under Item 15(a) (1) and (2), and are incorporated herein by reference.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

Controls and Procedures

Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of December 31, 2017. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (b) such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

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Table of Contents

Geographic Information

Company revenues by geographic location, as determined by the location of the customer, and the location of its assets, are as follows:

(In thousands)	Year Ended December 31, 2017	2016	2015
Revenue by region:			
U.S.	$ 700,090	$ 557,312	$ 448,639
Ireland	9,706	4,407	3,902
Rest of world	193,578	183,975	175,794
Assets by region:			
Current assets:			
U.S.	$ 402,481	$ 382,168	$ 360,154
Ireland	403,167	407,761	394,281
Rest of world	3,196	749	527
Long-term assets:			
U.S.:			
Other	$ 360,641	$ 236,175	$ 294,158
Ireland:			
Intangible assets	$ 256,168	$ 318,227	$ 379,186
Goodwill	92,873	92,873	92,873
Other	278,701	288,470	334,565

Research and Development Expenses

For each of its R&D programs, the Company incurs both external and internal expenses. External R&D expenses include costs related to clinical and non-clinical activities performed by contract research organizations, consulting fees, laboratory services, purchases of drug product materials and third-party manufacturing development costs. Internal R&D expenses include employee-related expenses, occupancy costs, depreciation and general overhead. The Company tracks external R&D expenses for each of its development programs, however, internal R&D expenses, with the exception of those expenses related to BIIB098, are not tracked by individual program as they benefit multiple programs or its technologies in general.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are primarily comprised of employee-related expenses associated with sales and marketing, finance, human resources, legal, information technology and other administrative personnel, outside marketing, advertising and legal expenses and other general and administrative costs.

Advertising costs are expensed as incurred. During the years ended December 31, 2017, 2016 and 2015, advertising costs totaled $34.4 million, $24.0 million and $10.6 million, respectively.

Share-Based Compensation

The Company's share-based compensation programs grant awards which include stock options and restricted stock units ("RSUs"), which vest with the passage of time and, to a limited extent, vest based on the achievement of certain performance criteria. The Company issues new shares upon stock option exercise or the vesting of RSUs. Certain of the Company's employees are retirement eligible under the terms of the Company's stock option plans (the "Plans"), and stock option awards to these employees generally vest in full upon retirement. Since there are no effective future service requirements for these employees, the fair value of these awards is expensed in full on the grant date or upon meeting the retirement eligibility criteria, whichever is later.

Stock Options

Stock option grants to employees expire ten years from the grant date and generally vest one-fourth per year over four years from the anniversary of the date of grant, provided the employee remains continuously employed with the Company, except as otherwise provided in the plan. Stock option grants to directors are for ten-year terms and generally vest over a one-year period provided the director continues to serve on the Company's board of directors through the vesting date, except as otherwise provided in the plan. The estimated fair value of options is recognized over the

Table of Contents

ALKERMES PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

requisite service period, which is generally the vesting period. Share-based compensation expense is based on awards ultimately expected to vest. Forfeitures are estimated based on historical experience at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

The fair value of stock option grants is based on estimates as of the date of grant using a Black-Scholes option valuation model. The Company uses historical data as the basis for estimating option terms and forfeitures. Separate groups of employees that have similar historical stock option exercise and forfeiture behavior are considered separately for valuation purposes. The ranges of expected terms disclosed below reflect different expected behavior among certain groups of employees. Expected stock volatility factors are based on a weighted average of implied volatilities from traded options on the Company's ordinary shares and historical share price volatility of the Company's ordinary shares, which is determined based on a review of the weighted average of historical daily price changes of the Company's ordinary shares. The risk-free interest rate for periods commensurate with the expected term of the share option is based on the U.S. treasury yield curve in effect at the time of grant. The dividend yield on the Company's ordinary shares is estimated to be zero as the Company has not paid and does not expect to pay dividends. The exercise price of options granted is equal to the closing price of the Company's ordinary shares traded on the Nasdaq Global Select Stock Market on the date of grant.

The fair value of each stock option grant was estimated on the grant date with the following weighted-average assumptions:

	Year Ended December 31, 2017	2016	2015
Expected option term	5 - 8 years	5 - 7 years	5 - 7 years
Expected stock volatility	43 % - 47 %	39 % - 53 %	38 % - 46 %
Risk-free interest rate	1.69 % - 2.38 %	0.95 % - 2.14 %	1.29 % - 2.02 %
Expected annual dividend yield	—	—	—

In January 2017, the FASB issued guidance that simplifies the test for goodwill impairment. This guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Under the amended guidance, a goodwill impairment charge will now be recognized for the amount by which the carrying value of a reporting unit exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for the Company in its year ending December 31, 2020, with early adoption permitted for any impairment tests performed after January 1, 2017. The Company elected to early adopt this guidance as of January 1, 2017. The adoption of this guidance had no impact on the Company's consolidated financial statements.

In May 2017, the FASB issued guidance that amends the scope of modification accounting for share-based payment arrangements to address both diversity in practice and the cost and complexity of accounting for the change to the terms or conditions of a share-based payment award. The amendment provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The guidance becomes effective for the Company in its year ending December 31, 2018 and early adoption is permitted. The standard may impact the Company in future periods if modifications are made to certain of its share-based awards.

In July 2017, the FASB issued guidance that addresses narrow issues identified as a result of the complexity associated with applying GAAP for certain financial instruments with characteristics of liabilities and equity. The guidance becomes effective for the Company in its year ending December 31, 2019 and early adoption is permitted. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements.

Table of Contents

ALKERMES PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS

Investments consist of the following:

			Gross Unrealized Losses		
December 31, 2017	**Amortized Cost**	**Gains**	**Less than One Year**	**Greater than One Year**	**Estimated Fair Value**
Short-term investments:					
Available-for-sale securities:					
U.S. government and agency debt securities	$ 150,673	$ 1	$ (130)	$ (233)	$ 150,311
Corporate debt securities	56,552	3	(48)	(10)	56,497
International government agency debt securities	35,478	1	(54)	(25)	35,400
Total short-term investments	242,703	5	(232)	(268)	242,208
Long-term investments:					
Available-for-sale securities:					
Corporate debt securities	83,924	—	(300)	(34)	83,590
U.S. government and agency debt securities	48,948	—	(270)	(71)	48,607
International government agency debt securities	21,453	—	(118)	—	21,335
	154,325	—	(688)	(105)	153,532
Held-to-maturity securities:					
Fixed term deposit account	1,667	222	—	—	1,889
Certificates of deposit	1,791	—	—	—	1,791
	3,458	222	—	—	3,680
Total long-term investments	157,783	222	(688)	(105)	157,212
Total investments	$ 400,486	$ 227	$ (920)	$ (373)	$ 399,420
December 31, 2016					
Short-term investments:					
Available-for-sale securities:					
U.S. government and agency debt securities	$ 177,203	$ 96	$ (51)	$ —	$ 177,248
Corporate debt securities	128,119	47	(53)	—	128,113
International government agency debt securities	5,511	—	(16)	—	5,495
Total short-term investments	310,833	143	(120)	—	310,856
Long-term investments:					
Available-for-sale securities:					
U.S. government and agency debt securities	81,839	—	(391)	—	81,448
Corporate debt securities	31,223	—	(89)	—	31,134
International government agency debt securities	5,992	—	(18)	—	5,974
	119,054	—	(498)	—	118,556
Held-to-maturity securities:					
Fixed term deposit account	1,667	—	(7)	—	1,660
Certificates of deposit	1,715	—	—	—	1,715
	3,382	—	(7)	—	3,375
Total long-term investments	122,436	—	(505)	—	121,931
Total investments	$ 433,269	$ 143	$ (625)	$ —	$ 432,787

Realized gains and losses on the sales and maturities of marketable securities, which were identified using the specific identification method, were as follows:

	Year Ended December 31,		
(In thousands)	**2017**	**2016**	**2015**
Proceeds from the sales and maturities of marketable securities	$ 464,494	$ 560,805	$ 467,573
Realized gains	$ 9	$ 206	$ 111
Realized losses	$ 3	$ 28	$ 3

Table of Contents

ALKERMES PLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's available-for-sale and held-to-maturity securities at December 31, 2017 had contractual maturities in the following periods:

	Available-for-sale		Held-to-maturity	
(In thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Within 1 year	$ 234,771	$ 234,273	$ 1,791	$ 1,791
After 1 year through 5 years	162,257	161,467	1,667	1,889

Performance-Based Restricted Stock Units

In February 2017, the board of directors approved awards of performance-based restricted stock units ("PRSUs") to all employees employed by the Company during 2017, in each case subject to vesting on the achievement of two future key milestones in the Company's clinical-stage pipeline and the achievement of a revenue-related goal; provided that, if any such vesting event occurs during the first year after grant, the vesting of the PRSU award will not occur until the one-year anniversary of the grant date. The award will expire if the performance conditions have not been met on or before the three-year anniversary of the grant date.

A summary of PRSU activity is presented in the following table:

	Number of Shares		Weighted Average Grant Date Fair Value
Unvested, January 1, 2017	—	$	—
Granted	1,169,949	$	54.73
Forfeited	(60,700)	$	54.78
Vested	(596)	$	54.57
Unvested, December 31, 2017	1,108,653	$	54.72

The grant date fair value of the PRSUs was equal to the market value of the Company's stock on the date of grant. At December 31, 2017, the Company does not consider it probable that the performance criteria will be met and has not recognized any share-based compensation expense related to these PRSUs. At December 31, 2017, there was $60.7 million of unrecognized compensation cost related to these PRSUs, which would be recognized in accordance with the terms of the award when the Company deems it probable that the performance criteria will be met.

Table of Contents

13. COLLABORATIVE ARRANGEMENTS

The Company has entered into several collaborative arrangements to develop and commercialize products and, in connection with such arrangements, to access technologies, financial, marketing, manufacturing and other resources. Refer to the "Patents and Proprietary Rights" section in "Part I, Item 1— Business" of this Annual Report for information with respect to intellectual property protection for these products. The collaboration revenue the Company has earned in the years ended December 31, 2017, 2016 and 2015 is as follows:

(In thousands)	Year Ended December 31, 2017	2016	2015
MANUFACTURING AND ROYALTY REVENUE:			
Significant collaborative arrangements	$ 462,568	$ 431,302	$ 401,236
All other collaborative arrangements	42,740	55,945	74,052
Total manufacturing and royalty revenue	$ 505,308	$ 487,247	$ 475,288
LICENSE REVENUE:			
Significant collaborative arrangements	$ 28,000	$ —	$ —
Total research and development revenue	$ 28,000	$ —	$ —
RESEARCH AND DEVELOPMENT REVENUE:			
Significant collaborative arrangements	$ 2,314	$ 403	$ 582
All other collaborative arrangements	4,918	1,898	3,437
Total research and development revenue	$ 7,232	$ 2,301	$ 4,019

The Company's significant collaborative arrangements are described below:

Janssen

INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA

Under its license agreement with Janssen Pharmaceutica N.V., the Company granted Janssen a worldwide exclusive license under its NanoCrystal technology to develop, commercialize and manufacture INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA and related products.

Under this license agreement, the Company received milestone payments upon the achievement of certain development goals from Janssen; there are no further milestones to be earned under this agreement. The Company receives tiered royalty payments between 5% and 9% of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA end-market net sales in each country where the license is in effect, with the exact royalty percentage determined based on aggregate worldwide net sales. The tiered royalty payments consist of a patent royalty and a know-how royalty, both of which are determined on a country-by-country basis. The patent royalty, which equals 1.5% of net sales, is payable in each country until the expiration of the last of the patents claiming the product in such country. The know-how royalty is a tiered royalty of 3.5%, 5.5% and 7.5% on aggregate worldwide net sales of below $250 million, between $250 million and $500 million, and greater than $500 million, respectively. The know-how royalty is payable for the later of 15 years from first commercial sale of a product in each individual country or March 31, 2019, subject in each case to the expiry of the license agreement. These royalty payments may be reduced in any country based on patent litigation or on competing products achieving certain minimum sales thresholds. The license agreement expires upon the later of (i) March 31, 2019 or (ii) the expiration of the last of the patents subject to the agreement. After expiration, Janssen retains a non-exclusive, royalty-free license to develop, manufacture and commercialize the products.

Janssen may terminate the license agreement in whole or in part upon three months' notice to the Company. The Company and Janssen have the right to terminate the agreement upon a material breach of the other party, which is not cured within a certain time period, or upon the other party's bankruptcy or insolvency.

Under its agreements with Janssen, the Company recognized royalty revenues from the end-market net sales of INVEGA SUSTENNA/XEPLION and INVEGA TRINZA/TREVICTA of $214.9 million, $184.2 million and $149.7 million during the years ended December 31, 2017, 2016 and 2015, respectively.

Table of Contents

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades principally on The New York Stock Exchange under the trading symbol AMP. As of February 9, 2018, we had approximately 14,059 common shareholders of record. Price and dividend information concerning our common shares may be found in Note 26 to our Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. Information regarding our equity compensation plans can be found in Part III, Item 12 of this Annual Report on Form 10-K. Information comparing the cumulative total shareholder return on our common stock to the cumulative total return for certain indices is set forth under the heading "Performance Graph" provided in our 2017 Annual Report to Shareholders and is incorporated herein by reference.

We are primarily a holding company and, as a result, our ability to pay dividends in the future will depend on receiving dividends from our subsidiaries. For information regarding our ability to pay dividends, see the information set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" contained in Part II, Item 7 of this Annual Report on Form 10-K.

Share Repurchases

The following table presents the information with respect to purchases made by or on behalf of Ameriprise Financial, Inc. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the fourth quarter of 2017:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as part of Publicly Announced Plans or Programs [1]	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1]
October 1 to October 31, 2017				
Share repurchase program [1]	617,734	$ 153.50	617,734	$ 2,292,351,613
Employee transactions [2]	134,185	$ 156.80	N/A	N/A
November 1 to November 30, 2017				
Share repurchase program [1]	701,468	$ 159.59	701,468	$ 2,180,405,982
Employee transactions [2]	69,414	$ 159.82	N/A	N/A
December 1 to December 31, 2017				
Share repurchase program [1]	568,695	$ 168.55	568,695	$ 2,084,552,158
Employee transactions [2]	107,467	$ 168.56	N/A	N/A
Totals				
Share repurchase program [1]	1,887,897	$ 160.28	1,887,897	
Employee transactions [2]	311,066	$ 161.54	N/A	
	2,198,963		1,887,897	

N/A Not applicable.

[1] On April 24, 2017, we announced that our Board of Directors authorized an additional expenditure of up to $2.5 billion for the repurchase of our common stock through June 30, 2019. The share repurchase program does not require the purchase of any minimum number of shares, and depending on market conditions and other factors, these purchases may be commenced or suspended at any time without prior notice. Acquisitions under the share repurchase program may be made in the open market, through privately negotiated transactions or block trades or other means.

[2] Includes restricted shares withheld pursuant to the terms of awards under the Company's share-based compensation plans to offset tax withholding obligations that occur upon vesting and release of restricted shares. The value of the restricted shares withheld is the closing price of common stock of Ameriprise Financial, Inc. on the date the relevant transaction occurs. Also includes shares withheld pursuant to the net settlement of Non-Qualified Stock Option ("NQSO") exercises to offset tax withholding obligations that occur upon exercise and to cover the strike price of the NQSO. The value of the shares withheld pursuant to the net settlement of NQSO exercises is the closing price of common stock of Ameriprise Financial, Inc. on the day prior to the date the relevant transaction occurs.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

You should read the selected financial data in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements for the years ended December 31, 2017, 2016 and 2015 and the related Notes to those Consolidated Financial Statements included in this Report. The historical results set forth below are not necessarily indicative of the results of future operations. Period to period comparisons are also significantly affected by our significant acquisitions. See Notes 4 and 5 to the Consolidated Financial Statements included in this Report for a more detailed discussion of our recent acquisitions and discontinued operations.

The selected Consolidated Income Statement data for the years ended December 31, 2017, 2016 and 2015 and the selected Consolidated Balance Sheet data as of December 31, 2017 and 2016 are derived from our Consolidated Financial Statements beginning on page F-1 of this Annual Report on Form 10-K. The selected Consolidated Income Statement data for the years ended December 31, 2014 and 2013 and the selected Consolidated Balance Sheet data as of December 31, 2015, 2014 and 2013 are derived from our Consolidated Financial Statements not included in this Annual Report on Form 10-K.

	Year ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
	(In thousands, except per share data)				
Income Statement Data					
Revenue	$481,193	$457,003	$355,369	$336,347	$292,835
Operating expenses(1)	425,725	407,206	276,774	250,771	228,750
Income from operations	55,468	49,797	78,595	85,576	64,085
Other income (expense):					
Interest income	1,613	1,239	588	788	852
Interest expense	(8,838)	(5,362)	(3,180)	(1,208)	(12,785)
Other, net(2)	(689)	(300)	(19,802)	1,012	(5,679)
Other income (expense), net	(7,914)	(4,423)	(22,394)	592	(17,612)
Income from continuing operations before income taxes	47,553	45,374	56,201	86,168	46,473
Income (benefit) provisions	(1,341)	21,160	24,137	28,148	9,536
Income from continuing operations	48,894	24,214	32,064	58,020	36,937
Income from discontinued operations, net of tax	—	—	1,092	1,102	5,166
Gain on sale of discontinued operations, net of tax(3)	—	—	—	—	307,102
Net income	48,894	24,214	33,156	59,122	349,205
Net income attributable to non-controlling interests, net of tax	(17,406)	(12,113)	(16,216)	(10,970)	(37,489)
Net income attributable to ATN International, Inc. Stockholders	$ 31,488	$ 12,101	$ 16,940	$ 48,152	$311,716
Net income per weighted average basic share attributable to ATN International, Inc. Stockholders:					
Continuing operations	$ 1.95	$ 0.75	$ 0.99	$ 2.96	$ 1.84

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Discontinued operations	—	—	0.07	0.07	18.01
Total	$ 1.95	$ 0.75	$ 1.06	$ 3.03	$ 19.85
Net income per weighted average diluted share attributable to ATN International, Inc. Stockholders:					
Continuing operations	$ 1.94	$ 0.75	$ 0.98	$ 2.94	$ 1.83
Discontinued operations	—	—	0.07	0.07	17.88
Total	$ 1.94	$ 0.75	$ 1.05	$ 3.01	$ 19.71
Dividends per share applicable to common stock	$ 1.02	$ 1.32	$ 1.22	$ 1.12	$ 1.04

Table of Contents

	2017	2016	2015	2014	2013
			(In thousands)		
Balance Sheet Data (as of December 31,):					
Cash, restricted cash, and short term investments	$ 226,966	$ 297,595	$398,346	$371,394	$ 434,607
Assets of discontinued operations(3)	—	—	—	175	4,748
Working capital	181,223	217,264	384,137	347,305	350,930
Fixed assets, net	643,146	647,712	373,503	369,582	254,632
Total assets	1,205,605	1,198,218	945,004	925,030	859,719
Short-term debt (including current portion of long-term debt)	10,919	12,440	6,284	6,083	—
Liabilities of discontinued operations(3)	—	—	—	1,247	11,187
Long-term debt, net	144,873	144,383	26,575	32,794	—
ATN International, Inc. stockholders' equity	688,727	677,055	680,299	677,222	643,330
Statement of Cash Flow Data (for the years ended December 31,):					
Net cash provided by (used in):					
Operating activities:					
Continuing operations (4)	$ 145,725	$ 111,656	$139,079	$ 82,699	$(131,396)
Discontinued operations	—	—	158	(4,719)	19,394
Investing activities:					
Continuing operations	(166,793)	(308,688)	(31,971)	(74,467)	(67,816)
Discontinued operations	—	—	—	—	710,934
Financing activities:					
Continuing operations	(40,923)	75,334	(41,438)	(33,904)	(308,796)
Discontinued operations	—	—	—	—	(1,678)
Capital expenditures	(142,371)	(124,282)	(64,753)	(58,300)	(69,316)

(1) The Company recognized an impairment charge on its telecommunications licenses during the years ended December 31, 2016.

(2)

consequentially, a reduction of future depreciation expense. The remaining $13.9 million received offsets operating expenses, of which $10.5 million has been recorded to date, $3.4 million is recorded within current liabilities in the Company's consolidated balance sheet as of December 31, 2017. The balance sheet presentation is based on the timing of the expected usage of the funds which will reduce future operations expenses through the expiration of the arrangement in July 2018.

Selected Segment Financial Information

The following represents selected segment information for the years ended December 31, 2017 and 2016:

For the Year Ended December 31, 2017

	U.S. Telecom	International Telecom	Renewable Energy	Corporate and Other (1)	Consolidated
Revenue					
Wireless	$ 140,636	$ 81,404	$ —	$ —	$ 222,040
Wireline	12,656	213,107	—	—	225,763
Renewable Energy	—	—	20,467	—	20,467
Equipment and Other	2,432	10,092	399	—	12,923
Total Revenue	155,724	304,603	20,866	—	481,193
Operating income (loss)	55,317	28,468	5,179	(33,496)	55,468

For the Year Ended December 31, 2016

	U.S. Telecom	International Telecom	Renewable Energy	Corporate and Other (1)	Consolidated
Revenue					
Wireless	$ 148,053	$ 80,745	$ —	$ —	$ 228,798
Wireline	26,448	161,571	—	—	188,019
Renewable Energy	—	—	21,608	—	21,608
Equipment and Other	2,225	15,960	393	—	18,578
Total Revenue	176,726	258,276	22,001	—	457,003
Operating income (loss)	49,078	35,436	(246)	(34,471)	49,797

(1) Reconciling items refer to corporate overhead costs and consolidating adjustments

A year over year summary of our segment results is as follows:

- *U.S. Telecom.* Revenues within our U.S. Telecom segment decreased by $21.0 million, or 11.9%, to $155.7 million from $176.7 million for the year ended December 31, 2017 and 2016, respectively. Of this decrease, $6.0 million was attributable to our wholesale wireless operations which were subject to reduced wholesale roaming rates and revenue caps with certain carrier customers. This decrease was partially offset by the increase in the number of our base stations and the increase data traffic volumes. In addition, revenue from our retail wireless business decreased $1.5 million as a result of decreased subscribers and traffic volumes. In our wireline businesses, the Sovernet Transaction resulted in a decrease in revenue of $17.0 million which was partially offset by an increase in our wholesale long distance voice services of $3.1 million.

  Operating expenses within our U.S. Telecom segment decreased $27.2 million, or 21.3%, to $100.4 million from $127.6 million for the year ended December 31, 2017 and 2016, respectively. This decrease was primarily related to a $16.8 million reduction in operating expenses as a result of the impact of the Sovernet Transaction, expense reductions of approximately $6.0 million implemented over the last several quarters and $3.9 million in

A comparison of significant product and product group sales is as follows. Percent changes are versus the prior year and are based on unrounded numbers.

(dollars in millions)	2017	Total Change	Impact of Exchange	Total Change Excl. Exchange
Total Established Pharmaceuticals —				
Key Emerging Markets	$ 3,307	14%	2%	12%
Other	980	3	1	2
Nutritionals —				
International Pediatric Nutritionals	2,112	(4)	—	(4)
U.S. Pediatric Nutritionals	1,777	6	—	6
International Adult Nutritionals	1,782	3	(1)	4
U.S. Adult Nutritionals	1,254	(3)	—	(3)
Diagnostics —				
Core Laboratory	4,063	6	—	6
Molecular	463	2	1	1
Point of Care	550	7	—	7
Rapid Diagnostics	540	n/m	n/m	n/m
Cardiovascular and Neuromodulation —				
Rhythm Management	2,103	n/m	n/m	n/m
Electrophysiology	1,382	n/m	n/m	n/m
Heart Failure	643	n/m	n/m	n/m
Vascular	2,892	14	—	14
Structural Heart	1,083	208	1	207
Neuromodulation	808	n/m	n/m	n/m

n/m = Percent change is not meaningful.

(dollars in millions)	2016	Total Change	Impact of Exchange	Total Change Excl. Exchange
Total Established Pharmaceuticals —				
Key Emerging Markets	$ 2,912	5%	(8)%	13%
Other	947	1	(1)	2
Nutritionals —				
International Pediatric Nutritionals	2,206	(7)	(4)	(3)
U.S. Pediatric Nutritionals	1,677	5	—	5
International Adult Nutritionals	1,724	—	(4)	4
U.S. Adult Nutritionals	1,292	1	—	1
Diagnostics —				
Core Laboratory	3,844	4	(2)	6
Molecular	456	(2)	(1)	(1)
Point of Care	513	8	—	8
Rapid Diagnostics	—	—	—	—
Cardiovascular and Neuromodulation —				
Rhythm Management	—	—	—	—
Electrophysiology	12	(17)	—	(17)
Heart Failure	—	—	—	—
Vascular	2,532	1	—	1
Structural Heart	352	35	(1)	36
Neuromodulation	—	—	—	—

Note: In order to compute results excluding the impact of exchange rates, current year U.S. dollar sales are multiplied or divided, as appropriate, by the current year average foreign exchange rates and then those amounts are multiplied or divided, as appropriate, by the prior year average foreign exchange rates.

The operating results of Abbott's developed markets branded generics pharmaceuticals and animal health businesses, as well as the income tax benefit related to the businesses transferred to AbbVie, which are being reported as discontinued operations are as follows:

(in millions)	Year Ended December 31 2017	2016	2015
Net Sales			
Developed markets generics pharmaceuticals and animal health businesses	$ —	$ —	$ 256
AbbVie	—	—	—
Total	$ —	$ —	$ 256
Earnings (Loss) Before Tax			
Developed markets generics pharmaceuticals and animal health businesses	$ 15	$ (4)	$ 13
AbbVie	—	—	—
Total	$ 15	$ (4)	$ 13
Net Earnings			
Developed markets generics pharmaceuticals and animal health businesses	$ 15	$ 3	$ 62
AbbVie	109	318	3
Total	$ 124	$ 321	$ 65

Assets and Liabilities Held for Disposition

In September 2016, Abbott announced that it entered into a definitive agreement to sell Abbott Medical Optics (AMO), its vision care business, to Johnson & Johnson for $4.325 billion in cash, subject to customary purchase price adjustments for cash, debt and working capital. The decision to sell AMO reflected Abbott's proactive shaping of its portfolio in line with its strategic priorities. In February 2017, Abbott completed the sale of AMO to Johnson & Johnson and recognized a pre-tax gain of $1.163 billion including working capital adjustments, which was reported in the Other (income) expense, net line of the Consolidated Statement of Earnings in 2017. Abbott recorded an after-tax gain of $728 million in 2017 related to the sale of AMO. The operating results of AMO up to the date of sale continued to be included in Earnings from continuing operations as the business did not qualify for reporting as discontinued operations. For 2017, 2016 and 2015, the AMO earnings (losses) before taxes included in Abbott's consolidated earnings were $(18) million, $30 million and $64 million, respectively. Assets and liabilities of AMO were classified as held for disposition in Abbott's Consolidated Balance Sheet as of December 31, 2016.

As discussed in the Business Acquisitions section, in conjunction with the acquisition of Alere, Abbott sold the Triage MeterPro cardiovascular and toxicology business and the assets and liabilities related to its B-type Natriuretic Peptide assay business run on Beckman Coulter analyzers to Quidel. The legal transfer of certain assets and liabilities related to these businesses did not occur at the close of the sale to Quidel due to, among other factors, the time required to transfer marketing authorizations and other regulatory requirements in various countries. Under the terms of the sale agreement with Abbott, Quidel is subject to the risks and entitled to the benefits generated by these operations and assets. The assets and liabilities presented as held for disposition in the Consolidated Balance Sheet as of December 31, 2017, primarily relate to the businesses sold to Quidel.

Abbott Laboratories and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note 13 — Post-Employment Benefits (Continued)

The following table summarizes the basis used to measure the defined benefit and medical and dental plan assets at fair value:

	Outstanding Balances	Basis of Fair Value Measurement: Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Measured at NAV (k)
			(in millions)		
December 31, 2017:					
Equities:					
U.S. large cap (a)	$ 2,506	$ 1,600	$ —	$ —	$ 906
U.S. mid and small cap (b)	670	243	—	—	427
International (c)	1,937	448	—	—	1,489
Fixed income securities:					
U.S. government securities (d)	510	11	286	—	213
Corporate debt instruments (e)	930	107	411	—	412
Non-U.S. government securities (f)	625	222	—	—	403
Other (g)	216	93	27	—	96
Absolute return funds (h)	1,814	135	—	—	1,679
Commodities (i)	60	—	—	4	56
Cash and Cash Equivalents	178	12	—	—	166
Other (j)	271	7	—	—	264
	$ 9,717	$ 2,878	$ 724	$ 4	$ 6,111
December 31, 2016:					
Equities:					
U.S. large cap (a)	$ 1,889	$ 1,284	$ —	$ —	$ 605
U.S. mid and small cap (b)	549	183	—	—	366
International (c)	1,345	356	—	—	989
Fixed income securities:					
U.S. government securities (d)	437	5	258	—	174
Corporate debt instruments (e)	813	100	348	—	365
Non-U.S. government securities (f)	514	175	—	—	339
Other (g)	183	80	20	—	83
Absolute return funds (h)	1,891	106	—	—	1,785
Commodities (i)	84	—	—	12	72
Cash and Cash Equivalents	100	8	—	—	92
Other (j)	153	—	—	—	153
	$ 7,958	$ 2,297	$ 626	$ 12	$ 5,023

(a) A mix of index funds and actively managed equity accounts that are benchmarked to various large cap indices.

(b) A mix of index funds and actively managed equity accounts that are benchmarked to various mid and small cap indices.

(c) A mix of index funds and actively managed pooled investment funds that are benchmarked to various non-U.S. equity indices in both developed and emerging markets.

Abbott Laboratories and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note 14 — Taxes on Earnings from Continuing Operations (Continued)

The tax effect of the differences that give rise to deferred tax assets and liabilities were as follows:

(in millions)	2017	2016
Deferred tax assets:		
Compensation and employee benefits	$ 881	$ 1,061
Other, primarily reserves not currently deductible, and NOL's and credit carryforwards	2,795	2,384
Trade receivable reserves	185	207
Inventory reserves	152	157
Deferred intercompany profit	249	231
State income taxes	62	164
Total deferred tax assets before valuation allowance	4,324	4,204
Valuation allowance	(1,355)	(189)
Total deferred tax assets	$ 2,969	$ 4,015
Deferred tax liabilities:		
Depreciation	(200)	(152)
Unremitted earnings of foreign subsidiaries	—	(175)
Other, primarily the excess of book basis over tax basis of intangible assets	(3,385)	(2,018)
Total deferred tax liabilities	(3,585)	(2,345)
Total net deferred tax assets (liabilities)	$ (616)	$ 1,670

Abbott has incurred losses in a foreign jurisdiction where realization of the future economic benefit is so remote that the benefit is not reflected as a deferred tax asset. The increase in the valuation allowance from 2016 to 2017 relates to deferred tax assets recorded in certain entities acquired as part of the acquisition of St. Jude Medical. Abbott does not believe that it is more likely than not that the benefits of these deferred tax assets will be realized.

The following table summarizes the gross amounts of unrecognized tax benefits without regard to reduction in tax liabilities or additions to deferred tax assets and liabilities if such unrecognized tax benefits were settled:

(in millions)	2017	2016
January 1	$ 972	$ 1,438
Increase in tax positions due to acquisitions	479	—
Increase due to current year tax positions	187	145
Increase due to prior year tax positions	76	101
Decrease due to prior year tax positions	(176)	(703)
Settlements	(57)	(9)
Lapse of statute	(41)	—
December 31	$ 1,440	$ 972

Abbott Laboratories and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note 16 — Quarterly Results (Unaudited)

(in millions except per share data)	2017	2016
First Quarter		
Continuing Operations:		
Net Sales	$ 6,335	$ 4,885
Gross Profit	2,769	2,601
Earnings from Continuing Operations	386	56
Basic Earnings per Common Share	0.22	0.04
Diluted Earnings per Common Share	0.22	0.04
Net Earnings	419	316
Basic Earnings Per Common Share (a)	0.24	0.21
Diluted Earnings Per Common Share (a)	0.24	0.21
Market Price Per Share-High	45.84	44.05
Market Price Per Share-Low	38.34	36.00
Second Quarter		
Continuing Operations:		
Net Sales	$ 6,637	$ 5,333
Gross Profit	3,072	2,901
Earnings from Continuing Operations	270	599
Basic Earnings per Common Share	0.15	0.40
Diluted Earnings per Common Share	0.15	0.40
Net Earnings	283	615
Basic Earnings Per Common Share (a)	0.16	0.41
Diluted Earnings Per Common Share (a)	0.16	0.41
Market Price Per Share-High	49.59	44.58
Market Price Per Share-Low	42.31	36.76
Third Quarter		
Continuing Operations:		
Net Sales	$ 6,829	$ 5,302
Gross Profit	3,471	2,877
Earnings (Loss) from Continuing Operations	561	(357)
Basic Earnings (Loss) per Common Share	0.32	(0.24)
Diluted Earnings (Loss) per Common Share	0.32	(0.24)
Net Earnings (Loss)	603	(329)
Basic Earnings (Loss) Per Common Share (a)	0.34	(0.22)
Diluted Earnings (Loss) Per Common Share (a)	0.34	(0.22)
Market Price Per Share-High	54.80	45.79
Market Price Per Share-Low	47.83	39.16
Fourth Quarter		
Continuing Operations:		
Net Sales	$ 7,589	$ 5,333
Gross Profit	3,766	2,900
Earnings (Loss) from Continuing Operations	(864)	765
Basic Earnings (Loss) per Common Share	(0.50)	0.51
Diluted Earnings (Loss) per Common Share	(0.50)	0.51
Net Earnings (Loss)	(828)	798
Basic Earnings (Loss) Per Common Share (a)	(0.48)	0.54
Diluted Earnings (Loss) Per Common Share (a)	(0.48)	0.53
Market Price Per Share-High	57.77	43.78
Market Price Per Share-Low	53.20	37.38

(a) The sum of the four quarters of earnings per share for 2017 and 2016 may not add to the full year earnings per share amount due to rounding and/or the use of quarter-to-date weighted average shares to calculate the earnings per share amount in each respective quarter.

AERIE PHARMACEUTICALS, INC.

Consolidated Balance Sheets
(in thousands, except share and per share data)

	DECEMBER 31, 2017	DECEMBER 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 197,569	$ 197,945
Short-term investments	52,086	35,717
Prepaid expenses and other current assets	4,487	4,028
Total current assets	254,142	237,690
Property, plant and equipment, net	31,932	7,857
Other assets	4,202	2,707
Total assets	$ 290,276	$ 248,254
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 6,245	$ 5,610
Accrued expenses and other current liabilities	18,939	13,761
Total current liabilities	25,184	19,371
Convertible notes, net	123,845	123,539
Other non-current liabilities	5,648	—
Total liabilities	154,677	142,910
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock, $0.001 par value; 15,000,000 shares authorized as of December 31, 2017 and December 31, 2016; None issued and outstanding	—	—
Common stock, $0.001 par value; 150,000,000 shares authorized as of December 31, 2017 and December 31, 2016; 36,947,637 and 33,458,607 shares issued and outstanding as of December 31, 2017 and December 31, 2016, respectively	37	33
Additional paid-in capital	597,318	422,002
Accumulated other comprehensive loss	(28)	(68)
Accumulated deficit	(461,728)	(316,623)
Total stockholders' equity	135,599	105,344
Total liabilities and stockholders' equity	$ 290,276	$ 248,254

The accompanying notes are an integral part of these consolidated financial statements.

AERIE PHARMACEUTICALS, INC.

Consolidated Statements of Cash Flows
(in thousands)

	YEAR ENDED DECEMBER 31, 2017	2016	2015
Cash flows from operating activities			
Net loss	$ (145,105)	$ (99,059)	$ (74,363)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	1,410	970	252
Amortization of debt discounts	306	303	305
Amortization and accretion of premium or discount on investments, net	9	525	570
Acquisition of assets expensed to research and development	24,802	—	—
Stock-based compensation	26,078	16,794	12,945
Unrealized foreign exchange loss	601	—	—
Changes in operating assets and liabilities			
Prepaid, current and other assets	(2,239)	(1,852)	(840)
Accounts payable, accrued expenses and other current liabilities	925	2,479	5,385
Net cash used in operating activities	(93,213)	(79,840)	(55,746)
Cash flows from investing activities			
Acquisition of assets from Envisia	(10,500)	—	—
Purchase of available-for-sale investments	(104,490)	(35,169)	(46,872)
Proceeds from sales and maturities of investments	88,153	58,346	59,534
Purchase of property, plant and equipment	(15,970)	(5,077)	(3,280)
Net cash (used in) provided by investing activities	(42,807)	18,100	9,382
Cash flows from financing activities			
Proceeds from sale of common stock, net	134,215	167,383	50,451
Proceeds related to issuance of stock for stock-based compensation arrangements, net	1,429	1,242	1,387
Net cash provided by financing activities	135,644	168,625	51,838
Net change in cash and cash equivalents	(376)	106,885	5,474
Cash and cash equivalents, at beginning of period	197,945	91,060	85,586
Cash and cash equivalents, at end of period	$ 197,569	$ 197,945	$ 91,060
Supplemental disclosures			
Cash paid for interest	$ 2,188	$ 2,192	$ 2,186
Cash paid for income taxes	$ —	$ 1,790	$ 600
Non-cash investing and financing activities:			
Equity issued for Envisia Asset Acquisition	$ 14,302	$ —	$ —
Capital lease obligation	$ 689	$ —	$ —
Deferred costs from the sale of common stock	$ 403	$ 70	$ —
Build-to-suit lease transaction (Note 5)			

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Common Stock Performance Graph

The stock performance information required under this item is incorporated into this Form 10-K by reference to our Proxy Statement for our 2018 Annual Meeting of Stockholders.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Notes thereto in "Item 15, Exhibits, Financial Statement Schedules," and "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report. We derived the selected consolidated financial data from our audited consolidated financial statements.

(in thousands, except per share amounts)	2017	2016	2015	2014	2013
Operating Data:					
Operating revenues[(1)]	$ 226,905	$ 226,866	$ 232,817	$ 314,863	$ 348,924
Net (loss) income attributable to Alaska Communications[(1)]	(6,101)	2,386	12,954	(2,780)	158,471
(Loss) income per share - basic[(1)]	$ (0.12)	$ 0.05	$ 0.26	$ (0.06)	$ 3.37
(Loss) income per share - diluted[(1)]	$ (0.12)	$ 0.05	$ 0.25	$ (0.06)	$ 2.78
Cash dividends declared per share	$ -	$ -	$ -	$ -	$ -
Balance Sheet Data (end of period):					
Total assets[(1)]	$ 442,786	$ 442,360	$ 463,601	$ 730,280	$ 747,320
Long-term debt, including current portion[(2)]	188,862	181,804	193,105	433,968	456,257

(1) Results in 2015 and 2014 were affected by the formation of AWN in 2013 and the sale of Wireless operations in 2015. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 2 "*Sale of Wireless Operations*" and Note 6 "*Equity Method Investments*" in the Notes to Consolidated Financial Statements.

(2) Amounts do not reflect the classification of deferred debt issuance costs as a deduction from debt as presented in the consolidated financial statements. See Note 10 "*Long-Term Obligations*" in the Notes to Consolidated Financial Statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes and the other financial information included elsewhere in this Form 10-K.

OVERVIEW

We are a fiber broadband and managed IT services provider, offering technology and service enabled customer solutions to business and wholesale customers in and out of Alaska. We also provide telecommunication services offering value and exceptional convenience to consumers throughout the state. Our facilities based communications network extends throughout Alaska and connects to the contiguous states via our two diverse undersea fiber optic cable systems. Our network is among the most expansive in Alaska and forms the foundation of service to our customers. We operate in a largely two-player terrestrial wireline market and we estimate our market share to be less than 25% statewide. However, our revenue performance relative to our largest competitor suggests that we are gaining market share in the markets we are serving.

The sections that follow provide information about important aspects of our operations and investments and include discussions of our results of operations, financial condition and sources and uses of cash. In addition, we have highlighted key trends and uncertainties to the extent practicable. The content and organization of the financial and non-financial data presented in these sections are consistent with information we use in evaluating our own performance and allocating our resources.

We operate in a geographically diverse state with unique characteristics. We monitor the state of the economy in general. In doing so, we compare Alaska economic activity with broader economic conditions. In general, we believe that the Alaska telecommunications market, as well as general economic activity in Alaska, is affected by certain economic factors, which include:

- investment activity in the oil and gas markets and the price of crude oil
- tourism levels
- governmental spending and activity of military personnel

Table of Contents

Adjusted EBITDA

Adjusted EBITDA of $56.7 million in 2017 decreased $1.5 million, or 2.6%, from $58.2 million in 2016 due primarily to marginally higher operating expenses, including an increase in the allowance for doubtful accounts associated with rural health accounts in 2017. See “Non-GAAP Financial Measures” for the definition of Adjusted EBITDA and a reconciliation of Adjusted EBITDA to Net (Loss) Income. As discussed in “Non-GAAP Financial Measures,” the Company does not provide a reconciliation of guidance for Adjusted EBITDA to Net (Loss) Income.

Operating Metrics

Business broadband average monthly revenue per user (“ARPU”) of $334.36 in 2017 increased from $322.80 in 2016. Business broadband connections of 15,293 at December 31, 2017, increased marginally from connections of 15,239 at December 31, 2016. We count connections on a unitary basis regardless of the size of the bandwidth. For example, a customer that has a 10MB connection is counted as one connection as is a customer with a 1MB connection. While we present metrics related to Business connections, we note that we manage Business and wholesale in terms of new Monthly Recurring Charges (“MRC”) sold. Achievement of sales performance in terms of MRC is the primary operating metric used by management to measure market performance. For competitive reasons, we do not disclose our sales or performance in MRC.

Consumer broadband connections of 33,904 were down marginally year over year and consumer broadband ARPU of $60.72 in the fourth quarter of 2017 declined marginally from $61.26 in the fourth quarter of 2016.

The table below provides certain key operating metrics as of, or for, the periods indicated.

	2017	2016
Voice		
At December 31:		
Business access lines	71,699	73,977
Consumer access lines	29,262	33,418
For the year ended December 31:		
Voice ARPU business	$ 23.39	$ 23.45
Voice ARPU consumer	$ 29.88	$ 28.71
Broadband		
At December 31:		
Business connections	15,293	15,239
Consumer connections	33,904	34,603
For the year ended December 31:		
ARPU business	$ 334.36	$ 322.80
ARPU consumer	$ 61.24	$ 60.73

Liquidity

We generated cash from operating activities of $30.4 million in 2017 compared with $37.2 million in 2016. This decline was due primarily to an increase in accounts receivable, including those associated with certain rural health care customers.

In 2017, we invested a total of $32.9 million of cash in capital, including capitalized interest and net of the settlement of items accrued in previous periods.

In the first quarter of 2017 we entered into the 2017 Senior Credit Facility and the settled our 2015 Senior Credit Facilities. This transaction extends our senior debt maturities to 2022 and 2023 and provided funding for the tender, repurchase or settlement at maturity of our 6.25% Notes due in 2018. In the second quarter of 2017 we completed the tender offer and settled the 6.25% Notes in an aggregate principal amount of $84.0 million.

Table of Contents

Net debt (defined as total debt excluding debt issuance costs, less cash, cash equivalents and restricted cash held for settlement of the 6.25% Notes) at December 31, 2017 was $177.2 million compared with $162.8 million at December 31, 2016. The increase reflects the utilization of $15.3 million of cash in the settlement of our 2015 Senior Credit Facilities and tender of our 6.25% Notes, delayed cash receipts associated with the rural health care program and other changes in working capital.

Other Initiatives

During 2017 we continued expansion of our product and service offering. We also made significant progress with our managed IT services partnerships, including Microsoft where we are enhancing our cloud solution capabilities. In addition, our North Slope network partner, Quintillion, turned up service this year.

We successfully completed trials of our new fixed wireless technology and expect to use it extensively in meeting our CAF II obligations. We also see application in more urban markets, giving us a competitive network for consumer and small business customers.

We entered into an agreement to procure transponder space in a C-Band satellite. We have traditionally leased capacity from other providers, and this will create significant savings for us beginning in 2018 as we migrate to our own network, while providing additional capacity.

RESULTS OF OPERATIONS

The following tables summarize our results of operations for the years ended December 31, 2017, 2016 and 2015. Revenue information reflects the organization of revenue streams described in “Revenue Sources by Customer Group” above. All amounts are discussed at the consolidated level after the elimination of affiliate revenue and expense. Results in 2015 reflect the sale and wind-down of our Wireless operations beginning in the first quarter.

(in thousands)	2017	2016	2015
Business and Wholesale Revenue			
Business broadband	$ 61,559	$ 59,218	$ 51,058
Business voice and other	26,508	27,903	28,909
Managed IT services	4,293	4,173	3,316
Equipment sales and installations	4,412	6,441	6,274
Wholesale broadband	36,081	31,581	28,126
Wholesale voice and other	6,267	7,539	8,764
Business and Wholesale Revenue	139,120	136,855	126,447
Growth in Business and Wholesale Revenue	1.7%	8.2%	
Consumer revenue			
Broadband	25,441	24,981	25,621
Voice and other	11,676	12,763	14,408
Consumer Revenue	37,117	37,744	40,029
Total Business, Wholesale, and Consumer Revenue	176,237	174,599	166,476
Growth in Business, Wholesale and Consumer Revenue	0.9%	4.9%	
Growth in Broadband Revenue	6.3%	10.5%	
Regulatory Revenue			
Access	30,974	32,412	33,644
High cost support	19,694	19,855	19,682
Total Regulatory Revenue	50,668	52,267	53,326
Total Wireline Revenue	226,905	226,866	219,802
Growth in Wireline Revenue	0.0%	3.2%	
Total Wireless & AWN Related Revenue	-	-	13,015
Total Revenue	$ 226,905	$ 226,866	$ 232,817

	2017	2016	2015
Operating expenses:			
Cost of services and sale (excluding depreciation and amortization), non-affiliates	104,604	102,137	107,162
Cost of services and sale (excluding depreciation and amortization), affiliates	-	-	4,961
Selling, general and administrative	67,227	70,209	88,389
Depreciation and amortization	36,317	34,690	33,867
Loss (gain) on disposal of assets, net	50	321	(46,252)
Earnings from equity method investments	-	-	(3,056)
Total operating expenses	208,198	207,357	185,071
Operating income	18,707	19,509	47,746
Other income and (expense):			
Interest expense	(14,860)	(15,447)	(19,841)
Loss on extinguishment of debt	(7,527)	(336)	(4,878)
Interest income	34	26	58
Total other income and (expense)	(22,353)	(15,757)	(24,661)
(Loss) income before income tax expense	(3,646)	3,752	23,085
Income tax expense	(2,584)	(1,499)	(10,200)
Net (loss) income	(6,230)	2,253	12,885
Less net loss attributable to noncontrolling interest	(129)	(133)	(69)
Net (loss) income attributable to Alaska Communications	$ (6,101)	$ 2,386	$ 12,954

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Operating Revenue

Business and Wholesale

Business and wholesale revenue of $139.1 million increased $2.2 million, or 1.7%, in 2017 from $136.9 million in 2016. This improvement was primarily driven by a $2.3 million increase from new and existing customers buying or increasing their consumption of bandwidth using our advanced network services such as MPLS, dedicated Internet and Enhanced Metro Ethernet. Business broadband ARPU drove overall revenue growth and reflects customer demand for increasing amount of bandwidth. Business broadband ARPU increased to $334.36 in 2017 from $322.80 in 2016, or 3.6%, and Business broadband connections of 15,293 in 2017 increased marginally from 15,239 in 2016. Wholesale broadband revenue increased $4.5 million and Managed IT services revenue increased $0.1 million year over year. These increases were partially offset by a $2.7 million decrease in voice and other revenue due primarily to 4,470 fewer business and wholesale voice connections year over year. Business voice ARPU of $23.39 in 2017 declined marginally compared with $23.45 in 2016. Equipment sales and installations declined $2.0 million year over year. While connections and ARPU serve as data points to support the analysis of period-over-period changes in revenue, they are not critical indicators utilized by the Company to manage the Business and Wholesale customer group.

Consumer

Consumer revenue of $37.1 million decreased $0.6 million, or 1.7%, in 2017 from $37.7 million in 2016. Broadband revenue increased $0.4 million to $25.4 million in 2017 from $25.0 million in 2016 due to an increase in ARPU to $61.24 from $60.73, largely offset by a 699 decline in connections year over year. Voice and other revenue decreased $1.1 million primarily due to 4,156 fewer connections, partially offset by an increase in ARPU to $29.88 from $28.71 in the prior year. The downward trend in voice connections is expected to continue as more customers discontinue using their fixed landline voice service and move to wireless alternatives.

Alaska_Communications_Systems_10k_047.pdf

Table of Contents

Reconciliation of Net Cash Provided by Operating Activities to Adjusted Free Cash Flow and Computation of Adjusted Free Cash Flow

	2017	2016	2015
Net cash provided by operating activities	$ 30,406	$ 37,206	$ 13,314
Adjustments to reconcile net cash provided by operating activities to adjusted free cash flow:			
Capital expenditures excluding acquisition price of North Slope fiber network	(32,945)	(30,920)	(39,914)
Milestone billings for fiber build project for a carrier customer	-	-	7,000
Purchase of North Slope fiber network:			
Acquisition price	-	-	(11,000)
(Paid) less: 50% due in 2016	-	(5,500)	5,500
Proceeds on sale of fiber to joint venture partner	-	2,650	2,650
Other cash proceeds	-	-	400
Amortization of deferred capacity revenue	3,512	3,436	3,011
Amortization of GCI capacity revenue	(2,072)	(2,082)	(2,169)
Amortization of debt issuance costs and debt discount	(2,363)	(4,046)	(4,114)
Interest expense	14,860	15,447	19,841
Interest paid	(14,504)	(12,608)	(16,101)
Interest income	(34)	(26)	(58)
Unrealized gain on ineffective hedge	-	-	737
Amortization of ineffective hedge	-	-	(1,970)
Income tax expense	2,584	1,499	10,200
Income taxes payable	8,052	514	351
Income taxes refunded (paid), net	946	(205)	(4,936)
Deferred income tax expense	(11,582)	(1,855)	(4,883)
Tax deficiencies (benefits) from share-based payments	-	47	(733)
Charge for uncollectible accounts	(3,577)	(378)	(1,258)
Cash distribution from equity method investments	-	-	(3,056)
Long-term cash incentives	-	764	1,781
Pension adjustment	-	-	134
Gift of services	-	-	(388)
Net loss attributable to noncontrolling interest	129	133	69
Wireless sale transaction-related and wind down costs	-	-	13,272
AWN distributions received/receivable, net	-	-	765
Other non-cash expense, net	(575)	(621)	(934)
Changes in operating assets and liabilities	15,300	6,127	3,865
Adjusted free cash flow	$ 8,137	$ 9,582	$ (8,624)
Adjusted EBITDA	$ 56,712	$ 58,247	$ 49,946
Less:			
Capital expenditures excluding acquisition price of North Slope fiber network	(32,945)	(30,920)	(39,914)
Milestone billings for fiber build project for a carrier customer	-	-	7,000
Net capital expenditures	(32,945)	(30,920)	(32,914)
Purchase of North Slope fiber network			
Acquisition price	-	-	(11,000)
(Paid) less: 50% due in 2016	-	(5,500)	5,500
Proceeds on sale of fiber to joint venture partner	-	2,650	2,650
Less: other cash proceeds	-	-	400
Net North Slope purchase	-	(2,850)	(2,450)
Amortization of GCI capacity revenue	(2,072)	(2,082)	(2,169)
Income taxes refunded (paid), net	946	(205)	(4,936)
Interest paid	(14,504)	(12,608)	(16,101)
Adjusted free cash flow	$ 8,137	$ 9,582	$ (8,624)

Table of Contents

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Balance Sheets
December 31, 2017 and 2016
(In Thousands, Except Per Share Amounts)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 4,354	$ 21,228
Restricted cash	11,814	1,917
Accounts receivable, net	32,535	25,062
Materials and supplies	7,046	4,917
Prepayments and other current assets	6,115	5,995
Total current assets	61,864	59,119
Property, plant and equipment	1,357,929	1,349,899
Less: accumulated depreciation and amortization	(991,816)	(983,050)
Property, plant and equipment, net	366,113	366,849
Deferred income taxes	3,394	14,718
Other assets	11,415	1,674
Total assets	$ 442,786	$ 442,360
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term obligations	$ 17,030	$ 1,973
Accounts payable, accrued and other current liabilities	36,148	38,180
Advance billings and customer deposits	4,213	4,167
Total current liabilities	57,391	44,320
Long-term obligations, net of current portion	168,959	177,626
Deferred income taxes	596	-
Other long-term liabilities, net of current portion	61,330	61,538
Total liabilities	288,276	283,484
Commitments and contingencies		
Alaska Communications stockholders' equity:		
Common stock, $0.01 par value; 145,000 authorized; 52,526 and 51,477 issued and outstanding at December 31, 2017 and 2016, respectively	525	515
Additional paid in capital	158,969	159,474
(Accumulated deficit) retained earnings	(3,579)	752
Accumulated other comprehensive loss	(2,396)	(2,910)
Total Alaska Communications stockholders' equity	153,519	157,831
Noncontrolling interest	991	1,045
Total stockholders' equity	154,510	158,876
Total liabilities and stockholders' equity	$ 442,786	$ 442,360

See Notes to Consolidated Financial Statements

Table of Contents

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Consolidated Statements of Comprehensive (Loss) Income
Years Ended December 31, 2017, 2016 and 2015
(In Thousands, Except Per Share Amounts)

	2017	2016	2015
Operating revenues:			
Operating revenues, non-affiliates	$ 226,905	$ 226,866	$ 232,242
Operating revenues, affiliates	-	-	575
Total operating revenues	226,905	226,866	232,817
Operating expenses:			
Cost of services and sales (excluding depreciation and amortization), non-affiliates	104,604	102,137	107,162
Cost of services and sales (excluding depreciation and amortization), affiliates	-	-	4,961
Selling, general and administrative	67,227	70,209	88,389
Depreciation and amortization	36,317	34,690	33,867
Loss (gain) on disposal of assets, net	50	321	(46,252)
Earnings from equity method investments	-	-	(3,056)
Total operating expenses	208,198	207,357	185,071
Operating income	18,707	19,509	47,746
Other income and (expense):			
Interest expense	(14,860)	(15,447)	(19,841)
Loss on extinguishment of debt	(7,527)	(336)	(4,878)
Interest income	34	26	58
Total other income and (expense)	(22,353)	(15,757)	(24,661)
(Loss) income before income tax expense	(3,646)	3,752	23,085
Income tax expense	(2,584)	(1,499)	(10,200)
Net (loss) income	(6,230)	2,253	12,885
Less net loss attributable to noncontrolling interest	(129)	(133)	(69)
Net (loss) income attributable to Alaska Communications	(6,101)	2,386	12,954
Other comprehensive income (loss):			
Minimum pension liability adjustment	404	(294)	(7)
Income tax effect	(167)	118	3
Amortization of defined benefit plan loss	615	662	936
Income tax effect	(252)	(272)	(382)
Interest rate swap marked to fair value	471	(170)	600
Income tax effect	(193)	70	(245)
Reclassification of loss on interest rate swaps	104	106	1,970
Income tax effect	(43)	(44)	(810)
Total other comprehensive income	939	176	2,065
Total comprehensive (loss) income attributable to Alaska Communications	(5,162)	2,562	15,019
Net loss attributable to noncontrolling interest	(129)	(133)	(69)
Total other comprehensive income attributable to noncontrolling interest	-	-	-
Total comprehensive loss attributable to noncontrolling interest	(129)	(133)	(69)
Total comprehensive (loss) income	$ (5,291)	$ 2,429	$ 14,950
Net (loss) income per share attributable to Alaska Communications:			
Basic	$ (0.12)	$ 0.05	$ 0.26
Diluted	$ (0.12)	$ 0.05	$ 0.25
Weighted average shares outstanding:			
Basic	52,232	51,169	50,247
Diluted	52,232	52,188	51,368

See Notes to Consolidated Financial Statements

Table of Contents

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2017, 2016 and 2015
(In Thousands, Except Per Share Amounts)

13. RETIREMENT PLANS (Continued)

The following table presents major categories of plan assets as of December 31, 2017, and inputs and valuation techniques used to measure the fair value of plan assets regarding the ACS Retirement Plan:

	Fair Value Measurement at Reporting Date Using			
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Money market/cash	$ 152	$ 152	$ -	$ -
Equity securities (Investment Funds)*				
International growth	2,165	2,165	-	-
U.S. small cap	1,843	1,843	-	-
U.S. medium cap	1,286	1,286	-	-
U.S. large cap	3,171	3,171	-	-
Debt securities (Investment Funds)*				
Certificate of deposits	2,097	2,097	-	-
Fixed income	1,820	1,820	-	-
Total fair value	$ 12,534	$ 12,534	$ -	$ -

*May include mutual funds comprised of both stocks and bonds.

The benefits expected to be paid in each of the next five years and in the aggregate for the five fiscal years thereafter are as follows:

2018	$	1,083
2019	$	1,071
2020	$	1,076
2021	$	1,080
2022	$	1,069
2023-2027	$	5,122

Post-retirement Health Benefit Plan

The Company has a separate executive post-retirement health benefit plan. On December 31, 2017, the plan was underfunded by $330 with plan assets of $59. The net periodic post-retirement cost for 2017 and 2016 was $15 and $12, respectively.

14. EARNINGS PER SHARE

Earnings per share is based on the weighted average number of shares of common stock and dilutive potential common share equivalents outstanding. Basic earnings per share assumes no dilution and is computed by dividing net income or loss available to Alaska Communications by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. The Company reported a net loss for the year ended December 31, 2017. Therefore, 3,022 potential common share equivalents were anti-dilutive and excluded from the calculation.

ALASKA COMMUNICATIONS SYSTEMS GROUP, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2017, 2016 and 2015
(In Thousands, Except Per Share Amounts)

14. EARNINGS PER SHARE (Continued)

Effective in 2015, the Company discontinued use of the "if converted" method in calculating diluted earnings per share in connection with its contingently convertible debt. The Company's 6.25% Notes are convertible by the holder beginning February 1, 2018 at an initial conversion rate of 97.2668 shares of common stock per one thousand dollars principal amount of the 6.25% Notes. This is equivalent to an initial conversion price of approximately $10.28 per share of common stock. Given that the Company's current share price is well below $10.28, the Company does not anticipate that there will be a conversion of the 6.25% Notes into equity. Effective in the first quarter of 2015, the Company determined that it has the intent and ability to settle the principal and interest payments on its 6.25% Notes in cash over time. This determination was based on (i) the Company's improved liquidity position subsequent to the Wireless Sale, including its performance against the financial ratios defined under the terms of its then in effect 2010 Senior Credit Facility, reduced levels of debt and increased availability under its revolving credit facility; (ii) its intention to refinance its term loan facility to provide additional borrowing flexibility; and (iii) its expectations of future operating performance. The Company settled the Tender Offer to purchase it's outstanding 6.25% Notes for cash on April 17, 2017. See Note 10, "*Long-Term Obligations*." Accordingly, 3,371, 9,220 and 10,809 shares related to the 6.25% Notes were excluded from the calculation of diluted earnings per share for the years ended December 31, 2017, 2016 and 2015, respectively.

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Net (loss) income attributable to Alaska Communications	$ (6,101)	$ 2,386	$ 12,954
Tax-effected interest expense attributable to convertible notes	NA	NA	NA
Net (loss) income attributable to Alaska Communications assuming dilution	$ (6,101)	$ 2,386	$ 12,954
Weighted average common shares outstanding:			
Basic shares	52,232	51,169	50,247
Effect of stock-based compensation	-	1,019	1,121
Effect of 6.25% convertible notes	NA	NA	NA
Diluted shares	52,232	52,188	51,368
(Loss) income per share attributable to Alaska Communications:			
Basic	$ (0.12)	$ 0.05	$ 0.26
Diluted	$ (0.12)	$ 0.05	$ 0.25

15. INCOME TAXES

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act, ("TCJA") was enacted. The TCJA provides for sweeping changes in United States tax rates and tax provisions which will affect the Company as of December 31, 2017 and for periods beginning after January 1, 2018. Effective for years beginning after December 31, 2017, the maximum corporate tax rate will decrease to a flat rate of 21%. This decrease in the tax rate resulted in the remeasurement of existing deferred tax assets and liabilities as of the enactment date and resulted in a decrease to existing net deferred tax assets of $3,851. In addition, the TCJA provides for existing Federal AMT tax credits to be refunded from 2018 through 2021. Accordingly, the Company has reclassified existing AMT tax credits of $8,913 from non-current deferred tax assets to non-current long-term tax receivables. The federal AMT credits have been reduced by $569 related to the applicable budget sequestration rate of 6.6%. The Company has evaluated the TCJA and concluded that all information is available to complete the accounting for the effects of the tax reform.

The Company adopted ASU 2016-09 effective January 1, 2017. As required by ASU 2016-09, the Company recorded a tax deficiency from share-based payments of $67 in the provision for income taxes in the year ended December 31, 2017, which decreased net income by the same amount. A tax deficiency from share-based payments of $47 in the year ended December 31, 2016 was charged to additional paid-in capital in that period. ASU 2016-09 was adopted on a modified retrospective basis and the income tax provision reported for the years ended December 31, 2016 and 2015 were not adjusted for this change. See Note 1 "*Summary of Significant Accounting Policies*" for additional information.

Table of Contents

Item 6. ***Selected Financial Data***

AMERICAN CAPITAL, LTD.

Consolidated Selected Financial Data
(in millions, except per share data)

The selected financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K and notes thereto.

	As of and For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Total operating revenue	$ 671	$ 471	$ 487	$ 646	$ 591
Total operating expenses	293	288	255	263	288
Net operating income before income taxes	378	183	232	383	303
Tax (provision) benefit[1]	(125)	(66)	(76)	14	145
Net operating income ("NOI")	253	117	156	397	448
Loss on extinguishment of debt, net of tax	—	—	—	(3)	—
Net realized (loss) gain, net of tax[1]	(627)	152	(55)	(270)	(310)
Net realized (loss) earnings	(374)	269	101	124	138
Net unrealized appreciation, net of tax[1]	187	165	83	1,012	836
Net (decrease) increase in net assets resulting from operations ("Net (loss) earnings ")	$ (187)	$ 434	$ 184	$ 1,136	$ 974
Per share data:					
NOI:					
Basic	$ 0.95	$ 0.44	$ 0.53	$ 1.24	$ 1.30
Diluted	$ 0.95	$ 0.42	$ 0.51	$ 1.20	$ 1.26
Net (loss) earnings:					
Basic	$ (0.70)	$ 1.62	$ 0.63	$ 3.55	$ 2.83
Diluted	$ (0.70)	$ 1.55	$ 0.61	$ 3.44	$ 2.74
Balance sheet data:					
Total assets	$ 6,244	$ 7,640	$ 6,009	$ 6,319	$ 5,961
Total debt	$ 1,257	$ 1,703	$ 791	$ 775	$ 1,251
Total shareholders' equity	$ 4,822	$ 5,472	$ 5,126	$ 5,429	$ 4,563
NAV per share	$ 19.88	$ 20.50	$ 18.97	$ 17.84	$ 13.87
Other data (unaudited):					
Number of portfolio companies at period end	171	402	132	139	152
New investments[2]	$ 3,305	$ 3,610	$ 1,107	$ 719	$ 317
Realizations[3]	$ 3,721	$ 2,765	$ 1,208	$ 1,498	$ 1,066
Weighted average effective interest rate on debt investments at period end[4]	8.4 %	6.6%	10.0%	11.4%	10.7%
NOI return on average shareholders' equity[5]	4.8 %	2.2%	2.9%	7.7%	10.7%
Net realized (loss) earnings return on average shareholders' equity[5]	(7.1)%	5.1%	1.9%	2.4%	3.3%
Net (loss) earnings return on average shareholders' equity[5]	(3.5)%	8.2%	3.4%	22.1%	23.3%
Assets under management[6]	$ 73,342	$ 86,422	$ 93,210	$ 116,800	$ 68,106
Earning assets under management[7]	$ 20,711	$ 22,107	$ 18,603	$ 18,642	$ 13,496

(1) Beginning in 2011, we were no longer taxed as a RIC under Subchapter M of the Code and instead became subject to taxation as a corporation under Subchapter C of the Code. As a result, we recorded a net deferred tax asset of $428 million in 2011 comprised of a deferred tax benefit of $145 million in NOI, $75 million in net realized (loss) gain and $208 million in net unrealized appreciation.

(2) New investments include amounts as of the investment dates that are committed.

(3) Realizations represent cash proceeds received upon the exit of investments including payment of scheduled principal amortization, debt prepayments, proceeds from loan syndications and sales, payment of accrued PIK notes, and dividends and payments associated with accreted original issue discounts ("OID") and sale of equity and other securities.

Table of Contents

AMERICAN CAPITAL, LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2015	**2014**	**2013**
Operating Revenue			
Interest and dividend income			
Non-Control/Non-Affiliate investments	$ 316	$ 153	$ 162
Affiliate investments	3	(3)	40
Control investments	288	263	221
Total interest and dividend income	607	413	423
Fee income			
Non-Control/Non-Affiliate investments	15	13	11
Affiliate investments	—	3	1
Control investments	49	42	52
Total fee income	64	58	64
Total operating revenue	671	471	487
Operating Expenses			
Interest	79	54	44
Salaries, benefits and stock-based compensation	137	168	156
European Capital management fees	13	5	—
General and administrative	64	61	55
Total operating expenses	293	288	255
Net Operating Income Before Income Taxes	378	183	232
Tax provision	(125)	(66)	(76)
Net Operating Income	253	117	156
Net realized gain (loss)			
Non-Control/Non-Affiliate investments	(308)	39	(52)
Affiliate investments	—	(32)	11
Control investments	(388)	256	(63)
Foreign currency transactions	(18)	(17)	3
Derivative agreements and other	(4)	(41)	(14)
Tax benefit (provision)	91	(53)	60
Total net realized (loss) gain	(627)	152	(55)
Net unrealized appreciation (depreciation)			
Portfolio company investments	211	149	49
Foreign currency translation	27	(74)	52
Derivative agreements and other	67	35	19
Tax (provision) benefit	(118)	55	(37)
Total net unrealized appreciation	187	165	83
Total net (loss) gain	(440)	317	28
Net (Decrease) Increase in Net Assets Resulting from Operations (“Net (Loss) Earnings”)	$ (187)	$ 434	$ 184
Net Operating Income Per Common Share			
Basic	$ 0.95	$ 0.44	$ 0.53
Diluted	$ 0.95	$ 0.42	$ 0.51
Net (Loss) Earnings Per Common Share			
Basic	$ (0.70)	$ 1.62	$ 0.63
Diluted	$ (0.70)	$ 1.55	$ 0.61
Weighted Average Shares of Common Stock Outstanding			
Basic	267.2	268.2	291.6
Diluted	267.2	280.7	303.9

See accompanying notes.

Table of Contents

Item 6. Selected Financial Data.

The following table presents our selected financial data. The table should be read in conjunction with our consolidated financial statements, the notes to the consolidated financial statements, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this report. In November 2014, we elected to change our fiscal year from the period beginning on April 1 and ending on March 31 to the period beginning on January 1 and ending on December 31.

	Year Ended December 31,		Nine Months Ended December 31,	Year Ended March 31,	
	2016	2015	2014	2014	2013
(In thousands except per share amounts)					
Statements of Operations Data:					
Revenue	$ 803,424	$ 768,348	$ 434,002	$ 519,429	$ 450,286
Costs and expenses:					
Cost of services, excluding depreciation and amortization	392,956	392,676	230,769	271,923	237,605
Member relations and marketing	130,028	120,958	81,244	96,298	85,264
General and administrative	126,634	128,669	75,483	74,169	62,185
Depreciation and amortization	77,268	73,134	30,317	31,084	20,108
Impairment of capitalized software	—	8,166	2,086	—	—
Goodwill impairment	—	99,145	—	—	—
Total costs and expenses	726,886	822,748	419,899	473,474	405,162
Operating income (loss)	76,538	(54,400)	14,103	45,955	45,124
Other (expense) income:					
Interest expense	(18,137)	(21,121)	—	—	—
Other (expense) income, net	(2,789)	(6,499)	(1,327)	2,706	2,604
Loss on financing activities	—	(17,398)	—	—	—
Total other (expense) income, net	(20,926)	(45,018)	(1,327)	2,706	2,604
Income (loss) before provision for income taxes and gains (losses) from equity method investments	55,612	(99,418)	12,776	48,661	47,728
Provision for income taxes	(11,040)	(15,200)	(3,530)	(18,737)	(17,899)
Gains (losses) from equity method investments	46,666	(4,396)	(6,540)	(6,051)	(6,756)
Net income (loss) before allocation to noncontrolling interest	91,238	(119,014)	2,706	23,873	23,073
Net (loss) income and accretion to redemption value attributable to noncontrolling interest	—	—	(6,253)	119	108
Net income (loss) attributable to common stockholders	$ 91,238	$ (119,014)	$ (3,547)	$ 23,992	$ 23,181
Earnings per share:					
Net income (loss) attributable to common stockholders per share – basic	$ 2.25	$ (2.84)	$ (0.10)	$ 0.67	$ 0.67
Net income (loss) attributable to common stockholders per share – diluted	$ 2.23	$ (2.84)	$ (0.10)	$ 0.65	$ 0.64
Weighted average number of shares outstanding:					
Basic	40,528	41,888	36,213	35,909	34,723
Diluted	40,871	41,888	36,213	36,959	36,306

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Table of Contents

THE ADVISORY BOARD COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 91,151	$ 71,825
Membership fees receivable, net	605,517	605,444
Prepaid expenses and other current assets	18,965	22,543
Total current assets	715,633	699,812
Construction in progress	63,368	2,700
Property and equipment, net	171,281	180,357
Intangible assets, net	255,053	274,721
Deferred incentive compensation and other charges	72,178	81,181
Goodwill	739,507	738,200
Investments in and advances to unconsolidated entities	19,858	706
Other non-current assets	—	1,800
Total assets	$ 2,036,878	$ 1,979,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Deferred revenue, current	$ 564,237	$ 581,471
Accounts payable and accrued liabilities	67,702	74,879
Accrued incentive compensation	25,521	41,173
Debt, current	49,347	27,743
Total current liabilities	706,807	725,266
Deferred revenue, net of current portion	170,357	173,953
Deferred income taxes	89,013	93,893
Debt, net of current portion	472,739	522,086
Financing obligation	63,368	2,700
Other long-term liabilities	17,550	12,488
Total liabilities	1,519,834	1,530,386
Stockholders' equity:		
Preferred stock, par value $0.01; 5,000,000 shares authorized, zero shares issued and outstanding	—	—
Common stock, par value $0.01; 135,000,000 shares authorized, 40,192,980 and 41,572,523 shares issued and outstanding as of December 31, 2016 and 2015, respectively	402	416
Additional paid-in capital	782,399	744,333
Accumulated deficit	(266,218)	(295,860)
Accumulated other comprehensive income	461	202
Total stockholders' equity	517,044	449,091
Total liabilities and stockholders' equity	$ 2,036,878	$ 1,979,477

The accompanying notes are an integral part of these consolidated balance sheets.

Table of Contents

BROWN & BROWN, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)	December 31, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 573,383	$ 515,646
Restricted cash and investments	250,705	265,637
Short-term investments	24,965	15,048
Premiums, commissions and fees receivable	546,402	502,482
Reinsurance recoverable	477,820	78,083
Prepaid reinsurance premiums	321,017	308,661
Other current assets	47,864	50,571
Total current assets	2,242,156	1,736,128
Fixed assets, net	77,086	75,807
Goodwill	2,716,079	2,675,402
Amortizable intangible assets, net	641,005	707,454
Investments	13,949	23,048
Other assets	57,275	44,895
Total assets	$ 5,747,550	$ 5,262,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Premiums payable to insurance companies	$ 685,163	$ 647,564
Losses and loss adjustment reserve	476,721	78,083
Unearned premiums	321,017	308,661
Premium deposits and credits due customers	91,648	83,765
Accounts payable	64,177	69,595
Accrued expenses and other liabilities	228,748	201,989
Current portion of long-term debt	120,000	55,500
Total current liabilities	1,987,474	1,445,157
Long-term debt less unamortized discount and debt issuance costs	856,141	1,018,372
Deferred income taxes, net	256,185	357,686
Other liabilities	65,051	81,308
Shareholders' Equity:		
Common stock, par value $0.10 per share; authorized 280,000 shares; issued 148,824 shares and outstanding 138,105 shares at 2017, issued 148,107 shares and outstanding 140,104 shares at 2016	14,882	14,811
Additional paid-in capital	497,540	468,443
Treasury stock, at cost 10,719 and 8,003 shares at 2017 and 2016, respectively	(386,322)	(257,683)
Retained earnings	2,456,599	2,134,640
Total shareholders' equity	2,582,699	2,360,211
Total liabilities and shareholders' equity	$ 5,747,550	$ 5,262,734

See accompanying notes to Consolidated Financial Statements.

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Table of Contents

A summary of stock option activity for the years ended December 31, 2017, 2016 and 2015 is as follows:

Stock Options	Shares Under Option		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term *(in years)*		Aggregate Intrinsic Value *(in thousands)*
Outstanding at January 1, 2015	470,356	$	18.57	3.1	$	5,087
Granted	—	$	—			
Exercised	(151,767)	$	18.48			
Forfeited	(49,000)	$	19.36			
Expired	—	$	—			
Outstanding at December 31, 2015	269,589	$	18.48	2.2	$	2,395
Granted	—	$	—			
Exercised	(64,589)	$	18.48			
Forfeited	(30,000)	$	18.48			
Expired	—	$	—			
Outstanding at December 31, 2016	175,000	$	18.48	1.2	$	4,616
Granted	—	$	—			
Exercised	(175,000)	$	18.48			
Forfeited	—	$	—			
Expired	—	$	—			
Outstanding at December 31, 2017	—	$	—	N/A	$	—
Ending vested and expected to vest at December 31, 2017	—	$	—	N/A	$	—
Exercisable at December 31, 2017	—	$	—	N/A	$	—
Exercisable at December 31, 2016	175,000	$	18.48	1.2	$	4,616
Exercisable at December 31, 2015	164,589	$	18.48	2.2	$	2,241

The total intrinsic value of options exercised, determined as of the date of exercise, during the years ended December 31, 2017, 2016 and 2015 was $4.7 million, $1.0 million and $2.2 million, respectively. The total intrinsic value is calculated as the difference between the exercise price of all underlying awards and the quoted market price of the Company's stock for all in-the-money stock options at December 31, 2017, 2016 and 2015, respectively.

There are no option shares available for future grant under the ISOP since this plan expired as of December 31, 2008.

Summary of Non-Cash Stock-Based Compensation Expense

The non-cash stock-based compensation expense for the years ended December 31 is as follows:

(in thousands)		2017		2016		2015
Stock Incentive Plan	$	24,899	$	11,049	$	11,111
Employee Stock Purchase Plan		4,025		3,698		3,430
Performance Stock Plan		1,707		1,305		972
Incentive Stock Option Plan		—		—		—
Total	$	30,631	$	16,052	$	15,513

Summary of Unamortized Compensation Expense

As of December 31, 2017, there was approximately $87.9 million of unamortized compensation expense related to all non-vested stock-based compensation arrangements granted under the Company's stock-based compensation plans. That expense is expected to be recognized over a weighted-average period of 3.62 years.

Table of Contents

Legal Proceedings

The Company records losses for claims in excess of the limits of, or outside the coverage of, applicable insurance at the time and to the extent they are probable and estimable. In accordance with ASC Topic 450-*Contingencies*, the Company accrues anticipated costs of settlement, damages, losses for liability claims and, under certain conditions, costs of defense, based upon historical experience or to the extent specific losses are probable and estimable. Otherwise, the Company expenses these costs as incurred. If the best estimate of a probable loss is a range rather than a specific amount, the Company accrues the amount at the lower end of the range.

The Company's accruals for legal matters that were probable and estimable were not material at December 31, 2017 and 2016. We continue to assess certain litigation and claims to determine the amounts, if any, that management believes will be paid as a result of such claims and litigation and, therefore, additional losses may be accrued and paid in the future, which could adversely impact the Company's operating results, cash flows and overall liquidity. The Company maintains third-party insurance policies to provide coverage for certain legal claims, in an effort to mitigate its overall exposure to unanticipated claims or adverse decisions. However, as (i) one or more of the Company's insurance carriers could take the position that portions of these claims are not covered by the Company's insurance, (ii) to the extent that payments are made to resolve claims and lawsuits, applicable insurance policy limits are eroded and (iii) the claims and lawsuits relating to these matters are continuing to develop, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by unfavorable resolutions of these matters. Based upon the AM Best Company ratings of these third-party insurers, management does not believe there is a substantial risk of an insurer's material non-performance related to any current insured claims.

On the basis of current information, the availability of insurance and legal advice, in management's opinion, the Company is not currently involved in any legal proceedings which, individually or in the aggregate, would have a material adverse effect on its financial condition, operations and/or cash flows.

NOTE 14· Quarterly Operating Results (Unaudited)

Quarterly operating results for 2017 and 2016 were as follows:

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017				
Total revenues	$ 465,080	$ 466,305	$ 475,646	$ 474,316
Total expenses	$ 354,113	$ 358,303	$ 351,227	$ 367,982
Income before income taxes	$ 110,967	$ 108,002	$ 124,419	$ 106,334
Net income	$ 70,110	$ 66,102	$ 75,913	$ 187,505
Net income per share:				
Basic	$ 0.50	$ 0.47	$ 0.54	$ 1.35
Diluted	$ 0.49	$ 0.46	$ 0.53	$ 1.32 (1)
2016				
Total revenues	$ 424,173	$ 446,518	$ 462,274	$ 433,664
Total expenses	$ 321,624	$ 337,441	$ 345,302	$ 338,763
Income before income taxes	$ 102,549	$ 109,077	$ 116,972	$ 94,901
Net income	$ 62,070	$ 66,250	$ 71,545	$ 57,626
Net income per share:				
Basic	$ 0.45	$ 0.47	$ 0.51	$ 0.41
Diluted	$ 0.44	$ 0.47	$ 0.50	$ 0.41

(1) Includes $0.85 impact associated with recording impact of Tax Reform Act.

Quarterly financial results are affected by seasonal variations. The timing of the Company's receipt of profit-sharing contingent commissions, policy renewals and acquisitions may cause revenues, expenses and net income to vary significantly between quarters.

NOTE 15· Segment Information

Brown & Brown's business is divided into four reportable segments: (1) the Retail Segment, which provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers, (2) the National Programs Segment, which acts as a MGA, provides professional liability and related package products for certain professionals, a range of insurance products for individuals, flood coverage, and targeted products and services designated for specific industries, trade groups, governmental

Results of Operations

The table below summarizes certain of the results of operations and period-to-period comparisons attributable to our operations for the periods indicated. These results are presented for illustrative purposes only and are not indicative of our future results. The data reflect our results as they are presented in our consolidated financial statements.

	Year Ended December 31,			Increase / decrease %	
Thousands of dollars, except as indicated	**2016**	**2015**	**2014**	**2016-2015**	**2015-2014**
Total production (MBoe) (a)	18,279	20,180	14,114	(9)%	43 %
Oil (MBbl)	9,504	11,248	7,931	(16)%	42 %
NGLs (MBbl)	1,984	1,953	1,157	2 %	69 %
Natural gas (MMcf)	40,747	41,876	30,159	(3)%	39 %
Average daily production (Boe/d)	49,943	55,288	38,670	(10)%	43 %
Sales volumes (MBoe) (b)	18,474	20,219	13,956	(9)%	45 %
Average realized sales price (per Boe) (c)	$ 27.30	$ 31.80	$ 61.30	(14)%	(48)%
Oil (per Bbl)	38.93	44.46	86.08	(12)%	(48)%
NGLs (per Bbl)	14.97	15.02	35.46	— %	(58)%
Natural gas (per Mcf)	2.38	2.67	4.82	(11)%	(45)%
Oil sales	$ 377,569	$ 504,035	$ 669,355	(25)%	(25)%
NGL sales	29,695	29,336	41,031	1 %	(29)%
Natural gas sales	96,990	111,901	145,434	(13)%	(23)%
Gain (loss) on commodity derivative instruments	(53,091)	438,614	566,533	(112)%	(23)%
Other revenues, net (d)	17,842	24,829	7,616	(28)%	n/a
Total revenues	469,005	1,108,715	1,429,969	(58)%	(22)%
Lease operating expenses including processing fees (e)	303,275	383,827	291,395	(21)%	32 %
Production and property taxes (f)	37,399	51,174	62,071	(27)%	(18)%
Total lease operating expenses	340,674	435,001	353,466	(22)%	23 %
Purchases and other operating costs	9,364	3,056	725	n/a	n/a
Salt water disposal costs	13,911	14,687	2,168	(5)%	n/a
Change in inventory	(23)	2,445	(678)	(101)%	n/a
Total operating costs	$ 363,926	$ 455,189	$ 355,681	(20)%	28 %
Lease operating expenses before taxes per Boe (g)	$ 16.24	$ 19.02	$ 20.65	(15)%	(8)%
Production and property taxes per Boe	2.05	2.54	4.40	(19)%	(42)%
Total lease operating expenses per Boe	$ 18.29	$ 21.56	$ 25.05	(15)%	(14)%
Depletion, depreciation and amortization	$ 318,528	$ 460,047	$ 291,709	(31)%	58 %
DD&A per Boe	$ 17.43	$ 22.80	$ 20.67	(24)%	10 %
Impairment of oil and natural gas properties	283,270	2,377,615	149,000	(88)%	n/a
Impairment of goodwill	—	95,947	—	(100)%	n/a
G&A excluding unit based compensation (h)	$ 69,210	$ 73,537	$ 63,562	(6)%	16 %
G&A excluding unit based compensation per Boe	$ 3.79	$ 3.64	$ 4.50	4 %	(19)%

(a) Natural gas is converted on the basis of six Mcf of gas per one Bbl of oil equivalent. This ratio reflects an energy content equivalency and not a price or revenue equivalency. Given commodity price disparities, the price for a Bbl of oil equivalent for natural gas is significantly less than the price for a Bbl of oil.

(b) Includes 187 MBoe, 62 MBoe and zero MBoe of condensate purchased from third parties during 2016, 2015 and 2014, respectively.

(c) Excludes the effect of commodity derivative settlements.

(d) Includes salt water disposal revenues, gas processing fees, earnings from equity investments and other operating revenues.

(e) Includes district expenses, transportation expenses and processing fees.

(f) Includes ad valorem and severance taxes.

(g) Excludes non-cash unit-based compensation expense of $6.4 million, zero, and zero during 2016, 2015 and 2014.

(h) Excludes non-cash unit-based compensation expense of $17.8 million, $25.5 million, and $23.4 million during 2016, 2015 and 2014.

Breitburn Energy Partners LP and Subsidiaries
(Debtor-in-possession)
Consolidated Statements of Operations

Thousands of dollars, except per unit amounts	Year Ended December 31, 2016	2015	2014
Revenues and other income items:			
Oil, natural gas and natural gas liquid sales	$ 504,254	$ 645,272	$ 855,820
(Loss) gain on commodity derivative instruments, net (note 5)	(53,091)	438,614	566,533
Other revenue, net	17,842	24,829	7,616
Total revenues and other income items	469,005	1,108,715	1,429,969
Operating costs and expenses:			
Operating costs	363,926	455,189	355,681
Depletion, depreciation and amortization	318,528	460,047	291,709
Impairments of oil and natural gas properties (note 7)	283,270	2,377,615	149,000
Impairment of goodwill (note 7)	—	95,947	—
General and administrative expenses	86,988	98,999	86,949
Restructuring costs (note 18)	4,303	6,364	—
(Gain) loss on sale of assets (note 4)	(11,203)	(8,864)	663
Total operating costs and expenses	1,045,812	3,485,297	884,002
Operating (loss) income	(576,807)	(2,376,582)	545,967
Interest expense, net of capitalized interest (note 9)	148,214	203,027	126,960
Loss (gain) on interest rate swaps (note 5)	2,021	2,691	(490)
Other income, net	(357)	(814)	(1,746)
Reorganization items, net (note 2)	91,156	—	—
(Loss) income before taxes	(817,841)	(2,581,486)	421,243
Income tax (benefit) expense	(1,708)	1,527	(73)
Net (loss) income	(816,133)	(2,583,013)	421,316
Less: Net (loss) income attributable to noncontrolling interest	(1,182)	326	(17)
Net (loss) income attributable to the partnership	(814,951)	(2,583,339)	421,333
Less: Distributions to Series A preferred unitholders	6,142	16,500	10,083
Less: Non-cash distributions to Series B preferred unitholders	11,744	20,817	—
Less: Net income attributable to participating units	—	—	5,348
Less: Distributions on participating units in excess of earnings	—	1,731	—
Net (loss) income used to calculate basic and diluted net (loss) income per unit	$ (832,837)	$ (2,622,387)	$ 405,902
Basic net (loss) income per unit (note 14)	$ (3.90)	$ (12.39)	$ 3.04
Diluted net (loss) income per unit (note 14)	$ (3.90)	$ (12.39)	$ 3.02
Weighted average number of units used to calculate basic and diluted net (loss) income per unit (in thousands):			
Basic	213,755	211,575	133,451
Diluted	213,755	211,575	134,206

The accompanying notes are an integral part of these consolidated financial statements.

Entertainment and Communications, continued

(dollars in millions)	2017	2016	$ Change 2017 vs. 2016	% Change 2017 vs. 2016	2015	$ Change 2016 vs. 2015	% Change 2016 vs. 2015
Revenue:							
Data	$ 351.6	$ 344.8	$ 6.8	2 %	$ 322.8	$ 22.0	7 %
Voice	267.3	275.0	(7.7)	(3)%	291.9	(16.9)	(6)%
Video	149.2	125.7	23.5	19 %	96.6	29.1	30 %
Services and Other	21.8	23.3	(1.5)	(6)%	32.4	(9.1)	(28)%
Total revenue	789.9	768.8	21.1	3 %	743.7	25.1	3 %
Operating costs and expenses:							
Cost of services and products	379.3	359.5	19.8	6 %	331.5	28.0	8 %
Selling, general and administrative	138.7	141.6	(2.9)	(2)%	150.9	(9.3)	(6)%
Depreciation and amortization	174.7	168.6	6.1	4 %	129.2	39.4	30 %
Restructuring and severance charges	27.9	7.7	20.2	n/m	1.6	6.1	n/m
Other	4.0	0.8	3.2	n/m	0.6	0.2	33 %
Total operating costs and expenses	724.6	678.2	46.4	7 %	613.8	64.4	10 %
Operating income	$ 65.3	$ 90.6	$ (25.3)	(28)%	$ 129.9	$ (39.3)	(30)%
Operating margin	8.3%	11.8%		(3.5)	17.5%		(5.7)
Capital expenditures	$ 196.4	$ 272.5	$ (76.1)	(28)%	$ 269.5	$ 3.0	1 %
Metrics (in thousands):							
Fioptics units passed	572.2	533.4	38.8	7 %	432.0	101.4	23 %
Internet subscribers:							
DSL	82.1	105.6	(23.5)	(22)%	133.7	(28.1)	(21)%
Fioptics	226.6	197.6	29.0	15 %	153.7	43.9	29 %
Total internet subscribers	308.7	303.2	5.5	2 %	287.4	15.8	5 %
Fioptics video subscribers	146.5	137.6	8.9	6 %	114.4	23.2	20 %
Residential voice lines:							
Legacy	94.9	117.5	(22.6)	(19)%	146.4	(28.9)	(20)%
Fioptics	88.8	83.8	5.0	6 %	71.4	12.4	17 %
Total residential voice lines	183.7	201.3	(17.6)	(9)%	217.8	(16.5)	(8)%
Business voice lines:							
Legacy	167.1	190.7	(23.6)	(12)%	215.4	(24.7)	(11)%
VoIP*	166.0	131.7	34.3	26 %	89.5	42.2	47 %
Total business voice lines	333.1	322.4	10.7	3 %	304.9	17.5	6 %
Total voice lines	516.8	523.7	(6.9)	(1)%	522.7	1.0	0 %
Long distance lines:							
Residential	175.8	187.6	(11.8)	(6)%	199.4	(11.8)	(6)%
Business	117.8	129.7	(11.9)	(9)%	140.3	(10.6)	(8)%
Total long distance lines:	293.6	317.3	(23.7)	(7)%	339.7	(22.4)	(7)%

* VoIP lines include Fioptics voice lines

Revenue

The following table illustrates our revenue by market: Consumer, Business and Carrier. Our products within each market have been classified as either Strategic, Legacy or Integration.

(dollars in millions)	Year ended December 31, 2017	2016	2015
Revenue:			
Consumer			
Strategic			
Data	$ 125.8	$ 103.0	$ 72.7
Voice	24.4	21.7	19.7
Video	146.7	123.6	94.8
Services and other	1.6	3.4	3.7
	298.5	251.7	190.9
Legacy			
Data	34.9	44.2	49.5
Voice	66.3	73.8	86.1
Services and other	3.3	4.1	6.7
	104.5	122.1	142.3
Integration			
Services and other	0.7	3.9	7.7
Total consumer revenue	$ 403.7	$ 377.7	$ 340.9
Business			
Strategic			
Data	$ 100.5	$ 96.5	$ 89.6
Voice	63.3	51.7	42.5
Video	2.5	2.1	1.8
Services and other	2.0	2.5	3.2
	168.3	152.8	137.1
Legacy			
Data	17.1	20.3	23.2
Voice	97.9	111.5	123.6
Services and other	1.1	1.3	1.3
	116.1	133.1	148.1
Integration			
Services and other	1.5	1.8	2.6
Total business revenue	$ 285.9	$ 287.7	$ 287.8
Carrier			
Strategic			
Data	$ 42.8	$ 45.0	$ 37.7
Services and Other	5.4	—	—
	48.2	45.0	37.7
Legacy			
Data	30.5	35.8	50.1
Voice	15.4	16.3	20.0
Services and other	6.2	6.3	7.2
	52.1	58.4	77.3
Total carrier revenue	$ 100.3	$ 103.4	$ 115.0
Total Entertainment and Communications revenue	$ 789.9	$ 768.8	$ 743.7

Cincinnati Bell Inc.
CONSOLIDATED BALANCE SHEETS
(Dollars in millions, except share amounts)

	December 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 17.8	$ 9.7
Restricted cash	378.7	—
Receivables, less allowances of $10.4 and $9.9	239.8	178.6
Inventory, materials and supplies	44.3	22.7
Prepaid expenses	22.2	15.0
Other current assets	7.6	3.9
Total current assets	710.4	229.9
Property, plant and equipment, net	1,129.0	1,085.5
Investment in CyrusOne	—	128.0
Goodwill	151.0	14.3
Intangible assets, net	132.3	—
Deferred income tax assets	19.3	64.5
Other noncurrent assets	20.4	18.8
Total assets	$ 2,162.4	$ 1,541.0
Liabilities and Shareowners' Deficit		
Current liabilities		
Current portion of long-term debt	$ 18.4	$ 7.5
Accounts payable	185.6	105.9
Unearned revenue and customer deposits	36.3	36.3
Accrued taxes	21.2	12.9
Accrued interest	29.9	12.7
Accrued payroll and benefits	28.7	25.7
Other current liabilities	37.2	31.9
Total current liabilities	357.3	232.9
Long-term debt, less current portion	1,729.3	1,199.1
Pension and postretirement benefit obligations	177.5	197.7
Deferred income tax liabilities	11.2	—
Other noncurrent liabilities	30.2	33.0
Total liabilities	2,305.5	1,662.7
Shareowners' deficit		
Preferred stock, 2,357,299 shares authorized; 155,250 shares (3,105,000 depositary shares) of 6 3/4% Cumulative Convertible Preferred Stock issued and outstanding at December 31, 2017 and 2016; liquidation preference $1,000 per share ($50 per depositary share)	129.4	129.4
Common shares, $.01 par value; 96,000,000 shares authorized; 42,197,965 and 42,056,237 shares issued and outstanding at December 31, 2017 and 2016, respectively	0.4	0.4
Additional paid-in capital	2,565.6	2,570.9
Accumulated deficit	(2,664.8)	(2,732.1)
Accumulated other comprehensive loss	(173.7)	(90.3)
Total shareowners' deficit	(143.1)	(121.7)
Total liabilities and shareowners' deficit	$ 2,162.4	$ 1,541.0

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

Life Insurance

Life insurance premium collections (dollars in millions)

	2017	2016	2015
Interest-sensitive life products:			
Bankers Life	$ 162.5	$ 175.0	$ 169.1
Washington National	19.1	18.0	15.6
Colonial Penn	.2	.3	.2
Total interest-sensitive life premium collections	181.8	193.3	184.9
Traditional life:			
Bankers Life	299.9	286.1	276.9
Washington National	10.9	11.4	12.1
Colonial Penn	289.4	277.5	259.7
Total traditional life premium collections	600.2	575.0	548.7
Total life insurance premium collections	$ 782.0	$ 768.3	$ 733.6

Life products include traditional and interest-sensitive life insurance products. These products are currently sold through the Bankers Life, Washington National and Colonial Penn segments. During 2017, we collected life insurance premiums of $782.0 million, or 21 percent, of our total collected premiums.

Interest-Sensitive Life Products. These products include universal life and other interest-sensitive life products that provide life insurance with adjustable rates of return related to current interest rates. They accounted for $181.8 million, or 5 percent, of our total collected premiums in 2017. These products are marketed by independent producers and career agents (including independent producers and career agents specializing in worksite sales). The principal differences between universal life products and other interest-sensitive life products are policy provisions affecting the amount and timing of premium payments. Universal life policyholders may vary the frequency and size of their premium payments, and policy benefits may also fluctuate according to such payments. Premium payments under other interest-sensitive policies may not be varied by the policyholders. Universal life products include fixed index universal life products. The account value of these policies is credited with interest at a guaranteed rate, plus additional interest credits based on changes in a particular index during a specified time period.

Traditional Life. These products accounted for $600.2 million, or 16 percent, of our total collected premiums in 2017. Traditional life policies, including whole life, graded benefit life, term life and single premium whole life products, are marketed through independent producers, career agents and direct response marketing. Under whole life policies, the policyholder generally pays a level premium over an agreed period or the policyholder's lifetime. The annual premium in a whole life policy is generally higher than the premium for comparable term insurance coverage in the early years of the policy's life, but is generally lower than the premium for comparable term insurance coverage in the later years of the policy's life. These policies combine insurance protection with a savings component that gradually increases in amount over the life of the policy. The policyholder may borrow against the savings component generally at a rate of interest lower than that available from other lending sources. The policyholder may also choose to surrender the policy and receive the accumulated cash value rather than continuing the insurance protection. Term life products offer pure insurance protection for life with a guaranteed level premium for a specified period of time - typically 5, 10, 15 or 20 years. In some instances, these products offer an option to return the premium at the end of the guaranteed period.

Traditional life products also include graded benefit life insurance products. Graded benefit life insurance products are offered on an individual basis primarily to persons age 50 to 85, principally in face amounts of $400 to $25,000, without medical examination or evidence of insurability. Premiums are paid as frequently as monthly. Benefits paid are less than the face amount of the policy during the first two years, except in cases of accidental death. Our Colonial Penn segment markets graded benefit life policies under its own brand name using direct response marketing techniques. New policyholder leads are generated primarily from television, print advertisements, direct response mailings and the internet.

Traditional life products also include single premium whole life insurance. This product requires one initial lump sum payment in return for providing life insurance protection for the insured's entire lifetime. Single premium whole life products accounted for $45.4 million of our total collected premiums in 2017.

Table of Contents

Bankers Life (dollars in millions)

	2017	2016	2015
Premium collections:			
Annuities	$ 1,030.6	$ 970.0	$ 803.0
Medicare supplement and other supplemental health	1,213.4	1,235.3	1,242.3
Life	462.4	461.1	446.0
Total collections	$ 2,706.4	$ 2,666.4	$ 2,491.3
Average liabilities for insurance products:			
Fixed index annuities	$ 5,139.6	$ 4,527.8	$ 4,075.5
Fixed interest annuities	2,899.5	3,188.2	3,487.8
SPIAs and supplemental contracts:			
Mortality based	160.5	174.9	189.5
Deposit based	149.0	153.7	153.8
Health:			
Long-term care	4,987.4	4,998.0	4,916.2
Medicare supplement	334.9	336.8	331.0
Other health	55.9	50.3	47.7
Life:			
Interest sensitive	778.2	714.6	643.0
Non-interest sensitive	1,089.9	1,018.0	941.5
Total average liabilities for insurance products, net of reinsurance ceded	$ 15,594.9	$ 15,162.3	$ 14,786.0
Revenues:			
Insurance policy income	$ 1,666.6	$ 1,659.1	$ 1,648.7
Net investment income:			
General account invested assets	953.8	909.5	918.7
Fixed index products	153.5	27.3	(34.0)
Fee revenue and other income	44.1	34.4	27.7
Total revenues	2,818.0	2,630.3	2,561.1
Expenses:			
Insurance policy benefits	1,448.5	1,417.4	1,442.5
Amounts added to policyholder account balances:			
Cost of interest credited to policyholders	105.0	110.8	118.5
Cost of options to fund index credits, net of forfeitures	63.7	66.1	60.3
Market value changes credited to policyholders	154.6	26.3	(32.9)
Amortization related to operations	163.6	176.5	187.1
Interest expense on investment borrowings	19.8	13.2	8.8
Other operating costs and expenses	443.9	422.1	407.2
Total benefits and expenses	2,399.1	2,232.4	2,191.5
Income before net realized investment gains (losses), net of related amortization, and fair value changes in embedded derivative liabilities, net of related amortization, and income taxes	418.9	397.9	369.6
Net realized investment gains (losses)	34.6	(3.2)	(17.2)
Amortization related to net realized investment gains (losses)	(1.0)	(.4)	.5
Net realized investment gains (losses), net of related amortization	33.6	(3.6)	(16.7)
Insurance policy benefits - fair value changes in embedded derivative liabilities	(3.4)	10.7	14.9
Amortization related to fair value changes in embedded derivative liabilities	.7	(1.3)	(3.2)
Fair value changes in embedded derivative liabilities, net of related amortization	(2.7)	9.4	11.7
Income before income taxes	$ 449.8	$ 403.7	$ 364.6

Table of Contents

		2017		2016		2015
Health benefit ratios:						
All health lines:						
Insurance policy benefits	$	1,149.9	$	1,192.3	$	1,205.1
Benefit ratio (a)		93.4%		95.8%		96.3%
Medicare supplement:						
Insurance policy benefits	$	550.6	$	556.2	$	536.1
Benefit ratio (a)		70.8%		71.9%		69.6%
Long-term care:						
Insurance policy benefits	$	599.3	$	636.1	$	669.0
Benefit ratio (a)		132.3%		135.0%		139.2%
Interest-adjusted benefit ratio (b)		71.2%		76.7%		82.8%

(a) We calculate benefit ratios by dividing the related product's insurance policy benefits by insurance policy income.

(b) We calculate the interest-adjusted benefit ratio (a non-GAAP measure) for Bankers Life's long-term care products by dividing such product's insurance policy benefits less the imputed interest income on the accumulated assets backing the insurance liabilities by policy income. These are considered non-GAAP financial measures. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of "interest-adjusted benefit ratios" differ from "benefit ratios" due to the deduction of imputed interest income on the accumulated assets backing the insurance liabilities from the product's insurance policy benefits used to determine the ratio. Interest income is an important factor in measuring the performance of health products that are expected to be inforce for a longer duration of time, are not subject to unilateral changes in provisions (such as non-cancelable or guaranteed renewable contracts) and require the performance of various functions and services (including insurance protection) for an extended period of time. The net cash flows from long-term care products generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases) that will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in benefits will be partially offset by the imputed interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the effects of such interest income offset (which is equal to the tabular interest on the related insurance liabilities). Since interest income is an important factor in measuring the performance of this product, management believes a benefit ratio that includes the effect of interest income is useful in analyzing product performance. We utilize the interest-adjusted benefit ratio in measuring segment performance because we believe that this performance measure is a better indicator of the ongoing businesses and trends in the business. However, the "interest-adjusted benefit ratio" does not replace the "benefit ratio" as a measure of current period benefits to current period insurance policy income. Accordingly, management reviews both "benefit ratios" and "interest-adjusted benefit ratios" when analyzing the financial results attributable to these products. The imputed investment income earned on the accumulated assets backing Bankers Life's long-term care reserves was $276.8 million, $274.7 million and $271.2 million in 2017, 2016 and 2015, respectively.

Total premium collections were $2,706.4 million in 2017, up 1.5 percent from 2016, and $2,666.4 million in 2016, up 7.0 percent from 2015. See "Premium Collections" for further analysis of Bankers Life's premium collections.

Average liabilities for insurance products, net of reinsurance ceded were $15.6 billion in 2017, up 2.9 percent from 2016 and $15.2 billion in 2016, up 2.5 percent from 2015. Such average insurance liabilities for certain long-term care products were increased by $107 million, $184 million and $196 million in 2017, 2016 and 2015, respectively, to reflect the premium deficiencies that would exist if unrealized gains on the assets backing such products had been realized and the proceeds from the sales of such assets were invested at then current yields. Such increase is reflected as a reduction of accumulated other comprehensive income. Excluding the impact of the aforementioned item, the increase in average liabilities for insurance products was primarily due to new sales and the amounts added to policyholder account balances on interest-sensitive products.

Insurance policy income is comprised of premiums earned on policies which provide mortality or morbidity coverage and fees and other charges assessed on other policies.

Table of Contents

Washington National (dollars in millions)

	2017	2016	2015
Premium collections:			
Supplemental health and other health	$ 589.1	$ 567.4	$ 547.0
Medicare supplement	51.6	61.0	72.6
Life	30.0	29.4	27.7
Annuity	.9	1.5	2.4
Total collections	$ 671.6	$ 659.3	$ 649.7
Average liabilities for insurance products:			
Fixed index annuities	$ 314.2	$ 350.2	$ 386.0
Fixed interest annuities	97.9	107.0	119.1
SPIAs and supplemental contracts:			
Mortality based	232.1	248.6	258.4
Deposit based	269.5	267.2	260.5
Separate Accounts	4.7	4.7	5.2
Health:			
Supplemental health	2,732.0	2,604.4	2,494.0
Medicare supplement	24.8	28.3	30.9
Other health	13.5	14.1	15.0
Life:			
Interest sensitive life	149.2	150.3	151.9
Non-interest sensitive life	175.0	179.8	185.9
Total average liabilities for insurance products, net of reinsurance ceded	$ 4,012.9	$ 3,954.6	$ 3,906.9
Revenues:			
Insurance policy income	$ 671.4	$ 655.8	$ 643.8
Net investment income (loss):			
General account invested assets	257.5	256.2	256.0
Fixed index products	9.0	1.9	(2.2)
Trading account income related to policyholder accounts	3.7	1.2	(.2)
Fee revenue and other income	1.0	1.3	1.3
Total revenues	942.6	916.4	898.7
Expenses:			
Insurance policy benefits	550.7	538.2	528.4
Amounts added to policyholder account balances:			
Cost of interest credited to policyholders	12.9	13.8	14.6
Cost of options to fund index credits, net of forfeitures	4.4	5.8	6.3
Market value changes credited to policyholders	13.1	3.9	(2.7)
Amortization related to operations	58.8	59.1	55.2
Interest expense on investment borrowings	6.3	3.7	2.0
Other operating costs and expenses	198.1	189.0	183.4
Total benefits and expenses	844.3	813.5	787.2
Income before net realized investment gains (losses) and fair value changes in embedded derivative liabilities, net of related amortization, and income taxes	98.3	102.9	111.5
Net realized investment gains (losses)	11.7	19.7	(9.6)
Amortization related to net realized investment gains (losses)	—	(.3)	—
Net realized investment gains (losses), net of related amortization	11.7	19.4	(9.6)
Insurance policy benefits - fair value changes in embedded derivative liabilities	.5	.6	.8
Amortization related to fair value changes in embedded derivative liabilities	(.3)	(.4)	(.6)
Fair value changes in embedded derivative liabilities, net of related amortization	.2	.2	.2
Income before income taxes	$ 110.2	$ 122.5	$ 102.1

Table of Contents

	2017	2016	2015
Health benefit ratios:			
Supplemental health:			
Insurance policy benefits	$ 489.8	$ 469.3	$ 455.3
Benefit ratio (a)	83.2%	83.0%	84.0%
Interest-adjusted benefit ratio (b)	59.1%	59.0%	59.6%
Medicare supplement:			
Insurance policy benefits	$ 37.0	$ 42.7	$ 47.9
Benefit ratio (a)	68.1%	68.4%	65.0%

(a) We calculate benefit ratios by dividing the related product's insurance policy benefits by insurance policy income.

(b) We calculate the interest-adjusted benefit ratio (a non-GAAP measure) for Washington National's supplemental health products by dividing such product's insurance policy benefits less the imputed interest income on the accumulated assets backing the insurance liabilities by policy income. These are considered non-GAAP financial measures. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of "interest-adjusted benefit ratios" differ from "benefit ratios" due to the deduction of imputed interest income on the accumulated assets backing the insurance liabilities from the product's insurance policy benefits used to determine the ratio. Interest income is an important factor in measuring the performance of health products that are expected to be inforce for a longer duration of time, are not subject to unilateral changes in provisions (such as non-cancelable or guaranteed renewable contracts) and require the performance of various functions and services (including insurance protection) for an extended period of time. The net cash flows from supplemental health products generally cause an accumulation of amounts in the early years of a policy (accounted for as reserve increases) that will be paid out as benefits in later policy years (accounted for as reserve decreases). Accordingly, as the policies age, the benefit ratio will typically increase, but the increase in benefits will be partially offset by the imputed interest income earned on the accumulated assets. The interest-adjusted benefit ratio reflects the effects of such interest income offset (which is equal to the tabular interest on the related insurance liabilities). Since interest income is an important factor in measuring the performance of these products, management believes a benefit ratio that includes the effect of interest income is useful in analyzing product performance. We utilize the interest-adjusted benefit ratio in measuring segment performance because we believe that this performance measure is a better indicator of the ongoing businesses and trends in the business. However, the "interest-adjusted benefit ratio" does not replace the "benefit ratio" as a measure of current period benefits to current period insurance policy income. Accordingly, management reviews both "benefit ratios" and "interest-adjusted benefit ratios" when analyzing the financial results attributable to these products. The imputed investment income earned on the accumulated assets backing the supplemental health reserves was $141.7 million, $135.6 million and $132.6 million in 2017, 2016 and 2015, respectively.

Total premium collections were $671.6 million in 2017, up 1.9 percent from 2016, and $659.3 million in 2016, up 1.5 percent from 2015, driven by sales and persistency of the segment's supplemental health block; partially offset by lower Medicare supplement collected premiums due to the run-off of this block of business. This segment no longer markets Medicare supplement products and no longer actively pursues sales of annuity products. See "Premium Collections" for further analysis of fluctuations in premiums collected by product.

Average liabilities for insurance products, net of reinsurance ceded were $4,012.9 million in 2017, up 1.5 percent from 2016, and $3,954.6 million in 2016, up 1.2 percent from 2015, reflecting an increase in the supplemental health block; partially offset by the run-off of the annuity blocks.

Insurance policy income is comprised of premiums earned on traditional insurance policies which provide mortality or morbidity coverage and fees and other charges assessed on other policies. Such income increased in recent periods as supplemental health premiums have increased consistent with sales; partially offset by the decrease in Medicare supplement premiums.

Table of Contents

Colonial Penn (dollars in millions)

	2017	2016	2015
Premium collections:			
Life	$ 289.6	$ 277.8	$ 259.9
Medicare supplement and other health	2.0	2.4	3.0
Total collections	$ 291.6	$ 280.2	$ 262.9
Average liabilities for insurance products:			
SPIAs - mortality based	$ 73.0	$ 74.1	$ 73.1
Health:			
Medicare supplement	5.7	6.5	7.7
Other health	4.1	4.2	4.4
Life:			
Interest sensitive	15.5	16.2	16.5
Non-interest sensitive	717.5	689.4	670.1
Total average liabilities for insurance products, net of reinsurance ceded	$ 815.8	$ 790.4	$ 771.8
Revenues:			
Insurance policy income	$ 291.8	$ 281.4	$ 263.5
Net investment income on general account invested assets	44.4	44.2	43.0
Fee revenue and other income	1.3	1.1	1.0
Total revenues	337.5	326.7	307.5
Expenses:			
Insurance policy benefits	199.0	201.2	188.3
Amounts added to annuity and interest-sensitive life product account balances	.6	.7	.7
Amortization related to operations	16.3	15.3	14.4
Interest expense on investment borrowings	.9	.6	.1
Other operating costs and expenses	98.1	107.2	98.4
Total benefits and expenses	314.9	325.0	301.9
Income before net realized investment gains (losses) and income taxes	22.6	1.7	5.6
Net realized investment gains (losses)	—	(.2)	1.2
Income before income taxes	$ 22.6	$ 1.5	$ 6.8

This segment's results are significantly impacted by the accounting standard related to deferred acquisition costs. We are not able to defer most of Colonial Penn's direct response advertising costs although such costs generate predictable sales and future inforce profits. We plan to continue to invest in this segment's business, including the development of new products and markets. The amount of our investment in new business during a particular period will have a significant impact on this segment's results. We expect this segment to report earnings (before net realized investment gains (losses) and income taxes) in 2018 in the range of $10 million to $20 million, but because of the seasonality of advertising spend, we expect a loss in the range of $1 million to $3 million in the first quarter of 2018.

Total premium collections increased 4.1 percent, to $291.6 million, in 2017 and 6.6 percent, to $280.2 million, in 2016. The increase was driven by recent sales activity and steady persistency. See "Premium Collections" for further analysis of Colonial Penn's premium collections.

Average liabilities for insurance products, net of reinsurance ceded have increased as a result of growth in the core graded benefit and simplified issue life insurance block in this segment.

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Table of Contents

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value for the year ended December 31, 2017 (dollars in millions):

	December 31, 2017							
	Beginning balance as of December 31, 2016	Purchases, sales, issuances and settlements, net (b)	Total realized and unrealized gains (losses) included in net income	Total realized and unrealized gains (losses) included in accumulated other comprehensive income (loss)	Transfers into Level 3 (a)	Transfers out of Level 3 (a)	Ending balance as of December 31, 2017	Amount of total gains (losses) for the year ended December 31, 2017 included in our net income relating to assets and liabilities still held as of the reporting date
Assets:								
Fixed maturities, available for sale:								
Corporate securities	$ 258.5	$ (70.4)	$ 5.8	$ 5.3	$ 31.2	$ —	$ 230.4	$ (8.0)
Debt securities issued by foreign governments	3.9	—	—	—	—	—	3.9	—
Asset-backed securities	60.4	(4.3)	—	.7	—	(32.6)	24.2	—
Collateralized debt obligations	5.4	(2.5)	—	—	—	(2.9)	—	—
Commercial mortgage-backed securities	32.0	(1.2)	.1	(.1)	—	(30.8)	—	—
Total fixed maturities, available for sale	360.2	(78.4)	5.9	5.9	31.2	(66.3)	258.5	(8.0)
Equity securities - corporate securities	25.2	(8.5)	6.3	(1.8)	—	—	21.2	—
Investments held by variable interest entities - corporate securities	—	4.9	—	—	—	—	4.9	—
Liabilities:								
Future policy benefits - embedded derivatives associated with fixed index annuity products	(1,092.3)	(267.5)	25.0	—	—	—	(1,334.8)	25.0

Table of Contents

(a) Transfers into Level 3 are the result of unobservable inputs utilized within valuation methodologies for assets that were previously valued using observable inputs. Transfers out of Level 3 are due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company is able to validate.

(b) Purchases, sales, issuances and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily consists of purchases and sales of fixed maturity and equity securities and changes to embedded derivative instruments related to insurance products resulting from the issuance of new contracts, or changes to existing contracts. The following summarizes such activity for the year ended December 31, 2017 (dollars in millions):

	Purchases	Sales	Issuances	Settlements	Purchases, sales, issuances and settlements, net
Assets:					
Fixed maturities, available for sale:					
Corporate securities	$ 76.6	$ (147.0)	$ —	$ —	$ (70.4)
Asset-backed securities	—	(4.3)	—	—	(4.3)
Collateralized debt obligations	—	(2.5)	—	—	(2.5)
Commercial mortgage-backed securities	—	(1.2)	—	—	(1.2)
Total fixed maturities, available for sale	76.6	(155.0)	—	—	(78.4)
Equity securities - corporate securities	—	(8.5)	—	—	(8.5)
Investments held by variable interest entities - corporate securities	8.9	(4.0)	—	—	4.9
Liabilities:					
Future policy benefits - embedded derivatives associated with fixed index annuity products	(178.9)	5.4	(159.3)	65.3	(267.5)

At December 31, 2017, 52 percent of our Level 3 fixed maturities, available for sale, were investment grade and 89 percent of our Level 3 fixed maturities, available for sale, consisted of corporate securities.

Realized and unrealized investment gains and losses presented in the preceding tables represent gains and losses during the time the applicable financial instruments were classified as Level 3.

Realized and unrealized gains (losses) on Level 3 assets are primarily reported in either net investment income for policyholder and other special-purpose portfolios, net realized investment gains (losses) or insurance policy benefits within the consolidated statement of operations or accumulated other comprehensive income within shareholders' equity based on the appropriate accounting treatment for the instrument.

The amount presented for gains (losses) included in our net loss for assets and liabilities still held as of the reporting date primarily represents impairments for fixed maturities, available for sale, changes in fair value of trading securities and certain derivatives and changes in fair value of embedded derivative instruments included in liabilities for insurance products that exist as of the reporting date.

Investment ratings are assigned the second lowest rating by Nationally Recognized Statistical Rating Organizations (Moody's, S&P or Fitch), or if not rated by such firms, the rating assigned by the NAIC. NAIC designations of "1" or "2" include fixed maturities generally rated investment grade (rated "Baa3" or higher by Moody's or rated "BBB-" or higher by

Table of Contents

Comparative data relating to our revenues and operating expenses by equipment type are listed below.

	Year Ended December 31, 2017	2016 (In thousands)	2015
CONTRACT DRILLING REVENUE			
Floaters:			
Ultra-Deepwater	$ 1,090,139	$ 989,158	$ 1,339,059
Deepwater	202,329	256,997	548,667
Mid-Water	137,607	248,846	387,549
Total Floaters	1,430,075	1,495,001	2,275,275
Jack-ups	21,144	30,213	84,909
Total Contract Drilling Revenue	$ 1,451,219	$ 1,525,214	$ 2,360,184
REVENUES RELATED TO REIMBURSABLE EXPENSES	$ 34,527	$ 75,128	$ 59,209
CONTRACT DRILLING EXPENSE			
Floaters:			
Ultra-Deepwater	$ 561,505	$ 494,510	$ 620,122
Deepwater	115,350	148,992	277,779
Mid-Water	69,050	84,194	230,606
Total Floaters	745,905	727,696	1,128,507
Jack-ups	25,428	17,854	65,699
Other	30,631	26,623	33,658
Total Contract Drilling Expense	$ 801,964	$ 772,173	$ 1,227,864
REIMBURSABLE EXPENSES	$ 33,744	$ 58,058	$ 58,050
OPERATING INCOME (LOSS)			
Floaters:			
Ultra-Deepwater	$ 528,634	$ 494,648	$ 718,937
Deepwater	86,979	108,005	270,888
Mid-Water	68,557	164,652	156,943
Total Floaters	684,170	767,305	1,146,768
Jack-ups	(4,284)	12,359	19,210
Other	(30,631)	(26,623)	(33,658)
Reimbursable expenses, net	783	17,070	1,159
Depreciation	(348,695)	(381,760)	(493,162)
General and administrative expense	(74,505)	(63,560)	(66,462)
Bad debt recovery	—	265	—
Impairment of assets	(99,313)	(678,145)	(860,441)
Restructuring and separation costs	(14,146)	—	(9,778)
Gain (loss) on disposition of assets	10,500	(3,795)	2,290
Total Operating Income (Loss)	$ 123,879	$ (356,884)	$ (294,074)
Other income (expense):			
Interest income	2,473	768	3,322
Interest expense	(113,528)	(89,934)	(93,934)
Loss on extinguishment of senior notes	(35,366)	—	—
Foreign currency transaction (loss) gain	(1,128)	(11,522)	2,465
Other, net	2,230	(10,727)	873
(Loss) income before income tax benefit	(21,440)	(468,299)	(381,348)
Income tax benefit	39,786	95,796	107,063
NET INCOME (LOSS)	$ 18,346	$ (372,503)	$ (274,285)

Table of Contents

**DIAMOND OFFSHORE DRILLING, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred Income Taxes. Significant components of our deferred income tax assets and liabilities are as follows:

	December 31, 2017	December 31, 2016
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards, or NOLs	$ 133,298	$ 159,653
Foreign tax credits	27,623	95,145
Worker's compensation and other current accruals	10,330	14,824
Bareboat charter deductions	—	23,353
UK depreciation deduction	52,800	21,222
Anticipatory deductions and credits	13,111	—
Deferred compensation	3,711	4,689
Foreign contribution taxes	3,806	3,857
Stock compensation awards	6,872	11,679
Deferred deductions	94	8,185
Other	3,748	2,526
Total deferred tax assets	255,393	345,133
Valuation allowance	(169,224)	(210,716)
Net deferred tax assets	86,169	134,417
Deferred tax liabilities:		
Property, plant and equipment	(236,038)	(284,480)
Mobilization	(17,192)	(46,274)
Other	(238)	(674)
Total deferred tax liabilities	(253,468)	(331,428)
Net deferred tax liability	$(167,299)	$(197,011)

We record a valuation allowance to derecognize a portion of our deferred tax assets, which we do not expect to be ultimately realized. A summary of changes in the valuation allowance is as follows:

	For the Year Ended December 31, 2017	2016	2015
		(In thousands)	
Valuation allowance as of January 1	$210,716	$146,647	$ 48,036
Establishment of valuation allowances:			
Net operating losses	20,805	10,318	82,155
Foreign tax credits	2,877	62,400	—
Other deferred tax assets	14,213	4,823	27,928
Releases of valuation allowances in various jurisdictions	(79,387)	(13,472)	(11,472)
Valuation allowance as of December 31	$169,224	$210,716	$146,647

Net Operating Loss Carryforwards — As of December 31, 2017, we had recorded a deferred tax asset of $133.3 million for the benefit of NOL carryforwards, $18.1 million related to our U.S. losses and $115.2 million related to our international operations. Approximately $73.5 million of this deferred tax asset relates to NOL carryforwards that have an

EHEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share information)

	December 31, 2016	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 61,781	$ 40,293
Accounts receivable	9,213	9,894
Prepaid expenses and other current assets	5,148	4,845
Total current assets	76,142	55,032
Property and equipment, net	5,608	4,705
Other assets	4,473	7,317
Intangible assets, net	8,580	7,540
Goodwill	14,096	14,096
Total assets	$ 108,899	$ 88,690
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,112	$ 3,246
Accrued compensation and benefits	10,920	15,498
Accrued marketing expenses	7,158	4,088
Deferred revenue	959	385
Other current liabilities	3,775	3,430
Total current liabilities	27,924	26,647
Non-current liabilities	3,374	900
Stockholders' equity:		
Preferred stock: $0.001 par value; Authorized shares: 10,000,000; Issued and outstanding shares: none	—	—
Common stock: $0.001 par value; Authorized shares: 100,000,000; Issued shares: 29,492,141 and 29,879,952 at December 31, 2016 and 2017, respectively; Outstanding shares: 18,356,551 and 18,641,957 at December 31, 2016 and 2017, respectively	29	30
Additional paid-in capital	272,778	281,706
Treasury stock, at cost: 11,135,590 and 11,237,995 shares at December 31, 2016 and 2017, respectively	(199,998)	(199,998)
Retained earnings (accumulated deficit)	4,616	(20,796)
Accumulated other comprehensive income	176	201
Total stockholders' equity	77,601	61,143
Total liabilities and stockholders' equity	$ 108,899	$ 88,690

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Item 6. Selected Financial Data

The following table sets forth the historical selected financial data for the Company for all periods presented. For more information on our historical financial information, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8 "Financial Statements and Supplementary Data." On October 18, 2017, the Company sold the Institutional Trust and Independent Fiduciary business of ETC. See Note 4 to the Company's consolidated financial statements for further information on business changes and developments.

	2017	2016	2015	2014	2013
	(dollars in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA					
Revenues					
Investment Banking Revenue	$ 1,575,168	$ 1,364,098	$ 1,133,860	$ 821,359	$ 666,806
Investment Management Revenue	61,685	75,807	95,129	98,751	95,759
Other Revenue, Including Interest	87,492	16,885	11,259	11,292	16,868
Total Revenues	1,724,345	1,456,790	1,240,248	931,402	779,433
Interest Expense	19,996	16,738	16,975	15,544	14,005
Net Revenues	1,704,349	1,440,052	1,223,273	915,858	765,428
Expenses					
Operating Expenses	1,227,573	1,077,706	946,532	719,474	598,806
Other Expenses	47,965	101,172	148,071	25,437	36,447
Total Expenses	1,275,538	1,178,878	1,094,603	744,911	635,253
Income before Income from Equity Method Investments and Income Taxes	428,811	261,174	128,670	170,947	130,175
Income from Equity Method Investments	8,838	6,641	6,050	5,180	8,326
Income before Income Taxes	437,649	267,815	134,720	176,127	138,501
Provision for Income Taxes	258,442	119,303	77,030	68,756	63,689
Net Income from Continuing Operations	179,207	148,512	57,690	107,371	74,812
Net Income (Loss) from Discontinued Operations	—	—	—	—	(2,790)
Net Income	179,207	148,512	57,690	107,371	72,022
Net Income Attributable to Noncontrolling Interest	53,753	40,984	14,827	20,497	18,760
Net Income Attributable to Evercore Inc.	$ 125,454	$ 107,528	$ 42,863	$ 86,874	$ 53,262
Dividends Declared per Share	$ 1.42	$ 1.27	$ 1.15	$ 1.03	$ 0.91
Diluted Net Income (Loss) Per Share Attributable to Evercore Inc. Common Shareholders:					
From Continuing Operations	$ 2.80	$ 2.43	$ 0.98	$ 2.08	$ 1.42
From Discontinued Operations	—	—	—	—	(0.04)
Net Income Per Share Attributable to Evercore Inc. Common Shareholders	$ 2.80	$ 2.43	$ 0.98	$ 2.08	$ 1.38
STATEMENT OF FINANCIAL CONDITION DATA					
Total Assets	$ 1,584,886	$ 1,662,346	$ 1,479,171	$ 1,446,556	$ 1,180,783
Long-term Liabilities	$ 324,466	$ 415,594	$ 363,906	$ 345,229	$ 296,661
Total Long-term Debt	$ 175,146	$ 184,647	$ 141,800	$ 127,776	$ 103,226
Total Liabilities	$ 788,518	$ 879,015	$ 771,955	$ 730,309	$ 580,820
Noncontrolling Interest	$ 252,404	$ 256,033	$ 202,664	$ 164,966	$ 97,382
Total Equity	$ 796,368	$ 783,331	$ 707,216	$ 712,233	$ 563,158

Investment Management

The following table summarizes the operating results of the Investment Management segment.

	For the Years Ended December 31,			Change	
	2017	2016	2015	2017 v. 2016	2016 v. 2015
			(dollars in thousands)		
Revenues					
Management Fees and Related Income:					
Wealth Management	$ 40,288	$ 36,411	$ 34,659	11%	5%
Institutional Asset Management	6,580	8,014	9,251	(18%)	(13%)
Total Management Fees and Related Income	46,868	44,425	43,910	5%	1%
Private Equity Investments	(915)	8,582	6,325	NM	36%
Subtotal	45,953	53,007	50,235	(13%)	6%
Disposed and Restructured Businesses[(1)]	15,732	22,800	44,894	(31%)	(49%)
Investment Management Revenue[(2)]	61,685	75,807	95,129	(19%)	(20%)
Other Revenue, net[(3)]	8,396	386	(2,771)	NM	NM
Net Revenues	70,081	76,193	92,358	(8%)	(18%)
Expenses					
Operating Expenses	51,646	57,379	77,231	(10%)	(26%)
Other Expenses[(4)]	12,155	9,000	39,332	35%	(77%)
Total Expenses	63,801	66,379	116,563	(4%)	(43%)
Operating Income (Loss)[(5)]	6,280	9,814	(24,205)	(36%)	NM
Income from Equity Method Investments[(6)]	8,561	5,271	5,072	62%	4%
Pre-Tax Income (Loss)	$ 14,841	$ 15,085	$ (19,133)	(2%)	NM

(1) Includes the Institutional Trust and Independent Fiduciary business of ETC, Management Fees from the Glisco funds and Atalanta Sosnoff, which were previously consolidated businesses.
(2) Includes client related expenses of $0.2 million, $0.9 million and $0.07 million for the years ended December 31, 2017, 2016 and 2015, respectively.
(3) Includes interest expense on the Notes Payable and the line of credit of $0.7 million and $3.6 million for the years ended December 31, 2016 and 2015, respectively. Also includes a gain of $7.8 million related to the sale of the Institutional Trust and Independent Fiduciary business of ETC for the year ended December 31, 2017.
(4) Includes an impairment charge related to the impairment of goodwill in the Institutional Asset Management reporting unit of $7.1 million for the year ended December 31, 2017 and an impairment charge related to the impairment of our equity method investment in Atalanta Sosnoff of $8.1 million for the year ended December 31, 2016. Also includes an impairment charge related to the impairment of goodwill in our Institutional Asset Management reporting unit of $28.5 million and charges of $7.1 million related to the restructuring of our investment in Atalanta Sosnoff for the year ended December 31, 2015. Also includes $3.9 million related to the transition of certain employees in conjunction with the sale of the Institutional Trust and Independent Fiduciary business of ETC for the year ended December 31, 2017.
(5) Includes Noncontrolling Interest of $3.2 million, $2.9 million and $4.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.
(6) Equity in G5 - Wealth Management (through December 31, 2017, the date we exchanged all of our outstanding equity interests for debentures of G5), ABS and Atalanta Sosnoff (after its deconsolidation on December 31, 2015) is classified as Income from Equity Method Investments.

Table of Contents

EVERCORE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars and share / unit amounts in thousands, except per share amounts, unless otherwise noted)

	For the Years Ended December 31,		
	2017	2016	2015
Basic Net Income Per Share Attributable to Evercore Inc. Common Shareholders			
Numerator:			
Net income attributable to Evercore Inc. common shareholders	$ 125,454	$ 107,528	$ 42,863
Denominator:			
Weighted average Class A Shares outstanding, including vested RSUs	39,641	39,220	37,161
Basic net income per share attributable to Evercore Inc. common shareholders	$ 3.16	$ 2.74	$ 1.15
Diluted Net Income Per Share Attributable to Evercore Inc. Common Shareholders			
Numerator:			
Net income attributable to Evercore Inc. common shareholders	$ 125,454	$ 107,528	$ 42,863
Noncontrolling interest related to the assumed exchange of LP Units for Class A Shares	(b)	(b)	(b)
Associated corporate taxes related to the assumed elimination of Noncontrolling Interest described above	(b)	(b)	(b)
Diluted net income attributable to Evercore Inc. common shareholders	$ 125,454	$ 107,528	$ 42,863
Denominator:			
Weighted average Class A Shares outstanding, including vested RSUs	39,641	39,220	37,161
Assumed exchange of LP Units for Class A Shares[(a)(b)]	842	—	—
Additional shares of the Company's common stock assumed to be issued pursuant to non-vested RSUs and deferred consideration, as calculated using the Treasury Stock Method	2,719	2,065	2,162
Shares that are contingently issuable[(c)]	1,624	2,908	1,747
Assumed conversion of Warrants issued[(d)]	—	—	2,629
Diluted weighted average Class A Shares outstanding	44,826	44,193	43,699
Diluted net income per share attributable to Evercore Inc. common shareholders	$ 2.80	$ 2.43	$ 0.98

(a) The Company has outstanding Class J LP Units, which convert into Class E LP Units and ultimately become exchangeable into Class A Shares on a one-for-one basis. During the year ended December 31, 2017, the Class J LP Units were dilutive and consequently the effect of their exchange into Class A Shares has been included in the calculation of diluted net income per share attributable to Evercore Inc. common shareholders under the if-converted method. In computing this adjustment, the Company assumes that all Class J LP Units are converted into Class A Shares.

(b) The Company also has outstanding Class A and E LP Units in Evercore LP, which give the holders the right to receive Class A Shares upon exchange on a one-for-one basis. During the years ended December 31, 2017, 2016 and 2015, the Class A and E LP Units were antidilutive and consequently the effect of their exchange into Class A Shares has been excluded from the calculation of diluted net income per share attributable to Evercore Inc. common shareholders. The units that would have been included in the denominator of the computation of diluted net income per share attributable to Evercore Inc. common shareholders if the effect would have been dilutive were 5,920, 6,397 and 6,606 for the years ended December 31, 2017, 2016 and 2015, respectively. The adjustment to the numerator, diluted net income attributable to Class A common shareholders, if the effect would have been dilutive, would have been $28,186, $18,196 and $7,697 for the years ended December 31, 2017, 2016 and 2015, respectively. In computing this adjustment, the Company assumes that all vested Class A LP Units and all Class E LP Units are converted into Class A Shares, that all earnings attributable to those shares are attributed to Evercore Inc. and, that it has adopted a conventional corporate tax structure and is taxed as a C

Part II

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

Federated's Class B common stock is traded on the NYSE under the symbol FII. The following table summarizes quarterly high and low trading stock prices and quarterly dividends per common share for 2017 and 2016.

	March 31,	June 30,	September 30,	December 31,
2017				
Stock price per share				
High	$ 29.17	$ 28.32	$ 30.03	$ 36.67
Low	$ 24.93	$ 25.24	$ 26.42	$ 29.66
Cash dividends per share	$ 0.25	$ 0.25	$ 0.25	$ 0.25
2016				
Stock price per share				
High	$ 29.16	$ 32.81	$ 33.13	$ 29.96
Low	$ 22.76	$ 26.60	$ 27.69	$ 24.52
Cash dividends per share[1]	$ 0.25	$ 0.25	$ 0.25	$ 1.25

1 *For the quarter ended December 31, 2016, Federated paid $1.00 per share as a special cash dividend and a $0.25 per share regular dividend. All dividends were considered ordinary dividends for tax purposes.*

The approximate number of beneficial shareholders of Federated's Class A and Class B common stock as of February 6, 2018, was 1 and 36,759, respectively. See Item 1A - Risk Factors under the caption Federated's Status as a "Controlled Company" for additional information on Federated's Class A common stock.

The following table summarizes stock repurchases under Federated's share repurchase program during the fourth quarter of 2017.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Program[1]
October[2]	1,000	$ 3.00	0	2,319,308
November[2]	145,665	30.80	145,000	2,174,308
December[2]	50,572	2.90	0	2,174,308
Total	197,237	$ 23.51	145,000	2,174,308

1 *In October 2016, the board of directors authorized a share repurchase program that allows Federated to buy back up to 4.0 million shares of Federated Class B common stock with no stated expiration date. No other programs existed as of December 31, 2017. See Note (12) to the Consolidated Financial Statements for additional information on this program.*

2 *In October, November and December 2017, 1,000 shares, 665 shares and 50,572 shares, respectively, of Federated Class B restricted stock with weighted-average prices of $3.00 per share, $0.00 per share and $2.90 per share, respectively, were repurchased as certain employees forfeited restricted stock.*

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Asset Highlights

Managed Assets at Period End

in millions as of December 31,		2017		2016	2017 vs. 2016
By Asset Class					
Money market	**$**	**265,214**	$	252,213	5 %
Equity		**68,139**		62,381	9
Fixed-income		**64,217**		51,314	25
Total managed assets	**$**	**397,570**	$	365,908	9 %
By Product Type					
Funds:					
Money market	**$**	**185,536**	$	206,411	(10)%
Equity		**38,101**		36,231	5
Fixed-income		**41,200**		39,434	4
Total fund assets		**264,837**		282,076	(6)
Separate Accounts:					
Money market	**$**	**79,678**	$	45,802	74 %
Equity		**30,038**		26,150	15
Fixed-income		**23,017**		11,880	94
Total separate account assets		**132,733**		83,832	58
Total managed assets	**$**	**397,570**	$	365,908	9 %

Average Managed Assets

in millions for the years ended December 31,		2017		2016		2015	2017 vs. 2016	2016 vs. 2015
By Asset Class								
Money market	**$**	**245,459**	$	252,346	$	246,539	(3)%	2 %
Equity		**65,693**		59,431		54,149	11	10
Fixed-income		**55,269**		51,161		52,805	8	(3)
Total average managed assets	**$**	**366,421**	$	362,938	$	353,493	1 %	3 %
By Product Type								
Funds:								
Money market	**$**	**176,580**	$	213,906	$	213,694	(17)%	0 %
Equity		**37,377**		35,846		35,017	4	2
Fixed-income		**40,741**		38,772		39,973	5	(3)
Total average fund assets		**254,698**		288,524		288,684	(12)	0
Separate Accounts:								
Money market	**$**	**68,879**	$	38,440	$	32,845	79 %	17 %
Equity		**28,316**		23,585		19,132	20	23
Fixed-income		**14,528**		12,389		12,832	17	(3)
Total average separate account assets		**111,723**		74,414		64,809	50	15
Total average managed assets	**$**	**366,421**	$	362,938	$	353,493	1 %	3 %

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Changes in Equity Fund and Separate Account Assets

in millions for the years ended December 31,	**2017**	2016
Equity Funds		
Beginning assets	**$ 36,231**	$ 34,125
Sales	**5,764**	11,617
Redemptions	**(9,589)**	(11,159)
Net (redemptions) sales	**(3,825)**	458
Net exchanges	**(38)**	(41)
Acquisition-related	**287**	0
Market gains and losses[1]	**5,446**	1,689
Ending assets	**$ 38,101**	$ 36,231
Equity Separate Accounts		
Beginning assets	**$ 26,150**	$ 19,431
Sales[2]	**6,447**	10,773
Redemptions[2]	**(6,617)**	(5,469)
Net (redemptions) sales[2]	**(170)**	5,304
Market gains and losses[1]	**4,058**	1,415
Ending assets	**$ 30,038**	$ 26,150
Total Equity Assets		
Beginning assets	**$ 62,381**	$ 53,556
Sales[2]	**12,211**	22,390
Redemptions[2]	**(16,206)**	(16,628)
Net (redemptions) sales[2]	**(3,995)**	5,762
Net exchanges	**(38)**	(41)
Acquisition-related	**287**	0
Market gains and losses[1]	**9,504**	3,104
Ending assets	**$ 68,139**	$ 62,381

1 *Reflects the approximate changes in the fair value of the securities held by the portfolios and, to a lesser extent, reinvested dividends, distributions, net investment income and the impact of changes in foreign exchange rates.*

2 *For certain accounts, Sales and Redemptions are calculated as the remaining difference between beginning and ending assets after the calculation of total investment return.*

Changes in Federated's average asset mix year-over-year across both asset classes and product types have a direct impact on Federated's operating income. Asset mix impacts Federated's total revenue due to the difference in the fee rates earned on each asset class and product type per invested dollar and certain components of distribution expense can vary depending upon the asset class, distribution channel and/or the size of the customer relationship. The following table presents the relative composition of average managed assets and the percent of total revenue derived from each asset class and product type over the last three years:

	Percent of Total Average Managed Assets			Percent of Total Revenue		
	2017	2016	2015	**2017**	2016	2015
By Asset Class						
Money market assets	**67%**	70%	70%	**41%**	45%	33%
Equity assets	**18%**	16%	15%	**42%**	38%	46%
Fixed-income assets	**15%**	14%	15%	**17%**	17%	21%
By Product Type						
Funds:						
Money market assets	**48%**	59%	61%	**38%**	44%	32%
Equity assets	**10%**	10%	10%	**34%**	31%	38%
Fixed-income assets	**11%**	11%	11%	**15%**	15%	19%
Separate Accounts:						
Money market assets	**19%**	11%	9%	**3%**	1%	1%
Equity assets	**8%**	6%	5%	**8%**	7%	8%
Fixed-income assets	**4%**	3%	4%	**2%**	2%	2%

Total managed assets represent the balance of AUM at a point in time. By contrast, total average managed assets represent the average balance of AUM during a period of time. Because substantially all revenue and certain components of distribution expense are generally calculated daily based on AUM, changes in average managed assets are typically a key indicator of changes in revenue earned and asset-based expenses incurred during the same period.

Period-end and average managed assets increased 9% and 1%, respectively, for the year ended December 31, 2017 compared to the year ended December 31, 2016. Period-end money market assets increased 5% at December 31, 2017 as compared to December 31, 2016. Average money market assets decreased 3% for 2017 compared to 2016. After raising its target funds rate three times in 2017, the FOMC signaled three additional increases are likely in 2018. It also moved to begin its very modest plan to start shrinking the Federal Reserve's balance sheet. Period-end equity assets increased 9% at December 31, 2017 as compared to December 31, 2016 primarily due to market appreciation, partially offset by net redemptions. Average equity assets increased 11% for 2017 as compared to 2016. Period-end fixed-income assets increased 25% at December 31, 2017 as compared to December 31, 2016, primarily as a result of net sales and, to a lesser extent, market appreciation, while average fixed-income assets increased 8% for 2017 as compared to 2016. Equity markets, as measured by the major indexes, continued to set a series of new highs in 2017's final quarter, driven by improved earnings, accelerating economic growth and expectations for tax reform legislation that ultimately was approved and signed into law in late December. The bond market saw Treasury yields trend modestly higher over the same three-month period, driven by stronger growth, hints of higher inflation and a general risk-on environment.

Total average managed assets increased 3% for the year ended December 31, 2016 compared to the year ended December 31, 2015. Period-end money market assets decreased 2% at December 31, 2016 as compared to December 31, 2015. Average money market assets increased 2% for 2016 compared to 2015. After indicating as many as four short-term interest rate increases may occur in 2016, Federal Reserve policymakers held back, with the FOMC raising the federal funds target rate only once at December's meeting to a still accommodative range of 0.50% to 0.75%. Period-end equity assets increased 16% at December 31, 2016 as compared to December 31, 2015 primarily due to net sales and, to a lesser extent, market appreciation. Average equity assets increased 10% for 2016 as compared to 2015. Period-end fixed-income assets increased slightly at December 31, 2016 as compared to December 31, 2015 primarily as a result of market appreciation being nearly completely offset by net redemptions, while average fixed-income assets decreased 3% for 2016 as compared to 2015. During 2016, both equity and fixed-income assets reflected a somewhat volatile year that began with concerns about China and plunging oil prices and ended with the election of Donald Trump as U.S. President. In between, concerns about China faded, oil prices and the U.S. economy rebounded, and the British delivered another unexpected political outcome, voting in favor of the UK exiting the EU.

(a) Fair Value Measurements on a Recurring Basis

The following table presents fair value measurements for classes of Federated's financial assets and liabilities measured at fair value on a recurring basis at December 31:

in thousands	Level 1	Level 2	Level 3	NAV Practical Expedient	Total
2017					
Financial Assets					
Cash and cash equivalents	**$ 205,364**	**$ 0**	**$ 0**	**$ 110,900**	**$ 316,264**
Available-for-sale equity securities	**1,406**	**0**	**0**	**173**	**1,579**
Trading securities—equity	**8,582**	**746**	**0**	**129**	**9,457**
Trading securities—debt	**0**	**42,238**	**0**	**0**	**42,238**
Other[1]	**123**	**357**	**760**	**0**	**1,240**
Total financial assets	**$ 215,475**	**$ 43,341**	**$ 760**	**$ 111,202**	**$ 370,778**
Total financial liabilities[2]	**$ 0**	**$ 0**	**$ 1,203**	**$ 0**	**$ 1,203**
2016					
Financial Assets					
Cash and cash equivalents	$ 54,725	$ 0	$ 0	$ 50,114	$ 104,839
Available-for-sale equity securities	103,996	0	0	26,789	130,785
Trading securities—equity	13,866	0	0	6,193	20,059
Trading securities—debt	0	45,466	0	0	45,466
Other[1]	19	0	840	0	859
Total financial assets	$ 172,606	$ 45,466	$ 840	$ 83,096	$ 302,008
Total financial liabilities[2]	$ 2	$ 358	$ 1,931	$ 0	$ 2,291

1 *Amounts include structured trade finance loans held by Federated as well as futures contracts and/or foreign currency forward contracts held within certain consolidated Federated Funds.*

2 *Amounts include acquisition-related future consideration liabilities as well as certain liabilities attributable to structured trade finance loans held by Federated and may include foreign currency forward contracts and/or futures contracts held within certain consolidated Federated Funds.*

The following is a description of the valuation methodologies used for financial assets and liabilities measured at fair value on a recurring basis. Federated did not hold any nonfinancial assets or liabilities measured at fair value on a recurring basis at December 31, 2017 or 2016.

Cash and cash equivalents

Cash and cash equivalents include investments in money market funds and deposits with banks. Investments in money market Federated Funds totaled $309.1 million and $96.7 million at December 31, 2017 and 2016, respectively. Cash investments in publicly available money market funds are valued under the market approach through the use of quoted market prices in an active market, which is the NAV of the funds, and are classified within Level 1 of the valuation hierarchy. For an investment in a money market fund that is not publicly available but for which the NAV is calculated daily and for which there are no redemption restrictions, the security is valued using NAV as a practical expedient and is excluded from the fair value hierarchy. This investment is included in the NAV Practical Expedient column in the table above.

Available-for-sale equity securities

Available-for-sale equity securities include investments in fluctuating-value Federated Funds and are included in Investments—affiliates on the Consolidated Balance Sheets. For investments in Federated Funds that are publicly available, the securities are valued under the market approach through the use of quoted market prices available in an active market, which is the NAV of the funds, and are classified within Level 1 of the valuation hierarchy. For certain investments in Federated Funds that are not publicly available but for which the NAV is calculated daily and for which there are no redemption restrictions, the securities are valued using NAV as a practical expedient and are excluded from the fair value hierarchy. These investments are included in the NAV Practical Expedient column in the table above.

Table of Contents

AUM at September 30, 2016 decreased 5% from September 30, 2015 as $62.4 billion of net outflows was partially offset by $24.8 billion of net market change and other, which consists of $52.6 billion of market appreciation and other, net of $27.8 billion of long-term distributions. Average AUM decreased 14% during fiscal year 2016.

Average AUM is generally more indicative of trends in revenue for providing investment management services than the year-over-year change in ending AUM.

Average AUM and the mix of average AUM by investment objective are shown below.

(in billions)	Average AUM				
for the fiscal years ended September 30,	**2017**	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Equity					
Global/international	$ 203.7	$ 205.1	$ 247.5	(1%)	(17%)
United States	104.4	101.1	112.4	3%	(10%)
Total equity	308.1	306.2	359.9	1%	(15%)
Multi-Asset/Balanced	140.2	135.5	155.3	3%	(13%)
Fixed Income					
Tax-free	72.3	74.0	73.1	(2%)	1%
Taxable					
Global/international	157.8	172.6	211.7	(9%)	(18%)
United States	52.3	54.5	62.4	(4%)	(13%)
Total fixed income	282.4	301.1	347.2	(6%)	(13%)
Cash Management	6.2	6.5	7.1	(5%)	(8%)
Total	**$ 736.9**	**$ 749.3**	**$ 869.5**	**(2%)**	**(14%)**

	Mix of Average AUM		
for the fiscal years ended September 30,	**2017**	**2016**	**2015**
Equity			
Global/international	28%	27%	28%
United States	14%	14%	13%
Total equity	42%	41%	41%
Multi-Asset/Balanced	19%	18%	18%
Fixed Income			
Tax-free	10%	10%	9%
Taxable			
Global/international	21%	23%	24%
United States	7%	7%	7%
Total fixed income	38%	40%	40%
Cash Management	1%	1%	1%
Total	**100%**	**100%**	**100%**

Table of Contents

Investment Management Fees

Investment management fees are generally calculated under contractual arrangements with our SIPs and the products for which we provide sub-advisory services as a percentage of the market value of AUM. Annual rates vary by investment objective and type of services provided. Rates for products sold outside of the U.S. are generally higher than for U.S. products because they are structured to compensate for certain distribution costs.

Investment management fees decreased $112.5 million in fiscal year 2017 primarily due to a 2% decrease in average AUM and the impact of a lower effective fee rate, partially offset by higher performance fees. Investment management fees decreased $856.1 million in fiscal year 2016 primarily due to a 14% decrease in average AUM and the impact of a lower effective fee rate. The decrease in average AUM in fiscal year 2017 occurred primarily in the global/international fixed income investment objective, and across all sales regions except Asia-Pacific. The decrease in average AUM in fiscal year 2016 occurred in all sales regions and primarily in the global/international and multi-asset/balanced investment objectives.

Our effective investment management fee rate (investment management fees divided by average AUM) was 59.2, 59.7 and 61.3 basis points for fiscal years 2017, 2016 and 2015. The rate decrease in fiscal year 2017 was primarily due to higher weightings of AUM in lower fee products in the global/international fixed income investment objective in the Europe, Middle East and Africa and Asia-Pacific sales regions, partially offset by higher performance fees. The rate decrease in fiscal year 2016 was primarily due to higher weightings of AUM in U.S. products and in lower fee products in global/international investment objectives in the Europe, Middle East and Africa and Asia-Pacific sales regions, partially offset by higher performance fees.

Performance-based investment management fees were $35.5 million, $26.5 million and $19.8 million for fiscal years 2017, 2016 and 2015. The increases in fiscal years 2017 and 2016 were primarily due to performance fees earned from separately-managed accounts.

U.S. industry asset-weighted average management fee rates were as follows:

(in basis points)	**Industry Average [1]**		
for the fiscal years ended September 30,	**2017**	**2016**	**2015**
Equity			
Global/international [2]	50	53	55
United States	35	37	39
Multi-Asset/Balanced	49	50	52
Fixed Income			
Tax-free	33	35	35
Taxable			
Global/international [3]	39	43	46
United States	31	33	35
Cash Management	15	10	9

1 U.S. industry asset-weighted average management fee rates were calculated using information available from Lipper, a Thomson Reuters Company, as of September 30, 2017, 2016 and 2015 and include all U.S.-registered open-end funds that reported expense data to Lipper as of the funds' most recent annual report date, and for which expenses were equal to or greater than zero. As defined by Lipper, management fees include fees from providing advisory and fund administration services. The averages combine retail and institutional funds data and include all share classes and distribution channels, without exception. Variable annuity and fund of fund products are not included.

2 The decreases in the average rate in fiscal years 2017 and 2016 reflect higher weightings of two large low fee funds.

3 The decreases in the average rate in fiscal years 2017 and 2016 reflect higher weightings of a large low fee fund and lower weightings of two large higher fee funds.

Our actual effective investment management fee rates are generally higher than the U.S. industry average rates as we actively manage our products and have a higher level of international AUM, both of which generate higher fees. Our effective investment management fee rates in the U.S. decreased during fiscal years 2017 and 2016, but to a lesser extent than the average industry rates.

GASTAR EXPLORATION INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2017	2016	2015
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (46,755)	$ (89,061)	$ (459,507)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation, depletion and amortization	24,015	29,673	62,887
Impairment of natural gas and oil properties	—	48,497	426,878
Stock-based compensation	5,921	3,918	4,981
Mark to market of commodity derivatives contracts:			
Total loss (gain) on commodity derivatives contracts	4,457	2,863	(24,589)
Cash settlements of matured commodity derivative contracts, net	8,181	13,110	24,910
Cash premiums paid for commodity derivatives contracts	(1,418)	(565)	(45)
Amortization of deferred financing costs and debt discount	10,977	4,980	3,584
Paid-in-kind interest	6,599	—	—
Accretion of asset retirement obligation	237	368	502
Settlement of asset retirement obligation	—	(307)	(83)
Loss on sale of furniture and equipment	—	97	—
Loss on early extinguishment of debt	12,172	—	
Changes in operating assets and liabilities:			
Accounts receivable	(12,345)	(14,850)	19,333
Prepaid expenses	(205)	4,301	(2,973)
Accounts payable and accrued liabilities	8,226	3,713	(4,606)
Net cash provided by operating activities	20,062	6,737	51,272
CASH FLOWS FROM INVESTING ACTIVITIES:			
Development and purchase of oil and natural gas properties	(107,748)	(59,922)	(148,182)
(Acquisition of) refund for oil and natural gas properties	(54,496)	1,143	(45,575)
Proceeds from sale of oil and natural gas properties	28,781	121,273	47,314
(Application) receipt of proceeds from non-operators	(2,059)	3,337	(1,653)
(Advances to) reimbursements from operators	(44)	576	(2,302)
(Purchase) sale of furniture and equipment	(1,216)	73	(58)
Net cash (used in) provided by investing activities	(136,782)	66,480	(150,456)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from term loan	250,000	—	—
Proceeds from convertible notes	200,000	—	—
Repayment of senior secured notes	(325,000)	—	—
Proceeds from revolving credit facility	—	—	196,000
Repayment of revolving credit facility	(84,630)	(115,370)	(41,000)
Loss on early extinguishment of debt	(7,011)	—	—
Proceeds from issuance of common stock, net of issuance costs	56,366	69,224	—
Dividends paid on preferred stock	(19,298)	(3,618)	(14,473)
Deferred financing charges	(11,011)	(1,285)	(805)
Increase in restricted cash	(370)	—	—
Tax withholding related to restricted stock and PBU vestings	(589)	(713)	(1,472)
Net cash provided by (used in) financing activities	58,457	(51,762)	138,250
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(58,263)	21,455	39,066
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	71,529	50,074	11,008
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,266	$ 71,529	$ 50,074

The accompanying notes are an integral part of these consolidated financial statements.

GenCorp Inc.
Consolidated Statements of Cash Flows

	Year Ended 2014	2013	2012
		(In millions)	
Operating Activities			
Net (loss) income	$ (53.0)	$ 167.9	$ (2.6)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Loss (income) from discontinued operations, net of income taxes	0.7	(0.2)	(3.1)
Depreciation and amortization	63.7	43.8	22.3
Amortization of financing costs	3.6	4.5	2.9
Stock-based compensation	5.7	14.1	6.5
Retirement benefit expense	35.6	65.0	41.0
Loss on debt repurchased/redeemed	60.6	5.0	0.4
Loss on bank amendment	0.2	—	—
Loss on disposal of long-lived assets	2.8	—	—
Gain on sale of technology	(6.8)	—	—
Tax benefit on stock-based awards	(1.5)	—	(3.3)
Changes in assets and liabilities, net of effects from acquisition:			
Accounts receivable	41.0	(37.6)	(4.5)
Inventories	(33.9)	(25.5)	2.6
Other current assets, net	(12.8)	0.1	0.6
Income tax receivable	11.1	(12.6)	6.5
Real estate held for entitlement and leasing	(15.0)	(4.4)	(3.9)
Receivable from Northrop	(2.8)	(2.7)	(3.0)
Recoverable from the U.S. government and other third parties for environmental remediation costs	8.5	21.1	7.5
Other noncurrent assets	(24.3)	(7.8)	3.2
Accounts payable	(19.0)	50.1	22.3
Retirement benefits	(5.3)	(5.4)	(5.1)
Advance payments on contracts	94.1	(43.9)	(8.4)
Other current liabilities	22.0	56.8	4.7
Deferred income taxes	(18.1)	(191.3)	4.0
Reserves for environmental remediation costs	(5.3)	(18.2)	(1.1)
Other noncurrent liabilities and other	0.7	(1.1)	(1.2)
Net cash provided by continuing operations	152.5	77.7	88.3
Net cash used in discontinued operations	(2.1)	(0.1)	(2.1)
Net Cash Provided by Operating Activities	150.4	77.6	86.2
Investing Activities			
Purchases of restricted cash investments	—	(470.0)	—
Sale of restricted cash investments	—	470.0	—
Purchase of Rocketdyne Business	0.2	(411.2)	—
Purchases of investments	—	(0.5)	—
Proceeds from sale of technology	7.5	—	—
Proceeds from sale of land	—	—	0.6
Capital expenditures	(43.4)	(63.2)	(37.2)
Net Cash Used in Investing Activities	(35.7)	(474.9)	(36.6)
Financing Activities			
Proceeds from issuance of debt	189.0	460.0	—
Debt issuance costs	(4.2)	(14.9)	(1.3)
Debt repayments/repurchases, including vendor financing payments	(166.3)	(12.8)	(78.5)
Proceeds from shares issued under equity plans, net	(1.9)	0.5	1.0
Purchase of treasury stock	(64.5)	—	—
Tax benefit on stock-based awards	1.5	—	3.3
Net Cash (Used in) Provided by Financing Activities	(46.4)	432.8	(75.5)
Net Increase (Decrease) in Cash and Cash Equivalents	68.3	35.5	(25.9)
Cash and Cash Equivalents at Beginning of Period	197.6	162.1	188.0
Cash and Cash Equivalents at End of Period	$ 265.9	$ 197.6	$ 162.1
Supplemental disclosures of cash flow information			
Cash paid for interest	$ 46.9	$ 33.7	$ 18.5
Cash paid for income taxes, net	4.9	8.4	5.2
Conversion of debt to common stock	—	1.6	—

See Notes to Consolidated Financial Statements.

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Table of Contents

ASSETS UNDER MANAGEMENT AND ASSETS UNDER ADVISEMENT

Assets Under Management

Our AUM is primarily managed across the following asset classes:

Equity	Fixed Income	Alternative	Liquidity
- Large Cap Growth	- U.S. Intermediate Investment Grade	- Real Estate	- U.S. Managed Cash
- Large Cap Value	- U.S. Credit Aggregate	- Hedge Funds	- U.S. Municipal Cash
- Equity Income	- Global Opportunistic Fixed Income	- Listed Infrastructure	
- International Equity	- Global Government		
- Small Cap Core	- U.S. Municipal		
- Large Cap Core	- U.S. Long Duration		
- Sector Equity	- Global Fixed Income		
- Small Cap Value	- U.S. Limited Duration		
- Mid Cap Value	- High Yield		
- Global Equity	- Emerging Markets Debt		
- Emerging Markets Equity			

The components of the changes in our AUM (in billions) for the years ended March 31, were as follows:

	2017	2016	2015
Beginning of period	**$ 669.6**	$ 702.7	$ 701.8
Net client cash flows			
Investment funds, excluding liquidity funds(1)			
Subscriptions	**64.0**	50.3	72.1
Redemptions	**(65.4)**	(62.3)	(61.2)
Long-term separate account flows, net	**(0.2)**	0.8	5.6
Total long-term flows	**(1.6)**	(11.2)	16.5
Liquidity fund flows, net	**(27.8)**	(15.1)	(21.3)
Liquidity separate account flows, net	**0.5**	0.2	(0.9)
Total liquidity flows	**(27.3)**	(14.9)	(22.2)
Total net client cash flows	**(28.9)**	(26.1)	(5.7)
Market performance and other (2)	**42.7**	(15.3)	20.1
Impact of foreign exchange	**(1.3)**	1.4	(18.5)
Acquisitions (dispositions), net (3)	**46.3**	6.9	5.0
End of period	**$ 728.4**	$ 669.6	$ 702.7

(1) Subscriptions and redemptions reflect the gross activity in the funds and include assets transferred between funds and between share classes.
(2) Other is primarily the reclassification of $0.4 billion, $0.5 billion and $12.8 billion of client assets from AUM to AUA for fiscal 2017, 2016 and 2015, respectively, and the reinvestment of dividends.
(3) Includes $41.5 billion and $9.6 billion related to the acquisitions of Clarion Partners and EnTrust, respectively, offset in part by $4.8 billion related to the disposition of two small investment managers and our share of a joint venture during the year ended March 31, 2017; $6.8 billion and $0.1 billion related to the acquisitions of RARE Infrastructure and PK Investments, LLP ("PK Investments"), respectively, during the year ended March 31, 2016; and $9.5 billion and $5.0 billion related to the acquisitions of Martin Currie and QS Investors, respectively, offset in part by $9.5 billion related to the disposition of Legg Mason Investment Counsel and Trust ("LMIC"), for the year ended March 31, 2015.

AUM at March 31, 2017 was $728.4 billion, an increase of $58.8 billion, or 9%, compared to March 31, 2016. Total net client outflows were $28.9 billion, consisting of net client outflows from the liquidity and long-term asset classes of $27.3 billion and $1.6 billion, respectively. Long-term asset net outflows were comprised of alternative and equity net outflows of $7.2 billion and $5.2 billion, respectively, partially offset by fixed income net inflows of $10.8 billion. Beginning in fiscal 2017, we now present alternative assets as a separate asset class of our AUM. The alternative asset class consists of all AUM managed by Clarion Partners, EnTrustPermal, RARE Infrastructure, and Glouston Capital Partners, prior to its sale on March 31, 2017. All prior periods have been revised to present the alternative asset class. Alternative net outflows were primarily in products managed by EnTrustPermal and RARE Infrastructure. Equity net outflows were primarily in

Table of Contents

LEGG MASON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Dollars in thousands)

	Years Ended March 31,		
	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for fixed assets	**$ (39,977)**	$ (40,330)	$ (45,773)
Business investments and acquisitions, net of cash acquired of $33,547,$9,667 and $29,830 in fiscal 2017, 2016 and 2015, respectively	**(1,010,428)**	(234,053)	(183,747)
Proceeds from sales of businesses and investments	**19,469**	—	47,001
Change in restricted cash	**2,982**	21,065	(25,571)
Purchases of investment securities	**—**	—	(2,641)
Returns of capital and proceeds from sales and maturities of investments	**8,289**	8,749	2,688
CASH USED IN INVESTING ACTIVITIES	**(1,019,665)**	(244,569)	(208,043)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in short-term borrowings	**(40,000)**	40,000	—
Repayments of debt	**—**	—	(645,780)
Payment of contingent consideration	**(6,587)**	(22,765)	—
Repayment of long-term debt of consolidated investment vehicles	**—**	—	(79,179)
Proceeds from issuance of long-term debt	**500,000**	699,793	658,769
Debt issuance costs	**(17,639)**	(13,539)	(5,250)
Issuances of common stock for stock-based compensation	**9,506**	10,022	24,288
Employee tax withholdings by settlement of net share transactions	**(12,139)**	(21,637)	(22,114)
Repurchases of common stock	**(381,672)**	(209,632)	(356,522)
Dividends paid	**(87,897)**	(84,093)	(70,815)
Distributions to affiliate noncontrolling interests	**(35,862)**	(1,016)	—
Net subscriptions/(redemptions) attributable to noncontrolling interests	**(44,587)**	68,639	(10,459)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(116,877)**	465,772	(507,062)
EFFECT OF EXCHANGE RATES ON CASH	**1,353**	(16,080)	(41,483)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(595,417)**	659,574	(188,470)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,329,126**	669,552	858,022
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 733,709**	$ 1,329,126	$ 669,552
SUPPLEMENTAL DISCLOSURE			
Cash paid for:			
Income taxes, net of refunds of $(1,014), $(4,689) and $(865), respectively	**$ 21,552**	$ 23,743	$ 19,578
Interest	**105,381**	49,393	59,039

See Notes to Consolidated Financial Statements

Approximately 86%, 87% and 90% of the Company's consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively, were derived from sales to customers located in the United States.

The following table presents a breakdown of the Company's net revenues by source for the periods indicated (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Net revenues			
Sale of magicJack devices	$ 10,361	$ 12,775	$ 15,915
Access right renewals	51,925	58,513	65,761
Shipping and handling	1,308	889	794
magicJack-related products	4,730	5,435	4,289
Prepaid minutes	4,441	5,677	8,243
Access and wholesale charges	3,769	5,021	5,953
UCaaS	10,868	8,966	-
Other	591	122	7
Total net revenues	$ 87,993	$ 97,398	$ 100,962

Research and Development

The Company's research and development activities consist primarily of the design and development of its proprietary software used in the magicJack devices, the mobile apps and its servers, as well as the development of new products and applications for use in its VoIP service offerings.

Research and development expenses were $5.9 million, $5.2 million, and $4.5 million for the years ended December 31, 2017, 2016, and 2015, respectively. During the three months ended March 31, 2017, $0.6 million of research and development expense was related to the SMB segment prior to its being absorbed into the Core Consumer segment. The balance of research and development expense was related to the Core Consumer segment. The Company accounts for research and development costs in accordance with the applicable accounting pronouncements described in Note 2, "Summary of Accounting Policies," in the Notes to our Consolidated Financial Statements included in Item 8 herein.

Markets Where We Compete

The primary market in which the Company currently competes is the United States. As of December 31, 2017, approximately 98% of its property and equipment, net of depreciation, is located in the United States. For the year ended December 31, 2017, approximately 86% of its consolidated revenues were derived from sales to customers located in the United States. The remaining 14% of consolidated revenues were primarily derived from sales in Canada.

Business Seasonality

The Company's revenues are not subject to seasonal fluctuations. However, quarterly revenue amounts are impacted by the timing of customer renewals and the revenues for Broadsmart can be impacted by the timing of non-recurring equipment and other sales.

Manufacturing

In 2006, the Company entered into a manufacturing and supply agreement with a Chinese company to manufacture the magicJack devices. Certain components of the magicJack device are built for the Company, based on the Company's specifications, in Taiwan and Hong Kong and then sent to the Chinese manufacturer in China for final assembly.

The Company's ordinary shares are quoted on the NASDAQ under the symbol "CALL." The following table sets forth the high and low adjusted closing prices for the Company's ordinary shares as reported on the NASDAQ for the periods indicated, as adjusted to the nearest cent.

	High	Low
Year Ended December 31, 2017:		
Fourth quarter	$ 8.50	$ 5.65
Third quarter	$ 8.05	$ 6.90
Second quarter	$ 8.60	$ 6.35
First quarter	$ 8.90	$ 7.10
Year Ended December 31, 2016:		
Fourth quarter	$ 7.50	$ 5.75
Third quarter	$ 6.81	$ 5.28
Second quarter	$ 6.70	$ 5.56
First quarter	$ 9.21	$ 6.30

On March 12, 2018, the last reported sale price of our ordinary shares on the NASDAQ was $8.35 per share. As of March 12, 2018, there were approximately 97 record holders of our ordinary shares.

Dividends

The Company has not paid any cash dividend during the two most recently completed fiscal years. The Company currently intends to retain any earnings for use in its business, for investment in acquisitions and to repurchase shares of its ordinary shares.

As of December 31, 2017, we had approximately $52.6 million in cash and cash equivalents. The distribution of funds to shareholders is governed by Israeli law which places certain restrictions on a company's ability to declare dividends, perform share buy-backs and make other cash distributions. As an Israeli entity, the Company must comply with those restrictions, which would cause any such cash distribution or use of cash to be subject to significant delays.

Securities Authorized for Issuance Under Equity Compensation Plans

The Company is currently granting share-based awards under the shareholder-approved Amended and Restated magicJack VocalTec Ltd. 2013 Stock Incentive Plan and the Amended and Restated magicJack VocalTec Ltd. 2013 Israeli Stock Incentive Plan (together, the "2013 Plans"). The aggregate number of shares that may be subject to awards under the 2013 Plans is 5,600,000. The Company had previously granted shares under the VocalTec amended Master Stock Plan (the "2003 Plan") which expired in April 2013. During the year ended December 31, 2016, the Company issued 1,000,000 ordinary share options outside of the 2013 Plans as an inducement for the two founders of Broadsmart to become employed by the Company. These options were all either exercised or forfeited in the year ended December 31, 2017, leaving none outstanding at December 31, 2017.

The following relates to our equity compensation plans as of December 31, 2017:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options, ($) (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities

– "Consumer," "Enterprise" and "SMB". Refer to Note 15, "Acquisition of Business" and Note 16, "Segment Reporting" for further details.

The changes in the carrying amount of goodwill for the years ended December 31, 2017 and 2016, by reporting unit are as follows (in thousands):

	Core Consumer	Enterprise	SMB	Other	Consolidated
Balance, January 1, 2016	$ 32,304	$ -	$ -	$ -	$ 32,304
Goodwill acquired with Broadsmart acquisition	-	14,881	-	-	14,881
Balance, December 31, 2016	$ 32,304	$ 14,881	$ -	$ -	$ 47,185
2017 impairment	-	(14,881)	-	-	(14,881)
Balance, December 31, 2017	$ 32,304	$ -	$ -	$ -	$ 32,304

As part of the Company's quarterly impairment reviews for intangible assets with indefinite lives, including goodwill, management determined that there were impairment indicators at the Enterprise segment as of March 31, 2017. Due to the knowable impairment indicators discussed in Note 3, "Impairment of Intangible Assets, Including Goodwill", the Company engaged an independent third party to perform a valuation of the Enterprise reporting unit's long-lived assets and indefinite-lived intangible assets, including goodwill, as of March 31, 2017.

Based on a discounted future cash-flows approach, the third party valuation estimated the fair value of the Enterprise reporting unit to be $17.9 million. Recognition of the goodwill impairment resulted in a tax benefit which was recorded as a deferred tax asset. Since the deferred tax asset increases the carrying value of the reporting unit, it would result in an additional impairment. The accounting guidance requires an entity to calculate the impairment charge and the deferred tax effect using a simultaneous equations method, which effectively grosses up the goodwill impairment charge to account for the related deferred tax benefit so that the resulting carrying value does not exceed the calculated fair value. The resulting impairment is limited to the carrying value of goodwill. In the valuation performed for the Company the impairment calculated using the simultaneous equation method resulted in an impairment charge that exceeded the carrying value of the goodwill. Accordingly, an impairment loss of $14.9 million on goodwill was recognized in operating expenses under the Enterprise segment in the consolidated statements of operations for the year ended December 31, 2017.

As of October 1, 2017 (the "Measurement Date"), the Company engaged an independent third party to perform its annual goodwill impairment test for all of its reporting units in order to determine on an individual reporting unit basis if there was potential impairment. Fair value of each reporting unit was estimated using a discounted cash flow analysis. The implied fair value of goodwill for the Core Consumer reporting unit exceeded its book value, therefore no further testing was required and no impairment was recognized.

The application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgment, and the use of significant estimates and assumptions, is required to estimate the fair value of reporting units, including estimating future cash flows, future market conditions, and determining the appropriate discount rates, growth rates, and operating margins, among others.

The discounted cash flow analyses factor in assumptions on revenue and expense growth rates. These estimates are based upon the Company's historical experience, best estimates of future activity, and a cost structure necessary to achieve the related revenues.

MALIBU BOATS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands, except share data)

	June 30, 2017	June 30, 2016
Assets		
Current assets		
Cash	$ 32,822	$ 25,921
Trade receivables, net	9,846	14,690
Inventories, net	23,835	20,431
Prepaid expenses and other current assets	2,470	2,707
Income tax receivable	1,111	965
Total current assets	70,084	64,714
Property and equipment, net	24,123	17,813
Goodwill	12,692	12,470
Other intangible assets, net	9,597	11,703
Deferred tax assets	107,088	115,594
Other assets	79	32
Total assets	$ 223,663	$ 222,326
Liabilities		
Current liabilities		
Current maturities of long-term debt	$ —	$ 8,000
Accounts payable	12,722	16,158
Accrued expenses	21,616	19,055
Income tax and distribution payable	515	427
Payable pursuant to tax receivable agreement, current portion	4,332	4,189
Total current liabilities	39,185	47,829
Deferred tax liabilities	552	685
Other liabilities	328	1,136
Payable pursuant to tax receivable agreement, less current portion	77,959	89,561
Long-term debt, less current maturities	53,403	63,086
Total liabilities	171,427	202,297
Commitments and contingencies (See Note 15)		
Stockholders' Equity		
Class A Common Stock, par value $0.01 per share, 100,000,000 shares authorized; 17,937,687 shares issued and outstanding as of June 30, 2017; 17,690,874 shares issued and outstanding as of June 30, 2016	179	176
Class B Common Stock, par value $0.01 per share, 25,000,000 shares authorized; 19 shares issued and outstanding as of June 30, 2017; 23 shares issued and outstanding as of June 30, 2016	—	—
Preferred Stock, par value $0.01 per share; 25,000,000 shares authorized; no shares issued and outstanding as of June 30, 2017; no shares issued and outstanding as of June 30, 2016	—	—
Additional paid in capital	50,836	45,947
Accumulated other comprehensive loss	(2,002)	(2,471)
Accumulated earnings (deficit)	151	(28,302)
Total stockholders' equity attributable to Malibu Boats, Inc.	49,164	15,350
Non-controlling interest	3,072	4,679
Total stockholders' equity	52,236	20,029
Total liabilities and stockholders' equity	$ 223,663	$ 222,326

The accompanying notes are an integral part of these Consolidated Financial Statements.

Increase in deferred tax asset from step-up in tax basis [1]					106,977					106,977
Distributions to LLC Unit holders					(31)	(1,738)				(1,769)
Issuance of Class A Common Stock for acquisition	171	2			2,835					2,837
Foreign currency translation adjustment								(2,081)		(2,081)
Balance at June 30, 2015	**17,859**	**$ 178**	**24**	**$ —**	**$ 47,325**	**$ 3,898**	**$ (46,239)**	**$ (2,081)**	**$ —**	**$ 3,081**
Net income						2,253	18,042			20,295
Stock based compensation, net of withholding taxes on vested equity awards	96	1			1,791					1,792
Issuances of equity for services	9				751					751
Increase in payable pursuant to the tax receivable agreement					(118)					(118)
Increase in deferred tax asset from step-up in tax basis					140					140
Exchange of LLC Units for Class A Common Stock	14				39	(39)				—
Cancellation of Class B Common Stock			(1)							—
Distributions to LLC Unit holders						(1,433)	(105)			(1,538)
Repurchase and retirement of common stock	(288)	(3)			(3,981)					(3,984)
Foreign currency translation adjustment								(390)		(390)
Balance at June 30, 2016	**17,690**	**$ 176**	**23**	**$ —**	**$ 45,947**	**$ 4,679**	**$ (28,302)**	**$ (2,471)**	**$ —**	**$ 20,029**
Net Income						2,717	28,358			31,075
Stock based compensation	96	1			1,134					1,135

3. Other Comprehensive Income (Loss)

The changes in the balances of each component of Accumulated Other Comprehensive Income ("AOCI") for the years ended December 31, 2017 and 2016, including amounts reclassified out of AOCI, are as follows:

(In millions of dollars)	**Unrealized Investment Gains (Losses)**	**Pension/Post-Retirement Plans Gains (Losses)**	**Foreign Currency Translation Adjustments**	**Total**
Balance as of January 1, 2017	**$ 19**	**$ (3,232)**	**$ (1,880)**	**$ (5,093)**
Other comprehensive (loss) income before reclassifications	**(5)**	**160**	**715**	**870**
Amounts reclassified from accumulated other comprehensive loss	**—**	**180**	**—**	**180**
Net current period other comprehensive (loss) income	**(5)**	**340**	**715**	**1,050**
Balance as of December 31, 2017	**$ 14**	**$ (2,892)**	**$ (1,165)**	**$ (4,043)**

(In millions of dollars)	Unrealized Investment Gains	Pension/Post-Retirement Plans Gains (Losses)	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2016	$ 6	$ (3,124)	$ (1,102)	$ (4,220)
Other comprehensive income (loss) before reclassifications	13	(294)	(778)	(1,059)
Amounts reclassified from accumulated other comprehensive loss	—	186	—	186
Net current period other comprehensive income (loss)	13	(108)	(778)	(873)
Balance as of December 31, 2016	$ 19	$ (3,232)	$ (1,880)	$ (5,093)

PATTERSON-UTI ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	2016	2015
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$ 5,910	$ (318,634)	$ (294,486)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion, amortization and impairment	783,341	668,434	864,759
Impairment of goodwill	—	—	124,561
Dry holes and abandonments	1,929	58	1,224
Deferred income tax benefit	(330,346)	(152,160)	(99,873)
Stock-based compensation expense	44,483	28,324	28,510
Net gain on asset disposals	(33,510)	(14,771)	(10,613)
Tax expense related to stock-based compensation	—	(4,868)	(1,362)
Amortization of debt issuance costs	346	2,270	1,245
Changes in operating assets and liabilities:			
Accounts receivable	(239,482)	72,327	440,884
Income taxes receivable/payable	990	30,379	49,895
Inventory and other assets	(23,449)	5,664	38,993
Accounts payable	104,072	12,024	(131,649)
Accrued expenses	(14,190)	(24,573)	(10,303)
Other liabilities	617	560	(2,348)
Net cash provided by operating activities	300,711	305,034	999,437
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(501,954)	155	—
Purchases of property and equipment	(567,087)	(119,799)	(743,776)
Proceeds from disposal of assets	60,945	21,889	20,814
Other investments	(2,520)	—	—
Net cash used in investing activities	(1,010,616)	(97,755)	(722,962)
Cash flows from financing activities:			
Proceeds from equity offering	471,570	—	—
Purchases of treasury stock	(6,809)	(3,610)	(8,010)
Dividends paid	(16,315)	(23,579)	(58,775)
Proceeds from long-term debt	—	—	200,000
Repayment of long-term debt	—	(255,000)	(27,500)
Proceeds from borrowings under revolving credit facility	599,000	200,500	54,000
Repayment of borrowings under revolving credit facility	(331,000)	(200,500)	(357,000)
Debt issuance costs	—	(3,357)	(1,979)
Proceeds from exercise of stock options	123	268	—
Net cash provided by (used in) financing activities	716,569	(285,278)	(199,264)
Effect of foreign exchange rate changes on cash	1,012	(195)	(6,877)
Net increase (decrease) in cash and cash equivalents	7,676	(78,194)	70,334
Cash and cash equivalents at beginning of year	35,152	113,346	43,012
Cash and cash equivalents at end of year	$ 42,828	$ 35,152	$ 113,346
Supplemental disclosure of cash flow information:			
Net cash (paid) received during the year for:			
Interest, net of capitalized interest of $1,175 in 2017, $398 in 2016 and $6,332 in 2015	$ (34,953)	$ (36,551)	$ (33,452)
Income taxes	3,947	52,716	97,333
Non-cash investing and financing activities:			
Net increase (decrease) in payables for purchases of property and equipment	$ 17,228	$ 28,926	$ (167,308)
Issuance of common stock for business acquisition	1,226,890	6,733	—
Net decrease (increase) in deposits on equipment purchases	(301)	6,317	90,012

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

The following table presents the changes in benefit obligations and plan assets for the years ended December 31 and the funded status and weighted-average assumptions used to determine the benefit obligation at each year end (dollars in millions):

	2017			2016		
	Pension benefits	Other benefits	Total	Pension benefits	Other benefits	Total
Projected benefit obligations:						
Balance, January 1	$ 772.1	$ 29.9	$ 802.0	$ 760.0	$ 66.7	$ 826.7
Interest cost	25.5	0.9	26.4	26.3	1.6	27.9
Service cost	12.3	0.1	12.4	16.3	0.3	16.6
Actuarial (gain) loss	78.0	5.5	83.5	32.8	9.2	42.0
Plan amendments	—	—	—	—	(39.9)	(39.9)
Plan settlements	—	(16.4)	(16.4)	(2.5)	(2.6)	(5.1)
Plan curtailments	—	—	—	(1.0)	—	(1.0)
Exchange rate changes	0.3	—	0.3	0.1	—	0.1
Benefits paid	(52.4)	(2.0)	(54.4)	(59.9)	(5.4)	(65.3)
Balance, December 31	835.8	18.0	853.8	772.1	29.9	802.0
Plan assets:						
Fair value, January 1	544.6	—	544.6	550.7	—	550.7
Actual return	88.0	—	88.0	33.8	—	33.8
Employer contributions	29.3	—	29.3	22.5	—	22.5
Plan settlements	—	—	—	(2.5)	—	(2.5)
Exchange rate changes	0.2	—	0.2	—	—	—
Benefits paid	(52.4)	—	(52.4)	(59.9)	—	(59.9)
Fair value, December 31	609.7	—	609.7	544.6	—	544.6
Net benefit liabilities	$ (226.1)	$ (18.0)	$ (244.1)	$ (227.5)	$ (29.9)	$ (257.4)
Amounts recognized in Consolidated Balance Sheet:						
Accrued liabilities	$ (24.5)	$ (2.5)	$ (27.0)	$ (29.7)	$ (2.4)	$ (32.1)
Other liabilities (long-term)	(201.6)	(15.5)	(217.1)	(197.8)	(27.5)	(225.3)
Net benefit liabilities	$ (226.1)	$ (18.0)	$ (244.1)	$ (227.5)	$ (29.9)	$ (257.4)
Accumulated contributions in excess of (less than) net periodic benefit cost	$ 120.2	$ (39.1)	$ 81.1	$ 109.4	$ (63.3)	$ 46.1
Amounts not yet reflected in net periodic benefit cost:						
Actuarial (loss) gain	(358.1)	(6.3)	(364.4)	(353.8)	(7.3)	(361.1)
Prior service credit	11.8	27.4	39.2	16.9	40.7	57.6
Total accumulated other comprehensive income (loss)	(346.3)	21.1	(325.2)	(336.9)	33.4	(303.5)
Net benefit liabilities	$ (226.1)	$ (18.0)	$ (244.1)	$ (227.5)	$ (29.9)	$ (257.4)
Weighted-average assumptions:						
Discount rate	3.68%	3.52%		4.29%	3.94%	
Rate of compensation increase	4.28%			4.14%		

Table of Contents

Target allocations among asset categories and the fair values of each category of plan assets as of December 31, 2017 and 2016, classified by level within the US GAAP fair value hierarchy is presented below. The plans will periodically reallocate assets in accordance with the allocation targets, after giving consideration to the expected level of cash required to pay current benefits and plan expenses (dollars in millions):

	Target range	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2017:					
Equities:	**53% to 69%**				
U.S. large cap	22% to 28%	$ 158.2	$ —	$ 158.2	$ —
U.S. small cap	4% to 10%	45.3	—	45.3	—
International all cap	21% to 29%	156.2	—	156.2	—
International small cap	2% to 8%	36.3	—	36.3	—
Real estate equities	**0% to 13%**	50.6	—	50.6	—
Fixed income:	**25% to 35%**				
Cash and equivalents	0% to 10%	6.2	—	6.2	—
Aggregate	9% to 19%	74.9	—	74.9	—
Core plus	9% to 19%	78.1	78.1	—	—
Group annuity contracts		3.9	—	3.9	—
Total		$ 609.7	$ 78.1	$ 531.6	$ —
December 31, 2016:					
Equities:	**53% to 69%**				
U.S. large cap	22% to 28%	$ 141.6	$ —	$ 141.6	$ —
U.S. small cap	4% to 10%	41.5	—	41.5	—
International all cap	21% to 29%	134.4	—	134.4	—
International small cap	2% to 8%	27.4	—	27.4	—
Real estate equities	**0% to 13%**	47.1	—	47.1	—
Fixed income:	**25% to 35%**				
Cash and equivalents	0% to 10%	4.6	—	4.6	—
Aggregate	9% to 19%	72.4	—	72.4	—
Core plus	9% to 19%	73.0	73.0	—	—
Group annuity contracts		2.6	—	2.6	—
Total		$ 544.6	$ 73.0	$ 471.6	$ —

Assets in the U.S. equities category include investments in common and preferred stocks (and equivalents such as American Depository Receipts and convertible bonds) and may be held through separate accounts, commingled funds or an institutional mutual fund. Assets in the international equities category include investments in a broad range of international equity securities, including both developed and emerging markets, and may be held through a commingled or institutional mutual fund. The real estate category includes investments in pooled and commingled funds whose objectives are diversified equity investments in income-producing properties. Each real estate fund is intended to provide broad exposure to the real estate market by property type, geographic location and size and may invest internationally. Securities in both the aggregate and core plus fixed income categories include U.S. government, corporate, mortgage- and asset-backed securities and Yankee bonds, and both categories target an average credit rating of “A” or better at all times. Individual securities in the aggregate fixed income category must be investment grade or above at the time of purchase, whereas securities in the core plus category may have a rating of “B” or above. Additionally, the core plus category may invest in non-U.S. securities. Assets in the aggregate and core plus fixed income categories are held primarily through a commingled fund and an institutional mutual fund, respectively. Group annuity contracts are invested in a combination of equity, real estate, bond and other investments in connection with a pension plan in Norway.

Table of Contents

Note 22. Valuation Allowances and Qualifying Accounts

Schedule II — Valuation Allowances and Qualifying Accounts
(dollars in thousands)

Classifications	Balance at Beginning of Year	Charges to Cost and Expenses	Charges to Other Accounts**(1)**	Deduction from Reserves	Balance at End of Year
Year ended July 31, 2013					
Allowance for Doubtful Accounts & Returned Goods	$ 319	$ 207	$ --	$ 31	$ 495
Allowance for Excess and Obsolete Inventory	$ 466	$ 1,368	$ --	$ --	$ 1,834
Year ended July 31, 2014					
Allowance for Doubtful Accounts & Returned Goods	$ 495	$ 338	$ --	$ 111	$ 722
Allowance for Excess and Obsolete Inventory	$ 1,834	$ 383	$ --	$ --	$ 2,217
Year ended July 31, 2015					
Allowance for Doubtful Accounts & Returned Goods	**$ 722**	**$ 113**	**$ (75)**	**$ 60**	**$ 700**
Allowance for Excess and Obsolete Inventory	**$ 2,217**	**$ 454**	**$ (4)**	**$ --**	**$ 2,667**

(1) Represents foreign subsidiary financial statement translation impact charged to other comprehensive income.

Note 23. Subsequent Event

On September 1, 2015, the Company entered into a definitive agreement (the "Merger Agreement") with Valeant Pharmaceuticals International ("Valeant") and Blue Subsidiary Corp., a wholly owned subsidiary of Valeant ("Merger Sub"), pursuant to which Valeant will acquire all of the outstanding common stock of the Company at the following price, each without interest thereon and subject to any applicable tax withholding: (i) $6.50 per share, net to the holder in cash, plus (ii) one non-transferable contractual contingent value right per share, which represents the right to receive up to two contingent payments, if any, of up to $1.00 in the aggregate net to the holder in cash upon the achievement of certain specified milestones within an agreed upon time period (together, the "Offer Price"). Following the completion of the tender offer, Merger Sub will commence a merger (the "Merger") in which each untendered share of the Company will be converted into the right to receive the Offer Price. The transaction, which is expected to close in the first quarter of fiscal 2016, is subject to the tender of a majority of the Company's outstanding common stock, regulatory approvals and other customary closing conditions.

Following the announcement of the execution of the Merger Agreement, four putative stockholder class actions were filed challenging the proposed transaction. Three of these actions were filed in the Eleventh Judicial Circuit of the State of Missouri and name as defendants all members of the Company's Board of Directors, the Company, Valeant and Merger Sub: (i) *Murphy, et al. v. Synergetics USA Inc., et al.*, C.A. No. 1511-CC00778 (filed September 15, 2015 and amended September 23, 2015), (ii) *Glorioso, et al. v. Synergetics USA Inc., et al.*, C.A. No. 1511-CC00803 (filed September 23, 2015) and (iii) *Scarantino, et al. v. Synergetics USA Inc., et al.*, C.A. No. 1511-CC00810 (filed September 28, 2015) (the complaints referenced in (i), (ii) and (iii) collectively the "Missouri Actions"). One of these actions was filed in the Court of Chancery of the State of Delaware and names as defendants all members of the Company's Board of Directors, Valeant and Merger Sub: *Nilsen, et al. v. Valeant Pharmaceuticals International, et al.*, C.A. No. 11552-VCL (filed September 28, 2015) (the "Delaware Action" and together with the Missouri Actions, the "Actions").

The Actions generally allege that the members of the Company's Board of Directors breached their fiduciary duties to the Company's stockholders by, among other things, conducting a flawed process in considering the transaction, agreeing to an inadequate Offer Price, providing incomplete and misleading information to stockholders, and accepting unreasonable deal protection measures in the Merger Agreement that dissuade other potential bidders from making competing offers. The Actions also allege that Valeant and Merger Sub aided and abetted these alleged breaches of fiduciary duty.

SAMSON OIL & GAS LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal year ended June 30, 2017	Fiscal year ended June 30, 2016
Cash flows from operating activities		
Receipts from customers	$ 13,953,796	$ 10,443,411
Net cash (paid)/received from commodity derivative financial instruments	(1,342,901)	637,980
Payments to suppliers & employees	(13,042,935)	(9,015,060)
Interest received	411	2,573
Interest paid	(1,878,382)	(808,144)
Income taxes paid	-	-
Payments for abandonment costs	(300,949)	(53,783)
Proceeds from legal settlement	-	725,000
Net cash flows provided by operating activities	(2,610,960)	1,931,977
Cash flows from investing activities		
Proceeds from sale of oil and gas properties	15,150,000	1,000,000
Payments for operating bonds	-	(450,000)
Payments for plant & equipment	(106,726)	(183,266)
Payments for exploration and evaluation	(138,715)	(749,731)
Payments of business combination	-	(16,089,029)
Payments for oil and gas properties	(3,198,083)	(1,531,407)
Net cash flows used in investing activities	11,706,476	(18,003,433)
Cash flows from financing activities		
Proceeds from issue of share capital	3,198	1,400,150
Proceeds from short term borrowings	-	4,000,000
Proceeds from borrowings	-	11,801,000
Repayments of borrowings	(11,047,443)	-
Payments for costs associated with borrowings	(40,000)	(295,151)
Payments for costs associated with capital raising	(3,771)	(172,740)
Net cash flows provided by financing activities	(11,088,016)	16,733,259
Net change in cash and cash equivalents	(1,992,500)	661,803
Cash and cash equivalents at the beginning of the year	2,654,812	2,062,720
Effects of exchange rate changes on cash and cash equivalents	(33,534)	(69,711)
Cash and cash equivalents at end of year	$ 628,778	$ 2,654,812

See accompanying Notes to Consolidated Financial Statements.

A reconciliation of GAAP financial measures to our non-GAAP financial measures is as follows:

	Year Ended December 31					
	2017		2016		2015	
	(in millions)	per share *	(in millions)	per share *	(in millions)	per share *
Net Income	$ 994.2	$ 4.37	$ 931.4	$ 3.95	$ 867.1	$ 3.50
Excluding:						
Net Realized Investment Gain (Loss) (net of tax expense (benefit) of $15.0; $8.4; $(17.7))	25.3	0.11	15.8	0.07	(26.1)	(0.11)
Loss from Guaranty Fund Assessment (net of tax benefit of $7.2; $-; $-)	(13.4)	(0.06)	—	—	—	—
Unclaimed Death Benefits Reserve Increase (net of tax benefit of $13.6; $-; $-)	(25.4)	(0.11)	—	—	—	—
Net Tax Benefit from Impacts of TCJA	31.5	0.14	—	—	—	—
After-tax Adjusted Operating Income	$ 976.2	$ 4.29	$ 915.6	$ 3.88	$ 893.2	$ 3.61

* Assuming Dilution

We measure and analyze our segment performance on the basis of "adjusted operating revenue" and "adjusted operating income" or "adjusted operating loss", which differ from total revenue and income before income tax as presented in our consolidated statements of income due to the exclusion of net realized investment gains and losses and certain other items as specified in the reconciliations below. These performance measures are in accordance with GAAP guidance for segment reporting, but they should not be viewed as a substitute for total revenue, income before income tax, or net income. A reconciliation of total revenue to "adjusted operating revenue" and income before income tax to "adjusted operating income" is as follows:

	Year Ended December 31		
	2017	2016	2015
	(in millions of dollars)		
Total Revenue	$ 11,286.8	$ 11,046.5	$ 10,731.3
Excluding:			
Net Realized Investment Gain (Loss)	40.3	24.2	(43.8)
Adjusted Operating Revenue	$ 11,246.5	$ 11,022.3	$ 10,775.1
Income Before Income Tax	$ 1,404.0	$ 1,347.7	$ 1,238.3
Excluding:			
Net Realized Investment Gain (Loss)	40.3	24.2	(43.8)
Loss from Guaranty Fund Assessment	(20.6)	—	—
Unclaimed Death Benefits Reserve Increase	(39.0)	—	—
Adjusted Operating Income	$ 1,423.3	$ 1,323.5	$ 1,282.1

7. MORTGAGES PAYABLE

The following is a summary of mortgages payable as of December 31, 2017 and December 31, 2016.

(Amounts in thousands)	Maturity	Interest Rate at December 31, 2017	December 31, 2017	December 31, 2016
First mortgages secured by:				
Variable rate				
Plaza at Cherry Hill[8]	5/24/2022	2.96%	$ 28,930	$ —
Westfield - One Lincoln Plaza[8]	5/24/2022	2.96%	4,730	—
Plaza at Woodbridge[8]	5/25/2022	2.96%	55,340	—
Hudson Commons[10]	11/15/2024	3.26%	29,000	—
Watchung[10]	11/15/2024	3.26%	27,000	—
Bronx (1750-1780 Gun Hill Road)[10]	12/1/2024	3.26%	24,500	—
Cross-collateralized loan (variable)[1]	—	—%	—	38,756
Total variable rate debt			169,500	38,756
Fixed rate				
Englewood[3]	10/1/2018	6.22%	11,537	11,537
Montehiedra Town Center, Senior Loan[2]	7/6/2021	5.33%	86,236	87,308
Montehiedra Town Center, Junior Loan[2]	7/6/2021	3.00%	30,000	30,000
Bergen Town Center	4/8/2023	3.56%	300,000	300,000
Shops at Bruckner[6]	5/1/2023	3.90%	12,162	—
Hudson Mall[7]	12/1/2023	5.07%	25,004	—
Yonkers Gateway Center[9]	4/6/2024	4.16%	33,227	—
Las Catalinas	8/6/2024	4.43%	130,000	130,000
Brick	12/10/2024	3.87%	50,000	—
North Plainfield	12/10/2025	3.99%	25,100	—
Middletown	12/1/2026	3.78%	31,400	—
Rockaway	12/1/2026	3.78%	27,800	—
East Hanover (200 - 240 Route 10 West)	12/10/2026	4.03%	63,000	—
North Bergen (Tonnelle Ave)[5]	4/1/2027	4.18%	100,000	73,951
Manchester Plaza	6/1/2027	4.32%	12,500	—
Millburn	6/1/2027	3.97%	24,000	—
Totowa	12/1/2027	4.33%	50,800	—
Woodbridge Commons	12/1/2027	4.36%	22,100	—
East Brunswick	12/6/2027	4.38%	63,000	—
East Rutherford	1/6/2028	4.49%	23,000	—
Hackensack	3/1/2028	4.36%	66,400	—
East Hanover Warehouses	12/1/2028	4.09%	40,700	—
Marlton	12/1/2028	3.86%	37,400	—
Union (2445 Springfield Ave)	12/10/2028	4.01%	45,600	—
Freeport (437 East Sunrise Highway)	12/10/2029	4.07%	43,100	—
Garfield	12/1/2030	4.14%	40,300	—
Mt Kisco -Target[4]	11/15/2034	6.40%	14,451	14,883
Cross-collateralized loan (fixed)[1]	—	—%	—	519,125
Total fixed rate debt			1,408,817	1,166,804
		Total mortgages payable	1,578,317	1,205,560
		Unamortized debt issuance costs	(13,775)	(8,047)
		Total mortgages payable, net of unamortized debt issuance costs	$ 1,564,542	$ 1,197,513

(1) The cross-collateralized mortgage loan was defeased and prepaid on November 15, 2017.

(2) As part of the planned redevelopment of Montehiedra Town Center, we committed to fund $20.0 million for leasing and capital expenditures which has been fully funded as of December 31, 2017.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Operating: [(1)]					
Net sales:					
Oil (MBbls)	7,064	7,201	7,751	7,176	7,018
NGLs (MBbls)	1,382	1,542	1,604	2,112	2,091
Oil and NGLs (MBbls)	8,446	8,743	9,355	9,288	9,110
Natural gas (MMcf)	36,754	39,731	46,163	50,088	53,257
Total oil equivalent (MBoe)	14,571	15,365	17,049	17,636	17,986
Total natural gas equivalents (MMcfe)	87,428	92,188	102,294	105,815	107,915
Average daily equivalent sales (Boe/day)	39,921	41,980	46,709	48,317	49,276
Average daily equivalent sales (Mcfe/day)	239,528	251,879	280,256	289,904	295,657
Average realized sales prices:					
Oil ($/Bbl)	$ 48.13	$ 37.35	$ 45.05	$ 90.96	$ 102.44
NGLs ($/Bbl)	23.35	17.14	17.25	34.49	35.07
Oil and NGLs ($/Bbl)	44.08	33.79	40.28	78.13	86.97
Natural gas ($/Mcf)	2.96	2.53	2.67	4.35	3.55
Oil equivalent ($/Boe)	33.02	25.76	29.34	53.49	54.58
Natural gas equivalent ($/Mcfe)	5.50	4.29	4.89	8.92	9.10
Average per Boe ($/Boe):					
Lease operating expenses	$ 9.86	$ 9.92	$ 11.31	$ 15.01	$ 15.06
Gathering and transportation	1.40	1.49	1.01	1.14	0.95
Production costs	11.26	11.41	12.32	16.15	16.01
Production taxes	0.12	0.12	0.17	0.42	0.42
DD&A	10.68	13.77	23.11	28.98	25.10
General and administrative expenses	4.10	3.89	4.29	4.93	4.55
	$ 26.16	$ 29.19	$ 39.89	$ 50.48	$ 46.08
Average per Mcfe ($/Mcfe):					
Lease operating expenses	$ 1.64	$ 1.65	$ 1.88	$ 2.50	$ 2.51
Gathering and transportation	0.23	0.25	0.17	0.19	0.16
Production costs	1.87	1.90	2.05	2.69	2.67
Production taxes	0.02	0.02	0.03	0.07	0.07
DD&A	1.78	2.30	3.85	4.83	4.18
General and administrative expenses	0.68	0.65	0.71	0.82	0.76
	$ 4.35	$ 4.87	$ 6.64	$ 8.41	$ 7.68
Wells drilled (gross):					
Offshore	5	1	5	6	6
Onshore	—	—	5	33	40
Productive wells drilled (gross):					
Offshore	4	1	5	6	5
Onshore	—	—	5	33	40

(1) The conversions to barrels of oil equivalent and cubic feet equivalent were determined using the energy equivalency ratio of six Mcf of natural gas to one barrel of crude oil, condensate or NGLs (totals may not compute due to rounding). The conversion ratio does not assume price equivalency, and the price on an equivalent basis for oil, NGLs and natural gas may differ significantly.

DD&A - depreciation, depletion, amortization and accretion

Volume measurements:

Bbl – barrel	MBbls – thousand barrels	Boe – barrel of oil equivalent
MBoe – thousand barrels of oil equivalent	Mcf – thousand cubic feet	MMcf – million cubic feet
Mcfe – thousand cubic feet equivalent	MMcfe – million cubic feet equivalent	

W&T OFFSHORE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Long-Term Debt

The components of our long-term debt are presented in the following tables (in thousands):

	December 31, 2017			December 31, 2016		
	Principal	Adjustments to Carrying Value (1)	Carrying Value	Principal	Adjustments to Carrying Value (1)	Carrying Value
11.00% 1.5 Lien Term Loan, due November 2019:						
Principal	$ 75,000	$ —	$ 75,000	$ 75,000	$ —	$ 75,000
Future interest payments	—	15,596	15,596	—	23,823	23,823
Subtotal	75,000	15,596	90,596	75,000	23,823	98,823
9.00 % Second Lien Term Loan, due May 2020:	300,000	—	300,000	300,000	—	300,000
9.00%/10.75% Second Lien PIK Toggle Notes, due May 2020:						
Principal	171,769	—	171,769	163,007	—	163,007
Future payments-in-kind	—	5,745	5,745	—	24,048	24,048
Future interest payments	—	34,872	34,872	—	36,850	36,850
Subtotal	171,769	40,617	212,386	163,007	60,898	223,905
8.50%/10.00% Third Lien PIK Toggle Notes, due June 2021:						
Principal	153,192	—	153,192	145,897	—	145,897
Future payments-in-kind	—	11,323	11,323	—	26,844	26,844
Future interest payments	—	38,682	38,682	—	40,705	40,705
Subtotal	153,192	50,005	203,197	145,897	67,549	213,446
8.50% Unsecured Senior Notes, due June 2019	189,829	—	189,829	189,829	—	189,829
Debt premium, discount, issuance costs, net of amortization	—	(3,956)	(3,956)	—	(5,276)	(5,276)
Total long-term debt	889,790	102,262	992,052	873,733	146,994	1,020,727
Current maturities of long-term debt (2)	—	22,925	22,925	—	8,272	8,272
Long term debt, less current maturities	$ 889,790	$ 79,337	$ 969,127	$ 873,733	$ 138,722	$ 1,012,455

(1) Future interest payments and future payments-in-kind ("PIK") are recorded on an undiscounted basis.
(2) Future interest payments on the 1.5 Lien Term Loan, Second Lien PIK Toggle Notes and Third Lien PIK Toggle Notes due within twelve months.

Aggregate annual maturities of amounts recorded for long-term debt as of December 31, 2017 are as follows (in millions): 2018–$22.9; 2019–$302.1; 2020 –$499.5; 2021–$171.5. See below for a discussion of our debt instruments.

The following table provides a reconciliation of PV-10 to the standardized measure of discounted future net cash flows at December 31, 2017:

	December 31, 2017 (in millions)
PV-10	$ 521.0
Present value of future income tax discounted at 10%	(60.0)
Standardized measure of discounted future net cash flows	$ 461.0

Proved Undeveloped Reserves

As of December 31, 2017, we had 115.1 MMBoe of proved undeveloped ("PUD") reserves, which is an increase of 17.6 MMBoe, or 18%, compared with 97.5 MMBoe of PUD reserves at December 31, 2016. All of our PUD reserves at December 31, 2017, were associated with our core development project, Project Pangea.

The following table summarizes the changes in our PUD reserves during 2017.

	Oil (MBbls)	NGLs (MBbls)	Natural Gas (MMcf)	Total (MBoe)
Balance — December 31, 2016	36,565	27,259	202,069	97,502
Extensions and discoveries	10,288	9,922	76,239	32,916
Revisions to previous estimates	(9,282)	(1,123)	(3,950)	(11,064)
Conversion to proved developed reserves	(1,364)	(1,289)	(9,330)	(4,209)
Balance — December 31, 2017	36,207	34,769	265,028	115,145

Extensions and discoveries relating to proved undeveloped reserves for 2017 were 32.9 MMBoe, primarily attributable to our development of Project Pangea in the Wolfcamp shale oil resource play in the Permian Basin. During 2017, we converted 4.2 MMBoe of proved undeveloped reserves to proved developed reserves, and reclassified 17.7 MMBoe of proved undeveloped reserves to unproved reserves. The reserves reclassified are attributable to horizontal well locations in Project Pangea that are no longer expected to be developed within five years from their initial booking, as required by SEC rules. Revisions included the reclassified reserves, with an increase of 5.6 MMBoe resulting from updated well performance and technical parameters and an increase of 1 MMBoe due to higher commodity prices.

The following table sets forth our PUD reserves converted to proved developed reserves during 2017, 2016 and 2015 and the net investment required to convert PUD reserves to proved developed reserves during each year.

	Proved Undeveloped Reserves Converted to Proved Developed Reserves				Investment in Conversion of Proved Undeveloped Reserves to Proved Developed Reserves
Year Ended December 31,	Oil (MBbls)	NGLs (MBbls)	Natural Gas (MMcf)	Total (MBoe)	(in thousands)
2015	2,485	1,627	11,737	6,068	$ 84,071
2016	419	433	3,140	1,376	11,008
2017	1,364	1,289	9,330	4,209	35,418
Total	4,268	3,349	24,207	11,653	$ 130,497

In July 2015, we suspended our drilling and completion activities due to the sustained low commodity prices. In 2016, we resumed limited drilling and completion activities as commodity prices remained depressed and

Technologies Used in Preparation of Proved Reserves Estimates

Estimates of reserves were prepared in compliance with SEC rules, regulations and guidance and SPE standards. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data and production history. For our properties, structure and isopach maps were constructed to delineate each reservoir. Electrical logs, radioactivity logs, seismic data and other available data were used to prepare these maps. Parameters of area, porosity and water saturation were estimated and applied to the isopach maps to obtain estimates of original oil in place or original gas in place. For developed producing wells whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were determined using decline curve analysis. Reserves for producing wells whose performance was not yet established and for undeveloped locations were estimated using type curves. The parameters needed to develop these type curves such as initial decline rate, “b” factor and final decline rate were based on nearby wells producing from the same reservoir and with a similar completion for which more data were available.

Reporting of NGLs

We produce NGLs as part of the processing of our natural gas. The extraction of NGLs in the processing of natural gas reduces the volume of natural gas available for sale. At December 31, 2017, NGLs represented approximately 32% of our total proved reserves on a Boe basis. NGLs are products sold by the gallon. In reporting proved reserves and production of NGLs, we include these volumes and production as Boe. The prices we received for a standard barrel of NGLs in 2017 averaged approximately 61% lower than the average prices for equivalent volumes of oil. We report all production information related to natural gas net of the effect of any reduction in natural gas volumes resulting from the processing of NGLs.

Third-Party Reports

For the years ended December 31, 2017, 2016 and 2015, we engaged DeGolyer and MacNaughton, independent petroleum engineers, to prepare estimates of the extent and value of the proved reserves of certain of our oil and gas properties, including 100% of our total reported proved reserves. DeGolyer and MacNaughton’s report for 2017 is included as Exhibit 99.1 to this annual report on Form 10-K.

Oil and Gas Production, Production Prices and Production Costs

The following table sets forth summary information regarding oil, NGLs and gas production, average sales prices and average production costs for the last three years. We determined the Boe using the ratio of six Mcf of natural gas to one Boe, and one barrel of NGLs to one Boe. The ratios of six Mcf of natural gas to one Boe and one barrel of NGLs to one Boe do not assume price equivalency and, given price differentials, the price for a Boe for natural gas or NGLs may differ significantly from the price for a barrel of oil.

	Years Ended December 31,		
Production	**2017**	**2016**	**2015**
Oil (MBbls)	1,107	1,275	1,882
NGLs (MBbls)	1,486	1,529	1,694
Gas (MMcf)(1)	9,829	10,404	11,732
Total (MBoe)	4,232	4,537	5,532
Total (MBoe/d)	11.6	12.4	15.2
Average prices			
Oil (per Bbl)	$ 47.63	$ 37.90	$ 43.65
NGLs (per Bbl)	18.64	12.93	12.06
Gas (per Mcf)	2.53	2.14	2.45
Total (per Boe)	24.89	19.90	23.74
Net cash (payment) receipt on derivative settlements (per Boe)	(1.03)	1.35	9.49
Total including derivative impact (per Boe)	$ 23.86	$ 21.25	$ 33.23
Production costs (per Boe)(2)	$ 4.23	$ 4.24	$ 5.24

(1) Gas production excludes gas produced and used as field fuel (primarily for compressors and artificial lifts) before the gas was delivered to a sales point.

PART II

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

Market Information

Our common stock is traded on NASDAQ Global Select Market in the United States under the symbol "AREX." During 2017, trading volume averaged 757,621 shares per day. The following table shows the quarterly high and low sale prices of our common stock as reported on NASDAQ for the past two years.

	Price Per Share	
	High	Low
2017		
First quarter	$ 3.70	$ 1.93
Second quarter	3.41	1.95
Third quarter	3.56	2.23
Fourth quarter	3.13	2.19
2016		
First quarter	$ 2.05	$ 0.60
Second quarter	3.10	1.13
Third quarter	4.35	1.35
Fourth quarter	4.33	2.51

Holders

As of February 20, 2018, there were 162 record holders of our common stock. A record holder may be a broker or other entity holding shares in street name for one or more customers who beneficially own the shares.

Dividends

We have not paid any cash dividends on our common stock. We do not expect to pay any cash or other dividends in the foreseeable future on our common stock, as we intend to reinvest cash flow generated by operations into our business. Our revolving credit facility currently restricts our ability to pay cash dividends on our common stock, and we may also enter into credit agreements or other borrowing arrangements in the future that restrict or limit our ability to pay cash dividends on our common stock.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information regarding securities authorized for issuance under equity compensation plans and individual compensation arrangements as of December 31, 2017.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))(1) (c)
Equity compensation plans approved by stockholders	—	$ —	527,125
Equity compensation plans not approved by stockholders	—	—	—

Earnings Per Common Share

We report basic earnings per common share, which excludes the effect of potentially dilutive securities, and diluted earnings per common share, which includes the effect of all potentially dilutive securities unless their impact is antidilutive. The following are reconciliations of the numerators and denominators of our basic and diluted earnings per share, (dollars in thousands, except per-share amounts):

	For the Years Ended December 31,		
	2017	2016	2015
Income (numerator):			
Net (loss) income — basic	$ (112,359)	$ (52,243)	$ (174,104)
Weighted average shares (denominator):			
Weighted average shares — basic	83,404,104	41,488,206	40,464,283
Dilution effect of share-based compensation, treasury method (1)	—	—	—
Weighted average shares — diluted	83,404,104	41,488,206	40,464,283
Net (loss) income per share:			
Basic	$ (1.35)	$ (1.26)	$ (4.30)
Diluted	$ (1.35)	$ (1.26)	$ (4.30)

(1) Approximately 39,000 options to purchase our common stock were excluded from this calculation because they were antidilutive for the years ended December 31, 2016 and 2015. No options were outstanding as of December 31, 2017, as they had expired.

Oil and Gas Operations

Revenue and Accounts Receivable. We recognize revenue for our production when the quantities are delivered to or collected by the respective purchaser. Prices for such production are defined in sales contracts and are readily determinable based on certain publicly available indices.

Accounts receivable, joint interest owners, consist of uncollateralized joint interest owner obligations due within 30 days of the invoice date. Accounts receivable, oil, NGLs and gas sales, consist of uncollateralized accrued revenues due under normal trade terms, generally requiring payment within 30 to 60 days of production. No interest is charged on past-due balances. Payments made on all accounts receivable are applied to the earliest unpaid items. We review accounts receivable periodically and reduce the carrying amount by a valuation allowance that reflects our best estimate of the amount that may not be collectible. No such allowance was considered necessary at December 31, 2017 or 2016.

Oil, NGLs and Gas Sales Payable. Oil, NGLs and gas sales payable represents amounts collected from purchasers for oil, NGLs and gas sales which are either revenues due to other revenue interest owners or severance taxes due to the respective state or local tax authorities. Generally, we are required to remit amounts due under these liabilities within 60 days of the end of the month in which the related production occurred.

Production Costs. Production costs, including compressor rental and repair, pumpers' and supervisors' salaries, saltwater disposal, insurance, repairs and maintenance, expensed workovers and other operating expenses are expensed as incurred and included in lease operating expenses on our consolidated statements of operations.

Exploration expenses. Exploration expenses include lease expirations, delay rentals, geological and geophysical costs and dry hole costs. For the year ended December 31, 2015 exploration expense includes $2.2 million related to the early termination of daywork drilling contracts.

Item 6. Selected Financial Data.

You should read the following selected consolidated financial data in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The consolidated statements of income data for each of the years ended December 31, 2017, 2016, and 2015 and the consolidated balance sheets data as of December 31, 2017 and 2016 are derived from our audited consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2014 and 2013 and the consolidated balance sheets data as of December 31, 2015, 2014, and 2013 are derived from our audited consolidated financial statements, except as otherwise noted, that are not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results in any future period.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in millions, except per share data)				
Consolidated Statements of Income Data:					
Revenue	$ 40,653	$ 27,638	$ 17,928	$ 12,466	$ 7,872
Total costs and expenses(1)	20,450	15,211	11,703	7,472	5,068
Income from operations	20,203	12,427	6,225	4,994	2,804
Income before provision for income taxes	20,594	12,518	6,194	4,910	2,754
Net income	15,934	10,217	3,688	2,940	1,500
Net income attributable to Class A and Class B common stockholders	15,920	10,188	3,669	2,925	1,491
Earnings per share attributable to Class A and Class B common stockholders:					
Basic	$ 5.49	$ 3.56	$ 1.31	$ 1.12	$ 0.62
Diluted	$ 5.39	$ 3.49	$ 1.29	$ 1.10	$ 0.60

(1) Total costs and expenses include $3.72 billion, $3.22 billion, $2.97 billion, $1.84 billion, and $906 million of share-based compensation for the years ended December 31, 2017, 2016, 2015, 2014, and 2013, respectively.

	As of December 31,				
	2017	2016	2015	2014	2013
	(in millions)				
Consolidated Balance Sheets Data:					
Cash, cash equivalents, and marketable securities	$ 41,711	$ 29,449	$ 18,434	$ 11,199	$ 11,449
Working capital	44,803	31,526	19,727	11,966	11,801
Property and equipment, net	13,721	8,591	5,687	3,967	2,882
Total assets	84,524	64,961	49,407	39,966	17,858
Capital lease obligations	—	—	114	233	476
Total liabilities	10,177	5,767	5,189	3,870	2,388
Additional paid-in capital	40,584	38,227	34,886	30,225	12,297
Total stockholders' equity	74,347	59,194	44,218	36,096	15,470

Results of Operations

The following tables set forth our consolidated statements of income data:

	Year Ended December 31,		
	2017	2016	2015
	(in millions)		
Consolidated Statements of Income Data:			
Revenue	$ 40,653	$ 27,638	$ 17,928
Costs and expenses:			
Cost of revenue	5,454	3,789	2,867
Research and development	7,754	5,919	4,816
Marketing and sales	4,725	3,772	2,725
General and administrative	2,517	1,731	1,295
Total costs and expenses	20,450	15,211	11,703
Income from operations	20,203	12,427	6,225
Interest and other income (expense), net	391	91	(31)
Income before provision for income taxes	20,594	12,518	6,194
Provision for income taxes	4,660	2,301	2,506
Net income	$ 15,934	$ 10,217	$ 3,688

Share-based compensation expense included in costs and expenses:

	Year Ended December 31,		
	2017	2016	2015
	(in millions)		
Cost of revenue	$ 178	$ 113	$ 81
Research and development	2,820	2,494	2,350
Marketing and sales	436	368	320
General and administrative	289	243	218
Total share-based compensation expense	$ 3,723	$ 3,218	$ 2,969

The following tables set forth our consolidated statements of income data (as a percentage of revenue):

	Year Ended December 31,		
	2017	2016	2015
Consolidated Statements of Income Data:			
Revenue	100 %	100 %	100 %
Costs and expenses:			
Cost of revenue	13	14	16
Research and development	19	21	27
Marketing and sales	12	14	15
General and administrative	6	6	7
Total costs and expenses	50	55	65
Income from operations	50	45	35
Interest and other income (expense), net	1	—	—
Income before provision for income taxes	51	45	35
Provision for income taxes	11	8	14
Net income	39 %	37 %	21 %

relevance, and performance of those ads.

In 2016 compared to 2015, the average price per ad increased by 5% and the number of ads delivered increased by 50%. The increase in average price per ad was driven by a continued mix shift towards a greater percentage of our ads being shown in News Feed while the increase in the ads delivered was driven by the same factors that influenced our advertising growth.

Payments and other fees revenue in 2016 decreased $96 million, or 11%, compared to 2015. The majority of the decrease in Payments and other fees revenue was due to decreased Payments revenue from games played on personal computers.

No customer represented 10% or more of total revenue during the years ended December 31, 2017, 2016, and 2015.

Foreign Exchange Impact on Revenue

The general weakening of the U.S. dollar relative to certain foreign currencies in the full year 2017 compared to the same period in 2016 had a favorable impact on our revenue. If we had translated revenue for the full year 2017 using the prior year's monthly exchange rates for our settlement currencies other than the U.S. dollar, our total revenue and advertising revenue would have been $40.36 billion and $39.65 billion, respectively. Using these constant rates, revenue and advertising revenue would have been $293 million and $292 million lower than actual revenue and advertising revenue, respectively, for the full year 2017.

The general strengthening of the U.S. dollar relative to certain foreign currencies in the full year 2016 compared to the same period in 2015 had an unfavorable impact on our revenue. If we had translated revenue for the full year 2016 using 2015 monthly exchange rates for our settlement currencies other than the U.S. dollar, our total revenue and advertising revenue would have been $27.91 billion and $27.15 billion, respectively. Using these constant rates, revenue and advertising revenue would have been $270 million and $269 million higher than actual revenue and advertising revenue, respectively, for the full year 2016.

Cost of revenue

	Year Ended December 31,			2017 vs 2016 % Change	2016 vs 2015 % Change
	2017	2016	2015		
	(dollars in millions)				
Cost of revenue	$ 5,454	$ 3,789	$ 2,867	44%	32 %
Percentage of revenue	13 %	14 %	16 %		

2017 Compared to 2016. Cost of revenue in 2017 increased $1.67 billion, or 44%, compared to 2016. The majority of the increase was due to an increase in operational expenses related to our data centers and technical infrastructure and, to a lesser extent, higher costs associated with partnership agreements, including content acquisition costs, and ads payment processing.

2016 Compared to 2015. Cost of revenue in 2016 increased $922 million, or 32%, compared to 2015. The majority of the increase was due to an increase in operational expenses related to our data centers and technical infrastructure and, to a lesser extent, higher costs associated with ads payment processing and various partnership agreements.

In 2018, we anticipate that the cost of revenue will increase as we continue to expand our data center capacity and technical infrastructure to support user growth, increased user engagement, and the delivery of new products and services and, to a lesser extent, due to higher costs associated with ads payment processing and various partnership agreements.

Research and development

	Year Ended December 31,			2017 vs 2016 % Change	2016 vs 2015 % Change
	2017	2016	2015		
	(dollars in millions)				
Research and development	$ 7,754	$ 5,919	$ 4,816	31%	23%
Percentage of revenue	19 %	21 %	27 %		

2017 Compared to 2016. Research and development expenses in 2017 increased $1.84 billion, or 31%, compared to 2016. The majority of the increase was due to an increase in payroll and benefits as a result of a 49% growth in employee headcount from December 31, 2016 to December 31, 2017 in engineering and other technical functions, partially offset by a $262 million decrease in share-based compensation related to the acquisitions completed in 2014.

2016 Compared to 2015. Research and development expenses in 2016 increased $1.10 billion, or 23%, compared to 2015. The majority of the increase was due to an increase in payroll and benefits as a result of a 34% growth in employee headcount from December 31, 2015 to December 31, 2016 in engineering and other technical functions. Additionally, our equipment and related expenses in 2016 to support our research and development efforts increased $170 million compared to 2015.

In 2018, we plan to continue to hire software engineers and other technical employees, and to increase our investment to support our research and development initiatives.

Marketing and sales

	Year Ended December 31,			2017 vs 2016 % Change	2016 vs 2015 % Change
	2017	2016	2015		
		(dollars in millions)			
Marketing and sales	$ 4,725	$ 3,772	$ 2,725	25%	38 %
Percentage of revenue	12 %	14 %	15 %		

2017 Compared to 2016. Marketing and sales expenses in 2017 increased $953 million, or 25%, compared to 2016. The majority of the increase was due to increases in payroll and benefits expenses as a result of a 35% increase in employee headcount from December 31, 2016 to December 31, 2017 in our marketing and sales functions, and increases in our consulting and other professional service fees. Additionally, our marketing expenses increased $196 million in 2017, compared to 2016.

2016 Compared to 2015. Marketing and sales expenses in 2016 increased $1.05 billion, or 38%, compared to 2015. The majority of the increase was due to payroll and benefits expenses as a result of a 28% increase in employee headcount from December 31, 2015 to December 31, 2016 in our marketing and sales functions, and increases in our consulting and other professional service fees. Additionally, our marketing expenses increased $344 million in 2016, compared to 2015.

In 2018, we plan to continue the hiring of marketing and sales employees to support our marketing, sales, and partnership efforts and to increase our investment in security efforts through the hiring of employees and content reviewers.

General and administrative

	Year Ended December 31,			2017 vs 2016 % Change	2016 vs 2015 % Change
	2017	2016	2015		
		(dollars in millions)			
General and administrative	$ 2,517	$ 1,731	$ 1,295	45%	34%
Percentage of revenue	6 %	6 %	7 %		

2017 Compared to 2016. General and administrative expenses in 2017 increased $786 million, or 45%, compared to 2016. The majority of the increase was due to an increase in payroll and benefits expenses as a result of a 58% increase in employee headcount from December 31, 2016 to December 31, 2017 in general and administrative functions, and to a lesser extent, higher legal-related costs.

2016 Compared to 2015. General and administrative expenses in 2016 increased $436 million, or 34%, compared to 2015. The majority of the increase was due to an increase in payroll and benefits expenses as a result of a 43% increase in employee headcount from December 31, 2015 to December 31, 2016 in general and administrative functions, and to a lesser extent, higher professional services and legal fees.

In 2018, we plan to continue to increase general and administrative expenses to support overall company growth.

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Interest and other income (expense), net

	Year Ended December 31,			2017 vs 2016 % Change	2016 vs 2015 % Change
	2017	2016	2015		
		(in millions)			
Interest income, net	$ 392	$ 166	$ 29	136%	NM
Other expense, net	(1)	(75)	(60)	99%	(25)%
Interest and other income (expense), net	$ 391	$ 91	$ (31)	NM	NM

2017 Compared to 2016. Interest and other income, net in 2017 increased $300 million compared to 2016. The majority of the increase in 2017 was due to an increase in interest income driven by higher invested cash balances and interest rates. In addition, foreign exchange impact resulting from the periodic re-measurement of our foreign currency assets and liabilities also contributed to the increase in 2017.

2016 Compared to 2015. Interest and other income (expense), net in 2016 increased $122 million compared to 2015. Interest income, net increased mostly due to increases in interest income driven by higher invested cash balances and interest rates. In addition, the majority of the increase in other expense, net was due to foreign exchange impact resulting from the periodic re-measurement of our foreign currency assets and liabilities.

Provision for income taxes

	Year Ended December 31,			2017 vs 2016 % Change	2016 vs 2015 % Change
	2017	2016	2015		
		(dollars in millions)			
Provision for income taxes	$ 4,660	$ 2,301	$ 2,506	103%	(8)%
Effective tax rate	23 %	18 %	40 %		

2017 Compared to 2016. Our provision for income taxes in 2017 increased $2.36 billion, or 103%, compared to 2016, mostly due to the effects of the Tax Act that was enacted on December 22, 2017 and an increase in income before provision for income taxes, partially offset by an increase in excess tax benefits recognized from share-based compensation. As a result of the Tax Act, we recognized a one-time mandatory transition tax on accumulated foreign subsidiary earnings, remeasured our U.S. deferred tax assets and liabilities, and reassessed the net realizability of our deferred tax assets and liabilities, which increased our provision for income taxes in 2017 by $2.27 billion.

Our effective tax rate in 2017 increased compared to 2016, mostly due to the Tax Act and a decrease in the tax rate benefit from share-based compensation compared to 2016. These effects were partially offset by an increase in income before provision for income taxes being earned in jurisdictions with tax rates lower than the U.S. statutory tax rate. In 2017, excess tax benefits recognized from share-based compensation decreased our provision for income taxes by $1.25 billion and our effective tax rate by six percentage points as compared to the tax rate without such benefits. For comparison, in 2016, excess tax benefits recognized from share-based compensation decreased our provision for income taxes by $934 million and our effective tax rate by seven percentage points, as compared to the tax rate without such benefits.

2016 Compared to 2015. Our provision for income taxes in 2016 decreased $205 million, or 8%, compared to 2015, primarily due to recognition of excess tax benefits from share-based compensation in our provision for income taxes resulting from the adoption of ASU 2016-09, partially offset by an increase in income before provision for income taxes. Our effective tax rate in 2016 decreased compared to 2015 due to more of our income before provision for income taxes being earned in jurisdictions with a tax rate lower than the U.S. statutory rate where we had asserted our intention to indefinitely reinvest certain of those earnings, as well as due to a lower increase in our unrecognized tax benefit in 2016 compared to 2015 and the adoption of ASU 2016-09 in 2016.

Effective Tax Rate Items. Our effective tax rate in the future will depend upon the proportion of our income before provision for income taxes earned in the United States and in jurisdictions with a tax rate lower than the U.S. statutory rate, as well as a number of other factors, including excess tax benefits from share-based compensation, changes to our provisional accounting for the effects of the Tax Act during the measurement period, tax effects of integrating intellectual property from acquisitions, settlement of tax contingency items, tax effects of changes in our business, and the impact of new legislation.

The portion of our income before provision for income taxes earned in jurisdictions with a tax rate lower than the U.S. statutory rate will depend upon the proportion of revenue and costs associated with the respective jurisdictions.

Quarterly Results of Operations Data

The following tables set forth our unaudited quarterly consolidated statements of income data in dollars and as a percentage of total revenue for each of the eight quarters in the period ended December 31, 2017. We have prepared the quarterly consolidated statements of income data on a basis consistent with the audited consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. In the opinion of management, the financial information reflects all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of this data. This information should be read in conjunction with the audited consolidated financial statements and related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report on Form 10-K. The results of historical periods are not necessarily indicative of the results of operations for any future period.

	Three Months Ended							
	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
	(in millions)							
Consolidated Statements of Income Data:								
Revenue:								
Advertising	$ 12,779	$ 10,142	$ 9,164	$ 7,857	$ 8,629	$ 6,816	$ 6,239	$ 5,201
Payments and other fees	193	186	157	175	180	195	197	181
Total revenue	12,972	10,328	9,321	8,032	8,809	7,011	6,436	5,382
Costs and expenses:								
Cost of revenue	1,611	1,448	1,237	1,159	1,047	987	917	838
Research and development	1,949	2,052	1,919	1,834	1,563	1,542	1,471	1,343
Marketing and sales	1,374	1,170	1,124	1,057	1,118	926	901	826
General and administrative	686	536	640	655	515	439	413	365
Total costs and expenses	5,620	5,206	4,920	4,705	4,243	3,894	3,702	3,372
Income from operations	7,352	5,122	4,401	3,327	4,566	3,117	2,734	2,010
Interest and other income (expense), net	110	114	87	81	(33)	47	20	56
Income before provision for income taxes	7,462	5,236	4,488	3,408	4,533	3,164	2,754	2,066
Provision for income taxes	3,194	529	594	344	965	537	471	328
Net income	$ 4,268	$ 4,707	$ 3,894	$ 3,064	$ 3,568	$ 2,627	$ 2,283	$ 1,738
Less: Net income attributable to participating securities	2	3	4	5	7	7	7	6
Net income attributable to Class A and Class B common stockholders	$ 4,266	$ 4,704	$ 3,890	$ 3,059	$ 3,561	$ 2,620	$ 2,276	$ 1,732
Earnings per share attributable to Class A and Class B common stockholders:								
Basic	$ 1.47	$ 1.62	$ 1.34	$ 1.06	$ 1.24	$ 0.91	$ 0.80	$ 0.61
Diluted	$ 1.44	$ 1.59	$ 1.32	$ 1.04	$ 1.21	$ 0.90	$ 0.78	$ 0.60

Share-based compensation expense included in costs and expenses:

	Three Months Ended							
	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
	(in millions)							
Cost of revenue	$ 50	$ 47	$ 47	$ 34	$ 32	$ 30	$ 29	$ 22
Research and development	587	776	787	670	641	636	631	586
Marketing and sales	106	114	120	96	96	95	95	82
General and administrative	71	73	78	67	62	63	62	56
Total share-based compensation expense	$ 814	$ 1,010	$ 1,032	$ 867	$ 831	$ 824	$ 817	$ 746

	Three Months Ended							
	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
	(as a percentage of total revenue)							
Consolidated Statements of Income Data:								
Revenue:								
Advertising	99 %	98 %	98 %	98 %	98 %	97 %	97 %	97 %
Payments and other fees	1	2	2	2	2	3	3	3
Total revenue	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Costs and expenses:								
Cost of revenue	12	14	13	14	12	14	14	16
Research and development	15	20	21	23	18	22	23	25
Marketing and sales	11	11	12	13	13	13	14	15
General and administrative	5	5	7	8	6	6	6	7
Total costs and expenses	43	50	53	59	48	56	58	63
Income from operations	57	50	47	41	52	44	42	37
Interest and other income (expense), net	1	1	1	1	—	1	—	1
Income before provision for income taxes	58	51	48	42	51	45	43	38
Provision for income taxes	25	5	6	4	11	8	7	6
Net income	33 %	46 %	42 %	38 %	41 %	37 %	35 %	32 %
Less: Net income attributable to participating securities	—	—	—	—	—	—	—	—
Net income attributable to Class A and Class B common stockholders	33%	46%	42%	38%	40%	37%	35%	32%

Share-based compensation expense included in costs and expenses:

	Three Months Ended							
	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
	(as a percentage of total revenue)							
Cost of revenue	—%	—%	1%	—%	—%	—%	—%	—%
Research and development	5	8	8	8	7	9	10	11
Marketing and sales	1	1	1	1	1	1	1	2
General and administrative	1	1	1	1	1	1	1	1
Total share-based compensation expense	6%	10%	11%	11%	9%	12%	13%	14%

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The numerators and denominators of the basic and diluted EPS computations for our common stock are calculated as follows (in millions, except per share amounts):

	Year Ended December 31,					
	2017		2016		2015	
	Class A	Class B	Class A	Class B	Class A	Class B
Basic EPS:						
Numerator						
Net income	$ 13,034	$ 2,900	$ 8,270	$ 1,947	$ 2,959	$ 729
Less: Net income attributable to participating securities	12	2	24	5	15	4
Net income attributable to common stockholders	$ 13,022	$ 2,898	$ 8,246	$ 1,942	$ 2,944	$ 725
Denominator						
Weighted average shares outstanding	2,375	528	2,323	548	2,259	559
Less: Shares subject to repurchase	2	—	6	2	10	5
Number of shares used for basic EPS computation	2,373	528	2,317	546	2,249	554
Basic EPS	$ 5.49	$ 5.49	$ 3.56	$ 3.56	$ 1.31	$ 1.31
Diluted EPS:						
Numerator						
Net income attributable to common stockholders	$ 13,022	$ 2,898	$ 8,246	$ 1,942	$ 2,944	$ 725
Reallocation of net income attributable to participating securities	14	—	29	—	19	—
Reallocation of net income as a result of conversion of Class B to Class A common stock	2,898	—	1,942	—	725	—
Reallocation of net income to Class B common stock	—	(13)	—	14	—	15
Net income attributable to common stockholders for diluted EPS	$ 15,934	$ 2,885	$ 10,217	$ 1,956	$ 3,688	$ 740
Denominator						
Number of shares used for basic EPS computation	2,373	528	2,317	546	2,249	554
Conversion of Class B to Class A common stock	528	—	546	—	554	—
Weighted average effect of dilutive securities:						
Employee stock options	4	4	6	6	8	8
RSUs	49	3	49	5	37	9
Shares subject to repurchase and other	2	—	7	3	5	2
Number of shares used for diluted EPS computation	2,956	535	2,925	560	2,853	573
Diluted EPS	$ 5.39	$ 5.39	$ 3.49	$ 3.49	$ 1.29	$ 1.29

Selected Consolidated Financial Data

	As Of Or For The Year Ended December 31, 2017	2016	2015	2014	2013
	(dollars in thousands, except for per share amounts)				
Consolidated Statements of Operations Data					
Net Revenue:					
Financial Advisory (a)	$ 1,387,682	$ 1,301,044	$ 1,279,628	$ 1,206,734	$ 980,577
Asset Management (b)	1,255,820	1,051,316	1,111,105	1,134,595	1,039,130
Corporate (c)	809	(18,989)	(37,125)	(40,882)	(34,355)
Net Revenue	2,644,311	2,333,371	2,353,608	2,300,447	1,985,352
Compensation and Benefits (d)	1,512,873	1,340,543	1,319,746	1,313,606	1,278,534
Other Operating Expenses (e)	305,992	475,367	1,050,482	467,376	490,011
Total Operating Expenses	1,818,865	1,815,910	2,370,228	1,780,982	1,768,545
Operating Income (Loss)	$ 825,446	$ 517,461	$ (16,620)	$ 519,465	$ 216,807
Net Income	$ 259,847	$ 393,692	$ 992,932	$ 434,063	$ 165,114
Net Income Attributable to Lazard Ltd	$ 253,583	$ 387,698	$ 986,373	$ 427,277	$ 160,212
Net Income Per Share of Class A Common Stock:					
Basic	$ 2.09	$ 3.11	$ 7.87	$ 3.49	$ 1.33
Diluted	$ 1.91	$ 2.92	$ 7.40	$ 3.20	$ 1.21
Dividends Declared Per Share of Class A Common Stock	$ 2.81	$ 2.69	$ 2.35	$ 1.20	$ 1.00
Consolidated Statements of Financial Condition Data					
Total Assets	$ 4,928,677	$ 4,556,508	$ 4,477,774	$ 3,325,329	$ 3,002,553
Total Debt (f)	$ 1,190,444	$ 1,195,805	$ 998,386	$ 1,053,458	$ 1,055,600
Total Lazard Ltd Stockholders' Equity	$ 1,199,803	$ 1,235,987	$ 1,313,455	$ 706,744	$ 560,209
Total Stockholders' Equity	$ 1,258,905	$ 1,293,813	$ 1,367,306	$ 770,057	$ 629,998
Other Data					
Assets Under Management:					
As of December 31	$ 249,459,000	$ 197,910,000	$ 186,380,000	$ 197,103,000	$ 186,924,000
Average During Year	$ 226,525,000	$ 194,808,000	$ 195,987,000	$ 196,037,000	$ 173,702,000
Total Headcount, As of December 31	2,843	2,781	2,610	2,523	2,403

***Notes (in thousands of dollars)*:**

(a) Financial Advisory net revenue consists of the following:

	For The Year Ended December 31, 2017	2016	2015	2014	2013
Strategic Advisory	$ 1,125,787	$ 1,099,322	$ 1,173,777	$ 1,091,973	$ 847,706
Restructuring	261,895	201,722	105,851	114,761	132,871
Financial Advisory Net Revenue	$ 1,387,682	$ 1,301,044	$ 1,279,628	$ 1,206,734	$ 980,577

(b) Asset Management net revenue consists of the following:

	For The Year Ended December 31, 2017	2016	2015	2014	2013
Management Fees and Other	$ 1,210,016	$ 1,035,726	$ 1,086,030	$ 1,082,729	$ 960,788
Incentive Fees	45,804	15,590	25,075	51,866	78,342
Asset Management Net Revenue	$ 1,255,820	$ 1,051,316	$ 1,111,105	$ 1,134,595	$ 1,039,130

(c) "Corporate" includes interest expense (net of interest income) and investment income (losses) from certain investments.

(d) Includes in 2013, charges of $51,399 relating to the acceleration of unrecognized amortization expense pertaining to previously granted deferred incentive compensation, severance and benefit payments and other compensation-related costs, all relating to the cost saving initiatives announced by the Company in October 2012, and $12,203 related to incentive compensation expense arising from private equity transactions for which revenue may be recognized in the future.

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Table 3

AVERAGE BALANCE SHEETS AND TAXABLE-EQUIVALENT RATES

	2017			2016			2015			2014			2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(Average balance in millions of dollars; interest in thousands of dollars)														
Assets															
Earning assets															
Loans and leases, net of unearned discount(a)															
Commercial, financial, etc.	$ 21,981	$ 853,389	3.88%	21,397	736,240	3.44%	19,899	638,199	3.21%	18,867	624,487	3.31%	17,736	628,154	3.54%
Real estate — commercial	33,196	1,481,427	4.40	30,915	1,277,196	4.06	28,276	1,193,271	4.16	26,461	1,142,939	4.26	26,083	1,198,400	4.53
Real estate — consumer	21,013	832,574	3.96	24,463	958,521	3.92	11,458	468,790	4.09	8,719	368,632	4.23	10,136	418,095	4.12
Consumer	12,625	608,253	4.82	11,841	538,144	4.54	11,203	499,650	4.46	10,618	480,877	4.53	11,098	510,962	4.60
Total loans and leases, net	88,815	3,775,643	4.25	88,616	3,510,101	3.96	70,836	2,799,910	3.95	64,665	2,616,935	4.05	65,053	2,755,611	4.24
Interest-bearing deposits at banks	5,578	61,326	1.10	8,846	45,516	.51	5,775	15,252	.26	5,342	13,361	.25	2,139	5,201	.24
Federal funds sold and agreements to resell securities	—	6	1.56	—	3	.86	34	35	.10	89	64	.07	128	114	.09
Trading account	71	1,202	1.70	85	1,442	1.71	86	1,247	1.44	76	1,381	1.81	78	1,482	1.91
Investment securities(b)															
U.S. Treasury and federal agencies	14,701	336,446	2.29	14,025	332,926	2.37	13,514	336,873	2.49	10,543	304,178	2.88	5,123	165,879	3.24
Obligations of states and political subdivisions	43	1,951	4.62	90	3,839	4.24	143	6,391	4.46	166	8,115	4.89	194	9,999	5.15
Other	794	25,791	3.25	894	29,006	3.24	799	35,599	4.45	800	36,485	4.56	1,298	44,019	3.39
Total investment securities	15,538	364,188	2.34	15,009	365,771	2.44	14,456	378,863	2.62	11,509	348,778	3.03	6,615	219,897	3.32
Total earning assets	110,002	4,202,365	3.82	112,556	3,922,833	3.49	91,187	3,195,307	3.50	81,681	2,980,519	3.65	74,013	2,982,305	4.03
Allowance for credit losses	(1,012)			(976)			(935)			(923)			(932)		
Cash and due from banks	1,295			1,273			1,242			1,277			1,380		
Other assets	10,575			11,487			10,286			10,108			9,201		
Total assets	$120,860			124,340			101,780			92,143			83,662		
Liabilities and Shareholders' Equity															
Interest-bearing liabilities															
Interest-bearing deposits															
Savings and interest-checking deposits	$ 53,399	133,177	.25	52,194	87,704	.17	43,885	46,140	.11	41,508	46,869	.11	37,662	56,235	.15
Time deposits	8,161	61,505	.75	12,253	102,841	.84	4,641	27,059	.58	3,290	15,515	.47	4,045	26,439	.65
Deposits at Cayman Islands office	185	1,186	.64	199	797	.40	216	615	.28	327	699	.21	496	1,018	.21
Total interest-bearing deposits	61,745	195,868	.32	64,646	191,342	.30	48,742	73,814	.15	45,125	63,083	.14	42,203	83,692	.20
Short-term borrowings	205	1,511	.74	894	3,625	.41	548	1,677	.31	215	101	.05	390	430	.11
Long-term borrowings	8,302	189,372	2.28	10,252	231,017	2.25	10,217	252,766	2.47	7,492	217,247	2.90	4,941	199,983	4.05
Total interest-bearing liabilities	70,252	386,751	.55	75,792	425,984	.56	59,507	328,257	.55	52,832	280,431	.53	47,534	284,105	.60
Noninterest-bearing deposits	32,520			30,160			27,324			25,715			23,721		
Other liabilities	1,793			1,969			1,721			1,499			1,685		
Total liabilities	104,565			107,921			88,552			80,046			72,940		
Shareholders' equity	16,295			16,419			13,228			12,097			10,722		
Total liabilities and shareholders' equity	$120,860			124,340			101,780			92,143			83,662		
Net interest spread			3.27			2.93			2.95			3.12			3.43
Contribution of interest-free funds			.20			.18			.19			.19			.22
Net interest income/margin on earning assets		$3,815,614	3.47%		3,496,849	3.11%		2,867,050	3.14%		2,700,088	3.31%		2,698,200	3.65%

(a) *Includes nonaccrual loans.*
(b) *Includes available-for-sale investment securities at amortized cost.*

individuals to finance the construction of one-to-four family residential properties totaled $22 million at December 31, 2017 and $21 million at December 31, 2016, or less than .1% of total loans and leases at each of those dates. Information about the credit performance of the Company's residential real estate loans is included herein under the heading "Provision For Credit Losses."

Consumer loans comprised approximately 15% and 13% of total loans and leases at December 31, 2017 and 2016, respectively. Outstanding balances of home equity loans and lines of credit represent the largest component of the consumer loan portfolio. Such balances represented approximately 6% of total loans and leases at each of December 31, 2017 and December 31, 2016. Approximately 40% of home equity loans and lines of credit outstanding at December 31, 2017 were secured by properties in New York State, 25% in Maryland, 21% in Pennsylvania and 3% in New Jersey. Outstanding automobile loan balances rose to $3.5 billion at December 31, 2017 from $2.9 billion at December 31, 2016. That increase reflects continued consumer demand for motor vehicles.

Table 7 presents the composition of the Company's loan and lease portfolio at the end of 2017, including outstanding balances to businesses and consumers in New York State, Pennsylvania, the Mid-Atlantic area and other states.

Table 7

LOANS AND LEASES, NET OF UNEARNED DISCOUNT

December 31, 2017

		Percent of Dollars Outstanding					
				Mid-Atlantic			
	Outstandings (In millions)	New York	Penn-sylvania	Maryland	New Jersey	Other(a)	Other
Real estate							
Residential	$ 19,613	35%	8%	6%	28%	5%	18%
Commercial	33,366	44	13	12	6	10	15
Total real estate	52,979	41%	11%	10%	14%	8%	16%
Commercial, financial, etc.	20,463	39%	24%	12%	6%	6%	13%
Consumer							
Home equity lines and loans	5,294	40%	21%	25%	3%	10%	1%
Automobile	3,544	26	19	9	7	13	26
Other secured or guaranteed	3,581	18	9	6	6	7	54
Other unsecured	848	40	21	24	2	10	3
Total consumer	13,267	30%	17%	16%	5%	10%	22%
Total loans	86,709	39%	15%	11%	11%	8%	16%
Commercial leases	1,280	47%	18%	9%	3%	2%	21%
Total loans and leases	$ 87,989	38%	15%	11%	11%	8%	17%

(a) Includes Delaware, Virginia, West Virginia and the District of Columbia.

The investment securities portfolio averaged $15.5 billion in 2017, up from $15.0 billion and $14.5 billion in 2016 and 2015, respectively. The changes in the average balances reflect the net effect of purchases, offset by maturities and pay downs of mortgage-backed securities. During 2017, the Company purchased $1.4 billion of mortgage-backed securities, predominantly Ginnie Mae and Freddie Mac securities, and $219 million of U.S. Treasury notes. The Company sold $512 million of pico_10k_041.pdf

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the year ended December 31, 2017
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Non-controlling Interest	Total
Beginning balance, December 31, 2016	23,125	$ 23	$495,468	$ (173,231)	$ 6,661	55	$ (927)	$ 99,575	427,569
Stock-based compensation expense			1,872					299	2,171
Exercise of restricted stock units	76								—
Withholding taxes paid on vested restricted stock units			(831)					(121)	(952)
Changes in ownership of noncontrolling interest			(465)					465	—
Distributions to noncontrolling interest								(26)	(26)
Purchases of treasury stock						47	(690)		(690)
Retirement of treasury stock	(47)		(690)			(47)	690		—
Distribution of treasury stock to deferred compensation plan participant (former CEO)			(106)			(54)	902		796
Deconsolidation of noncontrolling interest in conjunction with sale of consolidated subsidiary								(101,342)	(101,342)
Special dividend paid			(115,860)						(115,860)
Net income				464				1,150	1,614
Unrealized gain on investments, net of deferred income tax of $3,483 and reclassification adjustments of $9,781					(6,193)				(6,193)
Foreign currency translation					76				76
Ending balance, December 31, 2017	23,154	$ 23	$379,388	$ (172,767)	$ 544	1	$ (25)	$ —	$ 207,163

The accompanying notes are an integral part of the consolidated financial statements

Table of Contents

Segment expenses include specific expenses incurred as a direct result of providing services and products to segment customers; selling, general and administrative expenses that are directly associated with specific segment customers or activities; and certain allocated expenses which include network expenses, facilities expenses and other expenses, such as vehicle and real estate-related expenses. We do not assign depreciation and amortization expense, goodwill impairment, merger, integration and other costs, restructuring charges, share-based compensation and pension costs to our segments, because these expenses are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Similarly, certain costs related to centrally-managed administrative functions, such as accounting and finance, information technology, network management, legal and human resources, are not assigned to our segments. Interest expense and net loss on early extinguishment of debt have also been excluded from segment operating results because we manage our financing activities on a total company basis and have not assigned any long-term debt obligations to the segments. Amounts related to our investment in Uniti common stock consisting of dividend income, net gain on disposal and other-than-temporary impairment loss, as well as other (expense) income, net, and income tax benefit are not monitored as a part of our segment operations and, therefore, these items also have been excluded from our segment operating results.

See Note 15 to the consolidated financial statements for a reconciliation of total segment revenues and sales to consolidated revenues and sales and segment income to consolidated net loss.

Consumer & Small Business Segment Results of Operations

The following table reflects the Consumer & Small Business segment results of operations as of December 31:

				2017 to 2016		2016 to 2015	
(Millions)	2017	2016	2015	Increase (Decrease)	%	Increase (Decrease)	%
Revenues and sales:							
Service revenues:							
High-speed Internet bundles (a)	$ 1,045.8	$ 1,049.0	$ 1,032.8	$ (3.2)	—	$ 16.2	2
Voice only (b)	132.4	148.8	169.3	(16.4)	(11)	(20.5)	(12)
Video and miscellaneous	45.0	45.8	49.0	(0.8)	(2)	(3.2)	(7)
Total consumer	1,223.2	1,243.6	1,251.1	(20.4)	(2)	(7.5)	(1)
Small business (c)	325.1	346.4	351.5	(21.3)	(6)	(5.1)	(1)
Switched access (d)	39.5	49.1	60.3	(9.6)	(20)	(11.2)	(19)
CAF Phase II funding and frozen federal USF (e)	188.0	193.8	197.5	(5.8)	(3)	(3.7)	(2)
State USF and ARM support (e)	104.9	121.9	144.2	(17.0)	(14)	(22.3)	(15)
End user surcharges (e)	63.8	68.6	67.0	(4.8)	(7)	1.6	2
Total service revenues	1,944.5	2,023.4	2,071.6	(78.9)	(4)	(48.2)	(2)
Product sales (f)	33.8	39.9	46.7	(6.1)	(15)	(6.8)	(15)
Total revenues and sales	1,978.3	2,063.3	2,118.3	(85.0)	(4)	(55.0)	(3)
Cost and expenses (g)	848.5	870.7	913.8	(22.2)	(3)	(43.1)	(5)
Segment income	$ 1,129.8	$ 1,192.6	$ 1,204.5	$ (62.8)	(5)	$ (11.9)	(1)

(a) The decrease in high-speed Internet bundle revenues in 2017 was primarily due to the overall decline in customers served as further discussed below. Conversely, the increase in these revenues in 2016 was primarily due to the continued migration of customers to higher speeds and the effects of targeted price increases, partially offset by declines in high-speed Internet customers. Demand for faster broadband speeds are expected to favorably impact consumer high-speed Internet revenues, offsetting some of the decline in consumer voice revenues.

(b) The decreases in voice-only revenues were primarily attributable to declines in households served further discussed below.

(c) The decreases were primarily attributable to lower usage for voice-only and high-speed Internet services and declines in customers due to the impacts of competition.

(d) Switched access revenues include usage sensitive revenues from long-distance companies and other carriers for access to our network in connection with the completion of long-distance calls, as well as reciprocal compensation received from wireless and other local connecting carriers for use of our network facilities. The decreases were primarily due to the effects of inter-carrier compensation reform. See "Regulatory Matters" for a further discussion.

Table of Contents

Results of Operations

	Years Ended December 31,		
	2014	2015	2016
	(dollars in thousands)		
Total revenue	$ 4,618,133	$ 4,968,301	$ 5,169,135
Total operating expenses[1]	4,475,191	9,716,795	5,814,193
Income (loss) from operations	$ 142,942	$ (4,748,494)	$ (645,058)
[1]Includes:			
Stock-based compensation expense	$ 420,174	$ 457,153	$ 491,902
Restructuring charges, net	$ 103,450	$ 104,019	$ 88,629
Asset impairment charge	$ —	$ 44,381	$ —
Goodwill impairment charge	$ 88,414	$ 4,460,837	$ 394,901
Intangible assets impairment charge	$ —	$ 15,423	$ 87,335
Items as a percentage of revenue			
Total revenue	100%	100%	100%
Total operating expenses	97%	196%	112%
Income (loss) from operations	3%	(96)%	(12)%
Includes:			
Stock-based compensation expense	9%	9%	10%

Revenue

We generate revenue principally from search and display advertising on Yahoo Properties and Affiliate sites, with the majority of our revenue coming from advertising on Yahoo Properties. Our margins on revenue from advertising on Yahoo Properties are higher than our margins on revenue from advertising on Affiliate sites, as we pay TAC to our Affiliates. Additionally, we generate revenue from other sources including listings-based services, e-commerce transactions, royalties, patent licenses, and consumer and business fee-based services.

In the first quarter of 2016, we reclassified certain amounts from other revenue to either search or display revenue. To conform to the current presentation, we reclassified $29.7 million and $11.6 million to search and display revenue, respectively, previously included in other revenue for the year ended December 31, 2015, and we reclassified $39.1 million and $12.1 million to search and display revenue, respectively, previously included in other revenue for the year ended December 31, 2014.

Search Revenue

Search revenue is generated from mobile and desktop clicks on text-based links to advertisers' websites that appear primarily on search results pages ("search advertising"). We recognize revenue from search advertising on Yahoo Properties and Affiliate sites. Search revenue is recognized based on Paid Clicks. A Paid Click occurs when an end-user clicks on a sponsored listing on Yahoo Properties or Affiliate sites for which an advertiser pays on a per click basis. In October 2015, we reached an agreement with Google that provides us with additional flexibility to choose among suppliers of search results and ads. Google's offerings complement the search services provided by Microsoft and Yahoo Gemini. We are considered the principal in the sale of traffic to Microsoft (in markets that have transitioned pursuant to the Eleventh Amendment to the Microsoft Search