JOHNSON & JOHNSON
Form 10-Q
August 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended July 1, 2018
or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to
Commission file number 1-3215
(Exact name of registrant as specified in its charter)

NEW JERSEY	22-1024240
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Johnson & Johnson Plaza
New Brunswick, New Jersey 08933
(Address of principal executive offices)
Registrant's telephone number, including area code (732) 524-0400
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. þ Yes o No
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). þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)
Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
On July 27, 2018, 2,682,756,061 shares of Common Stock, $1.00 par value, were outstanding.

JOHNSON & JOHNSON AND SUBSIDIARIES
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and Johnson & Johnson's other publicly available documents contain “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Management and representatives of Johnson & Johnson and its subsidiaries (the Company) also may from time to time make forward-looking statements. Forward-looking statements do not relate strictly to historical or current facts and reflect management’s assumptions, views, plans, objectives and projections about the future. Forward-looking statements may be identified by the use of words such as “plans,” “expects,” “will,” “anticipates,” “estimates,” and other words of similar meaning in conjunction with, among other things: discussions of future operations, expected operating results, financial performance; impact of planned acquisitions and dispositions; impact and timing of restructuring initiatives including associated cost savings and other benefits; the Company's strategy for growth; product development activities; regulatory approvals; market position and expenditures.
Because forward-looking statements are based on current beliefs, expectations and assumptions regarding future events, they are subject to uncertainties, risks and changes that are difficult to predict and many of which are outside of the Company's control. Investors should realize that if underlying assumptions prove inaccurate, or known or unknown risks or uncertainties materialize, the Company’s actual results and financial condition could vary materially from expectations and projections expressed or implied in its forward-looking statements. Investors are therefore cautioned not to rely on these forward-looking statements. Risks and uncertainties include, but are not limited to:

Risks Related to Product Development, Market Success and Competition

- Challenges and uncertainties inherent in innovation and development of new and improved products and technologies on which the Company’s continued growth and success depend, including uncertainty of clinical outcomes, obtaining regulatory approvals, health plan coverage and customer access, and initial and continued commercial success;
- Challenges to the Company’s ability to obtain and protect adequate patent and other intellectual property rights for new and existing products and technologies in the United States and other important markets;
- The impact of patent expirations, typically followed by the introduction of competing biosimilars and generics and resulting revenue and market share losses;
- Increasingly aggressive and frequent challenges to the Company’s patents by competitors and others seeking to launch competing generic, biosimilar or other products and increased receptivity of courts, the United States Patent and Trademark Office and other decision makers to such challenges, potentially resulting in loss of market exclusivity and rapid decline in sales for the relevant product sooner than expected;
- Competition in research and development of new and improved products, processes and technologies, which can result in product and process obsolescence;
- Competition to reach agreement with third parties for collaboration, licensing, development and marketing agreements for products and technologies;
- Competition on the basis of cost-effectiveness, product performance, technological advances and patents attained by competitors; and
- Allegations that the Company’s products infringe the patents and other intellectual property rights of third parties, which could adversely affect the Company’s ability to sell the products in question and require the payment of money damages and future royalties.

Risks Related to Product Liability, Litigation and Regulatory Activity

- Product efficacy or safety concerns, whether or not based on scientific evidence, potentially resulting in product withdrawals, recalls, regulatory action on the part of the United States Food and Drug Administration (or international counterparts), declining sales and reputational damage;
- Impact, including declining sales and reputational damage, of significant litigation or government action adverse to the Company, including product liability claims and allegations related to pharmaceutical marketing practices and contracting strategies;
- Increased scrutiny of the health care industry by government agencies and state attorneys general resulting in investigations and prosecutions, which carry the risk of significant civil and criminal penalties, including, but not limited to, debarment from government business;

- Failure to meet compliance obligations in the McNEIL-PPC, Inc. Consent Decree or the Corporate Integrity Agreements of the Johnson & Johnson Pharmaceutical Affiliates, or any other compliance agreements with governments or government agencies, which could result in significant sanctions;
- Potential changes to applicable laws and regulations affecting United States and international operations, including relating to: approval of new products; licensing and patent rights; sales and promotion of health care products; access to, and reimbursement and pricing for, health care products and services; environmental protection and sourcing of raw materials;
- Changes in tax laws and regulations, including changes related to The Tax Cuts and Jobs Act in the United States, increasing audit scrutiny by tax authorities around the world and exposures to additional tax liabilities potentially in excess of existing reserves; and
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board and regulations by the Securities and Exchange Commission.

Risks Related to the Company’s Strategic Initiatives and Health Care Market Trends

- Pricing pressures resulting from trends toward health care cost containment, including the continued consolidation among health care providers, trends toward managed care, the shift toward governments increasingly becoming the primary payers of health care expenses and significant new entrants to the health care markets seeking to reduce costs;
- Restricted spending patterns of individual, institutional and governmental purchasers of health care products and services due to economic hardship and budgetary constraints;
- Challenges to the Company’s ability to realize its strategy for growth including through externally sourced innovations, such as development collaborations, strategic acquisitions, licensing and marketing agreements, and the potential heightened costs of any such external arrangements due to competitive pressures;
- The potential that the expected strategic benefits and opportunities from any planned or completed acquisition or divestiture by the Company, including the integration of Actelion Ltd., may not be realized or may take longer to realize than expected; and
- The potential that the expected benefits and opportunities related to past and future restructuring actions may not be realized or may take longer to realize than expected, including due to any required consultation procedures relating to restructuring of workforce.

Risks Related to Economic Conditions, Financial Markets and Operating Internationally

- Impact of inflation and fluctuations in interest rates and currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;
- Potential changes in export/import and trade laws, regulations and policies of the United States and other countries, including any increased trade restrictions or tariffs and potential drug reimportation legislation;
- The impact on international operations from financial instability in international economies, sovereign risk, possible imposition of governmental controls and restrictive economic policies, and unstable international governments and legal systems;
- Changes to global climate, extreme weather and natural disasters that could affect demand for the Company's products and services, cause disruptions in manufacturing and distribution networks, alter the availability of goods and services within the supply chain, and affect the overall design and integrity of the Company's products and operations; and
- The impact of armed conflicts and terrorist attacks in the United States and other parts of the world including social and economic disruptions and instability of financial and other markets.

Risks Related to Supply Chain and Operations

- Difficulties and delays in manufacturing, internally through third party providers or otherwise within the supply chain, that may lead to voluntary or involuntary business interruptions or shutdowns, product shortages, withdrawals or suspensions of products from the market, and potential regulatory action;
- Interruptions and breaches of the Company's information technology systems, and those of the Company's vendors, could result in reputational, competitive, operational or other business harm as well as financial costs and regulatory action;
- Reliance on global supply chains and production and distribution processes that are complex and subject to increasing regulatory requirements that may adversely affect supply, sourcing and pricing of materials used in the Company’s products; and

- The potential that the expected benefits and opportunities related to restructuring actions contemplated for the global supply chain may not be realized or may take longer to realize than expected, including due to any required consultation procedures relating to restructuring of workforce and any required approvals from applicable regulatory authorities. Disruptions associated with the recently announced global supply chain actions may adversely affect supply and sourcing of materials used in the Company's products.

Investors also should carefully read the Risk Factors described in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, for a description of certain risks that could, among other things, cause the Company’s actual results to differ materially from those expressed in its forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider the risks described above to be a complete statement of all potential risks and uncertainties. The Company does not undertake to publicly update any forward-looking statement that may be made from time to time, whether as a result of new information or future events or developments.

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Part I — FINANCIAL INFORMATION

Item 1 — FINANCIAL STATEMENTS

JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; Dollars in Millions Except Share and Per Share Data)

	July 1, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$17,569	17,824
Marketable securities	570	472
Accounts receivable, trade, less allowances for doubtful accounts $269 (2017, $291)	14,111	13,490
Inventories (Note 2)	8,810	8,765
Prepaid expenses and other	2,569	2,537
Assets held for sale (Note 10)	1,809	—
Total current assets	45,438	43,088
Property, plant and equipment at cost	41,293	41,466
Less: accumulated depreciation	(24,661)	(24,461)
Property, plant and equipment, net	16,632	17,005
Intangible assets, net (Note 3)	50,056	53,228
Goodwill (Note 3)	30,346	31,906
Deferred taxes on income	8,472	7,105
Other assets	4,421	4,971
Total assets	$155,365	157,303
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans and notes payable	$2,678	3,906
Accounts payable	6,516	7,310
Accrued liabilities	6,394	7,304
Accrued rebates, returns and promotions	8,717	7,210
Accrued compensation and employee related obligations	2,255	2,953
Accrued taxes on income	928	1,854
Total current liabilities	27,488	30,537
Long-term debt (Note 4)	29,405	30,675
Deferred taxes on income	7,666	8,368
Employee related obligations	9,989	10,074
Long-term taxes payable	8,647	8,472
Other liabilities	9,281	9,017
Total liabilities	92,476	97,143
Shareholders' equity:		
Common stock — par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	$3,120	3,120
Accumulated other comprehensive income (loss) (Note 7)	(14,777)	(13,199)
Retained earnings	106,123	101,793
Less: common stock held in treasury, at cost (437,542,000 and 437,318,000 shares)	31,577	31,554
Total shareholders' equity	62,889	60,160

Total liabilities and shareholders' equity	$155,365	157,303

See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited; Dollars & Shares in Millions Except Per Share Amounts)

	Fiscal Second Quarters Ended			
	July 1, 2018	Percent to Sales	July 2, 2017	Percent to Sales
Sales to customers (Note 9)	$20,830	100.0 %	$18,839	100.0 %
Cost of products sold	6,927	33.3	5,846	31.0
Gross profit	13,903	66.7	12,993	69.0
Selling, marketing and administrative expenses	5,743	27.5	5,289	28.1
Research and development expense	2,639	12.7	2,296	12.2
Interest income	(126)	(0.6)	(105)	(0.6)
Interest expense, net of portion capitalized	253	1.2	227	1.2
Other (income) expense, net	364	1.7	527	2.8
Restructuring (Note 12)	57	0.3	11	0.1
Earnings before provision for taxes on income	4,973	23.9	4,748	25.2
Provision for taxes on income (Note 5)	1,019	4.9	921	4.9
NET EARNINGS	$3,954	19.0 %	$3,827	20.3 %
NET EARNINGS PER SHARE (Note 8)				
Basic	$1.47		$1.42	
Diluted	$1.45		$1.40	
CASH DIVIDENDS PER SHARE	$0.90		$0.84	
AVG. SHARES OUTSTANDING				
Basic	2,682.3		2,691.9	
Diluted	2,721.3		2,741.5	

Prior year amounts have been reclassified to conform to current year presentation
See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited; Dollars & Shares in Millions Except Per Share Amounts)

	Fiscal Six Months Ended			
	July 1, 2018	Percent to Sales	July 2, 2017	Percent to Sales
Sales to customers (Note 9)	$40,839	100.0 %	$36,605	100.0 %
Cost of products sold	13,541	33.2	11,255	30.8
Gross profit	27,298	66.8	25,350	69.2
Selling, marketing and administrative expenses	11,006	27.0	10,052	27.5
Research and development expense	5,043	12.3	4,366	11.9
Interest income	(240)	(0.6)	(226)	(0.6)
Interest expense, net of portion capitalized	512	1.3	431	1.2
Other (income) expense, net	424	1.0	308	0.8
Restructuring expense (Note 12)	99	0.2	96	0.2
Earnings before provision for taxes on income	10,454	25.6	10,323	28.2
Provision for taxes on income (Note 5)	2,133	5.2	2,074	5.7
NET EARNINGS	$8,321	20.4 %	$8,249	22.5 %
NET EARNINGS PER SHARE (Note 8)				
Basic	$3.10		$3.06	
Diluted	$3.05		$3.00	
CASH DIVIDENDS PER SHARE	$1.74		$1.64	
AVG. SHARES OUTSTANDING				
Basic	2,682.2		2,699.3	
Diluted	2,728.5		2,749.4	

Prior year amounts have been reclassified to conform to current year presentation
See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; Dollars in Millions)

	Fiscal Second Quarters Ended		Fiscal Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net earnings	$3,954	3,827	$8,321	8,249
Other comprehensive income (loss), net of tax				
Foreign currency translation	(2,190)	843	(1,567)	1,238
Securities:[1]				
Unrealized holding gain (loss) arising during period	—	47	—	136
Reclassifications to earnings	—	(14)	—	(193)
Net change	—	33	—	(57)
Employee benefit plans:				
Prior service cost amortization during period	(5)	(5)	(11)	(9)
Gain (loss) amortization during period	190	123	382	246
Net change	185	118	371	237
Derivatives & hedges:				
Unrealized gain (loss) arising during period	(61)	154	(225)	(70)
Reclassifications to earnings	(103)	140	75	319
Net change	(164)	294	(150)	249
Other comprehensive income (loss)	(2,169)	1,288	(1,346)	1,667
Comprehensive income	$1,785	5,115	$6,975	9,916

[1] 2018 includes the impact from the adoption of ASU 2016-01. For further details see Note 1 to the Consolidated Financial Statements
See Notes to Consolidated Financial Statements

The tax effects in other comprehensive income for the fiscal second quarters were as follows for 2018 and 2017, respectively: Foreign Currency Translation: $346 million in 2018 due to the enactment of the U.S. Tax Cuts and Jobs Act; Securities: $0 million and $17 million; Employee Benefit Plans: $51 million and $60 million; Derivatives & Hedges: $44 million and $158 million.

The tax effects in other comprehensive income for the fiscal six months were as follows for 2018 and 2017, respectively: Foreign Currency Translation: $183 million in 2018 due to the enactment of the U.S. Tax Cuts and Jobs Act; Securities: $0 million and $31 million; Employee Benefit Plans: $103 million and $120 million; Derivatives & Hedges:$40 million and $134 million.

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in Millions)

	Fiscal Six Months Ended	
	July 1, 2018	July 2, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$8,321	8,249
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property and intangibles	3,463	2,062
Stock based compensation	580	522
Asset write-downs	27	270
Net gain on sale of assets/businesses	(443)	(53)
Deferred tax provision	(285)	(72)
Accounts receivable allowances	(16)	24
Changes in assets and liabilities, net of effects from acquisitions and divestitures:		
Increase in accounts receivable	(989)	(476)
Increase in inventories	(491)	(421)
Decrease in accounts payable and accrued liabilities	(49)	(1,201)
Increase in other current and non-current assets	(267)	(541)
(Decrease)/Increase in other current and non-current liabilities	(166)	322
NET CASH FLOWS FROM OPERATING ACTIVITIES	9,685	8,685
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,533)	(1,249)
Proceeds from the disposal of assets/businesses, net	870	125
Acquisitions, net of cash acquired	(222)	(34,072)
Purchases of investments	(951)	(5,227)
Sales of investments	743	27,320
Other	(33)	(80)
NET CASH USED BY INVESTING ACTIVITIES	(1,126)	(13,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends to shareholders	(4,668)	(4,433)
Repurchase of common stock	(1,589)	(5,232)
Proceeds from short-term debt	27	2,635
Retirement of short-term debt	(2,433)	(180)
Proceeds from long-term debt, net of issuance costs	3	4,464
Retirement of long-term debt	(9)	(15)
Proceeds from the exercise of stock options/employee withholding tax on stock awards, net	162	719
Other	(137)	(25)
NET CASH USED BY FINANCING ACTIVITIES	(8,644)	(2,067)
Effect of exchange rate changes on cash and cash equivalents	(170)	191
Decrease in cash and cash equivalents	(255)	(6,374)

Cash and Cash equivalents, beginning of period	17,824	18,972
CASH AND CASH EQUIVALENTS, END OF PERIOD	$17,569	12,598
Acquisitions		
Fair value of assets acquired	$334	36,161
Fair value of liabilities assumed and noncontrolling interests	(112)	(2,089)
Net cash paid for acquisitions	$222	34,072

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of Johnson & Johnson and its subsidiaries (the Company) and related notes as contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented.

New Accounting Standards
Recently Adopted Accounting Standards
ASU 2017-12: Targeted Improvements to Accounting for Hedging Activities
The Company elected to early adopt this standard as of the beginning of the fiscal second quarter of 2018. This update makes more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. For additional required disclosures see Note 4 to the Consolidated Financial Statements.

ASU 2014-09: Revenue from Contracts with Customers
On January 1, 2018, the Company adopted the new accounting standard, ASC 606, Revenue from Contracts with Customers and all the related amendments (new revenue standard) to all contracts using the modified retrospective method. The cumulative effect of initially applying the new standard was recognized as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new revenue standard has not had a material impact to either reported Sales to customers or Net earnings. Additionally, the Company will continue to recognize revenue from product sales as goods are shipped or delivered to the customer, as control of goods occurs at the same time.

In accordance with the new standard requirements, the disclosure of the impact of adoption on the Company's Consolidated Statement of Earnings and Balance Sheet was as follows:

Statement of Earnings - For the fiscal six months ended July 1, 2018

(Dollars in millions)	As Reported	Effect of change	Balance without adoption of ASC 606
Sales to customers	$ 40,839	(40)	40,799
Net earnings	8,321	(33)	8,288

Statement of Earnings - For the fiscal second quarter ended July 1, 2018

(Dollars in millions)	As Reported	Effect of change	Balance without adoption of ASC 606
Sales to customers	$ 20,830	(11)	20,819

Net earnings	3,954	(8)	3,946

Balance Sheet - As of July 1, 2018

	As Reported	Effect of change	Balance without adoption of ASC 606
Assets	155,365	24	155,389
Liabilities	92,476	10	92,486
Equity	$ 62,889	14	62,903

The Company made a cumulative effect adjustment to the 2018 opening balance of retained earnings upon adoption of ASU 2014-09, which decreased beginning retained earnings by $47 million.
As part of the adoption of ASC 606 see Note 9 to the Consolidated Financial Statements for further disaggregation of revenue.

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The Company recognizes revenue from product sales when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the goods to customers. The Company's global payment terms are typically between 30 to 90 days. Provisions for certain rebates, sales incentives, trade promotions, coupons, product returns and discounts to customers are accounted as variable consideration and recorded as a reduction in sales.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, patient outcomes, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third-party sell-through and market research data, as well as internally generated information.

Sales returns are estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals.

Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The sales returns reserve is based on historical return trends by product and by market as a percent to gross sales. In accordance with the Company’s accounting policies, the Company generally issues credit to customers for returned goods. The Company’s sales returns reserves are accounted for in accordance with the U.S. GAAP guidance for revenue recognition when right of return exists. Sales returns reserves are recorded at full sales value. Sales returns in the Consumer and Pharmaceutical segments are almost exclusively not resalable. Sales returns for certain franchises in the Medical Devices segment are typically resalable but are not material. The Company infrequently exchanges products from inventory for returned products. The sales returns reserve for the total Company has been approximately 1.0% of annual net trade sales during the fiscal reporting years 2017, 2016 and 2015.

Promotional programs, such as product listing allowances and cooperative advertising arrangements, are recorded in the same period as related sales. Continuing promotional programs include coupons and volume-based sales incentive programs. The redemption cost of consumer coupons is based on historical redemption experience by product and value. Volume-based incentive programs are based on the estimated sales volumes for the incentive period and are recorded as products are sold. These arrangements are evaluated to determine the appropriate amounts to be deferred or recorded as a reduction of revenue. The Company also earns service revenue for co-promotion of certain products, which is included in sales to customers.

ASU 2016-01: Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities

The Company adopted this standard as of the beginning of the fiscal year 2018 on a modified retrospective basis. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net earnings. The standard amends financial reporting by providing relevant information about an entity’s equity investments and reducing the number of items that are recognized in other comprehensive income.

The Company made a cumulative effect adjustment to the opening balance of retained earnings upon adoption of ASU 2016-01 that increased retained earnings by $232 million net of tax and decreased accumulated other comprehensive income for previously unrealized gains from equity investments. For additional details see Note 4 to the Consolidated Financial Statements.

ASU 2016-16: Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

The Company adopted this standard as of the beginning of the fiscal year 2018. This update removes the current exception in U.S. GAAP prohibiting entities from recognizing current and deferred income tax expenses or benefits related to transfer of assets, other than inventory, within the consolidated entity. The current exception to defer the recognition of any tax impact on the transfer of inventory within the consolidated entity until it is sold to a third party remains unaffected. The Company recorded net adjustments to deferred taxes of approximately $2.0 billion, a decrease to Other Assets of approximately $0.7 billion and an increase to retained earnings of approximately $1.3 billion. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2017-01: Clarifying the Definition of a Business
The Company adopted this standard as of the beginning of the fiscal year 2018. This update narrows the definition of a business by providing a screen to determine when an integrated set of assets and activities is not a business. The screen specifies that an integrated set of assets and activities is not a business if substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single or a group of similar identifiable assets. This update was applied prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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ASU 2017-07: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
The Company adopted this standard as of the beginning of the fiscal year 2018. This update requires that an employer disaggregate the service cost component from the other components of net periodic benefit cost (NPBC). In addition, only the service cost component will be eligible for capitalization. The amendments in this update are required to be applied retrospectively for the presentation of the service cost component and the other components of NPBC in the Consolidated Statement of Earnings and prospectively, on and after the adoption date, for the capitalization of the service cost component of NPBC in assets. As required by the transition provisions of this update, the Company made the following reclassifications to the 2017 fiscal second quarter and fiscal six months Consolidated Statement of Earnings to retroactively apply classification of the service cost component and the other components of NPBC:

(Dollars In millions)	Increase (Decrease) to Net Expense Fiscal Second Quarter Ended	Fiscal Six Months Ended
Cost of products sold	$23	46
Selling, marketing and administrative expenses	27	53
Research and development expense	11	21
Other (income) expense, net	(61)	(120)
Earnings before provision for taxes on income	$—	—

The following table summarizes the cumulative effect adjustments made to the 2018 opening balance of retained earnings upon adoption of the new accounting standards mentioned above:

(Dollars in Millions)	Cumulative Effect Adjustment Increase (Decrease) to Retained Earnings
ASU 2014-09 - Revenue from Contracts with Customers	$ (47)
ASU 2016-01 - Financial Instruments	232
ASU 2016-16 - Income Taxes: Intra-Entity Transfers	1,311
Total	$ 1,496

Recently Issued Accounting Standards
Not Adopted as of July 1, 2018
ASU 2018-02: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
This update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Job Act enacted in December 2017. This update will be effective for the Company for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements.

ASU 2016-02: Leases

This update requires the recognition of lease assets and lease liabilities on the balance sheet for all lease obligations and disclosing key information about leasing arrangements. This update requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current generally accepted accounting principles. This update will be effective for the Company for all annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company will apply the new standard at its adoption date rather than at the earliest comparative period presented in the financial statements. The Company anticipates that most of its operating leases will result in the recognition of additional assets and the corresponding liabilities on its Consolidated Balance Sheets, however it does not expect the standard to have a material impact on the financial position. The actual impact will depend on the Company's lease portfolio at the time of adoption. The Company continues to assess all implications of the standard and related financial disclosures.

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NOTE 2 — INVENTORIES

(Dollars in Millions)	July 1, 2018	December 31, 2017
Raw materials and supplies	$1,166	1,140
Goods in process	2,282	2,317
Finished goods	5,362	5,308
Total inventories(1)	$8,810	8,765

(1) Net of assets held for sale on the Consolidated Balance Sheet for approximately $0.1 billion related to the divestiture of the LifeScan business and $0.1 billion related to the divestiture of the Advanced Sterilization Products business, both of which were pending as of July 1, 2018.

NOTE 3 — INTANGIBLE ASSETS AND GOODWILL

Intangible assets that have finite useful lives are amortized over their estimated useful lives. The latest annual impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2017. Future impairment tests for goodwill and indefinite lived intangible assets will be performed annually in the fiscal fourth quarter, or sooner, if warranted.

(Dollars in Millions)	July 1, 2018	December 31, 2017
Intangible assets with definite lives:		
Patents and trademarks — gross	$34,823	36,427
Less accumulated amortization	8,267	7,223
Patents and trademarks — net(1)	26,556	29,204
Customer relationships and other intangibles — gross	21,059	20,204
Less accumulated amortization	7,915	7,463
Customer relationships and other intangibles — net	13,144	12,741
Intangible assets with indefinite lives:		
Trademarks	6,952	7,082
Purchased in-process research and development	3,404	4,201
Total intangible assets with indefinite lives	10,356	11,283
Total intangible assets — net	$50,056	53,228

(1) Net of approximately $0.1 billion classified as assets held for sale on the Consolidated Balance Sheet related to the divestiture of the LifeScan business, which was pending as of July 1, 2018.

Goodwill as of July 1, 2018 was allocated by segment of business as follows:

(Dollars in Millions)	Consumer	Pharm	Med Devices	Total
Goodwill, net at December 31, 2017	$ 8,875	9,109	13,922	31,906
Goodwill, related to acquisitions	—	51	53	104
Goodwill, related to divestitures	—	—	—	—
Currency translation/Other	(297)	(118)	(1,249)(1)	(1,664)
Goodwill, net at July 1, 2018	$ 8,578	9,042	12,726	30,346

(1) Net of approximately $1.2 billion classified as assets held for sale on the Consolidated Balance Sheet. Goodwill of $1.0 billion was related to the divestiture of the LifeScan business and $0.2 billion was related to the divestiture of the Advanced Sterilization Products business, both of which were pending as of July 1, 2018.

The weighted average amortization periods for patents and trademarks and customer relationships and other intangible assets are 11 years and 22 years, respectively. The amortization expense of amortizable intangible assets included in cost of products sold was $2.2 billion and $0.8 billion for the fiscal six months ended July 1, 2018 and July 2, 2017, respectively. The estimated

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amortization expense for the five succeeding years approximates $4.4 billion, before tax, per year. Intangible asset write-downs are included in Other (income) expense, net.

See Note 10 to the Consolidated Financial Statements for additional details related to acquisitions and divestitures.

NOTE 4 — FAIR VALUE MEASUREMENTS

The Company uses forward foreign exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future intercompany product and third-party purchases of materials denominated in a foreign currency. The Company uses cross currency interest rate swaps to manage currency risk primarily related to borrowings.
The Company also uses equity collar contracts to manage exposure to market risk associated with certain equity investments.
All three types of derivatives are designated as cash flow hedges.

The Company uses interest rate swaps as an instrument to manage interest rate risk related to fixed rate borrowings. These derivatives are designated as fair value hedges. The Company uses cross currency interest rate swaps and forward foreign exchange contracts designated as net investment hedges. Additionally, the Company uses forward foreign exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward foreign exchange contracts are not designated as hedges, and therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency assets and liabilities.

The Company early adopted ASU 2017-12: Targeted Improvements to Accounting for Hedge Activities effective as of the beginning of fiscal second quarter of 2018.

The Company does not enter into derivative financial instruments for trading or speculative purposes, or that contain credit risk related contingent features. During the fiscal second quarter of 2017, the Company entered into credit support agreements (CSA) with certain derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. As of July 1, 2018, the total amount of collateral paid under the credit support agreements amounted to $126 million, net. For equity collar contracts, the Company pledged the underlying hedged marketable equity securities to the counter-party as collateral. On an ongoing basis, the Company monitors counter-party credit ratings. The Company considers credit non-performance risk to be low, because the Company primarily enters into agreements with commercial institutions that have at least an investment grade credit rating. Refer to the table on significant financial assets and liabilities measured at fair value contained in this footnote for receivables and payables with these commercial institutions. As of July 1, 2018, the Company had notional amounts outstanding for forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps of $37.0 billion, $5.3 billion and $1.1 billion, respectively. As of December 31, 2017, the Company had notional amounts outstanding for forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps of $34.5 billion, $2.3 billion and $1.1 billion, respectively.

All derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.

The designation as a cash flow hedge is made at the entrance date of the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. Gains and losses associated with interest rate swaps and changes in fair value of hedged debt attributable to changes in interest rates are recorded to interest expense in the period in which they occur. Gains and losses on net investment hedges are accounted for through the currency translation account. On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes of hedged items. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

During the fiscal second quarter of 2016, the Company designated its Euro denominated notes issued in May 2016 with due dates ranging from 2022 to 2035 as a net investment hedge of the Company's investments in certain of its international subsidiaries that use the Euro as their functional currency in order to reduce the volatility caused by changes in exchange rates.

As of July 1, 2018, the balance of deferred net loss on derivatives included in accumulated other comprehensive income was $80 million after-tax. For additional information, see the Consolidated Statements of Comprehensive Income and Note 7. The Company expects that substantially all of the amounts related to forward foreign exchange contracts will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months, excluding interest rate contracts, net investment

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hedges and equity collar contracts. The amount ultimately realized in earnings may differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative.

The following table is a summary of the activity related to derivatives and hedges for the fiscal second quarters in 2018 and 2017:

	July 1, 2018					July 2, 2017				
(Dollars in Millions)	Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense	Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense
The effects of fair value, net investment and cash flow hedging:										
Gain (Loss) on fair value hedging relationship:										
Interest rate swaps contracts:										
Hedged items	$—	—	—	5	—	—	—	—	5	—
Derivatives designated as hedging instruments	—	—	—	(5)	—	—	—	—	(5)	—
Gain (Loss) on net investment hedging relationship:										
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) recognized in income on derivative amount excluded from effectiveness testing	—	—	—	2	—	—	—	—	—	—
Amount of gain or (loss) recognized in AOCI	—	—	—	2	—	—	—	—	—	—
Gain (Loss) on cash flow hedging relationship:										
Forward foreign exchange contracts:										
Amount of gain or (loss) reclassified from AOCI into income [(1)]	17	76	(14)	—	(10)	(6)	(68)	1	—	(2)
Amount of gain or (loss) recognized in AOCI [(1)]	(49)	(57)	21	—	3	36	218	(19)	—	(12)
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) reclassified from AOCI into income	—	—	—	32	—	—		—	(65)	—
Amount of gain or (loss) recognized in AOCI	$—	—	—	19	—	—	—	—	(69)	—

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The following table is a summary of the activity related to derivatives and hedges for the fiscal six months in 2018 and 2017:

(Dollars in Millions)	July 1, 2018 Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense	July 2, 2017 Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense
The effects of fair value, net investment and cash flow hedging:										
Gain (Loss) on fair value hedging relationship:										
Interest rate swaps contracts:										
Hedged items	$—	—	—	10	—	—	—	—	(1)	—
Derivatives designated as hedging instruments	—	—	—	(10)	—	—	—	—	1	—
Gain (Loss) on net investment hedging relationship:										
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) recognized in income on derivative amount excluded from effectiveness testing	—	—	—	2	—	—	—	—	—	—
Amount of gain or (loss) recognized in AOCI	—	—	—	2	—	—	—	—	—	—
Gain (Loss) on cash flow hedging relationship:										
Forward foreign exchange contracts:										
Amount of gain or (loss) reclassified from AOCI into income [1]	46	78	(252)	—	(21)	(39)	(99)	(101)	—	(37)
Amount of gain or (loss) recognized in AOCI [1]	(18)	(854)	(216)	—	(15)	22	121	(128)	—	(44)
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) reclassified from AOCI into income	—	—	—	72	—	—	—	—	(43)	—
Amount of gain or (loss) recognized in AOCI	$—	—	—	76	—	—	—	—	(41)	—

[1] Includes equity collar contracts. The equity collar contracts expired in December of 2017.

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As of July 1, 2018 and December 31, 2017, the following amounts were recorded on the Consolidated Balance Sheet related to cumulative basis adjustment for fair value hedges:

Line item in the Consolidated Balance Sheet in which the hedged item is included	Carrying Amount of the Hedged Liability		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Liability	
(Dollars in Millions)	July 1, 2018	December 31, 2017	July 1, 2018	December 31, 2017
Current Portion of Long-term Debt	$597	597	3	2
Long-term Debt	492	496	7	3

The following table is the effect of derivatives not designated as hedging instrument for the fiscal second quarters and fiscal six months in 2018 and 2017:

(Dollars in Millions)	Location of Gain /(Loss) Recognized in Income on Derivative	Gain/(Loss) Recognized In Income on Derivative Fiscal Second Quarters Ended		Gain/(Loss) Recognized In Income on Derivative Fiscal Six Months Ended	
Derivatives Not Designated as Hedging Instruments		July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Foreign Exchange Contracts	Other (income) expense	$(53)	63	(72)	34

The following table is the effect of net investment hedges for the fiscal second quarters in 2018 and 2017:

	Gain/(Loss) Recognized In Accumulated OCI		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income Into Income	Gain/(Loss) Reclassified From Accumulated OCI Into Income	
(Dollars in Millions)	Fiscal Second Quarters Ended				
	July 1, 2018	July 2, 2017		July 1, 2018	July 2, 2017
Debt	$306	(268)	Other (income) expense	—	—
Cross Currency interest rate swaps	$37	—	Other (income) expense	—	—

The following table is the effect of net investment hedges for the fiscal six months in 2018 and 2017:

	Gain/(Loss)	Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income Into Income	Gain/(Loss) Reclassified

(Dollars in Millions)	Recognized In Accumulated OCI Fiscal Six Months Ended			From Accumulated OCI Into Income	
	July 1, 2018	July 2, 2017		July 1, 2018	July 2, 2017
Debt	$156	(378)	Other (income) expense	—	—
Cross Currency interest rate swaps	$37	—	Other (income) expense	—	—

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The Company adopted ASU 2016-01: Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities as of the beginning of the fiscal year 2018. This ASU amends prior guidance to classify equity investments with readily determinable market values into different categories (that is, trading or available-for-sale) and require equity investments to be measured at fair value with changes in fair value recognized through net earnings. The Company made a cumulative effect adjustment to the opening balance of retained earnings upon adoption of ASU 2016-01 which increased retained earnings by $232 million, net of tax, and decreased accumulated other comprehensive income for previously net unrealized gains from equity investments.
The Company holds equity investments with readily determinable fair values and equity investments without readily determinable fair values. The Company has elected to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.
The following table is a summary of the activity related to equity investments as of July 1, 2018:

(Dollars in Millions)	December 31, 2017			July 1, 2018	
	Carrying Value	Changes in Fair Value Reflected in Net Income [1]	Sales/ Purchases/Other [2]	Carrying Value	Non Current Other Assets
Equity Investments with readily determinable value	$ 751	(25)	(29)	697	697
Equity Investments without readily determinable value	$ 510	13	101	624	624

(1) Recorded in Other Income/Expense
(2) Other includes impact of currency

For equity investments without readily determinable market values, $25 million of the changes in fair value reflected in net income were the result of impairments. There were $38 million of changes in fair value reflected in net income due to changes in observable prices.

For the fiscal six months ended July 2, 2017, changes in fair value reflected within other comprehensive income due to previously unrealized gains on equity investments with readily determinable fair values net of tax was a net gain of $354 million.

Fair value is the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement determined using assumptions that market participants would use in pricing an asset or liability. The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described below with Level 1 inputs having the highest priority and Level 3 inputs having the lowest.

The fair value of a derivative financial instrument (i.e., forward foreign exchange contracts, interest rate contracts) is the aggregation by currency of all future cash flows discounted to its present value at the prevailing market interest rates and subsequently converted to the U.S. Dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company's results of operations, cash flows or financial position. The Company also holds equity investments which are classified as Level 1 and debt securities which are classified as Level 2. The Company did not have any other significant financial assets or liabilities which would require revised valuations under this standard that are recognized at fair value.

The following three levels of inputs are used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets and liabilities.
Level 2 — Significant other observable inputs.
Level 3 — Significant unobservable inputs.

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The Company’s significant financial assets and liabilities measured at fair value as of July 1, 2018 and December 31, 2017 were as follows:

	July 1, 2018				December 31, 2017
(Dollars in Millions)	Level 1	Level 2	Level 3	Total	Total[1]
Derivatives designated as hedging instruments:					
Assets:					
Forward foreign exchange contracts	$ —	547	—	547	418
Interest rate contracts [2][4]	—	46	—	46	7
Total [7]	—	593	—	593	425
Liabilities:					
Forward foreign exchange contracts	—	471	—	471	402
Interest rate contracts [3][4]	—	236	—	236	165
Total [8]	—	707	—	707	567
Derivatives not designated as hedging instruments:					
Assets:					
Forward foreign exchange contracts [7]	—	58	—	58	38
Liabilities:					
Forward foreign exchange contracts [8]	—	71	—	71	38
Other Investments:					
Equity investments [5]	697	—	—	697	751
Debt securities[6]	$ —	9,031	—	9,031	5,310

Gross to Net Derivative Reconciliation	July 1, 2018	December 31, 2017
(Dollars in Millions)		
Total Gross Assets	$651	463
Credit Support Agreement (CSA)	(295)	(76)
Total Net Asset	356	387
Total Gross Liabilities	778	605
Credit Support Agreement (CSA)	(421)	(238)
Total Net Liabilities	$357	367

(1) 2017 assets and liabilities are all classified as Level 2 with the exception of equity investments of $751 million, which are classified as Level 1.

(2) Includes $0 million and $7 million of non-current other assets for July 1, 2018 and December 31, 2017, respectively.

(3) Includes $0 million and $9 million of non-current other liabilities for July 1, 2018 and December 31, 2017, respectively.

(4) Includes cross currency interest rate swaps and interest rate swaps.

(5) Classified as non-current other assets. The carrying amount of the equity investments were $697 million and $751 million as of July 1, 2018 and December 31, 2017, respectively.

(6) Classified as cash equivalents and current marketable securities.

(7) Equal sum of total gross assets.

(8) Equal sum total gross liabilities.

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The Company's cash, cash equivalents and current marketable securities as of July 1, 2018 comprised:

	July 1, 2018			
(Dollars in Millions)	Carrying Amount	Estimated Fair Value	Cash & Cash Equivalents	Current Marketable Securities
Cash	$2,473	2,473	2,473	
Other sovereign securities[1]	180	180	180	
U.S. reverse repurchase agreements	2,425	2,425	2,425	
Other reverse repurchase agreements	425	425	425	
Corporate debt securities[1]	—	—	—	—
Money market funds	2,507	2,507	2,507	
Time deposits[1]	1,098	1,098	1,098	
Subtotal	9,108	9,108	9,108	—
Government securities	8,766	8,766	8,437	329
Other sovereign securities	—	—	—	—
Corporate debt securities	265	265	24	241
Subtotal available for sale debt[2]	$9,031	9,031	8,461	570
Total cash, cash equivalents and current marketable securities			17,569	570

[1] Held to maturity investments are reported at amortized cost and gains or losses are reported in earnings.
[2] Available for sale debt securities are reported at fair value with unrealized gains and losses reported net of taxes in other comprehensive income.

In the fiscal second quarter ended July 1, 2018 and the fiscal year ended December 31, 2017 the carrying amount was the same as the estimated fair value.

Fair value of government securities and obligations and corporate debt securities was estimated using quoted broker prices and significant other observable inputs.

The Company classifies all highly liquid investments with stated maturities of three months or less from date of purchase as cash equivalents and all highly liquid investments with stated maturities of greater than three months from the date of purchase as current marketable securities. Available for sale securities with stated maturities of greater than one year from the date of purchase are available for current operations and are classified as cash equivalents and current marketable securities.

The contractual maturities of the available for sale securities at July 1, 2018 are as follows:

(Dollars in Millions)	Cost Basis	Fair Value
Due within one year	$8,956	8,956
Due after one year through five years	75	75
Due after five years through ten years	—	—
Total debt securities	$9,031	9,031

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Financial Instruments not measured at Fair Value:

The following financial liabilities are held at carrying amount on the consolidated balance sheet as of July 1, 2018:

(Dollars in Millions)	Carrying Amount		Estimated Fair Value			
Financial Liabilities						
Current Debt	$ 2,678		2,678			
Non-Current Debt				71 %	738,258	73 %
Performance Services	333,169	29 %		268,771	27 %	
Total	$ 1,162,594	100 %		$ 1,007,029	100 %	

Total net revenue for the year ended June 30, 2016 was $1,162.6 million, an increase of $155.6 million, or 15% from $1,007.0 million for the year ended June 30, 2015. Our supply chain services net revenue was 71% and 73% of total net revenue for the years ended June 30, 2016 and 2015, respectively.

Supply Chain Services

Our supply chain services segment net revenue for the year ended June 30, 2016 was $829.4 million, an increase of $91.1 million, or 12%, from $738.3 million for the year ended June 30, 2015.

Net administrative fees revenue in our supply chain services segment for the year ended June 30, 2016 was $498.4 million, an increase of $41.4 million, or 9%, from $457.0 million for the year ended June 30, 2015. The increase in net administrative fees revenue was primarily attributable to the further contract penetration of existing members. We may experience quarterly fluctuations in net administrative fees revenue due to periodic variability associated with the receipt of supplier member purchasing reports and administrative fee payments at quarter-end; however, we expect our net administrative fees revenue to continue to grow to the extent our existing members increase the utilization of our contracts and additional members convert to our contract portfolio.

Product revenue in our supply chain services segment for the year ended June 30, 2016 was $326.6 million, an increase of $47.3 million, or 17%, from $279.3 million for the year ended June 30, 2015. Product revenue in our supply chain services segment increased for the year ended June 30, 2016 primarily due to $28.0 million of increased direct sourcing revenue as a result of ongoing expansion of member participation in our direct sourcing business, resulting from higher demand for exam and food services gloves and patient apparel, and $19.6 million of increased revenue from specialty pharmaceuticals for disease states such as oncology and rheumatoid arthritis, offset by a decrease in Hepatitis C pharmaceutical sales. We expect our direct sourcing and specialty pharmacy product revenue to continue to grow to the extent we are able to increase our product offerings, expand our product sales to existing members and additional members begin to utilize our programs.

Performance Services

Our performance services segment net revenue for the year ended June 30, 2016 was $333.2 million, an increase of $64.4 million, or 24%, from $268.8 million for the year ended June 30, 2015. The increase was primarily driven by revenues from the Company's CECity and HCI acquisitions of $31.0 million, growth in our SaaS subscription and license revenue of $14.9 million, including increased revenue from TheraDoc, which was lower in the prior year due to purchase accounting, and growth of $12.7 million in our advisory services engagements primarily from cost management, population health and applied research.

We believe that additional growth from our CECity acquisition during the year was constrained by the impact of the Centers for Medicare & Medicaid Services (“CMS”) regulatory developments that allowed certain exemptions to CMS’ Meaningful Use reporting requirements. In addition, the market’s continued evolution to more integrated technology solutions has resulted in lengthier implementations for some of our more complex solutions, and has also impacted growth of certain less-integrated, acute focused solutions. Similarly, growth in our advisory services was more limited due to delays and re-scoping of certain large projects during the year.

We expect to experience 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 the savings. We expect our performance services net revenue to continue to grow to the extent we are able to expand our sales to existing members and additional members begin to utilize our products and services.

Cost of Revenue

The following table summarizes our cost of revenue for the years ended June 30, 2016 and 2015 indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30,					
	2016			2015		
Cost of revenue:	Amount	% of Net Revenue		Amount	% of Net Revenue	
Services	$163,240	14	%	$143,290	14	%
Products	293,816	25	%	253,620	25	%
Total cost of revenue	$457,056	39	%	$396,910	39	%
Cost of revenue by segment:						
Supply Chain Services	$296,939	25	%	$255,794	25	%
Performance Services	160,117	14	%	141,116	14	%
Total cost of revenue	$457,056	39	%	$396,910	39	%

Cost of revenue for the year ended June 30, 2016 was $457.1 million, an increase of $60.2 million, or 15%, from $396.9 million for the year ended June 30, 2015. Cost of product revenue increased by $40.2 million, which was primarily attributable to the increases in direct sourcing and specialty pharmacy revenue. We expect our cost of product revenue to increase as we sell additional direct-sourced medical products to new and existing members and enroll additional members into our specialty pharmacy program. Cost of service revenue increased by $20.0 million primarily due to an increase in personnel to support growth in SaaS-based implementations and population health 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, continue to develop new and existing internally-developed software applications, and expand into new product offerings as a result of our acquisitions of CECity, HCI and InFlow.

Cost of revenue for the supply chain services segment for the year ended June 30, 2016 was $296.9 million, an increase of $41.1 million, or 16%, from $255.8 million for the year ended June 30, 2015. The increase is primarily attributable to the growth in the direct sourcing and specialty pharmacy businesses, 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, 2016 was $160.1 million, an increase of $19.0 million, or 13%, from $141.1 million for the year ended June 30, 2015 primarily due to an increase in personnel to support growth in SaaS-based implementations and population health advisory services. We expect cost of service revenue to increase to the extent we expand our performance improvement collaboratives and advisory services to members, continue to develop new and existing internally-developed software applications, and expand into new product offerings as a result of our acquisitions of CECity, HCI and InFlow.

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Operating Expenses

The following table summarizes our operating expenses for the years ended June 30, 2016 and 2015 indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30,					
	2016			2015		
Operating expenses:	Amount	% of Net Revenue		Amount	% of Net Revenue	
Selling, general and administrative	$403,611	35	%	$332,004	33	%
Research and development	2,925	—	%	2,937	—	%
Amortization of purchased intangible assets	33,054	3	%	9,136	1	%
Total operating expenses	439,590	38	%	344,077	34	%
Operating expenses by segment:						
Supply Chain Services	$120,692	10	%	$116,240	12	%
Performance Services	155,728	14	%	105,252	10	%
Total segment operating expenses	276,420	24	%	221,492	22	%
Corporate	163,170	14	%	122,585	12	%
Total operating expenses	$439,590	38	%	$344,077	34	%

Selling, General and Administrative

Selling, general and administrative expenses for the year ended June 30, 2016 were $403.6 million, an increase of $71.6 million, or 22%, from $332.0 million for the year ended June 30, 2015 primarily attributable to (i) increased salaries and benefits of $20.8 million primarily due to increased staffing to support growth, additional expense due to the acquisitions of CECity and HCI and severance expense, (ii) an increase in stock-based compensation of $20.2 million due to the layering of an additional plan year of stock compensation along with the achievement for performance based shares, (iii) an increase in professional services expenses of $10.3 million, (iv) increased acquisition-related expenses of $6.8 million and (v) ERP system implementation expenses of $4.9 million.

We expect general and administrative expenses to decline in fiscal 2017 as a result of a reduction in anticipated stock compensation expense. On a longer term basis, we would expect selling, general and administrative expenses to increase as we grow our business.

Research and Development

Research and development expenses consist of employee-related compensation and benefit expenses and third-party consulting fees of technology professionals, net of capitalized labor, incurred to develop our software-related products and services.

Research and development expenses were $2.9 million for each of the years ended June 30, 2016 and 2015. Including capitalized labor, total research and development expenditures were $64.0 million for the year ended June 30, 2016, an increase of $3.2 million from $60.8 million for the year ended June 30, 2015. 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, 2016 was $33.1 million, an increase of $24.0 million, from $9.1 million for the year ended June 30, 2015. The increase was primarily as a result of the additional amortization of purchased intangible assets related to our acquisitions. As we execute on our growth strategy and further deploy capital, we expect further increases in amortization of purchased intangible assets in connection with recent and future potential acquisitions.

Corporate

The increase in corporate expenses is primarily attributable to stock compensation expense as well as incremental corporate infrastructure, primarily in technology services, finance and legal due to growth and the current year acquisitions.

Other Non-Operating Income and Expense

Other Income, Net

Other income, net for the year ended June 30, 2016 was $18.9 million, an increase of $13.8 million from $5.1 million for the year ended June 30, 2015 due to a loss on disposal of assets of $15.2 million during the prior year.

Income Tax Expense

For the years ended June 30, 2016 and 2015 the Company recorded tax expense of $49.7 million and $36.3 million, respectively, which equates to an effective tax rate of 17.5% and 13.4%, respectively. The effective tax rate has increased from the prior year primarily due to the recording of a valuation allowance against deferred tax assets at PHSI and tax expense at Premier associated with the revaluation of deferred tax assets in connection with a reduction in the North Carolina state income tax rate for years 2016 and beyond. The Company’s effective tax rate differs from income taxes recorded at the statutory rate primarily due to partnership income not subject to federal income taxes, state and local taxes and nondeductible expenses.

Net Income Attributable to Non-Controlling Interest

Net income attributable to non-controlling interest for the year ended June 30, 2016 was $193.5 million, a decrease of $2.5 million, or 1%, from $196.0 million for the year ended June 30, 2015, primarily as a result of a decrease in non-controlling interest in Premier LP from approximately 74% at June 30, 2015 to approximately 68% at June 30, 2016 and the Company's purchase of the remaining 40% ownership in S2S Global that resulted in the elimination of non-controlling interest in S2S Global for the year ended June 30, 2016.

Non-GAAP Adjusted EBITDA

The following table summarizes our Non-GAAP Adjusted EBITDA for the years ended June 30, 2016 and 2015 indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30,			
	2016		2015	
Non-GAAP Adjusted EBITDA by segment:	Amount	% of Net Revenue	Amount	% of Net Revenue
Supply Chain Services	439,013	38 %	391,180	39 %
Performance Services	110,787	9 %	90,235	9 %
Total Segment Adjusted EBITDA	549,800	47 %	481,415	48 %
Corporate	(108,825)	(9)%	(88,240)	(9)%
Total Adjusted EBITDA	$440,975	38 %	$393,175	39 %

Total Adjusted EBITDA for the year ended June 30, 2016 was $441.0 million, an increase of $47.8 million, or 12%, from $393.2 million for the year ended June 30, 2015. The increase in Adjusted EBITDA is primarily driven by revenue growth in the supply chain segment, as well as growth from the performance services segment, including contributions from the acquisitions of CECity and HCI, partially offset by higher selling, general and administrative expenses at the corporate level.

Segment Adjusted EBITDA for the supply chain services segment of $439.0 million for the year ended June 30, 2016 reflects an increase of $47.8 million, or 12%, compared to $391.2 million for the year ended June 30, 2015, primarily as a result of increased net administrative fees and products revenue.

Segment Adjusted EBITDA for the performance services segment of $110.8 million for the year ended June 30, 2016 reflects an increase of approximately $20.6 million, or 23%, compared to $90.2 million for the year ended June 30, 2015, primarily driven by contributions from the acquisitions of CECity and HCI.

Adjusted EBITDA at the corporate level of $(108.8) million reflects a decrease of $20.6 million, or 23%, compared to $(88.2) million for the year ended June 30, 2015, reflecting increased selling, general and administrative expenses primarily driven by higher incremental corporate infrastructure costs, primarily in technology services, finance and legal due to growth and the current year acquisitions.

Years Ended June 30, 2015 and 2014

The first three months of our fiscal year ended June 30, 2014 occurred prior to the Reorganization and IPO on October 1, 2013. As a result, 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 the year ended June 30, 2014, 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 year ended June 30, 2014. 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 prior to the start of our fiscal year ended June 30, 2014. 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 year ended June 30, 2014:

- 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 owned, leased, managed and affiliated 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 non-controlling interest in Premier LP from 99% to approximately 78%.

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

	Year Ended June 30,						
	2015		2014				
	Actual		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	— %
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 non-controlling interest in S2S Global	(1,836)	— %	(949)	— %	—	(949)	— %
Net income attributable to non-controlling interest in Premier LP	(194,206)	(19)%	(303,336)	(33)%	57,690(4)	(245,646)	(28)%
Net income attributable to non-controlling interest	(196,042)	(19)%	(304,285)	(33)%	57,690	(246,595)	(28)%
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	$(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								
Basic	$(24.25)	nm	$(105.85)	nm	na	na	na	
Diluted	$(24.25)	nm	$(105.85)	nm	na	na	na	
Certain Non-GAAP Financial Data:								
Adjusted EBITDA (5)	$393,175	39 %	$392,288	43 %	na	$351,025	40 %	
Adjusted Fully Distributed Net Income (6)	$208,169	21 %	nm	nm	na	$188,561	22 %	
Adjusted Fully Distributed Earnings per Share (7)	$1.43	nm	na	na	na	$1.30	nm	

nm = Not meaningful
na = Not applicable

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(1) Represents adjustments related to the Reorganization and IPO described below.
(2) Represents the impact related to the change in revenue share described above.
(3) Represents the income tax impact of the Reorganization and IPO effective October 1, 2013.
(4) Represents the decrease in non-controlling interest in Premier LP from 99% to 78%.
(5) The following table shows the reconciliation of net income to Adjusted EBITDA and the reconciliation of Segment Adjusted EBITDA to income before income taxes on both an actual and Non-GAAP pro forma basis 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	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 [e]	—	6,215		6,215
Loss (gain) on investment [f]	1,000	(38,372)		(38,372)
Loss on disposal of long-lived assets	15,243	—	—	—
Acquisition related adjustment - deferred revenue [g]	13,371	—	—	—
Other expense, net [h]	70	65	—	65
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	(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 [e]	—	(6,215)	—	(6,215)
Acquisition related adjustment - deferred revenue [f]	(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 [f]	(1,000)	38,372	—	38,372
Loss on disposal of long-lived assets	(15,243)	—	—	—
Other (expense) income, net [h]	(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.

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(b) Represents interest income, net 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 activities. During the 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 year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(e) 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.

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

(g) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with 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.

(h) Represents loss on sale of assets and unrealized gain (loss) on deferred compensation plan assets.

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

(6) The following table shows the reconciliation of net loss 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 loss attributable to stockholders	$(865,292)	$(2,713,256)
Adjustment of redeemable limited partners' capital to redemption amount	904,035	2,741,588
Non-GAAP pro forma adjustment for revenue share post-IPO	—	(41,263)
Income tax expense	36,342	27,709
Stock-based compensation	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 non-controlling interest in Premier LP [(f)]	194,206	303,336
Non-GAAP adjusted 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 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 strategic and financial restructuring expenses. During the 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 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 year ended June 30, 2015 and the gain on the sale of our investment in GHX for the 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 the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with 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

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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 non-controlling 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 Non-GAAP adjusted fully distributed income before income taxes.

(7)The following table shows the reconciliation of the numerator and denominator for loss per share attributable to stockholders 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 attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share:		
Net loss attributable to stockholders	$(865,292)	$(2,713,256)
Adjustment of redeemable limited partners' capital to redemption amount	904,035	2,741,588
Non-GAAP pro forma adjustment for revenue share post-IPO	—	(41,263)
Income tax expense	36,342	27,709
Stock-based compensation	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 non-controlling interest in Premier LP [f]	194,206	303,336
Non-GAAP adjusted 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 Adjusted Fully Distributed Net Income	$208,169	$188,561
Reconciliation of denominator for loss per share attributable to stockholders for Non-GAAP Adjusted Fully Distributed Earnings per Share		
Weighted average:		
Common shares used for basic and diluted earnings (loss) per share	35,681	25,633
Potentially dilutive shares	1,048	124
Class A common shares 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 strategic and financial restructuring activities. During the 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 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 year ended June 30, 2015 and the gain on the sale of our investment in GHX for the 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 the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with 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.

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(f) Reflects the elimination of the non-controlling 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 Non-GAAP adjusted fully distributed income before income taxes.

The following table shows the reconciliation of loss 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:	$(24.25)	$(105.85)
Adjustment of 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	0.80	0.76
Acquisition related expenses [a]	0.25	0.08
Strategic and financial restructuring expenses [b]	0.04	0.15
Adjustment to tax receivable agreement liability [c]	—	0.24
Loss (gain) on investment [d]	0.03	(1.50)
Acquisition related adjustment - deferred revenue [e]	0.37	—
Loss on disposal of long-lived assets	0.43	—
Amortization of purchased intangible assets	0.26	0.12
Net income attributable to non-controlling interest in Premier LP [f]	5.44	11.83
Impact of corporation taxes [g]	(3.90)	(4.90)
Impact of increased share count [h]	(4.40)	(6.06)
Non-GAAP 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 strategic and financial restructuring activities. During the 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 year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(c) 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.

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

(e) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with 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 non-controlling 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 Non-GAAP adjusted fully distributed income before income taxes.

(h) Reflects impact of increased share counts 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 years ended June 30, 2015 and 2014 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		
Net Revenue:	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	268,771	27	%	232,408	26	%	—		232,408	27	%
Total	$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

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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 years ended June 30, 2015 and 2014, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30,					
	2015			2014		
Cost of revenue:	Amount	% of Net Revenue		Amount	% of Net Revenue	
Services	$143,290	14	%	$115,740	13	%
Products	253,620	25	%	191,885	21	%
Total cost of revenue	$396,910	39	%	$307,625	34	%
Cost of revenue by segment:						
Supply Chain Services	$255,794	25	%	$194,689	21	%
Performance Services	141,116	14	%	112,936	13	%
Total cost of revenue	$396,910	39	%	$307,625	34	%

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 years ended June 30, 2015 and 2014, indicated both in dollars (in thousands) and as a percentage of net revenue:

	Year Ended June 30,					
	2015			2014		
Operating expenses:	Amount	% of Net Revenue		Amount	% of Net Revenue	
Selling, general and administrative	$332,004	33	%	$294,421	33	%
Research and development	2,937	—	%	3,389	—	%
Amortization of purchased intangible assets	9,136	1	%	3,062	—	%
Total operating expenses	344,077	34	%	300,872	33	%
Operating expenses by segment:						
Supply Chain Services	$116,240	12	%	$105,544	11	%
Performance Services	105,252	10	%	80,808	9	%
Total segment operating expenses	221,492	22	%	186,352	20	%
Corporate	122,585	12	%	114,520	13	%
Total operating expenses	$344,077	34	%	$300,872	33	%

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 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 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 Non-Controlling Interest

Net income attributable to non-controlling 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 non-controlling 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

The following table summarizes our Non-GAAP Adjusted EBITDA for the years ended June 30, 2015 and 2014 and our Non-GAAP pro forma Adjusted EBITDA 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	
Non-GAAP Adjusted EBITDA by segment:	Amount	% of Net Revenue	Amount	% of Net Revenue	Amount	Amount	% of Net Revenue
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	8 %
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.

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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.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Business Combinations

We account for acquisitions using the acquisition method. All of the assets acquired, liabilities assumed, contractual contingencies and contingent consideration are recognized at their fair value on the acquisition date. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related costs are recorded as expenses in the consolidated financial statements.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

Goodwill

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not amortized. The Company performs its annual goodwill impairment testing on the first day of the last fiscal quarter of its fiscal year unless impairment indicators are present which could require an interim impairment test.

Under accounting rules, the Company may elect to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. This qualitative assessment requires an evaluation of any excess of fair value over the carrying value for a reporting unit and significant judgment regarding potential changes in valuation inputs, including a review of the Company's most recent long-range projections, analysis of operating results versus the prior year, changes in market values, changes in discount rates and changes in terminal growth rate assumptions. If it is determined that an impairment is more likely than not to exist, then we are required to perform a quantitative assessment to determine whether or not goodwill is impaired and to measure the amount of goodwill impairment, if any.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of each of our reporting units to its carrying amount, including goodwill. In performing the first step, we determine the fair value of a reporting unit using a discounted cash flow analysis that is corroborated by a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. The cash flows employed in the discounted cash flow analyses are based on the most recent budget and long-term forecast. The discount rates used in the discounted cash flow analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary.

If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized in an amount equal to that excess.

The Company's most recent annual impairment testing, which consisted of a quantitative assessment, did not result in any goodwill impairment charges during the fourth quarter of the year ended June 30, 2016.

Tax Receivable Agreements

The Company records a liability related to the tax receivable agreements based on 85% of the estimated amount of tax savings the Company expects to receive, generally over a 15-year period, in connection with the additional tax benefits created in connection with the Reorganization and IPO. Tax payments under the tax receivable agreements will be made to the member owners as the Company realizes tax benefits attributable to the initial purchase of Class B common units from the member owners in the Reorganization and IPO and any subsequent exchanges of Class B common units into Class A common stock or cash between the Company and the member owners. Determining the estimated amount of tax savings the Company expects to receive requires judgment as deductibility of goodwill amortization expense is not assured and the estimate of tax savings is dependent upon the actual realization of the tax benefit and the tax rates in effect at that time.

Changes in the estimated tax receivable agreement liability that are the result of a change in tax accounting method are recorded in selling, general and administrative expense in the consolidated statements of income. Changes in the estimated tax receivable agreement liability that are related to new basis changes as a result of the exchange of Class B common units for a like number of shares of Class A common stock or as a result of departed member owners are recorded as an increase to additional paid-in capital in the consolidated statements of stockholders' (deficit) equity.

Revenue Recognition

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 net GPO administrative fees in the supply chain segment. Other services and support revenue consists primarily of fees generated by the performance services segment in connection with the Company's SaaS informatics products subscriptions, 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 segment. The Company recognizes revenue when (i) there is persuasive evidence of an arrangement, (ii) the fee is fixed or determinable, (iii) services have been rendered and payment has been contractually earned, and (iv) collectability is reasonably assured.

Net Administrative Fees Revenue

Net administrative fees revenue is generated through administrative fees received from suppliers based on the total dollar volume of supplies purchased by the Company's members in connection with its GPO programs.

The Company, through its group purchasing program, aggregates member purchasing power to negotiate pricing discounts and improve contract terms with suppliers. Contracted suppliers pay the Company administrative fees which generally represent 1% to 3% of the purchase price of goods and services sold to members under the contracts the Company has negotiated. Administrative fees are recognized as revenue in the period in which the respective supplier reports member purchasing data, usually a month or a quarter in arrears of actual member purchase activity. The supplier report proves that the delivery of product or service has occurred, the administrative fees are fixed and determinable based on reported purchasing volume, and collectability is reasonably assured. Member and supplier contracts substantiate persuasive evidence of an arrangement. The Company does not take title to the underlying equipment or products purchased by members through its GPO supplier contracts.

The Company pays a revenue share equal to a percentage of gross administrative fees that the Company collects based upon purchasing by such members and their owned, leased, managed or affiliated facilities through its GPO supplier contracts. Revenue share is recognized according to the members' contractual agreements with the Company as the related administrative fees revenue is recognized. Considering GAAP relating to principal/agent considerations under revenue recognition, revenue share is recorded as a reduction to gross administrative fees revenue to arrive at a net administrative fees revenue amount, which amount is included in service revenue in the accompanying consolidated statements of income.

Other Services and Support Revenue

Performance services revenue consists of SaaS informatics products subscriptions, performance improvement collaborative and other service subscriptions, professional fees for advisory services, and insurance services

management fees and commissions from group-sponsored insurance programs.
SaaS informatics subscriptions include the right to use the Company's 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

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analytics. Pricing varies by application and size of healthcare system. 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 the Company's hosted SaaS informatics products. Implementation is generally 90 to 170 days following contract execution before the SaaS informatics products can be fully utilized by the member.

The Company sells certain perpetual and term licenses that include mandatory post-contract customer support in the form of maintenance and support services. Pricing varies by application and size of healthcare system. Fees for the initial period can include license fees, implementation fees and the initial bundled maintenance and support services fees. The fees for the initial period are recognized straight-line over the remaining initial period following implementation. Subsequent renewal maintenance and support services fees are recognized on a straight-line basis over the contractually stated renewal periods. Implementation services are provided to the customer prior to the use of the software and do not involve significant customization or modification. Implementation is generally 300 to 350 days following contract execution before the licensed software products can be fully utilized by the member.

Revenue from performance improvement collaboratives and other service subscriptions that support the Company's 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.

Insurance services management fees are recognized in the period in which such services are provided. Commissions from group sponsored insurance programs are recognized over the term of the insurance policies, generally one year.

Certain administrative and/or patient management specialty pharmacy services are provided in situations where prescriptions are sent back to member health systems for dispensing. Additionally, the Company derives revenue from pharmaceutical manufacturers for providing patient education and utilization data. Revenue is recognized as these services are provided.

Product Revenue

Specialty pharmacy revenue is recognized when a product is accepted and is recorded net of the estimated contractual adjustments under agreements with Medicare, Medicaid and other managed care plans. Payments for the products provided under such agreements are based on defined allowable reimbursements rather than on the basis of standard billing rates. The difference between the standard billing rate and allowable reimbursement rate results in contractual adjustments which are recorded as deductions from net revenue.

Direct sourcing revenue is recognized once the title and risk of loss of medical products have been transferred to members.

Multiple Deliverable Arrangements

The Company enters into agreements where the individual deliverables discussed above, such as SaaS subscriptions and advisory services, are bundled into a single service arrangement. These agreements are generally provided over a time period ranging from approximately three months to five years after the applicable contract execution date. Revenue is allocated to the individual elements within the arrangement based on their relative selling price using vendor specific objective evidence ("VSOE"), third-party evidence ("TPE") or the estimated selling price ("ESP"), provided that the total arrangement consideration is fixed and determinable at the inception of the arrangement. The Company establishes VSOE, TPE, or ESP for each element of a service arrangement based on the price charged for a particular element when it is sold separately in a stand-alone arrangement. All deliverables which are fixed and determinable are recognized according to the revenue recognition methodology described above.

Certain arrangements include performance targets or other contingent fees that are not fixed and determinable at the inception of the arrangement. If the total arrangement consideration is not fixed and determinable at the inception of the arrangement, the Company allocates only that portion of the arrangement that is fixed and determinable to each element. As additional consideration becomes fixed, it is similarly allocated based on VSOE, TPE or ESP to each element in the arrangement and recognized in accordance with each element's revenue recognition policy.

Performance Guarantees

On limited occasions, the Company enters into agreements which provide for guaranteed performance levels to be achieved by the member over the term of the agreement. In situations with significant performance guarantees, the Company defers revenue recognition until the amount is fixed and determinable and all contingencies, including any refund rights, have been satisfied. In the event that guaranteed savings levels are not achieved, the Company may have to perform additional services at no additional charge in order to achieve the guaranteed savings or pay the difference between the savings that were guaranteed and the actual achieved savings.

Deferred Revenue

Deferred revenue consists of unrecognized revenue related to advanced member invoicing or member payments received prior to fulfillment of the Company's revenue recognition criteria. Substantially all deferred revenue consists of deferred subscription fees and deferred advisory fees. Subscription fees for company-hosted SaaS applications are deferred until the member's unique data records have been incorporated into the underlying software database, or until member site-specific software has been implemented and the member has access to the software. Deferred advisory fees arise when cash is received from members prior to delivery of service. When the fees are contingent upon meeting a performance target that has not yet been achieved, the advisory fees are deferred until the performance target is met.

Software Development Costs

Costs to develop internal use computer software that are incurred in the preliminary project stage are expensed as incurred. During the development stage, direct consulting costs and payroll and payroll-related costs for employees that are directly associated with each project are capitalized and amortized over the estimated useful life of the software, once it is placed into operation. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the related software applications of up to five years and amortization is included in depreciation and amortization expense. Replacements and major improvements are capitalized, while maintenance and repairs are expensed as incurred. Some of the more significant estimates and assumptions inherent in this process involve determining the stages of the software development project, the direct costs to capitalize and the estimated useful life of the capitalized software.

Income Taxes

The Company accounts for income taxes under the asset and liability approach. Deferred tax assets or liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. The Company provides a valuation allowance against net deferred tax assets when, based upon the available evidence, it is more likely than not that the deferred tax assets will not be realized.

The Company prepares and files tax returns based on interpretations of tax laws and regulations. The Company's tax returns are subject to examination by various taxing authorities in the normal course of business. Such examinations may result in future tax and interest assessments by these taxing authorities.

In determining the Company's tax expense for financial reporting purposes, the Company establishes a reserve for uncertain income tax positions unless it is determined to be "more likely than not" that such tax positions would be sustained upon examination, based on their technical merits. That is, for financial reporting purposes, the Company only recognizes tax benefits taken on the tax return if it believes it is "more likely than not" that such tax positions would be sustained. There is considerable judgment involved in determining whether it is "more likely than not" that positions taken on the tax returns would be sustained.

The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, varying taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax expense of any given year includes adjustments to prior year income tax accruals and related estimated interest charges that are considered appropriate. The Company's policy is to recognize, when applicable, interest and penalties on uncertain income tax positions as part of income tax expense.

New Accounting Standards

New accounting standards that we have recently adopted as well as those that have been recently issued but not yet adopted by us are included in Note 3 - Significant Accounting Policies, to the accompanying audited consolidated financial statements, which is incorporated herein by reference.

Liquidity and Capital Resources

Our principal source of cash has historically been cash provided by operating activities. From time to time we have used, and expect to use in the future, borrowings under our Credit Facility as a source of liquidity. Our primary cash requirements involve operating expenses, working capital fluctuations, capital expenditures, acquisitions and related business investments. Our capital expenditures typically consist of internally-developed software costs, software purchases and computer hardware purchases. Prior to the Reorganization and IPO, the vast majority of our excess cash had been distributed to our member owners.

As of June 30, 2016 and 2015, we had cash and cash equivalents totaling $248.8 million and $146.5 million, respectively, and marketable securities with maturities ranging from three months to five years totaling $47.9 million and $415.4 million, respectively. The decrease in marketable securities of $367.5 million is primarily attributable to funding the acquisitions of CECity and HCI.

As of June 30, 2016, there were no outstanding borrowings under the Credit Facility. See Note 13 - Debt to the accompanying audited consolidated financial statements contained herein for more information.

We expect cash generated from operations and borrowings under our Credit Facility to provide us with liquidity to fund our anticipated working capital requirements, revenue share obligations, tax payments, capital expenditures and growth for the foreseeable future. Our capital requirements depend on numerous factors, including funding requirements for our product and service development and commercialization efforts and our information technology requirements and the amount of cash generated by our operations. We currently believe that we have adequate capital resources at our disposal to fund currently anticipated capital expenditures, business growth and expansion and current and projected debt service requirements; strategic growth initiatives, however, will likely require the use of available cash on hand, cash generated from operations, borrowings under our Credit Facility and other long-term debt and, potentially, proceeds from the issuance of additional equity or debt securities.

Discussion of cash flows for the years ended June 30, 2016 and 2015

A summary of net cash flows follows (in thousands):

	Year Ended June 30,	
Net cash provided by (used in):	2016	2015
Operating activities	$371,470	$364,058
Investing activities	(159,636)	(231,873)
Financing activities	(109,539)	(117,449)
Net increase in cash	$102,295	$14,736

Net cash provided by operating activities was $371.5 million for the year ended June 30, 2016 compared to $364.1 million for the year ended June 30, 2015, with the increase of $7.4 million primarily attributable to increased cash from net administrative fees offset by $14.6 million in additional tax payments during the year ended June 30, 2016 in comparison to the year ended June 30, 2015 and a $10.0 million net prepayment to a distributor in order to receive additional discounts on product purchases.

Net cash used in investing activities was $159.6 million for the year ended June 30, 2016 compared to net cash used in investing activities of $231.9 million for the year ended June 30, 2015. Our investing activities for the year ended June 30, 2016 primarily consisted of (i) the acquisitions of InFlow, CECity and HCI, net of cash acquired, for a total of $468.6 million, (ii) capital expenditures for property and equipment of $77.0 million and (iii) investments in unconsolidated affiliates of $3.3 million, partially offset by (i) net proceeds from the sale of marketable securities of $367.2 million and (ii) distributions from equity investments of $22.1 million.

Our investing activities for the year ended June 30, 2015 primarily consisted of (i) the acquisitions of Aperek and TheraDoc, net of cash acquired, for a total of $156.0 million, (ii) capital expenditures for property and equipment of $70.7 million, (iii) purchase of non-controlling interest in S2S Global of $14.5 million, (iv) net purchases of marketable securities of $9.5 million, and (v) investment in PharmaPoint, LLC of $5.0 million, partially offset by (i) distributions from Innovatix of $18.9 million and (ii) decrease in restricted cash of $5.0 million.

Net cash used in financing activities was $109.5 million for the year ended June 30, 2016, compared to $117.4 million for the year ended June 30, 2015. Our financing activities for the year ended June 30, 2016 primarily included (i) distributions to Premier LP limited partners of $92.7 million, (ii) payments to limited partners of Premier LP of $10.8

million related to tax receivable agreements, (iii) repurchase of vested restricted units for employee tax-withholding for $7.9 million, (iv) payments made on notes payable of $2.1 million and (v) final remittance of net income attributable to the former S2S Global minority shareholder of $1.9

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million, partially offset by (i) proceeds from the exercise of stock options of $3.6 million and (ii) proceeds from the issuance of Class A common stock under the stock purchase plan of $2.3 million. We also borrowed, and fully repaid, $150.0 million from our Credit Facility during the year ended June 30, 2016.

Our financing activities for the year ended June 30, 2015 primarily included (i) net cash payments to Premier LP limited partners of $92.2 million, (ii) payoff of S2S Global's revolving line of credit of $14.7 million, (iii) payments to Premier LP limited partners of $11.5 million under tax receivable agreements and (iv) payments made on notes payable of $1.4 million, partially offset by proceeds from the exercise of stock options of $1.5 million.

Discussion of Non-GAAP Free Cash Flow

We define Non-GAAP Free Cash Flow as net cash provided by operating activities less distributions to limited partners and purchases of property and equipment. A summary of Non-GAAP Free Cash Flow and reconciliation to net cash provided by operating activities for the periods presented follows (in thousands):

	Year Ended June 30,	
	2016	2015
Net cash provided by operating activities	$371,470	$364,058
Purchases of property and equipment	(76,990)	(70,734)
Distributions to limited partners of Premier LP	(92,707)	(92,212)
Payments to limited partners of Premier LP related to tax receivable agreements	(10,805)	(11,499)
Non-GAAP Free Cash Flow	$190,968	$189,613

Non-GAAP Free Cash Flow for the year ended June 30, 2016 was $191.0 million, compared with $189.6 million for the year ended June 30, 2015. The increase in Non-GAAP Free Cash Flow is primarily the result of increased cash generated from net administrative fees, offset by $14.6 million additional tax payments during the year ended June 30, 2016 in comparison to the year ended June 30, 2015, a $10.0 million net prepayment to a distributor in order to receive additional discounts on product purchases and $6.3 million in increased purchases of property and equipment.

Contractual Obligations

At June 30, 2016, we had material commitments for obligations under notes payable, our non-cancellable office space lease agreements and estimated payments due to limited partners under tax receivable agreements. Future payments for notes payable, operating lease obligations due under long-term contractual obligations and estimated payments to limited partners under tax receivable agreements as of June 30, 2016 are as follows:

		Payments Due by Period			
Description of Contractual Obligations (In Thousands)	Total	Less than 1 year	1-3 years	3-5 years	Greater than 5 years
Tax receivable agreement liability [(a)]	$279,662	$13,912	$31,197	$33,029	$201,524
Operating lease obligations [(b)]	76,049	9,620	17,637	15,557	33,235
Notes payable [(c)]	19,342	5,484	8,255	5,603	—
Other	474	230	244	—	—
Total	$375,527	$29,246	$57,333	$54,189	$234,759

(a) Estimated payments due to limited partners under tax receivable agreements are based on 85% of the estimated amount of tax savings we expect to receive, generally over a 15 year period, in connection with the additional tax benefits created in connection with the Reorganization and IPO.

(b) Future contractual obligations for leases represent future minimum payments under non-cancellable operating leases primarily for office space.

(c) Notes payable represent an aggregate principal amount of $19.3 million owed to departed member owners, payable over five years.

2014 Credit Facility

On June 24, 2014, we entered into our current Credit Facility. The Credit Facility was amended on June 4, 2015. The Credit Facility has a maturity date of June 24, 2019. The Credit Facility provides for borrowings of up to $750.0 million with (i) a $25.0 million sub-facility for standby letters of credit and (ii) a $75.0 million sub-facility for swingline loans. At our request, the Credit Facility may be increased from time to time by up to an additional aggregate amount of $250.0 million, subject to the approval of

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the lenders providing such increase. The Credit Facility includes an unconditional and irrevocable guaranty of all obligations under the credit facility by Premier GP, certain domestic subsidiaries of Premier GP and future guarantors, if any. Premier, Inc. is not a guarantor under the Credit Facility.

The Credit Facility permits us to prepay amounts outstanding without premium or penalty, though we are required to compensate the lenders for losses and expenses incurred as a result of the prepayment of any Eurodollar Rate Loan (as defined in the Credit Facility). Committed loans may be in the form of Eurodollar Rate Loans or Base Rate Loans (as defined in the Credit Facility) at our option. Eurodollar Rate Loans bear interest at the Eurodollar Rate (defined as the London Interbank Offer Rate, or LIBOR) plus the Applicable Rate (defined as a margin based on the Consolidated Total Leverage Ratio (as defined in the Credit Facility)). Base Rate Loans bear interest at the Base Rate (defined as the highest of the prime rate announced by the administrative agent, the federal funds effective rate plus 0.50% or the one-month LIBOR plus 1.0%) plus the Applicable Rate. The Applicable Rate ranges from 1.125% to 1.75% for Eurodollar Rate Loans and 0.125% to 0.75% for Base Rate Loans. At June 30, 2016, the interest rate for three-month Eurodollar Rate Loans was 1.779% and the interest rate for Base Rate Loans was 3.625%. We are required to pay a commitment fee ranging from 0.125% to 0.250% per annum on the actual daily unused amount of commitments under the credit facility. At June 30, 2016, the commitment fee was 0.125%.

The Credit Facility contains customary representations and warranties as well as customary affirmative and negative covenants, including, among others, limitations on liens, indebtedness, fundamental changes, dispositions, restricted payments and investments of which certain covenant calculations use EBITDA, a non-GAAP measure. Under the terms of the Credit Facility, Premier GP is not permitted to allow its Consolidated Total Leverage Ratio (as defined in the Credit Facility) to exceed 3.00 to 1.00 for any period of four consecutive fiscal quarters. In addition, Premier GP must maintain a minimum Consolidated Interest Coverage Ratio (as defined in the Credit Facility) of 3.00 to 1.00 at the end of every fiscal quarter. We were in compliance with all such covenants at June 30, 2016. The Credit Facility also contains customary events of default including, among others, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults of any indebtedness or guarantees in excess of $30.0 million, bankruptcy and other insolvency events, judgment defaults in excess of $30.0 million, and the occurrence of a change of control (as defined in the Credit Facility). If any event of default occurs and is continuing, the administrative agent under the Credit Facility may, with the consent, or shall, at the request, of the required lenders, terminate the commitments and declare all of the amounts owed under the Credit Facility to be immediately due and payable.

Proceeds from borrowings under the Credit Facility may generally be used to finance ongoing working capital requirements, including permitted acquisitions and other general corporate purposes. As of June 30, 2016, we had no outstanding borrowings under the Credit Facility. The above summary does not purport to be complete, and is subject to, and qualified in its entirety by reference to, the complete text of the Credit Facility, as amended, which is filed as an exhibit to this Annual Report. See also Note 13 - Debt to our audited consolidated financial statements contained in this Annual Report.

S2S Global Revolving Line of Credit

On February 2, 2015, we purchased the remaining 40% of the outstanding limited liability company membership interests of S2S Global. In connection with the purchase, we repaid the $14.2 million balance outstanding under the S2S Global line of credit and terminated the S2S Global line of credit prior to its February 16, 2015 maturity date.

Member-Owner Tax Receivable Agreement

In connection with the Reorganization and IPO, we entered into a tax receivable agreement with each of our member owners, pursuant to which we agreed to pay to the member owners, generally over a 15 year period (under current law), 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income and franchise tax that we actually realize (or are deemed to realize, in the case of payments required to be made upon certain occurrences under such Tax Receivable Agreements) as a result of the increases in tax basis resulting from the initial sale of Class B common units by the member owners in connection with the Reorganization, as well as subsequent exchanges by such member owners pursuant to the Exchange Agreement, and of certain other tax benefits related to our entering into the Tax Receivable Agreements ("TRA"), including tax benefits attributable to payments under the TRA.

The Company had TRA liabilities of $279.7 million and $235.9 million as of June 30, 2016 and 2015, respectively, which represented 85% of the tax savings the Company expects to receive in connection with the Section 754 election.

The increase of $43.8 million in TRA liabilities from June 30, 2015 to June 30, 2016 was comprised of a $72.3 million increase for quarterly member owner exchanges, offset by (i) a decrease of $4.8 million in connection with revaluing the deferred tax and TRA liabilities in connection with the North Carolina state income tax rate reduction for 2016 and beyond, (ii) a decrease of $12.9 million in connection with departed member owners and (iii) a decrease of $10.8 million related to payments made to member owners during the year ended June 30, 2016.

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Certain Contractual Arrangements with Our Member Owners

In connection with the Reorganization, we entered into several agreements to define and regulate the governance and control relationships among us, Premier LP and the member owners. Note 2 - Initial Public Offering and Reorganization to our audited consolidated financial statements contained herein provides a summary of the material provisions of these agreements. These summaries do not purport to be complete, and they are subject to, and qualified in their entirety by reference to, the complete text of the agreements which are filed as exhibits to this Annual Report. These agreements should be carefully read before making any investment decisions regarding our securities.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio and on the increase or decrease in the amount of any interest expense we must pay with respect to outstanding debt instruments. At June 30, 2016, we had no variable rate debt outstanding. We invest our excess cash in a portfolio of individual cash equivalents and marketable securities. We do not currently hold, and we have never held, any derivative financial instruments. As a result, we do not expect changes in interest rates to have a material impact on our results of operations or financial position. We plan to ensure the safety and preservation of our invested principal funds by limiting default, market and investment risks. We plan to mitigate default risk by investing in low-risk securities. Substantially all of our financial transactions are conducted in U.S. dollars. We do not have significant foreign operations and, accordingly, do not have market risk associated with foreign currencies.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and related notes are filed together with this Annual Report. See the index to financial statements under Item 15(a) on page 130 for a list of financial statements filed with this report, and under this item.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Premier, Inc.

We have audited the accompanying consolidated balance sheets of Premier, Inc. (the "Company") as of June 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' (deficit) equity and cash flows for each of the three years in the period ended June 30, 2016. Our audits also included the financial statement schedule presented in Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Premier, Inc. at June 30, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company changed its classification of deferred tax liabilities and assets and changed its method of accounting for measurement-period adjustments in business combinations.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Premier, Inc.'s internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 25, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
August 25, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Premier, Inc.

We have audited Premier, Inc.'s internal control over financial reporting as of June 30, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Premier, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Premier, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Premier, Inc. as of June 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' (deficit) equity and cash flows for each of the three years in the period ended June 30, 2016 and our report dated August 25, 2016 expressed an unqualified opinion thereon.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of CECity.com, Inc., Healthcare Insights, LLC and InFlowHealth, LLC, which are included in the 2016 consolidated financial statements of Premier, Inc. and constituted 22%, 4% and 1%, of total assets, respectively, as of June 30, 2016. CECity.com, Inc. represented approximately 2%, and Healthcare Insights, LLC and InFlowHealth, LLC each represented less than 1%, of net revenue for the year then ended. Our audit of internal control over financial reporting of Premier, Inc. also did not include an evaluation of the internal control over financial reporting of CECity.com, Inc., Healthcare Insights, LLC and InFlowHealth, LLC.

/s/ Ernst & Young LLP

Charlotte, North Carolina
August 25, 2016

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PREMIER, INC.
Consolidated Balance Sheets
(In thousands, except share data)

	June 30, 2016	June 30, 2015
Assets		
Cash and cash equivalents	$248,817	$146,522
Marketable securities	17,759	240,667
Accounts receivable (net of $1,981 and $1,153 allowance for doubtful accounts, respectively)	144,424	99,120
Inventory	29,121	33,058
Prepaid expenses and other current assets	19,646	22,353
Due from related parties	3,123	3,444
Total current assets	462,890	545,164
Marketable securities	30,130	174,745
Property and equipment (net of $265,751 and $220,685 accumulated depreciation, respectively)	174,080	147,625
Intangible assets (net of $50,870 and $17,815 accumulated amortization, respectively)	158,217	38,669
Goodwill	537,962	215,645
Deferred income tax assets	422,849	353,723
Deferred compensation plan assets	39,965	37,483
Other assets	29,290	17,137
Total assets	$1,855,383	$1,530,191
Liabilities, redeemable limited partners' capital and stockholders' deficit		
Accounts payable	$46,003	$37,634
Accrued expenses	56,774	41,261
Revenue share obligations	63,603	59,259
Limited partners' distribution payable	22,493	22,432
Accrued compensation and benefits	60,425	51,066
Deferred revenue	54,498	39,824
Current portion of tax receivable agreement	13,912	11,123
Current portion of long-term debt	5,484	2,256
Other liabilities	2,871	4,776
Total current liabilities	326,063	269,631
Long-term debt, less current portion	13,858	15,679
Tax receivable agreements, less current portion	265,750	224,754
Deferred compensation plan obligations	39,965	37,483
Other liabilities	23,978	20,914
Total liabilities	669,614	568,461
Redeemable limited partners' capital	3,137,230	4,079,832
Stockholders' deficit:		
Class A common stock, $0.01 par value, 500,000,000 shares authorized; 45,995,528 and 37,668,870 shares issued and outstanding at June 30, 2016 and June 30, 2015, respectively	460	377
Class B common stock, $0.000001 par value, 600,000,000 shares authorized; 96,132,723 and 106,382,552 shares issued and outstanding at June 30, 2016 and June 30, 2015, respectively	—	—
Additional paid-in-capital	—	—
Accumulated deficit	(1,951,878)	(3,118,474)

Accumulated other comprehensive loss	(43)	(5)
Total stockholders' deficit	(1,951,461)	(3,118,102)
Total liabilities, redeemable limited partners' capital and stockholders' deficit	$1,855,383	$1,530,191

See accompanying notes to the consolidated financial statements.

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PREMIER, INC.
Consolidated Statements of Income
(In thousands, except per share data)

	Year Ended June 30,		
	2016	2015	2014
Net revenue:			
Net administrative fees	$498,394	$457,020	$464,837
Other services and support	337,554	270,748	233,186
Services	835,948	727,768	698,023
Products	326,646	279,261	212,526
Net revenue	1,162,594	1,007,029	910,549
Cost of revenue:			
Services	163,240	143,290	115,740
Products	293,816	253,620	191,885
Cost of revenue	457,056	396,910	307,625
Gross profit	705,538	610,119	602,924
Operating expenses:			
Selling, general and administrative	403,611	332,004	294,421
Research and development	2,925	2,937	3,389
Amortization of purchased intangible assets	33,054	9,136	3,062
Operating expenses	439,590	344,077	300,872
Operating income	265,948	266,042	302,052
Equity in net income of unconsolidated affiliates	21,647	21,285	16,976
Interest and investment income (loss), net	(1,021)	866	1,019
Gain (loss) on investment	—	(1,000)	38,372
Loss on disposal of long-lived assets	—	(15,243)	—
Other income (expense), net	(1,692)	(823)	1,907
Other income, net	18,934	5,085	58,274
Income before income taxes	284,882	271,127	360,326
Income tax expense	49,721	36,342	27,709
Net income	235,161	234,785	332,617
Net income attributable to non-controlling interest in S2S Global	—	(1,836)	(949)
Net income attributable to non-controlling interest in Premier LP	(193,547)	(194,206)	(303,336)
Net income attributable to non-controlling interest	(193,547)	(196,042)	(304,285)
Adjustment of redeemable limited partners' capital to redemption amount	776,750	(904,035)	(2,741,588)
Net income (loss) attributable to stockholders	$818,364	$(865,292)	$(2,713,256)
Weighted average shares outstanding:			
Basic	42,368	35,681	25,633
Diluted	145,308	35,681	25,633
Earnings (loss) per share attributable to stockholders:			
Basic	$19.32	$(24.25)	$(105.85)
Diluted	$1.33	$(24.25)	$(105.85)

See accompanying notes to the consolidated financial statements.

PREMIER, INC.
Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended June 30,		
	2016	2015	2014
Net income	$235,161	$234,785	$332,617
Net unrealized (loss) gain on marketable securities	(110)	(213)	203
Total comprehensive income	235,051	234,572	332,820
Less: comprehensive income attributable to non-controlling interest	(193,470)	(195,885)	(304,448)
Comprehensive income attributable to Premier, Inc.	$41,581	$38,687	$28,372

See accompanying notes to the consolidated financial statements.

PREMIER, INC.
Consolidated Statements of Stockholders' (Deficit) Equity
(In thousands)

	PHSI Common Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Common Stock Subscribed		Subscriptions Receivable	Retained Earnings (Accumulated Deficit)	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount					
Balance at June 30, 2013	5,653	$57	—	$—	—	$—	$28,866	23	$300	$(300)	$50,599	$(1,754)	$—	$77,768
Repurchase of PHSI common stock	(49)	(1)	—	—	—	—	(645)	—	—	—	—	—	—	(646)
Payment on stock subscriptions	23	—	—	—	—	—	300	(23)	(300)	300	—	—	—	300
Issuance of Class A common stock at IPO	—	—	32,375	324	—	—	821,347	—	—	—	—	—	—	821,671
Purchase of Class A common units from Premier LP	—	—	—	—	—	—	(247,742)	—	—	—	—	—	—	(247,742)
Purchase of Class B common units from PHSI	—	—	—	—	—	—	(30,072)	—	—	—	—	—	—	(30,072)
Contribution of PHSI common stock in connection with the IPO	(5,627)	(56)	—	—	—	—	(76,860)	—	—	—	—	—	—	(76,916)
Capitalized IPO-related costs	—	—	—	—	—	—	(5,911)	—	—	—	—	—	—	(5,911)
Increase in deferred tax asset related to the Reorganization	—	—	—	—	—	—	282,972	—	—	—	—	—	—	282,972
Increase in payables pursuant to the tax receivable agreements	—	—	—	—	—	—	(186,077)	—	—	—	—	—	—	(186,077)
	—	—	—	—	112,608	—	(412,860)	—	—	—	—	—	3	(412,857)

Acquisition of non-controlling interest from member owners, net of sale of Class B common stock														
Redemption of limited partner	—	—	—	—	(97)	—	—	—	—	—	—	—	—	—
Adjustment of redeemable limited partners' capital to redemption amount	—	—	—	—	—	—	(192,784)	—	—	—	(2,548,804)	—	—	(2,741,588)
Stock-based compensation expense	—	—	—	—	—	—	19,476	—	—	—	—	—	—	19,476
Repurchase of vested restricted units for employee tax-withholding	—	—	—	—	—	—	(10)	—	—	—	—	—	—	(10)
Net income	—	—	—	—	—	—	—	—	—	—	332,617	—	—	332,617
Net income attributable to non-controlling interest	—	—	—	—	—	—	—	—	—	—	(304,285)	—	—	(304,285)
Net income attributable to non-controlling interest in S2S Global	—	—	—	—	—	—	—	—	—	—	—	949	—	949
Net unrealized gain on marketable securities	—	—	—	—	—	—	—	—	—	—	—	—	40	40
Balance at June 30, 2014	—	$—	32,375	$324	112,511	$	$—	—	$—	$—	$(2,469,873)	$(805)	$43	$(2,470,311)
Redemption of limited partners	—	—	—	—	(910)	—	—	—	—	—	—	—	—	—
Reduction in tax receivable agreement liability related to departed member owners	—	—	—	—	—	—	1,905	—	—	—	—	—	—	1,905
Exchange of Class B common units for Class A	—	—	5,218	53	(5,218)	—	175,062	—	—	—	—	—	—	175,115

common stock by member owners													
Increase in additional paid-in capital related to quarterly exchange by member owners and departure of member owners	—	—	—	—	—	—	18,097	—	—	—	—	—	—	18,097
Issuance of Class A common stock under equity incentive plan	—	—	76	—	—	—	1,508	—	—	—	—	—	—	1,508

	PHSC Common Stock Shares Amount	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-In Capital	Common Stock Subscribed Shares Amount	Stock Subscription Receivable	Retained Earnings (Accumulated Deficit)	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' (Deficit) Equity
Stock-based compensation expense	—	—	—	—	—	28,498	—	—	—	—	—	28,498
Repurchase of vested restricted units for employee tax-withholding	—	—	—	—	—	(135)	—	—	—	—	—	(135)
Net income	—	—	—	—	—	—	—	—	234,785	—	—	234,785
Net income attributable to non-controlling interest	—	—	—	—	—	—	—	—	(196,042)	—	—	(196,042)
Net income attributable to non-controlling interest in S2S Global	—	—	—	—	—	—	—	—	—	1,836	—	1,836
Purchase of non-controlling interest in S2S Global	—	—	—	—	—	(13,487)	—	—	—	(1,031)	—	(14,518)
Increase in deferred tax asset related to purchase of non-controlling interest in S2S Global	—	—	—	—	—	5,243	—	—	—	—	—	5,243
Net unrealized loss on marketable securities	—	—	—	—	—	—	—	—	—	—	(48)	(48)
Adjustment to redeemable limited partners' capital to redemption amount	—	—	—	—	—	(216,691)	—	—	(687,344)	—	—	(904,035)
Balance at June 30, 2015	$ —	37,669	$ 377	106,383	$ —	$ —	$ —	$ —	$ (3,118,474)	$ —	$ (5)	$ (3,118,102)
Redemption of limited partners	—	—	—	(2,527)	—	—	—	—	—	—	—	—
Exchange of Class B common units for Class A common stock by member owners	—	7,723	77	(7,723)	—	267,604	—	—	—	—	—	267,681
Increase in additional paid-in capital related to quarterly exchange by member owners and departure of member owners	—	—	—	—	—	35,431	—	—	—	—	—	35,431
Issuance of Class A common stock under equity incentive plan	—	523	5	—	—	3,552	—	—	—	—	—	3,557
Employee stock purchase plan	—	81	1	—	—	2,728	—	—	—	—	—	2,729
Stock-based compensation expense	—	—	—	—	—	48,670	—	—	—	—	—	48,670
	—	—	—	—	—	(7,863)	—	—	—	—	—	(7,863)

Repurchase of vested restricted units for employee tax-withholding												
Net income	—	—	—	—	—	—	—	—	235,161	—	—	235,161
Net income attributable to non-controlling interest	—	—	—	—	—	—	—	—	(193,547)	—	—	(193,547)
Net unrealized loss on marketable securities	—	—	—	—	—	—	—	—	—	—	(38)	(38)
Final remittance of net income attributable to S2S Global before February 1, 2015	—	—	—	—	—	—	—	—	(1,890)	—	—	(1,890)
Adjustment to redeemable limited partners' capital to redemption amount	—	—	—	—	—	(350,122)		—	1,126,872	—	—	776,750
Balance at June 30, 2016	$ —	45,996	$ 460	96,133	$	$ —	— $	$ —	$ (1,951,878)	$ —	$ (43)	$ (1,951,461)

See accompanying notes to the consolidated financial statements.

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PREMIER, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended June 30,		
	2016	2015	2014
Operating activities			
Net income	$235,161	$234,785	$332,617
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	84,156	54,322	39,823
Equity in net income of unconsolidated affiliates	(21,647)	(21,285)	(16,976)
Deferred income taxes	25,714	18,294	9,820
Loss (gain) on investment	—	1,000	(38,372)
Loss on disposal of long-lived assets	—	15,243	—
Stock-based compensation	48,670	28,498	19,476
Adjustment to tax receivable agreement liability	(4,818)	—	6,215
Changes in operating assets and liabilities:			
Accounts receivable, prepaid expenses and other current assets	(37,250)	(18,964)	(18,924)
Other assets	(9,638)	(1,736)	(1,680)
Inventories	3,937	(12,235)	(8,082)
Accounts payable, accrued expenses and other current liabilities	50,313	60,834	45,997
Long-term liabilities	(4,195)	2,791	(3,585)
Other operating activities	1,067	2,511	1,793
Net cash provided by operating activities	371,470	364,058	368,122
Investing activities			
Purchase of marketable securities	(19,211)	(395,302)	(500,835)
Proceeds from sale of marketable securities	386,372	385,788	148,019
Proceeds from sale of investment in GHX	—	—	38,372
Acquisition of CECity.com, Inc., net of cash acquired	(398,261)	—	—
Acquisition of Healthcare Insights, LLC, net of cash acquired	(64,274)	—	—
Acquisition of InFlowHealth, LLC	(6,088)	—	—
Acquisition of Aperek, Inc., net of cash acquired	—	(47,446)	—
Acquisition of TheraDoc, Inc., net of cash acquired	—	(108,561)	—
Acquisition of SYMMEDRx, net of cash acquired	—	—	(28,690)
Acquisition of Meddius, L.L.C, net of owner note receivable	—	—	(7,737)
Acquisition of MEMdata, LLC, net of cash acquired	—	—	(6,142)
Purchase of non-controlling interest in S2S Global	—	(14,518)	—
Investment in unconsolidated affiliates	(3,250)	(5,000)	—
Distributions received on equity investment	22,093	18,900	15,650
Decrease in restricted cash	—	5,000	—
Purchases of property and equipment	(76,990)	(70,734)	(55,740)
Other investing activities	(27)	—	—
Net cash used in investing activities	(159,636)	(231,873)	(397,103)
Financing activities			
Payments made on notes payable	(2,143)	(1,403)	(9,297)
Proceeds from S2S Global revolving line of credit	—	1,007	6,000
Payments on S2S Global revolving line of credit	—	(14,715)	—
Proceeds from credit facility	150,000	—	60,000
Payments on credit facility	(150,000)	—	(60,000)
Payments made in connection with the origination of the credit facility	—	—	(2,511)

Proceeds from issuance of Class A common stock in connection with the IPO, net of underwriting fees and commissions	—	—	821,671
Payments made in connection with the IPO	—	—	(2,822)

	Year Ended June 30,		
	2016	2015	2014
Purchases of Class B common units from member owners	—	—	(543,857)
Proceeds from issuance of PSHI common stock	—	—	300
Proceeds from notes receivable from partners	—	—	12,685
Proceeds from exercise of stock options under equity incentive plans	3,552	1,508	—
Proceeds from issuance of Class A common stock under stock purchase plan	2,317	—	—
Repurchase of vested restricted units for employee tax-withholding	(7,863)	(135)	(11)
Final remittance of net income attributable to former S2S Global minority shareholder	(1,890)	—	—
Distributions to limited partners of Premier LP	(92,707)	(92,212)	(319,687)
Payments to limited partners of Premier LP related to tax receivable agreements	(10,805)	(11,499)	—
Net cash used in financing activities	(109,539)	(117,449)	(37,529)
Net increase (decrease) in cash and cash equivalents	102,295	14,736	(66,510)
Cash and cash equivalents at beginning of year	146,522	131,786	198,296
Cash and cash equivalents at end of year	$248,817	$146,522	$131,786
Supplemental schedule of non cash investing and financing activities:			
Issuance of limited partnership interest for notes receivable	$—	$—	$7,860
Payable to member owners incurred upon repurchase of ownership interest	$3,556	$2,046	$1,781
Reduction in tax receivable agreement liability related to departed member owners	$12,927	$2,007	$—
Reduction in redeemable limited partners' capital to reduce outstanding receivable	$—	$—	$28,009
Distributions and notes payable utilized to reduce subscriptions, notes, interest and accounts receivable from member owners	$5,407	$6,506	$6,227
Reduction in redeemable limited partners' capital for limited partners' distribution payable	$22,493	$22,432	$22,351
Increase in redeemable limited partners' capital for adjustment to redemption amount, with offsetting decrease in additional paid-in capital and accumulated deficit	$(776,750)	$904,035	$2,741,588
Reduction in redeemable limited partners' capital, with offsetting increase in common stock and additional paid-in capital related to quarterly exchanges by member owners	$267,681	$175,062	$—
Increase in additional paid-in capital related to quarterly exchanges by member owners and departure of member owners	$35,431	$18,097	$—
Increase in tax receivable agreement liability related to quarterly exchanges by member owners	$72,335	$57,177	$—
Increase in deferred tax assets related to quarterly exchanges by member owners	$99,841	$75,073	$—
Reduction in deferred tax assets related to departed member owners	$5,002	$201	$—
Increase in deferred tax assets related to purchase of non-controlling interest in S2S Global	$—	$5,243	$—
Increase in deferred tax assets and additional paid-in capital related to the Reorganization	$—	$—	$282,972
Increase in payables and decrease in additional paid-in capital pursuant to the tax receivable agreements	$—	$—	$186,077
Reduction in prepaid expenses and other current assets for IPO costs capitalized to additional paid-in capital	$—	$—	$2,822

See accompanying notes to the consolidated financial statements.

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PREMIER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(1) ORGANIZATION AND BASIS OF PRESENTATION
Organization
Premier, Inc. ("Premier" or the "Company") is a publicly-held, for-profit Delaware corporation primarily owned by hospitals, health systems and other healthcare organizations (such owners of Premier are referred to herein as "member owners") located in the United States and by public stockholders. The Company, together with its subsidiaries and affiliates, is a leading healthcare improvement company that unites hospitals, health systems, physicians and other healthcare providers to improve and innovate in the clinical, financial and operational areas of their businesses to meet the demands of a rapidly evolving healthcare industry.
The Company's business model and solutions are designed to provide its members access to scale efficiencies, spread the cost of their development, provide actionable intelligence derived from anonymized data in the Company's data warehouse, mitigate the risk of innovation and disseminate best practices that will help the Company's member organizations succeed in their transformation to higher quality and more cost-effective healthcare.
The Company, together with its subsidiaries and affiliates, delivers its integrated platform of solutions through two business segments: supply chain services and performance services. See Note 23 - Segments for further information related to the Company's reportable business segments. The supply chain services segment includes one of the largest healthcare group purchasing organizations ("GPOs") in the United States, a specialty pharmacy and direct sourcing activities. The performance services segment includes one of the largest informatics and advisory services businesses in the United States focused on healthcare providers. The Company's software as a service ("SaaS") informatics products utilize its comprehensive data set to provide actionable intelligence to its members, enabling them to benchmark, analyze and identify areas of improvement across the three main categories of cost management, quality and safety, and population health management. The performance services segment also includes the Company's technology-enabled performance improvement collaboratives, advisory services and insurance management services.
Basis of Presentation and Consolidation
Basis of Presentation
The Company, through its wholly-owned subsidiary, Premier Services, LLC ("Premier GP"), holds an approximate 32% controlling general partner interest in, and, as a result, consolidates the financial statements of, Premier Healthcare Alliance, L.P. ("Premier LP"). The limited partners' approximate 68% ownership of Premier LP is reflected as redeemable limited partners' capital in the Company's accompanying consolidated balance sheets, and the limited partners' proportionate share of income in Premier LP is reflected within net income attributable to non-controlling interest in Premier LP in the Company's consolidated statements of income and within comprehensive income attributable to non-controlling interest in the consolidated statements of comprehensive income.
The member owners owned approximately 68% and 74% of the Company's combined Class A and Class B common stock (the "common stock") through their ownership of Class B common stock at June 30, 2016 and 2015, respectively. During the year ended June 30, 2016, the member owners exchanged approximately 7.7 million of their Class B common units and associated Class B common stock for an equal amount of Class A common stock as part of their quarterly exchange rights under an exchange agreement (the "Exchange Agreement") entered into by the member owners in connection with the completion of a series of transactions (the "Reorganization") following the consummation of the Company's initial public offering (the "IPO," and collectively with the Reorganization, the "Reorganization and IPO") on October 1, 2013 (See Note 17 - Earnings (Loss) Per Share). See Note 2 - Initial Public Offering and Reorganization for further information on the Exchange Agreement. As a result, at June 30, 2016, the member owners owned approximately 68% of the Company's combined common stock through their ownership of Class B common stock, and the public investors, which may include member owners that have received shares of Class A common stock in connection with previous exchanges, owned approximately 32% of the Company's outstanding common stock.
Principles of Consolidation

After the completion of the Reorganization and IPO, Premier Healthcare Solutions, Inc. ("PHSI") became a consolidated subsidiary of the Company. PHSI is considered the predecessor of the Company for accounting purposes and accordingly, PHSI's consolidated financial statements are the Company's 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

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LP and its consolidated subsidiaries. See Note 2 - Initial Public Offering and Reorganization for further information related to the IPO and the Reorganization.

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and in accordance with U.S. generally accepted accounting principles ("GAAP") and include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercised control and when applicable, entities for which the Company had a controlling financial interest or was the primary beneficiary. All intercompany transactions have been eliminated upon consolidation. Accordingly, the consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary for a fair presentation of results of operations and financial condition for the periods shown, including normal recurring adjustments.

We have reclassified certain prior period amounts for deferred income tax assets to be consistent with the current period presentation (see Note 3 - Significant Accounting Policies).

Use of Estimates in the Preparation of Financial Statements

The preparation of the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Significant estimates including estimates for allowances for doubtful accounts, useful lives of property and equipment, stock-based compensation, payables under tax receivable agreements, values of investments not publicly traded, the valuation allowance on deferred tax assets, uncertain income taxes, deferred revenue, future cash flows associated with asset impairments and the allocation of purchase price are evaluated on an ongoing basis. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(2) INITIAL PUBLIC OFFERING AND REORGANIZATION

Initial Public Offering

On October 1, 2013, Premier consummated its IPO of 32,374,751 shares of its 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.

Premier used approximately (i) $543.9 million of the net proceeds from the IPO to acquire 21,428,571 Class B common units from the member owners, (ii) $30.1 million of the net proceeds to acquire 1,184,882 Class B common units from PHSI and (iii) $247.7 million of the net proceeds to acquire 9,761,298 newly issued Class A common units of Premier LP, or the Class A common units, from Premier LP, in each case for a price per unit equal to the price paid per share of Class A common stock by the underwriters to Premier in connection with the IPO. All Class B common units purchased by Premier with the net proceeds from the IPO automatically converted to Class A common units, pursuant to the terms of the LP Agreement, and were contributed by Premier to Premier GP.

Reorganization

On October 1, 2013 (the "Effective Date"), Premier consummated the Reorganization. In connection with the Reorganization and IPO, immediately following the Effective Date, all of Premier LP's limited partners that approved the Reorganization received an amount of Class B common units and capital account balances in Premier LP equal to their percentage interests and capital account balances in Premier LP immediately preceding the Reorganization. Additionally, immediately following the Effective Date, all of the stockholders (consisting of member owners) of PHSI that approved the Reorganization contributed their PHSI common stock to Premier LP in exchange for additional Class B common units based on such stockholder's percentage interest in the fair market valuation of PHSI and Premier LP prior to the Reorganization. As a result of the foregoing contributions, PHSI became a wholly-owned subsidiary of Premier LP.

In connection with the Reorganization, the member owners purchased from Premier 112,607,832 shares of Class B common stock, for par value, $0.000001 per share, which number of shares of Class B common stock equaled the number of Class B units held by the member owners immediately following the IPO, pursuant to a stock purchase agreement.

Below is a summary of the principal documents that effected the Reorganization and define and regulate the governance and control relationships among Premier, Premier LP and the member owners after the completion of the Reorganization and IPO.

LP Agreement

In connection with the Reorganization and IPO, pursuant to the LP Agreement, Premier GP became the general partner of Premier LP. As the general partner of Premier LP, Premier GP generally controls the day-to-day business affairs and decision-making of Premier LP without the approval of any other partner, subject to certain limited partner approval rights. As the sole member of Premier GP, Premier is responsible for all operational and administrative decisions of Premier LP. In accordance with the LP Agreement, subject to applicable law or regulation and the terms of Premier LP's financing agreements, Premier GP will cause 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 other than net profit attributable to dispositions not in the ordinary course of business for each such quarter multiplied by the effective combined federal, state and local income tax rate then payable by Premier to 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 all limited partners holding 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 will distribute any amounts it receives from Premier LP to Premier, which Premier will use 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 its Class A common stock and Premier elects to pay some or all of the consideration to such member owners in cash.

In the event that a limited partner of Premier LP holding Class B common units not yet eligible to be exchanged for shares of Premier's Class A common stock pursuant to the terms of the Exchange Agreement (i) ceases to participate in Premier's GPO programs, (ii) ceases to be a limited partner of Premier LP (except as a result of a permitted transfer of its Class B common units), (iii) ceases to be a party to a GPO participation agreement (subject to certain limited exceptions) or (iv) becomes a related entity of, or affiliated with, a competing business of Premier LP, in each case, Premier LP will have the option to redeem all of such limited partner's Class B common units not yet eligible to be exchanged at a purchase price set forth in the LP Agreement. In addition, the limited partner will be required to exchange all Class B common units eligible to be exchanged on the next exchange date following the date of the applicable termination event described above.

Voting Trust Agreement

Additionally, in connection with the Reorganization and IPO, Premier's member owners entered into a voting trust agreement (the "Voting Trust Agreement") which became effective upon the completion of the Reorganization and IPO and pursuant to which the member owners contributed their Class B common stock into Premier Trust, under which Wells Fargo Delaware Trust Company, N.A., as trustee, acts on behalf of the member owners for purposes of voting their shares of Class B common stock. As a result of the Voting Trust Agreement, the member owners retain beneficial ownership of the Class B common stock, while the trustee is the legal owner of such equity. Pursuant to the Voting Trust Agreement, the trustee must 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.

Exchange Agreement

In connection with the Reorganization and IPO, Premier, Premier LP and the member owners entered into the Exchange Agreement which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of the Exchange 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 its initial allocation of Class B common units, as well as any additional Class B common units purchased by such member owner pursuant to certain rights of first refusal (discussed below), for shares of Class A common stock (on a one-for-one basis subject to customary adjustments for subdivisions or combinations by split, reverse split, distribution, reclassification, recapitalization or otherwise), cash or a combination of both, the form of consideration to be at the discretion of Premier's audit and compliance committee (or another committee of independent directors). This exchange right can

be exercised on a quarterly basis (subject to certain restrictions contained in the registration rights agreement described below) 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 our Class B common stock, which will automatically be retired.
Registration Rights Agreement
In connection with the Reorganization and IPO, Premier and the member owners entered into a registration rights agreement (the "Registration Rights Agreement") which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of the Registration Rights Agreement, Premier filed with the SEC a resale shelf registration statement for resales from time to time of its Class A common stock issued to the member owners in exchange for their Class B common units pursuant to

the Exchange Agreement, subject to various restrictions. The registration statement was declared effective by the SEC in November 2014. Subject to certain exceptions, Premier will use reasonable efforts to keep the resale shelf registration statement effective for seven years. In addition, Premier will undertake to conduct an annual company-directed underwritten public offering to allow the member owners to resell Class A common stock and, at Premier's election, to permit it to sell primary shares, following the first quarterly exchange date of each of the first three years during which the member owners have the right to exchange their Class B common units for shares of Class A common stock. Premier will not be required to conduct a company-directed underwritten public offering unless the number of shares of Class A common stock requested by the member owners (and any third parties) to be registered in the applicable company-directed underwritten public offering constitutes the equivalent of at least 3.5% of the aggregate number of Class A common units and Class B common units, or, collectively, the common units, outstanding. If the offering minimum has not been met, Premier will either proceed with the company-directed underwritten public offering (such decision being in Premier's sole discretion) or notify the member owners that Premier will abandon the offering. After the third year during which member owners have the right to exchange their Class B common units for shares of Premier's Class A common stock, Premier may elect to conduct a company-directed underwritten public offering in any subsequent year. Premier, as well as the member owners, and third parties, will be subject to customary prohibitions on sale prior to and for 60 days following any company-directed underwritten public offering. The Registration Rights Agreement also grants the member owners certain "piggyback" registration rights with respect to other registrations of Class A common stock.

Tax Receivable Agreements

In connection with the Reorganization and IPO, Premier entered into a tax receivable agreement with the member owners which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of the tax receivable agreement, for as long as the member owner remains a limited partner, Premier has agreed to pay to the member owners, generally over a 15-year period (under current law), 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income and franchise tax that Premier actually realizes (or is deemed to realize, in the case of payments required to be made upon certain occurrences under such tax receivable agreement) as a result of the increases in tax basis resulting from the initial sale of Class B common units by the member owners in connection with the Reorganization, as well as subsequent exchanges by such member owners pursuant to the Exchange Agreement, and of certain other tax benefits related to Premier entering into the tax receivable agreements, including tax benefits attributable to payments under the tax receivable agreements.

GPO Participation Agreement

In connection with the Reorganization and IPO, Premier's member owners entered into GPO participation agreements with Premier LP which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of its GPO participation agreement, each member owner will receive cash sharebacks, or 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 acute and alternate site providers and other eligible non-healthcare organizations that are owned, leased or managed by, or affiliated with, each such member owner, or owned, leased, managed and affiliated facilities, through Premier's GPO supplier contracts. In addition, Premier's two largest regional GPO member owners, which represented, in the aggregate, approximately 16% of Premier LP's gross administrative fees revenue for fiscal year 2014, will each remit all gross administrative fees collected by such member owner based upon purchasing by such member owner's owned, leased, managed and affiliated 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 Premier LP. Subject to certain termination rights, these GPO participation agreements will be for an initial five-year term, although Premier LP's 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 Premier's 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 certain other instances, Premier LP and member owners have entered into GPO participation agreements with certain terms that vary from the standard form, which were approved by the member agreement review committee of Premier's board of directors, based upon regulatory constraints, pending merger and acquisition activity or other circumstances affecting those member owners.

Effects of the Reorganization

Immediately following the consummation of the Reorganization and IPO:

- Premier became the sole member of Premier GP and Premier GP became the general partner of Premier LP. Through Premier GP, Premier exercises indirect control over the business operated by Premier LP, subject to certain limited partner approval rights. Premier GP has no employees and acts solely through its board of managers and appointed officers in directing the affairs of Premier LP;
- the member owners held 112,607,832 shares of Class B common stock and 112,607,832 Class B common units;

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- Premier GP held 32,374,751 Class A common units;
- through their holdings of Class B common stock, the member owners had approximately 78% of the voting power in Premier;
- the investors in the IPO collectively owned all of Premier's outstanding shares of Class A common stock and collectively had approximately 22% of the voting power in Premier; and
- Premier LP was the operating partnership and parent company to all of Premier's other operating subsidiaries, including Premier Supply Chain Improvement, Inc. ("PSCI") and PHSI.

Any newly admitted Premier LP limited partners will also become parties to the Exchange Agreement, the Registration Rights Agreement, the Voting Trust Agreement and the tax receivable agreements, in each case on the same terms and conditions as the then existing member owners (except that any Class B common units acquired by such newly admitted Premier LP limited partners will not be subject to the seven-year limitation on exchange of Class B common units set forth in the LP Agreement and the Exchange Agreement). Any newly admitted Premier LP limited partner will also enter into a GPO participation agreement with Premier LP.

Impact of the Reorganization

The impact of the Reorganization gave effect to:

- (i) the issuance of 32,374,751 shares of Class A common stock in the IPO, or approximately 22% of the Class A common stock and Class B common stock, collectively, outstanding after the Reorganization and IPO, at an IPO price of $27.00 per share and the use of the net proceeds therefrom to purchase (A) Class A common units from Premier LP, (B) Class B common units from PHSI and (C) Class B common units from Premier's member owners, (ii) the entry by Premier LP, Premier GP and the member owners into the LP Agreement and (iii) the issuance of 112,607,832 shares of Class B common stock to the member owners;
- the change from the 99% non-controlling interest held by the limited partners of Premier LP prior to the Reorganization to the approximately 78% non-controlling interest held by the limited partners of Premier LP subsequent to the Reorganization and IPO;
- the change in the allocation of Premier LP's income from 1% of operating income and 5% of investment income to PHSI prior to the Reorganization and IPO to approximately 22% of Premier LP's income to Premier (indirectly through Premier GP) subsequent to the Reorganization and IPO as the result of the modified income allocation provisions of the LP Agreement and Premier's purchase of approximately 22% of the common units;
- adjustments to reflect redeemable limited partners' capital at the redemption amount, which is the greater of the book value or redemption amount per the LP Agreement;
- adjustments that give effect to the tax receivable agreement, including the effects of the increase in the tax basis of Premier LP's assets resulting from Premier's purchase of Class B common units from the member owners; and
- estimated payments due to member owners pursuant to the tax receivable agreement equal to 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income and franchise tax that Premier actually realizes (or is deemed to realize) in the case of certain payments required to be made upon certain occurrences under such tax receivable agreements as a result of the increases in the tax basis of Premier LP's assets resulting from Premier's purchase of Class B common units from the member owners and of certain other tax benefits related to Premier entering into the tax receivable agreement.

Premier accounted for the Reorganization as a non-substantive transaction in a manner similar to a transaction between entities under common control pursuant to Accounting Standards Codification Topic 805, Business Combinations. Accordingly, after the Reorganization, the assets and liabilities of Premier are reflected at their carryover basis.

(3) SIGNIFICANT ACCOUNTING POLICIES

Business Combinations

We account for acquisitions using the acquisition method. All of the assets acquired, liabilities assumed, contractual contingencies and contingent consideration are recognized at their fair value on the acquisition date. Any excess of the purchase

price over the estimated fair values of the net assets acquired is recorded as goodwill. Acquisition-related costs are recorded as expenses in the consolidated financial statements.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with remaining maturities of three months or less at the time of acquisition.

Marketable Securities

The Company invests its excess cash in commercial paper, U.S. government securities, corporate debt securities and other securities with maturities generally ranging from three months to five years from the date of purchase. Marketable securities, classified as available-for-sale, are carried at fair market value, with the unrealized gains and losses on such investments reported in comprehensive income as a separate component of stockholders' (deficit) equity or redeemable limited partners' capital as appropriate. Realized gains and losses, and other-than-temporary declines in investments, are included in other income, net in the accompanying consolidated statements of income. The Company uses the specific-identification method to determine the cost of securities sold. The Company does not hold publicly traded equity investments.

Fair Value of Financial Instruments

The fair value of an asset or liability is based on the assumptions that market participants would use in pricing the asset or liability. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. The Company follows a three-tiered fair value hierarchy when determining the inputs to valuation techniques. The fair value hierarchy prioritizes the inputs to valuation techniques into three broad levels in order to maximize the use of observable inputs and minimize the use of unobservable inputs. The levels of the fair value hierarchy are as follows:

Level 1: consists of financial instruments whose values are based on quoted market prices for identical financial instruments in an active market;

Level 2: consists of financial instruments whose values are determined using models or other valuation methodologies that utilize inputs that are observable either directly or indirectly, including (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) pricing models whose inputs are observable for substantially the full term of the financial instrument and (iv) pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the financial instrument;

Level 3: consists of financial instruments whose values are determined using pricing models that utilize significant inputs that are primarily unobservable, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Accounts Receivable

Financial instruments, other than marketable securities, that subject the Company to potential concentrations of credit risk consist primarily of the Company's receivables. Receivables consist primarily of amounts due from hospital and healthcare system members for services and products. The Company maintains an allowance for doubtful accounts. This allowance is an estimate and is regularly evaluated by the Company for adequacy by taking into consideration factors such as past experience, credit quality of the member base, age of the receivable balances, both individually and in the aggregate, and current economic conditions that may affect a member's ability to pay. Provisions for the allowance for doubtful accounts attributable to bad debt are recorded in selling, general and administrative expenses in the accompanying consolidated statements of income. Accounts deemed uncollectible are written off, net of actual recoveries. If circumstances related to specific customers change, the Company's estimate of the recoverability of receivables could be further adjusted.

Inventory

Inventory consisting of finished goods, primarily medical products and other non-pharmaceutical products, are stated at the lower of cost or market on an average cost basis. Inventories consisting of pharmaceuticals and pharmaceutical-related products are stated at the lower of cost or market on a first-in, first-out basis. The Company performs periodic assessments to determine the existence of obsolete, slow-moving and unusable inventory and records necessary provisions to reduce such inventory to net realizable value.

Property and Equipment, Net

Property and equipment are recorded at cost, net of accumulated depreciation. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives ("EUL") of the related assets using the straight-line method. Capitalized modifications to leased properties are amortized using the straight-line method over the shorter of the lease term or the assets' EUL. See Note 8 - Property and Equipment, Net.

Costs to develop internal use computer software during the application development stage are capitalized. Internal use capitalized software costs are included in property and equipment, net in the accompanying consolidated balance sheets. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the related software applications of up to five years and amortization is included in cost of revenue in the accompanying consolidated statements of income. The Company capitalized costs related to software developed for internal use of $61.0 million and $57.9 million during the years ended June 30, 2016 and 2015, respectively.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset or asset group may not be recoverable from the estimated cash flows expected to result from its use and eventual disposition. In cases where the undiscounted cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset or asset group. The factors considered by the Company in performing this assessment include current and projected operating results, trends and prospects, the manner in which the asset or asset group is used, and the effects of obsolescence, demand, competition and other economic factors.

Intangible Assets

Definite-lived intangible assets consist primarily of acquired technology, customer relationships and trade names, and are amortized on a straight-line basis over their EUL. See Note 9 - Intangible Assets, Net.

The Company reviews the carrying value of definite-lived intangible assets subject to amortization for impairment whenever events and circumstances indicate that the carrying value of the intangible asset subject to amortization may not be recoverable from the estimated cash flows expected to result from its use and eventual disposition. In cases where the undiscounted cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the intangible asset subject to amortization. The factors considered by the Company in performing this assessment include current and projected operating results, trends and prospects, the manner in which the definite-lived intangible asset is used, and the effects of obsolescence, demand and competition, as well as other economic factors.

An impairment loss is recognized if the carrying amount of a definite-lived intangible asset exceeds the estimated fair value on the measurement date.

Goodwill

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill is not amortized. The Company performs its annual goodwill impairment testing on the first day of the last fiscal quarter of its fiscal year unless impairment indicators are present which could require an interim impairment test.

Under accounting rules, the Company may elect to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. This qualitative assessment requires an evaluation of any excess of fair value over the carrying value for a reporting unit and significant judgment regarding potential changes in valuation inputs, including a review of the Company's most recent long-range projections, analysis of operating results versus the prior year, changes in market values, changes in discount rates and changes in terminal growth rate assumptions. If it is determined that an impairment is more likely than not to exist, then we are required to perform a quantitative assessment to determine whether or not goodwill is impaired and to measure the amount of goodwill impairment, if any.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of each of our reporting units to its carrying amount, including goodwill. In performing the first step, we determine the fair value of a reporting unit using a discounted cash flow analysis that is corroborated by a market-based approach. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates and the amount and timing of expected future cash flows. The cash flows employed in the discounted cash flow analyses are based on the most recent budget and long-term forecast. The discount rates used in the discounted cash flow analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary.

If the carrying amount of a reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its goodwill carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment charge is recognized in an amount equal to that excess.

The Company's most recent annual impairment testing, which consisted of a quantitative assessment, did not result in any goodwill impairment charges during the fourth quarter of the year ended June 30, 2016.

Deferred Compensation Plan Assets and Related Liabilities

The Company maintains a non-qualified deferred compensation plan for the benefit of eligible employees. This plan is designed to permit employee deferrals in excess of certain tax limits and provides for discretionary employer contributions in excess of the tax limits applicable to the Company's 401(k) plan. The amounts deferred are invested in assets at the direction of the employee.

Company assets designated to pay benefits under the plan are held by a rabbi trust and are subject to the general creditors of the Company.

The assets, classified as trading securities, and liabilities of the rabbi trust are recorded at fair value and are accounted for as assets and liabilities of the Company. The assets of the rabbi trust are used to fund the deferred compensation liabilities owed to current and former employees. The deferred compensation plan contains both current and non-current assets. The current portion of the deferred compensation plan assets is comprised of estimated amounts to be paid within one year to departed participants following separation from the Company. The estimated current portion, totaling $2.0 million and $2.6 million at June 30, 2016 and 2015, respectively, is included in prepaid expenses and other current assets in the accompanying consolidated balance sheets. The corresponding current portion of deferred compensation plan liabilities is included in other current liabilities in the accompanying consolidated balance sheets at June 30, 2016 and 2015. The non-current portion of the deferred compensation plan assets, totaling $40.0 million and $37.5 million at June 30, 2016 and 2015, respectively, is included in long-term assets in the accompanying consolidated balance sheets. The corresponding non-current portion of deferred compensation plan liabilities is included in long-term liabilities in the accompanying consolidated balance sheets at June 30, 2016 and 2015. Unrealized gain (loss) of $(1.6) million, $(0.8) million and $2.0 million respectively, on plan assets as of June 30, 2016, 2015 and 2014, respectively, are included in other income (expense), net in the accompanying consolidated statements of income. Deferred compensation income (expense) from the change in the corresponding liability of $1.6 million, $0.8 million and $(2.0) million, respectively, are included in selling, general and administrative expense in the accompanying consolidated statements of income for the years ended June 30, 2016, 2015 and 2014, respectively.

Investments

The Company uses the cost method to account for investments in businesses that are not publicly traded and for which the Company does not control or have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at lower of cost or fair value, as appropriate, and are classified as long-term and included in other assets.

Investments held by the Company in businesses that are not publicly traded and for which the Company has the ability to exercise significant influence over operating and financial management are accounted for under the equity method. In accordance with the equity method, these investments are originally recorded at cost and are adjusted for the Company's proportionate share of earnings, losses and distributions. These investments are classified as long-term and included in other assets. See Note 12 - Investments.

The Company assesses and records impairment losses when events and circumstances indicate the investments might be impaired. Gains and losses are recognized when realized and recorded in other income (expense), net in the accompanying consolidated statements of income.

Tax Receivable Agreements

The Company records a liability related to the tax receivable agreements based on 85% of the estimated amount of tax savings the Company expects to receive, generally over a 15-year period, in connection with the additional tax benefits created in connection with the Reorganization and IPO. Tax payments under the tax receivable agreements will be made to the member owners as the Company realizes tax benefits attributable to the initial purchase of Class B common units from the member owners in the Reorganization and IPO and any subsequent exchanges of Class B common units into Class A common stock or cash between the Company and the member owners. Determining the estimated amount of tax savings the Company expects to receive requires judgment as deductibility of goodwill amortization expense is not assured and the estimate of tax savings is dependent upon the actual realization of the tax benefit and the tax rates in effect at that time.

Changes in the estimated tax receivable agreement liability that are the result of a change in tax accounting method are recorded in selling, general and administrative expense in the consolidated statements of income. Changes in the estimated tax receivable agreement liability that are related to new basis changes as a result of the exchange of Class B common units for a like number of shares of Class A common stock or as a result of departed member owners are recorded as an increase to additional paid-in capital in the consolidated statements of stockholders' (deficit) equity.

Redeemable Limited Partner's Capital

The LP agreement includes a provision that provides for redemption of a limited partner’s interest upon termination as follows: For Class B common units not yet eligible for exchange, those will be redeemed at a purchase price which is the lower of the limited partner’s capital account balance in Premier LP immediately prior to the IPO after considering any IPO proceeds received and the fair market value of the Class A common stock of the Company on the date of the termination with either (a) a five-year, unsecured, non-interest bearing term promissory note, (b) a cashier’s check or wire transfer of immediately available funds in an amount equal to the present value of the Class B unit redemption amount, or (c) payment on such other terms mutually agreed upon with Premier GP. For Class B common units that are eligible for exchange, the limited partner is also required to exchange all eligible Class B common units on the next exchange date following the date of the termination.

A limited partner cannot redeem all or any part of its interest in Premier LP without the approval of Premier GP, which is controlled by the board of directors. Given the limited partners hold the majority of the votes of the board of directors, limited partners' capital has a redemption feature that is not solely within the control of the Company. As a result, the Company reflects limited partners’ capital on the consolidated balance sheets as redeemable limited partners’ capital in temporary equity. In addition, the limited partners have the ability to exchange their Class B common units for cash or Class A common shares on a one-for-one basis. Accordingly, the Company records redeemable limited partners' capital at the redemption amount, which represents 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).

Distributions to Limited Partners under the LP Agreement

Premier LP makes quarterly distributions to Premier, Inc. as the general partner and to the limited partners in the form of a legal partnership income distribution governed by the terms of the LP Agreement. The general partner distribution is based on the general partner's ownership in Premier LP. The limited partner distributions are based on the limited partners' ownership in Premier LP and relative participation across Premier service offerings. While the limited partner distributions are partially based on relative participation across Premier service offerings, the actual distribution is not solely based on revenue generated from an individual partner’s participation as distributions are based on the net income or loss of the partnership which encompass the operating expenses of the partnership as well as income or loss generated by non-owner members' participation in Premier’s service offerings. To the extent Premier LP incurred a net loss, the partners would not receive a quarterly distribution.

Revenue Recognition

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 net GPO administrative fees in the supply chain segment. Other services and support revenue consists primarily of fees generated by the performance services segment in connection with the Company's SaaS informatics products subscriptions, 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 segment. The Company recognizes revenue when (i) there is persuasive evidence of an arrangement, (ii) the fee is fixed or determinable, (iii) services have been rendered and payment has been contractually earned, and (iv) collectability is reasonably assured.

Net Administrative Fees Revenue

Net administrative fees revenue is generated through administrative fees received from suppliers based on the total dollar volume of supplies purchased by the Company's members in connection with its GPO programs.

The Company, through its group purchasing program, aggregates member purchasing power to negotiate pricing discounts and improve contract terms with suppliers. Contracted suppliers pay the Company administrative fees which generally represent 1% to 3% of the purchase price of goods and services sold to members under the contracts the Company has negotiated. Administrative fees are recognized as revenue in the period in which the respective supplier reports member purchasing data, usually a month or a quarter in arrears of actual member purchase activity. The supplier report proves that the delivery of product or service has occurred, the administrative fees are fixed and determinable based on reported purchasing volume, and collectability is reasonably assured. Member and supplier contracts substantiate persuasive evidence of an arrangement. The Company does not take title to the underlying equipment or products purchased by members through its GPO supplier contracts.

The Company pays a revenue share equal to a percentage of gross administrative fees that the Company collects based upon purchasing by such members and their owned, leased, managed or affiliated facilities through its GPO supplier contracts. Revenue share is recognized according to the members' contractual agreements with the Company as the related administrative fees revenue is recognized. Considering GAAP relating to principal/agent considerations under revenue recognition principles, revenue share is recorded as a reduction to gross administrative fees revenue to arrive at a net administrative fees revenue amount, which amount is included in service revenue in the accompanying consolidated statements of income.

Other Services and Support Revenue

Performance services revenue consists of SaaS informatics products subscriptions, certain perpetual and term licenses, performance improvement collaborative and other service subscriptions, professional fees for advisory services, and insurance services management fees and commissions from group-sponsored insurance programs.

SaaS informatics subscriptions include the right to use the Company's 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 application and size of healthcare system. 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 the Company's hosted SaaS informatics products. Implementation is generally 90 to 170 days following contract execution before the SaaS informatics products can be fully utilized by the member.

The Company sells certain perpetual and term licenses that include mandatory post-contract customer support in the form of maintenance and support services. Pricing varies by application and size of healthcare system. Fees for the initial period include the license fees, implementation fees and the initial bundled maintenance and support services fees. The fees for the initial period are recognized straight-line over the remaining initial period following implementation. Subsequent renewal maintenance and support services fees are recognized on a straight-line basis over the contractually stated renewal periods. Implementation services are provided to the customer prior to the use of the software and do not involve significant customization or modification. Implementation is generally 300 to 350 days following contract execution before the licensed software products can be fully utilized by the member.

Revenue from performance improvement collaboratives and other service subscriptions that support the Company's 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.

Insurance services management fees are recognized in the period in which such services are provided. Commissions from group sponsored insurance programs are recognized over the term of the insurance policies, generally one year.

Certain administrative and/or patient management specialty pharmacy services are provided in situations where prescriptions are sent back to member health systems for dispensing. Additionally, the Company derives revenue from pharmaceutical manufacturers for providing patient education and utilization data. Revenue is recognized as these services are provided.

Product Revenue

Specialty pharmacy revenue is recognized when a product is accepted and is recorded net of the estimated contractual adjustments under agreements with Medicare, Medicaid and other managed care plans. Payments for the products provided under such agreements are based on defined allowable reimbursements rather than on the basis of standard billing rates. The difference between the standard billing rate and allowable reimbursement rate results in contractual adjustments which are recorded as deductions from net revenue.

Direct sourcing revenue is recognized once the title and risk of loss of medical products have been transferred to members.

Multiple Deliverable Arrangements

The Company enters into agreements where the individual deliverables discussed above, such as SaaS subscriptions and advisory services, are bundled into a single service arrangement. These agreements are generally provided over a time period ranging from approximately three months to five years after the applicable contract execution date. Revenue is allocated to the individual elements within the arrangement based on their relative selling price using vendor specific objective evidence ("VSOE"), third-party evidence ("TPE") or the estimated selling price ("ESP"), provided that the total arrangement consideration is fixed and determinable at the inception of the arrangement. The Company establishes VSOE, TPE, or ESP for each element of a service arrangement based on the price charged for a particular element when it is sold separately in a stand-alone arrangement. All deliverables which are fixed and determinable are recognized according to the revenue recognition methodology described above.

Certain arrangements include performance targets or other contingent fees that are not fixed and determinable at the inception of the arrangement. If the total arrangement consideration is not fixed and determinable at the inception of the arrangement, the Company allocates only that portion of the arrangement that is fixed and determinable to each element. As additional consideration becomes fixed, it is similarly allocated based on VSOE, TPE or ESP to each element in the arrangement and recognized in accordance with each element's revenue recognition policy.

Performance Guarantees

On limited occasions, the Company enters into agreements which provide for guaranteed performance levels to be achieved by the member over the term of the agreement. In situations with significant performance guarantees, the Company defers revenue recognition until the amount is fixed and determinable and all contingencies, including any refund rights, have been satisfied. In the event that guaranteed savings levels are not achieved, the Company may have to perform additional services at no additional charge in order to achieve the guaranteed savings or pay the difference between the savings that were guaranteed and the actual achieved savings.

Deferred Revenue

Deferred revenue consists of unrecognized revenue related to advanced member invoicing or member payments received prior to fulfillment of the Company's revenue recognition criteria. Substantially all deferred revenue consists of deferred subscription fees and deferred advisory fees. Subscription fees for company-hosted SaaS applications are deferred until the member's unique data records have been incorporated into the underlying software database, or until member site-specific software has been implemented and the member has access to the software. Deferred advisory fees arise when cash is received from members prior to delivery of service. When the fees are contingent upon meeting a performance target that has not yet been achieved, the advisory fees are deferred until the performance target is met.

Cost of Revenue and Operating Expenses

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.

Operating Expenses

Selling, general and administrative expenses consist of expenses directly associated with selling and administrative employees and indirect expenses associated with employees that primarily support revenue generating activities (including compensation and benefits) and travel-related expenses, as well as occupancy and other indirect expenses, insurance expenses, professional fees, and other general overhead expenses.

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 the Company's software-related products and services.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs are reflected in selling, general and administrative expenses in the accompanying consolidated statements of income and were $3.3 million, $2.2 million and $1.7 million for the years ended June 30, 2016, 2015 and 2014, respectively.

Software Development Costs

Costs to develop internal use computer software that are incurred in the preliminary project stage are expensed as incurred. During the development stage, direct consulting costs and payroll and payroll-related costs for employees that are directly associated with each project are capitalized and amortized over the estimated useful life of the software, once it is placed into operation. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of the related software applications of up to five years and amortization is included in depreciation and amortization expense. Replacements and major improvements are capitalized, while maintenance and repairs are expensed as incurred. Some of the more significant estimates and assumptions inherent in this process involve determining the stages of the software development project, the direct costs to capitalize and the estimated useful life of the capitalized software.

Income Taxes

The Company accounts for income taxes under the asset and liability approach. Deferred tax assets or liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse. The Company provides a valuation allowance against net deferred tax assets when, based upon the available evidence, it is more likely than not that the deferred tax assets will not be realized.

The Company prepares and files tax returns based on interpretations of tax laws and regulations. The Company's tax returns are subject to examination by various taxing authorities in the normal course of business. Such examinations may result in future tax and interest assessments by these taxing authorities.

In determining the Company's tax expense for financial reporting purposes, the Company establishes a reserve for uncertain income tax positions unless it is determined to be "more likely than not" that such tax positions would be sustained upon examination, based on their technical merits. That is, for financial reporting purposes, the Company only recognizes tax benefits taken on the tax return if it believes it is "more likely than not" that such tax positions would be sustained. There is considerable judgment involved in determining whether it is "more likely than not" that positions taken on the tax returns would be sustained.

The Company adjusts its tax reserve estimates periodically because of ongoing examinations by, and settlements with, varying taxing authorities, as well as changes in tax laws, regulations and interpretations. The consolidated tax expense of any given year includes adjustments to prior year income tax accruals and related estimated interest charges that are considered appropriate. The Company's policy is to recognize, when applicable, interest and penalties on uncertain income tax positions as part of income tax expense.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period from non-owner sources. Net income and other comprehensive income, including unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income.

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Basic and Diluted Earnings (Loss) per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income by the number of weighted average common shares outstanding during the period. Diluted EPS assumes the conversion, exercise or issuance of all potential common stock equivalents, unless the effect of inclusion would result in the reduction of a loss or the increase in income per share. Diluted EPS is computed by dividing net income by the number of weighted average common shares increased by the dilutive effects of potential common shares outstanding during the period. The number of potential common shares outstanding is determined in accordance with the treasury stock method.

Recently Adopted Accounting Standards

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-17, Balance Sheet Classification of Deferred Taxes, as part of their simplification initiatives. The update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company early adopted this standard as allowed as of December 31, 2015. The Company retroactively adjusted deferred tax assets and liabilities as they would have been reported at June 30, 2015 in accordance with ASU 2015-17 (see Note 20 - Income Taxes).

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting Measurement-Period Adjustments. Under this standard, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or amortization, or other income effects (if any) as a result of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. This standard also requires that the acquirer present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The Company early adopted the new standard as allowed effective January 1, 2016. The adoption of ASU 2015-16 did not result in any significant changes in the Company's results of operations or statement of position. For further information, see Note 10 - Goodwill.

Recently Issued Accounting Standards Not Yet Adopted

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting, which is intended to simplify the accounting for employee share-based payments. The amendments in this updated guidance include changes to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of such share-based awards as either equity or liabilities and classification in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2017. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to increase transparency and comparability among organizations of accounting for leasing arrangements. This guidance establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. Entities will be required to recognize and measure leases as of the earliest period presented using a modified retrospective approach. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which is intended to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2018. Early adoption is permitted for financial statements that have not been issued. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03 Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 states that the SEC staff would "not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement.” This standard will be effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2016. The guidance has no impact on the Company’s accounting for debt issuance costs associated with its line-of-credit.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which requires entities to measure most inventory “at the lower of cost and net realizable value,” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. This guidance will not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. The new standard will be effective prospectively for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2017. Early adoption is permitted. Upon transition, entities must disclose the nature of and reason for the accounting change. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which effectively eliminates the presumption that a general partner should consolidate a limited partnership, modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE"s) or voting interest entities, and affects the consolidation analysis of reporting entities that are involved with VIEs (particularly those that have fee arrangements and related party relationships). In some cases, consolidation conclusions will change under the new guidance and, in other cases, a reporting entity will provide additional disclosures if an entity that currently is not considered a VIE is considered a VIE under the new guidance. The new standard will be effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The new standard allows for either full retrospective or modified retrospective adoption. The new standard will be effective for the Company for the fiscal year beginning July 1, 2016. The Company has completed its evaluation and has concluded there is no material impact from the adoption of the new standard on its consolidated financial statements other than providing additional disclosures regarding its consolidation of Premier LP.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance. The new standard requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new standard allows for either full retrospective or modified retrospective adoption.

The FASB subsequently issued an amendment in ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, in August 2015 to defer the effective date of the new standard for all entities by one year. The new standard, as amended, will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption as of the original effective date for public entities will be permitted.

The FASB issued another amendment in ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, in March 2016 related to a third party providing goods or services to a customer. When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself, the entity acts as a principal. If an entity arranges for the good or service to be provided by a third party, the entity acts as an agent. The standard requires principals to recognize revenue for the gross amount and agents to recognize revenue for the amount of any fee or commission it expects to be entitled. The new standard, as amended, will be effective with ASU 2014-09.

In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which clarifies specific aspects of ASU 2014-09, Revenue from Contracts with Customers, clarifying how to identify performance obligations and guidance related to licensing implementation. This new standard provides guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property or a right to access the entity's intellectual property. The new standard, as amended, will be effective with ASU 2014-09.

In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which clarifies specific aspects of ASU 2014-09, Revenue from Contracts with Customers, clarifying how to identify performance obligations and guidance related to its promise in granting a license of intellectual property. This new standard provides guidance to allow entities to disregard items that are immaterial in the context of the contract, clarify when a promised good or service is separately identifiable and allow an entity to elect to account for the cost of shipping and handling performed after control of a good has been transferred to the customer as a fulfillment cost. The new standard also clarifies how an entity should evaluate the nature of its promise in granting a license of intellectual property to help determine whether it recognizes revenue over time or at a point in time and addresses how entities should consider license renewals and restrictions. The new standard, as amended, will be effective with ASU 2014-09.

The new revenue recognition standards, as amended, will be effective for the Company for the fiscal year beginning July 1, 2018. The Company is currently evaluating the transition method that will be elected as well as the impact of the adoption of the new standards on its consolidated financial statements and related disclosures. The Company is also evaluating the impact of the deferral of the effective date on its plans for adopting the new standard.

(4) BUSINESS ACQUISITIONS

Acquisition of InFlowHealth, LLC

On October 1, 2015, PHSI acquired all of the limited liability company membership interests of InFlowHealth, LLC ("InFlow") for $6.1 million in cash. The Company utilized available funds on hand to complete the acquisition. The acquisition provides selling members an earn-out opportunity of up to $26.9 million based on InFlow's future annual contractual subscription revenues above certain thresholds through December 31, 2019. As of June 30, 2016, the Company valued the earn-out at $4.1 million related to the contingent purchase price, of which $0.5 million is classified as current and included in other current liabilities and $3.6 million is classified as long-term and included in other non-current liabilities in the consolidated balance sheet. In accordance with GAAP, the contingent consideration is recorded at fair value based on a probability-weighted approach including multiple earnings scenarios, although this value is not indicative of a known amount to be paid. The selling members also received restricted stock units of the Company with an aggregate equity grant value of $2.1 million, which vest over a three-year period with restrictions tied to continued employment.

InFlow is a SaaS-based software developer that specializes in improving the operational, financial and strategic performance of physician practices. InFlow's software allows physicians to identify opportunities for improvement and guide physician practice budgeting and strategic investments by aggregating financial and operational data from physicians in medical groups across the United States. The software is designed to provide actionable insights into among other things, practice capacity, patient volumes, productivity and staffing ratios, revenue cycle performance, patient demographics, referral patterns and overall compensation.

The Company has accounted for the InFlow acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets (see Note 9 - Intangible Assets, Net) acquired and liabilities assumed based on their fair values. The InFlow acquisition resulted in the recognition of approximately $5.9 million of goodwill (see Note 10 - Goodwill) attributable to the anticipated profitability of InFlow. The InFlow acquisition is considered an asset acquisition for tax purposes. Accordingly, the Company expects the goodwill to be deductible for tax purposes. The calculation of the earn-out is based on future revenues as defined in the purchase agreement. In accordance with GAAP, the Company is required to fair-value the earn-out liability at each reporting period with any adjustments to the earn-out recorded in earnings under other expenses, net. The Company reports InFlow as part of its performance services segment.

Acquisition of CECity.com, Inc.

On August 20, 2015, PHSI acquired 100% of the outstanding shares of capital stock of CECity.com, Inc. ("CECity"), a Delaware corporation, for $398.3 million. The Company funded the acquisition with $250.0 million of cash and $150.0 million of borrowings under the Company's credit facility (see Note 13 - Debt). CECity is a cloud-based healthcare solutions provider, specializing in performance management and improvement, pay-for-value reporting and professional education. CECity offers turnkey solutions for clinical data registries, continuing medical education, maintenance of certification, performance improvement, pay-for-value reporting and life-long professional development.

The Company has accounted for the CECity acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets (see Note 9 - Intangible Assets, Net) acquired and liabilities assumed based on their fair values. The CECity acquisition resulted in the recognition of approximately $274.0 million of goodwill (see Note 10 - Goodwill) which reflects a premium relative to the fair value of the identified assets due to the strategic importance of the transaction to the Company and the CECity business model which does not rely extensively on tangible assets as well as the anticipated profitability of CECity. The CECity acquisition is considered an asset acquisition for tax purposes. Accordingly, the Company expects the goodwill to be deductible for tax purposes.

The following table summarizes the fair values assigned to the net assets acquired and the liabilities assumed as of the CECity acquisition date of August 20, 2015 (in thousands):

	Acquisition Date Fair Value
Purchase price	$ 400,000
Working capital adjustment	(28)
Total purchase price	399,972
Less: cash acquired	(1,708)
Total purchase price, net of cash acquired	398,264
Accounts receivable	3,877
Other current assets	295
Property and equipment	605
Intangible assets	125,400
Total assets acquired	130,177
Other current liabilities	5,871
Total liabilities assumed	5,871
Goodwill	$ 273,958

Approximately $4.0 million of pretax transaction-related costs related to the CECity acquisition are recorded in selling, general and administrative expenses in the accompanying consolidated statement of income for the year ended June 30, 2016, respectively. The Company reports CECity as part of its performance services segment.

Pro forma results of operations for this acquisition have not been presented because the effects on revenue and net income were not material to our historic consolidated financial statements.

Acquisition of Healthcare Insights, LLC

On July 31, 2015, PHSI acquired all of the limited liability company membership interests of Healthcare Insights, LLC (“HCI”) for $64.3 million in cash. The Company utilized available funds on hand to complete the acquisition. The acquisition also provides selling members with an earn-out opportunity of up to $4.0 million based on HCI’s revenues during the 12 months ending December 31, 2017 as defined in the purchase agreement. As of June 30, 2016, the fair value of the earn-out liability related to the HCI acquisition is zero. HCI has two primary businesses exclusively serving the healthcare provider market: (i) financial analytics which includes budgeting, forecasting, and labor productivity applications, and (ii) clinical analytics which includes service line analytics and direct costing analytics to support value-based care.

The Company has accounted for the HCI acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets (see Note 9 - Intangible Assets, Net) acquired and liabilities assumed based on their fair values. The HCI acquisition resulted in the recognition of approximately $42.4 million of goodwill (see Note 10 - Goodwill) attributable to the anticipated profitability of HCI. The HCI acquisition is considered an asset acquisition for tax purposes. Accordingly, the Company expects the goodwill to be deductible for tax purposes.

The calculation of the earn-out is based on future revenues as defined in the purchase agreement. In accordance with GAAP, the Company is required to fair-value the earn-out liability at each reporting period with any adjustments to the earn-out recorded in earnings in other expense, net. The Company reports HCI as part of its performance services segment.

Acquisition of Non-Controlling Interest in S2S Global

On February 2, 2015, the Company purchased the remaining 40% of the outstanding limited liability company membership interests of SVS LLC d/b/a S2S Global ("S2S Global") for approximately $14.5 million. In connection with the purchase, the Company repaid the $14.2 million balance outstanding under the S2S Global line of credit and terminated the S2S Global line of credit prior to its maturity date. The Company utilized available funds on hand to complete the acquisition and pay-off the S2S Global line of credit (see Note 13 - Debt).

Acquisition of TheraDoc, Inc.
On September 1, 2014, the Company completed the acquisition of 100% of the outstanding shares of TheraDoc, Inc. ("TheraDoc") for approximately $108.6 million. TheraDoc is a leading provider of clinical surveillance software to healthcare organizations across the country that brings together disparate data from a hospital's source systems and helps alert clinicians to potential risks. The Company utilized available funds on hand to complete the acquisition.
Acquisition of Aperek, Inc.
On August 29, 2014, the Company completed the acquisition of 100% of the outstanding shares of Aperek, Inc. ("Aperek"), (formerly Mediclick), for approximately $47.4 million. Aperek is a SaaS-based supply chain solutions company focused on purchasing workflow and analytics. The Company utilized available funds on hand to complete the acquisition.
(5) MARKETABLE SECURITIES
The Company invests its excess cash in commercial paper, U.S. government securities, corporate debt securities and other securities with maturities generally ranging from three months to five years from the date of purchase. The Company uses the specific-identification method to determine the cost of securities sold. Marketable securities, classified as available-for-sale, consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
June 30, 2016				
Corporate debt securities	$33,267	$ —	$ (135)	$33,132
Asset-backed securities	14,755	3	(1)	14,757
	$48,022	$ 3	$ (136)	$47,889
June 30, 2015				
Commercial paper	$43,067	$ 12	$ —	$43,079
U.S. government debt securities	101,597	66	(8)	101,655
Corporate debt securities	211,079	34	(129)	210,984
Asset-backed securities	59,692	12	(10)	59,694
	$415,435	$ 124	$ (147)	$415,412

Commercial paper, corporate debt securities, U.S. government debt securities and asset-backed securities are classified as current and long-term marketable securities in the accompanying consolidated balance sheets.
The decline in the fair market value of corporate debt securities is attributable to changes in interest rates and not credit quality. The Company does not intend to sell the corporate debt securities in an unrealized loss position and it is not more likely than not that the Company will be required to sell the corporate debt securities before recovery of their amortized cost bases, which may be maturity. The Company does not consider the corporate debt securities to be other-than temporarily impaired at June 30, 2016.
At June 30, 2016, the Company had marketable securities with the following maturities (in thousands):

	Cost	Fair Market Value
Due in one year or less	$17,768	$17,759
Due after one year through five years	30,254	30,130
	$48,022	$47,889

See Note 6 - Fair Value Measurements for further discussion related to the Company’s measurement of fair market value for its marketable securities.

(6) FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The Company measures the following assets at fair value on a recurring basis (in thousands):

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Cash equivalents	$83,846	$83,846	$ —	$ —
Corporate debt securities	33,132	—	33,132	—
Asset-backed securities	14,757	—	14,757	—
Deferred compensation plan assets [(a)]	41,917	41,917	—	—
Total assets	$173,652	$125,763	$ 47,889	$ —
Earn-out liabilities [(b)]	4,128	—	—	4,128
Total liabilities	$4,128	$—	$ —	$ 4,128
June 30, 2015				
Cash equivalents	$33,434	$33,434	$ —	$ —
Commercial paper	43,079	—	43,079	—
U.S. government debt securities	101,655	34,145	67,510	—
Corporate debt securities	210,984	—	210,984	—
Asset-backed securities	59,694	—	59,694	—
Deferred compensation plan assets [(a)]	40,057	40,057	—	—
Total assets	$488,903	$107,636	$ 381,267	$ —

(a) Deferred compensation plan assets consist of highly liquid mutual fund investments.

(b) Earn-out liabilities incurred in connection with acquisitions of InFlow and HCI, valued at $4.1 million and zero, respectively, at June 30, 2016.

Cash equivalents are included in cash and cash equivalents; commercial paper, corporate debt securities, U.S. government debt securities and asset-backed securities are included in current and long-term marketable securities (see Note 5 - Marketable Securities); the current portion of deferred compensation plan assets is included in prepaid expenses and other current assets ($2.0 million and $2.6 million at June 30, 2016 and June 30, 2015, respectively) in the accompanying consolidated balance sheets. The fair value of the Company's commercial paper, corporate debt securities, U.S. government debt securities and asset-backed securities, classified as Level 2, are valued using quoted prices for similar securities in active markets or quoted prices for identical or similar securities in markets that are not active. The Company had no assets or liabilities for which fair value is measured on a recurring basis at June 30, 2015 that would be classified as Level 3. At June 30, 2016, the Company's earn-out liabilities are classified as Level 3. The fair value of the earn-out liabilities was determined using the Monte Carlo simulation method.

Non-Recurring Fair Value Measurements

During the year ended June 30, 2016, no non-recurring fair value measurements were required relating to the testing of goodwill and intangible assets for impairment, however the purchase price allocations required significant non-recurring Level 3 inputs (see Note 4 - Business Acquisitions). The preliminary fair values of the acquired intangible assets resulting from the acquisitions of CECity, HCI and InFlow were determined using the income approach.

Other Financial Instruments

The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximates carrying value because of the short-term nature of these financial instruments. The fair value of non-interest bearing notes payable, classified as Level 2, is less than their carrying value by approximately $0.7 million and $0.6 million at June 30, 2016 and June 30, 2015, respectively, based on an assumed market interest rate of 2.1% at June 30, 2016 and 1.6% at June 30, 2015, respectively.

(7) ACCOUNTS RECEIVABLE, NET

Trade accounts receivable consist primarily of amounts due from hospital and healthcare system members for services and products. Managed services receivable consist of amounts receivable from fees for supply chain services for members utilizing the Company's integrated pharmacy services related to contract negotiation and administration, claims data, rebate processing and evaluation of current pharmacy formulary and utilization. Other receivables consist primarily of interest receivable on marketable securities.

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

	June 30,	
	2016	2015
Accounts receivable	$112,443	$88,078
Managed services receivable	33,728	10,941
Other	234	1,254
	146,405	100,273
Allowance for doubtful accounts	(1,981)	(1,153)
Accounts receivable, net	$144,424	$99,120

(8) PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following (in thousands):

		June 30,	
	Useful life	2016	2015
Capitalized software	3-5 years	$361,864	$298,106
Computer hardware	3-5 years	53,547	46,806
Furniture and other equipment	5 years	8,102	7,630
Leasehold improvements	Lesser of estimated useful life or term of lease	16,318	15,768
		439,831	368,310
Accumulated depreciation and amortization		(265,751)	(220,685)
Property and equipment, net		$174,080	$147,625

Depreciation and amortization expense related to property and equipment for the years ended June 30, 2016, 2015 and 2014 was $51.1 million, $45.2 million and $36.8 million, respectively. Unamortized capitalized software costs at June 30, 2016 and 2015 were $146.0 million and $120.4 million, respectively.

During the year ended June 30, 2015, the Company recognized a loss on disposal of long-lived assets of approximately $15.2 million primarily comprised of $13.3 million in capitalized software costs, which were included in the performance services segment. The Company specifically identified these capitalized software assets as having no future economic benefit in conjunction with the on-going integration of the TheraDoc acquisition during its annual inventory process in May 2015. See Note 4 - Business Acquisitions. The Company did not incur a material loss on disposal of long-lived assets during the years ended June 30, 2016 and 2014.

(9) INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following (in thousands):

		June 30,	
	Useful Life	2016	2015
Technology	5.0 years	$143,727	$34,524
Customer relationships	8.3 years	48,120	16,120
Trade names	7.0 years	13,160	5,760
Non-compete agreements	5.0 years	4,080	80
Total intangible assets		209,087	56,484
Accumulated amortization		(50,870)	(17,815)
Total intangible assets, net		$158,217	$38,669

The increase in intangible assets, net was due to the CECity, HCI and InFlow acquisitions completed during the year ended June 30, 2016 (see Note 4 - Business Acquisitions). Amortization expense of intangible assets was $33.1 million, $9.1 million and $3.1 million for the years ended June 30, 2016, 2015 and 2014, respectively. Amortization expense related to technology was $25.2 million, $6.1 million and $1.5 million for the years ended June 30, 2016, 2015 and 2014, respectively. During the year ended June 30, 2015, the Company wrote-off approximately $11.6 million in fully amortized intangible assets.

The estimated aggregate amortization expense for each of the next five fiscal years and thereafter is as follows (in thousands):

2017	$35,855
2018	35,332
2019	33,776
2020	28,975
2021	7,864
Thereafter	13,015
Total amortization expense [(a)]	$154,817

(a) Estimated aggregate amortization expense for the next five fiscal years and thereafter excludes amortization on technology under development, which is classified as technology in the total intangible assets table, of $3.4 million, as these assets have not yet been completed.

The net carrying value of intangible assets by segment is as follows (in thousands):

	June 30,	
	2016	2015
Supply Chain Services	$—	$347
Performance Services	158,217	38,322
	$158,217	$38,669

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(10) GOODWILL

Goodwill consists of the following (in thousands):

	Supply Chain Services	Performance Services	Acquisition adjustments during the measurement period	Total
Balance at June 30, 2015	$31,765	$ 183,880	$ —	$215,645
CECity acquisition [(a)]	—	273,713	245	273,958
HCI acquisition [(a)]	—	41,905	534	42,439
InFlow acquisition [(a)]	—	5,827	93	5,920
Balance at June 30, 2016	$31,765	$ 505,325	$ 872	$537,962

(a) See Note 4 - Business Acquisitions.

(11) OTHER LONG-TERM ASSETS

Other long-term assets consist of the following (in thousands):

	June 30, 2016	2015
Investments	$16,800	$14,283
Deferred loan costs, net	1,595	2,095
Other	10,895	759
Total other long-term assets	$29,290	$17,137

The Company recorded $0.5 million, $0.3 million and $0.2 million in amortization expense on deferred loan costs during the years ended June 30, 2016, 2015 and 2014, respectively. Amortization expense on deferred loan costs is recognized based on the straight-line method, which approximates the effective interest method, and is included in interest and investment income, net in the consolidated statements of income.

Included in Other at June 30, 2016 is a $10.0 million net prepayment to a distributor, which was funded in order to receive additional discounts on product purchases.

(12) INVESTMENTS

Innovatix, LLC ("Innovatix") is a privately held limited liability company that provides group purchasing services to alternate site providers in specific classes of trade. The Company, through PSCI, held 50% of the membership units in Innovatix at June 30, 2016 and 2015. The Company accounts for its investment in Innovatix using the equity method of accounting. The carrying value of the Company's investment in Innovatix was $9.0 million and $9.3 million at June 30, 2016 and 2015, respectively, and is classified as long-term and included in other assets in the accompanying consolidated balance sheets. The Company's 50% ownership share of Innovatix's net income included in equity in net income of unconsolidated affiliates in the accompanying consolidated statements of income was $21.8 million, $21.3 million and $17.0 million for the years ended June 30, 2016, 2015 and 2014, respectively, all of which is included in the supply chain services segment.

On May 1, 2015, the Company, through its consolidated subsidiary, PSCI, purchased 5,000,000 units of Class B Membership Interests in PharmaPoint, LLC ("PharmaPoint") for $5.0 million, which represented a 28% ownership interest in PharmaPoint. The remaining 72% ownership interest is held by Nations Pharmaceuticals, LLC through its 13,000,000 units of Class A Membership Interests. The Company accounts for its investment in PharmaPoint using the equity method of accounting. The carrying value of the Company's investment in PharmaPoint was $4.6 million and $5.0 million at June 30, 2016 and 2015, respectively, and is classified as long-term and included in other assets in the accompanying consolidated balance sheets. The Company's share of PharmaPoint's net loss was $0.4 million and $0.1 million for the years ended June 30, 2016 and 2015, respectively. The PharmaPoint

net loss is included in equity in net income from unconsolidated affiliates in the accompanying consolidated statements of income and is included in the supply chain services segment.
The Company obtained a 49% ownership interest in Pharmacy Quality Solutions, Inc. ("PQS") through its acquisition of CECity in August 2015 (see Note 4 - Business Acquisitions). PQS provides medication use quality assessment services through its EquiPP platform which is utilized by U.S. pharmacies, including major retail chains with monthly medication data for approximately 40 million individuals. The Company recorded zero net income from unconsolidated affiliates for the year ended June 30, 2016. The Company accounts for its investment in PQS under the equity method. The carrying value of the Company's investment in PQS was zero at June 30, 2016.
On January 28, 2016, the Company, through its consolidated subsidiary, PSCI, purchased 5,250,000 Class B Membership Units in BloodSolutions, LLC ("Bloodbuy") for $2.3 million, which represented a 15% ownership interest in Bloodbuy. The Company accounts for its investment in Bloodbuy using the equity method of accounting as the Company has rights to appoint a board member. The carrying value of the Company's investment in Bloodbuy was $2.2 million at June 30, 2016, and is classified as long-term and included in other assets in the accompanying consolidated balance sheets. The Company's share of Bloodbuy's net loss was $0.1 million for the year ended June 30, 2016. The Bloodbuy net loss is included in equity in net income from unconsolidated affiliates in the accompanying consolidated statements of income and is included in the supply chain services segment.
(13) DEBT
Long-term debt consists of the following (in thousands):

	Commitment Amount	Due Date	June 30, 2016 Balance Outstanding	June 30, 2015 Balance Outstanding
Credit Facility	$ 750,000	June 24, 2019	$ —	$ —
Notes Payable	—	Various	19,342	17,935
			19,342	17,935
Less: current portion			(5,484)	(2,256)
Total long-term debt			$ 13,858	$ 15,679

Credit Facility
On June 24, 2014, Premier LP, along with its consolidated subsidiaries, PSCI and PHSI, as Co-Borrowers, Premier GP and certain domestic subsidiaries of Premier GP, as guarantors, entered into an unsecured Credit Facility, dated as of June 24, 2014, and amended on June 4, 2015 (the "Credit Facility"). The Credit Facility provides for borrowings of up to $750.0 million with (i) a $25.0 million sub-facility for standby letters of credit and (ii) a $75.0 million sub-facility for swingline loans. The Credit Facility may be increased from time to time at the Company's request up to an aggregate additional amount of $250.0 million, subject to lender approval. The Credit Facility includes an unconditional and irrevocable guaranty of all obligations under the Credit Facility by Premier GP, certain domestic subsidiaries of Premier GP and future guarantors, if any. Premier, Inc. is not a guarantor under the Credit Facility.
At the Company's option, committed loans may be in the form of eurodollar rate loans ("Eurodollar Loans") or base rate loans ("Base Rate Loans"). Eurodollar Loans bear interest at the eurodollar rate (defined as the London Interbank Offered Rate, or LIBOR, plus the Applicable Rate (defined as a margin based on the Consolidated Total Leverage Ratio (as defined in the Credit Facility))). Base Rate Loans bear interest at the Base Rate (defined as the highest of the prime rate announced by the administrative agent, the federal funds effective rate plus 0.50% or the one-month LIBOR plus 1.0%) plus the Applicable Rate. The Applicable Rate ranges from 1.125% to 1.75% for Eurodollar Rate Loans and 0.125% to 0.75% for Base Rate Loans. To fund the CECity acquisition the Company utilized $150.0 million of the Credit Facility (see Note 4 - Business Acquisitions), of which $50.0 million was repaid in each of November 2015, February 2016 and May 2016. At June 30, 2016, the interest rate for three-month Eurodollar Rate Loans was 1.779% and the interest rate for Base Rate Loans was 3.625%. The Co-Borrowers are required to pay a commitment fee ranging from 0.125% to 0.250% per annum on the actual daily unused amount of commitments under the credit facility. At June 30, 2016, the commitment fee was 0.125%.

The Credit Facility contains customary representations and warranties as well as customary affirmative and negative covenants, including, among others, limitations on liens, indebtedness, fundamental changes, dispositions, restricted payments and investments of which certain covenant calculations use EBITDA, a non-GAAP measure. Under the terms of the Credit Facility, Premier GP is not permitted to allow its consolidated total leverage ratio (as defined in the Credit Facility) to exceed 3.00 to 1.00 for any period of four consecutive quarters. In addition, Premier GP must maintain a minimum consolidated interest coverage ratio (as defined in the Credit Facility) of 3.00 to 1.00 at the end of every fiscal quarter. The Company was in compliance with all such covenants at June 30, 2016.

The Credit Facility also contains customary events of default including, among others, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults of any indebtedness or guarantees in excess of $30.0 million, bankruptcy and other insolvency events, judgment defaults in excess of $30.0 million, and the occurrence of a change of control (as defined in the Credit Facility). If any event of default occurs and is continuing, the administrative agent under the Credit Facility may, with the consent, or shall, at the request, of the required lenders, terminate the commitments and declare all of the amounts owed under the Credit Facility to be immediately due and payable. The Company may prepay amounts outstanding under the Credit Facility without premium or penalty provided that Co-Borrowers compensate the lenders for losses and expenses incurred as a result of the prepayment of any Eurodollar Loan, as defined in the Credit Facility.

Proceeds from borrowings under the Credit Facility may generally be used to finance ongoing working capital requirements, including permitted acquisitions and other general corporate purposes. As of June 30, 2016 and 2015, there were no outstanding borrowings under the Credit Facility. As of June 30, 2016, the Company had approximately $25.0 million available under the letter of credit commitments.

Interest expense incurred during the year ended June 30, 2016 was $2.7 million and cash paid for interest during the year ended June 30, 2016 was $2.1 million.

S2S Global Line of Credit

On February 2, 2015, the Company purchased the remaining 40% of the outstanding limited liability company membership interests of S2S Global. In connection with the purchase, the Company repaid the $14.2 million balance outstanding under the S2S Global line of credit and terminated the S2S Global line of credit prior to its maturity date.

Notes Payable

At June 30, 2016 and 2015, the Company had $19.3 million and $17.9 million, respectively, in notes payable consisting primarily of non-interest bearing notes payable outstanding to departed member owners, of which $5.5 million and $2.2 million, respectively, are included in current portion of long-term debt and $13.9 million and $15.7 million, respectively, are included in long-term debt, less current portion, in the accompanying consolidated balance sheets. Notes payable generally have stated maturities of five years from their date of issuance.

Future minimum principal payments as of June 30, 2016 are as follows (in thousands):

2017	$5,484
2018	7,995
2019	260
2020	2,420
2021	3,183
Thereafter	—
Total principal payments	$19,342

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(14) OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following (in thousands):

	June 30,	
	2016	2015
Deferred rent	$16,049	$15,996
Reserve for uncertain tax positions	3,815	3,436
Earn-out liability, less current portion	3,659	—
Accrued compensation	455	1,482
Total other long-term liabilities	$23,978	$20,914

(15) REDEEMABLE LIMITED PARTNERS' CAPITAL

At June 30, 2013, redeemable limited partners' capital represents the limited partners' 99% ownership of Premier LP. Pursuant to the terms of the historical limited partnership agreement, Premier LP was required to repurchase a limited partner's interest in Premier LP upon the sale of such limited partner's shares of PHSI common stock, such limited partner's withdrawal from Premier LP or such limited partner's failure to comply with the applicable purchase commitments under the existing limited partnership agreement of Premier LP. As a result, the redeemable limited partners' capital is classified as temporary equity in the mezzanine section of the consolidated balance sheets since (i) the withdrawal is at the option of each limited partner and (ii) the conditions of the repurchase are not solely within the Company's control.

Upon the consummation of the Reorganization and IPO, each limited partner's shares of PHSI were contributed for Class B common units of Premier LP. Commencing on October 31, 2014, and during each year thereafter, each limited partner has the cumulative right to exchange up to one-seventh of its initial allocation of Class B common units for shares of Class A common stock, cash or a combination of both, the form of consideration to be at the discretion of the Company's independent audit committee of the board of directors.

Redeemable limited partners' capital represents the member owners' 68% ownership of Premier LP at June 30, 2016. The limited partners hold the majority of the votes of the board of directors and any redemption or transfer or choice of consideration cannot be assumed to be within the control of the Company. As such, classification outside of permanent equity is still required and the redeemable limited partners' capital is recorded at the redemption amount, which represents the greater of the book value or redemption amount per the LP Agreement, and is classified as temporary equity in the mezzanine section of the consolidated balance sheet at June 30, 2016. As previously discussed, the Company records redeemable limited partners' capital at the greater of the book value or redemption amount per the LP Agreement that the Company calculates as the fair value of all Class B common units, as if immediately exchangeable into Class A common shares. For the years ended June 30, 2016, 2015 and 2014 the Company recorded an adjustment to fair value for the redemption amount to redeemable limited partners' capital of $(776.8) million, $904.0 million and $2,741.6 million respectively.

During the year ended June 30, 2016, the Company recorded a reduction of $267.7 million to redeemable limited partners' capital to reflect the exchange of Class B common units and associated shares of Class B common stock by the member owners for a like number of shares of the Company's Class A common stock pursuant to the terms of the Exchange Agreement. The following table summarizes the number of Class B common units and associated shares of Class B common stock exchanged by member owners for a like number of shares of the Company's Class A common stock during the year ended June 30, 2016 (in thousands, except share amounts):

Date of Quarterly Exchange	Number of Class B Common Units Exchanged	Reduction in Redeemable Limited Partners' Capital
July 31, 2015	91,374	$ 3,268
November 2, 2015	5,830,458	206,281
February 1, 2016	1,591,807	51,049
May 2, 2016	209,359	7,083

7,722,998 $ 267,681

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The table below shows the changes in redeemable limited partners' capital classified as temporary equity from June 30, 2013 to June 30, 2016 (in thousands):

	Receivables From Limited Partners	Redeemable Limited Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Redeemable Limited Partners' Capital
June 30, 2013	$ (56,571)	$ 364,219	$ (13)	$ 307,635
Issuance of redeemable limited partnership interest for notes receivable	(7,860)	7,860	—	—
Receipts on receivables from limited partners	12,706	—	—	12,706
Distributions and reductions applied to receivables from limited partners	33,586	(28,009)	—	5,577
Redemption of limited partners	—	(1,781)	—	(1,781)
Net income attributable to Premier LP	—	303,336	—	303,336
Distributions to limited partners	—	(348,277)	—	(348,277)
Contribution of PHSI common stock in connection with the IPO	—	76,916	—	76,916
Purchase of Class A common units from Premier LP	—	247,742	—	247,742
Purchase of Class B common units from PHSI	—	30,072	—	30,072
Acquisition of non-controlling interest from members	—	(131,000)	(3)	(131,003)
Net unrealized gain on marketable securities	—	—	163	163
Adjustment to redemption amount	—	2,741,588	—	2,741,588
June 30, 2014	$ (18,139)	$ 3,262,666	$ 147	$ 3,244,674
Distributions applied to receivables from limited partners	6,506	—	—	6,506
Redemption of limited partners	—	(2,046)	—	(2,046)
Net income attributable to Premier LP	—	194,206	—	194,206
Distributions to limited partners	—	(92,273)	—	(92,273)
Net unrealized loss on marketable securities	—	—	(155)	(155)
Exchange of Class B common units for Class A common stock by member owners	—	(175,115)	—	(175,115)
Adjustment to redemption amount	—	904,035	—	904,035
June 30, 2015	$ (11,633)	$ 4,091,473	$ (8)	$ 4,079,832
Distributions and notes payable applied to receivables from limited partners	5,407	—	—	5,407
Redemption of limited partners	—	(4,281)	—	(4,281)
Net income attributable to Premier LP	—	193,547	—	193,547
Distributions to limited partners	—	(92,767)	—	(92,767)
Net unrealized loss on marketable securities	—	—	(77)	(77)
Exchange of Class B common units for Class A common stock by member owners	—	(267,681)	—	(267,681)
Adjustment to redemption amount	—	(776,750)	—	(776,750)
June 30, 2016	$ (6,226)	$ 3,143,541	$ (85)	$ 3,137,230

Receivables from limited partners represent amounts due from limited partners for their required capital in Premier LP. These receivables are either interest bearing notes issued to new limited partners or non-interest bearing loans (contribution loans) provided to existing limited partners and are reflected as a reduction in redeemable limited partners' capital so that amounts due from limited partners for capital are not reflected as redeemable limited partnership capital until paid. No interest bearing notes receivable were executed by limited partners of Premier LP during the years ended June 30, 2016 and 2015.

During the year ended June 30, 2016, six limited partners withdrew from Premier LP. The limited partnership agreement provides for the redemption of the former limited partner's Class B common units that are not eligible for exchange in the form

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of a five-year, unsecured, non-interest bearing term promissory note, a cash payment equal to the present value of the redemption amount, or other mutually agreed upon terms. Partnership interest obligations to the former limited partners are reflected in notes payable in the accompanying consolidated balance sheets.

Prior to the consummation of the Reorganization and IPO, Premier LP maintained a discretionary distribution policy in which semi-annual cash distributions were made each February attributable to the recently completed six months ended December 31 and each September attributable to the recently completed six months ended June 30. As provided in the then existing limited partnership agreement, the amount of actual cash distributed may have been reduced by the amount of such distributions used by limited partners to offset contribution loans or other amounts payable to the Company.

Upon the consummation of the Reorganization and IPO, Premier LP amended its distribution policy in which cash distributions will be required, as long as taxable income is generated and cash is available to distribute, on a quarterly basis prior to the 60th day after the end of each calendar quarter instead of a semi-annual basis. The Company makes quarterly distributions to its limited partners in the form of a legal partnership income distribution governed by the terms of the LP Agreement. These partner distributions are based on the limited partner’s ownership in Premier LP and relative participation across Premier service offerings. While these distributions are based on relative participation across Premier service offerings, it is not based directly on revenue generated from an individual partner’s participation as the distributions are based on the net income or loss of the Partnership which encompass the operating expenses of the Partnership as well as participation by non-owner members in Premier’s service offerings. To the extent Premier LP incurred a net loss, the partners would not receive a quarterly distribution. As provided in the limited partnership agreement, the amount of actual cash distributed may be reduced by the amount of such distributions used by limited partners to offset contribution loans or other amounts payable to the Company.

Premier LP made a quarterly distribution on August 27, 2015 to its limited partners of $22.4 million, which is equal to Premier LP's total taxable income for the three months ended June 30, 2015 multiplied by the Company's standalone effective combined federal, state and local income tax rate.

Premier LP made a quarterly distribution on November 25, 2015 to its limited partners of $23.1 million, which is equal to Premier LP's total taxable income for the three months ended September 30, 2015 multiplied by the Company's standalone effective combined federal, state and local income tax rate.

Premier LP made a quarterly distribution on February 25, 2016 to its limited partners of $22.5 million, which is equal to Premier LP's total taxable income for the three months ended December 31, 2015 multiplied by the Company's standalone effective combined federal, state and local income tax rate.

Premier LP made a quarterly distribution on May 26, 2016 to its limited partners of $24.7 million, which is equal to Premier LP's total taxable income for the three months ended March 31, 2016 multiplied by the Company's standalone effective combined federal, state and local income tax rate.

Premier LP made a quarterly distribution on August 25, 2016 to its limited partners of $22.5 million, which is equal to Premier LP's total taxable income for the three months ended June 30, 2016 multiplied by the Company's stand-alone effective combined federal, state and local income tax rate. The distribution is reflected in limited partners' distribution payable in the accompanying consolidated balance sheet at June 30, 2016.

(16) STOCKHOLDERS' DEFICIT

As of June 30, 2016, there were 45,995,528 shares of the Company's Class A common stock, par value $0.01 per share, and 96,132,723 shares of the Company's Class B common stock, par value $0.000001 per share, outstanding. Holders of Class A common stock are entitled to (i) one vote for each share held of record on all matters submitted to a vote of stockholders, (ii) receive dividends, when and if declared by the board of directors out of funds legally available therefore, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock or any class of series of stock having a preference over or the right to participate with the Class A common stock with respect to the payment of dividends or other distributions and (iii) receive pro rata, based on the number of shares of Class A common stock held, the remaining assets available for distribution upon the dissolution or liquidation of Premier, after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any.

Holders of Class B common stock are (i) entitled to one vote for each share held of record on all matters submitted to a vote of stockholders and (ii) not entitled to receive dividends or to receive a distribution upon the dissolution or a liquidation of Premier, other than dividends payable in shares of Premier's common stock. Pursuant to the Voting Trust Agreement, the trustee will vote all of the 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 the board of directors, and by a majority of the votes received by the trustee from the member owners for all other matters. Class B common stock will not be listed on any stock exchange and, except in connection with any permitted sale or transfer of Class B common units, cannot be sold or transferred.

(17) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share of Premier is computed by dividing net income (loss) attributable to stockholders by the weighted average number of shares of common stock outstanding for the period. Net income (loss) attributable to stockholders reflects the adjustment recorded in the period to reflect redeemable limited partners' capital at the redemption amount, as a result of the benefit obtained by limited partners through the ownership of Class B common units. Except when the effect would be anti-dilutive, the diluted earnings per share calculation, which is calculated using the treasury stock method, includes the impact of non-vested restricted stock units, shares of non-vested performance share awards, shares that could be issued under the outstanding stock options and the effect of the assumed redemption of Class B common shares through the issuance of Class A common shares.

The following table provides a reconciliation of common shares used for basic earnings (loss) per share and diluted earnings (loss) per share (in thousands, except per share amounts):

	Year Ended June 30,		
	2016 (d)	2015 (d)	2014 (e)
Numerator for basic earnings (loss) per share:			
Net income (loss) attributable to stockholders	$818,364	$(865,292)	$(2,713,256)
Numerator for diluted earnings (loss) per share:			
Net income attributable to stockholders	$818,364	$—	$—
Adjustment of redeemable limited partners' capital to redemption amount	(776,750)	—	—
Net income attributable to non-controlling interest in Premier LP	193,547	—	—
Net income	235,161	—	—
Tax effect on Premier Inc. net income (a)	(41,497)	—	—
Adjusted net income	$193,664	$—	$—
Denominator for basic earnings (loss) weighted average shares (b)	42,368	35,681	25,633
Denominator for diluted earnings (loss) per share:			
Effect of dilutive securities: (c)			
Stock options	348	—	—
Restricted stock	589	—	—
Performance share awards	1,429	—	—
Class B shares outstanding	100,574	—	—
Denominator for diluted earnings (loss) per share-adjusted:			
Weighted average shares and assumed conversions	145,308	35,681	25,633
Basic earnings (loss) per share	$19.32	$(24.25)	$(105.85)
Diluted earnings (loss) per share	$1.33	$(24.25)	$(105.85)

(a) Represents income tax expense related to Premier, Inc. retaining the portion of net income attributable to income from non-controlling interest in Premier, LP for the purpose of diluted earnings per share.

(b) Weighted average number of common shares used for basic earnings (loss) per share excludes weighted average shares of non-vested stock options, non-vested restricted stock, non-vested performance share awards and Class B shares outstanding for the years ended June 30, 2016, 2015 and 2014, respectively.

(c) For the year ended June 30, 2016, the effect of 1,292 stock options were excluded from the diluted weighted average shares outstanding as they have an anti-dilutive effect on the weighted average shares outstanding. For the year ended June 30, 2015, the effect of 60, 354 and 634 stock options, restricted stock units and performance share awards, respectively, were excluded from the diluted weighted average shares outstanding due to the net loss sustained for the respective period. Further, 106,383 Class B common units exchangeable for Class A common shares was excluded from the dilutive weighted average shares outstanding because to do so would have been anti-dilutive for the period presented. For the year ended June 30, 2014, the effect of 124 restricted stock units were excluded from the diluted weighted average shares outstanding due to the net loss sustained for the respective period. Further, 112,511 Class B common units exchangeable for Class A common shares was excluded from the dilutive weighted average shares outstanding because to do so would have been anti-dilutive for the period presented.

(d) The weighted average shares calculation is based on Premier, Inc. common shares outstanding for the years ended June 30, 2016 and 2015.

(e) The weighted average shares calculation is based on a combination of the PHSI historical common shares outstanding for the three months ended September 30, 2013 and the Premier, Inc. common shares outstanding for the period from September 25, 2013 to June 30, 2014.

Pursuant to the terms of the Exchange Agreement, Premier has issued, on a quarterly basis, shares of Class A common stock to member owners in exchange for a like number of Class B common units of Premier LP. In connection with the exchange of Class B common units by member owners, shares of Premier's Class B common stock are surrendered by member owners and retired. The following table presents certain information regarding the exchange of Class B common units and associated Class B common stock for Premier's Class A common stock in connection with the quarterly exchanges pursuant to the terms of the Exchange Agreement:

Date of Quarterly Exchange	Number of Class B Common Units Exchanged	Number of Class B Common Shares Retired Upon Exchange	Number of Class B Common Units Outstanding After Exchange	Number of Class B Common Shares Outstanding After Exchange	Number of Class A Common Shares Outstanding After Exchange	Percentage of Combined Voting Power Class B/Class A Common Stock
July 31, 2015	91,374	91,374	106,078,063	106,078,063	37,762,544	74%/26%
November 2, 2015	5,830,458	5,830,458	100,150,698	100,150,698	43,600,976	70%/30%
February 1, 2016	1,591,807	1,591,807	96,802,070	96,802,070	45,239,204	68%/32%
May 2, 2016	209,359	209,359	96,132,723	96,132,723	45,554,075	68%/32%
August 1, 2016 [(a)]	1,323,654	1,323,654	94,809,069	94,809,069	47,365,528	67%/33%

(a) As the quarterly exchange occurred on August 1, 2016, the impact of the exchange is not reflected in the consolidated financial statements for the year ended June 30, 2016.

(18) STOCK-BASED COMPENSATION

Stock-based compensation expense is recognized over the requisite service period, which generally equals the stated vesting period. Pre-tax stock-based compensation expense was $48.7 million, $28.5 million and $19.5 million for the years ended June 30, 2016, 2015 and 2014, respectively, with a resulting deferred tax benefit of $18.5 million, $10.8 million and $7.4 million, respectively, calculated at a rate of 38%, which represents the expected effective income tax rate at the time of the compensation expense deduction and differs from the Company's current effective income tax rate due to enacted state income tax rate changes.

At June 30, 2016, there was $31.0 million of unrecognized stock-based compensation expense related to non-vested awards that will be amortized over 1.88 years.

Premier 2013 Equity Incentive Plan

The Premier 2013 Equity Incentive Plan (the "2013 Equity Incentive Plan") provides for grants of up to 11,260,783 shares of Class A common stock, all of which are eligible to be issued as non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units or performance awards. As of June 30, 2016, there were 5,493,425 shares available for grant under the 2013 Equity Incentive Plan.

Restricted Stock

Restricted stock units ("RSU") and restricted stock awards ("RSA") issued and outstanding generally vest over a three-year period for employees and a one-year period for directors. The following table includes information related to restricted stock unit awards for the year ended June 30, 2016:

	Number of Shares	Weighted Average Fair Value at Grant Date
Outstanding at June 30, 2015	819,091	$ 28.15
Granted	255,780	$ 35.10
Vested	(630,818)	$ 27.17
Forfeited	(40,936)	$ 30.33
Outstanding at June 30, 2016	403,117	$ 33.86

At June 30, 2016, there was $8.1 million of unrecognized stock-based compensation expense related to non-vested awards that will be amortized over 1.93 years.

Performance Share Awards

Performance share awards issued and outstanding generally vest over three years if performance targets are met. The following table includes information related to performance share awards for the year ended June 30, 2016:

	Number of Shares	Weighted Average Fair Value at Grant Date
Outstanding at June 30, 2015	1,091,868	$ 28.19
Granted	380,349	$ 35.50
Vested [(a)]	—	$ —
Forfeited	(28,509)	$ 32.93
Outstanding at June 30, 2016	1,443,708	$ 30.02

(a) As of June 30, 2016, 815,016 performance shares vested but were subject to approval by the Compensation Committee of the Company's Board of Directors. These shares were included in the number of awards outstanding at June 30, 2016. The distribution of vested shares was approved on August 10, 2016 and distributed on August 23, 2016, on which date the classification of the shares was changed from outstanding to vested.

At June 30, 2016, there was $12.2 million of unrecognized stock-based compensation expense related to performance share awards that will be amortized over 1.84 years.

Stock Options

Stock options have a term of 10 years from the date of grant. Vested stock options will expire either after 12 months of an employee's termination with Premier or immediately upon an employee's termination with Premier, depending on the termination circumstances. Stock options generally vest in equal annual installments over three years. The following table includes information related to stock options for the year ended June 30, 2016:

	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2015	2,643,078	$ 28.24
Granted	863,717	$ 35.47
Exercised	(129,458)	$ 27.44

Forfeited	(62,676)	$ 34.16
Outstanding at June 30, 2016	3,314,661	$ 30.04
Outstanding and exercisable at June 30, 2016	2,074,973	$ 27.51

The aggregate intrinsic value of stock options outstanding at June 30, 2016 and 2015 was $11.3 million and $27.0 million, respectively. The aggregate intrinsic value of stock options outstanding and exercisable at June 30, 2016 and 2015 was $10.8 million and $15.0 million, respectively. At June 30, 2016 and 2015, the aggregate intrinsic value of stock options expected to vest was $0.5 million and $12.0 million, respectively. The intrinsic value of stock options exercised during the year ended June 30, 2016 and 2015 was $0.8 million and $0.5 million, respectively. There were no stock options exercised during the year ended June 30, 2014.

At June 30, 2016, there was $10.7 million of unrecognized stock-based compensation expense related to stock options that will be amortized over 1.91 years.

The Company estimates the fair value of each stock option on the date of grant using a Black-Scholes option pricing model, applying the following assumptions, and amortizes expense over the option's vesting period using the straight-line attribution approach:

	June 30,		
	2016	2015	2014
Expected life [(a)]	6 years	6 years	6 years
Expected dividend [(b)]	—	—	—
Expected volatility [(c)]	32.7% - 33.5%	34.8% - 39.5%	42.0%
Risk-free interest rate [(d)]	1.15% - 1.82%	1.66% - 1.89%	1.71%
Weighted average option grant date fair value	$11.11 - $12.40	$12.82 - $14.15	$11.46

(a) The six-year expected life (estimated period of time outstanding) of stock options granted was estimated using the "Simplified Method" which utilizes the midpoint between the vesting date and the end of the contractual term. This method was utilized for the stock options due to the lack of historical exercise behavior of Premier's employees.

(b) No dividends are expected to be paid over the contractual term of the stock options granted, resulting in the use of a zero expected dividend rate.

(c) The expected volatility rate is based on the observed historical volatilities of comparable companies.

(d) The risk-free interest rate was interpolated from the five-year and seven-year United States Treasury constant maturity market yield as of the date of the grant.

(19) PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Company has a defined contribution 401(k) retirement savings plan ("the 401(k) plan") which covers employees who meet certain age and service requirements.

The Company had a defined contribution pension plan that was terminated in December 2014 and subsequently incorporated into the Company's defined contribution 401(k) plan. The pension plan provided for monthly contributions of 5% of the participant's compensation, not to exceed certain limits. Pension expense, included in selling, general and administrative expenses in the accompanying consolidated statements of income, was $3.9 million and $8.2 million for the years ended June 30, 2015 and 2014, respectively.

The 401(k) plan provides for monthly employee contributions of up to 20% and matching monthly employer contributions up to 4% of the participant's compensation, not to exceed certain limits. The 401(k) expense, included in selling, general and administrative expenses in the accompanying consolidated statements of income, was $8.5 million, $6.6 million and $6.8 million for the years ended June 30, 2016, 2015 and 2014, respectively.

The Company maintains a non-qualified deferred compensation plan for the benefit of eligible employees. This plan is designed to permit employee deferrals in excess of certain tax limits and provides for discretionary employer contributions, in excess of the tax limits applicable to the pension, which terminated on December 31, 2014, and 401(k) plans. See Note 3 - Significant Accounting Policies.

(20) INCOME TAXES

The Company's income tax expense is attributable to the activities of the Company, PHSI and PSCI, all of which are subchapter C corporations. Under the provisions of federal and state statutes, Premier LP is not subject to federal and state income taxes. For federal and state income tax purposes, income realized by Premier LP is taxable to its partners. The Company, PHSI and PSCI are subject to U.S. federal and state income taxes.

Significant components of the consolidated expense for income taxes are as follows, (in thousands):

	June 30,		
	2016	2015	2014
Current:			
Federal	$19,765	$15,240	$14,331
State	4,242	2,808	3,558
Total current expense	24,007	18,048	17,889
Deferred:			
Federal	15,703	15,770	8,832
State	10,011	2,524	988
Total deferred expense	25,714	18,294	9,820
Provision for income taxes	$49,721	$36,342	$27,709

The Company's effective income tax rate differs from income taxes recorded at the statutory rate primarily due to partnership income not subject to federal income taxes. A reconciliation of the amount at the statutory federal income tax rate to the actual tax expense is as follows, (in thousands):

	June 30,		
	2016	2015	2014
Computed tax expense	$99,709	$94,895	$126,115
Partnership income (federal) not subject to tax to the Company	(85,063)	(82,751)	(109,445)
State taxes (net of federal benefit)	664	1,961	2,136
Meals and entertainment and other permanent items	1,051	1,840	972
Research and development credits	(1,562)	(2,160)	(639)
Benefit on subsidiaries treated separately for income tax purposes	(7,497)	(6,323)	—
Gain on intercompany sale of Premier Plans, LLC	—	—	11,908
Change in valuation allowance	36,279	28,210	(3,150)
Deferred tax revaluation	8,080	—	—
Other	(1,940)	670	(188)
Provision for income taxes	$49,721	$36,342	$27,709
Effective income tax rate	17.5 %	13.4 %	7.7 %

The effective tax rate has increased from the prior years as a result of the increase in valuation allowance recorded against deferred tax assets and PHSI and tax expense associated with revaluing the deferred tax assets at Premier associated with a reduction in the North Carolina state income tax rate for years 2016 and beyond that was not present in the prior year.

Deferred Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of June 30, 2016 and 2015 are presented below (in thousands):

	June 30, 2016	2015
Deferred tax asset		
Partnership basis differences in Premier LP	$413,408	$337,889
Stock compensation	36,884	18,079
Accrued expenses	33,438	34,281
Net operating losses and credits	24,753	8,791
Other	5,073	7,301
Total deferred tax assets	513,556	406,341
Valuation allowance for deferred tax assets	(64,958)	(28,679)
Net deferred tax assets	448,598	377,662
Deferred tax liability		
Purchased intangible assets and depreciation	(25,749)	(23,939)
Net deferred tax asset	$422,849	$353,723

At June 30, 2016, the Company had federal and state net operating loss carryforwards of $49.6 million and $52.5 million, respectively, primarily attributable to PHSI. The resulting federal and state deferred tax assets are approximately $17.4 million and $2.3 million, respectively. The federal and state net operating loss carryforwards expire between the years ended June 30, 2018 through June 30, 2036, unless utilized. We believe it is more likely than not that a portion of these net operating loss will be carried back to offset tax liabilities in the prior years. However, there are federal and state loss carryforwards for which a valuation allowance was established as these losses are not expected to be utilized prior to their expiration.

At June 30, 2016, the Company had federal research and development credit carryforwards of $5.1 million and nominal state credit carryforwards. The federal credit carryforwards expire at various times between the years ended June 30, 2020 through June 30, 2036, unless utilized. A valuation allowance was established as the Company believes it is more likely than not that a significant portion of the federal and state credit carryforwards will not be realized in the near future.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Annually, the Company assesses the future realization of the tax benefit of its existing deferred tax assets and determines whether a valuation allowance is needed. Based on the Company's assessment, we have concluded that it is more likely than not that some of the deferred tax assets will not be realized in the future. As a result, the Company recorded a valuation allowance of $65.0 million against its deferred tax assets at June 30, 2016, an increase of $36.3 million from the $28.7 million valuation allowance recorded as of June 30, 2015.

As of June 30, 2016 and 2015, the Company had recognized net deferred tax assets of $422.8 million and $353.7 million, respectively. The increase of $69.1 million in deferred tax assets was primarily attributable to (i) the increase of $99.8 million in connection with the exchange of member owner Class B common units pursuant to the Exchange Agreement that occurred during fiscal year 2016 and (ii) $18.6 million recorded in the ordinary course of business, partially offset by (i) reductions in deferred tax assets of $8.0 million recorded in connection with adjusting the basis in assets related to the North Carolina state income tax rate reduction, (ii) a $5.0 million decrease in deferred tax asset attributable to tax receivable payments that are no longer due to departed member owners and (iii) a valuation allowance recorded against deferred tax assets of $36.3 million at PHSI. The deferred tax benefits of $94.8 million associated with the exchanges of member owner Class B shares and departed member owners are directly reported to contributed capital, resulting in a deferred income tax expense of $25.7 million in the year ended June 30, 2016.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which requires companies to classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating into current and non-current. As noted in Note 3 - Significant Accounting Policies, the Company elected to early adopt the provisions of this guidance on a retrospective basis, the result of which was to reclassify approximately $8.0 million of deferred tax assets classified as current to non-current at June 30, 2015.

In accordance with the prescribed guidance, the Company’s consolidated balance sheet at June 30, 2015 has been retrospectively adjusted to apply the new guidance as summarized in the table below (in thousands):

	June 30, 2015 As Reported	Adjustment	June 30, 2015 As Adjusted
Deferred income tax asset - current	$ 8,005	$ (8,005)	$ —
Deferred income tax asset	345,718	8,005	353,723
Total	$ 353,723	$ —	$ 353,723

Unrecognized Tax Benefits

The Company recognizes income tax benefits for those income tax positions determined more likely than not to be sustained upon examination, based on the technical merits of the positions. The reserve for uncertain income tax positions is included in other liabilities in the consolidated balance sheet. A reconciliation of the beginning and ending gross amounts of the Company's uncertain tax position reserves for the years ended June 30, 2016, 2015 and 2014 are as follows:

	June 30, 2016	2015	2014
Beginning of year balance	$ 3,436	$ 1,438	$ 759
Increases in prior period tax positions	318	1,185	353
Decreases in prior period tax positions	(201)	—	—
Decreases due to lapse in statute of limitations	(721)	(225)	(253)
Increases in current period tax positions	1,549	1,038	579
End of year balance	$ 4,381	$ 3,436	$ 1,438

If the Company were to recognize the benefits of these uncertain tax positions, the income tax provision and effective tax rate would be impacted by $3.4 million, $3.2 million and $1.4 million, including interest and penalties and net of the federal and state benefit for income taxes, for the years ended June 30, 2016, 2015 and 2014, respectively. The Company recognizes interest and penalties accrued on uncertain income tax positions as part of the income tax provision. The amount of accrued interest and penalties was $0.4 million and $0.2 million at June 30, 2016 and 2015.

The Company has determined that it is reasonably possible that its existing reserve for uncertain income tax positions at June 30, 2016 will change in the next twelve months; however, the Company does not expected the changes to have a material impact on its consolidated financial statements.

In the second quarter of fiscal year 2016, the IRS examination of PHSI’s income tax return for tax year ended June 30, 2013 was settled with no adjustment. Federal tax returns for tax years ended June 30, 2014 and 2015 remain open as of June 30, 2016. Furthermore, the Company is subject to ongoing state and local examinations for various periods. Activity related to these state and local examinations did not have a material impact on the Company’s financial position or results of operations, nor does the company anticipate a material impact in the future.

The Company made cash tax payments of $24.9 million during the year ended June 30, 2016.

(21) RELATED PARTY TRANSACTIONS

GNYHA Services, Inc. ("GNYHA") and its member organizations owned approximately 11% of the outstanding partnership interests in Premier LP as of June 30, 2016. Net administrative fees revenue based on purchases by GNYHA and its member organizations was $66.8 million, $60.9 million and $62.0 million for the years ended June 30, 2016, 2015 and 2014, respectively. The Company has a contractual requirement under the GPO participation agreement 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 facilities through Premier LP's GPO supplier contracts. As GNYHA also remits all gross administrative fees collected by GNYHA based on purchases by its member organizations through GNYHA's own GPO supplier contracts, it also receives revenue share from Premier LP equal to 30% of such gross administrative fees remitted to the Company. Approximately $7.6 million and $7.1 million of revenue share obligations in the accompanying consolidated balance sheets relate to revenue share obligations to GNYHA and its member organizations at June 30, 2016 and 2015, respectively. The Company also maintains a group purchasing

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agreement with GNYHA Alternate Care Purchasing Corporation, d/b/a Essensa, under which Essensa utilizes the Company's GPO supplier contracts. Net administrative fees revenue recorded with Essensa was $2.8 million, $2.4 million and $2.0 million for the years ended June 30, 2016, 2015 and 2014, respectively. At June 30, 2016 and 2015, the Company had revenue share obligations to Essensa of $0.2 million.

In addition, of the $22.5 million and $22.4 million limited partners' distribution payable in the accompanying consolidated balance sheets at June 30, 2016 and 2015, respectively, $2.9 million and $3.0 million, respectively, are payable to GNYHA and its member organizations at June 30, 2016 and 2015, respectively. In addition, $32.1 million, $32.6 million and $14.1 million were recorded during the years ended June 30, 2016, 2015 and 2014, respectively, for services and support revenue earned from GNYHA and its member organizations. Services and support revenue increased from the year ended June 30, 2014 to the year ended June 30, 2015 primarily due to the increased participation by GNYHA and its member organizations in the Company's specialty pharmacy program. Receivables from GNYHA and its member organizations, included in due from related parties in the accompanying consolidated balance sheets, were $2.6 million and $3.0 million at June 30, 2016 and 2015, respectively.

The Company's 50% ownership share of Innovatix's net income included in equity in net income of unconsolidated affiliates in the accompanying consolidated statements of income is $21.8 million, $21.3 million and $17.0 million for the years ended June 30, 2016, 2015 and 2014, respectively. The Company maintains a group purchasing agreement with Innovatix under which Innovatix members are permitted to utilize Premier LP's GPO supplier contracts. Gross administrative fees revenue and a corresponding revenue share recorded under the arrangement were $44.3 million, $38.7 million and $35.0 million for the years ended June 30, 2016, 2015 and 2014, respectively. At June 30, 2016 and 2015, the Company had revenue share obligations to Innovatix of $4.2 million and $3.7 million, respectively, in the accompanying consolidated balance sheets.

The Company conducts all operational activities for American Excess Insurance Exchange Risk Retention Group ("AEIX"), a reciprocal risk retention group that provides excess and umbrella healthcare professional and general liability insurance to certain hospital and healthcare system members. The Company is reimbursed by AEIX for actual costs, plus an annual incentive management fee not to exceed $0.5 million per calendar year. The Company received cost reimbursement of $4.3 million, $4.7 million and $4.9 million for the years ended June 30, 2016, 2015 and 2014, respectively, and annual incentive management fees of $0.2 million, $0.5 million and $0.4 million for the years ended June 30, 2016, 2015 and 2014, respectively. As of June 30, 2016 and 2015, $0.5 million and $0.4 million, respectively, in amounts receivable from AEIX are included in due from related parties in the accompanying consolidated balance sheets.

(22) COMMITMENTS AND CONTINGENCIES

The Company leases office space under operating leases. The office space leases provide for escalating rent payments during the lease terms. The Company recognizes rent expense on a straight-line basis over the lease term. Rent and associated operating expenses totaled $10.1 million, $11.4 million and $9.1 million for the years ended June 30, 2016, 2015 and 2014, respectively.

Future minimum lease payments under noncancelable operating leases (with initial lease terms in excess of one year) are as follows (in thousands):

2017	$9,620
2018	8,915
2019	8,722
2020	8,011
2021	7,546
Thereafter	33,235
Total minimum lease payments	$76,049

The Company is not currently involved in any litigation it believes to be significant. The Company is 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. If current or future government regulations, specifically, those with respect to antitrust or healthcare laws, are interpreted or enforced in a manner adverse to the Company or its business, the Company may be subject to enforcement actions, penalties and other material limitations which could have a material adverse effect on the Company's business, financial condition and results of operations.

(23) SEGMENTS

The Company delivers its solutions and manages its business through two reportable business segments, the supply chain services segment and the performance services segment. The supply chain services segment includes the Company's GPO, integrated pharmacy offerings and direct sourcing activities. The performance services segment includes the Company's informatics, collaborative, advisory services and insurance services businesses.

The Company uses Segment Adjusted EBITDA (as defined herein) as its primary measure of profit or loss to assess segment performance and to determine the allocation of resources. The Company also uses Segment Adjusted EBITDA to facilitate the comparison of the segment operating performance on a consistent basis from period to period. The Company defines Segment Adjusted EBITDA as the segment's net revenue and equity in net income of unconsolidated affiliates 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. Non-recurring items are expenses that have not been incurred within the prior two years and are not expected to recur within the next two years. 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.

All reportable segment revenues are presented net of inter-segment eliminations and represent revenues from external customers.

The following tables present net revenue and Segment Adjusted EBITDA (in thousands):

	Year Ended June 30,		
Net Revenue	2016	2015	2014
Supply Chain Services			
Net administrative fees	$498,394	$457,020	$464,837
Other services and support	4,385	1,977	778
Services	502,779	458,997	465,615
Products	326,646	279,261	212,526
Total Supply Chain Services	829,425	738,258	678,141
Performance Services	333,169	268,771	232,408
Total	$1,162,594	$1,007,029	$910,549

	Year Ended June 30,		
Segment Adjusted EBITDA	2016	2015	2014
Supply Chain Services	$439,013	$391,180	$396,470
Performance Services	110,787	90,235	73,898
Corporate	(108,825)	(88,240)	(78,080)
Total	$440,975	$393,175	$392,288

A reconciliation of Segment Adjusted EBITDA to income before income taxes is as follows (in thousands):

	Year Ended June 30,		
	2016	2015	2014
Segment Adjusted EBITDA	$440,975	$393,175	$392,288
Depreciation and amortization	(51,102)	(45,186)	(36,761)
Amortization of purchased intangible assets	(33,054)	(9,136)	(3,062)
Stock-based compensation [(a)]	(49,081)	(28,498)	(19,476)
Acquisition related expenses [(b)]	(15,804)	(9,037)	(2,014)
Strategic and financial restructuring expenses [(c)]	(268)	(1,373)	(3,760)
Adjustment to tax receivable agreement liability [(d)]	4,818	—	(6,215)
ERP implementation expenses [(e)]	(4,870)	—	—
Acquisition related adjustment - deferred revenue [(f)]	(5,624)	(13,371)	—
Equity in net income of unconsolidated affiliates [(g)]	(21,647)	(21,285)	(16,976)
Deferred compensation plan income (expense)	1,605	753	(1,972)
Operating income	265,948	266,042	302,052
Equity in net income of unconsolidated affiliates [(g)]	21,647	21,285	16,976
Interest and investment income (loss), net [(h)]	(1,021)	866	1,019
(Loss) gain on investment [(i)]	—	(1,000)	38,372
Loss on disposal of long-lived assets	—	(15,243)	—
Other (expense) income, net [(j)]	(1,692)	(823)	1,907
Income before income taxes	$284,882	$271,127	$360,326

(a) Represents non-cash employee stock-based compensation expense and $0.4 million stock purchase plan expense in the year ended June 30, 2016.

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

(c) Represents legal, accounting and other expenses directly related to strategic and financial restructuring activities. During the years ended June 30, 2016 and 2015, strategic and financial restructuring expenses were incurred in connection with the company-directed offerings conducted pursuant to the Registration Rights Agreement. During the year ended June 30, 2014, strategic and financial restructuring expenses were incurred in connection with the Reorganization and IPO.

(d) Represents adjustment to tax receivable agreement liability for a 1% decrease in the North Carolina state income tax rate during the year ended June 30, 2016 and 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 during the year ended June 30, 2014.

(e) Represents implementation and other costs associated with the implementation of a new enterprise resource planning ("ERP") system.

(f) Represents non-cash adjustment to deferred revenue of acquired entities. Business combination accounting rules require the Company to record a deferred revenue liability at its fair value only if the acquired deferred revenue represents a legal performance obligation assumed by the acquirer. The fair value is based on direct and indirect incremental costs of providing the services plus a normal profit margin. Generally, this results in a reduction to the purchased deferred revenue balance, which was based on upfront fees associated with software license updates and product support contracts assumed in connection with acquisitions. Because these support contracts are typically one year in duration, our GAAP revenues for the one year period subsequent to the 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 software license updates and product support revenues is intended to include, and thus reflect, the full amount of such revenues.

(g) Represents equity in net income of unconsolidated affiliates primarily generated by the Company's 50% ownership interest in Innovatix, all of which is included in the supply chain services segment.

(h) Represents interest expense (income), net and realized gains and losses on our marketable securities.

(i)

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

(j) Represents loss on sale of assets and unrealized gain (loss) on deferred compensation plan assets.

The following tables present capital expenditures, total assets and depreciation and amortization expense (in thousands):

	Year Ended June 30,		
Capital Expenditures	2016	2015	2014
Supply Chain Services	$914	$1,815	$2,719
Performance Services	62,337	63,435	50,655
Corporate	13,739	5,484	2,366
Total	$76,990	$70,734	$55,740

	June 30,	
Total Assets	2016	2015
Supply Chain Services	$345,219	$466,537
Performance Services	934,588	457,963
Corporate	575,576	605,691
Total	$1,855,383	$1,530,191

	Year Ended June 30,		
Depreciation and Amortization Expense [(a)]	2016	2015	2014
Supply Chain Services	$1,401	$1,964	$1,482
Performance Services	76,500	47,131	33,467
Corporate	6,255	5,227	4,874
Total	$84,156	$54,322	$39,823

(a) Includes amortization of purchased intangible assets.

(24) SUBSEQUENT EVENTS

On July 26, 2016, the Company through its consolidated subsidiary, PSCI, acquired 49% of the issued and outstanding stock of FFF Enterprises, Inc. ("FFF") for $65.7 million in cash. FFF is a distributor of plasma products, vaccines, biosimilars and other specialty pharmaceuticals and biopharmaceuticals, of which Premier, through its group purchasing agreement, and its members are a large existing customer. We will account for the investment in FFF under the equity method of accounting and report it as part of our supply chain services segment.

On August 4, 2016, the North Carolina Department of Revenue notified taxpayers that the state corporate tax rate has been reduced from 4% to 3% for the tax year beginning on or after January 1, 2017. The Company is evaluating the impact and will record adjustments to reflect the effects of the change in the first quarter of the fiscal year 2017.

On August 23, 2016, we closed our previously announced acquisition of Acro Pharmaceutical Services LLC ("Acro") and Community Pharmacy Services, LLC ("Community Pharmacy"). Through our consolidated subsidiary, PSCI, we acquired 100% of the membership interests of Acro and Community Pharmacy for $68.7 million in cash, subject to adjustment based on Acro's and Community Pharmacy's (i) cash on hand, (ii) outstanding indebtedness and (iii) net working capital at closing. The acquisition was funded with available cash on hand. Acro and Community Pharmacy are specialty pharmacy businesses which provide customized healthcare management solutions to their clients. We will report both Acro and Community Pharmacy as part of our supply chain services segment.

(25) QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited summarized financial data by quarter for the years ended June 30, 2016 and 2015 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2016				
Net revenue	$270,835	$291,669	$298,669	301,421
Gross profit	161,712	179,072	186,576	178,178
Net income	52,253	60,995	71,557	50,356
Net income attributable to non-controlling interest	(47,900)	(49,817)	(56,018)	(39,812)
Adjustment of redeemable limited partners' capital to redemption amount	466,801	(65,561)	284,409	91,101
Net income (loss) attributable to stockholders	$471,154	$(54,383)	$299,948	$101,645
Weighted average shares outstanding:				
Basic	37,735	41,575	44,716	45,506
Diluted	145,560	41,575	145,018	144,621
Net income (loss) per share attributable to stockholders:				
Basic	$12.49	$(1.31)	$6.71	$2.23
Diluted	$0.24	$(1.31)	$0.43	$0.30
Fiscal 2015				
Net revenue	$229,308	$249,445	$261,723	$266,553
Gross profit	139,287	154,913	158,908	157,011
Net income	64,887	65,808	72,029	32,061
Net income attributable to non-controlling interest	(55,614)	(56,537)	(59,820)	(24,071)
Adjustment of redeemable limited partners' capital to redemption amount	(382,657)	(42,250)	(387,062)	(92,066)
Net loss attributable to stockholders	$(373,384)	$(32,979)	$(374,853)	$(84,076)
Weighted average shares outstanding:				
Basic	32,376	35,589	37,316	37,576
Diluted	32,376	35,589	37,316	37,576
Net loss per share attributable to stockholders:				
Basic	$(11.53)	$(0.93)	$(10.05)	$(2.24)
Diluted	$(11.53)	$(0.93)	$(10.05)	$(2.24)

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

Not Applicable

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

As of the end of the period covered by this Annual Report, we carried out an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures. Based upon our evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of June 30, 2016.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on its financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of June 30, 2016. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, the COSO framework. Based on our evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2016, our internal control over financial reporting was effective.

Management’s annual evaluation of internal controls over financial reporting did not include an assessment of and conclusion on the effectiveness of internal controls over financial reporting of CECity.com, Inc., Healthcare Insights, LLC or InFlowHealth, LLC which were acquired during the year ended June 30, 2016 and are included in our consolidated financial statements as of June 30, 2016 and for the period from their respective acquisition dates through June 30, 2016. The assets of CECity.com, Inc., Healthcare Insights, LLC and InFlowHealth, LLC represented approximately 22%, 4% and 1%, respectively, of our total assets as of June 30, 2016. CECity.com, Inc. represented approximately 2%, and Healthcare Insights, LLC and InFlowHealth, LLC each represented less than 1%, of our net revenue for the year ended June 30, 2016.

The effectiveness of the Company’s internal control over financial reporting as of June 30, 2016 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

We are in the process of implementing a new comprehensive enterprise resource planning (“ERP”) system. As previously reported, we completed the implementation of certain ERP modules including human resources, payroll and expense reimbursement effective January 1, 2016. In connection with the implementation of these components of the overall ERP system, we updated the processes that constitute our internal control over financial reporting, as necessary, to accommodate related changes to our accounting procedures and business processes. We have continued to work on the implementation of additional ERP modules including core general ledger and related financial reporting components in a phased approach.

Although the processes that constitute our internal control over financial reporting have been materially affected by the implementation of certain ERP modules, these changes were tested for effectiveness and future changes will require testing. Accordingly, we do not believe that the implementation of the ERP system has had or will have a material adverse effect on our internal control over financial reporting.

Except as otherwise described above, there have been no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the quarter ended June 30, 2016, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

On August 23, 2016, we closed our previously announced acquisition of Acro Pharmaceutical Services LLC ("Acro") and Community Pharmacy Services, LLC ("Community Pharmacy"). Through our consolidated subsidiary, PSCI, we acquired 100% of the membership interests of Acro and Community Pharmacy for $68.7 million in cash, subject to adjustment based on Acro's and Community Pharmacy's (i) cash on hand, (ii) outstanding indebtedness and (iii) net working capital at closing. The acquisition was funded with available cash on hand. Acro and Community Pharmacy are specialty pharmacy businesses which provide customized healthcare management solutions to their clients. We will report both Acro and Community Pharmacy as part of our supply chain services segment.

PART III

We expect to file a definitive proxy statement relating to our 2016 Annual Meeting of Stockholders with the SEC pursuant to Regulation 14A, not later than 120 days after the end of our most recent fiscal year. Accordingly, certain information required by Part III of this Annual Report has been omitted under General Instruction G(3) to Form 10-K. Only the information from the definitive proxy statement that specifically addresses disclosure requirements of Items 10-14 below is incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance

We will provide information that is responsive to this Item 10 in our definitive proxy statement for our 2016 Annual Meeting of Stockholders or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the captions “Item 1 - Election of Directors,” “Corporate Governance and Board Structure,” “Section 16(a) Beneficial Ownership Reporting Compliance” and "Executive Officers," and possibly elsewhere therein. That information is incorporated in this Item 10 by reference.

Item 11. Executive Compensation

We will provide information that is responsive to this Item 11 in our definitive proxy statement for our 2016 Annual Meeting of Stockholders or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the captions “Executive Compensation” and “Corporate Governance and Board Structure,” and possibly elsewhere therein. That information is incorporated in this Item 11 by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We will provide information that is responsive to this Item 12 in our definitive proxy statement for our 2016 Annual Meeting of Stockholders or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the captions “Security Ownership of Certain Beneficial Owners and Management,” and “Equity Compensation Plan Information,” and possibly elsewhere therein. That information is incorporated in this Item 12 by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

We will provide information that is responsive to this Item 13 in our definitive proxy statement for our 2016 Annual Meeting of Stockholders or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the captions “Related Person Transactions,” and “Corporate Governance and Board Structure,” and possibly elsewhere therein. That information is incorporated in this Item 13 by reference.

Item 14. Principal Accounting Fees and Services

We will provide information that is responsive to this Item 14 in our definitive proxy statement for our 2016 Annual Meeting of Stockholders or in an amendment to this Annual Report not later than 120 days after the end of the fiscal year covered by this Annual Report, in either case under the caption “Item 2 - Ratification of Appointment of Independent Registered Public Accounting Firm,” and possibly elsewhere therein. That information is incorporated in this Item 14 by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Documents as part of this Report:

(a) (1) The following consolidated financial statements are filed herewith in Item 8 of Part II above.
(i) Report of Independent Registered Public Accounting Firm
(ii) Consolidated Balance Sheets
(iii) Consolidated Statements of Income
(iv) Consolidated Statements of Comprehensive Income
(v) Consolidated Statements of Stockholders' (Deficit) Equity
(vi) Consolidated Statements of Cash Flows
(vii) Notes to Consolidated Financial Statements
(2) Financial Statement Schedule
Schedule II Valuation and Qualifying Accounts
Years Ended June 30, 2016, 2015 and 2014
(in thousands)

	Beginning Balance	Additions/(Reductions) to Expense or Other Accounts	Deductions	Ending Balance
Year ended June 30, 2016				
Allowance for doubtful accounts	$ 1,153	1,655	827	$ 1,981
Deferred tax assets valuation allowance	$ 28,679	36,279	—	$ 64,958
Year ended June 30, 2015				
Allowance for doubtful accounts	$ 1,054	144	45	$ 1,153
Deferred tax assets valuation allowance	$ 470	28,396	187	$ 28,679
Year ended June 30, 2014				
Allowance for doubtful accounts	$ 671	499	116	$ 1,054
Deferred tax assets valuation allowance	$ 3,719	(3,249)	—	$ 470

All other supplemental schedules are omitted because of the absence of conditions under which they are required.
(3) Exhibits
The exhibits listed in the accompanying Exhibit Index are filed as a part of this report.
(b) Exhibits
See Exhibit Index.
(c) Separate Financial Statements and Schedule
None.

SIGNATURES

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

PREMIER, INC.

By: /s/ SUSAN D. DEVORE

Name: Susan D. DeVore

Title: President, Chief Executive Officer and Director
Date: August 25, 2016

POWER OF ATTORNEY

Each person whose signature appears below hereby severally constitutes and appoints each of Craig S. McKasson and David L. Klatsky his/her true and lawful attorney-in-fact and agent with full power of substitution and re-substitution, for him/her in his/her name, place and stead, in any and all capacities, to sign any and all amendments to this report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to each such attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he/she might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

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

Signature	Capacity	Date
/s/ SUSAN D. DEVORE Susan D. DeVore	President, Chief Executive Officer and Director (principal executive officer)	August 25, 2016
/s/ CRAIG S. MCKASSON Craig S. McKasson	Chief Financial Officer and Senior Vice President (principal financial and accounting officer)	August 25, 2016
/s/ BARCLAY E. BERDAN Barclay E. Berdan	Director	August 25, 2016
/s/ ERIC J. BIEBER, MD Eric J. Bieber, MD	Director	August 25, 2016
/s/ STEPHEN R. D’ARCY Stephen R. D’Arcy	Director	August 25, 2016

/s/ JODY R. DAVIDS Jody R. Davids	Director	August 25, 2016
/s/ WILLIAM B. DOWNEY William B. Downey	Director	August 25, 2016

/s/ PETER S. FINE Peter S. Fine	Director	August 25, 2016
/s/ PHILIP A. INCARNATI Philip A. Incarnati	Director	August 25, 2016
/s/ WILLIAM E. MAYER William E. Mayer	Director	August 25, 2016
/s/ MARC D. MILLER Marc D. Miller	Director	August 25, 2016
/s/ MARVIN R. O'QUINN Marvin R. O'Quinn	Director	August 25, 2016
/s/ SCOTT REINER Scott Reiner	Director	August 25, 2016
/s/ TERRY D. SHAW Terry D. Shaw	Director	August 25, 2016
/s/ RICHARD J. STATUTO Richard J. Statuto	Director	August 25, 2016
/s/ ELLEN C. WOLF Ellen C. Wolf	Director	August 25, 2016

EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement dated August 4, 2014, by and between Hospira, Inc. and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on August 5, 2014)
2.2	Stock Purchase Agreement, dated July 31, 2015, by and among Premier Healthcare Solutions, Inc., Premier, Inc., CECity.com, Inc., the shareholders thereof, certain related guarantors, and representative of the shareholders of CECity.com, Inc. (Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on August 4, 2015)
3.1	Certificate of Incorporation of Premier, Inc. (Incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1 filed on August 26, 2013)
3.2	Amended and Restated Bylaws of Premier, Inc., effective as of December 4, 2015 (Incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on December 4, 2015)
4.1	Form of Class A common stock certificate (Incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1, Amendment No. 1, filed on September 16, 2013)
9.1	Voting Trust Agreement Relating to Shares of Class B common stock of Premier, Inc. entered into as of October 1, 2013 by and among Premier, Inc., Premier Purchasing Partners, L.P., the holders of Class B common stock of Premier, Inc. and Wells Fargo Delaware Trust Company, N.A. (Incorporated by reference to Exhibit 9.1 to our Current Report on Form 8-K filed on October 7, 2013)
10.1	Amended and Restated Limited Partnership Agreement of Premier Healthcare Alliance, L.P. entered into as of September 25, 2013 and effective as of October 1, 2013 (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 7, 2013)
10.1.1	First Amendment to Amended and Restated Limited Partnership Agreement of Premier Healthcare Alliance, L.P. entered into as of January 27, 2014 (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on November 12, 2014)
10.2	Exchange Agreement entered into as of September 25, 2013 and effective as of October 1, 2013 by and among Premier, Inc., Premier Purchasing Partners, L.P. and its limited partners (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on October 7, 2013)
10.3	Tax Receivable Agreement entered into as of September 25, 2013 and effective as of October 1, 2013 by and among Premier, Inc. and the limited partners of Premier Healthcare Alliance, L.P. (Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on October 7, 2013)
10.4	Registration Rights Agreement entered into as of September 25, 2013 and effective as of October 1, 2013 by and among Premier, Inc. and the limited partners of Premier Healthcare Alliance, L.P. (Incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on October 7, 2013)
10.5	Form of GPO Participation Agreement by and among Premier Purchasing Partners, L.P. and its limited partners (Incorporated by reference to Exhibit 10.2 to our Registration Statement on Form S-1 filed on August 26, 2013)
10.6	Premier, Inc. 2013 Equity Incentive Plan, as amended and restated (effective December 4, 2015)*+
10.6.1	First Amendment to the Premier, Inc. 2013 Equity Incentive Plan, as amended and restated (effective August 11, 2016)*+
10.7	Form of Performance Share Award Agreement under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K filed on August 26, 2015)+
10.8	Form of Stock Option Agreement under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K filed on August 26, 2015)+
10.9	Form of Stock Option Agreement under the Premier, Inc. 2013 Equity Incentive Plan*+
10.10	Form of Restricted Stock Unit Agreement under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K filed on August 26, 2015)+
10.11	

	Form of Performance-Based Restricted Stock Award Agreement under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.13 to our Annual Report on Form 10-K filed on August 26, 2015)+
10.12	Form of Time-Based Restricted Stock Award Agreement under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K filed on August 26, 2015)+
10.13	Form of Restricted Stock Unit Agreement for Non-Employee Directors under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.10 to our Registration Statement on Form S-1 filed on August 26, 2013)+
10.14	Premier, Inc. Annual Incentive Compensation Plan, amended and restated effective August 11, 2016*+
10.15	Senior Executive Employment Agreement dated as of September 13, 2013, by and between Susan D. DeVore and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.22 to our Registration Statement on Form S-1, Amendment No. 1, filed on September 16, 2013)+

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Exhibit No.	Description
10.16	Senior Executive Employment Agreement dated as of September 13, 2013, by and between Craig S. McKasson and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.23 to our Registration Statement on Form S-1, Amendment No. 1, filed on September 16, 2013)+
10.17	Senior Executive Employment Agreement dated as of September 13, 2013 by and between Michael J. Alkire and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.24 to our Registration Statement on Form S-1, Amendment No. 1, filed on September 16, 2013)+
10.18	Executive Employment Agreement dated as of September 18, 2013, by and between Wes Champion and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.35 to our Registration Statement on Form S-1, Amendment No. 2, filed on September 25, 2013)+
10.19	Executive Employment Agreement dated as of September 16, 2013, by and between Durral Gilbert and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.37 to our Registration Statement on Form S-1, Amendment No. 2, filed on September 25, 2013)+
10.20	Executive Employment Agreement dated as of September 11, 2013, by and between Kelli Price and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.39 to our Registration Statement on Form S-1, Amendment No. 2, filed on September 25, 2013)+
10.21	Executive Employment Agreement dated as of July 1, 2016, by and between Leigh Anderson and Premier Healthcare Solutions, Inc.*+
10.22	Executive Employment Agreement effective as of July 1, 2016, by and between David Klatsky and Premier Healthcare Solutions, Inc.*+
10.23	Premier, Inc. Directors' Compensation Policy, adopted 2016 (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on August 11, 2016)+
10.24	Premier, Inc. Form of Director Cash Award Agreement under the Premier, Inc. Directors' Compensation Policy (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on August 11, 2016)+
10.25	Form of Indemnification Agreement by and between each director and executive officer and Premier, Inc. (Incorporated by reference to Exhibit 10.29 to our Registration Statement on Form S-1, Amendment No. 1, filed on September 16, 2013)+
10.26	Premier, Inc. 2015 Employee Stock Purchase Plan (as amended and restated effective September 25, 2015)*+
10.27	Premier Healthcare Solutions, Inc. Deferred Compensation Plan, effective January 1, 2015 (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 12, 2014)+
10.28	Credit Agreement, dated as of June 24, 2014, by and among Premier Healthcare Alliance, L.P., Premier Supply Chain Improvement, Inc. and Premier Healthcare Solutions, Inc., as Co-Borrowers, Premier Services, LLC and certain domestic subsidiaries of Premier Services, LLC, as Guarantors, Wells Fargo Bank, National Association, as Administrative Agent, Swing Line Lender and L/C Issuer, other lenders from time to time party thereto, and Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Joint Lead Arrangers and Joint Book Managers (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed June 25, 2014)
10.28.1	First Amendment to Credit Agreement, dated as of June 4, 2015, by and among Premier Healthcare Alliance, L.P., Premier Supply Chain Improvement, Inc. and Premier Healthcare Solutions, Inc., as Co-Borrowers, Premier Services, LLC and certain domestic subsidiaries of Premier Services, LLC, as Guarantors, Wells Fargo Bank, National Association, as Administrative Agent, Swing Line Lender and L/C Issuer, other lenders from time to time party thereto, and Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Joint Lead Arrangers and Joint Book Managers (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed June 4, 2015)
21	Subsidiaries of the Company*
23	Consent of Ernst &Young LLP Independent Registered Public Accounting Firm*

24	Power of Attorney (included on the signature page hereof)*
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡
32.2	Certification required by 18 United States Code Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

Exhibit No.	Description
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed herewith
\+ Indicates a management contract or compensatory plan or arrangement
‡ Furnished herewith

(1) Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 001-36092. The SEC file number for our Registration Statement on Form S-1 is 333-190828.