Premier, Inc.
Form 10-K
August 26, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year ended June 30, 2015
Commission File Number 001-36092
Premier, Inc.
(Exact name of registrant as specified in its charter)

Delaware	35-2477140
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
13034 Ballantyne Corporate Place Charlotte, North Carolina	28277
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (704) 357-0022

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $0.01 Par Value	NASDAQ Global Select Market

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the Class A common stock held by non-affiliates of the Registrant as of the last business day of the Registrant’s most recently completed second fiscal quarter was approximately $1,241.7 million. For purposes of the foregoing calculation only, executive officers and directors of the registrant have been deemed to be affiliates.
As of August 21, 2015, there were 37,762,718 shares of the Registrant’s Class A common stock, par value $0.01 per share, outstanding and 106,078,063 shares of the Registrant’s Class B common stock, par value $0.000001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
The Registrant’s definitive proxy statement for its 2015 Annual Meeting of Stockholders to be held on or about December 4, 2015 are incorporated by reference into Part III hereof to the extent described herein.

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EXPLANATORY NOTE

This report represents the annual report for the fiscal year ended June 30, 2015 for Premier, Inc. (this "Annual Report"). On October 1, 2013, Premier, Inc. completed the initial public offering ("IPO") of its Class A common stock (the "Class A common stock"). Premier, Inc. is a holding company that was incorporated as a Delaware corporation on May 14, 2013 which, prior to the IPO, had no substantial assets and conducted no substantial activity except in connection with the IPO. Premier, Inc.'s sole asset is a controlling equity interest in Premier Services, LLC, a Delaware limited liability company ("Premier GP"). Premier GP is the general partner of Premier Healthcare Alliance, L.P. ("Premier LP"), a California limited partnership, which historically conducted the group purchasing portion of our supply chain services business. Unless the context suggests otherwise, references in this Annual Report to "Premier," the "Company," "we," "us" and "our" refer (1) prior to the IPO and related transactions, to PHSI (as defined herein) and its consolidated subsidiaries and (2) after our IPO and related transactions, to Premier, Inc. and its consolidated subsidiaries.

Immediately following the consummation of the IPO, a series of transactions, which we refer to as the "Reorganization" (and, collectively with the IPO, the "Reorganization and IPO"), occurred by which Premier GP became the general partner of Premier LP. Premier Healthcare Solutions, Inc. ("PHSI"), a Delaware corporation, through which we historically conducted the majority of the performance services portion of our business under the name "Premier, Inc.", became our indirect subsidiary through Premier LP. PHSI, Premier LP and Premier Supply Chain Improvement, Inc., ("PSCI"), a Delaware corporation and our indirect subsidiary (through Premier LP) through which we historically conducted certain portions of our supply chain services business, historically conducted all of our business. Upon the consummation of the Reorganization and the IPO, our assets and business operations were substantially similar to those of PHSI, Premier LP and PSCI prior to the Reorganization and the IPO, and we conduct all of our business through Premier LP and its subsidiaries.

Because the Reorganization and the IPO had not yet been consummated and Premier, Inc. had no substantial assets and conducted no substantial activities until October 1, 2013, the financial statements and other information of PHSI and its consolidated subsidiaries are included in this Annual Report for periods prior to October 1, 2013. For more information about the Reorganization and the IPO, refer to Note 2 - Initial Public Offering and Reorganization to the audited consolidated financial statements of this Annual Report.

Throughout this Annual Report, references to "member owners" refer collectively to our past, present and future customers, or members, who have owned, or who currently own, limited partnership interests in Premier LP and/or common stock of PHSI, and, as the context relates to the completion of the Reorganization and the IPO, as described in Note 2 - Initial Public Offering and Reorganization to the audited consolidated financial statements of this Annual Report, beneficially own shares of Premier, Inc. Class B common stock, (the "Class B common stock"), and Class B common units of Premier LP (the "Class B common units") after giving effect to the Reorganization, provided, that, in the context of discussions of the group purchasing organization ("GPO") participation agreements throughout this Annual Report, the term "member owner" also includes any related entity or affiliate of a member owner that is approved by Premier LP to be the signatory of such GPO participation agreement in lieu of the member owner.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this Annual Report that are not statements of historical or current facts, such as those under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from historical results or from any future results or projections expressed or implied by such forward-looking statements. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in conditional or future tenses or that include terms such as "believes," "belief," "expects," "estimates," "intends," "anticipates" or "plans" to be uncertain and forward-looking. Forward-looking statements may include comments as to our beliefs and expectations regarding future events and trends affecting our business and are necessarily subject to uncertainties, many of which are outside our control. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- competition which could limit our ability to maintain or expand market share within our industry;
- consolidation in the healthcare industry;
- potential delays in generating or an inability to generate revenues if the sales cycle takes longer than expected;
- the terminability of member participation in our GPO programs with limited or no notice;
- the impact of our business strategy that involves reducing the prices for products and services in our supply chain services segment;
- the rate at which the markets for our non-GPO services and products develop;
- the dependency of our members on payments from third-party payers;
- our reliance on administrative fees which we receive from GPO suppliers;
- our ability to maintain third-party provider and strategic alliances or enter into new alliances;
- our ability to offer new and innovative products and services;
- the portion of revenues we receive from our largest members;
- risks and expenses related to future acquisition opportunities and integration of acquisitions;
- financial and operational risks associated with investments in, or partnerships or joint ventures with, other businesses, particularly those that we do not control;
- potential litigation;
- our reliance on Internet infrastructure, bandwidth providers, data center providers, other third parties and its own systems for providing services to its users;
- data loss or corruption due to failures or errors in our systems and service disruptions at our data centers, breaches or failures of our security measures;
- the financial and reputational consequences of cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our members or other third parties;
- our ability to use, disclose, de-identify or license data and to integrate third-party technologies;
- our reliance on partners and other third parties;
- our use of "open source" software;
- changes in industry pricing benchmarks;
- any increase in the safety risk profiles of prescription drugs or the withdrawal of prescription drugs from the market;
- our ability to maintain and expand our existing base of drugs in our specialty pharmacy;

- our dependency on contract manufacturing facilities located in various parts of the world;
- our ability to attract, hire, integrate and retain key personnel;
- adequate protection of our intellectual property;
- any alleged infringement, misappropriation or violation of third-party proprietary rights;
- potential sales and use tax liability in certain jurisdictions;
- our future indebtedness and our ability to obtain additional financing;
- fluctuation of our cash flows, quarterly revenues and results of operations;
- changes in the political, economic or regulatory healthcare environment;
- our compliance with federal and state laws governing financial relationships among healthcare providers and the submission of false or fraudulent healthcare claims;
- interpretation and enforcement of current or future antitrust laws and regulations;
- potential healthcare reform and new regulatory requirements placed on our software, services and content;
- compliance with federal and state privacy, security and breach notification laws;
- product safety concerns and regulation;
- our holding company structure and dependence on distributions from Premier LP;
- different interests among our member owners, or between us and our member owners;
- our ability to effectively deploy the net proceeds from future issuances of our equity or debt securities;
- the ability of our member owners to exercise significant control over us, including through the election of all of our directors;
- exemption from certain corporate governance requirements due to our status as a "controlled company" within the meaning of the Nasdaq Global Select Market ("NASDAQ") rules;
- the terms of agreements between us and our member owners;
- payments made under the tax receivable agreements to Premier LP's limited partners;
- our ability to realize all or a portion of the tax benefits that are expected to result from the acquisition of Class B common units from the limited partners;
- changes to Premier LP's allocation methods that may increase a tax-exempt limited partner's risk that some allocated income is unrelated business taxable income;
- the dilutive effect of Premier LP's issuance of additional units or future issuances by us of common stock and/or preferred stock;
- provisions in our certificate of incorporation and bylaws and the Amended and Restated Limited Partnership Agreement of Premier LP (as amended, the "LP Agreement") and provisions of Delaware law that discourage or prevent strategic transactions, including a takeover of us;
- the requirements of being a public company and our inexperience and limited operating history as a publicly-traded company;
- failure to establish and maintain an effective system of internal controls;
- our relatively smaller public float in comparison to other public companies;
- any downgrade in securities or industry analysts' recommendations about our business or Class A common stock;
- the potential volatility of our Class A common stock price;

- the number of shares of Class A common stock that will be eligible for sale or exchange in the near future and the dilutive effect of such issuances;
- our intention not to pay cash dividends on our Class A common stock;
- possible future issuances of debt securities; and
- the risk factors discussed under the heading "Risk Factors" in Item 1A, herein.

More information on potential factors that could affect our financial results is included from time to time in the "Cautionary Note Regarding Forward-Looking Statements," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" or similarly captioned sections of this Annual Report and our other periodic and current filings we make from time to time with the SEC, and which are available on our website at http://investors.premierinc.com/. You should not place undue reliance on any of our forward-looking statements which speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

Market Data and Industry Forecasts and Projections

We use market data and industry forecasts and projections throughout this Annual Report and in particular, under Item 1, Business-Industry Overview. We have obtained the market data from certain publicly available sources of information, including publicly available industry publications. We believe the data others have compiled are reliable, but we have not independently verified the accuracy of this information. While we are not aware of any misstatements regarding the industry data presented herein, forecasts and projections involve risks and uncertainties and are subject to change based on various factors, including those discussed under Item 1A, Risk Factors of this Annual Report. You should not place undue reliance on any such market data or industry forecasts and projections. We undertake no obligation to publicly update or revise any such market data or industry forecasts and projections, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

The following discussion should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from the results referred to in the historical information and the forward-looking statements presented herein, see "Item 1A, Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" contained in this Annual Report.

Our Company

Premier, Inc., incorporated in Delaware on May 14, 2013, is primarily owned by hospitals, health systems and other healthcare organizations (such owners are referred to herein as member owners) located in the United States, as well as public stockholders. Together with our subsidiaries and affiliates, we are a leading healthcare improvement company, uniting an alliance of approximately 3,600 U.S. hospitals and 120,000 other providers to transform healthcare. With integrated data and analytics, collaboratives, supply chain solutions, and advisory and other services, we enable better care and outcomes at a lower cost. We believe that we play a critical role in the rapidly evolving healthcare industry, collaborating with members to co-develop long-term innovations that reinvent and improve the way care is delivered to patients. We deliver value through a comprehensive technology-enabled platform that offers critical supply chain services, clinical, financial, operational and population health software-as-a-service (SaaS) informatics products, advisory services and performance improvement collaborative programs.

As of June 30, 2015, we were controlled by 176 U.S. hospitals, health systems and other healthcare organizations that represent approximately 1,300 owned, leased and managed acute care facilities and other non-acute care organizations. Our current membership base includes many of the country's most progressive and forward-thinking healthcare organizations and we continually seek to add new members that are at the forefront of innovation in the healthcare industry. Our Class A common stock is generally held by the public and our Class B common stock is held by the limited partners of Premier LP, referred to as our member owners.

As a member-owned healthcare alliance, our mission, products and services, and long-term strategy have been developed in partnership with our member hospitals, health systems and other healthcare organizations. We believe that this partnership-driven business model creates a relationship between our members and us that is characterized by aligned incentives and mutually beneficial collaboration. This relationship affords us access to critical proprietary data and encourages member participation in the development and introduction of new Premier products and services. Our interaction with our members provides us with a window into the latest challenges confronting the industry we serve and innovative best practices that we can share broadly within the healthcare industry, including throughout our membership. This model has enabled us to develop size and scale, data and analytics assets, expertise and customer engagement required to accelerate innovation, provide differentiated solutions and facilitate growth.

We seek to address challenges facing healthcare delivery organizations through our comprehensive suite of solutions that we believe:

- improve the efficiency and effectiveness of the healthcare supply chain;
- deliver improvement in cost and quality;
- innovate and enable success in emerging healthcare delivery and payment models to manage the health of populations; and,

- utilize data and analytics to drive increased connectivity, and clinical, financial and operational improvement.

Our business model and solutions are designed to provide our members access to scale efficiencies, spread the cost of their development, derive intelligence from our data warehouse, mitigate the risk of innovation and disseminate best practices that will help our member organizations succeed in their transformation to higher quality and more cost-effective healthcare.

We deliver our solutions and manage our business through two reportable business segments: supply chain services and performance services. The supply chain services segment includes our group purchasing organization or GPO, specialty pharmacy offerings and direct sourcing activities. The performance services segment includes our informatics, collaborative, advisory services and insurance services businesses.

Industry Overview

According to data from the Centers for Medicare & Medicaid Services, or CMS, healthcare expenditures are a large component of the U.S. economy expected to grow by an average of 5.8% per year for the period 2014-2024, reaching 19.6% of gross domestic product, or GDP, by 2024. According to data from the 2013 American Hospital Association's Annual Survey, published in the 2015 edition of the AHA Hospital Statistics™, there were approximately 5,000 U.S. community hospitals with approximately 795,600 staffed beds in the United States. Of these acute care facilities, approximately 3,100 were part of either multi-hospital or diversified single hospital systems, meaning they were owned, leased, sponsored or contract managed by a central organization. According to the May 2015 edition of IMS Health’s Healthcare Market Index, in addition to U.S. hospitals, there were approximately 485,000 alternate site facilities and providers across the continuum of care in the United States. These alternate site facilities include primary/ambulatory care and post-acute care providers. Increasingly, these alternate site facilities are being acquired by, integrated into or aligned with acute care facilities creating integrated delivery networks.

Healthcare Supply Chain Services Industry

According to CMS data, total spending on hospital services in the United States is projected to be approximately $1.0 trillion, or approximately 32% of total healthcare expenditures, in 2015. Expenses associated with the hospital supply chain, such as supplies and operational and capital expenditures, typically represent between 20% and 30% of a hospital's budget according to Booz & Company. With continued reimbursement rate pressure across government and managed care payers, a transitioning payment model from fee-for-service to value-based payment, and national health expenditures representing a significant portion of the economy, healthcare providers are examining all sources of cost savings, with supply chain spending a key area of focus. We believe opportunities to drive cost out of the healthcare supply chain include improved pricing for medical supplies and pharmaceuticals, appropriate resource utilization, and increased operational efficiency.

From origination at the supplier to final consumption by the provider or patient, healthcare products pass through an extensive supply chain incorporating manufacturers, distributors, GPOs, pharmacy benefit managers, and retail, long-term care and specialty pharmacies, among others. In response to the national focus on health spending and managing healthcare costs, supply chain participants are seeking more convenient and cost-efficient ways to deliver products to patients and providers. We believe that improvements to the healthcare supply chain to bring it on par with other industries that have more sophisticated supply chain management can drive out significant inefficiencies and cost.

Healthcare Performance Services Industry

Legislative reform, unsustainable cost trends, and the need for improved quality and outcomes have generated greater focus among healthcare providers on cost management, quality and safety, and population health management. In 2015, the Department of Health and Human Services (HHS) announced its goals for aligning future Medicare payments with quality and value, including tying 85 and 90 percent of Medicare fee-for-service payments to performance in 2016 and 2018, respectively and shifting up to 50 percent of Medicare fee-for-service payments to alternative payment models, such as accountable care organizations (ACOs) or bundled payment arrangements by the end of 2018. In order to meet these goals, health systems will need to continually monitor performance and manage costs, while maintaining high levels of quality and testing new care delivery models. In response to this changing environment, we expect the markets for performance services and solutions in the areas of cost management, quality and safety and population health management to grow significantly.

We expect information technology to continue to play a key enabling role in efficiency and cost reduction, performance improvement and care transformation across the healthcare industry. In particular, the trends toward value-based purchasing and population-based healthcare are proving to require more sophisticated business intelligence and technology solutions. To achieve higher-quality outcomes and control costs, providers exhibit a strong and continuing need for data and data analytics to help them understand their current performance and identify opportunities for improvement. We expect demand for data management and data analytics products to complement the focus on electronic health record adoption. According to Frost and Sullivan, 50% of hospitals in the United States are expected to adopt data analytics capabilities by 2016, up from 10% in 2011. Similarly, the advisory services business is growing rapidly in the areas of business model redesign, process improvement, labor productivity, non-labor cost management, clinical integration and change management.

Our Membership

Our current membership base includes many of the country's most progressive and forward-thinking healthcare organizations. The participation of these organizations in our membership provides us with a window into the latest challenges confronting the industry we serve and innovative best practices that we can share broadly throughout our membership. Our members include approximately 3,600 U.S. hospitals and 120,000 other providers. Approximately 380 individuals, representing approximately 163 of our U.S. hospital members, sit on 25 of our strategic and sourcing committees and as part of these committees use their industry expertise to advise on ways to improve the development, quality and value of our products and services. In addition, a number of senior executives from our U.S. hospital member owner systems currently serve on our board of directors. Other than GNYHA Purchasing Alliance, LLC and its member organizations, which accounted for 9.3% of our net revenue in fiscal year 2015, no individual member or member owner systems accounted for more than 5% of our net revenue in any of fiscal years 2015, 2014 or 2013. Total GPO purchasing volume was approximately $44 billion and $41 billion for the calendar years 2014 and 2013, respectively.

The following table sets forth certain information with respect to retention rates for members participating in our GPO in the supply chain services segment and renewal rates for our SaaS informatics products subscriptions in the performance services segment for the fiscal years shown:

	Year Ended June 30,			
	2015	2014	2013	3 Year Average
GPO retention rate (1)	99%	99%	93%	97%
SaaS institutional renewal rate (2)	94%	94%	96%	95%

(1) The retention rate is calculated based upon the aggregate purchasing volume among all members participating in our GPO for such fiscal year less the annualized GPO purchasing volume for departed members for such fiscal year, divided by the aggregate purchasing volume among all members participating in our GPO for such fiscal year.

(2) The renewal rate is calculated based upon the total number of members that have SaaS revenue in a given period that also have revenue in the corresponding prior year period divided by the total number of members that have SaaS revenue in the same period of the prior year.

Our Business Segments

We deliver our integrated platform of solutions that address the areas of total cost management, quality and safety improvement and population health management through two business segments: supply chain services and performance services, as addressed in Note 24 - Segments to the audited consolidated financial statements of the Annual Report. We have no significant foreign operations or revenues.

Supply Chain Services

Our supply chain services segment assists our members in managing their non-labor expense categories through a combination of products, services and technologies, including one of the largest national healthcare GPOs in the United States serving acute and alternate sites, specialty pharmacy offerings and direct sourcing activities. Membership in our GPO also provides access to certain SaaS informatics products related to the supply chain and the opportunity to participate in our ASCEND® collaborative. Our supply chain services segment consists of the following products and solutions:

Group Purchasing. Our national portfolio of approximately 2,000 contracts with approximately 1,100 suppliers provides our members with access to a wide range of products and services, including medical and surgical products, pharmaceuticals, laboratory supplies, capital equipment, information technology, facilities and construction, food and nutritional products and purchased services (such as clinical engineering and document shredding services). We use our members' aggregate purchasing power to negotiate pricing discounts and improved contract terms with suppliers. Contracted suppliers pay us administrative fees based on the purchase volume of goods and services sold to our healthcare provider members under the contracts we have negotiated. We also partner with other organizations, including regional GPOs, to extend our network base to their members.

Our contract portfolio is designed to offer our healthcare provider members a flexible solution comprised of multi-sourced supplier contracts, as well as pre-commitment and/or single-sourced contracts that offer higher discounts. Our multi-sourced contracts offer pricing tiers based on purchasing volume and/or commitment and multiple suppliers for many products and services. Our pre-commitment contracts require that a certain amount of our members commit in advance to a specified amount or percentage of purchasing volume before we enter into a contract with a particular supplier. Our single-source contracts are entered into with a specified supplier, and through this exclusive relationship, allow us to contract for products that meet our members' specifications. In the case of pre-commitment contracts, we provide the particular supplier with a list of members that have pre-committed to a specified amount or percentage of purchasing volume and the supplier directly handles the tracking and monitoring of fulfillment of such purchasing volume. In the case of single and multi-sourced contracts, we negotiate and execute the contracts on behalf of our members and make such contracts available to our members to access. The utilization of such single and multi-sourced contracts is determined by the particular member with assistance from our field force. Since there are no specific fulfillment requirements needed in our single and multi-source contracts, in order to obtain certain pricing levels, each particular member and supplier agree on the appropriate pricing tier based on expected purchasing volume with tracking and ongoing validation of such purchasing volume provided by the supplier. The flexibility provided by our expansive contract portfolio allows us to effectively address the varying needs of our members and the significant number of factors that influence and dictate these needs, including overall size, service mix, and the degree of integration between hospitals in a health system.

We continually innovate our GPO programs and supply chain platforms. For example, our EXPRESSbuy® program enables coordinated, limited-time, volume-driven purchasing opportunities that offer savings beyond regular contract pricing. Through a proprietary web-based application, we offer our members the opportunity to aggregate committed volumes and achieve additional price discounts while allowing our suppliers to sell targeted products, including time-sensitive or excess inventory, more efficiently and at reduced costs.

Our GPO programs target multiple markets, including acute care and alternate site settings. Our alternate site program, one of the largest in the United States, with approximately 120,000 members as of June 30, 2015, includes the following:

Continuum of Care. Alternate sites served by our Continuum of Care GPO program include long-term care and senior living, ambulatory care, first responders and emergency medical services, home health, imaging centers and surgery centers. Our Continuum of Care GPO members have access to nearly all of our GPO supplier contracts including medical and surgical products, pharmaceuticals, laboratory supplies, facilities and construction, capital equipment, information technology, food and nutritional products and purchased services, as well as additional GPO supplier contracts accessed through our 50% ownership interest in Innovatix, LLC, one of the largest alternate site GPOs.

ProviderSelect MD®. ProviderSelect MD® is one of the nation's largest group purchasing programs for physicians. Focused specifically on independent physician practices, the program offers members access to nearly all of our GPO supplier contracts.

Premier REACH®. Premier REACH® is a group purchasing program for non-healthcare entities, including education (e.g., K-12 schools, colleges and universities, and early childhood education), hospitality, recreation (e.g., stadiums, parks and fairgrounds) and employee food programs. Our Premier REACH® members have access to nearly all of our GPO supplier contracts including food service, facilities products and services, information technology and administrative services.

Specialty Pharmacy. Through our specialty pharmacy business, we developed a complete service offering for our members to improve access to medication and to better manage patient therapy for chronically ill patients with specialty drug needs and genetic disorders. Our specialty pharmacy business provides traditional pharmacy dispensing services (i.e., retail and mail order), as well as “specialty pharmacy” services, which fully integrate the administrative coordination, patient care management, and data management reporting functions that ultimately service the needs of patients, providers, payers, and pharmaceutical manufacturers. The business was specifically designed to serve as a scaled solution for our members and to provide a specialty pharmacy “care hub” to meet the unique specialty pharmacy needs of health systems across the continuum of care. We provide robust clinical management programs that are targeted toward those disease states where best-in-class care pathways and interventions by clinically-trained pharmacists are essential for patient adherence and compliance. Our “care hub” capabilities enable members to more effectively care for complex patient populations, improve clinical quality and safety, and harness otherwise unavailable clinical data.

Direct Sourcing. Our direct sourcing business, SVS, LLC d/b/a S2S Global ("S2S Global"), was established to help our members access a diverse product portfolio and to provide transparency to manufacturing costs and competitive pricing to our members. Through our consolidated subsidiary, S2S Global, we facilitate the development of product specifications with our members, source or contract manufacture the products to member specifications and sell products directly to our members or suppliers. By engaging with our members at the beginning of the sourcing process to define product specifications and then sourcing, or contract manufacturing, products to meet the exact needs of our members, we eliminate the need for unnecessary product features and specifications that may typically be included by suppliers and result in higher prices for our members without providing incremental value. Therefore, our direct sourcing activities benefit our members by providing them with an expanding portfolio of medical products through more efficient means, and with greater cost transparency, than if such products were purchased from other third-party suppliers. We market our direct sourcing activities under two distinct brands: PremierPro™, which is designated for our members, and Prime Plus™, which is designated for our other customers, primarily regional distributors with private-label product programs.

SaaS Informatics Products. Members of our GPO have access to utilize certain components of our PremierConnect Supply Chain offering and its associated applications and the ability to purchase additional elements that are discussed in more detail below.

ASCEND® Collaborative. Our ASCEND® Collaborative has developed a process to aggregate purchasing data for our members, enabling such members to determine whether to negotiate committed group purchases within the collaborative. Through our ASCEND® Collaborative, members receive group purchasing programs, tiers and prices specifically negotiated for them, as well as benchmarking metrics to assist them in identifying additional supply chain and operations cost savings opportunities and knowledge sharing with other member participants and industry experts. As of June 30, 2015, approximately 730 U.S. hospital members, which represent approximately 114,000 hospital beds, participated in our ASCEND® Collaborative. These hospital member participants have identified approximately $290 million in additional savings as compared to their U.S. hospital peers not participating in ASCEND® since its inception in 2009. For calendar year 2014, these member participants had approximately $13.55 billion in committed annual supply chain purchasing spend.

Performance Services

Our offerings in the performance services sector of the healthcare industry are primarily information technology analytics and workflow automation and advisory services. We believe we are one of the largest informatics and advisory services businesses in the United States focused exclusively on healthcare providers. Our SaaS informatics products utilize our comprehensive data set to provide actionable intelligence to our members, enabling them to benchmark, analyze and identify areas of improvement across three main categories: cost management, quality and safety, and population health management. This segment also includes our technology-enabled performance improvement collaboratives, through which we convene members, design programs and facilitate, foster and advance the exchange of clinical, financial and operational data among our members to measure patient outcomes and determine best practices that drive clinical, financial and operational improvements. Our performance services segment includes our PremierConnect® technology offerings, advisory services and collaboratives and insurance services, as follows:

PremierConnect®:

Premier has created a world-class integrated data warehouse and technology platform infrastructure for continuous performance improvement called PremierConnect®. Discrete applications within these domains allow members to analyze data through detailed standard and ad-hoc analyses, benchmarking, interactive dashboards, mobile access, and custom report services. This portfolio of performance improvement solutions is comprised of the following domains:

PremierConnect Quality & Regulatory: The PremierConnect Quality & Regulatory domain enables health systems and providers to identify and target high-value quality improvement areas that drive greater clinical effectiveness and efficiency across the health system.

PremierConnect Safety: The PremierConnect Safety domain enables health systems and providers to improve patient safety, including ongoing infection prevention, antimicrobial stewardship, reduction of hospital-acquired conditions and real-time clinical surveillance used to drive faster, more informed decisions.

PremierConnect Supply Chain: The PremierConnect Supply Chain domain enables health systems and providers to lower supply chain costs through leading supply chain management analytics, evidence-based purchasing and innovative supply chain and operations technology that drives efficiency and effectiveness throughout the entire procurement life cycle.

PremierConnect Operations: The PremierConnect Operations domain enables health systems and providers to build a sustainable infrastructure for labor management across the continuum of care utilizing a suite of labor management applications that integrate benchmarking and productivity data from acute, outpatient and ambulatory settings.

PremierConnect Population Health: The PremierConnect Population Health domain enables health systems and providers to transition to value-based care through actionable business intelligence and analytics that provide population and provider insights from measuring and benchmarking acute and ambulatory clinical performance.

PremierConnect® Enterprise: The PremierConnect Enterprise domain enables health systems and providers to generate business intelligence and self-service analytics through an integrated data warehouse and analytics platform that provides data acquisition, management and integration capabilities.

Performance Improvement Collaboratives:

QUEST® Collaborative. Through our QUEST® Collaborative (QUEST®), we work with our members to identify improvement opportunities and best practices and engage them to participate in performance improvement exercises using identified best practices, to collaborate to define performance goals and to use healthy competition to drive performance improvement. QUEST® builds on the past success of our partnership with CMS in the Premier Hospital Quality Incentive Demonstration, a value-based purchase program through which CMS awarded bonus payments to hospitals for high quality in several clinical areas and reported quality data on its website. The collaborative currently targets improvements in seven domains, including evidence-based care, cost and efficiency of care, patient and family engagement, safety, mortality and appropriate hospital use and community health. As of June 30, 2015, QUEST® had approximately 370 participating U.S. hospitals working together and utilizing our SaaS informatics products to develop highly standardized quality, safety and cost metrics. QUEST® seeks to develop next-generation quality, safety and cost metrics with a consistency and standardization we do not believe exists today. We believe that our members who participate in QUEST® are better prepared to deal with healthcare reform requirements and, by improving in the seven domains referenced above, can earn Medicare incentives, avoid Medicare penalties and better manage reimbursement cuts.

Bundled Payment Collaborative. Our Bundled Payment Collaborative assists our members in their participation in the CMS Bundled Payments for Care Improvement Initiative, an initiative by which organizations enter into payment arrangements that include financial and performance accountability for episodes of care. Our Bundled Payment Collaborative offers ongoing analysis of our members' Medicare Part A and Medicare Part B data, dashboards for managing bundled payment programs and gainsharing, in addition to providing knowledge, expertise, and best practices from experts and members.

PACT™-Partnership for Care Transformation Collaboratives. Our Partnership for Care Transformation Collaborative, or PACT™ Collaborative, is focused on helping members develop effective models of care for connected groups of providers who take responsibility for improving the health status, efficiency and experience of care for a defined population (i.e., accountable care organizations). Our PACT™ Collaborative provides members with the opportunity to share accountable care developmental strategies, programs, and other best practices. The collaborative provides valuable assistance to members in developing the tools necessary to manage the health of a population and to exchange knowledge with each other and with industry and government experts.

Partnership for Patients Collaborative.   We participated in the CMS-established Partnership for Patients initiative, a public-private collaborative working to improve the quality, safety and affordability of healthcare. Physicians, nurses, hospitals, employers, patients and their advocates, and the federal and state governments have joined together to form Partnership for Patients to decrease preventable hospital-acquired conditions and readmissions. Our Hospital Engagement Network (HEN) serves as a mobile classroom with Clinical Improvement Advisors (CIAs). In December 2014, CMS terminated the Partnership for Patients initiative.

Data Alliance Collaborative. A group of the nation’s leading health systems have launched the Data Alliance Collaborative to ensure that healthcare providers have the technology and analytics in place to improve quality and lower costs. These forward-thinking providers are working together with Premier to disrupt the way healthcare information technology is developed. Data Alliance Collaborative members are using integrated data (e.g., clinical, claims, labor, supply chain, administrative, financial, patient experience, genomics, etc.) to develop new insights and answer the complex questions driven by the transformation to population-based care. They are innovating collaboratively to meet their current needs and are creating the conceptual and technical foundation that enables them to respond nimbly to an uncertain future.

Advisory Services. Our advisory services, provided through Premier Performance Partners, seek to drive change and improvement in cost reduction, quality of care and patient safety. Premier Performance Partners offers expertise and capabilities in the following areas: clinical, financial and operational performance, facilities and capital asset management, organizational transformation, physician preference items, reform readiness assessment, service line improvement, strategic and business planning and supply chain transformation.

Using various specialists and advisors, we provide wrap-around services for our major SaaS informatics products and our GPO to enhance the member value from these programs. Certain of these specialists, called performance partners, drive clinical, financial and operational improvement through the use of our SaaS informatics products. For example, our clinical performance partners provide U.S. hospitals with access to performance improvement and operational specialists. Using our informatics tools and applications, these clinical performance partners mine data for improvement opportunities and then lead or assist with improvement projects in such areas as resource and operational assessments, process improvement, performance improvement monitoring, strategic planning and knowledge transfer for organizational change. U.S. hospitals contract for clinical, financial and/or operational performance partner support for a given number of days per month, with contracts lasting from one to five years in duration.

We provide a data-driven approach and expertise to deliver guaranteed results in reducing costs, increasing margin and improving quality. Our consultants offer consultative services in the following areas: care coordination and physician engagement, clinical and operational performance, facilities and capital asset management, organizational transformation, physician preference items (PPI), population health operations and analytics, purchased services assessment, reform readiness, revenue cycle management and RAC readiness, service line improvement, strategic and business planning and supply chain transformation. We use an income statement method to address every area affecting the member's bottom line, finding opportunities in both revenue enhancement and expense management.

Insurance Services. We provide insurance programs and services to assist U.S. hospital and healthcare system members with liability and benefits insurance services, along with risk management services. We design insurance programs and services for our members to improve their quality, patient safety and financial performance while lowering costs. We provide management services for American Excess Insurance Exchange, Risk Retention Group, a reciprocal risk retention group that provides excess hospital, professional, umbrella and general liability insurance to certain U.S. hospital and healthcare system members. We also negotiate the purchase of other insurance products from commercial insurance carriers on behalf of our members.

Pricing and Contracts

We generate revenue from our supply chain services segment through fees received from suppliers based on the total dollar volume of supplies purchased by our members in connection with our GPO programs and through product sales in connection with our specialty pharmacy and direct sourcing activities. Our performance services segment has three main sources of revenue: (i) three to five-year subscription agreements to our SaaS informatics products, (ii) annual subscriptions to our performance improvement collaboratives, and (iii) professional fees for our advisory services.

Supply Chain Services

In connection with the Reorganization and IPO, our member owners entered into GPO participation agreements with Premier LP which became effective upon the completion of the Reorganization and the IPO. Pursuant to the terms of its GPO participation agreement, each of these member owners receive revenue share from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's member facilities through our GPO supplier contracts. In addition, our two largest regional GPO member owners, which represented approximately 16% of our gross administrative fees revenue for fiscal year 2015, each remit all gross administrative fees collected by such member owner based upon purchasing by such member owner's member facilities through the member owner's own GPO supplier contracts and receive revenue share from Premier LP equal to 30% of such gross administrative fees remitted to us. Subject to certain termination rights, these GPO participation agreements are for an initial five-year term, although our two largest regional GPO member owners have entered into agreements with seven-year terms. The terms of the GPO participation agreements vary as a result of provisions in our existing arrangements with member owners that conflict with the terms of the GPO participation agreement and which by the express terms of the GPO participation agreement are incorporated by reference and deemed controlling and will continue to remain in effect. In limited circumstances, Premier LP and certain member owners entered into GPO participation agreements with certain terms that vary from the standard form, which were approved by the member agreement review committee of our board of directors, based upon regulatory constraints, pending merger and acquisition activity or other exigent circumstances affecting those member owners. Historically, certain non-owner members have operated under, and following the completion of the Reorganization and IPO, continue to operate under, contractual relationships that provide for a specific revenue share that differs from the 30% revenue share that we provide to our member owners under the current GPO participation agreements following the Reorganization.

In our specialty pharmacy, we earn revenue from product sales and other services. Revenues are earned through traditional pharmacy dispensing services (i.e., retail and mail order), as well as “specialty pharmacy” services, including administrative coordination, patient care management, and data management reporting functions. Our specialty pharmacy contracts generally range from one to three years in length and, except for exclusive networks, there are generally no guaranteed sales associated with a payer network contract.

In our direct sourcing activities, we earn revenue from product sales. Products are sold to our members through direct shipment and distributor and wholesale channels. Products are also sold to regional medical-surgical distributors and other non-healthcare industries (i.e., foodservice). We have contracts with our members that buy products through our direct shipment option. These contracts do not usually provide a guaranteed purchase or volume commitment requirement.

Performance Services

SaaS informatics products subscriptions include the right to use our proprietary hosted technology on a SaaS basis, training and member support to deliver improvements in cost management, quality and safety, population health management and provider analytics. Pricing varies by subscription and size of the subscriber. Informatics subscriptions are generally three to five-year agreements with automatic renewal clauses and annual price escalators that typically do not allow for early termination. These agreements do not allow for physical possession of the software. Subscription fees are typically billed on a monthly basis and revenue is recognized as a single deliverable on a straight-line basis over the remaining contractual period following implementation. Implementation involves the completion of data preparation services that are unique to each member's data set and, in certain cases, the installation of member site-specific software, in order to access and transfer member data into our hosted SaaS informatics products. Implementation is generally 100 to 170 days following contract execution before the SaaS informatics products can be fully utilized by the member.

Performance improvement collaborative and other service subscription revenue to support our offerings in cost management, quality and safety and population health management is recognized over the service period, which is generally one year.

Professional fees for advisory services are sold under contracts, the terms of which vary based on the nature of the engagement. Fees are billed as stipulated in the contract, and revenue is recognized on a proportional performance method as services are performed and deliverables are provided. In situations where the contracts have significant contract performance guarantees or member acceptance provisions, revenue recognition occurs when the fees are fixed and determinable and all contingencies, including any refund rights, have been satisfied. Fees are based either on time and materials or the savings that are delivered.

Sales

We conduct sales through our embedded field force, our dedicated national sales team and our Premier Performance Partners advisors, collectively comprised of approximately 550 employees as of June 30, 2015.

Our field force works closely with our U.S. hospital members and other members to target new opportunities by developing strategic and operational plans to drive cost management and quality and safety improvement initiatives. As of June 30, 2015, our field force was deployed to nine regions across the United States. This field force works at our member sites to identify and recommend best practices for both supply chain and clinical integration cost savings opportunities. The regionally deployed field force is augmented by a national team of subject matter specialists who focus on key areas such as lab, surgery, cardiology, orthopedics, imaging, pharmacy, information technology and construction. Our field force assists our members in growing and supporting their alternate site membership.

Our sales team provides national sales coverage for establishing initial member relationships and works with our field force to increase sales to existing members. Our regional sales teams are aligned with the nine regions in our field force model.

Our Premier Performance Partners team identifies and targets advisory engagements and wrap-around services for our major SaaS informatics products and our GPO to enhance the member value from these programs.

Intellectual Property

We offer our members a range of products to which we own intellectual property rights, including online services, best practices content, databases, electronic tools, web-based applications, performance metrics, business methodologies, proprietary algorithms, software products and advisory services deliverables. We own and control a variety of trade secrets, confidential information, trademarks, trade names, copyrights, domain names and other intellectual property rights that, in the aggregate, are of material importance to our business.

We protect our intellectual property by relying on federal, state and common law rights, as well as contractual arrangements. We are licensed to use certain technology and other intellectual property rights owned and controlled by others, and, similarly, other companies are licensed to use certain technology and other intellectual property rights owned and controlled by us.

Research and Development

Our research and development, or R&D, expenditures primarily consist of our strategic investment in internally developed software to further our initiatives, and new product development in the areas of cost management, quality and safety and population health management. We have also made significant investments in our SaaS informatics product offerings. We expensed $2.9 million, $3.4 million and $9.4 million for R&D activities for fiscal years 2015, 2014 and 2013, respectively, and capitalized software development costs of $57.9 million, $41.1 million and $31.3 million for fiscal years 2015, 2014 and 2013, respectively. We experience fluctuations in our research and development expenditures, including capitalized software development costs, across reportable periods due to the timing of our software development life cycles, with new product features and functionality, new technologies and upgrades to our service offerings.

Competition

The markets for our products and services in both our supply chain services segment and performance services segment are fragmented, intensely competitive and characterized by rapidly evolving technology and product standards, user needs and the frequent introduction of new products and services. We have experienced and expect to continue to experience intense competition from a number of companies.

The primary competitors to our supply chain services segment are other large GPOs such as HealthTrust Purchasing Group (a subsidiary of HCA Holdings, Inc.), Managed Health Care Associates, Inc., MedAssets, Inc. and Novation LLC. In addition, we compete against certain healthcare provider-owned GPOs in this segment. Our specialty pharmacy competes with Caremark Inc. (owned by CVS Caremark Corporation), Curascript, Inc./Accredo (owned by Express Scripts Holding Co.), Diplomat Specialty Pharmacy and many smaller local specialty pharmacies. Finally, our direct sourcing activities compete primarily with private label offerings/programs, product manufacturers and distributors, such as Cardinal Health, Inc., McKesson Corporation, Medline Industries, Inc. and Owens & Minor, Inc.

The competitors in our performance services segment range from smaller niche companies to large, well-financed and technologically-sophisticated entities. Our primary competitors in this segment include (i) information technology providers such as Allscripts Healthcare Solutions, Inc., Caradigm USA LLC, Cerner Corporation, Epic Systems Corporation, McKesson Corporation, Oracle Corporation and Truven Health Analytics Inc., and (ii) consulting and outsourcing firms such as The Advisory Board Company, Deloitte & Touche LLP, Evolent Health, Inc., Healthagen, LLC (a subsidiary of Aetna, Inc.), Huron Consulting, Inc., Navigant Consulting, Inc. and Optum, Inc. (a subsidiary of UnitedHealth Group, Inc.).

With respect to our products and services across both segments, we compete on the basis of several factors, including breadth, depth and quality of product and service offerings, ability to deliver clinical, financial and operational performance improvements through the use of products and services, quality and reliability of services, ease of use and convenience, brand recognition and the ability to integrate services with existing technology. With respect to our products and services across both of our business segments, we also compete on the basis of price.

Government Regulation

General

The healthcare industry is highly regulated by federal and state authorities and is subject to changing political, economic and regulatory influences. Factors such as changes in reimbursement policies for healthcare expenses, consolidation in the healthcare industry, regulation, litigation and general economic conditions affect the purchasing practices, operations and the financial health of healthcare organizations. In particular, changes in regulations affecting the healthcare industry, such as increased regulation of the purchase and sale of medical products, or restrictions on permissible discounts and other financial arrangements, could require us to make unplanned modifications of our products and services, result in delays or cancellations of orders or reduce funds and demand for our products and services.

We are subject to numerous risks arising from governmental oversight and regulation. You should carefully review the following discussion and the risks discussed under “Item 1A - Risk Factors” for a more detailed discussion.

Affordable Care Act

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, or PPACA, as amended by the Health Care and Education and Reconciliation Act of 2010, collectively referred to with the PPACA as the Affordable Care Act. The Affordable Care Act is a sweeping measure designed to expand access to affordable health insurance, control healthcare spending, and improve healthcare quality. The law includes provisions to tie Medicare provider reimbursement to healthcare quality and incentives, mandatory compliance programs, enhanced transparency disclosure requirements, increased funding and initiatives to address fraud and abuse, and incentives to state Medicaid programs to promote community-based care as an alternative to institutional long-term care services. In addition, the law provides for the establishment of a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services, which could lead to changes in the delivery of healthcare services. Likewise, many states have adopted or are considering changes in healthcare policies in part due to state budgetary shortfalls. The timetable for implementing many provisions of the Affordable Care Act remains unsettled, and we do not know what effect the federal Affordable Care Act or state law proposals may have on our business.

Civil and Criminal Fraud and Abuse Laws

We are subject to federal and state laws and regulations designed to protect patients, governmental healthcare programs and private health plans from fraudulent and abusive activities. These laws include anti-kickback restrictions and laws prohibiting the submission of false or fraudulent claims. These laws are complex and their application to our specific products, services and relationships may not be clear and may be applied to our business in ways that we do not anticipate. Federal and state regulatory and law enforcement authorities have over time increased enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other reimbursement laws and rules. These laws and regulations include:

Anti-Kickback Laws. The federal Anti-Kickback Statute prohibits the knowing and willful offer, payment, solicitation or receipt of remuneration, directly or indirectly, in return for the referral of patients or arranging for the referral of patients, or in return for the recommendation, arrangement, purchase, lease or order of items or services that are covered, in whole or in part, by a federal healthcare program such as Medicare or Medicaid. The definition of "remuneration" has been broadly interpreted to include anything of value such as gifts, discounts, rebates, waiver of payments or providing anything at less than its fair market value. Many states have adopted similar prohibitions against kickbacks and other practices that are intended to influence the purchase, lease or ordering of healthcare items and services regardless of whether the item or service is covered under a governmental health program or private health plan. Certain statutory and regulatory safe harbors exist that protect specified business arrangements from prosecution under the Anti-Kickback Statute if all elements of an applicable safe harbor are met, however these safe harbors are narrow and often difficult to comply with. Congress has appropriated an increasing amount of funds in recent years to support enforcement activities aimed at reducing healthcare fraud and abuse.

The U.S. Department of Health and Human Services, or HHS, created certain safe harbor regulations which, if fully complied with, assure parties to a particular arrangement covered by a safe harbor that they will not be prosecuted under the Anti-Kickback Statute. We attempt to structure our group purchasing services, pricing discount arrangements with suppliers, and revenue share arrangements with applicable members to meet the terms of the safe harbor for GPOs set forth at 42 C.F.R. § 1001.952(j) and the discount safe harbor set forth at 42 C.F.R. § 1001.952(h). Although full compliance with the provisions of a safe harbor ensures against prosecution under the Anti-Kickback Statute, failure of a transaction or arrangement to fit within a safe harbor does not necessarily mean that the transaction or arrangement is illegal or that prosecution under the Anti-Kickback Statute will be pursued. From time to time, HHS, through its Office of Inspector General, makes formal and informal inquiries, conducts investigations and audits the business practices of GPOs, including our GPO, the result of which could be new rules, regulations or in some cases, a formal enforcement action.

To help ensure regulatory compliance with HHS rules and regulations, our members that report their costs to Medicare are required under the terms of the Premier Group Purchasing Policy to appropriately reflect all elements of value received in connection with our Reorganization and IPO on their cost reports. We are required to furnish applicable reports to such members setting forth the amount of such value, to assist their compliance with such cost reporting requirements. There can be no assurance that the HHS Office of Inspector General or the U.S. Department of Justice, or DOJ, will concur that these actions satisfy their applicable rules and regulations.

False Claims Act. Our business is also subject to numerous federal and state laws that forbid the submission or "causing the submission" of false or fraudulent information or the failure to disclose information in connection with the submission and payment of claims for reimbursement to Medicare, Medicaid, other federal healthcare programs or private health plans. In particular, the False Claims Act, or FCA, prohibits a person from knowingly presenting or causing to be presented a false or fraudulent claim for payment or approval by an officer, employee or agent of the United States. In addition, the FCA prohibits a person from knowingly making, using, or causing to be made or used a false record or statement material to such a claim. Violations of the FCA may result in treble damages, significant monetary penalties, and other collateral consequences including, potentially, exclusion from participation in federally funded healthcare programs. The scope and implications of the amendments to the FCA pursuant to the Fraud Enforcement and Recovery Act, or FERA, have yet to be fully determined or adjudicated and as a result it is difficult to predict how future enforcement initiatives may impact our business. Pursuant to the 2010 healthcare reform legislation, a claim that includes items or services resulting from a violation of the Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the FCA.

Privacy and Security Laws. The Health Insurance Portability and Accountability Act, or HIPAA, contains substantial restrictions and requirements with respect to the use and disclosure of individually identifiable health information, referred to as "protected health information." The HIPAA Privacy Rule prohibits a covered entity or a business associate (essentially, a third party engaged to assist a covered entity with enumerated operational and/or compliance functions) from using or disclosing protected health information unless the use or disclosure is validly authorized by the individual or is specifically required or permitted under the Privacy Rule and only if certain complex requirements are met. In addition to establishing these complex requirements, covered entities and business associates must also meet additional compliance obligations set forth in the Privacy Rule. In addition, the HIPAA Security Rule establishes administrative, organization, physical and technical safeguards to protect the privacy, integrity and availability of electronic protected health information maintained or transmitted by covered entities and business associates. The HIPAA Security Rule requirements are intended to mandate that covered entities and business associates regularly re-assess the adequacy of their safeguards in light of changing and evolving security risks. Finally, the HIPAA Breach Notification Rule requires that covered entities and business associates, under certain circumstances, notify patients/beneficiaries and HHS when there has been an improper use or disclosure of protected health information.

Our specialty pharmacy, our self-funded health benefit plan and our healthcare provider members (provided that these members engage in HIPAA-defined standard electronic transactions with health plans, which will be all or the vast majority) are directly regulated by HIPAA as "covered entities." From time to time, as part of our specialty pharmacy business, certain of our affiliates act as business associates of retail and other pharmacies in connection with co-branding initiatives. As such, we are subject to HIPAA and other risks discussed herein associated with being a business associate. Additionally, because most of our U.S. hospital members disclose protected health information to us so that we may use that information to provide certain data analytics, benchmarking, advisory or other operational and compliance services to these members, we are a "business associate" of those members. In these cases, in order to provide members with services that involve the use or disclosure of protected health information, HIPAA require us to enter into "business associate agreements" with our covered entity members. Such agreements must, among other things, provide adequate written assurances:

(i) as to how we will use and disclose the protected health information within certain allowable parameters established by HIPAA,
(ii) that we will implement reasonable administrative, organizational, physical and technical safeguards to protect such information from misuse,
(iii) that we will enter into similar agreements with our agents and subcontractors that have access to the information,
(iv) that we will report security incidents and other inappropriate uses or disclosures of the information, and
(v) that we will assist the covered entity with certain of its duties under HIPAA.

With the enactment of the Health Information Technology for Economic and Clinical Health, or HITECH Act, the privacy and security requirements of HIPAA were modified and expanded. The HITECH Act applies certain of the HIPAA privacy and security requirements directly to business associates of covered entities. Prior to this change, business associates had contractual obligations to covered entities but were not subject to direct enforcement by the federal government. On January 17, 2013, HHS released final rules implementing the HITECH Act changes to HIPAA. These amendments expand the protection of protected health information by, among other things, imposing additional requirements on business associates, further restricting the disclosure of protected health information in certain cases when the disclosure is part of a remunerated transaction, and modifying the HIPAA Breach Notification Rule, which has been in effect since September 2009, to create a rebuttable presumption that any improper use or disclosure of protected health information requires notice to affected patients/beneficiaries and HHS. The 2013 final rule became effective on March 26, 2013 and the compliance date for most provisions was September 23, 2013. The modifications to the HIPAA Breach Notification Rule requirements are currently effective and being enforced.

Transaction Requirements. HIPAA also mandates format, data content and provider identifier standards that must be used in certain electronic transactions, such as claims, payment advice and eligibility inquiries. Although our systems are fully capable of transmitting transactions that comply with these requirements, some payers and healthcare clearinghouses with which we conduct business may interpret HIPAA transaction requirements differently than we do or may require us to use legacy formats or include legacy identifiers as they make the transition to full compliance. In cases where payers or healthcare clearinghouses require conformity with their interpretations or require us to accommodate legacy transactions or identifiers as a condition of successful transactions, we attempt to comply with their requirements, but may be subject to enforcement actions as a result. In January 2009, CMS published a final rule adopting updated standard code sets for diagnoses and procedures known as ICD-10 code sets. A separate final rule also published by CMS in January 2009 resulted in changes to the formats to be used for electronic transactions subject to the ICD-10 code sets, known as Version 5010. As of March 31, 2012, healthcare providers are required to comply with Version 5010. Use of the ICD-10 code sets is not mandated until October 1, 2015. We are actively working to make the proper modifications in preparation for the implementation of ICD-10.

Other Federal and State Laws. In addition to our obligations under HIPAA there are other federal laws that impose specific privacy and security obligations, above and beyond HIPAA, for certain types of health information and impose additional sanctions and penalties. These rules are not preempted by HIPAA. Most states have enacted patient and/or beneficiary confidentiality laws that protect against the disclosure of confidential medical information, and many states have adopted or are considering adopting further legislation in this area, including privacy safeguards, security standards, data security breach notification requirements, and special rules for so-called "sensitive" health information, such as mental health, genetic testing results, or Human Immunodeficiency Virus, or HIV, status. These state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements, and we are required to comply with them as well.

We are unable to predict what changes to HIPAA or other federal or state laws or regulations might be made in the future or how those changes could affect our business or the associated costs of compliance. For example, the federal Office of the National Coordinator for Health Information Technology, or ONCHIT, is coordinating the development of national standards for creating an interoperable health information technology infrastructure based on the widespread adoption of electronic health records in the healthcare sector. We are yet unable to predict what, if any, impact the creation of such standards and the further developments at ONCHIT will have on the necessary specifications or demand for our products, services, or on associated compliance costs.

Antitrust Laws

The Sherman Antitrust Act and related federal and state antitrust laws prohibit contracts in restraint of trade or other activities that are designed to or that have the effect of reducing competition in the market. The federal antitrust laws promote fair competition in business and are intended to create a level playing field so that both small and large companies are able to compete in the market. The antitrust laws are complex laws that generally prohibit conspiracies and agreements between competitors that can unreasonably restrain trade. In their 1996 Statements of Antitrust Enforcement Policy in Health Care, first issued in 1993, or the Healthcare Statements, the DOJ and the Federal Trade Commission, or FTC, set forth guidelines specifically designed to help GPOs gauge whether a particular purchasing arrangement may raise antitrust concerns and established an antitrust safety zone for joint purchasing arrangements among healthcare providers. Under this antitrust safety zone, the DOJ and FTC will not challenge, except in extraordinary circumstances, joint purchasing arrangements among healthcare providers that meet two basic conditions: (i) the purchases made by the healthcare providers account for less than 35% of the total sales of the purchased product or service in the relevant market; and (ii) the cost of the products and services purchased jointly account for less than 20% of the total revenues from all products and services sold by each competing participant in the joint purchasing arrangement.

We have attempted to structure our contracts and pricing arrangements in accordance with the Healthcare Statements and believe that our GPO supplier contracts and pricing discount arrangements should not be found to violate the antitrust laws. However, no assurance can be given that enforcement authorities will agree with this assessment. From time to time, the group purchasing industry comes under review by congress and other governmental bodies with respect to antitrust laws. In connection with the 2002 hearing by the U.S. Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights, we and other operators of GPOs formed the Healthcare Supply Chain Association, or HSCA, which developed a code of conduct to assure compliance with ethical and legal standards, including the antitrust laws. In addition, in 2002 we adopted our own Code of Conduct in consultation with a leading ethicist.

On August 11, 2009, we and several other operators of GPOs received a letter from Senators Charles Grassley, Herb Kohl and Bill Nelson requesting information concerning the different relationships between and among us and our members, distributors, manufacturers and other suppliers, and requesting certain information about the services we perform and the payments we receive in connection with our GPO programs. On September 25, 2009, we and several other operators of GPOs received a request for information from the U.S. Government Accountability Office, or GAO, also concerning our services and relationships with our members in connection with our GPO programs. Subsequently, we and other operators of GPOs received follow-up requests for additional information. We fully complied with all of these requests. On September 27, 2010, the GAO released a report titled "Group Purchasing Organizations-Services Provided to Customers and Initiatives Regarding Their Business Practices." On that same day, the Minority Staff of the U.S. Senate Finance Committee released a report titled "Empirical Data Lacking to Support Claims of Savings with Group Purchasing Organizations." On March 30, 2012, the GAO released a report titled "Group Purchasing Organizations-Federal Oversight and Self-Regulation." On November 24, 2014, the GAO released a report titled "Funding Structure Has Potential Implications for Medicare Costs."

Congress, the DOJ, the FTC, the U.S. Senate or another state or federal entity could at any time open a new investigation of the group purchasing industry, or develop new rules, regulations or laws governing the industry, that could adversely impact our ability to negotiate pricing arrangements with suppliers, increase reporting and documentation requirements, or otherwise require us to modify our arrangements in a manner that adversely impacts our business. We may also face private or government lawsuits alleging violations arising from the concerns articulated by these governmental actors.

During the past 15 years, we have been named as a defendant in lawsuits brought by suppliers of medical products. Typically, these lawsuits have alleged the existence of a conspiracy among manufacturers of competing products and operators of GPOs, including us, to deny the plaintiff access to a market for its products. No such litigation is currently pending.

Governmental Audits

Because we act as a GPO for healthcare providers that participate in governmental programs, our group purchasing services have in the past and may again in the future be subject to periodic surveys and audits by governmental entities or contractors for compliance with Medicare and Medicaid standards and requirements. We will continue to respond to these government reviews and audits but cannot predict what the outcome of any future audits may be or whether the results of any audits could significantly or negatively impact our business, our financial condition or results of operations.

Compliance Department

We have developed a compliance program that is designed to monitor that our operations are conducted in compliance with applicable laws and regulations and, if violations occur, to promote early detection and prompt resolution. These objectives are achieved through education, monitoring, disciplinary action and other remedial measures we believe to be appropriate. We provide all of our employees with a compliance manual that has been developed to communicate our code of conduct, standards of conduct, and compliance policies and procedures, as well as policies for monitoring, reporting and responding to compliance issues. We also provide all of our employees with a toll-free number and Internet website address in order to report any compliance or privacy concerns. In addition, our Chief Ethics and Compliance Officer individually, and along with the Audit and Compliance Committee of the Board of Directors, helps oversee compliance and ethics matters across our business operations.

Employees

As of June 30, 2015, we employed approximately 1,800 persons, approximately 51% of whom are based in our headquarters in Charlotte, North Carolina. None of our employees are working under a collective bargaining arrangement.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange
Commission (the “SEC”). You may read and copy the documents that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain further information about the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect these reports and other information without charge at a website maintained by the SEC. The address of this site is https://www.sec.gov. In addition, our website address is www.premierinc.com. We make available through our website the documents identified above, free of charge, promptly after we electronically file such material with, or furnish it to, the SEC.

We also provide information about our company through: Twitter (https://twitter.com/premierha), Facebook (https://www.facebook.com/premierhealthcarealliance), LinkedIn (https://www.linkedin.com/company/6766), YouTube (https://www.youtube.com/user/premieralliance), Instagram (https://instagram.com/premierha), Foursquare (https://foursquare.com/premierha) and Premier’s blog (https://actionforbetterhealthcare.com).

Except as specifically indicated otherwise, the information available on our website, the SEC's website and the social media outlets identified above, is not and shall not be deemed a part of this Annual Report.

Item 1A. Risk Factors

Our business, operations, and financial position are subject to various risks. An investment in our Class A common stock involves a degree of risk. Before evaluating our Company or making an investment in our Class A common stock, you should carefully consider the following risks, as well as the other information contained in this annual report. Any of the risks described below could materially harm our business, financial condition, results of operations and prospects, and as a result, the trading price of our Class A common stock could decline, and you may lose part or all of your investment. This section does not describe all risks that are or may become applicable to us, our industry, or our business, and it is intended only as a summary of certain material risk factors. Some statements in this annual report, including such statements in the following risk factors, constitute forward looking statements. See the section entitled "Cautionary Note Regarding Forward Looking Statements." More detailed information concerning other risk factors as well as those described below is contained in other sections of this annual report.

Risks Related to Our Business

We face intense competition, which could limit our ability to maintain or expand market share within our industry, and if we do not maintain or expand our market share our business and operating results will be harmed.

We deliver products and services through two business segments: supply chain services and performance services. The market for our products and services in each segment is fragmented, intensely competitive and characterized by rapidly evolving technology and product standards, user needs and the frequent introduction of new products and services.

The primary competitors to our supply chain services segment are other large GPOs such as HealthTrust Purchasing Group (a subsidiary of HCA Holdings, Inc.), Managed Health Care Associates, Inc., MedAssets, Inc. and Novation LLC. In addition, we compete against certain healthcare provider owned GPOs in this segment. Our specialty pharmacy competes with Caremark Inc. (owned by CVS Caremark Corporation), Curascript, Inc./Accredo (owned by Express Scripts Holding Co.), Diplomat Specialty Pharmacy and many smaller local specialty pharmacies. Finally, our direct sourcing activities compete primarily with private label offerings/programs, product manufacturers and distributors, such as Cardinal Health, Inc., McKesson Corporation, Medline Industries, Inc. and Owens & Minor, Inc.

The competitors in our performance services segment range from smaller niche companies to large, well-financed and technologically sophisticated entities. Our primary competitors in this segment include (i) information technology providers such as Allscripts Healthcare Solutions, Inc., Caradigm USA LLC, Cerner Corporation, Epic Systems Corporation, McKesson Corporation, Oracle Corporation and Truven Health Analytics Inc., and (ii) consulting and outsourcing firms such as The Advisory Board Company, Deloitte & Touche LLP, Evolent Health, Inc., Healthagen, LLC (a subsidiary of Aetna, Inc.), Huron Consulting, Inc., Navigant Consulting, Inc. and Optum, Inc. (a subsidiary of UnitedHealth Group, Inc.).

With respect to our products and services across both segments, we compete on the basis of several factors, including breadth, depth and quality of product and service offerings, ability to deliver clinical, financial and operational performance improvement through the use of products and services, quality and reliability of services, ease of use and convenience, brand recognition and the ability to integrate services with existing technology. Some of our competitors are more established, benefit from greater name recognition, have larger member bases and have substantially greater financial, technical and marketing resources. Other of our competitors have proprietary technology that differentiates their product and service offerings from ours. As a result of these competitive advantages, our competitors and potential competitors may be able to respond more quickly to market forces, undertake more extensive marketing campaigns for their brands, products and services, and make more attractive offers to our members.

With respect to our products and services across both of our segments, we also compete on the basis of price. We may be subject to pricing pressures as a result of, among other things, competition within the industry, consolidation of healthcare industry participants, practices of managed care organizations, government action affecting reimbursement and financial stress experienced by our members. If our pricing experiences significant downward pressure, our business will be less profitable and our results of operations will be adversely affected.

We cannot be certain that we will be able to retain our current members or expand our member base in this competitive environment. If we do not retain current members or expand our member base, our business, financial condition and results of operations will be harmed. Moreover, we expect that competition will continue to increase as a result of consolidation in both the healthcare information technology and healthcare industries. If one or more of our competitors or potential competitors were to merge or partner with another of our competitors, the change in the competitive landscape could also adversely affect our ability to compete effectively and could harm our business, financial condition and results of operations.

Consolidation in the healthcare industry could have a material adverse effect on our business, financial condition and results of operations.

Many healthcare industry participants are consolidating to create larger and more integrated healthcare delivery systems with greater market power. We expect regulatory and economic conditions to force additional consolidation in the healthcare industry in the future. As consolidation accelerates, the economies of scale of our members' organizations may grow. If a member experiences sizable growth following consolidation, it may determine that it no longer needs to rely on us and may reduce its demand for our products and services. Some of these large and growing healthcare systems may choose to contract directly with suppliers for certain supply categories, and some suppliers may seek to contract directly with the healthcare providers rather than with GPOs such as ours. In connection with any consolidation, certain of our members may also move their business to another GPO. In addition, as healthcare providers consolidate to create larger and more integrated healthcare delivery systems with greater market power, these providers may try to use their market power to negotiate fee reductions for our products and services across both of our business segments. Finally, consolidation may also result in the acquisition or future development by our members of products and services that compete with our products and services. Any of these potential results of consolidation could have a material adverse effect on our business, financial condition and results of operations.

We may experience significant delays in, or an inability to increase, revenue if the sales cycle with potential new members takes longer than anticipated.

A key element of our strategy is to market the various products and services in our supply chain services and performance services segments directly to healthcare providers, such as health systems and acute care hospitals, and to increase the number of our products and services utilized by existing members. The evaluation process is often lengthy and involves significant technical evaluation and commitment of personnel by these organizations. Further, the evaluation process depends on a number of factors, many of which we may not be able to control, including potential new members' internal approval processes, budgetary constraints for technology spending, member concerns about implementing new procurement methods and strategies and other timing effects. If we experience an extended or delayed sales cycle in connection with the sale of additional products and services to existing or new members, it could have a material adverse effect on our business, financial condition and results of operations.

Member participation in our GPO programs may be terminated with limited or no notice and/or without significant termination payments. If our members reduce activity levels or terminate or elect not to renew their contracts, our revenue and results of operations may decrease materially.

In connection with the Reorganization, we entered into new GPO participation agreements with all of our member owners existing immediately prior to the completion of the Reorganization. These GPO participation agreements are generally terminable at any time by either party, upon one year's prior written notice, in the event of a change of control of the member owner, and are also terminable for convenience upon one year's prior written notice, at any time after the second anniversary of the beginning of the applicable term, as well as terminable for cause under certain circumstances (including, due to a material breach of the terms of the GPO participation agreement). Also, in the event that a member owner ceases to be a party to a GPO participation agreement (except in certain limited circumstances), Premier LP will have the option to redeem all of such member owner's Class B common units pursuant to an exchange agreement (the "Exchange Agreement") at a purchase price set forth in the LP Agreement. Our success in retaining member participation in our GPO programs depends upon our reputation, strong relationships with such members and our ability to deliver consistent, reliable and high quality products and services. We believe that establishing and maintaining a good professional reputation and name recognition are critical for attracting and retaining member participation in our GPO programs. Promotion and enhancement of our name will depend largely on our success in continuing to provide high quality products and services. Therefore, our brand name and reputation will suffer if members do not perceive our products and services to be effective or of high quality or if there are inaccuracies or defects in our solutions.

Members may also seek to reduce, cancel or elect not to renew their contracts due to factors that are beyond our control and are unrelated to our performance, including their business or financial condition, changes in their strategies or business plans or economic conditions in general.

When contracts are reduced, cancelled or not renewed for any reason, we lose the anticipated future revenue associated with such contracts and, consequently, our revenue and results of operations may decrease materially. Additionally, the loss of any of our members could negatively impact our membership driven business model strategy.

Our business strategy that involves reducing the prices for certain products and services in our supply chain services segment may not be successful, which could have a material adverse effect on our business, financial condition and results of operations.

In order to maintain and develop new relationships with members in our supply chain services segment, we look for ways to reduce the prices that they pay for products and services. However, success in serving the members by reducing the prices they pay suppliers for products and services will reduce the administrative fees we receive in respect of such transactions that correlate to such prices.

In order to maintain or increase our revenues and margins while implementing these strategies, we would have to increase sales volumes of existing products and services or introduce and sell new products and services in amounts sufficient to compensate for the reduced revenue effect of price reductions. If our competitors in these lines of business similarly reduce or obtain lower prices for their members, as applicable, this may create further financial, operational and strategic challenges. We cannot assure you that our business strategies will be successful, which could have a material adverse effect on our business, financial condition and results of operations.

The markets for our non-GPO services and products may develop more slowly than we expect, which could adversely affect our revenue and our ability to maintain or increase our profitability.

While the products and services in our non-GPO lines of business are becoming more accepted, the market for these products and services remains narrowly based, and it is uncertain whether these products and services will achieve and sustain the high levels of demand and market acceptance we anticipate. Our ability to materially grow our revenues and achieve and sustain profitability will be adversely affected if we are unable to generate sufficient revenue from strategic initiatives relating to businesses other than the GPO business, particularly if those businesses do not grow significantly. We are currently focusing on data analytics and other technology opportunities and our success will depend to a substantial extent on the willingness of existing and potential new members, large and small, to increase their use of our SaaS informatics products. Many companies have invested substantial personnel and financial resources to integrate established enterprise software into their businesses and therefore may be reluctant or unwilling to switch to our services. Furthermore, some companies may be reluctant or unwilling to use our services, because they have concerns regarding the risks associated with the security and reliability of, among other things, the technology delivery model associated with these services. If companies do not perceive the benefits of our services, then the market for these services may not expand as much or develop as quickly as we expect, either of which would significantly adversely affect our business, financial condition and results of operations.

Our members are highly dependent on payments from third party healthcare payers, including Medicare, Medicaid and other government sponsored programs, and reductions or changes in third party reimbursement could adversely affect these members and consequently our business.

Our members derive a substantial portion of their revenue from third party private and governmental payers, including Medicare, Medicaid and other government sponsored programs. Our sales and profitability depend, in part, on the extent to which coverage of and reimbursement for our products and services our members purchase or otherwise obtain through us is available to our members from governmental health programs, private health insurers, managed care plans and other third party payers. These third party payers are increasingly using their enhanced bargaining power to secure discounted reimbursement rates and may impose other requirements that adversely impact our members' ability to obtain adequate reimbursement for our products and services.

If third party payers do not approve products for reimbursement or fail to reimburse for them adequately, our members may suffer adverse financial consequences which, in turn, may reduce the demand for and ability to purchase our products or services. In addition, CMS, which administers the Medicare and federal aspects of state Medicaid programs, has issued complex rules requiring pharmaceutical manufacturers to calculate and report drug pricing for multiple purposes, including the limiting of reimbursement for certain drugs. These rules generally exclude from the pricing calculation administrative fees paid by drug manufacturers to GPOs to the extent that such fees meet CMS's "bona fide service fee" definition. There can be no assurance that CMS will continue to allow exclusion of GPO administrative fees from the pricing calculation, which could negatively affect the willingness of pharmaceutical manufacturers to pay administrative fees to us. Any such changes, as well as other current and future efforts by payers to limit reimbursement for certain drugs may have an adverse impact on our business, financial condition and results of operations.

Government actions could also limit government spending generally for the Medicare and Medicaid programs, limit payments to healthcare providers, and increase emphasis on competition and other programs that could have an adverse effect on our members. Specifically, CMS may implement a competitive bidding program for selected items paid for by the Medicare program. We cannot predict which products and services we offer will ultimately be affected or whether or when the competitive bidding process will be extended to our businesses. The implementation of the competitive bidding program could have an adverse impact on our business, financial condition and results of operations.

We rely on the administrative fees we receive from our GPO suppliers and the failure to maintain contracts with these GPO suppliers could adversely affect our business, financial condition and results of operations. A termination of any relationship or agreement with a GPO supplier could also negatively affect our relationships with our members.

Historically, we have derived a substantial amount of our revenue from the administrative fees that we receive from our GPO suppliers. We maintain contractual relationships with these suppliers who provide products and services to our members at reduced costs and who pay us administrative fees based on the dollars spent by our members for such products and services. Therefore, we rely heavily on our relationships with our GPO suppliers. Supplier commitment to our GPO has been, and will continue to be, a crucial element to our supply chain services business model. There can be no assurances that our relationships with our suppliers will continue on existing terms or at all. Our contracts with these GPO suppliers generally may be terminated upon 90 days' notice. A termination of any relationship or agreement with a GPO supplier would result in the loss of administrative fees pursuant to our arrangement with that supplier, which could adversely affect our business, financial condition and results of operations.

If we cannot demonstrate to our suppliers the value of our GPO or other products and services, we may lose contracts or favorable contract terms with our suppliers which may result in our inability to maintain our member agreements or win new business. In addition, if we lose a relationship with a GPO supplier we may not be able to negotiate similar arrangements for our members with other suppliers on the same terms and conditions or at all, which could damage our reputation with our members and, in turn, have a material adverse effect on our business, financial condition and results of operations.

If we are unable to maintain our relationships with third party providers or maintain or enter into new strategic alliances, we may be unable to grow our current base business.

Our business strategy includes entering into and maintaining strategic alliances and affiliations with leading service providers and other GPOs. We work closely with our members to penetrate new product markets and expand our current market capabilities. We may not achieve our objectives through these relationships or through our relationships with our third party providers or strategic alliances. Many of these companies have multiple relationships and they may not regard us as significant to their business. These companies may pursue relationships with our competitors, develop or acquire products and services that compete with our products and services, experience financial difficulties, be acquired by one of our competitors or other third party or exit the healthcare industry, any of which may adversely affect our relationship with them. In addition, in many cases, these companies may terminate their relationships with us for any reason with limited or no notice. If existing relationships with third party providers or strategic alliances are adversely impacted or are terminated or we are unable to enter into relationships with leading healthcare service providers and other GPOs, we may be unable to maintain or increase our industry presence.

If we are not able to offer new and innovative products and services, we may not remain competitive and our revenue and results of operations may suffer.

Our success depends on providing products and services within our supply chain services and performance services segments that healthcare providers use to improve clinical, financial and operational performance. Our competitors are constantly developing products and services that may become viewed as more efficient or appealing to our members. If we cannot adapt to rapidly evolving industry standards, technology and member needs, including changing regulations and provider reimbursement policies, we may be unable to anticipate changes in our current and potential new members' requirements that could make our existing technology, products or service offerings obsolete. Additionally, some healthcare information technology providers have begun to incorporate enhanced analytical tools and functionality into their core product and service offerings used by healthcare providers. These developments may adversely impact the demand for our products and services. We must continue to invest significant resources in research and development in order to enhance our existing products and services, maintain or improve our product category rankings and introduce new high quality products and services that members and potential new members will want. Our operating results would also suffer if our innovations are not responsive to the needs of our members or potential new members, are not appropriately timed with market opportunity, or are not effectively brought to market. Many of our existing member relationships are nonexclusive or terminable on short notice, or otherwise terminable after a specified term. If our new or modified product and service innovations are not responsive to member preferences, emerging industry standards or regulatory changes, are not appropriately timed with market opportunity, or are not effectively brought to market, we may lose existing members and be unable to obtain new members and our results of operations may suffer. In addition, cancellation of any of our products and services after implementation has begun may involve loss to us of time, effort, and resources invested in the cancelled implementation as well as lost opportunity for acquiring other members over that same period of time.

We derive a significant portion of our revenues from our largest members.

Our top five members, who are all participants in our group purchasing programs, comprised approximately 19% of our consolidated net revenues for fiscal year 2015. Our largest member, GNYHA Purchasing Alliance, LLC and its member organizations, comprised approximately 9.3% of our consolidated net revenues for the same period. The sudden loss of any of our members that are participants in our group purchasing programs could materially and adversely affect our operating results. In addition, certain of our top five members are themselves GPOs with their own respective direct contracting relationships, including relationships with some of our other members. The sudden loss of any of these members may also result in increased competition for our supply chain services segment and the loss of any of these additional members could also materially and adversely affect our operating results.

Acquisitions could result in operating difficulties, dilution and other harmful consequences.

Our business strategy includes growth through acquisitions. Future acquisitions may not be completed on the most favorable terms and acquired assets or businesses may not be successfully integrated into our operations. Any acquisitions or investments will be accompanied by the risks commonly encountered in acquisitions of businesses. Such risks include, among other things:

- failing to integrate the operations and personnel of the acquired businesses in an efficient, timely manner;
- assuming potential liabilities of an acquired company, some of which may not become known until after the acquisition;
- the acquired company's lack of compliance with laws and governmental rules and regulations, and the related costs and expenses necessary to bring such entity into compliance;
- managing the potential disruption to our ongoing business;
- distracting management focus from our core businesses;
- having difficulties in identifying and acquiring products, technologies, or businesses that will help our business;
- entering new markets in which we have little to no experience;
- impairing relationships with employees, members, and strategic partners,
- failing to implement or remediate controls, procedures and policies appropriate for a larger public company at acquired companies that prior to the acquisition lacked such controls, procedures and policies;
- the amortization of purchased intangible assets;
- incurring expenses associated with an impairment of all or a portion of goodwill and other intangible assets due to changes in market conditions, weak economies in certain competitive markets, or the failure of certain acquisitions to realize expected benefits; and
- diluting the share value and voting power of existing stockholders.

The anticipated benefits of our previous acquisitions may not materialize. Future acquisitions or dispositions of under-performing businesses could result in the incurrence of debt, contingent liabilities or amortization expenses, or write-offs of goodwill and other intangible assets, any of which could harm our financial condition. We anticipate that acquisitions will play a larger role in our business strategy in the future, and there can be no assurances that any future acquisitions will be successful.

In addition, expenses associated with potential acquisitions, including among other things, due diligence costs, legal, accounting, technology and financial advisor fees, travel, and internal resources utilization can be significant. These expenses are required to be incurred regardless of the outcome on any potential acquisition opportunity. In instances where acquisitions are not ultimately completed these expenses typically cannot be recovered or offset by the anticipated financial benefits of a successful acquisition. As we pursue our business strategy and evaluate opportunities, these expenses may adversely impact our results of operations and earnings per share.

Our business and growth strategy also includes non-controlling investments in other businesses. In the event these investments do not perform as well as expected, we could experience a material adverse effect on the value of our investment that could adversely impact our financial condition, results of operations and our Class A common stock price.

Prior to investing in other businesses, we conduct accounting, financial, legal and business due diligence. However, notwithstanding such due diligence efforts, we cannot guarantee that we will discover all material issues that may affect a particular target business, or that factors outside the control of the target business and outside of our control will not later arise. In addition, to the extent we invest in a financially underperforming or unstable company or an entity in its development stage that does not successfully mature, we may lose the value of our investment. Generally, current and future investments are, and will be, made on a non-controlling basis, so we have limited ability to influence the financial or business operations of the companies in which we invest. If our investment loses value, we may be required to write down or write off our investment, or recognize impairment or other charges that could adversely impact our financial condition or results of operations and our stock price. Even though these charges may be non-cash items and not have a material impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us, our business strategy or our common stock.

We are subject to litigation from time to time, which could have a material adverse effect on our business, financial condition and results of operations.

We participate in businesses that are subject to substantial litigation. We are periodically involved in litigation, which from time to time may include claims relating to commercial, product liability, employment, antitrust, intellectual property or other regulatory matters, among others. If current or future government regulations are interpreted or enforced in a manner adverse to us or our business, specifically those with respect to antitrust or healthcare laws, we may be subject to enforcement actions, penalties, and other material limitations on our business.

From time to time, we have been named as a defendant in lawsuits brought by suppliers of medical products. Typically, these lawsuits have alleged the existence of a conspiracy among manufacturers of competing products and operators of GPOs, including us, to deny the plaintiff access to a market for its products. No assurance can be given that we will not be subjected to similar actions in the future or that such matters will be resolved in a manner satisfactory to us or which will not harm our business, financial condition or results of operations.

We may become subject to additional litigation in the future. Some of these claims may result in significant defense costs and potentially significant judgments against us, some of which are not, or cannot be, insured against. We generally intend to defend ourselves vigorously; however, we cannot be certain of the ultimate outcomes of any claims that may arise in the future. Resolution of these types of matters against us may result in our having to pay significant fines, judgments or settlements, which, if uninsured, or if the fines, judgments and settlements exceed insured levels, could adversely impact our earnings and cash flows, thereby having a material adverse effect on our business, financial condition, results of operations, cash flow and per share trading price of the Class A common stock. Certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured and adversely impact our ability to attract officers and directors. In addition, certain litigation matters could adversely impact our commercial reputation, which is critical for attracting and retaining member participation in our GPO programs and suppliers.

We rely on Internet infrastructure, bandwidth providers, data center providers, other third parties, and our own systems for providing services to our users, and any failure or interruption in the services provided by these third parties or our own systems could expose us to litigation and negatively impact our relationships with users, adversely affecting our brand and our business.

Our ability to deliver our performance services segment products is dependent on the development and maintenance of the infrastructure of the Internet and other telecommunications services by third parties. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security for providing reliable Internet access and services and reliable telephone, facsimile, and pager systems. Our services are designed to operate without interruption in accordance with our service level commitments. However, we have experienced and expect that we will experience interruptions and delays in services and availability from time to time. We rely on internal systems as well as third party suppliers, including bandwidth and telecommunications equipment providers, to provide our services. We are also currently in the process of migrating some of our data center operations to third-party data-hosting facilities. We do not maintain redundant systems or facilities for some of these services. In the event of a catastrophic event with respect to one or more of these systems or facilities, we may experience an extended period of system unavailability, which could negatively impact our relationship with users. To operate without interruption, both we and our service providers must guard against:

- damage from fire, power loss, and other natural disasters;
- communications failures;
- software and hardware errors, failures, and crashes;
- security breaches, computer viruses, and similar disruptive problems; and
- other potential interruptions.

Any disruption in the network access, telecommunications, or co-location services provided by these third party providers or any failure of or by these third party providers or our own systems to handle current or higher volume of use could significantly harm our business. We exercise limited control over these third party suppliers, which increases our vulnerability to problems with services they provide. Any errors, failures, interruptions, or delays experienced in connection with these third party technologies and information services or our own systems could negatively impact our relationships with users and adversely affect our business and could expose us to third party liabilities. Although we maintain insurance for our business, the coverage under our policies may not be adequate to compensate us for all losses that may occur. In addition, we cannot provide assurance that we will continue to be able to obtain adequate insurance coverage at an acceptable cost.

The reliability and performance of the Internet may be harmed by increased usage or by denial-of-service attacks. The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage as well as the availability of the Internet to us for delivery of our Internet based services.

Data loss or corruption due to failures or errors in our systems and service disruptions at our data centers may adversely affect our reputation and relationships with existing members, which could have a negative impact on our business, financial condition and results of operations.

Because of the large amount of data that we collect and manage, it is possible that hardware failures or errors in our systems could result in data loss or corruption or cause the information that we collect to be incomplete or contain inaccuracies that our members regard as significant. Complex software such as ours may contain errors or failures that are not detected until after the software is introduced or updates and new versions are released. We continually introduce new software and updates and enhancements to our software. Despite testing by us, from time to time we have discovered defects or errors in our software, and such defects or errors may be discovered in the future. Any defects or errors could expose us to risk of liability to members and the government and could cause delays in the introduction of new products and services, result in increased costs and diversion of development resources, require design modifications, decrease market acceptance or member satisfaction with our products and services or cause harm to our reputation.

Furthermore, our members might use our software together with products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our product development efforts, impact our reputation and lead to significant member relations problems.

Moreover, our internal data centers and service provider locations store and transmit critical member data that is essential to our business. While these locations are chosen for their stability, failover capabilities, and system controls, we do not directly control the continued or uninterrupted availability of every location. In addition to the services we provide from our offices, we are currently in the process of migrating some of our data center operations to third-party data-hosting facilities. Data center facilities are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures, and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism, and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice, or other unanticipated problems could result in lengthy interruptions in our service. These service interruption events could impair our ability to deliver services or deliverables or cause us to miss service level agreements in our agreements with our members, which could negatively affect our ability to retain existing members and attract new members.

If our security measures are breached or fail and unauthorized access is obtained to a member’s data, or our members fail to obtain proper permissions for the use and disclosure of information, our services may be perceived as not being secure, members may curtail or stop using our services, and we may incur significant liabilities.

Our services involve the web-based storage and transmission of members’ proprietary information and protected health information of patients. Because of the sensitivity of this information, security features of our software are very important. From time to time we may detect vulnerabilities in our systems, which, even if they do not result in a security breach, may reduce member confidence and require substantial resources to address. If our security measures are breached or fail as a result of third party action, employee error, malfeasance, insufficiency, defective design, or otherwise, someone may be able to obtain unauthorized access to member or patient data. As a result, our reputation could be damaged, our business may suffer, and we could face damages for contract breach, penalties for violation of applicable laws or regulations, and significant costs for remediation and efforts to prevent future occurrences.

We rely upon our members as users of our system for key activities to promote security of the system and the data within it, such as administration of member-side access credential verification and control of member-side display of data. On occasion, our members have failed to perform these activities. Failure of members to perform these activities may result in claims against us that this reliance was misplaced, which could expose us to significant expense and harm to our reputation. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventive measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and members. In addition, our members may authorize or enable third parties to access their data or the data of their patients on our systems. Because we do not control such access, we cannot ensure the complete propriety of that access or integrity or security of such data in our systems. Any breach of our security could have a material adverse effect on our business, financial condition and results of operations.

Additionally, we require our members in both of our business segments to provide necessary notices and to obtain necessary permissions and waivers for use and disclosure of the information that we receive, and we require contractual assurances from them that they have done so and will do so. If they do not obtain necessary permissions and waivers, then our use and disclosure of information that we receive from them or on their behalf may be limited or prohibited by state or federal privacy laws or other laws. Any such failure to obtain proper permissions and waivers could impair our functions, processes, and databases that reflect, contain, or are based upon such data and may prevent use of such data. In addition, such a failure could interfere with or prevent creation or use of rules and analyses or limit other data-driven activities that benefit us. Moreover, we may be subject to claims or liability for use or disclosure of information by reason of our lack of a valid notice, permission, or waiver. These claims or liabilities could subject us to unexpected costs and adversely affect our business, financial condition and results of operations.

We could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm, and other serious negative consequences if we sustain cyber attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our members or other third parties.

We manage and store various proprietary information and sensitive or confidential data relating to our operations. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of the system.

The costs to us to eliminate or address the foregoing security problems and security vulnerabilities before or after a cyber incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays, or cessation of service, and loss of existing or potential members that may impede our critical functions. In addition, breaches of our security measures and the unapproved dissemination of proprietary information or sensitive or confidential data about us or our members or other third parties could expose us, our members, or other third parties affected to a risk of loss or misuse of this information, result in litigation, governmental inquiry and potential liability for us, damage our brand and reputation, or otherwise harm our business. In addition, we rely in certain limited capacities on third-party data management providers whose possible security problems and security.

Any restrictions on our use of, or ability to license, data, or our failure to license data and integrate third-party technologies, could have a material adverse effect on our business, financial condition and results of operations.

We depend upon licenses from third parties for some of the technology and data used in our applications, and for some of the technology platforms upon which these applications are built and operate, including IBM and 3M. We also obtain a portion of the data that we use from government entities, public records and from our members for specific member engagements. We believe that we have all rights necessary to use the data that is incorporated into our products and services. However, we cannot assure you that our licenses for information will allow us to use that information for all potential or contemplated applications and products. In addition, certain of our informatics products depend on maintaining our data and analytics platform, which is populated with data disclosed to us by our members. If these members revoked their consent for us to maintain, use, de identify and share this data, consistent with applicable law, our data assets could be degraded.

In the future, data providers could withdraw their data from us or restrict our usage for any reason, including if there is a competitive reason to do so, if legislation is passed restricting the use of the data, or if judicial interpretations are issued restricting use of the data that we currently use in our products and services. In addition, data providers could fail to adhere to our quality control standards in the future, causing us to incur additional expense to appropriately utilize the data. If a substantial number of data providers were to withdraw or restrict their data, or if they fail to adhere to our quality control standards, and if we are unable to identify and contract with suitable alternative data suppliers and integrate these data sources into our service offerings, our ability to provide products and services to our members would be materially adversely impacted and it would have a material adverse effect on our business, financial condition and results of operations.

We also integrate into our proprietary applications and use third-party software to maintain and enhance, among other things, content generation and delivery, and to support our technology infrastructure. Some of this software is proprietary and some is open source. Our use of third-party technologies exposes us to increased risks, including, but not limited to, risks associated with the integration of new technology into our solutions, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs. These technologies may not be available to us in the future on commercially reasonable terms or at all and could be difficult to replace once integrated into our own proprietary applications (although we currently believe this risk is remote given the “off-the-shelf” nature of these licenses and that standard operating procedures and practices utilized by these third parties would generally afford us sufficient time to effectively transition to other readily available sources without significant long-term impact to our business). Most of these licenses can be renewed only by mutual consent and may be terminated if we breach the terms of the license and fail to cure the breach within a specified period of time. Our inability to obtain, maintain or comply with any of these licenses could delay development until equivalent technology can be identified, licensed and integrated, which would harm our business, financial condition and results of operations.

Most of our third-party licenses are non-exclusive and our competitors may obtain the right to use any of the technology covered by these licenses to compete directly with us. Our use of third-party technologies exposes us to increased risks, including, but not limited to, risks associated with the integration of new technology into our solutions, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs. In addition, if our data suppliers choose to discontinue support of the licensed technology in the future, we might not be able to modify or adapt our own solutions.

We may rely on partners and other third parties to provide members with a single source solution.

From time to time, we may engage teaming partners or other third parties to provide our members with a single source solution. For example, through partnerships with suppliers we offer performance improvement collaboratives and clinical, financial and operational SaaS informatics products, such as PopulationFocus, CareFocus, NetworkFocus and QualityAdvisor. While we believe that we perform appropriate due diligence on our teaming partners and other third parties, we cannot guarantee that those parties will comply with the terms set forth in their agreements. We may have disputes with our teaming partners or other third parties arising from the quality and timeliness of their work, member concerns about them or other matters. Performance deficiencies or misconduct by our teaming partners or other third parties could result in a member terminating our contract for default and/or could adversely affect our member relationships. We may be exposed to liability and we and our members may be adversely affected if a teaming partner or other third party fails to meet its contractual obligations.

Our use of “open source” software could adversely affect our ability to sell our products and subject us to possible litigation.

The products or technologies acquired, licensed or developed by us may incorporate so-called “open source” software, and we may incorporate open source software into other products in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, “Apache style” licenses, “Berkeley Software Distribution,” “BSD-style” licenses and other open source licenses. There is little or no legal precedent governing the interpretation of many of the terms of certain of these licenses, and therefore the potential impact of these terms on our business is unknown and may result in unanticipated obligations regarding our products and technologies. For example, we may be subjected to certain conditions, including requirements that we offer our products that use particular open source software at no cost to the user, that we make available the source code for modifications or derivative works we create based upon, incorporating or using the open source software, and/or that we license such modifications or derivative works under the terms of the particular open source license.

If an author or other party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal costs defending ourselves against such allegations. If our defenses were not successful, we could be subject to significant damages, be enjoined from the distribution of our products that contained the open source software, and be required to comply with the foregoing conditions, which could disrupt the distribution and sale of some of our products. In addition, if we combine our proprietary software with open source software in a certain manner, under some open source licenses we could be required to release the source code of our proprietary software, which could substantially help our competitors develop products that are similar to or better than ours.

Changes in industry pricing benchmarks could materially impact our financial performance.

Contracts in the prescription drug industry, including our contracts with our specialty pharmacy members, generally use “average wholesale price,” or AWP, which is published by a third party, as a benchmark to establish pricing for prescription drugs.

Various federal and state government agencies and prosecutors, as well as legislators and private litigants, have challenged the use of AWP for prescription drug reimbursement, as well as the manner by which AWP is calculated. In 2011, First DataBank, a significant provider of AWP information, discontinued publishing such information. Other publishers, such as MediSpan, reduced their reported AWP prices. These events have raised uncertainties as to whether certain third parties will continue to publish AWP, which may result in the inability of payers, pharmacy providers and others in the prescription drug industry to continue to utilize AWP as it has previously been calculated, or whether other pricing benchmarks will be adopted for establishing pricing within the industry. Due to these uncertainties, we are unable to anticipate what, if any, future impact this will have on our member contracts or our business strategy generally. Therefore, we can give no assurance that the short or long-term impact of such changes to industry pricing benchmarks will not have a material adverse effect on our business, financial condition and results of operations in future periods.

Prescription volumes may decline, and our net revenues and profitability may be negatively impacted, if the safety risk profiles of drugs increase or if drugs are withdrawn from the market, including as a result of manufacturing issues, or if prescription drugs transition to over-the-counter products.

We dispense significant volumes of brand-name and generic drugs from our specialty pharmacies. When increased safety risk profiles or manufacturing issues of specific drugs or classes of drugs result in utilization decreases, physicians may cease writing or otherwise reduce the numbers of prescriptions for these drugs. Additionally, negative press regarding drugs with higher safety risk profiles may result in reduced global consumer demand for such drugs. On occasion, products are withdrawn by their manufacturers or transition to over-the-counter products. In cases where there are no acceptable prescription drug equivalents or alternatives for these prescription drugs, our volumes, net revenues, profitability and cash flows may decline.

Our ability to grow our specialty pharmacy could be limited if we do not maintain and expand our existing base of drugs, if we lose patients or if manufacturers limit or cease doing business with us.

Our specialty pharmacy focuses on complex and high-cost medications that serve a relatively small patient population. Due to this limited patient population, our future growth relies in part on maintaining and expanding our base of drugs or penetration in certain treatment categories. Sales volumes at our specialty pharmacy could also be negatively impacted due to increases in the safety risk profiles or manufacturing issues of specific drugs, product withdrawals by manufacturers or transitions to over-the-counter products. Any loss of patient base or reduction in demand for any reason for the medications we currently dispense could have a material adverse effect on our business, financial condition and results of operations.

In addition, industry trends may result in health plans contracting with a single provider for specialty pharmacy services and manufacturers limiting their business with regional providers of these services. If we are unable to obtain managed care contracts in the areas in which we provide specialty pharmacy services or are unable to obtain specialty pharmacy products at reasonable costs or at all, our business, financial condition and results of operations could be adversely affected.

Our direct sourcing activities depend on contract manufacturing facilities located in various parts of the world, and any physical, financial, regulatory, environmental, labor or operational disruption or product quality issues could result in a reduction in sales volumes and the incurrence of substantial expenditures.

As part of our direct sourcing activities, which are a part of our supply chain services segment, we contract with manufacturing facilities in various parts of the world, including facilities in China, which are subject to operating hazards and interruptions. Operations at these manufacturing facilities could be curtailed or partially or completely shut down, temporarily or permanently, as the result of a number of circumstances, most of which are outside of our control, such as unscheduled maintenance, a major catastrophe such as an earthquake, hurricane, flood, tsunami or other natural disaster, or significant labor strikes, work stoppages, or political unrest. Any significant curtailment of production at these facilities, or production issue resulting in a substandard product, could result in litigation, governmental inquiry, or materially reduced revenues and cash flow in our direct sourcing activities. In addition our business practices in international markets are subject to the requirements of the U.S. Foreign Corrupt Practices Act of 1977, as amended, any violation of which could subject us to significant fines, criminal sanctions and other penalties.

A substantial portion of the manufacturing for our direct sourcing activities is conducted in China. As a result, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing and the allocation of resources. Additionally, the facilities in China with which we contract are particularly susceptible to rising labor costs and interruptions as a result of minimum wage laws, scheduling and overtime requirements, labor disputes and strikes.

If we lose key personnel or if we are unable to attract, hire, integrate and retain key personnel, our business would be harmed.

Our future success depends in part on our ability to attract, hire, integrate and retain key personnel. Our future success also depends on the continued contributions of our executive officers and other key personnel, each of whom may be difficult to replace. In particular, Susan D. DeVore, our President and Chief Executive Officer, Michael J. Alkire, our Chief Operating Officer, Craig S. McKasson, our Senior Vice President and Chief Financial Officer, Keith J. Figlioli, our Senior Vice President of Healthcare Informatics, and Durral R. Gilbert, our President of Supply Chain Services are critical to the management of our business and operations and the development of our strategic direction. The loss of services of Ms. DeVore, Messrs. Alkire, McKasson, Figlioli, Gilbert or any of our other executive officers or key personnel could have a material adverse effect on our business, financial condition and results of operations. The replacement of any of these key individuals would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives.

Our success also depends upon our ability to identify, hire and retain other highly skilled technical, managerial, editorial, sales, marketing and customer service professionals. Competition for such personnel is intense. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. We cannot be certain of our ability to identify, hire and retain adequately qualified personnel. Failure to identify, hire and retain necessary key personnel could have a material adverse effect on our business, financial condition and results of operations.

If the protection of our intellectual property is inadequate, our competitors may gain access to our technology or confidential information and we may lose our competitive advantage.

Our success depends in part upon our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of intellectual property rights, including trade secrets, copyrights and trademarks, as well as customary contractual protections.

We utilize a combination of internal and external measures to protect our proprietary software and confidential information. Such measures include contractual protections with employees, contractors, members, and partners, as well as U.S. copyright laws.

We protect the intellectual property in our software pursuant to customary contractual protections in our agreements that impose restrictions on our members' ability to use such software, such as prohibiting reverse engineering and limiting the use of copies. We also seek to avoid disclosure of our intellectual property by relying on internal policies applicable to our employees and consultants that acknowledge our ownership of all intellectual property developed by the individual during the course of his or her work with us. These member agreements and internal policies applicable to our employees and consultants also require each person to maintain the confidentiality of all proprietary information disclosed to them. Other parties may not comply with the terms of these agreements and policies, and we may not be able to enforce our rights adequately against these parties. The disclosure to, or independent development by, a competitor of any trade secret, know-how or other technology not protected by a patent could materially adversely affect any competitive advantage we may have over any such competitor.

These protections may not be adequate, and we cannot assure you that they will prevent misappropriation of our intellectual property. Other companies could independently develop similar or competing technology without violating our proprietary rights. The process of enforcing our intellectual property rights through legal proceedings would likely be burdensome and expensive, and our ultimate success cannot be assured. Our failure to adequately protect our intellectual property and proprietary rights could adversely affect our business, financial condition and results of operations.

If we are deemed to infringe, misappropriate or violate the proprietary rights of third parties, we could incur unanticipated expense and be prevented from providing our products and services.

We could be subject to intellectual property infringement, misappropriation or other intellectual property violation claims as our applications’ functionality overlaps with competitive products and third parties may claim that we do not own or have rights to use all intellectual property rights used in the conduct of our business. We do not believe that we have infringed or are infringing on any valid or enforceable proprietary rights of third parties. However, we cannot assure you that infringement, misappropriation or claims alleging intellectual property violations will not be asserted against us. Also, we cannot assure you that any such claims will be unsuccessful. We could incur substantial costs and diversion of management resources defending any such claims. Furthermore, a party making a claim against us could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to provide products or services. In addition, we cannot assure you that licenses for any intellectual property of third parties that might be required for our products or services will be available on commercially reasonable terms, or at all. Such claims also might require indemnification of our members at significant expense.

In addition, a number of our contracts with our members contain indemnity provisions whereby we indemnify them against certain losses that may arise from third-party claims that are brought in connection with the use of our products.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have limited visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks. In addition, third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

If we are required to collect sales and use taxes on the products and services we sell in certain jurisdictions or intend to sell online, we may be subject to tax liability for past sales, future sales may decrease and our financial condition may be materially and adversely affected.

Rules and regulations applicable to sales and use tax vary significantly by tax jurisdiction. In addition, the applicability of these rules given the nature of our products and services is subject to change.

We may lose sales or incur significant costs should various tax jurisdictions be successful in imposing sales and use taxes on a broader range of products and services than those currently so taxed, including products and services sold online. A successful assertion by one or more taxing authorities that we should collect sales or other taxes on the sale of our solutions could result in substantial tax liabilities for past and future sales, decrease our ability to compete and otherwise harm our business.

In addition, sales tax is currently not imposed on the administrative fees we collect in connection with our GPO programs. If sales tax were imposed in the future on such fees, the profitability of our GPO programs may be materially and adversely affected.

If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our products and services, including products and services sold online, we may be liable for past taxes in addition to taxes going forward. Liability for past taxes may also include very substantial interest and penalty charges. If we are required to collect and pay back taxes (and the associated interest and penalties) and if our members fail or refuse to reimburse us for all or a portion of these amounts, we will have incurred unplanned costs that may be substantial. Moreover, imposition of such taxes on our services going forward will effectively increase the cost of such services to our members and may adversely affect our ability to retain existing members or to gain new members in the areas in which such taxes are imposed.

We may need to obtain additional financing which may not be available or, if it is available, may result in dilution to our then-existing stockholders and decreased stock prices for our Class A common stock.

We may need to raise additional funds in order to:

- finance unanticipated working capital requirements;
- develop or enhance our technological infrastructure and our existing products and services;
- fund strategic relationships;
- respond to competitive pressures; and
- acquire complementary businesses, assets, technologies, products or services.

Additional financing may not be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our ability to fund our expansion strategy, take advantage of unanticipated opportunities, develop or enhance technology or services or otherwise respond to competitive pressures would be significantly limited. If we raise additional funds by issuing equity or convertible debt securities, our then-existing stockholders may be diluted, and holders of these newly issued securities may have rights, preferences or privileges senior to those of our then-existing stockholders. In addition, the issuance of dilutive securities may have downward price pressures on the trading prices of our Class A common stock.

Our future indebtedness could adversely affect our business and our liquidity position.

On June 24, 2014, we entered into a five-year $750 million unsecured revolving credit facility, which includes an accordion feature granting us the ability to increase the size of the facility by an additional $250 million on terms and conditions mutually acceptable to the parties. As of June 30, 2015, we had no amounts outstanding under this credit facility.

Our indebtedness may increase from time to time in the future for various reasons, including fluctuations in operating results, capital expenditures and potential acquisitions. Any indebtedness we incur and restrictive covenants contained in the agreements related thereto could:

- make it difficult for us to satisfy our obligations, including making interest payments on our debt obligations;
- limit our ability to obtain additional financing to operate our business;
- require us to dedicate a substantial portion of our cash flow to payments on our debt, reducing our ability to use our cash flow to fund capital expenditures and working capital and other general operational requirements;
- limit our flexibility to plan for and react to changes in our business and the healthcare industry;
- place us at a competitive disadvantage relative to some of our competitors that have less debt than us;
- limit our ability to pursue acquisitions; and
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates or a downturn in our business or the economy.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition and results of operations or cause a significant decrease in our liquidity and impair our ability to pay amounts due on our indebtedness.

Our unsecured revolving credit facility contains, among other things, restrictive covenants that will limit our and our subsidiaries' ability to finance future operations or capital needs or to engage in other business activities. The credit facility restricts, among other things, our ability and the ability of our subsidiaries to incur additional indebtedness or issue guarantees, create liens on our assets, make distributions on or redeem equity interests, make investments, transfer or sell properties or other assets, and engage in mergers, consolidations or acquisitions. Furthermore, the credit facility requires us to meet specified financial ratios and tests. In addition, any debt securities we may issue in the future may have similar or more restrictive financial or operational covenants that may limit our ability to execute our business strategies or operate our Company.

Our cash flows, quarterly revenues and results of operations have fluctuated in the past and may continue to fluctuate in the future as a result of certain factors, some of which may be outside of our control.

Certain of our member contracts contain terms that result in revenue that is deferred and cannot be recognized until the occurrence of certain events. For example, accounting principles do not allow us to recognize revenue associated with the implementation of certain products and services in our performance services segment until the implementation has been completed, at which time we begin to recognize revenue over the life of the contract or the estimated remaining member relationship period, whichever is longer. As a result, the period of time between contract signing and recognition of associated revenue may be lengthy, and we are not able to predict with certainty the period in which implementation will be completed.

Certain of our member agreements provide for guaranteed levels of savings in which some portion or all of our fees are at risk and refundable if our products and services do not result in the achievement of these financial performance targets. The amount of guaranteed savings in the member agreements in place on June 30, 2015 represent less than 1% of our net revenue in the event that no savings are identified. These member agreements are reviewed and approved by the member agreement review committee of our board of directors, which is comprised of a subset of our independent directors and our president and chief executive officer, in order to manage and protect potential conflict of interest issues with member owners. If we are unable to meet or exceed savings guarantee levels, we may be required to pay any difference between savings that were guaranteed and the savings, if any, which were actually achieved. To the extent that any revenue is subject to contingency for the non-achievement of a performance target, we only recognize revenue upon member confirmation that the financial performance targets have been achieved. If a member fails to provide such confirmation in a timely manner, our ability to recognize revenue will be delayed. Additionally, certain of our contracts include the potential for a payment based on a percentage achieved on certain financial performance targets, which we may or may not earn when expected or at all.

Our group purchasing services rely on participating suppliers to provide periodic reports of their sales volumes to our members and resulting administrative fees to us. If a supplier fails to provide such reporting in a timely and accurate manner, our ability to recognize administrative fees revenue will be delayed or prevented.

Certain of our fees are based on timing and volume of member invoices processed and payments received, which are often dependent upon factors outside of our control.

Other fluctuations in our quarterly results of operations may be due to a number of other factors, some of which are not within our control, including:

- our ability to offer new and innovative products and services;
- regulatory changes, including changes in the healthcare laws;
- unforeseen legal expenses, including litigation and settlement costs;
- the purchasing and budgeting cycles of our members;
- the lengthy sales cycles for our products and services, which may cause significant delays or an inability to generate revenues;
- pricing pressures with respect to our future sales;
- the timing and success of our or our competitors' new product and service offerings;
- member decisions, especially those involving our larger member relationships, regarding renewal or termination of their contracts;
- the amount and timing of operating costs related to the maintenance and expansion of our business, operations and infrastructure;
- the amount and timing of costs related to the development, adaptation, acquisition, or integration of acquired technologies or businesses;
- the financial condition of our current and potential new members; and
- general economic, industry and market conditions and those conditions specific to the healthcare industry.

We base our expense levels in part upon our expectations concerning future revenue, and these expense levels are relatively fixed in the short term. If we have lower revenue than expected, we may not be able to reduce our spending in the short term in response. Any significant shortfall in revenue would have a direct and material adverse impact on our business, financial condition and results of operations. We believe that our quarterly results of operations may vary significantly in the future and that period-to-period comparisons of our results of operations may not be meaningful. You should not rely on the results of one quarter as an indication of future performance. If our quarterly results of operations fall below the expectations of securities analysts or investors, the price of the Class A common stock could decline substantially. In addition, any adverse impacts on the Class A common stock may harm the overall reputation of our organization, cause us to lose members and impact our ability to raise additional capital in the future.

Risks Related to Healthcare Regulation

The healthcare industry is highly regulated. Any material changes in the political, economic or regulatory healthcare environment that affect the GPO business or the purchasing practices and operations of healthcare organizations, or that lead to consolidation in the healthcare industry, could require us to modify our services or reduce the funds available to providers to purchase our products and services.

Our business, financial condition and results of operations depend upon conditions affecting the healthcare industry generally and hospitals and health systems particularly. Our ability to grow will depend upon the economic environment of the healthcare industry generally as well as our ability to increase the number of programs and services that we sell to our members. The healthcare industry is highly regulated by federal and state authorities and is subject to changing political, economic and regulatory influences. Factors such as changes in reimbursement policies for healthcare expenses, consolidation in the healthcare industry, regulation, litigation and general economic conditions affect the purchasing practices, operations and the financial health of healthcare organizations. In particular, changes in regulations affecting the healthcare industry, such as increased regulation of the purchase and sale of medical products, or restrictions on permissible discounts and other financial arrangements, could require us to make unplanned modifications of our products and services, result in delays or cancellations of orders or reduce funds and demand for our products and services.

In March 2010, President Obama signed into law the Affordable Care Act. The Affordable Care Act is a sweeping measure designed to expand access to affordable health insurance, control healthcare spending, and improve healthcare quality. The law includes provisions to tie Medicare provider reimbursement to healthcare quality and incentives, mandatory compliance programs, enhanced transparency disclosure requirements, increased funding and initiatives to address fraud and abuse, and incentives to state Medicaid programs to promote community based care as an alternative to institutional long-term care services. In addition, the law provides for the establishment of a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services, which could lead to changes in the delivery of healthcare services. Likewise, many states have adopted or are considering changes in healthcare policies in part due to state budgetary shortfalls. Regulations for implementing many provisions of the Affordable Care Act are being released on an ongoing basis, and we do not know what effect the federal Affordable Care Act or any state law proposals may have on our business.

If we fail to comply with federal and state laws governing financial relationships among healthcare providers and submission of false or fraudulent claims to government healthcare programs, we may be subject to civil and criminal penalties or loss of eligibility to participate in government healthcare programs.

We are subject to federal and state laws and regulations designed to protect patients, governmental healthcare programs and private health plans from fraudulent and abusive activities. These laws include anti-kickback restrictions and laws prohibiting the submission of false or fraudulent claims. These laws are complex and their application to our specific products, services and relationships may not be clear and may be applied to our business in ways that we do not anticipate. Federal and state regulatory and law enforcement authorities have over time increased enforcement activities with respect to Medicare and Medicaid fraud and abuse regulations and other reimbursement laws and rules. From time to time we and others in the healthcare industry have received inquiries or requests to produce documents in connection with such activities. We could be required to expend significant time and resources to comply with these requests, and the attention of our management team could be diverted to these efforts. Furthermore, if we are found to be in violation of any federal or state fraud and abuse laws, we could be subject to civil and criminal penalties, and we could be excluded from participating in federal and state healthcare programs such as Medicare and Medicaid. The occurrence of any of these events could significantly harm our business and financial condition.

Provisions in Title XI of the Social Security Act, commonly referred to as the federal Anti-Kickback Statute, prohibit the knowing and willful offer, payment, solicitation or receipt of remuneration, directly or indirectly, in return for the referral of patients or arranging for the referral of patients, or in return for the recommendation, arrangement, purchase, lease or order of items or services that are covered, in whole or in part, by a federal healthcare program such as Medicare or Medicaid. The definition of “remuneration” has been broadly interpreted to include anything of value such as gifts, discounts, rebates, waiver of payments or providing anything at less than its fair market value. Many states have adopted similar prohibitions against kickbacks and other practices that are intended to influence the purchase, lease or ordering of healthcare items and services regardless of whether the item or service is covered under a governmental health program or private health plan. Certain statutory and regulatory safe harbors exist that protect specified business arrangements from prosecution under the Anti-Kickback Statute if all elements of an applicable safe harbor are met, however these safe harbors are narrow and often difficult to comply with. Congress has appropriated an increasing amount of funds in recent years to support enforcement activities aimed at reducing healthcare fraud and abuse. We cannot assure you that our arrangements will be protected by such safe harbors or that such increased enforcement activities will not directly or indirectly have an adverse effect on our business, financial condition or results of operations. Any determination by a state or federal agency that any of our activities or those of our suppliers or members, violate any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, or could disqualify us from providing services to healthcare providers doing business with government programs, and, thus could have a material adverse effect on our business, financial condition and results of operations.

In 2005, the Department of Health and Human Services, or HHS, Office of Inspector General conducted an extensive audit of the business practices of three GPOs, including us, and published a report indicating that of the $1.8 billion in administrative fees that these GPOs collected over a four-year period, $1.3 billion exceeded their operating expenses. Of this amount, $898 million was returned to hospitals. The report found certain deficiencies in the manner in which the hospitals reflected these fees on their cost reports to Medicare. The HHS Office of Inspector General took no enforcement action against us or, to our knowledge, either of the other GPOs. The report did not identify any of our business practices, or relationships with suppliers or our members, which in its view violated the Anti-Kickback Statute. In response to these findings, the HHS Office of Inspector General recommended that CMS provide specific guidance on the proper treatment on Medicare cost reports of revenue distributions received from GPOs. CMS issued an update to its provider reimbursement manual in December 2011 specifying that these distributions must be properly accounted for on such cost reports. The 2005 report and subsequent CMS guidance suggest that the various forms of value received by our U.S. hospital members and health system member owners in connection with or related to the Reorganization and our IPO (including, without limitation, increases in the fair market value of equity held by such member owners, proceeds from the purchase of Class B common units from such member owners immediately following our IPO and as a result of subsequent exchanges, Premier LP cash distributions, administrative fee revenue share paid by Premier LP to our members based upon their member facilities' purchases through GPO supplier contracts and payments under the tax receivable agreements) should be appropriately reflected in their cost reports to Medicare, and we have sought to structure those arrangements so that they can be appropriately reflected. Our members that report their costs to Medicare are required under the terms of the Premier Group Purchasing Policy to appropriately reflect all elements of value received in connection with the Reorganization and our IPO on their cost reports. We are required to furnish applicable reports to such members setting forth the amount of such value, to assist their compliance with such cost reporting requirements. We cannot assure you, however, that the HHS Office of Inspector General or the U.S. Department of Justice, or DOJ, would concur with such approach. Any determination by a state or federal agency that the provision of such forms of value violate any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, or could disqualify us from providing services to healthcare providers doing business with government programs, and, thus could have a material adverse effect on our business, financial condition and results of operations.

In the lead-up to our IPO, we received correspondence from one of our major GPO competitors expressing concern that the manner in which our IPO was explained to our current and prospective member owners could violate the Anti-Kickback Statute. One letter attached a brief analysis prepared by the competitor’s outside counsel, which concluded that the opportunity to participate in our IPO could constitute a form of remuneration for purposes of the Anti-Kickback Statute and that if the other requisite elements of an Anti-Kickback Statute violation were present, the extension by us of such opportunity could violate the Anti-Kickback Statute. We believe that our discussions with then-current and prospective member owners regarding our IPO were conducted in compliance with the Anti-Kickback Statute and other applicable laws. However, no assurance can be given that enforcement authorities will agree with our assessment. Although a process exists for requesting advisory opinions from the HHS Office of Inspector General regarding compliance of particular arrangements with the Anti-Kickback Statute, we have not sought such an opinion and do not believe that the issues raised in the competitor’s correspondence are capable of being addressed in an advisory opinion since the content and specifics of each discussion would be at issue. Any determination by a state or federal agency that the manner in which the opportunity to participate in our IPO was presented to our member owners and prospective member owners, either in and of itself or when viewed in conjunction with the requirements for ownership in Premier LP and participation in our group purchasing program or the various forms of value received by our member owners in connection with or related to our IPO, violated any of these laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, or could disqualify us from providing services to healthcare providers doing business with government programs, and, thus could have a material adverse effect on our business, financial condition and results of operations.

On July 23, 2013, the HHS Office of Inspector General published Advisory Opinion 13 09 addressing a transaction proposed to be undertaken by the competitor referred to in the preceding paragraph. Under this proposal, the competitor, which is a publicly traded company, would issue stock to certain of its current and prospective customers in exchange for the customers’ agreement to extend or enter into a five to seven year contract that would require the customer to commit not to decrease its historical level of purchases through the competitor’s GPO supplier contracts over the term of the contract and to agree to a reduction in the percentage of administrative fee revenue share paid by the competitor to such customer on an annual basis. The amount of stock given to each customer would be equal to the amount of the reduction in revenue share due to the customer over the term of the contract. The HHS Office of Inspector General concluded that the competitor’s proposed transaction could potentially generate prohibited remuneration under the Anti Kickback Statute and that the HHS Office of Inspector General could potentially impose administrative sanctions on the competitor in connection with the arrangement. The HHS Office of Inspector General first noted that the granting of stock to customers would not fit within the discount safe harbor and therefore must be assessed based on the totality of the facts and circumstances. The HHS Office of Inspector General then observed that when a GPO passes through administrative fees to its customers, such fees could be treated as discounts on the price of goods sold by the vendors and the GPO and its customers could meet the reporting and other requirements of the discount safe harbor. This in turn could reduce costs to federal healthcare programs. The HHS Office of Inspector General asserted that the competitor’s proposed arrangement, to the contrary, would result in a portion of a customer’s revenue share, which would otherwise be reflected as a reduction in expense on the customer’s cost reports, being exchanged for stock which would have no potential to benefit payers, including federal healthcare programs. The HHS Office of Inspector General cited three additional factors which, in its view, increase the risk of fraud and abuse posed by the competitor’s proposed transaction: (i) the customers receiving stock would be required to extend their contracts (or enter into new contracts) with the competitor’s GPO for five to seven years; (ii) the stock granted by the competitor would be tied to the customers’ past purchases; and (iii) customers would not be permitted to decrease their volume of purchases through the competitor’s group purchasing contracts. In the HHS Office of Inspector General’s view, the combination of these three factors would result in customers potentially being rewarded with stock based upon their past referrals and being locked into long term contracts under which they would be forced to maintain historical purchasing levels for an extended period of time regardless of whether the competitor is getting them the best prices. We believe that the terms of the Reorganization are distinguishable from those described in Advisory Opinion 13 09 requested by our competitor. As discussed above, we periodically receive and respond to questions from government agencies on various matters and we responded to an informal request in July 2014 from the HHS Office of Inspector General to enumerate the factors that distinguish our Reorganization from the fact pattern in Advisory Opinion 13-09 and to discuss how the GPO Participation Agreements comply with the discount safe harbor to the Anti-Kickback Statute. We have had no further correspondence or interaction, oral or written, with the HHS Office of Inspector General since that time. There is no safe harbor to the Anti-Kickback Statute that is applicable to the Reorganization in its entirety across all of the agreements, and no assurance can be given that the HHS Office of Inspector General or other regulators or enforcement authorities will agree with our assessment. Any determination by a state or federal agency that the terms of our Reorganization or our relationship with our members violate the Anti Kickback Statute or any other federal or state laws could subject us to civil or criminal penalties, could require us to change or terminate some portions of our operations or business, or could disqualify us from providing services to healthcare providers doing business with government programs, and, thus could have a material adverse effect on our business, financial condition and results of operations.

Our business is also subject to numerous federal and state laws that forbid the submission or “causing the submission” of false or fraudulent information or the failure to disclose information in connection with the submission and payment of claims for reimbursement to Medicare, Medicaid, other federal healthcare programs or private health plans. In particular, the False Claims Act, or FCA, prohibits a person from knowingly presenting or causing to be presented a false or fraudulent claim for payment or approval by an officer, employee or agent of the United States. In addition, the FCA prohibits a person from knowingly making, using, or causing to be made or used a false record or statement material to such a claim. Violations of the FCA may result in treble damages, significant monetary penalties, and other collateral consequences including, potentially, exclusion from participation in federally funded healthcare programs. The scope and implications of the amendments to the FCA pursuant to the Fraud Enforcement and Recovery Act of 2009, or FERA, have yet to be fully determined or adjudicated and as a result it is difficult to predict how future enforcement initiatives may impact our business. If enforcement authorities find that we have violated the FCA, it could have a material adverse effect on our business, financial condition and results of operations. Pursuant to the 2010 healthcare reform legislation, a claim that includes items or services resulting from a violation of the Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the FCA.

These laws and regulations may change rapidly and it is frequently unclear how they apply to our business. Errors in claims submitted by our specialty pharmacies and pharmacy benefits management businesses, as well as errors created by our products or advisory services that relate to entry, formatting, preparation or transmission of claim or cost report information by our members may be determined or alleged to be in violation of these laws and regulations. Any failure of our businesses or our products or services to comply with these laws and regulations, or the assertion that any of our relationships with suppliers or members violated the Anti-Kickback Statute and therefore caused the submission of false or fraudulent claims, could (i) result in substantial civil or criminal liability, (ii) adversely affect demand for our services, (iii) invalidate all or portions of some of our member contracts, (iv) require us to change or terminate some portions of our business, (v) require us to refund portions of our services fees, (vi) cause us to be disqualified from serving members doing business with government payers, and (vii) have a material adverse effect on our business, financial condition and results of operations.

If current or future antitrust laws and regulations are interpreted or enforced in a manner adverse to us or our business, we may be subject to enforcement actions, penalties, and other material limitations on our business.

We are subject to federal and state laws and regulations designed to protect competition which, if enforced in a manner adverse to us or our business, could have a material adverse effect on our business, financial condition and results of operations. The group purchasing industry has previously been under review by members of the U.S. Senate with respect to antitrust laws. In 2002, the U.S. Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights conducted a series of hearings concerning the activities of GPOs, including us. As a response to the Senate Subcommittee inquiry, we and other operators of GPOs formed the Healthcare Supply Chain Association (formerly the Healthcare Industry Group Purchasing Association), or HSCA, which developed a code of conduct to assure compliance with ethical and legal standards, including the antitrust laws. In addition, in 2002 we adopted our own Code of Conduct in consultation with a leading ethicist. As part of these Senate investigations, the U.S. General Accounting Office, or GAO, published two reports. The first report included an examination of GPO pricing. The second report investigated contracting practices used by GPOs with regard to administrative fees, sole source contracts and bundling arrangements and discussed the various codes of conduct implemented by the GPOs to address these practices.

On August 11, 2009, we and several other operators of GPOs received a letter from Senators Charles Grassley, Herb Kohl and Bill Nelson requesting information concerning the different relationships between and among us and our members, distributors, manufacturers and other suppliers, and requesting certain information about the services we perform and the payments we receive in connection with our GPO programs. On September 25, 2009, we and several other operators of GPOs received a request for information from the GAO, also concerning our services and relationships with our members in connection with our GPO programs. Subsequently, we and other operators of GPOs received follow-up requests for additional information. We fully complied with all of these requests. On September 27, 2010, the GAO released a report titled "Group Purchasing Organizations-Services Provided to Customers and Initiatives Regarding Their Business Practices." On that same day, the Minority Staff of the U.S. Senate Finance Committee released a report titled "Empirical Data Lacking to Support Claims of Savings with Group Purchasing Organizations." On March 30, 2012, the GAO released a report titled "Group Purchasing Organizations-Federal Oversight and Self-Regulation." In February, 2014, the GAO released a report examining the current situation regarding shortages of certain drugs and contributing factors to those shortages. Among the areas examined was the role of GPOs as a potential cause of the drug shortages. While the report cited some stakeholder perspectives and studies related to GPOs contributing to the cause of drug shortages, the report did not make any recommendations related to GPOs. In early 2014, we and four other GPOs received a survey from the GAO inquiring about purchasing volume, administrative fees and business activities. On November 24, 2014, the GAO released a report titled "Funding Structure Has Potential Implications for Medicare Costs." No assurance can be given regarding any further inquiries or actions arising or resulting from the report or otherwise, or any related impact on our business, financial condition or results of operations.

Congress, the DOJ, the Federal Trade Commission, or FTC, the U.S. Senate or another state or federal entity could at any time open a new investigation of the group purchasing industry, or develop new rules, regulations or laws governing the industry, that could adversely impact our ability to negotiate pricing arrangements with suppliers, increase reporting and documentation requirements, or otherwise require us to modify our arrangements in a manner that adversely impacts our business, financial condition and results of operations. We may also face private or government lawsuits alleging violations arising from the concerns articulated by these governmental actors.

During the past 15 years, we have been named as a defendant in lawsuits brought by suppliers of medical products. Typically, these lawsuits have alleged the existence of a conspiracy among manufacturers of competing products and operators of GPOs, including us, to deny the plaintiff access to a market for its products. No such litigation is currently pending. No assurance can be given that we will not be subjected to similar actions in the future or that such matters will be resolved in a manner satisfactory to us or which will not harm our business, financial condition or results of operations.

We cannot guarantee that the antitrust laws will ultimately be enforced in a manner consistent with our interpretation. If we are found to be in violation of the antitrust laws we could be subject to civil and criminal penalties. The occurrence of any of these events could significantly harm our business, financial condition and results of operations.

Potential healthcare reform and new regulatory requirements placed on our software, services and content could impose increased costs on us, delay or prevent our introduction of new services types and impair the function or value of our existing service offerings.

Our services may be significantly impacted by healthcare reform initiatives and could be subject to increasing regulatory requirements, either of which could affect our business in a multitude of ways. If additional substantive healthcare reform or applicable regulatory requirements are adopted, we may have to change or adapt our services and software to comply. Reform or changing regulatory requirements may also render our services obsolete or may block us from accomplishing our work or from developing new services. This may in turn impose additional costs upon us to adapt to the new operating environment or to further develop services or software. Such reforms may also make introduction of new service offerings more costly or more time-consuming than we currently anticipate. Such changes may even prevent introduction by us of new services or make the continuation of our existing services unprofitable or impossible.

Federal and state privacy, security and breach notification laws may increase the costs of operation and expose us to civil and criminal government sanctions and third party civil litigation.

We must comply with extensive federal and state requirements regarding the use, retention, security and re-disclosure of patient/beneficiary healthcare information. The Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations that have been issued under it, which we refer to collectively as HIPAA, contain substantial restrictions and requirements with respect to the use and disclosure of individually identifiable health information, referred to as "protected health information." The HIPAA Privacy Rule prohibits a covered entity or a business associate (essentially, a third party engaged to assist a covered entity with enumerated operational and/or compliance functions) from using or disclosing protected health information unless the use or disclosure is validly authorized by the individual or is specifically required or permitted under the Privacy Rule and only if certain complex requirements are met. In addition to establishing these complex requirements, covered entities and business associates must also meet additional compliance obligations set forth in the Privacy Rule. In addition, the HIPAA Security Rule establishes administrative, organization, physical and technical safeguards to protect the privacy, integrity and availability of electronic protected health information maintained or transmitted by covered entities and business associates. The HIPAA Security Rule requirements are intended to mandate that covered entities and business associates regularly reassess the adequacy of their safeguards in light of changing and evolving security risks.

Finally, the HIPAA Breach Notification Rule requires that covered entities and business associates, under certain circumstances, notify patients/beneficiaries and HHS when there has been an improper use or disclosure of protected health information.

Our specialty pharmacy, our self-funded health benefit plan, and our healthcare provider members (provided that these members engage in HIPAA-defined standard electronic transactions with health plans, which will be all or the vast majority) are directly regulated by HIPAA as “covered entities.” From time to time, as part of our specialty pharmacy business, certain of our affiliates act as business associates of retail and other pharmacies in connection with co-branding initiatives. As such, we are subject to HIPAA and other risks discussed herein associated with being a business associate. Additionally, because most of our U.S. hospital members disclose protected health information to us so that we may use that information to provide certain data analytics, benchmarking, advisory or other operational and compliance services to these members, we are a “business associate” of those members. In these cases, in order to provide members with services that involve the use or disclosure of protected health information, HIPAA require us to enter into “business associate agreements” with our covered entity members. Such agreements must, among other things, provide adequate written assurances:

- as to how we will use and disclose the protected health information within certain allowable parameters established by HIPAA,
- that we will implement reasonable administrative, organizational, physical and technical safeguards to protect such information from misuse,
- that we will enter into similar agreements with our agents and subcontractors that have access to the information,
- that we will report security incidents and other inappropriate uses or disclosures of the information, and
- that we will assist the covered entity with certain of its duties under HIPAA.

With the enactment of the HITECH Act, the privacy and security requirements of HIPAA were modified and expanded. The HITECH Act applies certain of the HIPAA privacy and security requirements directly to business associates of covered entities. Prior to this change, business associates had contractual obligations to covered entities but were not subject to direct enforcement by the federal government. On January 17, 2013, HHS released final rules implementing the HITECH Act changes to HIPAA. These amendments expand the protection of protected health information by, among other things, imposing additional requirements on business associates, further restricting the disclosure of protected health information in certain cases when the disclosure is part of a remunerated transaction, and modifying the HIPAA Breach Notification Rule, which has been in effect since September 2009, to create a rebuttable presumption that any improper use or disclosure of protected health information requires notice to affected patients/beneficiaries and HHS. The 2013 final rule became effective on March 26, 2013 and the compliance date for most provisions is September 23, 2013. The modifications to the HIPAA Breach Notification Rule requirements are currently effective and being enforced.

Any failure or perceived failure of our products or services to meet HIPAA standards and related regulatory requirements could expose us to certain notification, penalty and/or enforcement risks, could adversely affect demand for our products and services, and force us to expend significant capital, research and development and other resources to modify our products or services to address the privacy and security requirements of our members and HIPAA.

In addition to our obligations under HIPAA there are other federal laws that impose specific privacy and security obligations, above and beyond HIPAA, for certain types of health information and impose additional sanctions and penalties. These rules are not preempted by HIPAA. Finally, most states have enacted patient and/or beneficiary confidentiality laws that protect against the disclosure of confidential medical information, and many states have adopted or are considering adopting further legislation in this area, including privacy safeguards, security standards, data security breach notification requirements, and special rules for so-called “sensitive” health information, such as mental health, genetic testing results, or HIV status. These state laws, if more stringent than HIPAA requirements, are not preempted by the federal requirements, and we are required to comply with them as well.

We are unable to predict what changes to HIPAA or other federal or state laws or regulations might be made in the future or how those changes could affect our business or the associated costs of compliance. For example, the federal Office of the National Coordinator for Health Information Technology, or ONCHIT, is coordinating the development of national standards for creating an interoperable health information technology infrastructure based on the widespread adoption of electronic health records in the healthcare sector. We are yet unable to predict what, if any, impact the creation of such standards and the further developments at ONCHIT will have on the necessary specifications or demand for our products, services, or on associated compliance costs.

Failure by us to comply with any of the federal and state standards regarding patient privacy, identity theft prevention and detection and data security may subject us to penalties, including civil monetary penalties and in some circumstances, criminal penalties. In addition, such failure may injure our reputation and adversely affect our ability to retain members and attract new members.

HIPAA also mandates format, data content and provider identifier standards that must be used in certain electronic transactions, such as claims, payment advice and eligibility inquiries. Although our systems are fully capable of transmitting transactions that comply with these requirements, some payers and healthcare clearinghouses with which we conduct business may interpret HIPAA transaction requirements differently than we do or may require us to use legacy formats or include legacy identifiers as they make the transition to full compliance. In cases where payers or healthcare clearinghouses require conformity with their interpretations or require us to accommodate legacy transactions or identifiers as a condition of successful transactions, we attempt to comply with their requirements, but may be subject to enforcement actions as a result. In January 2009, CMS published a final rule adopting updated standard code sets for diagnoses and procedures known as ICD-10 code sets. A separate final rule also published by CMS in January 2009 resulted in changes to the formats to be used for electronic transactions subject to the ICD-10 code sets, known as Version 5010. As of March 31, 2012, healthcare providers are required to comply with Version 5010. Use of the ICD-10 code sets is not mandated until October 1, 2015. We believe we have made the proper modifications in preparation for the implementation of ICD-10. However, we may not be successful in responding to these changes and any changes in response that we make to our transactions and software may result in errors or otherwise negatively impact our service levels. We may also experience complications in supporting members that are not fully compliant with the revised requirements as of the applicable compliance date.

Our group purchasing, specialty pharmacy and direct sourcing activities can be adversely affected by product safety concerns and regulation.

Most of the products offered through our GPO supplier contracts, specialty pharmacies and direct sourcing activities are subject to direct regulation by federal and state governmental agencies. We rely upon suppliers who use our services to meet all safety and effectiveness, quality control, packaging, distribution, labeling, hazard and health information notice, record keeping and licensing requirements. In addition, we rely upon the carriers retained by our suppliers to comply with regulations regarding the shipment of any hazardous or perishable materials.

We cannot guarantee that the suppliers are in compliance with applicable laws and regulations. If suppliers or the providers with whom we do business have failed, or fail in the future, to adequately comply with relevant laws or regulations, we could become involved in governmental investigations or private lawsuits concerning these regulations. If we were found to be legally responsible in any way for such failure, we could be subject to injunctions, penalties or fines which could have an adverse effect on our business, financial condition and results of operations. Furthermore, any such investigation or lawsuit could cause us to expend significant resources and divert the attention of our management team, regardless of the outcome, and thus could have an adverse effect on our business, financial condition and results of operations.

Risks Related to Our Structure

Premier, Inc. is a holding company with no operations of its own, and it depends on distributions from Premier LP to pay taxes, make payments under the tax receivable agreements or pay any cash dividends, if declared, on our Class A common stock.

Premier, Inc. is a holding company with no operations of its own and it currently has no independent ability to generate revenue. Consequently, its ability to obtain operating funds currently depends upon distributions from Premier LP to Premier GP and from Premier GP to Premier, Inc. In accordance with the LP Agreement, subject to applicable law or regulation and the terms of Premier LP's financing agreements, Premier GP causes Premier LP to make quarterly distributions out of its estimated taxable net income to Premier GP and to the holders of Class B common units as a class in an aggregate amount equal to Premier LP's total taxable income for each such quarter multiplied by the effective combined federal, state and local income tax rate then payable by Premier, Inc. It is anticipated that these quarterly distributions will facilitate payment by each Premier LP partner of taxes, if required, on its share of taxable income of Premier LP. In addition, in accordance with the LP Agreement, Premier GP may cause Premier LP to make additional distributions to Premier GP and to the holders of Class B common units as a class in proportion to their respective number of units, subject to any applicable restrictions under Premier LP's financing agreements or applicable law. Premier GP distributes any amounts it receives from Premier LP to Premier, Inc., which Premier, Inc. uses to (i) pay applicable taxes, (ii) meet its obligations under the tax receivable agreements, and (iii) meet its obligations to the member owners under the Exchange Agreement if they elect to convert their Class B common units for shares of our Class A common stock and we elect to pay some or all of the consideration to such member owners in cash.

In addition, pursuant to the GPO participation agreements, Premier LP is contractually required to pay each member owner revenue share from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's member facilities through our GPO supplier contracts. Additionally, our two largest regional GPO member owners, which represented approximately 16% of our gross administrative fee revenue for fiscal year 2015, each remit all gross administrative fees collected by such member owner based upon purchasing by such member owner's member facilities through the member owner's own GPO supplier contracts and receive revenue share from Premier LP equal to 30% of such gross administrative fees remitted to us. Finally, certain non-owner members have historically operated under, and following the completion of the Reorganization and our IPO, continue to operate under, contractual relationships that provide for a specific revenue share that differs from the 30% revenue share that we have been providing to our member owners under our current GPO participation agreements.

To the extent that Premier, Inc. needs funds, and Premier LP is restricted from making such distributions under applicable law or regulation or under the terms of our unsecured revolving credit facility, or is otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition. The declaration and payment of future dividends by us, if at all, will be at the discretion of our board of directors and will depend on, among other things, our operating results and cash flow from Premier LP's operations, our strategic plans and such other factors as our board of directors considers relevant. In addition, Premier LP is generally prohibited under Delaware law from making a distribution to a partner to the extent that, at the time of the distribution, after giving effect to the distribution, liabilities of the limited partnership (with certain exceptions) exceed the fair value of its assets.

Different interests among our member owners or between our member owners and us, including with respect to related party transactions, could prevent us from achieving our business goals.

For the foreseeable future, we expect that a majority of our board of directors will include directors and executive officers of our member owners and other directors who may have commercial relationships with our member owners. Certain of our member owners could have business interests that may conflict with those of the other member owners, which may make it difficult for us to pursue strategic initiatives that require consensus among our member owners.

In addition, our relationship with our member owners, who are both our members and own a significant percentage of our common stock and the units of Premier LP, could create conflicts of interest among the member owners, or between the member owners and us, in a number of areas relating to our past and ongoing relationships. For example, certain of our products and services compete (or may compete in the future) with various products and services of our member owners. In addition, conflicts of interest may arise among the member owners based on certain allocations of net profits that the member owners may receive in proportion to their relative participation in our products and services. Except as set forth in the tax receivable agreements and the GPO participation agreements with the member owners and in the LP Agreement, there are not any formal dispute resolution procedures in place to resolve conflicts between us and a member owner or between member owners. We may not be able to resolve any potential conflicts between us and a member owner and, even if we do, the resolution may be less favorable to us than if we were negotiating with an unaffiliated party.

Our ability to use the net proceeds from future issuances of our Class A common stock is limited.

The LP Agreement requires that we contribute to Premier LP the net proceeds received by us from any issuance of additional shares of our Class A common stock (other than exchanges under the Exchange Agreement) in exchange for newly issued Class A common units in Premier LP based on the fair market value of our Class A common stock at the time of the transfer. As a result, such proceeds will not be immediately available to us for our working capital requirements or other general corporate purposes.

Our member owners are able to exercise significant control over us, including through the election of all of our directors.

Our member owners beneficially own, in the aggregate, 100% of our outstanding shares of Class B common stock, giving them control of approximately 74% of the combined voting power of our Class A common stock and Class B common stock as of June 30, 2015. Our member owners may also own, from time to time, shares of our Class A common stock, thereby further increasing their aggregate voting power. Pursuant to the terms of a voting trust agreement (the "Voting Trust Agreement"), the trustee will vote all of the member owners’ Class B common stock as a block in the manner determined by the plurality of the votes received by the trustee from the member owners for the election of directors to serve on our board of directors, and by a majority of the votes received by the trustee from the member owners for all other matters. As a result, our member owners have the ability to elect all of the members of our board of directors and thereby control our management and affairs. In addition, our member owners will be able to determine the outcome of substantially all matters requiring action by our stockholders, including amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions even if such actions are not favored by our other stockholders. This concentration of ownership may also prevent a change in the composition of our board of directors or a change in control of our company that could deprive other stockholders of an opportunity to receive a premium for their Class A common stock as part of a sale of our company and might ultimately affect the market price of our Class A common stock.

In addition, at June 30, 2015 our member owners owned 100% of our outstanding Class B common units, representing approximately 74% of the units of Premier LP. Because they hold their economic ownership interest in our business through Premier LP, rather than through Premier, Inc., due to the fact that shares of Class B common stock are not entitled to any economic rights, these member owners may have conflicting interests with holders of shares of our Class A common stock. For example, many of our member owners are not-for-profit organizations which, as a result of their tax-exempt status, could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new, or refinance existing, indebtedness, and whether and when Premier should terminate the tax receivable agreements and accelerate its obligations thereunder. In addition, the structuring of future transactions may be influenced by these member owners' tax or other considerations even where no similar benefit would accrue to us.

Our member owners are able to exercise a greater degree of influence in the operation of our business and that of Premier LP and the management of our affairs and those of Premier LP than is typically available to stockholders of a publicly traded company. Even if our member owners own a minority economic interest in Premier LP, they may be able to continue to exert significant influence over us and Premier LP through their ownership of our Class B common stock and the Voting Trust Agreement among the member owners and the trustee of Premier Trust.

We are exempt from certain corporate governance requirements because we are a “controlled company” within the meaning of NASDAQ rules. As a result, our stockholders do not have the protections afforded by these corporate governance requirements, which may make our Class A common stock less attractive to investors.

Our member owners, acting as a group pursuant to the terms of the Voting Trust Agreement, own more than 50% of the total voting power of our outstanding common stock and we are a “controlled company” under NASDAQ corporate governance standards. As a controlled company, we are not be required by NASDAQ for continued listing of Class A common stock to (i) have a majority of independent directors, (ii) maintain an independent compensation committee or (iii) maintain an independent nominating function. We are taking advantage of all of these exemptions from NASDAQ listing requirements. Accordingly, our stockholders do not have the same protection afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements and the ability of our independent directors to influence our business policies and affairs may be reduced. As a result, our status as a “controlled company” could make our Class A common stock less attractive to some investors or could otherwise harm our Class A common stock price. Additionally, if our member owners reduce their ownership of our outstanding voting stock such that we no longer qualify as a “controlled company,” we will incur costs to recruit qualified independent directors to our board and to establish and maintain independent compensation and nominating and governance committees, which may reduce the amount of cash otherwise available to Premier LP for distributions, working capital or general corporate purposes.

The agreements between us and our member owners were made in the context of an affiliated relationship and may contain different terms than comparable agreements with unaffiliated third parties.

The contractual agreements that we have with each of our member owners were negotiated in the context of an affiliated relationship in which representatives of our member owners and their affiliates comprised a significant portion of our board of directors. As a result, the financial provisions and the other terms of these agreements, such as covenants, contractual obligations on our part and on the part of our member owners, and termination and default provisions may be less favorable to us than terms that we might have obtained in negotiations with unaffiliated third parties in similar circumstances, which could have a material adverse effect on our business, financial condition and results of operations.

Any payments made under the tax receivable agreements with our member owners will reduce the amount of overall cash flow that would otherwise be available to us.

As a result of our acquisition of Class B common units of Premier LP from the member owners in connection with our IPO, and any subsequent exchanges of Class B common units with us for shares of Class A common stock, we expect to become entitled to special tax benefits attributable to tax basis adjustments involving amounts generally equal to the difference between our purchase price for the acquired Class B common units (or, in the case of an exchange, the value of the shares of Class A common stock issued by us) and our share of the historic tax basis in Premier LP’s tangible and intangible assets that is attributable to the acquired Class B common units. We entered into an agreement with each of our member owners in connection with our IPO, we must pay to the member owners 85% of the amount, if any, by which our tax payments to various tax authorities are reduced as a result of these special tax benefits. We are also obligated to make certain other payments on the occurrence of certain events that would terminate the agreement with respect to certain member owners. The tax basis adjustments, as well as the amount and timing of any payments under the tax receivable agreements, will vary depending upon a number of factors, including the timing of any exchanges between us and the member owners, the amount and timing of our income and the amount and timing of the amortization and depreciation deductions and other tax benefits attributable to the tax basis adjustments.

As a result of our use of proceeds from our IPO and assuming that Premier is able to timely benefit from the anticipated tax benefits, we anticipated that the future aggregate amount of payments to be made by us under the tax receivable agreements to the member owners would be approximately $192.3 million, generally payable over the 15 years (under the current law) beginning in the year the income tax return is filed for the fiscal year ended June 30, 2015. As mentioned above, payments under the tax receivable agreements are made as Premier realizes tax benefits attributable to the initial purchase of Class B common units from the member owners in the Reorganization and subsequent quarterly exchanges between us and the member owners. The foregoing amount reflects payments with respect to the initial purchase of Class B common units. We paid $11.5 million to the member owners during the year ended June 30, 2015 in connection with the initial exchanges and reduced the liability by $2.0 million in connection with departed member owners. Additional amounts payable under the tax receivable agreements for subsequent exchanges of Class B common units made by the member owners during the year ended June 30, 2015 are $57.1 million, which resulted in $235.9 million in tax receivable agreement liabilities as of June 30, 2015. We expect to fund our payments under the tax receivable agreements from distributions we receive from Premier LP.

The tax receivable agreements provide that, in the event that we exercise our right to early termination of the tax receivable agreements, or in the event of a change in control or a material breach by us of our obligations under the tax receivable agreements, the tax receivable agreements will terminate, and we will be required to make a lump-sum payment equal to the present value of all forecasted future payments that would have otherwise been made under the tax receivable agreements, which lump-sum payment would be based on certain assumptions, including those relating to our future taxable income. The change of control payment and termination payments to the member owners could be substantial and could exceed the actual tax benefits that we receive as a result of acquiring Class B common units from the member owners because the amounts of such payments would be calculated assuming that we would have been able to use the potential tax benefits each year for the remainder of the amortization periods applicable to the basis increases, and that tax rates applicable to us would be the same as they were in the year of the termination.

The member owners will not reimburse us for any excess payments that may previously have been made under the tax receivable agreements, for example, due to adjustments resulting from examinations by taxing authorities. Rather, excess payments made to the member owners will be netted against payments otherwise to be made, if any, after our determination of such excess. As a result, in certain circumstances we could make payments under the tax receivable agreements in excess of our cash tax savings, which could materially impair our financial condition.

We may not be able to realize all or a portion of the tax benefits that are expected to result from the acquisition of Class B common units from the limited partners.

Under tax receivable agreements (the "Tax Receivable Agreements") entered into with our member owners in connection with the IPO, we are entitled to retain 15% of the total tax savings we realize as a result of increases in tax basis created by the purchase of Class B common units, as well as any future exchanges of Class B common units for our Class A common stock, and as a result of certain other tax benefits attributable to payments under the Tax Receivable Agreements. Our ability to realize, and benefit from, these tax savings depends on a number of assumptions, including that we will earn sufficient taxable income each year during the period over which the deductions arising from any such basis increases and payments are available and that there are no adverse changes in applicable law or regulations. If our actual taxable income were insufficient or there were adverse changes in applicable law or regulations, we may be unable to realize all or a portion of these expected benefits and our cash flows and stockholders’ equity could be negatively affected.

Changes to Premier LP’s allocation methods may increase a tax-exempt limited partner’s risk that some allocated income is unrelated business taxable income.

The LP Agreement provides for the allocation of retained income to the limited partners of Premier LP, in part, according to the number of units owned rather than relative participation of the limited partners. A member owner that is a tax-exempt limited partner of Premier LP whose relative Class B common unit ownership is high compared to its relative participation may conclude, based on an analysis of its own facts and circumstances, that it has more unrelated business taxable income, or UBTI, subject to tax than it had reported in the past, or may be at increased risk that the Internal Revenue Service, or IRS, will seek to increase the amount of income reported by the tax-exempt limited partner as UBTI. Further, the LP Agreement provides for the allocation of distributed income to be adjusted based on facts and circumstances as are determined appropriate by Premier GP. Such adjustments may also increase the amount of income reported by certain tax-exempt limited partners as UBTI. Any increase in UBTI may cause a limited partner to leave Premier LP, which could have an adverse effect on our business, financial condition and results of operations.

Premier LP may issue additional limited partnership units without the consent of our Class A common stockholders, which could have a dilutive effect on our stockholders.

Premier LP may issue additional limited partnership units to third parties without the consent of our Class A common stockholders, which would reduce our ownership percentage in Premier LP and would have a dilutive effect on the amount of distributions made to us by Premier LP and, therefore, the amount of dividends, if any, we can make to our Class A common stockholders. Any newly admitted Premier LP limited partners will receive Class B common units in Premier LP and an equal amount of shares of our Class B common stock. They will also become parties to the Exchange Agreement, the Registration Rights Agreement, the Voting Trust Agreement and the Tax Receivable Agreements, on the same terms and conditions as the member owners. Any such issuances, or the perception of such issuances, could materially and adversely affect the market price of our Class A common stock.

Our certificate of incorporation and bylaws and the LP Agreement and provisions of Delaware law may discourage or prevent strategic transactions, including a takeover of our company, even if such a transaction would be beneficial to our stockholders.

Provisions contained in our certificate of incorporation and bylaws and the LP Agreement and provisions of the Delaware General Corporation Law, or DGCL, could delay or prevent a third party from entering into a strategic transaction with us, as applicable, even if such a transaction would benefit our stockholders. For example, our certificate of incorporation and bylaws:

- divide our board of directors into three classes with staggered three-year terms, which may delay or prevent a change of our management or a change in control,
- authorize the issuance of “blank check” preferred stock that could be issued by our board of directors to increase the number of outstanding shares of capital stock, making a takeover more difficult and expensive,
- do not permit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates,
- do not permit stockholders to take action by written consent other than during the period following our IPO in which we qualify as a “controlled company” within the meaning of NASDAQ rules,
- provide that special meetings of the stockholders may be called only by or at the direction of the board of directors, the chair of our board or the chief executive officer,
- require advance notice to be given by stockholders for any stockholder proposals or director nominees,
- require a super majority vote of the stockholders to amend our certificate of incorporation, and
- allow our board of directors to make, alter or repeal our bylaws but only allow stockholders to amend our bylaws upon the approval of $66^2/_3$% or more of the voting power of all of the outstanding shares of our capital stock entitled to vote.

In addition, we are subject to the provisions of Section 203 of the DGCL which limits, subject to certain exceptions, the right of a corporation to engage in a business combination with a holder of 15% or more of the corporation’s outstanding voting securities, or certain affiliated persons.

The Exchange Agreement contains rights of first refusal in favor of the other member owners and Premier LP in the event that a member owner desires to exchange its Class B common units for shares of our Class A common stock, cash or a combination of both. In addition, the Tax Receivable Agreements contain a change of control provision which, if triggered, would require us to make a one-time cash payment to the member owners equal to the present value of the payments that are forecasted to be made under the Tax Receivable Agreements based on certain assumptions.

These restrictions and provisions could keep us from pursuing relationships with strategic partners and from raising additional capital, which could impede our ability to expand our business and strengthen our competitive position. These restrictions could also limit stockholder value by impeding a sale of us or Premier LP.

Risks Related to Our Class A Common Stock

Our future issuance of common stock and/or preferred stock could dilute the voting power of our common stockholders and adversely affect the market value of our Class A common stock.

The future issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of shares of our Class A common stock and holders of shares of our Class B common stock, either by diluting the voting power of our Class A common stock and Class B common stock if the preferred stock votes together with the common stock as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote, even if the action were approved by the holders of our shares of our Class A common stock and holders of shares of our Class B common stock.

The future issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our Class A common stock by making an investment in the Class A common stock less attractive. For example, investors in the Class A common stock may not wish to purchase Class A common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase Class A common stock at the lower conversion price causing economic dilution to the holders of Class A common stock.

In addition, we could issue a significant number of shares of Class A common stock and/or Class B common stock in the future. Any of these issuances could dilute our existing stockholders, and such dilution could be significant. Moreover, such dilution could have a material adverse effect on the market price for the shares of our Class A common stock.

The requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), the Sarbanes Oxley Act, NASDAQ rules, including those promulgated in response to the Sarbanes Oxley Act, and the Dodd-Frank Act. The requirements of these rules and regulations has and will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial reporting. To maintain and improve the effectiveness of our disclosure controls and procedures, we have and will continue to commit significant resources, hire additional staff and provide additional management oversight. We have and will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. In addition, sustaining our growth also will require us to commit additional management, operational and financial resources to identify new professionals to join our organization and to maintain appropriate operational and financial systems to adequately support expansion. These activities may divert management’s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We expect to incur significant additional annual expenses related to these steps associated with, among other things, director fees, reporting requirements, transfer agent fees, additional accounting, legal and administrative personnel, increased auditing and legal fees and similar expenses. We also expect that the rules and regulations to which we are subject as a result of being a public company will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage for such directors and officers. Any of these factors could make it more difficult for us to attract and retain qualified members of our board of directors. Finally, we expect to incur additional compliance costs now that we no longer qualify as an “emerging growth company” or receive the benefits of such status.

We have a limited operating history as a publicly traded company, and our relative inexperience could materially and adversely affect us and our stockholders.

Our IPO was completed in October 2013 and we have a limited operating history as a publicly traded company. Our board of directors and senior management team have overall responsibility for our management and only a limited number of our directors or members of our senior management team have prior experience in operating a public company. As a publicly traded company, we are required to develop, implement and maintain substantial control systems, policies and procedures in order to satisfy our periodic SEC reporting and NASDAQ obligations. We cannot assure you that management’s past or limited current experience will be sufficient to successfully develop, implement and maintain these systems, policies and procedures and to operate our company. Failure to do so could jeopardize our status as a public company, and the loss of such status may materially and adversely affect us and our stockholders.

If we fail to establish and maintain an effective system of integrated internal controls, we may not be able to report our financial results accurately, which could have a material adverse effect on our business, financial condition and results of operations.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that will need to be evaluated frequently. Section 404 of the Sarbanes Oxley Act requires public companies to conduct an annual review and evaluation of their internal controls and attestations of the effectiveness of internal controls by independent auditors. We no longer qualify as an emerging growth company, and thus, we are now subject to the auditors' attestation requirement. We are also required to implement substantial control systems and procedures in order to satisfy the reporting requirements under the Exchange Act and applicable NASDAQ requirements, among other items. Establishing these internal controls have been and will continue to be costly and may divert management's attention.

Evaluation by us of our internal controls over financial reporting may identify material weaknesses that may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC or violations of NASDAQ listing rules. There also could be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements also could suffer if we or our independent registered public accounting firm were to report a material weakness in our internal controls over financial reporting. This could materially adversely affect our business, financial condition and results of operations and could also lead to a decline in the price of our Class A common stock.

Our relatively small public float in relation to that of other public companies may adversely impact the liquidity of our Class A common stock.

Prior to our listing in October 2013, there was no public market for our Class A common stock. Our member owners control approximately 74% of the voting power of our common stock through their ownership of our Class B common stock, which is not publicly traded. As a result, our Class A common stock shares may be less liquid than the shares of other newly public companies or other public companies generally and there may be imbalances between supply and demand for our shares. As a result, our Class A common stock share price may experience significant volatility and may not necessarily reflect the value of our expected performance. We cannot assure you that a regular trading market of our Class A common stock on NASDAQ or elsewhere will be sustained. Accordingly, we cannot assure you of your ability to sell your Class A common stock when desired, or at all, or the prices that you may obtain for such Class A common stock.

If securities or industry analysts publish negative research or reports about us or our industry, or if any downgrade their recommendations regarding our Class A common stock, our Class A common stock price could decline.

The trading market for our Class A common stock is influenced by the research and reports that securities or industry analysts publish about us or our business. If any of the analysts who cover us downgrade our Class A common stock or publishes inaccurate or unfavorable research about us or our industry, our Class A common stock price may decline.

Our stock price may be volatile and may fluctuate or decline substantially.

The market price of our Class A common stock may be volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our Class A common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly operating results or dividends, if any, to holders of Class A common stock, additions or departures of key management personnel, failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments, adverse publicity about the industries we participate in or individual scandals, and in response the market price of shares of our Class A common stock could decrease significantly.

In the past few years, stock markets have experienced extreme price and volume fluctuations. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

The substantial number of shares of Class A common stock that will be eligible for sale or exchange in the near future could cause the market price for our Class A common stock to decline or make it difficult for us to raise financing through the sale of equity securities in the future.

We cannot predict the effect, if any, that market sales of shares of Class A common stock or the availability of shares of Class A common stock for sale will have on the market price of our Class A common stock from time to time. At June 30, 2015, we had 37,668,870 shares of our Class A common stock outstanding. Sales of substantial amounts of shares of our Class A common stock in the public market, or the perception that those sales will occur, could cause the market price of our Class A common stock to decline or make future offerings of our equity securities more difficult. If we are unable to sell equity securities at times and prices that we deem appropriate, we may be unable to fund our future growth.

At June 30, 2015, there were 106,382,552 Class B common units of Premier LP outstanding. In connection with the Reorganization and IPO, Premier, Inc., Premier LP and the member owners entered into an Exchange Agreement which became effective upon the completion of the Reorganization and IPO. Under this agreement, subject to certain restrictions, commencing on October 31, 2014, and during each year thereafter, each member owner has the cumulative right to exchange up to one-seventh of the Premier LP Class B common units initially allocated to such member owner (or subsequently purchased by such member owner pursuant to the related right of first refusal set forth in the Exchange Agreement), for shares of our Class A common stock, cash or a combination of both, the form of consideration to be at the discretion of the audit committee of our board of directors, subject to certain restrictions. This exchange right can be exercised on a quarterly basis (subject to certain restrictions contained in the Registration Rights Agreement) and is subject to rights of first refusal in favor of the other holders of Class B common units and Premier LP. For each Class B common unit that is exchanged pursuant to the Exchange Agreement, the member owner will also surrender one corresponding share of Class B common stock, which will automatically be retired. Any shares of Class A common stock issued as part of this exchange would be “restricted securities,” as defined in Rule 144 of the Securities Act, or Rule 144. In connection with the Reorganization and our IPO, we entered into a registration rights agreement (the "Registration Rights Agreement") with the member owners pursuant to which we registered under the Securities Act in November 2014 the resale of these shares of Class A common stock. On October 31, 2015, the second tranche of Class B common units, representing 15,901,130 units, become eligible for exchange. Including Class B common units eligible for exchange as of the date of this Annual Report, a cumulative amount of 26,572,413 Class B common units will be eligible for exchange on October 31, 2015.

In addition, we may issue and sell in the future additional shares of our Class A common stock, including the shares of Class A common stock issuable upon exchange of the Class B common units outstanding from time to time, subject to certain contractual restrictions, including those restrictions set forth in the Exchange Agreement and restrictions under the Securities Act.

We do not intend to pay any cash dividends on our Class A common stock in the foreseeable future.

We do not expect to pay any dividends on our Class A common stock in the foreseeable future. Payments of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on our ability to pay dividends. As a result, capital appreciation in the price of our Class A common stock, if any, may be your only source of gain on an investment in our Class A common stock.

Even if we decide in the future to pay any dividends, Premier, Inc. is a holding company with no independent operations of its own, and depends on distributions from Premier LP to pay taxes, make payments under the Tax Receivable Agreements or pay any cash dividends on our Class A common stock. Deterioration in the financial conditions, earnings or cash flow of Premier LP and its subsidiaries for any reason could limit or impair their ability to pay cash distributions or other distributions to Premier, Inc. (indirectly through Premier GP). Premier LP and its subsidiaries may be restricted from distributing cash to Premier GP by, among other things, applicable law or regulation or under the terms of our unsecured revolving credit facility.

Future issuances of debt securities, which would rank senior to shares of our Class A common stock upon our liquidation, and future issuances of equity securities (including units of Premier LP), which would dilute the holders of shares of our existing Class A common stock and may be senior to shares of our Class A common stock for the purposes of making distributions, periodically or upon liquidation, may materially and adversely affect the market price of shares of our Class A common stock.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred shares will receive a distribution of our available assets before holders of shares of our Class A common stock. We are not required to offer any such additional debt or equity securities to existing stockholders on a preemptive basis. Therefore, additional issuances of our Class A common stock, directly or through convertible or exchangeable securities (including Class B common units), warrants or options, will dilute the holders of shares of our existing Class A common stock and such issuances or the perception of such issuances may reduce the market price of shares of our Class A common stock. Our preferred shares, if issued, would likely have a preference on distribution payments, periodically or upon liquidation, which could limit our ability to make distributions to holders of shares of our Class A common stock. Because our decision to issue debt or equity securities or otherwise incur debt in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future capital raising efforts. Thus, holders of shares of our Class A common stock bear the risk that our future issuances of debt or equity securities or our other borrowings will reduce the market price of shares of our Class A common stock and dilute their ownership in us.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We occupy our Charlotte, North Carolina headquarters under a long-term lease which expires in 2026 and includes options for us, at our discretion, to renew the lease for up to fifteen years in total beyond that date. We also lease our specialty pharmacy location in Fort Lauderdale, Florida, our advocacy public affairs office in Washington, DC, and several other smaller facilities.

Our headquarters and other properties are suitable for their respective uses and are, in all material respects, adequate for our present needs. As of June 30, 2015, we occupy and lease the following facilities:

	Location	Lease Expiration Date
Aperek, Inc.	Raleigh, NC	June 30, 2019
Commcare Pharmacy FTL, LLC	Ft. Lauderdale, FL	August 31, 2016
Commcare Pharmacy MIA, LLC	Miami, FL	January 31, 2018
Commcare Pharmacy WPB, LLC	West Palm Beach, FL	November 15, 2016
Meddius, LLC	Charlottesville, VA	November 1, 2017
MEMdata, LLC	College Station, TX	April 3, 2017
Premier, Inc.	Charlotte, NC	February 28, 2026
Premier, Inc.	Washington, DC	April 30, 2019
Premier Insurance Management Services, Inc.	San Diego, CA	November 30, 2019
SVS, LLC	Charlotte, NC	April 30, 2016
SVS, LLC	Rockville, MD	November 30, 2017
SYMMEDRx, LLC	Overland Park, KS	November 30, 2019
TheraDoc, Inc.	Salt Lake City, UT	March 31, 2017

Leases approaching their stated expiration dates are generally extended pursuant to their terms or renegotiated as required. We currently expect leases with stated expiration dates during the next year to be extended or renegotiated accordingly.

Item 3. Legal Proceedings

We participate in businesses that are subject to substantial litigation. We are periodically involved in litigation, arising in the ordinary course of business or otherwise, which from time to time may include claims relating to commercial, product liability, employment, antitrust, intellectual property or other regulatory matters, among others. If current or future government regulations are interpreted or enforced in a manner adverse to us or our business, specifically those with respect to antitrust or healthcare laws, we may be subject to enforcement actions, penalties and other material limitations on our business.

From time to time we have been named as a defendant in several lawsuits brought by suppliers of medical products. Typically, these lawsuits have alleged the existence of a conspiracy among manufacturers of competing products and operators of GPOs, including us, to deny the plaintiff access to a market for its products. We believe that we have at all times conducted our business affairs in an ethical and legally compliant manner and have successfully resolved all such actions. No assurance can be given that we will not be subjected to similar actions in the future or that such matters will be resolved in a manner satisfactory to us or which will not harm our business, financial condition or results of operations.

Additional information relating to certain legal proceedings in which we are involved is included in Note 23 - Commitments and Contingencies, to the accompanying consolidated financial statements, which is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

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

Our Class A common stock has been publicly traded on the NASDAQ Global Select Market under the ticker symbol "PINC" since September 26, 2013. Prior to that date, there was no public trading market for our Class A common stock. Our Class B common stock is not publicly traded. The following table sets forth, for the periods indicated, the high and low prices of our Class A common stock on the NASDAQ Global Select Market.

Price Range of Common Stock

	Price Range of Common Stock	
Fiscal Year ended June 30, 2015	High	Low
Fourth Quarter	$39.81	$36.04
Third Quarter	$39.20	$31.36
Second Quarter	$35.27	$29.29
First Quarter	$32.98	$27.95

	Price Range of Common Stock	
Fiscal Year ended June 30, 2014	High	Low
Fourth Quarter	$35.00	$26.52
Third Quarter	$38.87	$32.04
Second Quarter (from September 26, 2013)	$38.51	$29.30

Holders

Based on the stock transfer records of our Class A common stock transfer agent, as of August 21, 2015, there were 37,762,718 shares of our Class A common stock issued and outstanding, held by one holder of record. Because substantially all of our Class A common stock is held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial owners currently holding our Class A common stock. As of August 21, 2015, 106,078,063 shares of our Class B common stock are issued and outstanding, held by one holder of record, the trustee of the Premier Trust. However, our Class B common stock is beneficially owned by our 176 member owners.

Dividend Policy

We did not pay any dividends during the fiscal years ended June 30, 2015 and 2014. We do not anticipate paying any cash dividends for the foreseeable future. Furthermore, shares of our Class B common stock are not entitled to any dividend payments. The payment of dividends, if any, is subject to the discretion of our board of directors and will depend on many factors, including our results of operations, financial condition and capital requirements, earnings, general business conditions, restrictions imposed by our current and any future financing arrangements, legal restrictions on the payment of dividends and other factors our board of directors deems relevant. Our current credit facilities include restrictions on our ability to pay dividends.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by Item 201(d) of Regulation S-K is provided under Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters incorporated herein by reference.

Purchases of Equity Securities

There were no repurchases of equity securities during the year ended June 30, 2015. We do not have any publicly announced or other repurchase plans regarding our Class A common stock.

Company Stock Performance

The performance graph below shows a 21-month comparison of the total cumulative return, assuming reinvestment of all dividends, had $100 been invested at the close of business on September 26, 2013 (our first trading day), in each of:

- our Class A common stock;
- the Standard & Poor's S&P 500® stock index ("S&P 500 index");
- the NASDAQ Composite stock index ("NASDAQ Composite index");
- a customized peer group of fourteen companies selected by us that we believe is better aligned with our company (the "Peer Group"); and
- a customized peer group of twelve companies previously used by us (the "Prior Peer Group).

In our Form 10-K for the year ended June 30, 2014, we used the S&P 500 index as our broad equity market index for our performance graph comparison. However, we have determined that the NASDAQ Composite index is a more appropriate broad equity market index because it is a broader index and our stock is listed on NASDAQ. Our Class A common stock is not part of the S&P 500 index.

We have used the Peer Group, a group selected in good faith and used by our compensation committee for benchmarking purposes, for peer comparison purposes because we believe this group provides an accurate representation of our peers. The Peer Group consists of the following fourteen companies: Advisory Board Co, Allscripts Healthcare Solutions Inc., Athenahealth Inc., Cerner Corp, HMS Holdings Corp, Huron Consulting Group Inc., IHS Inc., IMS Health Holdings Inc., Magellan Health Inc., MedAssets Inc., Navigant Consulting Inc., Owens & Minor Inc., Patterson Companies Inc. and Quality Systems Inc. The Prior Peer Group consists of the following twelve companies: Advisory Board Co., Allscripts Healthcare Solutions, Inc., Athenahealth, Inc., Cardinal Health Inc., Cerner Corp, HMS Holdings Corp, Huron Consulting Group Inc., McKesson Corp, MedAssets Inc., Navigant Consulting Inc., Owens & Minor Inc. and Quality Systems Inc.

Compared to the Prior Peer Group, our current Peer Group includes: IHS Inc., IMS Health Holdings Inc, Magellan Health Inc. and Patterson Companies, Inc. and excludes: Cardinal Health, Inc. and McKesson Corp. Our compensation committee determined it appropriate to reconfigure our peer group to a more representative group of appropriately sized companies that reflect our diverse and growing business model. As we grow and develop as a public company, and as the companies in our Peer Group change, our Compensation Committee will continue to review and reconfigure our Peer Group as applicable.

The information contained in the performance graph below shall not be deemed "soliciting material" or to be "filed" with the SEC nor shall such information be deemed incorporated by reference into any future filing under the Securities Act or the Exchange Act except to the extent we specifically incorporate it by reference into such filing.

Value of Investment as of Stated Date:

Company/Index Name	9/26/2013	6/30/2014	6/30/2015
Premier, Inc. Class A Common Stock*	$100.00	$94.62	$125.48
S&P 500	$100.00	$118.40	$127.19
NASDAQ Composite	$100.00	$117.85	$133.69
Peer Group	$100.00	$106.38	$119.55
Prior Peer Group	$100.00	$125.47	$149.64

* As noted above, we have not paid any cash dividends during the period covered by the graph.

We will neither make nor endorse any predictions as to future stock performance or whether the trends depicted in the graph above will continue or change in the future. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6. Selected Financial Data
The Company, through its wholly-owned subsidiary, Premier GP, holds an approximately 26% controlling general partner interest in, and, as a result, consolidates the financial statements of, Premier LP. The limited partners' approximately 74% ownership of Premier LP is reflected as redeemable limited partners' capital in the Company's consolidated balance sheets, and their proportionate share of income in Premier LP is reflected within net income attributable to noncontrolling interest in Premier LP in the Company's consolidated statements of income and within comprehensive income attributable to noncontrolling interest in the consolidated statements of comprehensive income.
After the completion of the Reorganization following the consummation of our IPO, PHSI became our consolidated subsidiary and is considered our predecessor for accounting purposes. Accordingly, PHSI's consolidated financial statements are our historical financial statements, for periods prior to October 1, 2013. The historical consolidated financial statements of PHSI are reflected herein based on PHSI's historical ownership interests of Premier LP and its consolidated subsidiaries. See Note 2 - Initial Public Offering and Reorganization to the audited consolidated financial statements of this Annual Report for further information related to the IPO and the Reorganization.
We derived the selected historical consolidated financial data presented below for the years ended June 30, 2015, 2014, 2013, 2012 and 2011 from the audited consolidated financial statements and related notes of Premier, Inc, and PHSI, as applicable, included elsewhere in this Annual Report. You should refer to Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and the notes to the accompanying consolidated financial statements for additional information regarding the financial data presented below, including matters that might cause this data not to be indicative of our future financial position or results of operations.
We have reclassified certain prior period amounts to be consistent with the current period presentation.
The following tables set forth selected historical consolidated financial and operating data for the five-year period ended June 30, 2015 and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, and our audited consolidated financial statements contained elsewhere herein.

(In Thousands, Except Per Share Amounts)	Year ended June 30, 2015 [1]	2014 [2]	2013	2012 [3]	2011 [4]
Consolidated Statements of Income Data:					
Net revenue:					
Net administrative fees [5]	$457,020	$464,837	$519,219	$473,249	$457,951
Other services and support	270,748	233,186	205,685	178,552	158,179
Services	727,768	698,023	724,904	651,801	616,130
Products	279,261	212,526	144,386	116,484	64,628
Total net revenue	1,007,029	910,549	869,290	768,285	680,758
Cost of revenue:	396,910	307,625	237,413	189,719	119,875
Gross profit	610,119	602,924	631,877	578,566	560,883
Operating expenses:					
Selling, general and administrative	332,004	294,421	248,301	240,748	242,863
Research and development	2,937	3,389	9,370	12,583	8,685
Amortization of purchased intangible assets	9,136	3,062	1,539	3,146	3,463
Total operating expenses	344,077	300,872	259,210	256,477	255,011
Operating income	266,042	302,052	372,667	322,089	305,872
Other income, net [6]	5,085	58,274	12,145	12,808	11,092
Income before income taxes	271,127	360,326	384,812	334,897	316,964
Income tax expense	36,342	27,709	9,726	8,229	4,704
Net income	234,785	332,617	375,086	326,668	312,260
Less/Add: Net (income) loss attributable to noncontrolling interest in S2S Global [7]	(1,836)	(949)	1,479	608	—
Less: Net income attributable to noncontrolling interest in Premier LP [8]	(194,206)	(303,336)	(369,189)	(323,339)	(309,840)
Net income attributable to noncontrolling interest	(196,042)	(304,285)	(367,710)	(322,731)	(309,840)
Net income attributable to stockholders	$38,743	$28,332	$7,376	$3,937	$2,420
Adjustment of redeemable limited partners' capital to redemption amount	(904,035)	(2,741,588)	—	—	—
Net (loss) income attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount	$(865,292)	$(2,713,256)	$7,376	$3,937	$2,420
(Loss) earnings per share attributable to stockholders - basic	$(24.25)	$(105.85)	$1.26	$0.64	$0.39
(Loss) earnings per share attributable to stockholders - diluted	$(24.25)	$(105.85)	$1.26	$0.64	$0.39
Weighted average shares of outstanding stock - basic	35,681	25,633	5,858	6,183	6,273
Weighted average shares of outstanding stock - diluted	35,681	25,633	5,858	6,183	6,273

(In Thousands)	Year ended June 30, 2015	2014	2013	2012	2011
Consolidated Balance Sheets Data:					
Cash, cash equivalents and marketable securities, current	$387,189	$291,606	$255,619	$241,669	$251,609
Working capital (9)	283,538	198,174	220,893	200,799	193,162
Property and equipment, net	147,625	134,551	115,587	101,630	86,140
Total assets	$1,530,191	$1,246,656	$598,916	$554,939	$532,361
Deferred revenue (10)	39,824	15,694	18,880	19,820	17,911
Total liabilities	$568,461	$472,293	$213,513	$196,990	$199,464
Redeemable limited partners' capital (11)	4,079,832	3,244,674	307,635	279,513	257,459
Class A common stock	377	324	57	61	62
Additional paid-in capital	—	—	28,866	35,427	36,090
(Accumulated deficit) retained earnings	(3,118,474)	(2,469,873)	50,599	43,223	39,286
Total stockholders' (deficit) equity	$(3,118,102)	$(2,470,311)	$77,768	$78,436	$75,438

(1) Amounts include the results of operations of TheraDoc, Inc. ("TheraDoc") and Aperek, Inc. ("Aperek"), both in our performance services segment, from September 1, 2014 and August 29, 2014, respectively, the dates of acquisition of all the outstanding shares of common stock of TheraDoc for $108.6 million and Aperek for $47.4 million. See Note 4 - Business Acquisitions to the audited consolidated financial statements of this Annual Report for further information related to acquisitions completed during the year ended June 30, 2015.

(2) Amounts include the results of operations of MEMdata, LLC ("MEMdata"), Meddius, L.L.C. ("Meddius") and SYMMEDRx, LLC ("SYMMEDRx"), all in our performance services segment, from April 7, 2014, October 31, 2013 and July 19, 2013, respectively, the dates of acquisition of all the outstanding shares of common stock of MEMdata for $6.1 million, Meddius for $7.7 million and SYMMEDRx for $28.7 million. See Note 4 - Business Acquisitions to the audited consolidated financial statements of this Annual Report for further information related to acquisitions completed during the year ended June 30, 2014.

(3) Amounts include the results of operations of S2S Global in our supply chain services segment from December 6, 2011 the date of acquisition of 60% of the outstanding shares of common stock of S2S Global for $500,000.

(4) Amounts include the results of operations of Commcare in our supply chain services segment from November 1, 2010, the date of acquisition of all the outstanding shares of common stock of Commcare for $35.9 million.

(5) Following the completion of the Reorganization and IPO, we are contractually required under the GPO participation agreements to pay each member owner revenue share from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's member facilities through our GPO supplier contracts. Prior to the Reorganization and IPO, we did not generally have a contractual requirement to pay revenue share to member owners participating in our GPO programs, but paid semi-annual distributions of partnership income. In addition, certain non-owner members have historically operated under, and, following the Reorganization and IPO, continue to operate under contractual relationships that provide for a specific revenue share that differs from the 30% revenue share that we provide to our member owners under the GPO participation agreements following the Reorganization and IPO. As a result, our revenue share expense as a percentage of gross administrative fees increased for the fiscal years ended June 30, 2015 and 2014 which resulted in a decrease in net administrative fees for the fiscal year ended June 30, 2015 and 2014 when compared to the actual net administrative fees for the prior fiscal years.

(6) Other income, net consists primarily of equity in net income of unconsolidated affiliates related to our 50% ownership interest in Innovatix, interest income, net and realized gains and losses on our marketable securities (which represent our interest and investment income, net) and gain or loss on disposal of assets.

(7) PSCI currently owns a 100% voting and economic interest in S2S Global as a result of its February 2, 2015 purchase of the remaining noncontrolling interest (40%) in S2S Global. Prior to February 2, 2015, PSCI owned a 60% voting and economic interest in S2S Global. Net loss attributable to noncontrolling interest in S2S Global represents the portion of net loss attributable to the noncontrolling equity holders of S2S Global (40%) prior to the February 2, 2015 purchase.

(8) PHSI, through Premier Plans, owned a 1% controlling general partnership interest in Premier LP prior to the Reorganization. Net income attributable to noncontrolling interest in Premier LP represents the portion of net income

attributable to the limited partners of Premier LP, which was 78% following the Reorganization and 99% prior to the Reorganization.
(9) Working capital represents the excess of total current assets over total current liabilities.
(10) Deferred revenue is primarily related to deferred subscription fees and deferred advisory fees in our performance services segment and consists of unrecognized revenue related to advanced member invoicing or member payments received prior to fulfillment of our revenue recognition criteria.
(11) Redeemable limited partners' capital consists of the limited partners' approximately 74% ownership of Premier LP after the Reorganization and IPO and subsequent quarterly exchanges pursuant to the Exchange Agreement and 99% ownership of Premier LP prior to the Reorganization and IPO. Pursuant to the terms of the existing limited partnership agreement of Premier LP, Premier LP is required to repurchase a limited partner's interest upon the withdrawal of such limited partner and therefore the interest in Premier LP is classified as temporary equity in the mezzanine section of the consolidated balance sheets. The Company records redeemable limited partners' capital at the greater of the book value or redemption amount per the LP Agreement at the reporting date, with the corresponding offset to additional paid-in-capital and retained earnings (accumulated deficit).

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

The following discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto included elsewhere in this Annual Report. This discussion is designed to provide the reader with information that will assist in understanding our consolidated financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our consolidated financial statements. In addition, the following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see "Item 1A Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" contained in this Annual Report.

Business Overview

Our Business

We are a leading healthcare performance improvement company, uniting an alliance of approximately 3,600 U.S. hospitals and 120,000 other providers to transform healthcare. We unite hospitals, health systems, physicians and other healthcare providers with the common goal of improving and innovating in the clinical, financial and operational areas of their business to meet the demands of a rapidly evolving healthcare industry. We deliver value through a comprehensive technology-enabled platform that offers critical supply chain services, clinical, financial, operational and population health SaaS informatics products, advisory services and performance improvement collaborative programs.
As of June 30, 2015, we were controlled by 176 U.S. hospitals, health systems and other healthcare organizations that represent approximately 1,300 owned, leased and managed acute care facilities and other non-acute care organizations, through the holdings of Class B common stock, which they received upon the consummation of the Reorganization and IPO on October 1, 2013. As of June 30, 2015, the Class A common stock and Class B common stock represented approximately 26% and 74% of our combined Class A and Class B common stock (the "common stock"). As of June 30, 2015, all of our Class A common stock was held by public investors, which may include member owners that have received shares of our Class A common stock in connection with previous quarterly exchanges pursuant to the Exchange Agreement discussed in Note 2 - Initial Public Offering and Reorganization to the audited consolidated financial statements.
We generated net revenue of $1,007.0 million, $910.5 million and $869.3 million, net income of $234.8 million, $332.6 million, and $375.1 million and Adjusted EBITDA of $393.2 million, $392.3 million, and $419.0 million for the fiscal years ended June 30, 2015, 2014, and 2013, respectively. On a non-GAAP pro forma basis, after giving effect to the Reorganization and the IPO, we generated net revenue of $1,007.0 million, $869.3 million and $764.3 million, net income of $234.8 million, $294.6 million and $247.3 million, and Adjusted EBITDA of $393.2 million,

$351.0 million, and $314.0 million for the fiscal years ended June 30, 2015, 2014 and 2013, respectively. Non-GAAP pro forma adjustments for the impact of the Reorganization and IPO do not impact operating results for the year ended June 30, 2015.

Our Business Segments

Our business model and solutions are designed to provide our members access to scale efficiencies, spread the cost of their development, provide actionable intelligence derived from anonymized data in our data warehouse provided by our members, mitigate the risk of innovation and disseminate best practices that will help our member organizations succeed in their transformation to higher quality and more cost-effective healthcare. We deliver our integrated platform of solutions that address the areas of total cost management, quality and safety improvement and population health management through two business segments: supply chain services and performance services.

Our supply chain services segment includes one of the largest healthcare GPOs in the United States, serving acute and alternate sites, a specialty pharmacy and our direct sourcing activities. Supply chain services net revenue grew from $678.1 million for fiscal year 2014 to $738.3 million for fiscal year 2015, representing net revenue growth of 9%, and accounted for 73% of our overall net revenue. Supply chain services segment net revenue grew from $664.1 million in fiscal year 2013 to $678.1 million in fiscal year 2014, representing net revenue growth of 2%, and in fiscal year 2014 accounted for 74% of our overall net revenue. We generate revenue in our supply chain services segment from fees received from suppliers based on the total dollar volume of supplies purchased by our members and through product sales in connection with our specialty pharmacy and direct sourcing activities.

Our performance services segment includes one of the largest informatics and advisory services businesses in the United States focused on healthcare providers. Performance services net revenue grew from $232.4 million for fiscal year 2014 to $268.8 million for fiscal year 2015, representing revenue growth of 16%, and in fiscal year 2015 accounted for 27% of our overall net revenue. Performance services net revenue grew from $205.2 million in fiscal year 2013 to $232.4 million in fiscal year 2014, representing net revenue growth of 13%, and in fiscal year 2014 accounted for 26% of our overall net revenue. Our SaaS informatics products utilize our comprehensive data set to provide actionable intelligence to our members, enabling them to benchmark, analyze and identify areas of improvement across three main categories: cost management, quality and safety and population health management. This segment also includes our technology-enabled performance improvement collaboratives.

Reorganization and IPO

On October 1, 2013, we completed our IPO by issuing 32,374,751 shares of our Class A common stock, at a price of $27.00 per share, raising net proceeds of approximately $821.7 million, after underwriting discounts and commissions, but before expenses. In addition, on October 1, 2013, upon the consummation of the IPO, we completed the Reorganization. See Note 2 - Initial Public Offering and Reorganization to the audited consolidated financial statements contained herein for more information.

We incurred strategic and financial restructuring expenses in connection with the Reorganization and IPO of approximately $1.4 million, $3.8 million and $5.2 million during fiscal years ended June 30, 2015, 2014 and 2013, respectively. The strategic and financial restructuring expense incurred during fiscal year ended June 30, 2015 is primarily attributable to the company directed offering conducted pursuant to the Registration Rights Agreement discussed in Note 2 - Initial Public Offering and Reorganization to the audited consolidated financial statements.

We may incur additional financial and restructuring expenses in connection with future quarterly exchanges pursuant to the Exchange Agreement and company directed offerings pursuant to the Registration Rights Agreement.

Acquisitions

On February 2, 2015 we purchased the remaining 40% of the outstanding shares of common stock of S2S Global for approximately $14.5 million. In connection with the purchase, we repaid the $14.2 million balance outstanding under the S2S Global line of credit and terminated the line of credit. We utilized available funds on hand to complete the acquisition and pay-off the S2S Global line of credit.

On September 1, 2014, we completed the acquisition of TheraDoc, Inc. ("TheraDoc"), a leading provider of clinical surveillance software to healthcare organizations across the country that bring together disparate data from a hospital's source systems and helps alert clinicians to potential risks, for $108.6 million. We utilized available funds on hand to complete the acquisition. The primary reason for our acquisition of TheraDoc was to augment our capabilities across our existing platform and associated applications in an effort to help our hospital and health system members to

improve clinical outcomes, lower costs, and strengthen regulatory compliance.
On August 29, 2014 we completed the acquisition of Aperek, Inc. ("Aperek"), (formerly Mediclick), a SaaS-based supply chain solutions company focused on purchasing workflow and analytics, for $47.4 million. We utilized available funds on hand to complete the acquisition. The primary reason for our acquisition of Aperek, a business with a track record of analyzing and

reducing costs for health systems through the innovative use of data, was to continue to strengthen the Company's ability to drive improvement in member cost savings.
See Note 4 - Business Acquisitions and Note 25 - Subsequent Events to the audited consolidated financial statements contained herein for more information regarding our acquisition activities.

Market and Industry Trends and Outlook

We expect that certain trends and economic or industry-wide factors will continue to affect our business, both in the short-term and long-term. We have based our expectations described below on assumptions made by us and on information currently available to us. To the extent our underlying assumptions about, or interpretation of, available information prove to be incorrect, our actual results may vary materially from our expected results. See "Cautionary Note Regarding Forward-Looking Statements."
Trends in the U.S. healthcare market affect our revenues in the supply chain services and performance services segments. The trends we see affecting our current healthcare business include the implementation of healthcare reform legislation, expansion of insurance coverage, intense cost pressure, payment reform, provider consolidation, shift in care to the alternate site market and increased data availability and transparency. To meet the demands of this environment, there will be increased focus on scale and cost containment and healthcare providers will need to measure and report on, and bear financial risk for, outcomes. We believe these trends will result in increased demand for our supply chain services and performance services solutions in the areas of cost management, quality and safety, population health management and PremierConnect® Enterprise, a cloud-based data warehousing, collaboration and content management solution that allows our members to aggregate and share information on one common platform that is both payer and supplier neutral.
Key Components of Our Results of Operations
Net Revenue
Net revenue consists of (i) service revenue, which includes net administrative fees revenue and other services and support revenue and (ii) product revenue. Net administrative fees revenue consists of GPO administrative fees in our supply chain services segment. Other services and support revenue consists primarily of fees generated by our performance services segment in connection with our SaaS informatics products subscriptions, license fees, advisory services and performance improvement collaborative subscriptions. Product revenue consists of specialty pharmacy and direct sourcing product sales, which are included in the supply chain services segment.
Supply Chain Services
Supply chain services revenue consists of GPO net administrative fees (gross administrative fees received from suppliers, reduced by the amount of any revenue share paid to members), specialty pharmacy revenue and direct sourcing revenue.
The success of our supply chain services revenue streams are influenced by the number of members that utilize our GPO supplier contracts and the volume of their purchases, the number of members that utilize our specialty pharmacy, as well as the impact of changes in the defined allowable reimbursement amounts determined by Medicare, Medicaid and other managed care plans, and the number of members that purchase products through our direct sourcing activities and the impact of competitive pricing.
Performance Services
Performance services revenue consists of SaaS informatics products subscriptions, license fees, performance improvement collaborative and other service subscriptions, professional fees for advisory services, and insurance services management fees and commissions from endorsed commercial insurance programs.
Our performance services growth will depend upon the expansion of our SaaS informatics products, performance improvement collaboratives and advisory services to new and existing members, impact of applied research initiatives, renewal of existing subscriptions to our SaaS informatics products and expansion into new markets with potential future acquisitions.
Cost of Revenue

Cost of service revenue includes expenses related to employees (including compensation and benefits) and outside consultants who directly provide services related to revenue-generating activities, including advisory services to members and implementation services related to SaaS informatics products. Cost of service revenue also includes expenses related to hosting services, related data center capacity costs, third-party product license expenses and amortization of the cost of internal use software.

Cost of product revenue consists of purchase and shipment costs for specialty pharmaceuticals and direct sourced medical products. Our cost of product revenue will be influenced by the cost and availability of specialty pharmaceuticals and the manufacturing and transportation costs associated with direct sourced medical products.

Operating Expenses

Selling, general and administrative expenses consist of expenses directly associated with selling and administrative employees and indirect costs associated with employees that primarily support revenue-generating activities (including compensation and benefits) and travel-related expenses, as well as occupancy and other indirect costs, insurance costs, professional fees, and other general overhead expenses. General and administrative expenses have increased as a result of being a public company, including stock-based compensation expense related to the equity incentive plan established in connection with the Reorganization and IPO.

Research and development expenses consist of employee-related compensation and benefits expenses, and third-party consulting fees of technology professionals, incurred to develop, support and maintain our software-related products and services.

Amortization of purchased intangible assets includes the amortization of all identified intangible assets resulting from acquisitions.

Other Income, Net

Other income, net, consists primarily of equity in net income of unconsolidated affiliates that is generated from our 50% ownership interest in Innovatix. A change in the number of, and use by, members that participate in our GPO programs through Innovatix could have a significant effect on the amounts earned from this investment. Other income, net, also includes interest income, net, and realized gains and losses on our marketable securities as well as gains or losses on disposal of assets.

Income Tax Expense

Income tax expense includes the income tax expense attributable to Premier, PHSI and PSCI. For federal and state income tax purposes, income realized by Premier LP is taxable to its partners. As such, the low effective tax rate is attributable to the flow through of Premier LP income, which is not subject to federal and state income tax at Premier.

Net Income Attributable to Noncontrolling Interest

As of June 30, 2015, we owned an approximate 26% controlling general partner interest in Premier LP through Premier GP. We owned a 100% voting and economic interest in S2S Global, through our 100% interest in PSCI, as a result of the purchase of the remaining 40% noncontrolling interest on February 2, 2015. Net income attributable to noncontrolling interest represents the portion of net income attributable to the limited partners of Premier LP (approximately 74%) and the portion of net income or loss attributable to the noncontrolling equity holders of S2S Global (40%) prior to the February 2, 2015 purchase. Our noncontrolling interest attributable to limited partners of Premier LP was reduced from 99% to approximately 78% upon the Reorganization, and further reduced to approximately 74%, as of June 30, 2015, as a result of completed quarterly exchanges pursuant to the Exchange Agreement.

Other Key Business Metrics

The other key business metrics we consider are EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings Per Share, and Free Cash Flow.

We define EBITDA as net income before interest and investment income, net, income tax expense, depreciation and amortization and amortization of purchased intangible assets. We define Adjusted EBITDA as EBITDA before merger and acquisition related expenses and non-recurring, non-cash or non-operating items, and including equity in net income of unconsolidated affiliates. For all non-GAAP financial measures, we consider non-recurring items to be expenses and other items that have not been incurred within the prior two years and are not expected to recur within the next two years. Such expenses include certain strategic and financial restructuring expenses. Non-operating items include gain or loss on disposal of assets.

We define Segment Adjusted EBITDA as the segment's net revenue less operating expenses directly attributable to the segment excluding depreciation and amortization, amortization of purchased intangible assets, merger and acquisition related expenses and non-recurring or non-cash items, and including equity in net income of unconsolidated affiliates.

Operating expenses directly attributable to the segment include expenses associated with sales and marketing, general and administrative and product development activities specific to the operation of each segment. General and administrative corporate expenses that are not specific to a particular segment are not included in the calculation of Segment Adjusted EBITDA.

We define Adjusted Fully Distributed Net Income as net income attributable to Premier (i) excluding income tax expense, (ii) excluding the effect of non-recurring and non-cash items, (iii) assuming the exchange of all the Class B common units into shares of Class A common stock, which results in the elimination of noncontrolling interest in Premier LP and (iv) reflecting an adjustment for income tax expense on non-GAAP pro forma fully distributed net income before income taxes at our estimated effective income tax rate. Adjusted Fully Distributed Net Income is a non-GAAP financial measure because it represents net income attributable to Premier before merger and acquisition related expenses and non-recurring or non-cash items and the effects of noncontrolling interests in Premier LP.

We define Adjusted Fully Distributed Earnings Per Share as earnings per share attributable to Premier (i) excluding income tax expense, (ii) excluding impact of adjustment of redeemable limited partners' capital to redemption amount, (iii) excluding the effect of non-recurring and non-cash items, (iv) assuming the exchange of all the Class B common units into shares of Class A common stock, which results in the elimination of noncontrolling interest in Premier LP and (v) reflecting an adjustment for income tax expense on non-GAAP pro forma fully distributed net income before income taxes at our estimated effective income tax rate. Adjusted Fully Distributed Earnings Per Share is a non-GAAP financial measure because it represents earnings per share attributable to Premier before merger and acquisition related expenses and non-recurring or non-cash items, the effects of noncontrolling interests in Premier LP, and the impact of the adjustment of redeemable limited partners' capital to redemption amount.

We define Free Cash Flow as net cash provided by operating activities less distributions to limited partners and purchases of property and equipment. Free Cash Flow is a non-GAAP financial measure because it does not represent net cash provided by operating activities alone but takes into consideration the ongoing distributions to limited partners and purchase of property and equipment that are necessary for ongoing business operations and long-term value creation. We believe Free Cash Flow is an important measure because it represents the cash that we generate after payment of tax distributions to limited partners and capital investment to maintain existing products and services as well as development of new and upgraded products and services to support future growth. Free Cash Flow is important because it allows us to enhance shareholder value through acquisitions, partnerships, joint ventures, investments in related business and/or debt reduction. Also, Free Cash Flow does not represent discretionary cash available for spending as it excludes certain contractual obligations such as debt repayment.

Adjusted EBITDA and Free Cash Flow are supplemental financial measures used by us and by external users of our financial statements. We consider Adjusted EBITDA and Free Cash Flow to be indicators of the operational strength and performance of our business. Adjusted EBITDA and Free Cash Flow measures allow us to assess our performance without regard to financing methods and capital structure and without the impact of other matters that we do not consider indicative of the operating performance of our business. Segment Adjusted EBITDA is the primary earnings measure we use to evaluate the performance of our business segments.

We use Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings Per Share to facilitate a comparison of our operating performance on a consistent basis from period to period that, when viewed in combination with our results prepared in accordance with GAAP, provides a more complete understanding of factors and trends affecting our business than GAAP measures alone. We believe Adjusted EBITDA and Segment Adjusted EBITDA assist our board of directors, management and investors in comparing our operating performance on a consistent basis from period to period because they remove the impact of our asset base (primarily depreciation and amortization) and items outside the control of our management team (taxes), as well as other non-cash (impairment of intangible assets, purchase accounting adjustments and stock-based compensation) and non-recurring items (strategic and financial restructuring expenses), from our operations. We believe Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings Per Share assist our board of directors, management and investors in comparing our net income and earnings per share on a consistent basis from period to period because it removes non-cash (impairment of intangible assets, purchase accounting adjustments and stock-based compensation) and non-recurring items (strategic and financial restructuring expenses), and eliminates the variability of noncontrolling interest as a result of member owner exchanges of Class B common units into shares of Class A common stock (which exchanges are a member owner’s cumulative right, but not obligation, which began on October 31, 2014, and occur each year thereafter, and are limited to one-seventh of the member owner’s initial allocation of Class B common units).

Despite the importance of these non-GAAP financial measures in analyzing our business, determining compliance with certain financial covenants in our new revolving facility, measuring and determining incentive compensation and evaluating our operating performance relative to our competitors, EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings Per Share and Free Cash Flow are not measurements of financial performance under GAAP, may have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, net income, net cash provided by operating activities, or any other measure of our performance derived in accordance with GAAP. Some of the limitations of EBITDA, Adjusted EBITDA and Segment Adjusted EBITDA include that they do not reflect: our capital expenditures or our future requirements for capital expenditures or contractual commitments; changes in, or cash requirements for, our working capital needs; the interest expense or the cash requirements to service interest or principal payments under our revolving credit facility; income tax payments we are required to make; and any cash requirements for replacements of assets

being depreciated or amortized. In addition, EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA and Free Cash Flow are not measures of liquidity under GAAP, or otherwise, and are not alternatives to cash flows from continuing operating activities.
Some of the limitations of Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings Per Share are that they do not reflect income tax expense or income tax payments we are required to make. In addition, Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings Per Share are not measures of profitability under GAAP.
We also urge you to review the reconciliation of these non-GAAP measures included elsewhere in this Annual Report. To properly and prudently evaluate our business, we encourage you to review the audited consolidated financial statements and related notes included elsewhere in this Annual Report, and to not rely on any single financial measure to evaluate our business. In addition, because EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings Per Share and Free Cash Flow are susceptible to varying calculations, the EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings Per Share and Free Cash Flow measures, as presented in this Annual Report, may differ from, and may therefore not be comparable to, similarly titled measures used by other companies.

As discussed in more detail below under "Results of Operations," we also use a non-GAAP pro forma presentation in this Annual Report for consolidated operating results prior to October 1, 2013, the effective date of the Reorganization and IPO. We believe this presentation is useful because our consolidated operating results prior to the Reorganization and IPO are not indicative of our results for periods after the Reorganization and IPO. This non-GAAP pro forma presentation is for informational purposes only and does not purport to reflect our historical results or operations or financial position. This non-GAAP pro forma presentation should not be relied upon as being indicative of our financial condition or results of operations had the Reorganization and IPO occurred on the dates assumed. Further, this presentation does not project our results of operations or financial position for any future period or date. You should carefully review our historical actual results presented herein.

Results of Operations

Our consolidated operating results prior to October 1, 2013 do not reflect (i) the Reorganization, (ii) the IPO and the use of the proceeds from the IPO or (iii) additional expenses we incur as a public company. As a result, our consolidated operating results prior to the Reorganization and IPO are not indicative of what our results of operations are for periods after the Reorganization and IPO. In addition to presenting the historical actual results, we have presented non-GAAP pro forma results reflecting the following for all applicable periods presented, to provide a more indicative comparison between current and prior periods. The non-GAAP pro forma consolidated financial information is included for informational purposes only and does not purport to reflect our results of operations or financial position that would have occurred had we operated as a public company during the applicable periods presented. The non-GAAP pro forma consolidated financial information should not be relied upon as being indicative of our financial condition or results of operations had the Reorganization and IPO occurred on the dates assumed. The non-GAAP pro forma consolidated financial information also does not project our results of operations or financial position for any future period or date. The non-GAAP pro forma results reflect the following for the periods indicated:

- The contractual requirement under the GPO participation agreements to pay each member owner revenue share from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's member facilities through Premier LP's GPO supplier contracts. Historically, Premier LP did not generally have a contractual requirement to pay revenue share to member owners participating in its GPO programs, but paid semi-annual distributions of partnership income.
- Additional U.S. federal, state and local income taxes with respect to its additional allocable share of any taxable income of Premier LP.
- A decrease in noncontrolling interest in Premier LP from 99% to approximately 78%.

Years Ended June 30, 2015 and 2014

The following table summarizes our actual consolidated results of operations for the fiscal years ended June 30, 2015 and 2014 and non-GAAP pro forma consolidated results of operations for the fiscal year ended June 30, 2014 (in thousands, except per share data):

	Year Ended June 30, 2015 Actual		2014 Actual		Adjustments(1)	Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount	% of Net Revenue	Amount	Amount	% of Net Revenue
Net revenue:							
Net administrative fees	$457,020	45 %	$464,837	51 %	$(41,263) (2)	$423,574	49 %
Other services and support	270,748	27 %	233,186	26 %	—	233,186	27 %
Services	727,768	72 %	698,023	77 %	(41,263)	656,760	76 %
Products	279,261	28 %	212,526	23 %	—	212,526	24 %
Net revenue	1,007,029	100 %	910,549	100 %	(41,263)	869,286	100 %
Cost of revenue:							
Services	143,290	14 %	115,740	13 %	—	115,740	13 %
Products	253,620	25 %	191,885	21 %	—	191,885	22 %
Cost of revenue	396,910	39 %	307,625	34 %	—	307,625	35 %
Gross profit	610,119	61 %	602,924	66 %	(41,263)	561,661	65 %
Operating expenses:							
Selling, general and administrative	332,004	33 %	294,421	33 %	—	294,421	35 %
Research and development	2,937	— %	3,389	— %	—	3,389	— %
Amortization of purchased intangible assets	9,136	1 %	3,062	— %	—	3,062	— %
Total operating expenses	344,077	34 %	300,872	33 %	—	300,872	35 %
Operating income	266,042	26 %	302,052	33 %	(41,263)	260,789	30 %
Other income, net	5,085	1 %	58,274	6 %	—	58,274	7 %
Income before income taxes	271,127	27 %	360,326	39 %	(41,263)	319,063	37 %
Income tax expense	36,342	4 %	27,709	3 %	(3,239) (3)	24,470	3 %
Net income	234,785	23 %	332,617	36 %	(38,024)	294,593	34 %
Net income attributable to noncontrolling interest in S2S Global	(1,836)	— %	(949)	— %	—	(949)	— %
Net income attributable to noncontrolling interest in Premier LP	(194,206)	(19)%	(303,336)	(33)%	57,690 (4)	(245,646)	(28)%
Net income attributable to noncontrolling interest	(196,042)	(19)%	(304,285)	(33)%	57,690	(246,595)	(28)%
Net income attributable to stockholders	$38,743	4 %	$28,332	3 %	$19,666	$47,998	6 %
Adjustment of redeemable limited partners' capital to redemption amount	$(904,035)	nm	$(2,741,588)	nm	$—	$(2,741,588)	nm
Net loss attributable to stockholders after adjustment of redeemable partners' capital to redemption amount	$(865,292)	nm	$(2,713,256)	nm	nm	$(2,693,590)	nm

Weighted average shares outstanding:							
Basic	35,681	nm	25,633	nm	na	na	na
Diluted	35,681	nm	25,633	nm	na	na	na
Loss per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount							
Basic	$(24.25)	nm	$(105.85)	nm	na	na	na
Diluted	$(24.25)	nm	$(105.85)	nm	na	na	na
Adjusted EBITDA [5]	$393,175	39 %	$392,288	43 %	na	$351,025	40 %
Adjusted Fully Distributed Net Income [6]	$208,169	21 %	na	na	na	$188,561	22 %
Earnings per share on net income attributable to stockholders [7]	$1.05	nm	$1.10	nm	na	na	na
Adjusted Fully Distributed Earnings Per Share [8]	$1.43	nm	na	na	na	$1.30	nm

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nm = Not meaningful
na = Not Applicable
(1) Represents the adjustments related to the Reorganization and IPO described below.
(2) Represents the impact related to the change in revenue share described above in "Results of Operations."
(3) Represents the income tax impact of the Reorganization and IPO effective October 1, 2013.
(4) Represents the decrease in noncontrolling interest in Premier LP from 99% to 78%.
(5) The table that follows shows the reconciliation of net income to Adjusted EBITDA and the reconciliation of Segment Adjusted EBITDA to income before income taxes for the periods presented (in thousands):

	Year Ended June 30,			
	2015	2014		
	Actual	Actual	Adjustments [a]	Non-GAAP Pro Forma
Net income	$234,785	$332,617	$(38,024)	$294,593
Interest and investment income, net [b]	(866)	(1,019)	—	(1,019)
Income tax expense	36,342	27,709	(3,239)	24,470
Depreciation and amortization	45,186	36,761	—	36,761
Amortization of purchased intangible assets	9,136	3,062	—	3,062
EBITDA	324,583	399,130	(41,263)	357,867
Stock-based compensation expense	28,498	19,476	—	19,476
Acquisition related expenses [c]	9,037	2,014	—	2,014
Strategic and financial restructuring expenses [d]	1,373	3,760	—	3,760
Loss (gain) on investment [e]	1,000	(38,372)	—	(38,372)
Adjustment to tax receivable agreement liability [f]	—	6,215	—	6,215
Loss on disposal of long-lived assets	15,243	—	—	—
Other expense, net [g]	70	65	—	65
Acquisition related adjustment - deferred revenue [h]	13,371	—	—	—
Adjusted EBITDA	$393,175	$392,288	$(41,263)	$351,025
Segment Adjusted EBITDA:				
Supply Chain Services	$391,180	$396,470	$(41,263)	$355,207
Performance Services	90,235	73,898	—	73,898
Corporate [i]	(88,240)	(78,080)	—	(78,080)
Adjusted EBITDA	393,175	392,288	(41,263)	351,025
Depreciation and amortization	(45,186)	(36,761)	—	(36,761)
Amortization of purchased intangible assets	(9,136)	(3,062)	—	(3,062)
Stock-based compensation expense	(28,498)	(19,476)	—	(19,476)
Acquisition related expenses [c]	(9,037)	(2,014)	—	(2,014)
Strategic and financial restructuring expenses [d]	(1,373)	(3,760)	—	(3,760)
Adjustment to tax receivable agreement liability [f]	—	(6,215)	—	(6,215)
Acquisition related adjustment - deferred revenue [h]	(13,371)	—	—	—
Equity in net income of unconsolidated affiliates	(21,285)	(16,976)	—	(16,976)
Deferred compensation plan income (expense)	753	(1,972)	—	(1,972)
Operating income	266,042	302,052	(41,263)	260,789
Equity in net income of unconsolidated affiliates	21,285	16,976	—	16,976
Interest and investment income, net [b]	866	1,019	—	1,019
(Loss) gain on investment [e]	(1,000)	38,372	—	38,372
Loss on disposal of long-lived assets	(15,243)	—	—	—
Other (expense) income, net [g]	(823)	1,907	—	1,907
Income before income taxes	$271,127	$360,326	$(41,263)	$319,063

(a) Represents the adjustments related to the Reorganization and IPO described above.

(b) Represents interest income and realized gains and losses on our marketable securities.

(c) Represents legal, accounting and other expenses related to acquisition activities.

(d) Represents legal, accounting and other expenses directly related to strategic and financial restructuring expenses. During the fiscal year ended June 30, 2015, strategic and financial restructuring expenses were incurred in connection with the company directed offering conducted pursuant to the Registration Rights Agreement. During the fiscal year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(e) Represents the loss on investment for the fiscal year ended June 30, 2015 and the gain on sale of investment in GHX for the fiscal year ended June 30, 2014.

(f) Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.

(g) Represents gains and losses on investments and other assets.

(h) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require us to account for the fair values of software license updates and product support contracts and hardware systems support contracts assumed in connection with our acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to our acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The non-GAAP adjustment to our software license updates and product support revenues is intended to include, and thus reflect, the full amount of such revenues.

(i) Corporate consists of general and administrative corporate expenses that are not specific to either of our segments.

(6) The table that follows shows the reconciliation of net income attributable to stockholders to non-GAAP pro forma Adjusted Fully Distributed Net Income for the periods presented (in thousands):

	Year Ended June 30,	
	2015	2014
Net income attributable to stockholders	$38,743	$28,332
Non-GAAP pro forma adjustment for revenue share post-IPO	—	(41,263)
Income tax expense	36,342	27,709
Stock-based compensation expense	28,498	19,476
Acquisition related expenses (a)	9,037	2,014
Strategic and financial restructuring expenses (b)	1,373	3,760
Loss (gain) on investment (c)	1,000	(38,372)
Adjustment to tax receivable agreement liability (d)	—	6,215
Loss on disposal of long-lived assets	15,243	—
Acquisition related adjustment - deferred revenue (e)	13,371	—
Amortization of purchased intangible assets	9,136	3,062
Net income attributable to noncontrolling interest in Premier LP (f)	194,206	303,336
Non-GAAP pro forma fully distributed income before income taxes	346,949	314,269
Income tax expense on fully distributed income before income taxes (g)	138,780	125,708
Non-GAAP pro forma Adjusted Fully Distributed Net Income	$208,169	$188,561

(a) Represents legal, accounting and other expenses related to acquisition activities.

(b) Represents legal, accounting and other expenses directly related to the Reorganization and IPO. During the fiscal year ended June 30, 2015, strategic and financial restructuring expenses were incurred in connection with the company directed offering conducted pursuant to the Registration Rights Agreement. During the fiscal year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(c) Represents the loss on investment for the fiscal year ended June 30, 2015 and the gain on sale of investment in GHX for the fiscal year ended June 30, 2014.

(d)

Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.

(e) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require us to account for the fair values of software license updates and product support contracts and hardware systems support contracts assumed in connection with our acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to our acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The non-GAAP adjustment to our software license updates and product support revenues is intended to include, and thus reflect, the full amount of such revenues.

(f) Reflects the elimination of the noncontrolling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(g) Reflects income tax expense at an estimated effective income tax rate of 40% of income before income taxes assuming the conversion of all Class B common units into shares of Class A common stock and the tax impact of excluding strategic and financial restructuring expenses.

(7) The table that follows shows the reconciliation of (loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:

	Year Ended June 30,	
	2015	2014
Reconciliation of numerator for loss per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:		
Net loss attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount	$(865,292)	$(2,713,256)
Adjustment of redeemable limited partners' capital to redemption amount	904,035	2,741,588
Net income attributable to stockholders	38,743	28,332
Reconciliation of denominator for loss per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:		
Weighted Average:		
Common shares used for basic and diluted loss per share	35,681	25,633
Potentially dilutive shares	1,048	124
Weighted average fully distributed shares outstanding - diluted	36,729	25,757
Reconciliation of loss per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:		
Loss per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount	$(24.25)	$(105.85)
Impact of adjustment of redeemable limited partners' capital to redemption amount	25.34	106.96
Impact of potentially dilutive shares	(0.04)	(0.01)
Non-GAAP earnings per share on net income attributable to stockholders - diluted	$1.05	$1.10

(8) The table that follows shows the reconciliation of the numerator and denominator for (loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP pro forma Adjusted Fully Distributed Earnings Per Share for the periods presented (in thousands):

	Year Ended June 30,	
	2015	2014
Reconciliation of numerator for loss per share to non-GAAP Adjusted Fully Distributed Earnings Per Share:		
Net loss attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount	$(865,292)	$(2,713,256)
Adjustment of redeemable limited partners' capital to redemption amount	904,035	2,741,588
Net income attributable to stockholders	38,743	28,332
Non-GAAP pro forma adjustment for revenue share post-IPO	—	(41,263)
Income tax expense	36,342	27,709
Stock-based compensation expense	28,498	19,476
Acquisition related expenses (a)	9,037	2,014
Strategic and financial restructuring expenses (b)	1,373	3,760
Loss (gain) on investment (c)	1,000	(38,372)
Adjustment to tax receivable agreement liability (d)	—	6,215
Loss on disposal of long-lived assets	15,243	—
Acquisition related adjustment - deferred revenue (e)	13,371	—
Amortization of purchased intangible assets	9,136	3,062
Net income attributable to noncontrolling interest in Premier LP (f)	194,206	303,336
Non-GAAP pro forma fully distributed income before income taxes	346,949	314,269
Income tax expense on fully distributed income before income taxes (g)	138,780	125,708
Non-GAAP pro forma Adjusted Fully Distributed Net Income	$208,169	$188,561
Reconciliation of denominator for (loss) earnings per share to non-GAAP Adjusted Fully Distributed Earnings Per Share:		
Weighted Average:		
Common shares used for basic and diluted loss per share	35,681	25,633
Potentially dilutive shares	1,048	124
Class A common stock outstanding	—	6,742
Conversion of Class B common units	108,518	112,584
Weighted average fully distributed shares outstanding - diluted	145,247	145,083

(a) Represents legal, accounting and other expenses related to acquisition activities.

(b) Represents legal, accounting and other expenses directly related to the Reorganization and IPO. During the fiscal year ended June 30, 2015, strategic and financial restructuring expenses were incurred in connection with the company directed offering conducted pursuant to the Registration Rights Agreement. During the fiscal year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(c) Represents the loss on investment for the fiscal year ended June 30, 2015 and the gain on sale of investment in GHX for the fiscal year ended June 30, 2014.

(d) Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.

(e) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require us to account for the fair values of software license updates and product support contracts and hardware systems support contracts assumed in connection with our acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to our acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The non-GAAP adjustment to our software license updates and product support revenues is intended to include, and thus reflect, the full amount of such revenues.

(f) Reflects the elimination of the noncontrolling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(g) Reflects income tax expense at an estimated effective income tax rate of 40% of income before income taxes assuming the conversion of all Class B common units into shares of Class A common stock and the tax impact of excluding strategic and financial restructuring expenses.

The table that follows shows the reconciliation of (loss) earnings per share attributable to stockholders to non-GAAP pro forma Adjusted Fully Distributed Earnings Per Share for the periods presented:

	Year Ended June 30,	
	2015	2014
Loss per share attributable to stockholders after adjustment to redeemable limited partners' capital to redemption amount	$(24.25)	$(105.85)
Adjustment to redeemable limited partners' capital to redemption amount	25.34	106.96
Non-GAAP pro forma adjustment for revenue share post-IPO	—	(1.61)
Impact of additions:		
Income tax expense	1.02	1.08
Stock-based compensation expense	0.80	0.76
Acquisition related expenses [(a)]	0.25	0.08
Strategic and financial restructuring expenses [(b)]	0.04	0.15
Loss (gain) on investment [(c)]	0.03	(1.50)
Adjustment to tax receivable agreement liability [(d)]	—	0.24
Loss on disposal of long-lived assets	0.43	—
Acquisition related adjustment - deferred revenue [(e)]	0.37	—
Amortization of purchased intangible assets	0.26	0.12
Net income attributable to noncontrolling interest in Premier LP [(f)]	5.44	11.83
Impact of corporation income tax [(g)]	(3.90)	(4.90)
Impact of increased share count [(h)]	(4.40)	(6.06)
Non-GAAP pro forma Adjusted Fully Distributed Earnings Per Share	$1.43	$1.30

(a) Represents legal, accounting and other expenses related to acquisition activities.

(b) Represents legal, accounting and other expenses directly related to the Reorganization and IPO. During the fiscal year ended June 30, 2015, strategic and financial restructuring expenses were incurred in connection with the company directed offering conducted pursuant to the Registration Rights Agreement. During the fiscal year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(c) Represents the loss on investment for the fiscal year ended June 30, 2015 and the gain on sale of investment in GHX for the fiscal year ended June 30, 2014.

(d) Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.

(e) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require us to account for the fair values of software license updates and product support contracts and hardware systems support contracts assumed in connection with our acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to our acquisition of a business do not reflect the full amount of support revenues on these assumed support contracts that would have otherwise been recorded by the acquired entity. The non-GAAP adjustment to our software license updates and product support revenues is intended to include, and thus reflect, the full amount of such revenues.

(f) Reflects the elimination of the noncontrolling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(g) Reflects income tax expense at an estimated effective income tax rate of 40% of income before income taxes assuming the conversion of all Class B common units into shares of Class A common stock and the tax impact of excluding strategic and financial restructuring expenses.

(h) Reflects impact of increased share count assuming the conversion of all Class B common units into shares of Class A common stock.

Net Revenue

The following table summarizes our actual net revenue for the year ended June 30, 2015 and 2014, respectively, and our non-GAAP pro forma net revenue for the year ended June 30, 2014, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30,							
	2015		2014					
	Actual		Actual		Adjustments		Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount	% of Net Revenue	Amount		Amount	% of Net Revenue
Supply Chain Services:								
Net administrative fees	$457,020	45 %	$464,837	51 %	$(41,263)	(a)	$423,574	49 %
Other services and support	1,977	— %	778	— %	—		778	— %
Services	458,997	45 %	465,615	51 %	(41,263)		424,352	49 %
Products	279,261	28 %	212,526	23 %	—		212,526	24 %
Total Supply Chain Services	738,258	73 %	678,141	74 %	(41,263)		636,878	73 %
Performance Services:								
Other services and support	268,771	27 %	232,408	26 %	—		232,408	27 %
Total net revenue	$1,007,029	100 %	$910,549	100 %	$(41,263)		$869,286	100 %

(a) Represents the impact related to the change in revenue share.

Total net revenue for the year ended June 30, 2015 was $1,007.0 million, an increase of $96.5 million, or 11%, from total net revenue of $910.5 million for the year ended June 30, 2014 and an increase of $137.7 million, or 16%, from non-GAAP pro forma net revenue of $869.3 million for the year ended June 30, 2014.

Supply Chain Services

Our supply chain services segment net revenue for the year ended June 30, 2015 was $738.3 million, an increase of $60.2 million, or 9%, from supply chain services segment net revenue of $678.1 million for the year ended June 30, 2014 and an increase of $101.4 million, or 16%, from non-GAAP pro forma supply chain services segment net revenue of $636.9 million for the year ended June 30, 2014.

Net administrative fees revenue in our supply chain services segment for the year ended June 30, 2015 was $457.0 million, a decrease of $7.8 million, or 2%, from $464.8 million for the year ended June 30, 2014. The decrease in net administrative fees revenue is primarily due to the increase in revenue share of $43.4 million reflecting the 30% revenue share payable to member owners after the Reorganization on October 1, 2013, offset by further contract penetration of existing members, continuing impact of newer member conversion to our contract portfolio, as well as the impact of increased utilization trends. We may experience quarterly fluctuations in net administrative fees revenue due to periodic variability associated with the receipts of supplier member purchasing reports and administrative fee payments at quarter-end.

Net administrative fees revenue for the year ended June 30, 2015 was $457.0 million, an increase of $33.4 million, or 8%, from non-GAAP pro forma net administrative fees revenue of $423.6 million for the year ended June 30, 2014. The increase in net administrative fees revenue was primarily attributable to the impact of further contract penetration of existing members, continuing impact of newer member conversion to our contract portfolio, as well as the impact of increased utilization trends.

Product revenue in our supply chain services segment for the year ended June 30, 2015, was $279.3 million, an increase of $66.8 million, or 31%, from $212.5 million for the year ended June 30, 2014. Product revenue in our supply chain services segment increased for the year ended June 30, 2015, due to $37.4 million of increased specialty pharmacy revenue and $30.9 million of increased direct sourcing revenue, as a result of growth in our specialty pharmacy, including member growth as well as access to additional drug therapies entering the market, and ongoing expansion of member support for our direct sourcing offering. We expect our specialty pharmacy and direct sourcing program revenue to continue to grow to the extent we are able to expand our product sales to existing members and additional members begin to utilize our products.

Performance Services

Other services and support revenue in our performance services segment for the year ended June 30, 2015 was $268.8 million, an increase of $36.4 million, or 16%, from $232.4 million for the year ended June 30, 2014. The increase was primarily the result of growth in our SaaS subscription and license revenue of $31.7 million, primarily related to the acquisitions of TheraDoc and Aperek, growth in advisory services of $12.5 million, primarily from cost management and population health management, offset by decline in performance improvement collaboratives of $8.0 million, primarily related to the termination of Partnership for Patients (PfP) contract in December 2014. We expect to experience quarterly variability in revenues generated from our performance services segment due to the timing of revenue recognition from certain advisory services and performance-based engagements in which our revenue is based on a percentage of identified member savings and recognition occurs upon approval and documentation of savings. Non-GAAP pro forma adjustments do not impact financial results for our performance services segment.

Cost of Revenue

The following table summarizes our cost of revenue for the periods indicated (in thousands):

	Year Ended June 30,	
	2015	2014
Cost of revenue:		
Products	$253,620	$191,885
Services	143,290	115,740
Total cost of revenue	$396,910	$307,625
Cost of revenue by segment:		
Supply Chain Services	$255,794	$194,689
Performance Services	141,116	112,936
Total cost of revenue	$396,910	$307,625

Cost of revenue for the year ended June 30, 2015 was $396.9 million, an increase of $89.3 million, or 29%, from $307.6 million for the year ended June 30, 2014. Cost of product revenue increased by $61.7 million, which was primarily attributable to the increases in specialty pharmacy and direct sourcing revenue. We expect our cost of product revenue to increase as we enroll additional members into our specialty pharmacy program and sell additional direct-sourced medical products to new and existing members. The increase in specialty pharmacy is also driven by increased cost of revenue related to sales of new hepatitis-C therapies, whose drug acquisition costs are generally higher than traditionally seen across other specialty therapies. Cost of service revenue increased by $27.6 million primarily due to an increase in amortization of internally-developed software applications, expenses related to population health management SaaS informatics products under reseller agreements, and increased salary costs related to advisory services. We expect cost of service revenue to increase to the extent we expand our performance improvement collaboratives and advisory services to members, increase sales of our population health management SaaS informatics products under reseller agreements, and continue to develop new and existing internally-developed software applications.

Cost of revenue for the supply chain services segment for the year ended June 30, 2015 was $255.8 million, an increase of $61.1 million, or 31%, from $194.7 million for the year ended June 30, 2014. The increase is primarily attributable to the growth in specialty pharmacy and direct sourcing, which have higher associated cost of revenue as compared to group purchasing. As a result, there is a higher increase in cost of revenue relative to net revenue because product revenue is growing at a higher rate than net administrative fees.

Cost of revenue for the performance services segment for the year ended June 30, 2015 was $141.1 million, an increase of $28.2 million, or 25%, from $112.9 million for the year ended June 30, 2014. The increase is primarily attributable to the increase in amortization of internally-developed software applications and expenses related to population health management SaaS informatics products under reseller agreements, as well as increased salary costs related to advisory services.

Operating Expenses

The following table summarizes our operating expenses for the periods indicated (in thousands):

	Year Ended June 30,	
	2015	2014
Operating expenses:		
Selling, general and administrative	$332,004	$294,421
Research and development	2,937	3,389
Amortization of purchased intangible assets	9,136	3,062
Total operating expenses	344,077	300,872
Operating expenses by segment:		
Supply Chain Services	$116,240	$105,544
Performance Services	105,252	80,808
Total segment operating expenses	221,492	186,352
Corporate	122,585	114,520
Total operating expenses	$344,077	$300,872

Selling, General and Administrative

Selling, general and administrative expenses for the year ended June 30, 2015 were $332.0 million, an increase of $37.6 million, or 13%, from $294.4 million for the year ended June 30, 2014. The increase was attributable to increased salaries and benefits, rent and utilities, and insurance expense due to the acquisitions of TheraDoc and Aperek as well as increased business development expenses related to member meetings and increased hardware and software maintenance costs related to the expansion and growth of SaaS informatics products. The increase is also the result of $9.0 million of increased stock-based compensation expense, as a result of twelve months of stock-based compensation expense for the year ended June 30, 2015 as compared to only nine months of stock-based compensation expense for the year ended June 30, 2014. In addition, increased acquisition-related expenses of $7.0 million were recognized during the year ended June 30, 2015 as compared to the year ended June 30, 2014.

Research and Development

Research and development expenses for the year ended June 30, 2015 were $2.9 million, a decrease of $0.5 million, or 15%, from $3.4 million for the year ended June 30, 2014. The decrease was primarily a result of a higher level of capitalized expenses in the current fiscal year from software in the development stages of production. We experience fluctuations in our research and development expenditures across reportable periods due to the timing of our software development lifecycles that result in new product features and functionality, new technologies and upgrades to our service offerings.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets for the year ended June 30, 2015 was $9.1 million, an increase of $6.0 million, or 194%, from $3.1 million for the year ended June 30, 2014. The increase was as a result of the additional amortization of purchased intangible assets obtained in the acquisitions of TheraDoc and Aperek. As we execute on our growth strategy and further deploy our available capital, we expect increases in amortization of purchased intangible assets in connection with recent and future potential acquisitions.

Other Non-operating Income and Expense

Other Income, Net

Other income, net, for the year ended June 30, 2015 was $5.1 million, a decrease of $53.2 million from $58.3 million for the year ended June 30, 2014. This decrease is primarily attributable to the $15.2 million loss on disposal of long-lived assets recognized during the year ended June 30, 2015 in connection with our operations integration as a result of the TheraDoc acquisition and the $38.4 million gain recognized in connection with the sale of our 13% equity interest in GHX during the year ended June 30, 2014.

Income Tax Expense

Income tax expense for the year ended June 30, 2015 was $36.3 million, an increase of $8.6 million from $27.7 million for the year ended June 30, 2014, which is primarily attributable to the establishment of a valuation allowance on the majority of PHSI deferred tax assets due to uncertainties surrounding PHSI's ability to utilize these assets, offset by a reduction in book income in

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the current year and the recognition of a one-time tax expense of $11.9 million on the sale of the general partner interest during the year ended June 30, 2014. Our effective tax rate was 13.4% and 7.7% for the year ended June 30, 2015 and 2014, respectively. The low effective tax rate compared to the statutory rate for both periods is attributable to the flow through of partnership income which is not subject to federal and state income tax at the Company.
Income tax expense for the year ended June 30, 2015 was $36.3 million, an increase of $11.8 million, from $24.5 million of income tax expense on a non-GAAP basis, which reflects the impact of the Reorganization and IPO for the year ended June 30, 2014. The increase in tax expense is primarily due to the establishment of a valuation allowance on the majority of PHSI deferred tax assets offset by lower taxable income within our taxable corporations. Our effective tax rate was 13.4% for the year ended June 30, 2015 and 7.7% on a non-GAAP pro forma basis for the year ended June 30, 2014. The low effective tax rate for both periods is attributable to the flow through of partnership income which is not subject to federal and state income tax at the Company.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest for the year ended June 30, 2015 was $196.0 million, a decrease of $108.3 million, or 36%, from $304.3 million for the year ended June 30, 2014, primarily as a result of the gain on sale of investment in GHX of $38.4 million recognized during the year ended June 30, 2014, change in ownership of the limited partners of Premier LP from 99% to approximately 74% in connection with the Reorganization and IPO and subsequent quarterly exchanges pursuant to the Exchange Agreement, and increased revenue share in connection with the Reorganization and IPO. Net income attributable to noncontrolling interest was $196.0 million for the year ended June 30, 2015, a decrease of $50.6 million, or 21%, from $246.6 million on a non-GAAP pro forma basis for the year ended June 30, 2014, primarily due to increased net administrative fee revenue, offset by increased revenue share as a result of the Reorganization and IPO and the gain on sale of investment in GHX of $38.4 million recognized during the year ended June 30, 2014.

Non-GAAP Adjusted EBITDA

	Year Ended June 30,						
	2015		2014				
	Actual		Actual		Adjustments	Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount	% of Net Revenue	Amount	Amount	% of Net Revenue
Adjusted EBITDA by segment:							
Supply Chain Services	391,180	39 %	396,470	44 %	(41,263) (a)	355,207	41 %
Performance Services	90,235	9 %	73,898	8 %	—	73,898	9 %
Total Segment Adjusted EBITDA	481,415	48 %	470,368	52 %	(41,263)	429,105	49 %
Corporate	(88,240)	(9)%	(78,080)	(9)%	—	(78,080)	(9)%
Total Adjusted EBITDA	$393,175	39 %	$392,288	43 %	$(41,263)	$351,025	40 %

(a) Represents the impact related to the change in revenue share.

Adjusted EBITDA for the year ended June 30, 2015 was $393.2 million, an increase of $0.9 million, from $392.3 million for the year ended June 30, 2014. Adjusted EBITDA for the year ended June 30, 2015 was $393.2 million an increase of $42.2 million, or 12%, from non-GAAP pro forma Adjusted EBITDA of $351.0 million for the year ended June 30, 2014.

Segment Adjusted EBITDA for the supply chain services segment of $391.2 million for the year ended June 30, 2015 reflects a decrease of $5.3 million, or 1%, compared to $396.5 million for the year ended June 30, 2014, primarily driven by the 30% revenue share payable to member owners after the Reorganization on October 1, 2013. Segment Adjusted EBITDA for the supply chain services segment of $391.2 million for the year ended June 30, 2015 reflects an increase of $36.0 million, or 10%, compared to non-GAAP pro forma Segment Adjusted EBITDA of $355.2 million for the year ended June 30, 2014, primarily as a result of the increased net administrative fees revenue and growth in direct sourcing.

Segment Adjusted EBITDA for the performance services segment of $90.2 million for the year ended June 30, 2015 reflects an increase of $16.3 million, or 22%, compared to $73.9 million for the year ended June 30, 2014, as a result of the sale of new SaaS informatics products, effective management of operating expenses, and increased subscription and license revenue, partially offset by increased operating expenses, related to our acquisitions of Aperek and TheraDoc.

Years Ended June 30, 2014 and 2013

The following table summarizes our actual consolidated results of operations for the fiscal years ended June 30, 2014 and 2013 (in thousands, except per share data):

	Year Ended June 30,			
	2014		2013	
	Amount	% of Net Revenue	Amount	% of Net Revenue
Net revenue:				
Net administrative fees	$464,837	51 %	$519,219	60 %
Other services and support	233,186	26 %	205,685	24 %
Services	698,023	77 %	724,904	84 %
Products	212,526	23 %	144,386	16 %
Net revenue	910,549	100 %	869,290	100 %
Cost of revenue:				
Services	115,740	13 %	103,795	12 %
Products	191,885	21 %	133,618	15 %
Cost of revenue	307,625	34 %	237,413	27 %
Gross profit	602,924	66 %	631,877	73 %
Operating expenses:				
Selling, general and administrative	294,421	33 %	248,301	29 %
Research and development	3,389	— %	9,370	1 %
Amortization of purchased intangible assets	3,062	— %	1,539	— %
Total operating expenses	300,872	33 %	259,210	30 %
Operating income	302,052	33 %	372,667	43 %
Other income, net	58,274	6 %	12,145	1 %
Income before income taxes	360,326	39 %	384,812	44 %
Income tax expense	27,709	3 %	9,726	1 %
Net income	332,617	36 %	375,086	43 %
Net (income) loss attributable to noncontrolling interest in S2S Global	(949)	— %	1,479	— %
Net income attributable to noncontrolling interest in Premier LP	(303,336)	(33)%	(369,189)	(42)%
Net income attributable to noncontrolling interest	(304,285)	(33)%	(367,710)	(42)%
Net income attributable to stockholders	$28,332	3 %	$7,376	1 %
Adjustment of redeemable limited partners' capital to redemption amount	$(2,741,588)	nm	$—	nm
Net (loss) income attributable to stockholders after adjustment of redeemable partners' capital to redemption amount	$(2,713,256)	nm	$7,376	nm
Weighted average shares outstanding				
Basic	25,633	nm	5,858	nm
Diluted	25,633	nm	5,858	nm
(Loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount				
Basic	$(105.85)	nm	$1.26	nm
Diluted	$(105.85)	nm	$1.26	nm
Adjusted EBITDA (5)	$392,288	43 %	$419,025	48 %

nm - Not Meaningful

na - Not Applicable

The following table summarizes our actual and non-GAAP pro forma consolidated results of operations for the fiscal year ended June 30, 2014 (in thousands, except per share data):

	Year Ended June 30, 2014					
	Actual		Adjustments(1)		Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount		Amount	% of Net Revenue
Net revenue:						
Net administrative fees	$464,837	51 %	$(41,263)	(2)	$423,574	49 %
Other services and support	233,186	26 %	—		233,186	27 %
Services	698,023	77 %	(41,263)		656,760	76 %
Products	212,526	23 %	—		212,526	24 %
Net revenue	910,549	100 %	(41,263)		869,286	100 %
Cost of revenue:						
Services	115,740	13 %	—		115,740	13 %
Products	191,885	21 %	—		191,885	22 %
Cost of revenue	307,625	34 %	—		307,625	35 %
Gross profit	602,924	66 %	(41,263)		561,661	65 %
Operating expenses:						
Selling, general and administrative	294,421	33 %	—		294,421	35 %
Research and development	3,389	— %	—		3,389	— %
Amortization of purchased intangible assets	3,062	— %	—		3,062	— %
Total operating expenses	300,872	33 %	—		300,872	35 %
Operating income	302,052	33 %	(41,263)		260,789	30 %
Other income, net	58,274	6 %	—		58,274	7 %
Income before income taxes	360,326	39 %	(41,263)		319,063	37 %
Income tax expense	27,709	3 %	(3,239)	(3)	24,470	3 %
Net income	332,617	36 %	(38,024)		294,593	34 %
Net income attributable to noncontrolling interest in S2S Global	(949)	— %	—		(949)	— %
Net income attributable to noncontrolling interest in Premier LP	(303,336)	(33)%	57,690	(4)	(245,646)	(28)%
Net income attributable to noncontrolling interest	(304,285)	(33)%	57,690		(246,595)	(28)%
Net income attributable to stockholders	$28,332	3 %	$ 19,666		$47,998	6 %
Adjustment of redeemable limited partners' capital to redemption amount	$(2,741,588)	nm	$—		$(2,741,588)	nm
Net loss attributable to stockholders after adjustment of redeemable partners' capital to redemption amount	$(2,713,256)	nm	nm		$(2,693,590)	nm
Weighted average shares outstanding:						
Basic	25,633	nm	na		na	nm
Diluted	25,633	nm	na		na	nm
Loss per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount:						
Basic	$(105.85)	nm	na		na	nm
Diluted	$(105.85)	nm	na		na	nm

Adjusted EBITDA [5]	$392,288	43	%	na	$351,025	40	%
Adjusted Fully Distributed Net Income [6]	na	na		na	$188,561	22	%
Earnings per share attributable to stockholders [7]	$1.10	nm		na	na	nm	
Adjusted Fully Distributed Earnings Per Share [8]	na	na		na	$1.30	nm	

The following table summarizes our actual and non-GAAP pro forma consolidated results of operations for the fiscal year ended June 30, 2013 (in thousands, except per share data):

	Year Ended June 30, 2013				
	Actual		Adjustments(1)	Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount	Amount	% of Net Revenue
Net revenue:					
Net administrative fees	$519,219	60 %	$(105,012) (2)	$414,207	54 %
Other services and support	205,685	24 %	—	205,685	27 %
Services	724,904	84 %	(105,012)	619,892	81 %
Products	144,386	16 %	—	144,386	19 %
Net revenue	869,290	100 %	(105,012)	764,278	100 %
Cost of revenue:					
Services	103,795	12 %	—	103,795	14 %
Products	133,618	15 %	—	133,618	17 %
Cost of revenue	237,413	27 %	—	237,413	31 %
Gross profit	631,877	73 %	(105,012)	526,865	69 %
Operating expenses:					
Selling, general and administrative	248,301	29 %	—	248,301	33 %
Research and development	9,370	1 %	—	9,370	1 %
Amortization of purchased intangible assets	1,539	— %	—	1,539	— %
Total operating expenses	259,210	30 %	—	259,210	34 %
Operating income	372,667	43 %	(105,012)	267,655	35 %
Other income, net	12,145	1 %	—	12,145	2 %
Income before income taxes	384,812	44 %	(105,012)	279,800	37 %
Income tax expense	9,726	1 %	22,813 (3)	32,539	4 %
Net income	375,086	43 %	(127,825)	247,261	33 %
Net loss attributable to noncontrolling interest in S2S Global	1,479	— %	—	1,479	— %
Net income attributable to noncontrolling interest in Premier LP	(369,189)	(42)%	150,726 (4)	(218,463)	(29)%
Net income attributable to noncontrolling interest	(367,710)	(42)%	150,726	(216,984)	(29)%
Net income attributable to stockholders	$7,376	1 %	$22,901	$30,277	4 %
Adjustment of redeemable limited partners' capital to redemption amount	$—	nm	$—	$—	nm
Net income attributable to stockholders after adjustment of redeemable partners' capital to redemption amount	$7,376	nm	nm	$30,277	nm
Weighted average shares outstanding:					
Basic	5,858	nm	na	na	nm
Diluted	5,858	nm	na	na	nm
Earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount:					
Basic	$1.26	nm	na	na	nm
Diluted	$1.26	nm	na	na	nm

Adjusted EBITDA [5]	$419,025	48	%	na	$314,013	41	%
Adjusted Fully Distributed Net Income [6]	na	na		na	$172,793	23	%
Earnings per share attributable to stockholders [7]	$1.26	nm		na	na	nm	
Adjusted Fully Distributed Earnings Per Share [8]	na	na		na	$1.18	nm	

(1) Represents the adjustments related to the Reorganization and IPO described below.
(2) Represents the impact related to the change in revenue share described above in "Results of Operations."
(3) Represents the income tax impact of the Reorganization and IPO effective October 1, 2013.

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(4) Represents the decrease in noncontrolling interest in Premier LP from 99% to 78%.

(5) The table that follows shows the reconciliation of net income to Adjusted EBITDA and the reconciliation of Segment Adjusted EBITDA to income before income taxes for the periods presented (in thousands):

	Year Ended June 30,					
	2014			2013		
	Actual	Adjustments (a)	Non-GAAP Pro Forma	Actual	Adjustments (a)	Non-GAAP Pro Forma
Net income	$332,617	$(38,024)	$294,593	$375,086	$(127,825)	$247,261
Interest and investment income, net [b]	(1,019)	—	(1,019)	(965)	—	(965)
Income tax expense	27,709	(3,239)	24,470	9,726	22,813	32,539
Depreciation and amortization	36,761	—	36,761	27,681	—	27,681
Amortization of purchased intangible assets	3,062	—	3,062	1,539	—	1,539
EBITDA	399,130	(41,263)	357,867	413,067	(105,012)	308,055
Stock-based compensation	19,476	—	19,476	—	—	—
Acquisition related expenses [c]	2,014	—	2,014	—	—	—
Strategic and financial restructuring expenses [d]	3,760	—	3,760	5,170	—	5,170
Gain on sale of investment [e]	(38,372)	—	(38,372)	—	—	—
Adjustment to tax receivable agreement liability [f]	6,215	—	6,215	—	—	—
Other expense, net [g]	65	—	65	788	—	788
Adjusted EBITDA	$392,288	$(41,263)	$351,025	$419,025	$(105,012)	$314,013
Segment Adjusted EBITDA:						
Supply Chain Services	$396,470	$(41,263)	$355,207	$431,628	$(105,012)	$326,616
Performance Services	73,898	—	73,898	56,456	—	56,456
Corporate [h]	(78,080)	—	(78,080)	(69,059)	—	(69,059)
Adjusted EBITDA	392,288	(41,263)	351,025	419,025	(105,012)	314,013
Depreciation and amortization	(36,761)	—	(36,761)	(27,681)	—	(27,681)
Amortization of purchased intangible assets	(3,062)	—	(3,062)	(1,539)	—	(1,539)
Stock-based compensation	(19,476)	—	(19,476)	—	—	—
Acquisition related expenses [c]	(2,014)	—	(2,014)	—	—	—
Strategic and financial restructuring expenses [d]	(3,760)	—	(3,760)	(5,170)	—	(5,170)
Adjustment to tax receivable agreement liability [f]	(6,215)	—	(6,215)	—	—	—
Equity in net income of unconsolidated affiliates	(16,976)	—	(16,976)	(11,968)	—	(11,968)
Deferred compensation plan expense	(1,972)		(1,972)	—	—	—
Operating income	302,052	(41,263)	260,789	372,667	(105,012)	267,655
Equity in net income of unconsolidated affiliates	16,976	—	16,976	11,968	—	11,968
Interest and investment income, net	1,019	—	1,019	965	—	965
Gain on sale of investment	38,372	—	38,372	—	—	—
Other income (expense), net	1,907	—	1,907	(788)	—	(788)
Income before income taxes	$360,326	$(41,263)	$319,063	$384,812	$(105,012)	$279,800

(a) Represents the adjustments related to the Reorganization and IPO described above.

(b) Represents interest income and realized gains and losses on our marketable securities.
(c) Represents legal, accounting and other expenses related to acquisition activities.
(d) Represents legal, accounting and other expenses directly related to the Reorganization and IPO.
(e) Represents the gain on sale of investment in GHX.
(f) Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.
(g) Represents gains and losses on investments and other assets.
(h) Corporate consists of general and administrative corporate expenses that are not specific to either of our segments.

(6) The table that follows shows the reconciliation of net income attributable to stockholders to Non-GAAP pro forma Adjusted Fully Distributed Net Income for the periods presented (in thousands):

	Year Ended June 30,	
	2014	2013
Net income attributable to stockholders	$28,332	$7,376
Non-GAAP pro forma adjustment for revenue share post-IPO	(41,263)	(105,012)
Income tax expense	27,709	9,726
Stock-based compensation expense	19,476	—
Acquisition related expenses [(a)]	2,014	—
Strategic and financial restructuring expenses [(b)]	3,760	5,170
Gain on sale of investment [(c)]	(38,372)	—
Adjustment to tax receivable agreement liability [(d)]	6,215	—
Amortization of purchased intangible assets	3,062	1,539
Net income attributable to noncontrolling interest in Premier LP [(e)]	303,336	369,189
Non-GAAP pro forma fully distributed income before income taxes	314,269	287,988
Income tax expense on fully distributed income before income taxes [(f)]	125,708	115,195
Non-GAAP pro forma Adjusted Fully Distributed Net Income	$188,561	$172,793

(a) Represents legal, accounting and other expenses related to acquisition activities.

(b) Represents legal, accounting and other expenses directly related to the Reorganization and IPO.

(c) Represents the gain on sale of investment in GHX.

(d) Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.

(e) Reflects the elimination of the noncontrolling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(f) Reflects income tax expense at an estimated effective income tax rate of 40% of income before income taxes assuming the conversion of all Class B common units into shares of Class A common stock and the tax impact of excluding strategic and financial restructuring expenses.

(7) The table that follows shows the reconciliation of (loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:

	Year Ended June 30,	
	2014	2013
Reconciliation of numerator for (loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:		
Net (loss) income attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount	$(2,713,256)	$7,376
Adjustment of redeemable limited partners' capital to redemption amount	2,741,588	—
Net income attributable to stockholders	28,332	7,376
Reconciliation of denominator for (loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:		
Weighted Average:		
Common shares used for basic and diluted (loss) earnings per share	25,633	5,858
Potentially dilutive shares	124	—
Weighted average fully distributed shares outstanding - diluted	25,757	5,858
Reconciliation of (loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP earnings per share attributable to stockholders:		
(Loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount	$(105.85)	$1.26
Impact of adjustment of redeemable limited partners' capital to redemption amount	106.96	—
Impact of potentially dilutive shares	(0.01)	—
Non-GAAP earnings per share on net income attributable to stockholders - diluted	$1.10	$1.26

(8) The table that follows shows the reconciliation of the numerator and denominator for (loss) earnings per share attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount to non-GAAP pro forma Adjusted Fully Distributed Earnings Per Share for the periods presented (in thousands):

	Year Ended June 30,	
	2014	2013
Reconciliation of numerator for (loss) earnings per share to non-GAAP Adjusted Fully Distributed Earnings Per Share:		
Net (loss) income attributable to stockholders after adjustment of redeemable limited partners' capital to redemption amount	$(2,713,256)	$7,376
Adjustment of redeemable limited partners' capital to redemption amount	2,741,588	—
Net income attributable to stockholders	28,332	7,376
Non-GAAP pro forma adjustment for revenue share post-IPO	(41,263)	(105,012)
Income tax expense	27,709	9,726
Stock-based compensation expense	19,476	—
Acquisition related expenses [(a)]	2,014	—
Strategic and financial restructuring expenses [(b)]	3,760	5,170
Gain on investment [(c)]	(38,372)	—
Adjustment to tax receivable agreement liability [(d)]	6,215	—
Amortization of purchased intangible assets	3,062	1,539
Net income attributable to noncontrolling interest in Premier LP [(e)]	303,336	369,189
Non-GAAP pro forma fully distributed income before income taxes	314,269	287,988
Income tax expense on fully distributed income before income taxes [(f)]	125,708	115,195
Non-GAAP pro forma Adjusted Fully Distributed Net Income	$188,561	$172,793
Reconciliation of denominator for (loss) earnings per share to non-GAAP Adjusted Fully Distributed Earnings Per Share:		
Weighted Average:		
Common shares used for basic and diluted (loss) earnings per share	25,633	5,858
Potentially dilutive shares	124	—
Class A common stock outstanding	6,742	26,517
Conversion of Class B common units	112,584	112,608
Weighted average fully distributed shares outstanding - diluted	145,083	144,983

(a) Represents legal, accounting and other expenses related to acquisition activities.

(b) Represents legal, accounting and other expenses directly related to the Reorganization and IPO.

(c) Represents the gain on sale of investment in GHX.

(d) Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.

(e) Reflects the elimination of the noncontrolling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(f) Reflects income tax expense at an estimated effective income tax rate of 40% of income before income taxes assuming the conversion of all Class B common units into shares of Class A common stock and the tax impact of excluding strategic and financial restructuring expenses.

The table that follows shows the reconciliation of (loss) earnings per share attributable to stockholders to non-GAAP pro forma Adjusted Fully Distributed Earnings Per Share for the periods presented:

	Year Ended June 30, 2014	2013
(Loss) earnings per share attributable to stockholders after adjustment to redeemable limited partners' capital to redemption amount	$(105.85)	$1.26
Adjustment to redeemable limited partners' capital to redemption amount	106.96	—
Non-GAAP pro forma adjustment for revenue share post-IPO	(1.61)	(17.93)
Impact of additions:		
Income tax expense	1.08	1.66
Stock-based compensation expense	0.76	—
Acquisition related expenses (a)	0.08	—
Strategic and financial restructuring expenses (b)	0.15	0.88
Gain on investment (c)	(1.50)	—
Adjustment to tax receivable agreement liability (d)	0.24	—
Amortization of purchased intangible assets	0.12	0.26
Net income attributable to noncontrolling interest in Premier LP (e)	11.83	63.02
Impact of corporation income tax (f)	(4.90)	(19.66)
Impact of increased share count (g)	(6.06)	(28.31)
Non-GAAP pro forma Adjusted Fully Distributed Earnings Per Share	$1.30	$1.18

(a) Represents legal, accounting and other expenses related to acquisition activities.

(b) Represents legal, accounting and other expenses directly related to the Reorganization and IPO. During the fiscal year ended June 30, 2015, strategic and financial restructuring expenses were incurred in connection with the company directed offering conducted pursuant to the Registration Rights Agreement. During the fiscal year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(c) Represents the gain on sale of investment in GHX.

(d) Represents adjustment to tax receivable agreement liability for the Premier LP change in tax accounting method approved by the Internal Revenue Service subsequent to the original recording of the tax receivable agreement liability.

(e) Reflects the elimination of the noncontrolling interest in Premier LP as if all member owners of Premier LP had fully exchanged their Class B common units for shares of Class A common stock.

(f) Reflects income tax expense at an estimated effective income tax rate of 40% of income before income taxes assuming the conversion of all Class B common units into shares of Class A common stock and the tax impact of excluding strategic and financial restructuring expenses.

(g) Reflects impact of increased share count assuming the conversion of all Class B common units into shares of Class A common stock.

Net Revenue

The following table summarizes our net revenue for the years ended June 30, 2014, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30, 2014					
	Actual		Adjustments		Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount		Amount	% of Net Revenue
Supply Chain Services:						
Net administrative fees	$464,837	51 %	$(41,263)	(a)	$423,574	49 %
Other services and support	778	— %	—		778	— %
Services	465,615	51 %	(41,263)		424,352	49 %
Products	212,526	23 %	—		212,526	24 %
Total Supply Chain Services	678,141	74 %	(41,263)		636,878	73 %
Performance Services:						
Other services and support	232,408	26 %	—		232,408	27 %
Total net revenue	$910,549	100 %	$(41,263)		$869,286	100 %

(a) Represents the impact related to the change in revenue share.

The following table summarizes our net revenue for the year ended June 30, 2013, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30, 2013					
	Actual		Adjustments		Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount		Amount	% of Net Revenue
Supply Chain Services:						
Net administrative fees	$519,219	60 %	$(105,012)	(a)	$414,207	54 %
Other services and support	471	— %	—		471	— %
Services	519,690	60 %	(105,012)		414,678	54 %
Products	144,386	16 %	—		144,386	19 %
Total Supply Chain Services	664,076	76 %	(105,012)		559,064	73 %
Performance Services:						
Other services and support	205,214	24 %	—		205,214	27 %
Total net revenue	$869,290	100 %	$(105,012)		$764,278	100 %

(a) Represents the impact related to the change in revenue share.

Total net revenue for the year ended June 30, 2014 was $910.5 million, an increase of $41.2 million, or 5%, from $869.3 million for the year ended June 30, 2013. Total non-GAAP pro forma net revenue for the year ended June 30, 2014 was $869.3 million, and increase of $105.0 million, or 14%, from non-GAAP pro forma net revenue of $764.3 million for the year ended June 30, 2013.

Supply Chain Services

Our supply chain services segment net revenue for the year ended June 30, 2014 was $678.1 million, an increase of $14.0 million, or 2%, from $664.1 million for the year ended June 30, 2013. Our supply chain services segment non-GAAP pro forma net revenue for the year ended June 30, 2014 was $636.9 million, an increase of $77.8 million, or 14%, from non-GAAP pro forma supply chain services segment net revenue of $559.1 million for the year ended June 30, 2013.

Net administrative fees revenue in our supply chain services segment for the year ended June 30, 2014 was $464.8 million, a decrease of $54.4 million, or 10%, from $519.2 million for the year ended June 30, 2013. Revenue share increased $64.5 million, primarily as a result of $128.3 million, which represents the impact of the 30% revenue share to member owners following the

Reorganization and IPO on October 1, 2013, offset by a decrease in revenue share of $59.3 million, as a result of the conversion of certain members with higher contractual revenue share agreements to member owners during fiscal year 2013.

Non-GAAP pro forma net administrative fees revenue for the year ended June 30, 2014 was $423.6 million, an increase of $9.4 million, or 2%, from non-GAAP pro forma net administrative fees revenue of $414.2 million for the year ended June 30, 2013.

Product revenue in our supply chain services segment for the year ended June 30, 2014 was $212.5 million, an increase of $68.1 million, or 47%, from $144.4 million for the year ended June 30, 2013. Product revenue in our supply chain services segment increased for the year ended June 30, 2014, due to increased specialty pharmacy revenue as a result of growth of historical patient prescriptions, the expansion of specialty pharmacy product sales to our members and the availability and associated sales of additional limited-distribution drugs available in the portfolio and increased direct sourcing revenue as a result of growth in our members purchasing our products through our direct souring program.

Performance Services

Other services and support revenue in our performance services segment for the year ended June 30, 2014 was $232.4 million, an increase of $27.2 million, or 13%, from $205.2 million for the year ended June 30, 2013. The increase was primarily attributable to $12.1 million of new Saas informatics products, including population health management tools, $8.0 million of advisory services, and revenue generated from our performance improvement collaboratives. Pro forma adjustments do not impact financial results for our performances services segment.

Cost of Revenue

The following table summarizes our cost of revenue for the periods indicated (in thousands):

	Year Ended June 30,	
	2014	2013
Cost of revenue:		
Products	$191,885	$133,618
Services	115,740	103,795
Total cost of revenue	$307,625	$237,413
Cost of revenue by segment:		
Supply Chain Services	$194,689	$138,781
Performance Services	112,936	98,632
Total cost of revenue	$307,625	$237,413

Cost of revenue for the year ended June 30, 2014 was $307.6 million, an increase of $70.2 million, or 30%, from $237.4 million for the year ended June 30, 2013. Cost of product revenue increased by $58.3 million, which was primarily attributable to the increases in specialty pharmacy and direct sourcing revenue. Cost of service revenue increased by $11.9 million primarily due to an increase in amortization of internally-developed software applications and expenses related to population health management SaaS informatics products under reseller agreements.

Cost of revenue for the supply chain services segment for the year ended June 30, 2014 was $194.7 million, an increase of $55.9 million, or 40%, from $138.8 million for the year ended June 30, 2013. The increase is primarily attributable to the growth in specialty pharmacy and direct sourcing, which have a higher associated cost of revenue as compared to group purchasing. As a result, there is a higher increase in cost of revenue relative to net revenue because net administrative fees represents the majority of supply chain services net revenue and product revenue from specialty pharmacy and direct sourcing is growing at a higher rate than net administrative fees.

Cost of revenue for the performance services segment for the year ended June 30, 2014 was $112.9 million, an increase of $14.3 million, or 15%, from $98.6 million for the year ended June 30, 2013. The increase is primarily attributable to the increase in amortization of internally-developed software applications and expenses related to population health management SaaS informatics products under reseller agreements.

Operating Expenses

The following table summarizes our operating expenses for the periods indicated (in thousands):

	Year Ended June 30,	
	2014	2013
Operating expenses:		
Selling, general and administrative	$294,421	$248,301
Research and development	3,389	9,370
Amortization of purchased intangible assets	3,062	1,539
Total operating expenses	300,872	259,210
Operating expenses by segment:		
Supply Chain Services	105,544	106,889
Performance Services	80,808	74,133
Total segment operating expenses	186,352	181,022
Corporate	114,520	78,188
Total operating expenses	$300,872	$259,210

Selling, General and Administrative

Selling, general and administrative expenses for the year ended June 30, 2014 were $294.4 million, an increase of $46.1 million, or 19%, from $248.3 million for the year ended June 30, 2013. The increase was primarily attributable to $19.5 million of stock-based compensation expense in fiscal year 2014, a $6.2 million adjustment to the tax receivable agreement liability related to a change in tax accounting method approved by the IRS in the fourth quarter of 2014 and $2.0 million of acquisition-related expenses recognized during the year ended June 30, 2014, as well as higher employee-related expenses due to increased selling and service personnel headcount and other general and administrative expenses attributable to operating as a public company.

Research and Development

Research and development expenses for the year ended June 30, 2014 were $3.4 million, a decrease of $6.0 million, or 64%, from $9.4 million for the year ended June 30, 2013. The decrease was primarily a result of higher level of capitalized expense in the current fiscal year from software in the development stages of production and higher non-capitalizable outside contractor expenses in the prior fiscal year related to the development and testing activities associated with our PremierConnect™ platform and associated applications. We experience fluctuations in our research and development expenditures across reportable periods due to the timing of our software development lifecycles, with new product features and functionality, new technologies and upgrades to our service offerings.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets for the year ended June 30, 2014 was $3.0 million, an increase of $1.5 million, or 100%, from $1.5 million for the year ended June 30, 2013. The increase was as a result of the additional amortization of purchased intangible assets obtained in the acquisition of SYMMDRx in July 2013, Meddius in October 2013 and MEMdata in April 2014.

Other Non-operating Income and Expense

Other Income, Net

Other income, net, for the year ended June 30, 2014 was $58.3 million, an increase of $46.2 million from $12.1 million for the year ended June 30, 2013. This increase is primarily attributable to the $38.4 million gain recognized in connection with the sale of our 13% equity interest in GHX, as well as $5.0 million increase in equity in net income of unconsolidated affiliates that is generated from our 50% ownership interest in Innovatix.

Income Tax Expense

Income tax expense for the year ended June 30, 2014 was $27.7 million, an increase of $18.0 million from $9.7 million for the year ended June 30, 2013, which is primarily attributable to additional taxable income from the increase in net income attributable to stockholders as a result of the Reorganization and IPO to approximately 22% to 1% for the periods prior to the Reorganization

and IPO and a one-time tax expense of $11.9 million on the sale of the general partner interest during the year ended June 30, 2014. Our effective tax rate was 7.7% and 2.5% for the year ended June 30, 2014 and 2013, respectively. The low effective tax rate compared to the statutory rate for both periods is attributable to the flow through of partnership income which is not subject to federal and state income tax at the Company.
On a pro forma basis, income tax expense of $24.5 million for the year ended June 30, 2014 reflects the effect of the Reorganization and IPO for the first three months of the year ended June 30, 2014 and represents a decrease of $8.0 million from income tax expense of $32.5 million for the year ended June 30, 2013 which reflects the effect of the Reorganization and IPO for the entire year. The decrease in tax expense is primarily attributable to a one-time tax benefit of $2.4 million recorded in the year ended June 30, 2014, in connection with a Premier LP change in tax accounting method as well as decreases in taxable income in the Company, PHSI and PSCI compared to the prior year. The pro forma effective tax rate was 7.7% and 11.6% for the year ended June 30, 2014 and 2013, respectively. The low effective tax rate compared to the statutory rate for both periods is attributable to the flow through of partnership income which is not subject to federal and state income tax at the Company.

Net Income Attributable to Noncontrolling Interest
Net income attributable to noncontrolling interest for the year ended June 30, 2014 was $304.3 million, a decrease of $63.4 million, or 17%, from $367.7 million for the year ended June 30, 2013, primarily as a result of the change in ownership of the limited partners of Premier LP from approximately 99% to 78% in connection with the Reorganization. On a non-GAAP pro forma basis, net income attributable to noncontrolling interest was $246.6 million for the year ended June 30, 2014, an increase of $29.6 million, or 14%, from $217.0 million for the year ended June 30, 2013. This increase was attributable to higher income of Premier LP, driven by the $38.4 million gain recognized on the sale of our investment in GHX for the year ended June 30, 2014, of which 78% was allocated to the limited partners of Premier LP.
Adjusted EBITDA

	Year Ended June 30, 2014				
	Actual		Adjustments	Non-GAAP Pro Forma	
	Amount	% of Net Revenue	Amount	Amount	% of Net Revenue