ChinaNet Online Holdings, Inc.
Form DEF 14A
May 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant ¨

Check the appropriate box:
¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

CHINANET ONLINE HOLDINGS, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):
x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

¨ Fee paid previously with preliminary materials:

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

CHINANET ONLINE HOLDINGS, INC.

No. 3 Min Zhuang Road, Building 6
Yu Quan Hui Gu Tuspark, Haidian District
Beijing, PRC 100195

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
to be held on June 15, 2011

TO THE STOCKHOLDERS OF CHINANET ONLINE HOLDINGS, INC.:

The Annual Meeting of the stockholders of ChinaNet Online Holdings, Inc., a Nevada corporation (the "Company"), will be held on June 15, 2011, at 2:00 p.m. local time, at No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC 100195, for the following purposes:

1. To elect five directors;

2. To ratify the appointment of Marcum Bernstein & Pinchuk LLP, as the Company's independent accountants, for the fiscal year ending December 31, 2011;

3. To adopt the ChinaNet Online Holdings, Inc. 2011 Omnibus Securities and Incentive Plan; and

4. To transact any other business as may properly be presented at the Annual Meeting or any adjournment thereof.

A proxy statement, providing information, and a form of proxy to vote, with respect to the foregoing matters accompany this notice.

By Order of the Board of Directors,

/s/ Handong Cheng
Handong Cheng
Chairman of the Board, Chief Executive Officer and President

Dated: April 29, 2011

IMPORTANT

Whether or not you expect to attend the Annual Meeting, please complete, date, and sign the accompanying proxy, and return it promptly in the enclosed return envelope. If you grant a proxy, you may revoke it at any time prior to the Annual Meeting, vote a subsequent proxy, or vote in person at the Annual Meeting.

PLEASE NOTE: If your shares are held in street name, your broker, bank, custodian, or other nominee holder cannot vote your shares in the election of directors or the adoption of the ChinaNet Online Holdings, Inc. 2011 Omnibus Securities and Incentive Plan, unless you direct the nominee holder how to vote, by marking your proxy card.

CHINANET ONLINE HOLDINGS, INC.

No. 3 Min Zhuang Road, Building 6
Yu Quan Hui Gu Tuspark, Haidian District
Beijing, PRC 100195

PROXY STATEMENT
for
Annual Meeting of Stockholders
to be held on June 15, 2011

PROXY SOLICITATION

ChinaNet Online Holdings, Inc., a Nevada corporation (the "Company") is soliciting proxies on behalf of the Board of Directors (the "Board") in connection with the annual meeting of stockholders on June 15, 2011 and at any adjournment thereof. The Company will bear the entire cost of preparing, assembling, printing and mailing this Proxy Statement, the accompanying proxy, and any additional material that may be furnished to stockholders. Proxies also may be solicited through the mails or direct communication with certain stockholders or their representatives by Company officers, directors, or employees, who will receive no additional compensation therefor.

May 3, 2011 is the approximate date on which this Proxy Statement and the accompanying form of proxy are first being sent to stockholders.

GENERAL INFORMATION ABOUT VOTING

Record Date, Outstanding Shares, and Voting Rights

As of April 28, 2011, the record date for the meeting, the Company had outstanding 17,460,333 shares of Common Stock and 2,519,587 shares of Preferred Stock, being the classes of stock entitled to vote at the meeting. Each share of Common Stock entitles its holder to one vote, and each share of Preferred Stock entitles its holder to one vote.

Procedures for Voting or Revoking Proxies

You may vote your proxy by completing, dating, signing, and mailing the accompanying form of proxy in the return envelope provided. The persons authorized by any of those means to vote your shares will vote them as you specify or, in absence of your specification, as stated on the form of proxy.

You may revoke any proxy by notifying the Company in writing at the above address, ATTN: Secretary, or by voting a subsequent proxy or in person at the meeting.

Attending the Meeting

You may obtain directions to the meeting at www.chinanet-online.com or by writing to the Company at the above address, ATTN: Secretary. If you attend the meeting, you may vote there in person, regardless of whether you have voted by any of the other means mentioned in the preceding paragraph.

Required Votes

The vote of the holders of a majority of the shares entitled to vote and represented at the meeting is required to approve all matters to be considered at the meeting. Abstentions and broker non-votes have no effect on the proposals being voted upon.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of Common Stock and Preferred Stock, as of the record date of the meeting, by each of the Company's directors and executive officers; all executive officers and directors as a group, and each person known to the Company to own beneficially more than 5% of Company's Common Stock or Preferred Stock. Except as otherwise noted, the persons identified have sole voting and investment powers with respect to their shares.

	Preferred Stock(2)		Common Stock	
Name of Beneficial Owner (1)	Number of Shares	Percent of Class	Number of Shares(3)	Percent of Class(4)
Handong Cheng (5)	-	0 %	7,434,940	42.58 %
Zhige Zhang (5)	-	0 %	7,434,940	42.58 %
George Kai Chu	-	0 %	-	0 %
Min Hu	-	0 %	130	*
Hongli Xu	-	0 %	140	*
Li Wu	-	0 %	130	*
Zhiqing Chen (6)	-	0 %	3,750	*
Watanabe Mototake (7)	-	0 %	3,750	*
Douglas MacLellan (8)	-	0 %	33,000	*
All Directors and Executive Officers as a Group (9 persons)	-	*	7,475,840	42.72 %
Rise King Investments Limited(5)(9)	-	*	7,434,940	42.58 %
Star (China) Holdings Limited (10)	-	*	1,279,080	7.33 %
Clear Jolly Holdings Limited (11)	-	*	1,279,080	7.33 %
Xuanfu Liu(5)	-	*	7,434,940	42.58 %
Sansar Capital Management, L.L.C. (12)	1,000,000	39.69 %	2,601,789	13.37 %
Taylor International Fund, Ltd. (13)	428,300	17.00 %	1,108,300	5.97 %

* Less than one percent.

(1) The address of each director and executive officer is c/o ChinaNet Online Holdings, Inc., No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing PRC 100195.

(2) Each share of Preferred Stock is convertible into one share of Common Stock and entitles its holder to one vote per share.

(3) The number of Shares includes shares issuable upon conversion of the Preferred Stock held by the identified person or group; percentage is computed assuming conversion of Preferred Stock held by the identified person or group, only.

(4) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to securities anticipated to be exercisable or convertible at or within 60 days of April 28, 2011, are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person. The indication herein that shares are anticipated to be beneficially owned is not an admission on the part of the listed stockholder that he, she or it is or will be a direct or indirect beneficial owner of those shares.

(5) Rise King Investments Limited ("Rise King") is collectively owned by Handong Cheng, Xuanfu Liu and Zhige Zhang As a result, Mr. Cheng, Mr. Liu and Mr. Zhang may be deemed to be beneficial owners of the shares of our common stock held by Rise King. Each of Mr. Cheng, Mr. Liu and Mr. Zhang disclaim such beneficial ownership, and nothing herein shall be deemed to be an admission that Mr. Cheng, Mr. Liu or Mr. Zhang is the beneficial owner of any such shares for any purpose. Information regarding this beneficial owner is furnished in reliance upon the Schedule 13D/A, dated April 2, 2011.

(6) Includes options to acquire 3,750 shares of the Company's common stock that are exercisable within 60 days of April 28, 2011.

(7) Includes options to acquire 3,750 shares of the Company's common stock that are exercisable within 60 days of April 28, 2011.

(8) Includes options to acquire 33,000 shares of the Company's common stock that are exercisable within 60 days of April 28, 2011.

(9) The business address of Rise King Investments Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands. Information regarding this beneficial owner is furnished in reliance upon the Schedule 13D, dated April 2, 2011.

(10) The business address of Star (China) Holdings Limited is P.O. Box 957, Offshore Incorporations, Center, Road Town, Tortola, British Virgin Islands. Information regarding this beneficial owner is furnished in reliance upon its Schedule 13D, dated July 6, 2009.

(11) The business address of Clear Jolly Holdings Limited is P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands. Information regarding this beneficial owner is furnished in reliance upon its Schedule 13D, dated July 6, 2009.

(12) Consists of (i) 601,789 shares of Common Stock, (ii) 1,000,000 shares underlying Series A Preferred Stock and (iii) Series A-1 and Series A-2 Warrants to purchase up to 1,000,000 shares, in the aggregate, of our Common Stock, subject to a 9.99% limitation on beneficial ownership of our Common Stock. Percentage is computed assuming exercise of warrants held by the identified group, only. Mr. Sanjay Motwani, portfolio manager has voting and dispositive power over the shares held by Sansar Capital Management. Mr. Motwani may be deemed to beneficially own the shares of Common Stock held by Sansar Capital Management. Mr. Motwani disclaims beneficial ownership of such shares. The business address of Sansar Capital Management is 152 West 57th Street, 8th Floor, New York,

NY 10019. Information regarding this beneficial owner is furnished in reliance upon its Schedule 13G, dated February 10, 2011.

(13) Consists of (i) 428,300 shares underlying Series A Preferred Stock and (ii) Series A-1 Warrants to purchase up to 390,000 shares of our Common Stock and Series A-2 Warrants to purchase up to 290,000 shares of our Common Stock, subject to a 9.99% limitation on beneficial ownership of our Common Stock . Percentage is computed assuming exercise of warrants held by the identified group, only. Stephen S. Taylor, portfolio manager has voting and dispositive power over the shares held by Taylor International Fund Ltd. Mr. Taylor may be deemed to beneficially own the shares of Common Stock held by Taylor International Fund, Ltd. Mr. Taylor disclaims beneficial ownership of such shares. The business address of Taylor International Fund, Ltd. is 714 S. Dearborn Street, 2nd Floor, Chicago, IL 6065. Information regarding this beneficial owner is furnished in reliance upon its Schedule 13G, dated February 3, 2011.

PROPOSAL 1

ELECTION OF DIRECTORS

Nominees of the Board of Directors

The Board, upon the recommendation of the Nominating and Corporate Governance Committee, has nominated the persons identified below for election as directors, to serve until the next annual meeting and until their successors have been elected and qualified, unless such directors resign or are terminated prior thereto. If any nominee becomes unavailable for election, which is not expected, the persons named in the accompanying proxy intend to vote for any substitute whom the Board nominates.

Name	Age	Other positions with Company	Has served as Company director since
Handong Cheng	40	Chairman of the Board, Chief Executive Officer and President	September 2007
Zhige Zhang	36	Chief Financial Officer, Treasurer and Director	January 2009
Watanabe Mototake	69	Independent Non-Executive Director	November 2009
Zhiqing Chen	38	Independent Non-Executive Director	November 2009
Douglas MacLellan	55	Independent Non-Executive Director	November 2009

The business experience during the last five years of each of these individuals is as follows:

Handong Cheng, Chairman of the Board. Chief Executive Officer and President. Mr. Cheng has served as Chief Executive Officer of ChinaNet since September 2007. Prior to that role, from October 2003 to September 2007, Mr. Cheng acted as President of ChinaNet Online Advertising Limited. From December 2007 through May 2010, Mr. Cheng served as the Chairman Special Assistant and Liaison Officer at DaChan Food Asia Ltd. Mr. Cheng holds an EMBA from Guanghua School of Management in Beijing, and a degree in economic law from the College of Law of Wuhan University.

Zhige Zhang, Chief Financial Officer, Treasurer and Director. Mr. Zhang has served as Chief Financial Officer of ChinaNet since January 2009. Prior to that role, from January 2008 to January 2009, Mr. Zhang served as Executive Director of ChinaNet Online Media Group Limited. From January 2007 to December 2007, Mr. Zhang was Director and Vice President of Fu Jian Rong Ji Software Limited Corporation, a software company. From August 2002 to December 2006, Mr. Zhang acted as Chief Operating Officer of Beijing HSHZ Information System Engineering Company, a computer technology company. Mr. Zhang holds a degree in industry design from Guilin University of Electronic Technology.

Zhiqing Chen, Director. Mr. Chen has been a partner at Chen & Partners Law Firm since July 2010. From January 2002 to June 2010, Mr. Chen was a partner at Jin Mao P.R.C. Lawyers in Shanghai, a law firm specializing in corporate law, including foreign investments and mergers and acquisitions. Mr. Chen’s clients include local PRC enterprises as well as international corporations. Prior to joining the Company, Mr. Chen served as a non-management director for Shanghai Fumai Investment Management Co., Ltd., Shanghai Zhijinwu Investment Management Co., Ltd, and Shanghai Merciful Groups Co., Ltd. Mr. Chen received a bachelor’s degree in international law from East China University and an EMBA degree from Peking University.

Watanabe Mototake, Director. Mr. Watanabe serves as a corporate advisor to SJI, Inc. (Jasdaq Market), a provider of computer and computer peripheral equipment and software merchant wholesaler, and has served in several capacities there since July 2005, including operating officer, manager of the president's office and corporate auditor. From June 2007 to June 2008, Mr. Watanabe served as the Corporate Auditor for SJ Holdings, Inc., a provider of information services such as system development and provision of system-related consulting and maintenance support services. From April 2000 to April 2005, Mr. Watanabe served as the executive director for TCC Inc., a power conversion company specializing in high quality connectors and adapters for the RF connector industry. Mr. Watanabe graduated in 1966 from Chuo University Faculty of Commerce in Japan.

Douglas MacLellan, Director. Mr. MacLellan currently serves as chairman and chief executive officer at Radient Pharmaceuticals Corporation. (AMEX: RPC), a vertically integrated specialty pharmaceutical company, and also serves as chairman and chief executive officer for the MacLellan Group, an international financial advisory firm established in 1992, where he advises clients on strategic planning, operational activities, corporate finance, economic policy, asset allocation and mergers & acquisitions. From August 2005 to May 2009, Mr. MacLellan was co-founder and vice chairman at Ocean Smart, Inc. (OTCBB: OCSM), a Canadian based aquaculture company. From February 2002 to September 2006, Mr. MacLellan served as chairman and co-founder at Broadband Access MarketSpace, Ltd., a China based IT advisory firm, and was also co-founder at Datalex Corp., a software and IT company specializing in mainframe applications, from February 1997 to May 2002. Mr. MacLellan has an MA and a BA from the University of Southern California in economic and international relations.

The business experience during at least the last five years of the Company's executive officers not included above is as follows:

George Kai Chu, Chief Operating Officer and Secretary. Mr. Chu has been our Chief Operating Officer and Secretary since May 2010. From December 2007 to May 2010, Mr. Chu served as the Special Assistant to the Chairman of Dachan Food (Asia) Ltd. in Beijing and also served at Dachan Food as the Head of the Beijing and Hubei Operations. From June 2007 to December 2007, Mr. Chu acted as Business Advisor to the Chinese Aviation and Space Industry Development Association (CASIDA) in Taipei. From January 2005 to June 2007, Mr. Chu served as a Senior Manager at the Royal Bank of Canada Financial Group, Asset Management in Vancouver, Toronto and New York. Mr. Chu has a BBA from Simon Fraser University.

Ms. Min Hu, Vice President, Head of Television Operations. Ms. Hu has been our Vice President, Head of Television Operations since May, 2010. From June 2006 to May 2010, Ms. Hu acted as our Sales Director of ChinaNet Television.

Hongli Xu, Chief Technology Officer. Mr. Xu has served as our Chief Technology Officer since January 2009. From January 2007 to January 2008, Mr. Xu was Project Manager at Precom Information System Co., Ltd., a provider of business telephones, structured cabling and fiber optics solutions. From January 2004 to January 2006, Mr. Xu served as Project Manager at ThinkingPower Technology Co., Ltd., an e-government software company focused on the broadcasting and television industry, where Mr. Xu oversaw the development and management of a full suite of software products designed to improve government interactions with citizens and businesses. Mr. Xu created the first B2B website in China, "CCEC.com." Mr. Xu holds a Bachelor Degree in Software from Dalian University of Technology.

Ms. Li Wu, Vice President, Head of 28.com. Ms. Wu has been our Vice President, Head of 28.com since May 2010. From March 2009 to May 2010, Ms. Wu acted as Deputy General Manager, 28.com. From June 2007 to March 2009, Ms. Wu worked for the internet media department of 28.com. From October 2005 to June 2007, Ms. Wu worked for the human resources department of 28.com.

No director or executive officer is related to any other director or executive officer.

The Board has determined that Watanabe Mototake, Zhiqing Chen and Douglas MacLellan are "independent" under the current independence standards of Rule 5605(a)(2) of the Marketplace Rules of The NASDAQ Stock Market, LLC and meet the criteria set forth in Rule 10A(m)(3) under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Board Operations

Board Leadership Structure

Mr. Handong Cheng holds the positions of chief executive officer and chairman of the Board of the Company. The Board believes that Mr. Cheng's services as both chief executive officer and chairman of the Board is in the best interest of the Company and its stockholders. Mr. Cheng possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing the Company in the advertising and media industry and its business and is thus best positioned to develop agendas that ensure that the Board's time and attention are focused on the most critical matters relating to the business of the Company. His combined role enables decisive leadership, ensures clear accountability, and enhances the Company's ability to communicate its message and strategy clearly and consistently to the Company's stockholders, employees and customers.

The Board has not designated a lead director. Given the limited number of directors comprising the Board, the independent directors call and plan their executive sessions collaboratively and, between meetings of the Board, communicate with management and one another directly. Under these circumstances, the directors believe designating a lead director to take on responsibility for functions in which they all currently participate might detract from rather than enhance performance of their responsibilities as directors.

Director Qualifications

The Company seeks directors with established strong professional reputations and experience in areas relevant to the strategy and operations of our businesses. The Company also seeks directors who possess the qualities of integrity and candor, who have strong analytical skills and who are willing to engage management and each other in a constructive and collaborative fashion, in addition to the ability and commitment to devote time and energy to service on the Board and its committees. We believe that all of our directors meet the foregoing qualifications.

The Nominating and Corporate Governance Committee and the Board believe that the leadership skills and other experience of the Board members, as described below, provide the Company with a range of perspectives and judgment necessary to guide our strategies and monitor their execution.

Handong Cheng. Mr. Cheng is the founder of the Company and has been serving the franchise and advertising media industries for more than ten years. In 2003, he participated in the establishment of Beijing ChinaNet On-line Advertising limited and Business Opportunity Online (Beijing) Networking Technology Ltd. (www.28.com), an entity engaged in operational, administration and management activities. Mr. Cheng has contributed to the Board's strong leadership and vision for the development of the Company.

Zhige Zhang. Mr. Zhang has years of experience in capital markets, financial and software development management. Prior joining the Company, he was responsible for marketing and investment operations at Konka Group. In 2001, Mr. Zhang started working in the software and network technology industry integrating with new advertising technology from PRECOM, who has wealth of experience in software development management and the network technology advertising industry.

Douglas MacLellan. Mr. MacLellan has been working in China since 1983 and has experience with joint venture and wholly-foreign owned enterprise structuring. In addition, Mr. MacLellan has over thirteen years of active audit committee chair experience.

Zhiqing Chen. Mr. Chen contributes to the Board extensive legal knowledge with respect to foreign investments and mergers and acquisitions. Mr. Chen also has experience working with PRC enterprises and international corporations.

Mototake Watanabe. Mr. Watanabe has over ten years of experience in management, finance, business strategy and audit.

Meetings of the Board of Directors

The Board held five meetings during 2010. During 2010, no director attended fewer than 75% of the meetings of the Board and Board committees of which the director was a member.

The Company's directors are expected to attend board meetings as frequently as necessary to properly discharge their responsibilities and to spend the time needed to prepare for each such meeting. The Company's directors are expected to attend annual meetings of stockholders, but we do not have a formal policy requiring them to do so. All of our directors attended the 2010 annual meeting of stockholders.

Code of Ethics

The Company adopted a Code of Ethics applicable to its directors, officers and employees on December 21, 2009. The Code of Ethics is designed to deter wrongdoing and to promote ethical conduct and full, fair, accurate, timely and understandable reports that the Company files or submits to the Securities and Exchange Commission and others. A printed copy of the Code of Ethics may be obtained free of charge by writing to us at our headquarters located at No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC 100195 or on our website, www.chinanet-online.com.

Board Committees

The Board has a standing audit, compensation, and nominating and corporate governance committee, comprised solely of independent directors. Each committee has a charter, which is available at the Company's website, www.chinanet-online.com.

Audit Committee

The Audit Committee, which is established in accordance with Section 3(a)(58)(A) of the Exchange Act, engages the Company's independent accountants, reviewing their independence and performance; reviews the Company's accounting and financial reporting processes and the integrity of its financial statements; the audits of the Company's financial statements and the appointment, compensation, qualifications, independence and performance of the Company's independent auditors; the Company's compliance with legal and regulatory requirements; and the performance of the Company's internal audit function and internal control over financial reporting. The Audit Committee held four meetings during 2010.

The members of the Audit Committee are Douglas MacLellan, Chair, Zhiqing Cheng, and Mototake Watanabe. The Board has determined that Dougals MacLellan is an audit committee financial expert, as defined in the Exchange Act.

Audit Committee Report

With respect to the audit of the Company's financial statements for the year ended December 31, 2010, the Audit Committee:

Ÿ reviewed and discussed the audited financial statements with management;
Ÿ discussed with the Company's independent accountants the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and
Ÿ received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the

Audit Committee concerning independence and has discussed with the independent accountant the independent accountant's independence.

Based upon the foregoing review and discussion, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, which was filed on March 31, 2011.

Douglas MacLellan, Chair

Zhiqing Chen

Mototake Watanabe

Compensation Committee

The Compensation Committee reviews annually the Company's corporate goals and objectives relevant to the officers' compensation, evaluates the officers' performance in light of such goals and objectives, determines and approves the officers' compensation level based on this evaluation; makes recommendations to the Board regarding approval, disapproval, modification, or termination of existing or proposed employee benefit plans, makes recommendations to the Board with respect to non-CEO and non-CFO compensation and administers the Company's incentive-compensation plans and equity-based plans. The Compensation Committee has the authority to delegate any of its responsibilities to subcommittees as it may deem appropriate in its sole discretion. The chief executive officer of the Company may not be present during voting or deliberations of the Compensation Committee with respect to his compensation. The Company's executive officers do not play a role in suggesting their own salaries. Neither the Company nor the Compensation Committee has engaged any compensation consultant who has a role in determining or recommending the amount or form of executive or director compensation. The Compensation Committee did not hold any meetings during 2010.

The members of the Compensation Committee are Douglas MacLellan, Chair, Zhiqing Chen, and Mototake Watanabe.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee assists the Board in identifying qualified individuals to the Board as its nominees for election as directors, in determining the composition of the Board, and in assessing the Board's effectiveness. The Nominating and Corporate Governance Committee did not hold any meetings during 2010.

The members of the Nominating and Corporate Governance Committee are Zhiqing Chen, Chair, Douglas MacLellan, and Mototake Watanabe.

The Nominating and Corporate Governance Committee will consider director candidates recommended by security holders. Potential nominees to the Board are required to have such experience in business or financial matters as would make such nominee an asset to the Board and may, under certain circumstances, be required to be "independent", as such term is defined under Rule 5605 of the listing standards of NASDAQ and applicable SEC regulations. Security holders wishing to submit the name of a person as a potential nominee to the Board must send the name, address, and a brief (no more than 500 words) biographical description of such potential nominee to the Nominating and Corporate Governance Committee at the following address: Nominating and Corporate Governance Committee of the Board of Directors, c/o ChinaNet Online Holdings, Inc., No.3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC. Potential director nominees will be evaluated by personal interview, such interview to be conducted by one or more members of the Nominating and Corporate Governance Committee, and/or any other method the Nominating and Corporate Governance Committee deems appropriate, which may, but need not, include a questionnaire. The Nominating and Corporate Governance Committee may solicit or receive information concerning potential nominees from any source it deems appropriate. The Nominating and Corporate Governance Committee need not engage in an evaluation process unless (i) there is a vacancy on the Board, (ii) a director is not standing for re-election, or (iii) the Nominating and Corporate Governance Committee does not intend to recommend the nomination of a sitting director for re-election. A potential director nominee recommended by a security holder will not be evaluated differently from any other potential nominee. Although it has not done so in the past, the Nominating and Corporate Governance Committee may retain search firms to assist in identifying suitable director candidates.

The Board does not have a formal policy on Board candidate qualifications. The Board may consider those factors it deems appropriate in evaluating director nominees made either by the Board or stockholders, including judgment, skill, strength of character, experience with businesses and organizations comparable in size or scope to the Company, experience and skill relative to other Board members, and specialized knowledge or experience. Depending upon the current needs of the Board, certain factors may be weighed more or less heavily. In considering candidates for the Board, the directors evaluate the entirety of each candidate's credentials and do not have any specific minimum qualifications that must be met. "Diversity," as such, is not a criterion that the Committee considers. The directors will consider candidates from any reasonable source, including current Board members, stockholders, professional search firms or other persons. The directors will not evaluate candidates differently based on who has made the recommendation.

Stockholder Communications

Stockholders can mail communications to the Board, c/o Secretary, ChinaNet Online Holdings, Inc., No.3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC, who will forward the correspondence to each addressee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Company's directors and executive officers and any beneficial owner of more than 10% of any class of Company equity security to file reports of ownership and changes in ownership with the Securities and Exchange Commission and furnish copies of the reports to Company. Based solely on the Company's review of copies of such forms and written representations by Company's executive officers and directors received by it, Company believes that during 2010, all such reports were filed timely, except that Mr. George Kai Chu failed to timely file one Form 3.

Executive Compensation

Our Board of Directors has not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers. No pre-established, objective performance goals or metrics have been used by the Board of Directors in determining the compensation of our executive officers.

Elements of Compensation

Some of our executive officers receive a base salary to compensate them for services rendered during the year. Our policy of compensating our executives with a cash salary has served the Company well. Because of our history of attracting and retaining executive talent, we do not believe it is necessary at this time to provide our executives equity incentives, or other benefits for the Company to continue to be successful.

Base Salary and Bonus. The value of base salary and bonus for each our executive reflects his skill set and the market value of that skill set in the sole discretion of the Board of Director.

Equity Incentives. The ChinaNet Online Holdings, Inc. 2011 Omnibus Securities and Incentive Plan (the "2011 Plan") provides for the granting of distribution equivalent rights, incentive stock options, non-qualified stock options, performance share awards, performance unit awards, restricted stock awards, restricted stock unit awards, stock appreciation rights, tandem stock appreciation rights, unrestricted stock awards or any combination of the foregoing, as may be best suited to the circumstances of the particular employee, director or consultant as provided therein (the "Awards"). Certain Awards are intended to qualify as "incentive stock options" within the meaning of the Internal Revenue Code (the "Code"). The 2011 Plan was approved by our Board on April 29, 2011, but has not yet been approved by our stockholders.

Retirement Benefits. Our executive officers are not presently entitled to company-sponsored retirement benefits.

Perquisites. We have not provided our executive officers with any material perquisites and other personal benefits and, therefore, we do not view perquisites as a significant or necessary element of our executive's compensation.

Deferred Compensation. We do not provide our executives the opportunity to defer receipt of annual compensation.

Summary Compensation Table

The following table sets forth information regarding compensation of the named executive officers for each of the two fiscal years in the period ended December 31, 2010.

Name and Principal Position	Year	Salary ($)	All Other Compensation	Total
Handong Cheng (Principal Executive Officer)	2010	26,577	-	26,577
	2009	26,577	-	26,577

During each of the last two fiscal years, none of our other executive officers had total compensation greater than $100,000. Our executive officers are reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf. There is no limit on the amount of these out-of-pocket expenses and there will be no review of the reasonableness of such expenses by anyone other than our Board, which includes persons who may seek reimbursement, or a court of competent jurisdiction if such reimbursement is challenged.

The following employment agreement was entered into by us and the following executive officer:

On April 1, 2009, Rise King Century Technology Development (Beijing) Co., Ltd., our indirect wholly owned subsidiary ("Rise King WFOE") entered into an employment agreement with Handong Cheng. Pursuant to the terms of this agreement, Rise King WFOE agreed to employ Mr. Cheng as its Chief Executive Officer for a non-fixed term. Mr. Cheng agreed that in the event that his employment with Rise King WFOE is terminated, for a period of one year following the date of his termination of employment, he will not contact, for any commercial purpose, or provide to a third party, information about clients or entities with which Rise King WFOE was acquainted during the term of his employment with Rise King WFOE. Subject to certain exceptions, either party may terminate this agreement upon 30 days prior written notice.

The Company does not have change-in-control agreements with any of its directors or executive officers, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

Compensation of Directors

The following table sets forth information regarding compensation of each director, other than named executive officers, for fiscal 2010.

FISCAL 2010 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Zhige Zhang	27,372	-	-	-	-	-	27,372 (1)
Douglas MacLellan	60,000	-	62,920	-	-	-	122,920
Zhiqing Chen	6,000	-	7,150	-	-	-	13,150
Mototaka Watanabe	6,000	-	7,150	-	-	-	13,150

(1) Amount represents Mr. Zhang's salary for serving as the Company's chief financial officer. Mr. Zhang does not receive any additional compensation for his service as a director.

On November 25, 2009, the Company entered into an Independent Director Agreement with Douglas MacLellan. Pursuant to the terms of the Independent Director Agreement, the Company shall (i) pay Mr. MacLellan a fee of $3,000 per month ($36,000 annually), plus an additional $2,000 per month ($24,000 annually), as long as Mr. MacLellan remains the chair of the Audit Committee; and (ii) award to Mr. MacLellan an annual option grant to purchase 24,000 shares of common stock of the Company, plus an additional option to purchase 20,000 shares of the common stock of the Company, so long as Mr. MacLellan remains the chair of the Audit Committee. The exercise price of the annual option grants shall be equal to the fair market value of a share of the Company's common stock on the date of the grant of the option and such options vest quarterly, in equal installments over the 24-month period from date of grant. This agreement expired according to its terms on November 25, 2010 and the Company is currently negotiating the terms of a new agreement.

On November 25, 2009, the Company entered into an Independent Director Agreement with Zhiqing Chen. Pursuant to the terms of the Independent Director Agreement, the Company shall (i) pay Mr. Chen a fee of $300 per month ($3,600 annually), plus an additional $200 per month ($2,400 annually), as long as Mr. Chen remains a member of the Audit Committee of the Company; and (ii) award to Mr. Chen an annual option grant to purchase 5,000 shares of common stock of the Company. The exercise price of the annual option grants shall be equal to the fair market value of a share of the Company's common stock on the date of the grant of the option and such options vest quarterly, in equal installments over the 24-month period from date of grant. This agreement expired according to its terms on November 25, 2010 and the Company is currently negotiating the terms of a new agreement.

On November 25, 2009, the Company entered into an Independent Director Agreement with Mototake Watanabe. Pursuant to the terms of the Independent Director Agreement, the Company shall (i) pay Mr. Watanabe a fee of $300 per month ($3,600 annually), plus an additional $200 per month ($2,400 annually), as long as Mr. Watanabe remains a member of the Audit Committee of the Company; and (ii) award to Mr. Watanabe an annual option grant to purchase 5,000 shares of common stock of the Company. The exercise price of the annual option grants shall be equal to the fair market value of a share of the Company's common stock on the date of the grant of the option and such options vest quarterly, in equal installments over the 24-month period from date of grant. This agreement expired according to its terms on November 25, 2010 and the Company is currently negotiating the terms of a new agreement.

Certain Relationships and Related Transactions

It is Company's policy to not enter any transaction (other than compensation arrangements in the ordinary course) with any director, executive officer, employee, or principal stockholder or party related to them, unless authorized by a majority of the directors having no interest in the transaction, upon a favorable recommendation by the Audit Committee (or a majority of its disinterested members).

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE BOARD OF DIRECTORS' NOMINEES.

PLEASE NOTE: If your shares are held in street name, your broker, bank, custodian, or other nominee holder cannot vote your shares in the election of directors, unless you direct the holder how to vote, by marking your proxy card.

PROPOSAL 2

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Audit Committee has appointed Marcum Bernstein & Pinchuk LLP as independent accountants for 2011. Representatives of Marcum Bernstein & Pinchuk LLP are expected to be present at the Annual Meeting to respond to appropriate questions and will have an opportunity to make a statement, if they so desire.

In the event the stockholders fail to ratify the selection of Marcum Bernstein & Pinchuk LLP, the Audit Committee will reconsider whether to retain the firm. Even if the selection is ratified, the Audit Committee and the Board, in their discretion, may direct the appointment of a different independent accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

On August 11, 2009, the Company dismissed its principal independent accountant, The Hall Group, CPAs ("Hall") from its engagement with the Company, which dismissal was effective immediately. The decision to dismiss Hall as the Company's principal independent accountant was approved by the Board on August 11, 2009.

There were no disagreements between the Company and Hall on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, from the time of Hall's engagement up to the date of dismissal which disagreements that, if not resolved to Hall's satisfaction, would have caused Hall to make reference to the subject matter of the disagreement in connection with its report issued in connection with the audit of the Company's financial statements. None of the reportable events described under Item 304(a)(1)(v)(A)-(D) of Regulation S-K occurred within the two fiscal years ended December 31, 2007 and 2008 and subsequently up to the date of dismissal. The audit report of Hall on the financial statements of the Company as of December 31, 2008 did not contain any adverse opinion or disclaimer of opinion, and such audit report was not qualified or modified as to uncertainty, audit scope or accounting principles, except for Hall's explanatory paragraph regarding the Company's ability to continue as a going concern. At the time of the dismissal, Hall provided us with a letter addressed to the SEC stating that it agreed with the above statements. This letter was filed as an exhibit to our Current Report on Form 8-K, which was filed with the SEC on August 14, 2009.

On July 30, 2009, the Company engaged Bernstein & Pinchuk LLP ("BP") to serve as its independent auditor. The decision to engage BP as the Company's principal independent accountant was approved by the Board of Directors of the Company on July 30, 2009. During the two fiscal years of the Company ended December 31, 2007 and 2008, and through the date of BP's engagement, the Company did not consult BP regarding either: (i) the application of accounting principles to a specified transaction (either completed or proposed), or the type of audit opinion that might be rendered on the Company's financial statements; or (ii) any matter that was either the subject of a "disagreement" or "reportable event" within the meaning set forth in Regulation S-K, Item 304(a)(1)(iv) or (a)(1)(v).

The practice of BP, the Company's independent registered public accounting firm, entered into a joint venture agreement with Marcum LLP and formed Marcum Bernstein & Pinchuk LLP ("MarcumBP") in a transaction pursuant to which BP merged its China operations into Marcum BP and certain of the professional staff of BP joined MarcumBP as employees of MarcumBP (the "Merger"). Accordingly, and solely as a result of the Merger, effective April 14, 2011, BP effectively resigned as the Company's independent registered public accounting firm and MarcumBP became the Company's independent registered public accounting firm. This change in the Company's independent registered public accounting firm was approved by the Audit Committee of the Company's Board of Directors on April 20, 2011.

There were no disagreements between the Company and BP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, from the time of BP's engagement up to the date of its resignation which disagreements that, if not resolved to BP’s satisfaction, would have caused BP to make reference to the subject matter of the disagreement in connection with its report issued in connection with the audit of the Company’s financial statements. None of the reportable events described under Item 304(a)(1)(v)(A)-(D) of Regulation S-K occurred within the two fiscal years of the Company ended December 31, 2009 and 2010 and subsequently up to the date of resignation. The audit report of BP on the financial statements of the Company as of December 31, 2009 and 2010 did not contain any adverse opinion or disclaimer of opinion, and such audit report was not qualified or modified as to uncertainty, audit scope or accounting principles. At the time of the resignation, BP provided us with a letter addressed to the SEC stating that it agreed with the above statements. This letter was filed as an exhibit to our Current Report on Form 8-K, which was filed with the SEC on April 20, 2011.

Services and Fees of Independent Accountants

Aggregate fees billed to the Company by The Hall Group, CPA during the fiscal years ended December 31, 2010 and 2009 were as follows:

Fees	2010	2009
Audit Fees	$ -	$ 4,650
Audit Related Fees	$ -	$ -
Tax Fees	$ -	$ -
All Other Fees	$ -	$ -
Total	$ -	$ 4,650

Aggregate fees billed to the Company by Bernstein & Pinchuk LLP during the fiscal years ended December 31, 2010 and 2009 were as follows:

Fees	2010	2009
Audit Fees	$ 135,000	$ 122,510
Audit Related Fees	$ -	$ 128,950
Tax Fees	$ -	$ -
All Other Fees	$ -	$ -
Total	$ 135,000	$ 251,460

Audit Fees

This category includes aggregate fees billed by our independent auditors for the audit of our annual financial statements, review of financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the auditor in connection with statutory and regulatory filings for those fiscal years.

Audit-Related Fees

This category consists of services by our independent auditors that, including accounting consultations on transaction related matters, are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees.

Tax Fees

This category consists of professional services rendered for tax compliance and preparation of our corporate tax returns and other tax advice.

All Other Fees

This category consists of professional services rendered for products and services provided, other than the services reported above under Audit Fees, Audit-Related Fees and Tax Fees.

Pre-Approval of Services

The Audit Committee must pre-approve all audit, review, attest and permissible non-audit services (including any permissible internal control-related services) to be provided to the company or its subsidiaries by the independent auditors. The Audit Committee may establish pre-approval policies and procedures in compliance with applicable SEC rules. All services described under the caption Services and Fees of Independent Accountants were pre-approved.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT ACCOUNTANTS.

PROPOSAL 3

TO APPROVE 2011 OMNIBUS SECURITIES AND INCENTIVE PLAN

The Company is seeking approval of the stockholders to adopt its 2011 Omnibus Securities and Incentive Plan (the "2011 Plan"). The purpose of the 2011 Plan is to assist the Company to attract and retain key management employees and non-employee directors of and non-employee consultants to the Company and to provide incentives to such individuals to align their interests with those of the Company's stockholders. If the 2011 Plan is approved, awards under the 2011 Plan which provide for the issuance of shares of the Company's common stock will be limited in the aggregate to 5,000,000 shares of common stock.

General Description of the Incentive Plan Proposal

The following is a summary of the material provisions of the 2011 Plan and is qualified in its entirety by reference to the complete text of the 2011 Plan, a copy of which is attached to this proxy statement as Annex A.

Administration. The 2011 Plan is administered by the compensation committee of the Board, which consists of three members of the Board, each of whom is a "non-employee director" within the meaning of Rule 16b-3 promulgated under the Exchange Act and an "outside director" within the meaning of Code Section 162(m). Among other things, the compensation committee has complete discretion, subject to the express limits of the 2011 Plan, to determine the directors, employees and nonemployee consultants to be granted an award, the type of award to be granted the terms and conditions of the award, the form of payment to be made and/or the number of shares of common stock subject to each award, the exercise price of each option and base price of each SAR, the term of each award, the vesting schedule for an award, whether to accelerate vesting, the value of the common stock underlying the award, and the required withholding, if any. The compensation committee may amend, modify or terminate any outstanding award, provided that the participant's consent to such action is required if the action would impair the participant's rights or entitlements with respect to that award. The compensation committee is also authorized to construe the award agreements, and may prescribe rules relating to the 2011 Plan. Notwithstanding the foregoing, the compensation committee does not have any authority to grant or modify an award under the 2011 Plan with terms or conditions that would cause the grant, vesting or exercise thereof to be considered nonqualified "deferred compensation" subject to Code Section 409A.

Grant of Awards; Shares Available for Awards. The 2011 Plan provides for the grant of stock options, SARs, performance share awards, performance unit awards, distribution equivalent right awards, restricted stock awards, restricted stock unit awards and unrestricted stock awards to non-employee directors, officers, employees and nonemployee consultants of the Company or its affiliates. The Company has reserved a total of 5,000,000 shares of common stock for issuance as or under awards to be made under the 2011 Plan. If any award expires, is cancelled, or terminates unexercised or is forfeited, the number of shares subject thereto is again available for grant under the 2011 Plan. The number of shares of common stock for which awards may be granted under the 2011 Plan to a participant who is an employee in any calendar year is limited to 100,000 shares.

Currently, there are 295 employees and directors who would be entitled to receive stock options and/or shares of restricted stock under the 2011 Plan. Future new hires and additional non-employee directors and/or consultants would be eligible to participate in the 2011 Plan as well. The number of stock options and/or shares of restricted stock to be granted to executives and directors cannot be determined at this time as the grant of stock options and/or shares of restricted stock is dependent upon various factors such as hiring requirements and job performance.

Stock Options. Stock options granted under the 2011 Plan may be either "incentive stock options" ("ISOs"), which are intended to meet the requirements for special federal income tax treatment under the Code, or "nonqualified stock options" ("NQSOs"). Stock options may be granted on such terms and conditions as the compensation committee may determine; provided, however, that the per share exercise price under a stock option may not be less than the fair market value of a share of the Company's common stock on the date of grant and the term of the stock option may not exceed 10 years (110% of such value and 5 years in the case of an ISO granted to an employee who owns (or is deemed to own) more than 10% of the total combined voting power of all classes of capital stock of the Company or a parent or subsidiary of the Company). ISOs may only be granted to employees. In addition, the aggregate fair market value of the Company's common stock covered by one or more ISOs (determined at the time of grant) which are exercisable for the first time by an employee during any calendar year may not exceed $100,000. Any excess is treated as a NQSO.

Stock Appreciation Rights. A SAR entitles the participant, upon exercise, to receive an amount, in cash or stock or a combination thereof, equal to the increase in the fair market value of the underlying Company common stock between the date of grant and the date of exercise. SARs may be granted in tandem with, or independently of, stock options granted under the 2011 Plan. A SAR granted in tandem with a stock option (i) is exercisable only at such times, and to the extent, that the related stock option is exercisable in accordance with the procedure for exercise of the related stock option; (ii) terminates upon termination or exercise of the related stock option (likewise, the Company's common stock option granted in tandem with a SAR terminates upon exercise of the SAR); (iii) is transferable only with the related stock option; and (iv) if the related stock option is an ISO, may be exercised only when the value of the stock subject to the stock option exceeds the exercise price of the stock option. A SAR that is not granted in tandem with a stock option is exercisable at such times as the compensation committee may specify.

Performance Shares and Performance Unit Awards. Performance share and performance unit awards entitle the participant to receive cash or shares of the Company's common stock upon the attainment of specified performance goals. In the case of performance units, the right to acquire the units is denominated in cash values.

Distribution Equivalent Right Awards. A distribution equivalent right award entitles the participant to receive bookkeeping credits, cash payments and/or common stock distributions equal in amount to the distributions that would have been made to the participant had the participant held a specified number of shares of the Company's common stock during the period the participant held the distribution equivalent right. A distribution equivalent right may be awarded as a component of another award under the 2011 Plan, where, if so awarded, such distribution equivalent right will expire or be forfeited by the participant under the same conditions as under such other award.

Restricted Stock Awards and Restricted Stock Unit Awards. A restricted stock award is a grant or sale of common stock to the participant, subject to the Company's right to repurchase all or part of the shares at their purchase price (or to require forfeiture of such shares if issued to the participant at no cost) in the event that conditions specified by the compensation committee in the award are not satisfied prior to the end of the time period during which the shares subject to the award may be repurchased by or forfeited to the Company. The Company's restricted stock unit entitles the participant to receive a cash payment equal to the fair market value of a share of common stock for each restricted stock unit subject to such restricted stock unit award, if the participant satisfies the applicable vesting requirement.

Unrestricted Stock Awards. An unrestricted stock award is a grant or sale of shares of the Company's common stock to the participant that is not subject to transfer, forfeiture or other restrictions, in consideration for past services rendered to the Company or an affiliate or for other valid consideration.

Change-in-Control Provisions. In connection with the grant of an award, the compensation committee may provide that, in the event of a change in control, such award will become fully vested and immediately exercisable.

Amendment and Termination. The compensation committee may adopt, amend and rescind rules relating to the administration of the 2011 Plan, and amend, suspend or terminate the 2011 Plan, but no such amendment or termination will be made that materially and adversely impairs the rights of any participant with respect to any award received thereby under the 2011 Plan without the participant's consent, other than amendments that are necessary to permit the granting of awards in compliance with applicable laws. We have attempted to structure the 2011 Plan so that remuneration attributable to stock options and other awards will not be subject to the deduction limitation contained in Code Section 162(m).

Certain Federal Income Tax Consequences of the 2011 Plan

The following is a general summary of the federal income tax consequences under current U.S. tax law to the Company and to participants in the 2011 Plan who are individual citizens or residents of the United States for federal income tax purposes ("U.S. Participants") of stock options, stock appreciation rights, restricted stock, performance shares, performance units, restricted stock units, distribution equivalent rights and unrestricted stock. It does not purport to cover all of the special rules including special rules relating to limitations on the ability of the Company to deduct the amounts for federal income tax purposes of certain compensation, special rules relating to deferred compensation, golden parachutes, participants subject to Section 16(b) of the Exchange Act or the exercise of a stock option with previously-acquired shares of the Company's common stock. For purposes of this summary it is assumed that U.S. Participants will hold their shares of the Company's common stock received under the 2011 Plan as capital assets within the meaning of Section 1221 of the Code. In addition, this summary does not address the non-U.S. state or local income or other tax consequences, or any U.S. federal non-income tax consequences, inherent in the acquisition, ownership, vesting, exercise, termination or disposition of an award under the 2011 Plan, or shares of the Company's common stock issued pursuant thereto. All participants are urged to consult with their own tax advisors concerning the tax consequences to them of an award under the 2011 Plan or shares of the Company's common stock issued thereto pursuant to the 2011 Plan.

A U.S. Participant does not recognize taxable income upon the grant of a NQSO or an ISO. Upon the exercise of a NQSO, the U.S. Participant recognizes ordinary income in an amount equal to the excess, if any, of the fair market value of the shares acquired on the date of exercise over the exercise price paid therefor under the NQSO, and the Company will generally be entitled to a deduction for such amount at that time. If the U.S. Participant later sells shares acquired pursuant to the exercise of a NQSO, the U.S. Participant recognizes long-term or short-term capital gain or loss, depending on the period for which the shares were held. Long-term capital gain is generally subject to more favorable tax treatment than ordinary income or short-term capital gain. Upon the exercise of an ISO, the U.S. Participant does not recognize taxable income. If the U.S. Participant disposes of the shares acquired pursuant to the exercise of an ISO more than two years after the date of grant and more than one year after the transfer of the shares to the U.S. Participant, the U.S. Participant recognizes long-term capital gain or loss and the Company will not be entitled to a deduction. However, if the U.S. Participant disposes of such shares prior to the end of the required holding period, all or a portion of the gain is treated as ordinary income and the Company is generally entitled to deduct such amount. In addition to the tax consequences described above, a U.S. Participant may be subject to the alternative minimum tax, which is payable to the extent it exceeds the U.S. Participant's regular tax. For this purpose, upon the exercise of an ISO, the excess of the fair market value of the shares over the exercise price paid therefor under the ISO is a preference item for alternative minimum taxable income determination purposes. In addition, the U.S. Participant's basis in such shares is increased by such excess for purposes of computing the gain or loss on the disposition of the shares for alternative minimum tax purposes.

A U.S. Participant does not recognize taxable income upon the grant of an SAR. The U.S. Participant has ordinary compensation income upon exercise of the SAR equal to the increase in the value of the underlying shares, and the Company will generally be entitled to a deduction for such amount.

A U.S. Participant does not recognize taxable income upon the receipt of a performance share award until the shares are received. At such time, the U.S. Participant recognizes ordinary compensation income equal to the excess, if any, of the fair market value of the shares over any amount thereby paid for the shares, and the Company will generally be entitled to deduct such amount at such time.

A U.S. Participant does not recognize taxable income upon the receipt of a performance unit award, restricted stock unit award or dividend equivalent right award until a cash payment is received. At such time, the U.S. Participant recognizes ordinary compensation income equal to the amount of cash received, and the Company will generally be entitled to deduct such amount at such time.

A U.S. Participant who receives a grant of restricted stock generally recognizes ordinary compensation income equal to the excess, if any, of the fair market value of such shares of stock at the time the restriction lapses over any amount paid timely for the shares. Alternatively, the U.S. Participant may elect to be taxed on the fair market value of such shares at the time of grant. The Company thereby will generally be entitled to a deduction at the same time and in the same amount as the income required to be included by the U.S. Participant.

A U.S. Participant recognizes ordinary compensation income upon receipt of the shares under an unrestricted stock award equal to the excess, if any, of the fair market value of the shares over any amount paid thereby for the shares, and the Company will generally be entitled to deduct such amount at such time.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE 2011 Plan.

PLEASE NOTE: If your shares are held in street name, your broker, bank, custodian, or other nominee holder cannot vote your shares in the election of directors, unless you direct the holder how to vote, by marking your proxy card.

OTHER INFORMATION

The Company's 2010 annual report on Form 10-K, excluding exhibits, will be mailed without charge to any stockholder entitled to vote at the meeting, upon written request to Handong Cheng, Chief Executive Officer, ChinaNet Online Holdings, Inc., No. 3 Min Zhuang Road, Building 6, Yu Quan Hui Gu Tuspark, Haidian District, Beijing, PRC 100195.

Important Notice Regarding Availability of Proxy Materials

This proxy statement and Company's 2010 annual report are available at Company's website, www.chinanet-online.com.

Other Matters to Be Presented at the Annual Meeting

The Company did not have notice of any matter to be presented for action at the Annual Meeting, except as discussed in this proxy statement. The persons authorized by the accompanying form of proxy will vote in their discretion as to any other matter that comes before the Annual Meeting.

Stockholder Proposals for Next Annual Meeting

Stockholder proposals intended to be included in the proxy statement for the 2012 annual meeting must be received by Company by January 3, 2012. The persons authorized by the form of proxy to be sent in connection with the solicitation of proxies on behalf of Company's Board for next year's annual meeting will vote in their discretion as to any matter of which Company has not received notice by March 18, 2012.

By Order of the Board of Directors,

/s/ Handong Cheng
Handong Cheng
Chairman of the Board, Chief Executive Officer and President
April 29, 2011

ANNEX A

CHINANET ONLINE HOLDINGS, INC.

2011 OMNIBUS SECURITIES AND INCENTIVE PLAN

CHINANET ONLINE HOLDINGS, INC.
2011 OMNIBUS SECURITIES AND INCENTIVE PLAN

Table Of Contents

CHINANET ONLINE HOLDINGS, INC.
2011 OMNIBUS SECURITIES AND INCENTIVE PLAN

Table Of Contents (continued)

CHINANET ONLINE HOLDINGS, INC.
2011 OMNIBUS SECURITIES AND INCENTIVE PLAN

ARTICLE I

PURPOSE

The purpose of this ChinaNet Online Holdings, Inc. 2011 Omnibus Securities and Incentive Plan (the "Plan") is to benefit the stockholders of ChinaNet Online Holdings, Inc., a Nevada corporation (the "Company"), by assisting the Company to attract, retain and provide incentives to key management employees and nonemployee directors of, and nonemployee consultants to, the Company and its Affiliates, and to align the interests of such employees, nonemployee directors and nonemployee consultants with those of the Company's stockholders. Accordingly, the Plan provides for the granting of Distribution Equivalent Rights, Incentive Stock Options, Non-Qualified Stock Options, Performance Share Awards, Performance Unit Awards, Restricted Stock Awards, Restricted Stock Unit Awards, Stock Appreciation Rights, Tandem Stock Appreciation Rights, Unrestricted Stock Awards or any combination of the foregoing, as may be best suited to the circumstances of the particular Employee, Director or Consultant as provided herein.

ARTICLE II

DEFINITIONS

The following definitions shall be applicable throughout the Plan unless the context otherwise requires:

"Affiliate" shall mean any corporation which, with respect to the Company, is a "subsidiary corporation" within the meaning of Section 424(f) of the Code.

"Award" shall mean, individually or collectively, any Distribution Equivalent Right, Option, Performance Share Award, Performance Unit Award, Restricted Stock Award, Restricted Stock Unit Award, Stock Appreciation Right or Unrestricted Stock Award.

"Award Agreement" shall mean a written agreement between the Company and the Holder with respect to an Award, setting forth the terms and conditions of the Award, and each of which shall constitute a part of the Plan.

"Board" shall mean the Board of Directors of the Company.

"Cause" shall mean (i) if the Holder is a party to an employment or similar agreement with the Company or an Affiliate which agreement defines "Cause" (or a similar term) therein, "Cause" shall have the same meaning as provided for in such agreement, or (ii) for a Holder who is not a party to such an agreement, "Cause" shall mean termination by the Company or an Affiliate of the employment (or other service relationship) of the Holder by reason of the Holder's (A) intentional failure to perform reasonably assigned duties, (B) dishonesty or willful misconduct in the performance of the Holder's duties, (C) involvement in a transaction which is materially adverse to the Company or an Affiliate, (D) breach of fiduciary duty involving personal profit, (E) willful violation of any law, rule, regulation or court order (other than misdemeanor traffic violations and misdemeanors not involving misuse or misappropriation of money or property), (F) commission of an act of fraud or intentional misappropriation or conversion of any asset or opportunity of the Company or an Affiliate, or (G) material breach of any provision of the Plan or the Holder's Award Agreement or any other written agreement between the Holder and the Company or an Affiliate, in each case as determined in good faith by the Board, the determination of which shall be final, conclusive and binding on all parties.

"Change of Control" shall mean (i) for a Holder who is a party to an employment or consulting agreement with the Company or an Affiliate which agreement defines "Change of Control" (or a similar term) therein, "Change of Control" shall have the same meaning as provided for in such agreement, or (ii) for a Holder who is not a party to such an agreement, "Change of Control" shall mean the satisfaction of any one or more of the following conditions (and the "Change of Control" shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied):

(a) Any person (as such term is used in paragraphs 13(d) and 14(d)(2) of the Exchange Act, hereinafter in this definition, "Person"), other than the Company or an Affiliate or an employee benefit plan of the Company or an Affiliate, becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities;

(b) The closing of a merger, consolidation or other business combination (a "Business Combination") other than a Business Combination in which holders of the Common Stock immediately prior to the Business Combination have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the Business Combination as immediately before;

(c) The closing of an agreement for the sale or disposition of all or substantially all of the Company's assets to any entity that is not an Affiliate;

(d) The approval by the holders of shares of Common Stock of a plan of complete liquidation of the Company other than a liquidation of the Company into any subsidiary or a liquidation a result of which persons who were stockholders of the Company immediately prior to such liquidation have substantially the same proportionate ownership of shares of common stock of the surviving corporation immediately after such liquidation as immediately before; or

(e) Within any twenty-four (24) month period, the Incumbent Directors shall cease to constitute at least a majority of the Board or the board of directors of any successor to the Company; provided, however, that any director elected to the Board, or nominated for election, by a majority of the Incumbent Directors then still in office, shall be deemed to be an Incumbent Director for purposes of this paragraph (e), but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, entity or "group" other than the Board (including, but not limited to, any such assumption that results from paragraphs (a), (b), (c), or (d) of this definition).

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to occur if the Company files for bankruptcy, liquidation or reorganization under the United States Bankruptcy Code.

"Code" shall mean the Internal Revenue Code of 1986, as amended. Reference in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to any section and any regulation under such section.

"Committee" shall mean a committee comprised of not less than three (3) members of the Board who are selected by the Board as provided in Section 4.1.

"Common Stock" shall mean the common stock, par value $0.001 per share, of the Company.

"Company" shall mean ChinaNet Online Holdings, Inc., a Nevada corporation, and any successor thereto.

"Consultant" shall mean any non-Employee (individual or entity) advisor to the Company or an Affiliate who or which has contracted directly with the Company or an Affiliate to render bona fide consulting or advisory services thereto.

"Director" shall mean a member of the Board or a member of the board of directors of an Affiliate, in either case, who is not an Employee.

"Distribution Equivalent Right" shall mean an Award granted under Article XIII of the Plan which entitles the Holder to receive bookkeeping credits, cash payments and/or Common Stock distributions equal in amount to the distributions that would have been made to the Holder had the Holder held a specified number of shares of Common Stock during the period the Holder held the Distribution Equivalent Right.

"Distribution Equivalent Right Award Agreement" shall mean a written agreement between the Company and a Holder with respect to a Distribution Equivalent Right Award.

"Effective Date" shall mean May 1, 2011.

“Employee” shall mean any employee, including officers, of the Company or an Affiliate.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Fair Market Value” shall mean, as determined consistent with the applicable requirements of Sections 409A and 422 of the Code, as of any specified date, the closing sales price of the Common Stock for such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date) on the Nasdaq Stock Market or a domestic or foreign national securities exchange (including London’s Alternative Investment Market) on which the Common Stock may be listed, as reported in The Wall Street Journal or The Financial Times. If the Common Stock is not listed on the Nasdaq Stock Market or on a national securities exchange, but is quoted on the OTC Bulletin Board or by the National Quotation Bureau, the Fair Market Value of the Common Stock shall be the mean of the bid and asked prices per share of the Common Stock for such date. If the Common Stock is not quoted or listed as set forth above, Fair Market Value shall be determined by the Board in good faith by any fair and reasonable means (which means, with respect to a particular Award grant, may be set forth with greater specificity in the applicable Award Agreement). The Fair Market Value of property other than Common Stock shall be determined by the Board in good faith by any fair and reasonable means, and consistent with the applicable requirements of Sections 409A and 422 of the Code.

“Family Member” shall mean any child, stepchild, grandchild, parent, stepparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, any person sharing the Holder’s household (other than a tenant or employee of the Holder), a trust in which such persons have more than fifty percent (50%) of the beneficial interest, a foundation in which such persons (or the Holder) control the management of assets, and any other entity in which such persons (or the Holder) own more than fifty percent (50%) of the voting interests.

“Holder” shall mean an Employee, Director or Consultant who has been granted an Award or any such individual’s beneficiary, estate or representative, to the extent applicable.

“Incentive Stock Option” shall mean an Option which is intended by the Committee to constitute an “incentive stock option” under Section 422 of the Code.

“Incumbent Director” shall mean, with respect to any period of time specified under the Plan for purposes of determining whether or not a Change of Control has occurred, the individuals who were members of the Board at the beginning of such period.

“Non-Qualified Stock Option” shall mean an Option which is not an Incentive Stock Option.

“Option” shall mean an Award granted under Article VII of the Plan of an option to purchase shares of Common Stock and includes both Incentive Stock Options and Non-Qualified Stock Options.

“Option Agreement” shall mean a written agreement between the Company and a Holder with respect to an Option.

“Performance Criteria” shall mean the criteria that the Committee selects for purposes of establishing the Performance Goal(s) for a Holder for a Performance Period.

“Performance Goals” shall mean, for a Performance Period, the written goal or goals established by the Committee for the Performance Period based upon the Performance Criteria.

“Performance Period” shall mean one or more periods of time, which may be of varying and overlapping durations, selected by the Committee, over which the attainment of one or more Performance Goals or other business objectives shall be measured for purposes of determining a Holder’s right to, and the payment of, a Qualified Performance-Based Award.

In addition, at June 30, 2018 our member owners owned 100% of our outstanding Class B common units, representing approximately 60% of the outstanding partnership units of Premier LP. Because they hold their economic ownership interest in our business through Premier LP, rather than through Premier, Inc., due to the fact that shares of Class B common stock are not entitled to any economic rights, these member owners may have conflicting interests with holders of shares of our Class A common stock. For example, many of our member owners are not-for-profit organizations which, as a result of their tax-exempt status, could influence their decisions regarding whether and when to dispose of assets, whether and when to incur new, or refinance existing, indebtedness, and whether and when Premier should terminate the TRAs and accelerate its obligations thereunder. In addition, the structuring of future transactions may be influenced by these member owners' tax or other considerations even where no similar benefit would accrue to us or our stockholders.

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

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

Our member owners, acting as a group pursuant to the terms of the Voting Trust Agreement, own more than 50% of the total voting power of our outstanding common stock and we are a “controlled company” under NASDAQ corporate governance standards. As a controlled company, we are not required by NASDAQ for continued listing of Class A common stock to (i) have a majority of independent directors, (ii) maintain an independent compensation committee or (iii) maintain an independent nominating function. We are taking advantage of all of these exemptions from NASDAQ listing requirements. Accordingly, our stockholders do not have the same protection afforded to stockholders of companies that are subject to all of the NASDAQ corporate governance requirements and the ability of our independent directors to influence our business policies and affairs may be reduced. As a result, our status as a “controlled company” could preclude certain institutional investors from investing in our Class A common stock, make our Class A common stock less attractive to other investors and thus adversely impact or harm our Class A common stock price.

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

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

Any payments made under the TRAs with our member owners will reduce the amount of overall cash flow that would otherwise be available to us. In addition, we may not be able to realize all or a portion of the tax benefits that are expected to result from the acquisition of Class B common units from the limited partners.

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

Assuming that Premier is able to timely realize anticipated tax benefits of tax basis adjustments from our IPO and subsequent exchanges, the future aggregate amount of payments to be made by the Company to the member owners is approximately $255.1 million as of June 30, 2018. Pursuant to the TRAs, payments are due to member owners to the extent that the Company recognizes the tax benefits attributable to the initial purchase of Class B common units from the member owners in conjunction with the IPO and subsequent quarterly exchanges between the Company and its member owners.

The TRAs provide that, in the event we exercise our right to early termination or in the event of a change in control or a material breach by us of our obligations, the agreements will terminate and the Company will be required to make a lump-sum payment equal to the present value of all forecasted future payments that would have otherwise been made under the TRAs. These payments could be substantial and could exceed the actual tax benefits that we eventually receive as a result of acquiring Class B common units from the member owners. In the event that we do not have available capital on hand or access to adequate funds to make these payments, our financial condition would be materially adversely impacted.

Additionally, our ability to realize our 15% share of the total tax savings that we are entitled to retain under the TRAs depends on a number of assumptions. If our actual taxable income were insufficient or there were adverse changes in applicable law or regulations, we may be unable to realize all or a portion of these expected benefits and our cash flows and stockholders' equity could be negatively affected.

Changes to Premier LP's allocation methods or examinations or changes in interpretation of applicable tax laws and regulations by various tax authorities may increase a tax-exempt limited partner's risk that some allocated income is unrelated business taxable income.

The LP Agreement provides for the allocation of retained income to the limited partners of Premier LP, in part, according to the number of units owned rather than relative participation of the limited partners. A member owner that is a tax-exempt limited partner of Premier LP whose relative Class B common unit ownership is high compared to its relative participation may conclude, based on an analysis of its own facts and circumstances, that it has more federal unrelated business taxable income ("UBTI"), or the state equivalent thereof, subject to tax than it had reported in the past, or may be at increased risk that the Internal Revenue Service, or IRS, or a state taxing authority will seek to increase the amount of income reported by the tax-exempt limited partner as UBTI. Further, the LP Agreement provides for the allocation of distributed income to be adjusted based on facts and circumstances as are determined appropriate by Premier GP. Such adjustments may also increase the amount of income reported by certain tax-exempt limited partners as UBTI. In addition, Premier LP's activities are subject to examination by various taxing authorities in the normal course, and such examinations could result in interpretations of applicable tax laws that would cause tax-exempt limited partners to recognize additional amounts of UBTI. Further, the TCJA enacted law changes to UBTI, whereby UBTI losses of one activity cannot offset UBTI income of another activity. The reporting of UBTI from Premier LP thus cannot offset any UBTI reported by the limited partners of Premier LP. Any increase in UBTI may cause a limited partner to leave Premier LP, which could have an adverse effect on our business, financial condition and results of operations.

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

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

- divide our Board of Directors into three classes with staggered three-year terms, which may delay or prevent a change of our management or a change in control;
- authorize our Board of Directors to issue “blank check” preferred stock in order to increase the aggregate number of outstanding shares of capital stock and thereby make a takeover more difficult and expensive;
- do not permit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- do not permit stockholders to take action by written consent other than during the period in which we qualify as a “controlled company” within the meaning of NASDAQ rules;
- provide that special meetings of the stockholders may be called only by or at the direction of the Board of Directors, the chair of our Board or the chief executive officer;

- require advance notice to be given by stockholders of any stockholder proposals or director nominees;
- require a super-majority vote of the stockholders to amend our certificate of incorporation; and
- allow our Board of Directors to make, alter or repeal our bylaws but only allow stockholders to amend our bylaws upon the approval of $66^2/_3$% or more of the voting power of all of the outstanding shares of our capital stock entitled to vote.

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

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

These restrictions and provisions could keep us from pursuing relationships with strategic partners and from raising additional capital, which could impede our ability to expand our business and strengthen our competitive position. These restrictions could also limit stockholder value by impeding a sale of Premier, Inc. or Premier LP and discouraging potential takeover attempts that might otherwise be financially beneficial to stockholders.

Risks Related to Our Class A Common Stock

If we fail to maintain an effective system of integrated internal controls, we may not be able to report our financial results accurately, we may determine that our prior financial statements are not reliable, or we may be required to expend significant financial and personnel resources to remediate any weaknesses, any of which could have a material adverse effect on our business, financial condition and results of operations.

Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that will need to be evaluated frequently. Section 404 of the Sarbanes-Oxley Act requires public companies to conduct an annual review and evaluation of their internal controls and attestations of the effectiveness of internal controls by independent auditors. Maintaining effective internal controls has been and will continue to be costly and may divert management's attention.

In connection with the preparation of our 2017 Form 10-K, we identified a material weakness in our internal control over financial reporting related to the income tax accounting for complex, non-routine or infrequent transactions. During fiscal 2018, we implemented a remediation plan to address this material weakness that consisted of augmenting our accounting resources, training, and implementing a more formal review and documentation process around the income tax accounting for complex, non-routine or infrequent transactions that may arise from time to time. In addition to the costs associated with identifying the weakness and amending previously reported financial statement, our remediation plan required us to expend significant financial and personnel resources to remediate the weaknesses.

Our future evaluation of our internal controls over financial reporting may identify material weaknesses that may cause us to (i) be unable to report our financial information on a timely basis or (ii) determine that our previously issued financial statements should no longer be relied upon because of a material error in such financial statements, and thereby result in adverse regulatory consequences, including sanctions by the SEC, violations of NASDAQ listing rules or stockholder litigation. There also could be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements also could suffer if we or our independent registered public accounting firm were to report a material weakness in our internal controls over financial reporting. The occurrence of any of these events could materially adversely affect our business, financial condition and results of operations and could also lead to a decline in the price of our Class A common stock.

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

We cannot predict the effect, if any, that market sales of shares of Class A common stock or the availability of shares of Class A common stock for sale by our member owners will have on the market price of our Class A common stock from time to time. At June 30, 2018, we had 52,761,177 shares of our Class A common stock outstanding. Sales of substantial amounts of shares of our Class A common stock in the public market, or the perception that those sales will occur, could cause the market price of our

Class A common stock to decline or make future offerings of our equity securities more difficult. If we are unable to sell equity securities at times and prices that we deem appropriate, we may be unable to fund our future growth.

At June 30, 2018, there were 80,335,701 Class B common units of Premier LP outstanding. In connection with the IPO, Premier, Inc., Premier LP and the member owners entered into an Exchange Agreement. Under this agreement, subject to certain restrictions, commencing on October 31, 2014, and during each year thereafter, each member owner has the cumulative right to exchange up to one-seventh of the Premier LP Class B common units initially allocated to such member owner (or subsequently purchased by such member owner pursuant to the related right of first refusal set forth in the Exchange Agreement), for shares of our Class A common stock, cash or a combination of both, the form of consideration to be at the discretion of the Audit and Compliance Committee of our Board of Directors, subject to certain restrictions. This exchange right can generally be exercised on a quarterly basis (subject to rights of first refusal in favor of the other holders of Class B common units and Premier LP). In November 2014, we filed a registration statement with the SEC that registered under the Securities Act the resale of shares of Class A common stock received under the Exchange Agreement and, accordingly, any Class A common shares exchanged for Class B common units would generally be freely tradeable. On October 31, 2018, the fifth tranche of Class B common units, representing 15,217,987 units, will become eligible for exchange. Including Class B common units already eligible for exchange as of the date of this Annual Report, a cumulative amount of 48,973,436 Class B common units are expected to be eligible for exchange on October 31, 2018. Exchange of a substantial amounts of these Class B common units for shares of our Class A common stock and/or the subsequent sale of such Class A common stock, or the perception that such exchanges and/or sales will occur, could cause the market price of our Class A common stock to decline or make future offerings of our equity securities more difficult.

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

Although we continually evaluate the best use of capital to deliver shareholder return, we have not historically and do not have current plans to pay any dividends on our Class A common stock. Payments of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion and any legal or contractual limitations on our ability to pay dividends. As a result, capital appreciation in the price of our Class A common stock, if any, may be your only source of gain on an investment in our Class A common stock.

Our future issuance of common stock, preferred stock, limited partnership units or debt securities could have a dilutive effect on our common stockholders and adversely affect the market value of our Class A common stock.

In the future, we could issue a significant number of shares of Class A common stock or Class B common stock, which could dilute our existing stockholders significantly and have a material adverse effect on the market price for the shares of our Class A common stock. Furthermore, the future issuance of shares of preferred stock with voting rights may adversely affect the voting power of our common stockholders, either by diluting the voting power of our common stock if the preferred stock votes together with the common stock as a single class or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote even if the action were approved by the holders of our common stock. The future issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our Class A common stock by making an investment in the Class A common stock less attractive.

Moreover, Premier LP may issue additional limited partnership units to third parties without the consent of Class A common stockholders, which would reduce Premier, Inc.'s ownership percentage in Premier LP and have a dilutive effect on the amount of distributions made to Premier, Inc. by Premier LP. Any newly admitted Premier LP limited partners will receive Class B common units in Premier LP and an equal amount of shares of our Class B common stock. Any such issuances could materially and adversely affect the market price of our Class A common stock.

In addition to potential equity issuances described above, we also may issue debt securities that would rank senior to shares of our Class A common stock.

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

Item 1B. Unresolved Staff Comments
None.
Item 2. Properties
We occupy our Charlotte, North Carolina headquarters under a long-term lease which expires in 2026 and includes options for us, at our discretion, to renew the lease for up to 15 years in total beyond that date.

As of June 30, 2018, we also occupy and lease smaller facilities in the following locations: El Segundo, California; San Diego, California; Washington, D.C.; Plantation, Florida; McHenry, Illinois; Overland Park, Kansas; New York, New York; Raleigh, North Carolina; Homestead, Pennsylvania; Sharon Hill, Pennsylvania; Memphis, Tennessee; College Station, Texas; Salt Lake City, Utah; and Charlottesville, Virginia. We believe that our headquarters, as well as our smaller leased facilities, are suitable for our use and are, in all material respects, adequate for our present needs.

We generally conduct the operations of our Supply Chain Services segment and our Performance Services segment across our property locations. See Note 20 - Commitments and Contingencies to the accompanying audited consolidated financial statements for more information about our operating leases.
Item 3. Legal Proceedings
We participate in businesses that are subject to substantial litigation. We are periodically involved in litigation, arising in the ordinary course of business or otherwise, which from time to time may include claims relating to commercial, product liability, tort or personal injury, employment, antitrust, intellectual property or other matters. If current or future government regulations are interpreted or enforced in a manner adverse to us or our business, specifically those with respect to antitrust or healthcare laws, we may be subject to enforcement actions, penalties, damages and material limitations on our business.
From time to time we have been named as a defendant in antitrust lawsuits brought by suppliers or purchasers of medical products. Typically, these lawsuits have alleged the existence of a conspiracy among manufacturers of competing products and operators of GPOs, including us, to deny the plaintiff access to a market for its products or limit the plaintiff’s choice of products to buy. We believe that we have at all times conducted our business affairs in an ethical and legally compliant manner and have successfully resolved all such actions. No assurance can be given that we will not be subjected to similar actions in the future or that such matters will be resolved in a manner satisfactory to us or which will not harm our business, financial condition or results of operations.
Additional information relating to certain legal proceedings in which we are involved is included in Note 20 - Commitments and Contingencies, to the accompanying consolidated financial statements, which is incorporated herein by reference.
Item 4. Mine Safety Disclosures
Not Applicable.

PART II

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

Our Class A common stock is publicly traded on the NASDAQ Global Select Market ("NASDAQ") under the ticker symbol "PINC." Our Class B common stock is not publicly traded. The following table sets forth, for the periods indicated, the high and low prices of our Class A common stock on the NASDAQ.

	Price Range of Common Stock	
	High	Low
Fiscal Year Ended June 30, 2018		
Fourth Quarter	$37.25	$28.81
Third Quarter	$35.10	$29.07
Second Quarter	$35.06	$27.16
First Quarter	$36.50	$30.87
Fiscal Year Ended June 30, 2017		
Fourth Quarter	$36.28	$31.42
Third Quarter	$32.86	$29.15
Second Quarter	$32.79	$28.27
First Quarter	$34.35	$30.61

Holders

Based on the records of our Class A common stock transfer agent, as of August 17, 2018, there were 53,271,621 shares of our Class A common stock issued and outstanding, held by 32 holders of record. Because a substantial portion of our Class A common stock is held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial owners currently holding our Class A common stock. As of August 17, 2018, 79,519,233 shares of our Class B common stock are issued and outstanding, held by one holder of record, the trustee of the Class B common stock voting trust and beneficially owned by our 163 member owners.

Dividend Policy

We did not pay any dividends during the fiscal years ended June 30, 2018 and 2017. Although we continually evaluate the best use of capital to deliver shareholder return, we have not historically and do not have current plans to pay any dividends on our Class A common stock. Furthermore, shares of our Class B common stock are not entitled to any dividend payments. The payment of dividends, if any, is subject to the discretion of our Board of Directors and will depend on many factors, including our results of operations, financial condition and capital requirements, earnings, general business conditions, restrictions imposed by our current and any future financing arrangements, legal restrictions on the payment of dividends and other factors our Board of Directors deems relevant. Our current credit facility includes restrictions on our ability to pay dividends.

Recent Sales of Unregistered Securities

All sales of unregistered securities during the fiscal year ended June 30, 2018 have been previously reported in filings with the SEC.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Purchases of Equity Securities

On October 31, 2017, we announced that our Board of Directors authorized the repurchase of up to $200.0 million of our outstanding Class A common stock during fiscal 2018 as part of a balanced capital deployment strategy. During the third quarter of fiscal 2018, the Company completed its 2018 stock repurchase program and no purchases were made during any month of the fourth quarter

of fiscal 2018. During fiscal 2018, we purchased an aggregate of approximately 6.4 million shares of Class A common stock at an average price of $31.16 per share for a total purchase price of $200.0 million under our fiscal 2018 stock repurchase program. In addition, during the year ended June 30, 2018, zero shares of Class B common units were exchanged for cash in connection with quarterly member owner exchanges under the Exchange Agreement.

On May 7, 2018, we announced that our Board of Directors authorized the repurchase of up to $250.0 million of our outstanding Class A common stock during fiscal 2019 as a continuation of our balanced capital deployment strategy. Subject to certain terms and conditions, including compliance with federal and state securities and other laws, the repurchases may be made from time to time in open market transactions, privately negotiated transactions, or other transactions, at our discretion, including trades under a plan established in accordance with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). There can be no assurance, however, regarding the duration of the program or the timing or number of shares of Class A common stock purchased under the program. The Company will provide additional details regarding the repurchase program in future filings with the SEC.

Company Stock Performance

The performance graph below shows a 57-month comparison of the total cumulative return, assuming reinvestment of all dividends, had $100 been invested at the close of business on September 26, 2013 (our first trading day), in each of:

- our Class A common stock;
- the NASDAQ Composite stock index (“NASDAQ Composite index”); and
- a customized peer group of twelve companies selected by us (the “Peer Group”).

We have used the Peer Group, a group selected in good faith and used by our compensation committee for fiscal 2018 benchmarking purposes, for peer comparison purposes because we believe this group provides an accurate representation of our peers. Our compensation committee reviewed and selected the companies in our fiscal 2018 Peer Group in April 2017. The Peer Group consists of the following twelve companies: Advisory Board Company, Allscripts Healthcare Solutions Inc., athenahealth, Inc., Cerner Corp, HMS Holdings Corp, Huron Consulting Group Inc., IHS Markit, Ltd., Magellan Health Inc., Navigant Consulting Inc., Owens & Minor Inc., Patterson Companies Inc. and Quality Systems Inc.

As the companies in our Peer Group change, our compensation committee will continue to review and reconfigure our Peer Group as applicable.

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

Value of Investment as of Stated Date:

Company/Index Name	9/26/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Premier, Inc. Class A Common Stock	$ 100.00	$ 94.62	$ 125.48	$ 106.69	$ 117.46	$ 118.69
NASDAQ Composite index	$ 100.00	$ 118.49	$ 135.09	$ 133.18	$ 169.67	$ 208.54
Peer Group [(a)]	$ 100.00	$ 103.97	$ 117.74	$ 111.67	$ 125.21	$ 123.73

(a) Assumes $100 invested on September 26, 2013 for stocks and September 30, 2013 for index, including reinvestment of dividends. As noted above, we have not paid any cash dividends during the period covered by the graph.

(b) Includes the performance of (i) IHS Markit, Ltd beginning on July 13, 2016 and (ii) Advisory Board Company through November 17, 2017, its last trading day on NASDAQ.

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

Item 6. Selected Financial Data

As of June 30, 2018, we, through our wholly-owned subsidiary, Premier GP, held a controlling general partner interest of approximately 40% in, and, as a result, consolidated the financial statements of, Premier LP. The limited partners' ownership of Premier LP of approximately 60% at June 30, 2018 is reflected as redeemable limited partners' capital in the Company's 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 our Consolidated Statements of Income and within comprehensive income attributable to non-controlling interest in the Consolidated Statements of Comprehensive Income.

We derived the selected historical consolidated financial data presented in the following tables from the audited consolidated financial statements and related notes of Premier, Inc. and solely with respect to 2014, Premier Healthcare Solutions, Inc. ("PHSI"). Please read Management's Discussion and Analysis of Financial Condition and Results of Operations, and our audited consolidated financial statements and notes thereto contained elsewhere herein and in previous annual reports on Form 10-K filed with the SEC for additional information regarding the financial data presented below, including matters that might cause this data not to be indicative of our future financial position or results of operations.

	Year ended June 30,				
Consolidated Statements of Income Data:	2018	2017 [1]	2016 [2]	2015 [3]	2014 [4, 5]
Net revenue:					
Net administrative fees [6]	$643,839	$557,468	$498,394	$457,020	$464,837
Other services and support	372,133	363,087	337,554	270,748	233,186
Services	1,015,972	920,555	835,948	727,768	698,023
Products	645,284	534,118	326,646	279,261	212,526
Net revenue	1,661,256	1,454,673	1,162,594	1,007,029	910,549
Cost of revenue	798,291	680,048	457,056	396,910	307,625
Gross profit	862,965	774,625	705,538	610,119	602,924
Other operating income [7]:					
Remeasurement of tax receivable agreement liabilities	177,174	5,447	4,818	—	—
Other operating income	177,174	5,447	4,818		
Operating expenses:					
Selling, general and administrative	443,639	410,918	408,429	332,004	294,421
Research and development	1,423	3,107	2,925	2,937	3,389
Amortization of purchased intangible assets	55,447	48,327	33,054	9,136	3,062
Operating expenses	500,509	462,352	444,408	344,077	300,872
Operating income	539,630	317,720	265,948	266,042	302,052
Other income (expense), net [8]	(22,826)	213,571	18,934	5,085	58,274
Income before income taxes	516,804	531,291	284,882	271,127	360,326
Income tax expense	259,234	81,814	49,721	36,342	27,709
Net income	257,570	449,477	235,161	234,785	332,617
Net (income) loss attributable to non-controlling interest in S2S Global [9]	—	—	—	(1,836)	(949)
Net income attributable to non-controlling interest in Premier LP [10]	(224,269)	(336,052)	(193,547)	(194,206)	(303,336)
Net income attributable to non-controlling interest	(224,269)	(336,052)	(193,547)	(196,042)	(304,285)
Adjustment of redeemable limited partners' capital to redemption amount	157,581	(37,176)	776,750	(904,035)	(2,741,588)
Net income (loss) attributable to stockholders	$190,882	$76,249	$818,364	$(865,292)	$(2,713,256)
Weighted average shares outstanding:					
Basic	53,518	49,654	42,368	35,681	25,633
Diluted	137,340	50,374	145,308	35,681	25,633
Earnings (loss) per share attributable to stockholders:					
Basic	$3.57	$1.54	$19.32	$(24.25)	$(105.85)
Diluted [11]	$1.36	$1.51	$0.97	$(24.25)	$(105.85)

46

Consolidated Balance Sheets Data:	June 30, 2018	2017	2016	2015	2014
Cash, cash equivalents and marketable securities, current	$152,386	$156,735	$266,576	$387,189	$291,606
Working capital (deficit) [12]	$(20,264)	$(162,775)	$136,827	$275,533	$188,527
Property and equipment, net	$206,693	$187,365	$174,080	$147,625	$134,551
Total assets	$2,312,216	$2,507,836	$1,855,383	$1,530,191	$1,246,656
Deferred revenue [13]	$39,785	$44,443	$54,498	$39,824	$15,694
Total liabilities	$818,870	$1,031,506	$669,614	$568,461	$472,293
Redeemable limited partners' capital [14]	$2,920,410	$3,138,583	$3,137,230	$4,079,832	$3,244,674
Class A common stock	$575	$519	$460	$377	$324
Treasury stock, at cost [15]	$(150,058)	$—	$—	$—	$—
Additional paid-in capital	$—	$—	$—	$—	$—
Accumulated deficit	$(1,277,581)	$(1,662,772)	$(1,951,878)	$(3,118,474)	$(2,469,873)
Total stockholders' deficit	$(1,427,064)	$(1,662,253)	$(1,951,461)	$(3,118,102)	$(2,470,311)

(1) Amounts include the results of operations of (i) Acro Pharmaceutical Services LLC and Community Pharmacy Services, LLC (collectively, "Acro Pharmaceuticals") from August 23, 2016, the date of acquisition of all of the membership interests of Acro Pharmaceuticals, and (ii) Innovatix and Essensa from December 2, 2016, the date of acquisition of all the membership interests of Innovatix and Essensa. Prior to December 2, 2016, we held 50% of the membership interests in Innovatix, and reported equity in net income of Innovatix within other income (expense), net in the Consolidated Statements of Income. See Note 3 - Business Acquisitions to the audited consolidated financial statements of this Annual Report for further information related to acquisitions completed during the year ended June 30, 2017.

(2) Amounts include the results of operations of InFlowHealth, LLC ("InFlow"), CECity.com, Inc. ("CECity") and Healthcare Insights, LLC ("HCI"), from October 1, 2015, August 20, 2015 and July 31, 2015, respectively, the dates of acquisition of all the membership interests of InFlow, all the outstanding shares of CECity, and all the membership interests of HCI, respectively. See Note 3 - Business Acquisitions to the audited consolidated financial statements of this Annual Report for further information related to acquisitions completed during the year ended June 30, 2016.

(3) Amounts include the results of operations of TheraDoc, Inc. ("TheraDoc") and Aperek, Inc. ("Aperek"), from September 1, 2014 and August 29, 2014, respectively, the dates of acquisition of all the outstanding shares of common stock of TheraDoc and Aperek, respectively. Further, on February 2, 2015, we purchased the remaining 40% of the outstanding limited liability company membership interests of S2S Global, our direct sourcing business. See Note 3 - Business Acquisitions to the audited consolidated financial statements of this Annual Report for further information related to acquisitions completed during the year ended June 30, 2015.

(4) Amounts include the results of operations of MEMdata, LLC ("MEMdata"), Meddius, L.L.C. ("Meddius") and SYMMEDRx, LLC ("SYMMEDRx"), from April 7, 2014, October 31, 2013 and July 19, 2013, respectively, the dates of acquisition of all the outstanding shares of common stock of MEMdata, Meddius and SYMMEDRx.

(5) Immediately following the completion of the IPO on October 1, 2013, PHSI, a corporation through which we historically conducted the majority of our business, became our consolidated subsidiary and is considered our predecessor for accounting purposes. Accordingly, PHSI's consolidated financial statements are our historical financial statements, for periods prior to October 1, 2013. The historical consolidated financial statements of PHSI are reflected herein based on PHSI's historical ownership interests of Premier LP and its consolidated subsidiaries.

(6) We are contractually required under the GPO participation agreements to pay most member owners revenue shares from Premier LP generally 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 our GPO supplier contracts. Certain non-owner members operate under contractual relationships that provide for a specific revenue share that differs from the 30% revenue share that we provide to our member owners under the GPO participation agreements.

(7) Other operating income includes the adjustment to TRA liabilities. Changes in estimated TRA liabilities that are the result of a change in tax accounting method, including the impacts of the TCJA, are recorded as a component of other operating income in the Consolidated Statements of Income. Changes in estimated TRA liabilities 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 or decrease to additional paid-in capital in the Consolidated Statements of Stockholders' Deficit.

(8) Other income (expense), net, consists primarily of a one-time gain of $205.1 million related to the remeasurement of our historical 50% equity method investment in Innovatix to fair value upon acquisition of Innovatix and Essensa on December 2, 2016 which occurred during the year ended June 30, 2017. In addition, other income (expense), net includes equity in net income of unconsolidated affiliates that is generated from our equity method investments. Our equity method investments primarily consist of our 49% ownership in FFF Enterprises, Inc. ("FFF"), and prior to the acquisition of Innovatix and Essensa, included our 50% ownership interest in Innovatix. Other income (expense), net, also includes net changes in the fair values of the FFF put and call rights (see Note 5 - Fair Value Measurements), interest income and expense, realized and unrealized gains or losses on deferred compensation plan assets, gains or losses on the disposal of assets, and realized gains and losses on our marketable securities.

(9) Premier Supply Chain Improvement, Inc. ("PSCI") owns a 100% voting and economic interest in S2S Global as a result of its February 2, 2015 purchase of the remaining 40% non-controlling interest in S2S Global. Prior to February 2, 2015, PSCI owned a 60% voting and economic interest in S2S Global. Net (income) loss attributable to non-controlling interest in S2S Global represents the portion of net (income) loss attributable to the non-controlling equity holders of S2S Global prior to the February 2, 2015 purchase.

(10) Net income attributable to non-controlling interest in Premier LP represents the portion of net income attributable to the limited partners of Premier LP, which was 60% at June 30, 2018, and may change each period as member ownership changes.

(11) The Company corrected prior period information within the current period financial statements related to a specific component used in calculating the tax effect on Premier, Inc. net income for purposes of diluted earnings (loss) per share. Diluted earnings per share for fiscal 2016 was previously stated at $1.33 per share and has been corrected to $0.97 per share. The Company believes the correction is immaterial and the amount had no impact on the Company's overall financial condition, results of operations or cash flows.

(12) Working capital represents the excess (deficit) of total current assets less total current liabilities. At June 30, 2018, working capital includes the $100.3 million current portion of long-term debt which is recorded within current liabilities.

(13) Deferred revenue is primarily related to deferred subscription fees and deferred consulting fees in our Performance Services segment and consists of unrecognized revenue related to advanced member invoicing or member payments received prior to fulfillment of our revenue recognition criteria.

(14) Redeemable limited partners' capital represents the member owners' ownership of Premier LP through their ownership of Class B common units. We are required to repurchase a limited partner's interest in Premier LP upon such limited partner's withdrawal from Premier LP, or such limited partner's failure to comply with the applicable purchase commitments under the historical limited partnership agreement of Premier LP. Redeemable limited partners' capital is classified as temporary equity in the mezzanine section of the accompanying Consolidated Balance Sheets as the withdrawal is at the option of each limited partner and the conditions of the repurchase are not solely within our control. We record redeemable limited partners' capital at the greater of the book value or redemption amount per the LP Agreement at the reporting date, with the corresponding offset to additional paid-in-capital and accumulated deficit.

(15) Pursuant to our previously announced 2018 stock repurchase program, we purchased approximately 6.4 million shares of Class A common stock at an average price of $31.16 per share for a total purchase price of $200.0 million during fiscal 2018.

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

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

Business Overview

Our Business

Premier, Inc. ("Premier", the "Company", "we", or "our") is a leading healthcare performance improvement company, uniting an alliance of more than 4,000 U.S. hospitals and health systems and approximately 165,000 other providers and organizations to transform healthcare. We partner with hospitals, health systems, physicians and other healthcare providers with the common goal of improving and innovating in the clinical, financial and operational areas of their businesses to meet the demands of a rapidly evolving healthcare industry. We deliver value through a comprehensive technology-enabled platform that offers critical supply chai

n services, clinical, financial, operational and population health software-as-a-service ("SaaS") informatics products, consulting services and performance improvement collaborative programs.
As of June 30, 2018, we were controlled by 163 U.S. hospitals, health systems and other healthcare organizations, which represented approximately 1,400 owned, leased and managed acute care facilities and other non-acute care organizations, through their ownership of Class B common stock. As of June 30, 2018, the Class A common stock and Class B common stock represented approximately 40% and 60%, respectively, of our combined Class A and Class B common stock. All of our Class B common stock was held beneficially by our member owners and all of our Class A common stock was held by public investors, which may include member owners that have received shares of our Class A common stock in connection with previous quarterly exchanges pursuant to the Exchange Agreement .
We generated net revenue, net income and Adjusted EBITDA (a financial measure not determined in accordance with generally accepted accounting principles ("Non-GAAP")) for the periods presented as follows (in thousands):

	Year Ended June 30,		
	2018	2017	2016
Net revenue	$1,661,256	$1,454,673	$1,162,594
Net income	$257,570	$449,477	$235,161
Non-GAAP Adjusted EBTIDA	$543,049	$501,591	$440,975

See “Our Use of Non-GAAP Financial Measures” and “Results of Operations” below for a discussion of our use of Non-GAAP Adjusted EBITDA and a reconciliation of net income to Non-GAAP Adjusted EBITDA.
Our Business Segments
Our business model and solutions are designed to provide our members access to scale efficiencies while focusing on optimization of information resources and cost containment, provide actionable intelligence derived from anonymized data in our data warehouse provided by our members, mitigate the risk of innovation and disseminate best practices that will help our member organizations succeed in their transformation to higher quality and more cost-effective healthcare. We deliver our integrated platform of solutions that address the areas of total cost management, quality and safety improvement and population health management through two business segments: Supply Chain Services and Performance Services.
Our Supply Chain Services segment includes one of the largest healthcare group purchasing organization programs ("GPO") in the United States, serving acute, non-acute, non-healthcare and alternate sites, and includes integrated pharmacy and direct sourcing activities. Supply Chain Services net revenue grew from $1,101.3 million for the year ended June 30, 2017 to $1,300.6 million for the year ended June 30, 2018, representing net revenue growth of 18%, and accounted for 78% of our overall net revenue. Supply Chain Services net revenue grew from $829.4 million for the year ended June 30, 2016 to $1,101.3 million for the year ended June 30, 2017, representing net revenue growth of 33%, and accounted for 76% of our overall net revenue. We generate revenue in our Supply Chain Services segment from administrative fees received from suppliers based on the total dollar volume of supplies purchased by our members and through product sales in connection with our integrated pharmacy and direct sourcing activities.
Our Performance Services segment includes one of the largest informatics and consulting services businesses in the United States focused on healthcare providers. Performance Services net revenue grew from $353.4 million for the year ended June 30, 2017 to $360.7 million for the year ended June 30, 2018, representing revenue growth of 2%, and accounted for 22% of our overall net revenue. Performance Services net revenue increased from $333.2 million for the year ended June 30, 2016 to $353.4 million for the year ended June 30, 2017, representing net revenue growth of 6%, and accounted for 24% of our overall net revenue. Our SaaS informatics products utilize our comprehensive data set to provide actionable intelligence to our members, enabling them to benchmark, analyze and identify areas of improvement across three main categories: cost management, quality and safety and population health management. The Performance Services segment also includes our technology-enabled performance improvement collaboratives, consulting services, government services and insurance management services.
Acquisitions
Acquisition of Innovatix and Essensa
Prior to December 2, 2016, we, through our consolidated subsidiary, PSCI, held 50% of the membership interests in Innovatix. On December 2, 2016, we, through PSCI, acquired the remaining 50% ownership interests of Innovatix and

100% of the ownership interest in Essensa. The purchase price, after adjustments pursuant to the purchase agreement, was $336.0 million. The acquisition was funded with borrowings under our credit facility dated June 24, 2014, as amended on June 4, 2015 (the "Credit Facility"). We also paid the sellers $21.1 million during the fiscal year ended June 30, 2018 in connection with an earn-out opportunity provided at the time of the acquisition. Innovatix and Essensa are GPOs focused on serving alternate site healthcare providers and other non-healthcare organizations throughout the United States. We report Innovatix and Essensa as part of our Supply Chain Services segment. See Note 3 - Business Acquisitions for more information.

Acquisition of Acro Pharmaceuticals

On August 23, 2016, we, through our consolidated subsidiary, NS3 Health, LLC, acquired 100% of the membership interests of Acro Pharmaceuticals. The aggregate purchase price, after adjustments pursuant to the purchase agreement, was $62.9 million. The acquisition was funded with available cash on hand. Acro Pharmaceuticals is a specialty pharmacy business that provides customized healthcare management solutions to members. We report Acro Pharmaceuticals as part of our Supply Chain Services segment. See Note 3 - Business Acquisitions for more information.

Acquisition of InFlow

On October 1, 2015, we acquired all of the limited liability company membership interests of InFlow, a SaaS-based software developer specializing in improving the operational, financial and strategic performance of physician practices, for $6.1 million in cash. The acquisition provides selling members an earn-out opportunity of up to $26.9 million based on InFlow's future annual contractual subscription revenues through December 31, 2019. At June 30, 2018 and 2017, the fair value of the earn-out liability was zero and $0.2 million, respectively (see Note 5 - Fair Value Measurements). The selling members also received restricted stock units of Premier with an aggregate equity grant value of $2.1 million which vest over a three-year period with restrictions tied to continued employment. We utilized available funds on hand to complete the acquisition. Assets acquired and liabilities assumed were recorded at their fair values as of October 1, 2015, with the remaining unallocated purchase price recorded as goodwill. We report InFlow as part of our Performance Services segment. See Note 3 - Business Acquisitions for more information.

Acquisition of CECity

On August 20, 2015, we acquired 100% of the outstanding shares of capital stock of CECity, a cloud-based healthcare solutions provider specializing in performance management and improvement, pay-for-value reporting and professional education, for $398.3 million in cash. We funded the acquisition with $250.0 million of cash and $150.0 million of borrowings under our Credit Facility. Assets acquired and liabilities assumed were recorded at their fair values as of August 20, 2015, with the remaining unallocated purchase price recorded as goodwill. We report CECity as part of our Performance Services segment. See Note 3 - Business Acquisitions for more information

Acquisition of HCI

On July 31, 2015, we acquired all of the limited liability company membership interests of HCI, a financial management software developer that provides hospitals and healthcare systems with budgeting, forecasting, labor productivity and cost analytic capabilities, for $64.3 million in cash. We utilized available funds on hand to complete the acquisition. Assets acquired and liabilities assumed were recorded at their fair values as of July 31, 2015, with the remaining unallocated purchase price recorded as goodwill. We report HCI as part of our Performance Services segment. See Note 3 - Business Acquisitions for more information.

Market and Industry Trends and Outlook

We expect that certain trends and economic or industry-wide factors will continue to affect our business, both in the short-term and long-term. We have based our expectations described below on assumptions made by us and on information currently available to us. To the extent our underlying assumptions about, or interpretation of, available information prove to be incorrect our actual results may vary materially from our expected results. See "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors."

Trends in the U.S. healthcare market affect our revenues and costs in the Supply Chain Services and Performance Services segments. The trends we see affecting our current healthcare business include the impact of the implementation of current or future healthcare legislation, particularly the uncertainty regarding the status of the ACA, its repeal, replacement or other modification, the enactment of new regulatory and reporting requirements, expansion and contraction of insurance coverage and associated costs that may impact subscriber elections, intense cost pressure, payment reform, provider consolidation, shift in care to the alternate site market and increased data availability and transparency. To meet the demands of this environment, there will be increased focus on scale and cost containment and healthcare providers will need to measure and report on and bear financial risk for outcomes. We believe these trends will result in increased demand for our Supply Chain Services and Performance Services solutions in the areas of cost management, quality and safety, and population health management, however, there are uncertainties and risks that may affect the actual impact of these anticipated trends or related assumptions on our business. See "Cautionary Note Regarding Forward-Looking Statements" for more information.

Critical Accounting Policies and Estimates

Below is a discussion of our critical accounting policies and estimates. These and other significant accounting policies are set forth under Note 2 - Significant Accounting Policies in the accompanying financial statements.

Business Combinations

We account for business 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, 2018.

TRAs

The Company records tax receivable agreements ("TRA") liabilities 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 conjunction with the IPO. Tax payments under the TRA will be made to the member owners as the Company realizes tax benefits attributable

51

to the initial purchase of Class B common units from the member owners made concurrently with the 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 estimated TRA liabilities that are the result of a change in tax accounting method are recorded in remeasurement of tax receivable agreement liabilities or in selling, general and administrative expense in the Consolidated Statements of Income. Changes in estimated TRA liabilities 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 or decrease to additional paid-in capital in the Consolidated Statements of Stockholders' Deficit.

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 Services 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, consulting services and performance improvement collaborative subscriptions. Product revenue consists of integrated pharmacy and direct sourcing product sales, which are included in the Supply Chain Services 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) collectibility 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 GPO programs, 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 collectibility 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 consulting 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 60 to 300 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 250 to 300 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 consulting services sold under contracts vary based on the nature and terms 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, which is generally one year.

Certain administrative and/or patient management integrated 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 consulting 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 consulting 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 consulting 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 consulting 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 as well as net operating losses and credit carryforwards, 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 reserves 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 the Company are included in Note 2 - Significant Accounting Policies in the accompanying financial statements, which is incorporated herein by reference.

Key Components of Our Results of Operations

Net Revenue

Net revenue consists of service revenue, which includes net administrative fees revenue and other services and support revenue, and product revenue. Net administrative fees revenue consists of GPO administrative fees in our Supply Chain Services segment. Other services and support revenue consists primarily of fees generated by our Performance Services segment in connection with our SaaS informatics products subscriptions, license fees, consulting services and performance improvement collaborative subscriptions. Product revenue consists of integrated pharmacy and direct sourcing product sales, which are included in the Supply Chain Services segment. The following discussion presents our revenue recognition policies under existing guidance; however, it's important to note that we will adopt the Financial Accounting Standards Board Accounting Standard Update 2014-09, Revenue from Contracts with Customers (Topic 606) effective July 1, 2018, which supersedes nearly all revenue recognition guidance. See Note 2 - Significant Accounting Policies for more information.

Supply Chain Services

Supply Chain Services revenue consists of GPO net administrative fees (gross administrative fees received from suppliers, reduced by the amount of any revenue share paid to members), specialty pharmacy revenue, direct sourcing revenue and managed service revenue.

The success of our Supply Chain Services revenue streams are influenced by our ability to negotiate favorable contracts with suppliers, the number of members that utilize our GPO supplier contracts and the volume of their purchases, the number of members that utilize our integrated pharmacy, as well as the impact of changes in the defined allowable reimbursement amounts determined by Medicare, Medicaid and other managed care plans and the number of members that purchase products through our direct sourcing activities and the impact of competitive pricing. Our managed services line of business is a fee for service model created to perform supply chain related services for members, including contract negotiation and administration, claims data and rebate processing and evaluation of current pharmacy formulary and utilization services provided in partnership with a national pharmacy benefit management company.

Performance Services

Performance Services revenue consists of SaaS informatics products subscriptions, license fees, performance improvement collaborative and other service subscriptions, professional fees for consulting services, insurance services management fees and commissions from endorsed commercial insurance programs.

Our Performance Services growth will depend upon the expansion of our SaaS informatics products, performance improvement collaboratives and consulting services to new and existing members, impact of applied research initiatives, renewal of existing subscriptions to our SaaS informatics products and expansion into new markets with potential future acquisitions.

Cost of Revenue

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

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

Other Operating Income

Other operating income includes the adjustment to TRA liabilities. Changes in estimated TRA liabilities that are the result of a change in tax accounting method, including the impacts of the TCJA, are recorded as a component of other operating income in the Consolidated Statements of Income. Changes in estimated TRA liabilities 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 or decrease to additional paid-in capital in the Consolidated Statements of Stockholders' Deficit. See "Income Tax Expense" below for additional information.

Operating Expenses

Selling, general and administrative expenses are directly associated with selling and administrative functions and support of revenue-generating activities including expenses to support and maintain our software-related products and services. Selling, general and administrative expenses primarily consist of compensation and benefits related costs, travel-related expenses, business development expenses, including costs for business acquisition opportunities, indirect costs such as insurance, professional fees and other general overhead expenses, and adjustments to TRA liabilities.

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.

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

Other Income (Expense), Net

Other income (expense), net, includes equity in net income of unconsolidated affiliates that is generated from our equity method investments. Our equity method investments primarily consist of our 49% ownership in FFF Enterprises, Inc. ("FFF"), and prior to the acquisition of Innovatix and Essensa on December 2, 2016, included our 50% ownership interest in Innovatix. In connection with the acquisition of Innovatix and Essensa, the Company recorded a one-time gain of $205.1 million related to the remeasurement of our historical 50% equity method investment in Innovatix to fair value. Other income, net, also includes the change in fair value of our FFF put and call rights (see Note 5 - Fair Value Measurements), interest income and expense, realized and unrealized gains or losses on deferred compensation plan assets and gains or losses on the disposal of assets.

Income Tax Expense

Our income tax expense is attributable to the activities of the Premier, Inc., PHSI and PSCI, all of which are subchapter C corporations and are subject to U.S. federal and state income taxes. In contrast, under the provisions of federal and state laws, Premier LP is not subject to federal and state income taxes as the income realized by Premier LP is taxable to its partners. Our overall effective tax rate differs from the U.S. statutory tax rate primarily due to the aforementioned ownership structure as well as other items noted in Note 18 - Income Taxes.

Given our ownership and capital structure, various effective tax rates are calculated for specific tax items. For example, the deferred tax benefit related to stock-based compensation expense (see Note 16 - Stock-Based Compensation) is calculated based on the effective tax rate of PHSI, the legal entity where the majority of stock-based compensation expense is recorded. Our effective tax rate, as discussed in Note 18 - Income Taxes, represents the effective tax rate computed in accordance with GAAP based on total income tax expense (reflected in income tax expense in the Consolidated Statements of Income) of the Premier, Inc., PHSI, and PSCI divided by consolidated pre-tax income.

Non-GAAP Adjusted Fully Distributed Net Income is calculated net of taxes based on our fully distributed tax rate for federal and state income tax for us as a whole as if we were one taxable entity with all of our subsidiaries' activities included. Prior to the enactment of the TCJA, the rate used to compute the Non-GAAP Adjusted Fully Distributed Net Income was 39%. Effective as of January 1, 2018, we adjusted our fully distributed tax rate to 26% to determine its Non-GAAP Adjusted Fully Distributed Net Income.

Net Income Attributable to Non-Controlling Interest

As of June 30, 2018, we owned an approximate 40% controlling general partner interest in Premier LP through Premier GP. Net income attributable to non-controlling interest represents the portion of net income attributable to the limited partners of Premier LP, which was reduced from approximately 63% as of June 30, 2017 to approximately 60% as of June 30, 2018, as a result of completed quarterly exchanges pursuant to the Exchange Agreement offset by our share repurchase activities during the fiscal year 2018 (see Note 13 - Redeemable Limited Partners' Capital).

Our Use of Non-GAAP Financial Measures

The other key business metrics we consider are EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free Cash Flow, which are all Non-GAAP financial measures.

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

We define Segment Adjusted EBITDA as the segment's net revenue less cost of revenue and operating expenses directly attributable to the segment excluding depreciation and amortization, amortization of purchased intangible assets, merger and acquisition related expenses and non-recurring or non-cash items and including equity in net income (loss) of unconsolidated affiliates. Operating expenses directly attributable to the segment include expenses associated with sales and marketing, general and administrative, and product development activities specific to the operation of each segment. General and administrative corporate expenses that are not specific to a particular segment are not included in the calculation of Segment Adjusted EBITDA.

We define Adjusted Fully Distributed Net Income as net income attributable to Premier (i) excluding income tax expense, (ii) excluding the impact of adjustment of redeemable limited partners' capital to redemption amount, (iii) excluding the effect of non-recurring and non-cash items, (iv) assuming the exchange of all the Class B common units for shares of Class A common stock, which results in the elimination of non-controlling interest in Premier LP and (v) reflecting an adjustment for income tax expense on Non-GAAP fully distributed net income before income taxes at our estimated effective income tax rate. We define Adjusted Fully Distributed Earnings per Share as Adjusted Fully Distributed Net Income divided by diluted weighted average shares (see Note 15 - Earnings (Loss) Per Share).

We define Free Cash Flow as net cash provided by operating activities less distributions and TRA payments to limited partners and purchases of property and equipment. Free Cash Flow does not represent discretionary cash available for spending as it excludes certain contractual obligations such as debt repayments.

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

We use Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share to facilitate a comparison of our operating performance on a consistent basis from period to period that, when viewed in combination with our results prepared in accordance with GAAP, provides a more complete understanding of factors and trends affecting our business. We believe Adjusted EBITDA and Segment Adjusted EBITDA assist our Board of Directors, management and investors in comparing our operating performance on a consistent basis from period to period because they remove the impact of earnings elements attributable to our asset base (primarily depreciation and amortization) and certain items outside the control of our management team, e.g. taxes, as well as other non-cash (such as impairment of intangible assets, purchase accounting adjustments and stock-based compensation) and non-recurring items (such as strategic and financial restructuring expenses) from our operating results. We believe Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share assist our Board of Directors, management and investors in comparing our net income and earnings per share on a consistent basis from period to period because these measures remove non-cash (such as impairment of intangible assets, purchase accounting adjustments and stock-based compensation) and non-recurring items (such as strategic and financial restructuring expenses), and eliminate the variability of non-controlling interest that results from member owner exchanges of Class B common units for shares of Class A common stock. We believe

Free Cash Flow is an important measure because it represents the cash that we generate after payment of tax distributions to limited partners and capital investment to maintain existing products and services and ongoing business operations, as well as development of new and upgraded products and services to support future growth. Our Free Cash Flow allows us to enhance stockholder value through acquisitions, partnerships, joint ventures, investments in related businesses and debt reduction.

Despite the importance of these Non-GAAP financial measures in analyzing our business, determining compliance with certain financial covenants in our Credit Facility, measuring and determining incentive compensation and evaluating our operating performance relative to our competitors, EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free Cash Flow are not measurements of financial performance under GAAP, may have limitations as analytical tools and should not be considered in isolation from, or as an alternative to, net income, net cash provided by operating activities, or any other measure of our performance derived in accordance with GAAP.

Some of the limitations of the EBITDA, Adjusted EBITDA and Segment Adjusted EBITDA measures include that they do not reflect: our capital expenditures or our future requirements for capital expenditures or contractual commitments; changes in, or cash requirements for, our working capital needs; the interest expense or the cash requirements to service interest or principal payments under our Credit Facility; income tax payments we are required to make; and any cash requirements for replacements of assets being depreciated or amortized. In addition, EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA and Free Cash Flow are not measures of liquidity under GAAP, or otherwise, and are not alternatives to cash flows from operating activities.

Some of the limitations of the Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share measures are that they do not reflect income tax expense or income tax payments we are required to make. In addition, Adjusted Fully Distributed Net Income and Adjusted Fully Distributed Earnings per Share are not measures of profitability under GAAP.

We also urge you to review the reconciliation of these Non-GAAP financial measures included elsewhere in this Annual Report. To properly and prudently evaluate our business, we encourage you to review the consolidated financial statements and related notes included elsewhere in this Annual Report, and to not rely on any single financial measure to evaluate our business. In addition, because the EBITDA, Adjusted EBITDA, Segment Adjusted EBITDA, Adjusted Fully Distributed Net Income, Adjusted Fully Distributed Earnings per Share and Free Cash Flow measures are susceptible to varying calculations, such Non-GAAP financial measures may differ from, and may therefore not be comparable to, similarly titled measures used by other companies.

Non-recurring and non-cash items excluded in our calculation of Adjusted EBITDA, Segment Adjusted EBITDA and Adjusted Fully Distributed Net Income consist of stock-based compensation, acquisition related expenses, remeasurement of TRA liabilities, ERP implementation expenses, acquisition related adjustment - revenue, remeasurement gain attributable to acquisition of Innovatix, LLC, loss on disposal of long-lived assets, loss on FFF put and call rights, impairment on investments and other expense. More information about certain of the more significant items follows below.

Stock-based compensation

In addition to non-cash employee stock-based compensation expense, this item includes non-cash stock purchase plan expense of $0.4 million during both of the years ended June 30, 2018 and 2017.

Remeasurement of TRA liabilities

The Company records TRA liabilities based on 85% of the estimated amount of tax savings the Company expects to receive, generally over a 15-year period, which are attributable to the initial purchase of Class B common units from the member owners made concurrently with the IPO and subsequent exchanges by member owners of Class B common units into Class A common stock or cash. Tax payments made under the TRA will be made to the member owners as the Company realizes tax benefits. 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 estimated TRA liabilities that are the result of a change in tax accounting method, including the impacts of the TCJA, are recorded as a component of other operating income or selling, general and administrative expenses in the Consolidated Statements of Income. Changes in estimated TRA liabilities 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.

The adjustment to TRA liabilities for the year ended June 30, 2018 is primarily attributable to the 14% decrease in the U.S. federal corporate income tax rate, which occurred as a result of the TCJA that was enacted on December 22, 2017 (see Note 18 - Income Taxes). The adjustment to TRA liabilities for the year ended June 30, 2017 is primarily attributable to the increase in income apportioned to California and a 1.5% decrease in the North Carolina state income tax rate. The adjustment to TRA liabilities for the year ended June 30, 2016 is primarily attributable to the

adjustment for a 1% decrease in the North Carolina state income tax rate.
Acquisition related adjustment - revenue
Upon acquiring Innovatix and Essensa, we recorded a net $17.4 million purchase accounting adjustment to Adjusted EBITDA during the year ended June 30, 2017 that reflects the fair value of administrative fees related to member purchases that occurred prior to December 2, 2016, but were reported to us subsequent to that date through June 30, 2017. Under our revenue recognition accounting policy, which is in accordance with GAAP, these administrative fees would be ordinarily recorded as revenue when reported to us; however, the acquisition method of accounting requires us to estimate the amount of purchases prior to the acquisition date and to record the fair value of the administrative fees to be received from those purchases as an account receivable (as opposed

to recognizing revenue when these transactions are reported to us) and record any corresponding revenue share obligation as a liability. The purchase accounting adjustment amounted to an estimated $21.2 million of accounts receivable relating to these administrative fees and an estimated $3.8 million for the related revenue share obligation through June 30, 2017.

This item also includes non-cash adjustments to deferred revenue of acquired entities of $0.3 million, $0.6 million and $5.6 million for the years ended June 30, 2018, 2017 and 2016, respectively. 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 software license update fees 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 update fees and product support revenues is intended to include, and thus reflect, the full amount of such revenues (see Note 21 - Segments).

Strategic and financial restructuring expenses

This item represents legal, accounting and other expenses directly related to strategic and financial restructuring activities.

Loss on FFF put and call rights

See Note 5 - Fair Value Measurements.

Impairment on investments

See Note 4 - Investments.

Results of Operations for the Years Ended June 30, 2018, 2017 and 2016

The following table summarizes our results of operations for the fiscal years presented (in thousands, except per share data):

	Year Ended June 30,								
	2018			2017			2016		
	Amount	% of Net Revenue		Amount	% of Net Revenue		Amount	% of Net Revenue	
Net revenue:									
Net administrative fees	$643,839	39	%	$557,468	38	%	$498,394	43	%
Other services and support	372,133	22	%	363,087	25	%	337,554	29	%
Services	1,015,972	61	%	920,555	63	%	835,948	72	%
Products	645,284	39	%	534,118	37	%	326,646	28	%
Net revenue	1,661,256	100	%	1,454,673	100	%	1,162,594	100	%
Cost of revenue:									
Services	187,399	11	%	182,775	13	%	163,240	14	%
Products	610,892	37	%	497,273	34	%	293,816	25	%
Cost of revenue	798,291	48	%	680,048	47	%	457,056	39	%
Gross profit	862,965	52	%	774,625	53	%	705,538	61	%
Other operating income:									
Remeasurement of tax receivable agreement liabilities	177,174	11	%	5,447	—	%	4,818	—	%
Other operating income	177,174	11	%	5,447	—	%	4,818	—	%
Operating expenses:									
Selling, general and administrative	443,639	27	%	410,918	29	%	408,429	36	%
Research and development	1,423	—	%	3,107	—	%	2,925	—	%
Amortization of purchased intangible assets	55,447	3	%	48,327	3	%	33,054	3	%
Operating expenses	500,509	30	%	462,352	32	%	444,408	39	%
Operating income	539,630	33	%	317,720	22	%	265,948	22	%
Other income (expense), net	(22,826)	(1	)%	213,571	15	%	18,934	2	%
Income before income taxes	516,804	31	%	531,291	37	%	284,882	24	%
Income tax expense	259,234	16	%	81,814	6	%	49,721	4	%
Net income	257,570	16	%	449,477	31	%	235,161	20	%
Net income attributable to non-controlling interest in Premier LP	(224,269)	(13	)%	(336,052)	(23	)%	(193,547)	(17	)%
Adjustment of redeemable limited partners' capital to redemption amount	157,581	9	%	(37,176)	(3	)%	776,750	67	%
Net income attributable to stockholders	$190,882	11	%	$76,249	5	%	$818,364	70	%
Weighted average shares outstanding:									
Basic	53,518	nm		49,654	nm		42,368	nm	
Diluted	137,340	nm		50,374	nm		145,308	nm	
Earnings per share attributable to stockholders:									
Basic	$3.57	nm		$1.54	nm		$19.32	nm	
Diluted [(a)]	$1.36	nm		$1.51	nm		$0.97	nm	

nm = not meaningful

(a) The Company has corrected prior period information within the current period financial statements related to a specific component used in calculating the tax effect on Premier, Inc. net income for purposes of diluted earnings per share. Diluted earnings per share for fiscal 2016 was previously stated at $1.33 per share and has been corrected to $0.97 per share. The Company believes the correction is immaterial and the corrected amount had no impact on the Company's overall financial condition, results of operations or cash flows.

The following table provides certain Non-GAAP financial measures for the fiscal years presented (in thousands, except per share data). Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Adjusted EBITDA and Segment Adjusted EBITDA.

	Year Ended June 30,					
	2018		2017		2016	
	Amount	% of Net Revenue	Amount	% of Net Revenue	Amount	% of Net Revenue
Certain Non-GAAP Financial Data:						
Adjusted EBITDA	$543,049	33 %	$501,591	34 %	$440,975	38 %
Adjusted Fully Distributed Net Income	$317,098	19 %	$267,299	18 %	$233,259	20 %
Adjusted Fully Distributed Earnings Per Share	$2.31	nm	$1.89	nm	$1.61	nm

The following table provides the reconciliation of net income to Adjusted EBITDA and the reconciliation of income before income taxes to Segment Adjusted EBITDA (in thousands). Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Adjusted EBITDA and Segment Adjusted EBITDA.

	Year Ended June 30,		
	2018	2017	2016
Net income	$257,570	$449,477	$235,161
Interest and investment loss, net	5,300	4,512	1,021
Income tax expense	259,234	81,814	49,721
Depreciation and amortization	71,312	58,884	51,102
Amortization of purchased intangible assets	55,447	48,327	33,054
EBITDA	648,863	643,014	370,059
Stock-based compensation	29,799	26,860	49,081
Acquisition related expenses	8,335	15,790	15,804
Strategic and financial restructuring expenses	2,512	31	268
Remeasurement of tax receivable agreement liabilities	(177,174)	(5,447)	(4,818)
ERP implementation expenses	1,000	2,028	4,870
Acquisition related adjustment - revenue	300	18,049	5,624
Remeasurement gain attributable to acquisition of Innovatix, LLC	—	(205,146)	—
Loss on disposal of long-lived assets	2,376	2,422	—
Loss on FFF put and call rights	22,036	3,935	—
Impairment on investments	5,002	—	—
Other expense	—	55	87
Adjusted EBITDA	$543,049	$501,591	$440,975
Income before income taxes	$516,804	$531,291	$284,882
Remeasurement gain attributable to acquisition of Innovatix, LLC	—	(205,146)	—
Equity in net income of unconsolidated affiliates	(1,174)	(14,745)	(21,647)
Interest and investment loss, net	5,300	4,512	1,021
Loss on disposal of long-lived assets	2,376	2,422	—
Other expense (income)	16,324	(614)	1,692
Operating income	539,630	317,720	265,948
Depreciation and amortization	71,312	58,884	51,102
Amortization of purchased intangible assets	55,447	48,327	33,054
Stock-based compensation	29,799	26,860	49,081

	Year Ended June 30,		
	2018	2017	2016
Acquisition related expenses	8,335	15,790	15,804
Strategic and financial restructuring expenses	2,512	31	268
Remeasurement of tax receivable agreement liabilities	(177,174)	(5,447)	(4,818)
ERP implementation expenses	1,000	2,028	4,870
Acquisition related adjustment - revenue	300	18,049	5,624
Equity in net income of unconsolidated affiliates	1,174	14,745	21,647
Impairment on investments	5,002	—	—
Deferred compensation plan income (expense)	3,960	4,020	(1,605)
Other income	1,752	584	—
Adjusted EBITDA	$543,049	$501,591	$440,975
Segment Adjusted EBITDA:			
Supply Chain Services	$535,380	$493,763	$439,013
Performance Services	123,429	121,090	110,787
Corporate	(115,760)	(113,262)	(108,825)
Adjusted EBITDA	$543,049	$501,591	$440,975

The following table provides the reconciliation of net income attributable to stockholders to Non-GAAP Adjusted Fully Distributed Net Income and the reconciliation of the numerator and denominator for earnings per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share for the periods presented (in thousands). Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Non-GAAP Adjusted Fully Distributed Net Income and Non-GAAP Adjusted Fully Distributed Earnings per Share.

	Year Ended June 30,		
	2018	2017	2016
Net income attributable to stockholders	$190,882	$76,249	$818,364
Adjustment of redeemable limited partners' capital to redemption amount	(157,581)	37,176	(776,750)
Net income attributable to non-controlling interest in Premier LP	224,269	336,052	193,547
Income tax expense	259,234	81,814	49,721
Amortization of purchased intangible assets	55,447	48,327	33,054
Stock-based compensation	29,799	26,860	49,081
Acquisition related expenses	8,335	15,790	15,804
Strategic and financial restructuring expenses	2,512	31	268
Remeasurement of tax receivable agreement liabilities	(177,174)	(5,447)	(4,818)
ERP implementation expenses	1,000	2,028	4,870
Acquisition related adjustment - revenue	300	18,049	5,624
Remeasurement gain attributable to acquisition of Innovatix, LLC	—	(205,146)	—
Loss on disposal of long-lived assets	2,376	2,422	—
Loss on FFF put and call rights	22,036	3,935	—
Impairment on investments	5,002	—	—
Other expense	1	55	—
Non-GAAP adjusted fully distributed income before income taxes	466,438	438,195	388,765
Income tax expense on fully distributed income before income taxes [(a)]	149,340	170,896	155,506
Non-GAAP Adjusted Fully Distributed Net Income	$317,098	$267,299	$233,259
Reconciliation of denominator for earnings (loss) per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share			
Weighted average:			
Common shares used for basic earnings per share and diluted earnings (loss) per share	53,518	49,654	42,368
Potentially dilutive shares	822	720	2,366
Conversion of Class B common units	83,000	90,816	100,574
Weighted average fully distributed shares outstanding - diluted	137,340	141,190	145,308

(a) Reflects income tax expense at an estimated effective income tax rate of 32% of Non-GAAP adjusted fully distributed income before income taxes for the year ended June 30, 2018, 39% of Non-GAAP adjusted fully distributed income before income taxes for the year ended June 30, 2017 and 40% of Non-GAAP adjusted fully distributed income before income taxes for the year ended June 30, 2016.

The following table provides the reconciliation of earnings per share attributable to stockholders to Non-GAAP Adjusted Fully Distributed Earnings per Share for the periods presented. Refer to "Our Use of Non-GAAP Financial Measures" for further information regarding items excluded in our calculation of Non-GAAP Adjusted Fully Distributed Earnings per Share.

	Year Ended June 30,		
	2018	2017	2016
Earnings per share attributable to stockholders	$3.57	$1.54	$19.32
Adjustment of redeemable limited partners' capital to redemption amount	(2.94)	0.75	(18.33)
Net income attributable to non-controlling interest in Premier LP	4.19	6.77	4.57
Income tax expense	4.84	1.65	1.17
Amortization of purchased intangible assets	1.04	0.97	0.78
Stock-based compensation	0.56	0.54	1.16
Acquisition related expenses	0.16	0.32	0.37
Strategic and financial restructuring expenses	0.05	—	0.01
Remeasurement of tax receivable agreement liabilities	(3.31)	(0.11)	(0.11)
ERP implementation expenses	0.02	0.04	0.11
Acquisition related adjustment - revenue	0.01	0.36	0.13
Remeasurement gain attributable to acquisition of Innovatix, LLC	—	(4.13)	—
Loss on disposal of long-lived assets	0.04	0.05	—
Loss on FFF put and call rights	0.41	0.08	—
Impairment on investments	0.09	—	—
Impact of corporation taxes [(a)]	(2.80)	(3.45)	(3.67)
Impact of dilutive shares [(b)]	(3.62)	(3.49)	(3.90)
Non-GAAP Adjusted Fully Distributed Earnings Per Share	$2.31	$1.89	$1.61

(a) Reflects income tax expense at an estimated effective income tax rate of 32% of Non-GAAP adjusted fully distributed income before income taxes for the year ended June 30, 2018, 39% of Non-GAAP adjusted fully distributed income before income taxes for the year ended June 30, 2017 and 40% of Non-GAAP adjusted fully distributed income before income taxes for the year ended June 30, 2016.

(b) Reflects impact of dilutive shares, primarily attributable to the assumed conversion of all Class B common units for Class A common stock.

Consolidated Results - Comparison of the Years ended June 30, 2018 to 2017 and June 30, 2017 to 2016

Net Revenue

Net revenue increased $206.6 million, or 14%, to $1.7 billion from the year ended June 30, 2017 to 2018, and increased $292.1 million, or 25%, to $1.5 billion from the year ended June 30, 2016 to 2017.

Net administrative fees revenue increased $86.3 million, or 15%, to $643.8 million from the year ended June 30, 2017 to 2018. The increase in net administrative fees revenue was primarily driven by aggregate contributions from Innovatix and Essensa, which were acquired on December 2, 2016. To a lesser extent, net administrative fees were also favorably impacted by supplier revenue recovery settlements and further contract penetration of new and existing members. Net administrative fees revenue increased $59.1 million, or 12%, to $557.5 million from the year ended June 30, 2016 to 2017. The increase in net administrative fees revenue was primarily driven by aggregate contributions from Innovatix and Essensa, further contract penetration of existing members and, to a lesser degree, the ongoing positive impact of conversion of new members to our contract portfolio. We 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.

Other services and support revenue increased $9.0 million, or 2%, to $372.1 million from the year ended June 30, 2017 to 2018. The increase was primarily due to growth in cost management SaaS informatics products subscriptions and quality and cost management consulting services. We also experienced increases in applied science services and government services related revenue, offset by a decrease in ambulatory reporting revenue. Other services and support revenue increased $25.5 million, or 8%, to $363.1 million from the year ended June 30, 2016 to 2017. The increase was primarily due to growth in ambulatory reporting revenue, cost management consulting services and government services revenue.

Product revenue increased $111.2 million, or 21%, to $645.3 million from the year ended June 30, 2017 to 2018. The increase was primarily driven by higher sales of certain limited distribution drugs dispensed to treat Idiopathic Pulmonary Fibrosis, Oncology and Multiple Sclerosis, which is also attributable to contributions from expansion and growth in therapy offerings obtained in conjunction with our acquisition of Acro Pharmaceuticals. These results were partially offset by a slight decrease in the sales of HIV pharmaceuticals. We also experienced increased sales of direct sourcing products. Product revenue increased $207.5 million, or 64%, to $534.1 million from the year ended June 30, 2016 to 2017. The increase was primarily driven by revenues from our Acro Pharmaceuticals acquisition and increased sales of direct sourcing products, partially offset by decreases in certain drug sales, including Hepatitis C pharmaceuticals. We expect our integrated pharmacy and direct sourcing product revenues to continue to grow to the extent we are able to increase our product offerings, expand our product sales to existing members and as additional members begin to utilize our programs.

Cost of Revenue

Cost of revenue increased $118.2 million, or 17%, from the year ended June 30, 2017 to 2018, and increased $223.0 million, or 49%, from the year ended June 30, 2016 to 2017.

Cost of services revenue increased $4.6 million, or 3%, to $187.4 million from the year ended June 30, 2017 to 2018. The increase was primarily driven by higher salaries and benefits expenses resulting from increased staffing to support growth and performance-based engagements as well as increased depreciation expense as a result of increased capitalization of internally-developed software, partially offset by a decrease in consulting costs related to outside resources to support certain projects. Cost of services revenue increased $19.5 million, or 12%, to $182.8 million from the year ended June 30, 2016 to 2017. The increase was primarily driven by increases in depreciation expense as a result of increased capitalization of internally-developed software, higher salaries and benefits expenses resulting from increased staffing to support our continued growth, and higher consulting costs for certain projects. We expect cost of service revenue to increase to the extent we continue to develop new and enhance existing internally-developed software applications, expand our consulting services and performance improvement collaboratives and expand into new product offerings.

Cost of product revenue increased $113.6 million, or 23%, to $610.9 million from the year ended June 30, 2017 to 2018. The increase was primarily driven by growth in sales and revenues associated with our integrated pharmacy business and due to higher costs driven by growth in direct sourcing sales. Cost of product revenue increased $203.5 million, or 69%, to $497.3 million from the year ended June 30, 2016 to 2017. The increase was primarily driven by higher product costs associated with the business operations of Acro Pharmaceuticals and due to higher costs driven by growth in direct sourcing sales. We expect our cost of product revenue to increase to the extent we are able to sell additional integrated pharmacy and direct-sourced medical products to new and existing members and enroll additional members into our integrated pharmacy program. The increased cost of product revenues is expected to reduce our gross profit percentage as a percentage of our consolidated net revenues.

Other Operating Income

Other operating income increased $171.8 million, to $177.2 million from the year ended June 30, 2017 to 2018 as a result of the remeasurement of TRA liabilities, which was primarily attributable to the 14% decrease in the U.S. federal corporate income tax rate associated with the TCJA. See "Member-Owner TRA" below for additional information related to our TRA liabilities. Corporate other operating income increased $0.6 million, from the year ended June 30, 2016 to 2017, remaining relatively flat.

Operating Expenses

Operating expenses increased $38.2 million, or 8%, to $500.5 million from the year ended June 30, 2017 to 2018, and increased $17.9 million, or 4%, from the year ended June 30, 2016 to 2017.

Selling, General and Administrative

Selling, general and administrative expenses increased $32.7 million, or 8%, to $443.6 million from the year ended June 30, 2017 to 2018. Salaries and benefits expenses increased primarily due to increased staffing mostly associated with acquisitions and to support growth in our Supply Chain Services segment, an increase in depreciation expense resulting from increased internally-developed software capitalization, an increase in stock-based compensation expense largely driven by an increase in equity award grants in addition to anticipated achievement of certain performance targets, along with an increase in severance expense related to the workforce reduction that occurred in February 2018. These results were partially offset by a decrease in costs year over year associated with the acquisitions of Innovatix, Essensa and Acro Pharmaceuticals, which occurred in the prior year. Selling, general and administrative expenses increased $2.5 million, or 1%, to $410.9 million from the year ended June 30, 2016 to 2017. Salaries and benefits expenses increased primarily due to increased staffing to support growth and acquisitions, offset by a decrease in stock-based compensation primarily related to vesting of certain IPO-related performance based awards during the prior year.

Research and Development

Research and development expenses consist of employee-related compensation and benefit expenses and third-party consulting fees for technology professionals, net of capitalized labor, incurred to develop our software-related products and services. Research and development expenses decreased $1.7 million, or 54%, to $1.4 million from the year ended June 30, 2017 to 2018. Research and development expenses increased $0.2 million, or 6%, to $3.1 million from the year ended June 30, 2016 to 2017.

Including capitalized labor, total research and development expenditures were $76.4 million for the year ended June 30, 2018, an increase of $6.7 million from $69.7 million for the year ended June 30, 2017. Total research and development expenditures increased $5.7 million during the year ended June 30, 2017 from $64.0 million for the year ended June 30, 2016. We experience fluctuations in our research and development expenditures across reportable periods due to the timing of our software development lifecycles, new product features and functionality, new technologies and upgrades to our service offerings.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets increased $7.1 million, or 15%, to $55.4 million from the year ended June 30, 2017 to 2018 and increased $15.3 million, or 46%, to $48.3 million from the year ended June 30, 2016 to 2017. The increases were primarily 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 intangible assets in connection with future potential acquisitions.

Other Income (Expense), Net

Other income (expense), net decreased $236.4 million to $(22.8) million from the year ended June 30, 2017 to 2018 primarily due to the one-time $205.1 million gain recognized from the remeasurement of the 50% equity method investment in Innovatix to fair value upon acquisition of Innovatix on December 2, 2016 (see Note 3 - Business Acquisitions). This gain was partially offset by a reduction in equity in net income of unconsolidated affiliates. As a result of acquiring the remaining 50% of Innovatix, we no longer account for our ownership using the equity method. Other income (expense), net was also impacted by the loss on FFF put and call rights in the current year and partially offset by a moderate increase in equity in net income of FFF, which experienced improved performance in the year ended June 30, 2018. Other income, net increased $194.6 million to $213.6 million from the year ended June 30, 2016 to 2017 primarily due to the aforementioned one-time $205.1 million gain recognized from the remeasurement of the 50% equity method investment in Innovatix to fair value upon acquisition of Innovatix (see Note 3 - Business Acquisitions). This gain was partially offset by a reduction in equity in net income of unconsolidated affiliates primarily as a result of acquiring the remaining 50% of Innovatix, which we no longer account for using the equity method.

Income Tax Expense

Income tax expense increased $177.4 million, or 217%, to $259.2 million from the year ended June 30, 2017 to 2018, and our effective tax rates were 15% and 50%, respectively. The increase in the effective tax rate was primarily attributable to the remeasurement of deferred tax balances, of which $224.9 million related to the aforementioned decrease in the U.S. federal corporate income tax rate from 35% to 21%, pursuant to the TCJA enacted on December 22, 2017. Income tax expense increased $32.1 million, or 65%, to $81.8 million from the year ended June 30, 2016 to 2017. Our effective tax rates were 17% and 15%, respectively. The decrease in the effective tax rate was primarily attributable to the one-time gain related to the remeasurement of the 50% equity method investment in Innovatix to fair value upon acquisition of Innovatix. The Company's effective tax rate differs from income taxes recorded at the combined (or blended) statutory income tax rate primarily due to partnership income not subject to federal, state and local income taxes and valuation allowances against deferred tax assets at PHSI. See Note 18 - Income Taxes for more information.

Net Income Attributable to Non-Controlling Interest

Net income attributable to non-controlling interest decreased $111.8 million, or 33% to $224.3 million from the year ended June 30, 2017 to 2018 primarily due to a decrease in Premier LP net income, which was largely driven by the one-time gain of $205.1 million in the prior year associated with the remeasurement of our investment in Innovatix under business combination accounting rules to fair value as a result of acquiring the remaining 50% ownership interest of Innovatix on December 2, 2016, as well as a decrease in non-controlling ownership interest percentage in Premier LP from 63% to 60%. Net income attributable to non-controlling interest increased $142.6 million, or 74%, to $336.1 million from the year ended June 30, 2016 to 2017 primarily due to an increase in Premier LP net income driven by the aforementioned one-time gain of $205.1 million related to our acquisition of the remaining 50% ownership interest in Innovatix on December 2, 2016 along with increased revenues, partially offset by the decrease in non-controlling ownership interest percentage in Premier LP from 68% to 63%.

Non-GAAP Adjusted EBITDA

Non-GAAP Adjusted EBITDA increased $41.5 million, or 8%, to 543.0 million from the year ended June 30, 2017 to 2018. The increase was primarily a result of growth in net administrative fees revenue including contributions related to Innovatix and Essensa acquisition, net of a $10.7 million reduction in equity in net income of unconsolidated affiliates due to acquiring the remaining 50% of Innovatix as it was historically accounted for as an unconsolidated affiliate through the date of acquisition, along with an increase in product revenue and, to a lesser extent, an increase in other services and support revenue driven by growth in cost management SaaS informatics products subscriptions, quality and cost management consulting services, applied sciences services and government services related revenue. These increases were partially offset by increased service and product costs and selling, general and administrative expenses resulting from higher salaries and benefits expenses as a result of acquisitions and to support growth. Additionally, upon acquiring Innovatix and Essensa in the prior year, we recorded a net $17.4 million purchase accounting adjustment to Adjusted EBITDA during the year ended June 30, 2017 that reflects the fair value of administrative fees related to member purchases that occurred prior to December 2, 2016, but were reported to us subsequent to that date through June 30, 2017. Non-GAAP Adjusted EBITDA increased $60.6 million, or 14%, to $501.6 million from the year ended June 30, 2016 to 2017. The increase was primarily a result of growth in net administrative fees revenue including contributions related to the Innovatix and Essensa acquisition in addition to a Non-GAAP revenue adjustment related to the Innovatix and Essensa acquisition, and increased product revenues. These results were partially offset by increased product costs, selling, general and administrative expenses resulting from higher salaries and benefits expenses related to acquisitions and a reduction in equity in net income of unconsolidated affiliates due to acquiring the remaining 50% of Innovatix.

67

Supply Chain Services - Comparison of the Years ended June 30, 2018 to 2017 and June 30, 2017 to 2016

The following table summarizes our results of operations and Non-GAAP Adjusted EBITDA in the Supply Chain Services segment for the fiscal years presented (in thousands):

	Year Ended June 30,		
Supply Chain Services	2018	2017	2016
Net revenue:			
Net administrative fees	$643,839	$557,468	$498,394
Other services and support	11,454	9,704	4,385
Services	655,293	567,172	502,779
Products	645,284	534,118	326,646
Net revenue	1,300,577	1,101,290	829,425
Cost of revenue:			
Services	4,880	5,432	3,123
Products	610,892	497,269	293,816
Cost of revenue	615,772	502,701	296,939
Gross profit	684,805	598,589	532,486
Operating expenses:			
Selling, general and administrative	166,725	155,860	120,344
Amortization of purchased intangible assets	20,115	12,472	348
Operating expenses	186,840	168,332	120,692
Operating income	$497,965	$430,257	$411,794
Depreciation and amortization	1,618	1,737	1,053
Amortization of purchased intangible assets	20,115	12,472	348
Acquisition related expenses	8,606	17,192	4,466
Acquisition related adjustment - revenue	—	17,440	—
Equity in net income of unconsolidated affiliates	1,904	14,684	21,352
Impairment on investments	4,002	—	—
Other income (expense)	1,170	(19)	—
Non-GAAP Segment Adjusted EBITDA	$535,380	$493,763	$439,013

Net Revenue

Supply Chain Services segment net revenue increased $199.3 million, or 18%, to $1.3 billion from the year ended June 30, 2017 to 2018, and increased $271.9 million, or 33%, to $1.1 billion from the year ended June 30, 2016 to 2017.

Net administrative fees revenue in our Supply Chain Services segment increased $86.4 million, or 15%, to $643.8 million from the year ended June 30, 2017 to 2018. The increase in net administrative fees revenue was primarily driven by aggregate contributions from Innovatix and Essensa, which were acquired on December 2, 2016. To a lesser extent, net administrative fees were also favorably impacted by supplier revenue recovery settlements and further contract penetration of new and existing members. Net administrative fees revenue in our Supply Chain Services segment increased $59.1 million, or 12%, to $557.5 million from the year ended June 30, 2016 to 2017. The increase in net administrative fees revenue was primarily driven by contributions from Innovatix and Essensa, further contract penetration of existing members and, to a lesser degree, the ongoing positive impact of conversion of new members to our contract portfolio contributed to the increase. We 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 increased $111.2 million, or 21%, to $645.3 million from the year ended June 30, 2017 to 2018. The increase was primarily driven by higher sales of certain limited distribution drugs dispensed to treat Idiopathic Pulmonary Fibrosis, Oncology and Multiple Sclerosis, which is also attributable to contributions from expansion and

growth in therapy offerings obtained in conjunction with our acquisition of Acro Pharmaceuticals. These results were partially offset by a slight decrease in the sales of HIV pharmaceuticals. We also experienced increased sales of direct sourcing products. Product revenue in our Supply Chain Services segment increased $207.5 million, or 64%, to $534.1 million from the year ended June 30, 2016 to 2017. The increase was primarily driven by revenues from our Acro Pharmaceuticals acquisition and increased sales of direct sourcing products, partially offset by decreases in certain drug sales, including Hepatitis C pharmaceuticals. We expect our integrated pharmacy and direct sourcing product revenues to continue to grow to the extent we are able to increase our product offerings, expand our product sales to existing members and as additional members begin to utilize our programs.

Cost of Revenue

Supply Chain Services segment cost of revenue increased $113.1 million, or 22%, to $615.8 million from the year ended June 30, 2017 to 2018, and increased $205.8 million, or 69%, to $502.7 million from the year ended June 30, 2016 to 2017.

Cost of product revenue in our Supply Chain Services segment increased $113.6 million, or 23%, to $610.9 million from the year ended June 30, 2017 to 2018. The increase was primarily driven by growth in sales and revenues associated with our integrated pharmacy business and due to higher costs driven by growth in direct sourcing sales. Cost of product revenue in our Supply Chain Services segment increased $203.5 million, or 69%, to $497.3 million from the year ended June 30, 2016 to 2017. The increase was primarily driven by higher product costs associated with the business operations of Acro Pharmaceuticals and due to higher costs driven by growth in direct sourcing sales. We expect our cost of product revenue to increase to the extent we are able to sell additional integrated pharmacy and direct-sourced medical products to new and existing members and enroll additional members into our integrated pharmacy program. The increased cost of product revenues is expected to reduce our gross profit percentage as a percentage of our net revenues.

Operating Expenses

Supply Chain Services segment operating expenses increased $18.5 million, or 11%, to $186.8 million from the year ended June 30, 2017 to 2018, and increased $47.6 million, or 39%, to $168.3 million from the year ended June 30, 2016 to 2017.

Selling, general and administrative expenses in our Supply Chain Services segment increased $10.9 million, or 7%, to $166.7 million from the year ended June 30, 2017 to 2018 due to higher salaries and benefits expense primarily associated with the acquisitions of Innovatix and Essensa and to a lesser extent, the acquisition of Acro Pharmaceuticals, partially offset by a decrease in costs year over year associated with the acquisitions of Innovatix, Essensa and Acro Pharmaceuticals, which took place in the prior year. Selling, general and administrative expenses in our Supply Chain Services segment increased $35.5 million, or 30%, to $155.9 million from the year ended June 30, 2016 to 2017 due to higher salaries and benefits expenses primarily associated with the acquisitions of Innovatix, Essensa and Acro Pharmaceuticals and the related increase in staffing and due to higher acquisition costs compared to the prior year in which we completed no acquisitions in Supply Chain Services.

Amortization of purchased intangible assets in our Supply Chain Services segment increased $7.6 million to $20.1 million from the year ended June 30, 2017 to 2018 primarily as a result of additional amortization of purchased intangible assets related to our acquisitions. Amortization of purchased intangible assets in our Supply Chain Services segment increased $12.1 million to $12.5 million from the year ended June 30, 2016 to 2017 due to intangible assets purchased in the acquisitions of Acro Pharmaceuticals and Innovatix and Essensa.

Segment Adjusted EBITDA

Segment Adjusted EBITDA in the Supply Chain Services segment increased $41.6 million, or 8%, to $535.4 million from the year ended June 30, 2017 to 2018. The increase was primarily a result of growth in net administrative fees revenue including contributions related to Innovatix and Essensa, net of a $10.7 million reduction in equity in net income of unconsolidated affiliates due to acquiring the remaining 50% of Innovatix as it was historically accounted for as an unconsolidated affiliate through the date of acquisition, along with an increase in product revenue. These increases were partially offset by increased product costs and selling, general and administrative expenses resulting from higher salaries and benefits expenses as a result of acquisitions and to support growth. Additionally, upon acquiring Innovatix and Essensa in the prior year, we recorded a net $17.4 million purchase accounting adjustment to

Adjusted EBITDA during the year ended June 30, 2017 that reflects the fair value of administrative fees related to member purchases that occurred prior to December 2, 2016, but were reported to us subsequent to that date through June 30, 2017. Segment Adjusted EBITDA in the Supply Chain Services segment increased $54.8 million, or 12%, to $493.8 million from the year ended June 30, 2016 to 2017 primarily as a result of growth in net administrative fees revenue including contributions related to the Innovatix and Essensa acquisition in addition to a $17.4 million Non-GAAP revenue adjustment related to the Innovatix and Essensa acquisition and higher product revenues. These increases were partially offset by increased product costs, selling, general and administrative expenses resulting from higher salaries and benefits expenses related to acquisitions and a reduction in equity in net income of unconsolidated affiliates due to acquiring the remaining 50% of Innovatix.

Performance Services - Comparison of the Years ended June 30, 2018 to 2017 and June 30, 2017 to 2016

The following table summarizes our results of operations and Non-GAAP adjusted EBITDA in the Performance Services segment for the fiscal years presented (in thousands):

	Year Ended June 30,		
Performance Services	2018	2017	2016
Net revenue:			
Other services and support	$360,679	$353,383	$333,169
Net revenue	360,679	353,383	333,169
Cost of revenue:			
Services	182,519	177,323	160,117
Cost of revenue	182,519	177,323	160,117
Gross profit	178,160	176,060	173,052
Operating expenses:			
Selling, general and administrative	114,088	101,405	120,958
Research and development	1,418	2,278	2,064
Amortization of purchased intangible assets	35,331	35,855	32,706
Operating expenses	150,837	139,538	155,728
Operating income	$27,323	$36,522	$17,324
Depreciation and amortization	60,476	49,444	43,793
Amortization of purchased intangible assets	35,331	35,855	32,706
Acquisition related expenses	(271)	(1,401)	11,340
Acquisition related adjustment - revenue	300	609	5,624
Equity in net income (loss) of unconsolidated affiliates	(730)	61	—
Impairment on investments	1,000	—	—
Non-GAAP Segment Adjusted EBITDA	$123,429	$121,090	$110,787

Net Revenue

Other services and support revenue in our Performance Services segment increased $7.3 million, or 2%, to $360.7 million from the year ended June 30, 2017 to 2018. The increase was primarily due to growth in cost management SaaS informatics products subscriptions and quality and cost management consulting services. We also experienced increases in applied science services and government services related revenue, offset by a decrease in ambulatory reporting revenue. Other services and support revenue in our Performance Services segment increased $20.2 million, or 6%, to $353.4 million from the year ended June 30, 2016 to 2017. The increase was primarily due to growth in ambulatory reporting revenue, cost management services and government services.

We expect to experience quarterly variability in revenues generated from our Performance Services segment due to the timing of revenue recognition from certain consulting 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 generally expect our Performance Services net revenue to grow over the long term 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

Cost of services revenue in our Performance Services segment increased $5.2 million, or 3%, to $182.5 million from the year ended June 30, 2017 to 2018. The increase was primarily driven by higher salaries and benefits expenses resulting from increased staffing to support growth as well as increased depreciation expense as a result of increased capitalization of internally-developed software, partially offset by a decrease in consulting costs related to outside resources to support certain projects. Cost of services revenue in our Performance Services segment increased $17.2 million, or 11%, to $177.3 million from the year ended June 30, 2016 to 2017. The increase was primarily driven by higher salaries and benefits expense resulting from increased staffing to support our continued growth, increases in depreciation expense related to an increase in capitalized software, and higher consulting costs for certain projects. We expect cost of service revenue to increase to the extent we continue to develop new and enhance existing

70

internally-developed software applications, expand our consulting services and performance improvement collaboratives and expand into new product offerings.

Operating Expenses

Performance Services segment operating expenses increased $11.3 million, or 8%, to $150.8 million from the year ended June 30, 2017 to 2018, and decreased $16.2 million, or 10%, to $139.5 million from the year ended June 30, 2016 to 2017.

Selling, general and administrative expenses in our Performance Services segment increased $12.7 million, or 13%, from the year ended June 30, 2017 to 2018 primarily due to an increase in salaries and benefits expense to support larger engagements, an increase in depreciation expense resulting from increased internally-developed capitalization, along with an increase in severance expense related to the workforce reduction that occurred in February 2018. Selling, general and administrative expenses in our Performance Services segment decreased $19.6 million, or 16%, from the year ended June 30, 2016 to 2017 primarily due to reduced acquisition costs and a gain recorded in the current year related to changes in the fair value of earn-out liabilities recorded in connection with our acquisition of InFlow.

Amortization of purchased intangible assets in our Performance Services segment decreased $0.5 million, or 1%, from the year ended June 30, 2017 to 2018, remaining relatively flat. Amortization of purchased intangible assets in our Performance Services segment increased $3.1 million, or 9%, from the year ended June 30, 2016 to 2017, primarily driven by purchased intangible assets related to acquisitions.

Segment Adjusted EBITDA

Segment Adjusted EBITDA in the Performance Services segment increased $2.3 million, or 2%, to $123.4 million from the year ended June 30, 2017 to 2018 primarily as a result of an increase in other services and support revenue driven by growth in cost management SaaS informatics products subscriptions, quality and cost management consulting services and increases in applied sciences services and government services related revenue. These increases were partially offset by increased service costs and selling, general and administrative expenses resulting from higher salaries and benefits expenses to support larger engagements. Segment Adjusted EBITDA in the Performance Services segment increased $10.3 million, or 9%, to $121.1 million from the year ended June 30, 2016 to 2017 primarily as a result of growth in revenue, partially offset by a higher rate of increase in cost of sales due to the timing requirements of various upfront implementation processes relative to the rate of increase in revenue recognition, specifically within our consulting services business.

Corporate - Comparison of the Years ended June 30, 2018 to 2017 and June 30, 2017 to 2016

The following table summarizes corporate expenses and Non-GAAP Adjusted EBITDA for the fiscal years presented (in thousands):

	Year Ended June 30,		
Corporate	2018	2017	2016
Other operating income:			
Remeasurement of tax receivable agreement liabilities	$177,174	$5,447	$4,818
Other operating income	177,174	5,447	4,818
Operating expenses:			
Selling, general and administrative	$162,826	$153,677	$167,127
Research and development	6	829	861
Operating expenses	$162,832	$154,506	$167,988
Operating income (loss)	$14,342	$(149,059)	$(163,170)
Depreciation and amortization	9,217	7,703	6,256
Stock-based compensation	29,799	26,860	49,082
Strategic and financial restructuring expenses	2,512	31	268
Remeasurement of tax receivable agreement liabilities	(177,174)	(5,447)	(4,818)
ERP implementation expenses	1,000	2,028	4,869
Deferred compensation plan income (expense)	3,960	4,020	(1,606)
Equity in net income of unconsolidated affiliates	—	—	294
Other income	584	602	—
Non-GAAP Adjusted EBITDA	$(115,760)	$(113,262)	$(108,825)

Other Operating Income

Corporate other operating income of $177.2 million for the year ended June 30, 2018 represents the remeasurement of TRA liabilities driven by the 14% decrease in the U.S. federal corporate income tax rate associated with the TCJA that was enacted on December 22, 2017. See "Member-Owner TRA" below for additional information related to the Company's TRA liabilities. Corporate other operating income increased $0.6 million from the year ended June 30, 2016 to 2017, remaining relatively flat.

Operating Expenses

Corporate operating expenses increased $8.3 million, or 5%, from the year ended June 30, 2017 to 2018, and decreased $13.5 million, or 8%, from the year ended June 30, 2016 to 2017.

Corporate selling, general and administrative expenses increased $9.1 million, or 6%, from the year ended June 30, 2017 to 2018, driven by an increase in costs associated with technology services as well as increased bonus expense due to higher achievement of company-wide goals. Corporate selling, general and administrative expenses decreased $13.5 million, or 8%, from the year ended June 30, 2016 to 2017, driven by a decrease in stock-based compensation expense due to vesting of certain IPO-related awards during the prior year, partially offset by increased salaries and benefits expenses due to staffing to support growth and the current year acquisitions.

Non-GAAP Adjusted EBITDA

Non-GAAP Adjusted EBITDA at the corporate level decreased $2.5 million, or 2%, from the year ended June 30, 2017 to 2018 and decreased $4.4 million, or 4%, from the year ended June 30, 2016 to 2017 driven primarily by increased selling, general and administrative expenses resulting from higher incremental corporate infrastructure costs due to growth and acquisitions.

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any off-balance sheet arrangements.

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, discretionary cash settlement of Class B common unit exchanges under the Exchange Agreement, repurchases of Class A common stock pursuant to a stock repurchase program, acquisitions and related business investments, and other general corporate activities. Our capital expenditures typically consist of internally-developed software costs, software purchases and computer hardware purchases.

As of June 30, 2018 and 2017, we had cash and cash equivalents totaling $152.4 million and $156.7 million, respectively. As of June 30, 2018, there were $100.0 million outstanding borrowings under the Credit Facility. During the year ended June 30, 2018, the Company utilized borrowings of $30.0 million under the Credit Facility to partially fund the $200.0 million authorized share repurchase program and other general corporate activities. During the year ended June 30, 2018, the Company also repaid $150.0 million of borrowings under the Credit Facility.

We expect cash generated from operations and borrowings under our Credit Facility to provide us with adequate liquidity to fund our anticipated working capital requirements, revenue share obligations, tax payments, capital expenditures, discretionary cash settlement of Class B common unit exchanges under the Exchange Agreement, and repurchases of Class A common stock pursuant to our stock repurchase program. Our capital requirements depend on numerous factors, including funding requirements for our product and service development and commercialization efforts, 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. However, strategic growth initiatives will likely require the use of one or a combination of various forms of capital resources including 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, 2018 and 2017

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

	Year Ended June 30,	
	2018	2017
Net cash provided by (used in):		
Operating activities	$507,706	$392,247
Investing activities	(92,680)	(465,053)
Financing activities	(419,375)	(19,276)
Net decrease in cash and cash equivalents	$(4,349)	$(92,082)

Net cash provided by operating activities increased $115.5 million from the year ended June 30, 2017 to 2018 primarily driven by an increase in net administrative fees as well as decreased working capital needs, partially offset by increased selling, general and administrative expenses in the current year.

Net cash used in investing activities decreased $372.4 million from the year ended June 30, 2017 to 2018 driven by a $382.6 million reduction in cash outflows for business acquisitions compared to the prior year and a $65.7 million reduction in cash outflows for purchases of investments in unconsolidated affiliates compared to the prior year, partially offset by a $48.0 million reduction in cash inflows related to the proceeds from the sale of marketable securities compared to the prior year.

Net cash used in financing activities increased $400.1 million from the year ended June 30, 2017 to 2018 driven by $340.0 million decrease in borrowings, net of payments, under the Credit Facility compared to the prior year and a $200.1 million increase in cash outflows used to repurchase Class A common stock under our 2018 stock repurchase program in the current year, partially offset by $123.3 million of cash outflows used to settle a portion of the exchange of Class B units by member owners in the prior year.

Discussion of Non-GAAP Free Cash Flow for the Years ended June 30, 2018 and 2017

We define Non-GAAP Free Cash Flow as net cash provided by operating activities less distributions and TRA payments to limited partners and purchases of property and equipment. Free cash flow does not represent discretionary cash available for spending as it excludes certain contractual obligations such as debt repayments. 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,	
	2018	2017
Net cash provided by operating activities	$507,706	$392,247
Purchases of property and equipment	(92,680)	(71,372)
Distributions to limited partners of Premier LP	(79,255)	(90,434)
Payments to limited partners of Premier LP related to tax receivable agreements [(a)]	—	(13,959)
Non-GAAP Free Cash Flow	$335,771	$216,482

(a) The timing of TRA payments has shifted to July due to the change in our federal tax filing deadline, which has been extended one month to April. Although we did not make a TRA payment in fiscal 2018, we did make a $17.9 million TRA payment to limited partners in July of fiscal 2019.

Non-GAAP Free Cash Flow increased $119.3 million from the year ended June 30, 2017 to 2018 primarily driven by an increase in net administrative fees as well as decreased working capital needs, partially offset by increased selling, general and administrative expenses in the current year. See "Our Use of Non-GAAP Financial Measures" above for additional information regarding our use of Non-GAAP Free Cash Flow.

The Company anticipates that its Non-GAAP Free Cash Flow will benefit as a result of the decrease in the U.S. federal corporate income tax rate associated with the TCJA as distributions to limited partners of Premier LP and payments to limited partners of Premier LP related to tax receivable agreements are expected to decrease in future periods as a result of the decreased federal corporate income tax rate.

Contractual Obligations

At June 30, 2018, we had commitments for obligations under notes payable, our noncancelable office space lease agreements and estimated payments due to limited partners under TRAs. Future payments for such commitments as of June 30, 2018 were as follows (in thousands):

		Payments Due by Period			
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years
Tax receivable agreement liabilities [(a)]	$255,101	$17,925	$33,542	$31,085	$172,549
Operating lease obligations [(b)]	87,434	12,158	21,999	21,941	31,336
Notes payable [(c)]	7,212	250	5,602	1,360	—
Total contractual obligations	$349,747	$30,333	$61,143	$54,386	$203,885

(a) Estimated payments due to limited partners under TRAs are based on 85% of the estimated amount of tax savings we expect to receive, generally over a 15-year period.

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

(c) Notes payable are generally non-interest bearings and represent an aggregate principal amount of $7.2 million owed to departed member owners, payable over five years from the respective departure dates.

74

2014 Credit Facility

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 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. 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 1.750% for Eurodollar Loans and 0.125% to 0.750% for Base Rate Loans. At June 30, 2018, the interest rate for three-month Eurodollar Loans was 3.461% and the interest rate for Base Rate Loans was 5.125%. 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, 2018, 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 financial 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. Premier GP was in compliance with all such covenants at June 30, 2018.

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, discretionary cash settlements of Class B unit exchanges under the Exchange Agreement, repurchases of Class A common stock pursuant to stock repurchase programs and other general corporate activities. During the year ended June 30, 2018, the Company utilized borrowings of $30.0 million under the Credit Facility, to partially fund the $200.0 million authorized share repurchase program and other general corporate activities. During the year ended June 30, 2018, the Company repaid $150.0 million of borrowings under the Credit Facility.

Interest expense incurred during the year ended June 30, 2018 was $6.6 million and cash paid for interest during the year ended June 30, 2018 was $5.9 million.

As stated above, the Credit Facility has a maturity date of June 24, 2019. We expect to commence negotiations to refinance or replace our Credit Facility during the first half of fiscal 2019. However, any refinanced or replacement credit facility may not be available on terms favorable to us, or at all. See "Cautionary Note Regarding Forward-Looking Statements" and “Risk Factors-Our indebtedness could adversely affect our business and our

liquidity position" for further information.
Member-Owner TRA
The Company entered into TRAs with each of our member owners. Pursuant to the TRAs, we will pay member owners 85% of the tax 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 TRAs) in connection with the Section 754 election. The election results in adjustments to the tax basis of the assets of Premier LP upon member owner exchanges of Class B common units of Premier LP for Class A common stock of Premier, Inc., cash or a combination of both. Tax savings are

75

generated as a result of the increases in tax basis resulting from the initial sale of Class B common units, subsequent exchanges (pursuant to the Exchange Agreement) and payments under the TRA.

The Company had TRA liabilities of $255.1 million and $339.7 million as of June 30, 2018 and 2017, respectively. TRA liabilities decreased $84.6 million primarily driven by a $177.2 million decrease in valuation as a result of the decrease in the U.S. federal corporate income tax rates pursuant to the TCJA. The decrease is partially offset by a $71.9 million increase in the TRA liabilities in connection with the quarterly member owner exchanges that occurred during the year ended June 30, 2018 as well as $20.9 million associated with the revaluation and remeasurement of the TRA liabilities due to the change in the allocation and realization of future anticipated payments.

Certain Contractual Arrangements with Our Member Owners

We have entered into several agreements to define and regulate the governance and control relationships among us, Premier LP and the member owners. Note 1 - Organization and Basis of Presentation 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.

Stock Repurchase Program

On October 31, 2017, we announced that our Board of Directors authorized the repurchase of up to $200.0 million of our outstanding Class A common stock as part of a balanced capital deployment strategy. We completed the 2018 stock repurchase program during fiscal year 2018 and purchased approximately 6.4 million shares of Class A common stock at an average price of $31.16 per share for a total purchase price of $200.0 million.

On May 7, 2018, we announced that our Board of Directors approved the repurchase of up to $250.0 million of our Class A common stock during fiscal year 2019 as a continuation of our balanced capital deployment strategy. Subject to certain terms and conditions, repurchases may be made from time to time through open market purchases or privately negotiated transactions at our discretion, and in accordance with applicable federal securities laws. We initiated this repurchase program on July 1, 2019. However, there can be no assurance as to the timing or number of shares of Class A common stock, purchased under the program and statements regarding such matters are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The repurchase authorization may be suspended, delayed or discontinued at any time at the discretion of the Board of Directors. See "Cautionary Note Regarding Forward-Looking Statements."

Costs Associated with Exit or Disposal Activities

In February 2018, as part of our ongoing integration synergies and efforts to realign resources for future growth areas, we implemented certain personnel adjustments, including a workforce reduction. These personnel adjustments impacted approximately 75 positions (approximately 65 of which were related to the workforce reduction), or approximately 3% of total employees. The workforce reduction resulted in pre-tax cash restructuring charges, primarily relating to severance and transition assistance, of approximately $5.1 million in the year ended June 30, 2018. The majority of employees impacted by these personnel adjustments were from our Performance Services segment.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our exposure to market risk related primarily to the increase or decrease in the amount of any interest expense we must pay with respect to outstanding debt instruments. At June 30, 2018, we had $100.0 million of outstanding borrowings under 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, 2018, the interest rate for three-month Eurodollar Rate Loans was 3.461% and the interest rate for Base Rate Loans was 5.125%. Assuming outstanding balances and the Applicable Rate were to remain the same, a 1% increase or decrease in interest rates would result in an incremental negative or positive cash flow, respectively, of approximately $1.0 million over the next 12 months.

We invested our excess cash in a portfolio of individual cash equivalents. We do not currently hold, and we have never held, any derivative financial instruments. 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 funds by limiting default, market and investment risks. We plan to mitigate default risk by investing in low-risk securities.

Foreign Currency Risk. 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 Stockholders of Premier, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Premier, Inc. (“the Company”) as of June 30, 2018 and 2017, and the related consolidated statements of income, comprehensive income, stockholders’ deficit, and cash flows for each of the three years in the period ended June 30, 2018. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2018, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of June 30, 2018, 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 22, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We have served as the Company’s auditor since 1991.
Charlotte, North Carolina
August 22, 2018

Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders of Premier, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Premier, Inc.'s internal control over financial reporting as of June 30, 2018, 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). In our opinion, Premier, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of June 30, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the June 30, 2018 consolidated financial statements of the Company and our report dated August 22, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP
Charlotte, North Carolina
August 22, 2018

80

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

	June 30, 2018	June 30, 2017
Assets		
Cash and cash equivalents	$152,386	$156,735
Accounts receivable (net of $1,841 and $1,812 allowance for doubtful accounts, respectively)	185,874	159,745
Inventory	66,139	50,426
Prepaid expenses and other current assets	23,325	35,164
Due from related parties	894	6,742
Total current assets	428,618	408,812
Property and equipment (net of $297,591 and $236,460 accumulated depreciation, respectively)	206,693	187,365
Intangible assets (net of $153,635 and $99,198 accumulated amortization, respectively)	322,115	377,962
Goodwill	906,545	906,545
Deferred income tax assets	305,624	482,484
Deferred compensation plan assets	44,577	41,518
Investments in unconsolidated affiliates	94,053	92,879
Other assets	3,991	10,271
Total assets	$2,312,216	$2,507,836
Liabilities, redeemable limited partners' capital and stockholders' deficit		
Accounts payable	$60,130	$42,815
Accrued expenses	64,257	55,857
Revenue share obligations	78,999	72,078
Limited partners' distribution payable	15,465	24,951
Accrued compensation and benefits	64,112	53,506
Deferred revenue	39,785	44,443
Current portion of tax receivable agreements	17,925	17,925
Current portion of long-term debt	100,250	227,993
Other liabilities	7,959	32,019
Total current liabilities	448,882	571,587
Long-term debt, less current portion	6,962	6,279
Tax receivable agreements, less current portion	237,176	321,796
Deferred compensation plan obligations	44,577	41,518
Deferred tax liabilities	17,569	48,227
Other liabilities	63,704	42,099
Total liabilities	818,870	1,031,506

81

	June 30, 2018	June 30, 2017
Redeemable limited partners' capital	2,920,410	3,138,583
Stockholders' deficit:		
Class A common stock, $0.01 par value, 500,000,000 shares authorized; 57,530,733 shares issued and 52,761,177 shares outstanding at June 30, 2018 and 51,943,281 shares issued and outstanding at June 30, 2017	575	519
Class B common stock, $0.000001 par value, 600,000,000 shares authorized; 80,335,701 and 87,298,888 shares issued and outstanding at June 30, 2018 and June 30, 2017, respectively	—	—
Treasury stock, at cost; 4,769,556 shares	(150,058)	—
Additional paid-in-capital	—	—
Accumulated deficit	(1,277,581)	(1,662,772)
Accumulated other comprehensive income (loss)	—	—
Total stockholders' deficit	(1,427,064)	(1,662,253)
Total liabilities, redeemable limited partners' capital and stockholders' deficit	$2,312,216	$2,507,836

See accompanying notes to the consolidated financial statements.

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

	Year Ended June 30,		
	2018	2017	2016
Net revenue:			
Net administrative fees	$643,839	$557,468	$498,394
Other services and support	372,133	363,087	337,554
Services	1,015,972	920,555	835,948
Products	645,284	534,118	326,646
Net revenue	1,661,256	1,454,673	1,162,594
Cost of revenue:			
Services	187,399	182,775	163,240
Products	610,892	497,273	293,816
Cost of revenue	798,291	680,048	457,056
Gross profit	862,965	774,625	705,538
Other operating income:			
Remeasurement of tax receivable agreement liabilities	177,174	5,447	4,818
Other operating income	177,174	5,447	4,818
Operating expenses:			
Selling, general and administrative	443,639	410,918	408,429
Research and development	1,423	3,107	2,925
Amortization of purchased intangible assets	55,447	48,327	33,054
Operating expenses	500,509	462,352	444,408
Operating income	539,630	317,720	265,948
Remeasurement gain attributable to acquisition of Innovatix, LLC	—	205,146	—
Equity in net income of unconsolidated affiliates	1,174	14,745	21,647
Interest and investment income (loss), net	(5,300)	(4,512)	(1,021)
Loss on disposal of long-lived assets	(2,376)	(2,422)	—
Other income (expense)	(16,324)	614	(1,692)
Other income (expense), net	(22,826)	213,571	18,934
Income before income taxes	516,804	531,291	284,882
Income tax expense	259,234	81,814	49,721
Net income	257,570	449,477	235,161
Net income attributable to non-controlling interest in Premier LP	(224,269)	(336,052)	(193,547)
Adjustment of redeemable limited partners' capital to redemption amount	157,581	(37,176)	776,750
Net income attributable to stockholders	$190,882	$76,249	$818,364
Weighted average shares outstanding:			
Basic	53,518	49,654	42,368
Diluted	137,340	50,374	145,308
Earnings per share attributable to stockholders:			
Basic	$3.57	$1.54	$19.32
Diluted	$1.36	$1.51	$0.97

See accompanying notes to the consolidated financial statements.

83

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

	Year Ended June 30,		
	2018	2017	2016
Net income	$257,570	$449,477	$235,161
Net unrealized gain (loss) on marketable securities	—	128	(110)
Total comprehensive income	257,570	449,605	235,051
Less: comprehensive income attributable to non-controlling interest	(224,269)	(336,137)	(193,470)
Comprehensive income attributable to stockholders	$33,301	$113,468	$41,581

See accompanying notes to the consolidated financial statements.

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

	Class A Common Stock		Class B Common Stock		Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares Amount				
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
Issuance of Class A common stock under employee stock purchase plan	81	1	—	—	—	2,728	—	—	2,729
Stock-based compensation expense	—	—	—	—	—	48,670	—	—	48,670
Repurchase of vested restricted units for employee tax-withholding	—	—	—	—	—	(7,863)	—	—	(7,863)
Net income	—	—	—	—	—	—	235,161	—	235,161
Net income attributable to non-controlling interest in Premier LP	—	—	—	—	—	—	(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)
Exchange of Class B units for Class A common stock by member owners	4,851	48	(4,851)	—	—	157,323	—	—	157,371
Exchange of Class B units for cash by member owners	—	—	(3,810)	—	—	—	—	—	—
Redemption of limited partners	—	—	(173)	—	—	—	—	—	—
Increase in additional paid-in capital related to quarterly exchange by member owners	—	—	—	—	—	35,141	—	—	35,141
Issuance of Class A common stock under equity incentive plan	1,021	10	—	—	—	9,158	—	—	9,168
Issuance of Class A common stock under employee stock purchase plan	75	1	—	—	—	2,482	—	—	2,483

85

	Class A Common Stock		Class B Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
Stock-based compensation expense	—	—	—	—	—	—	26,470	—	—	26,470
Repurchase of vested restricted units for employee tax-withholding	—	—	—	—	—	—	(17,717)	—	—	(17,717)
Net income	—	—	—	—	—	—	—	449,477	—	449,477
Net income attributable to non-controlling interest in Premier LP	—	—	—	—	—	—	—	(336,052)	—	(336,052)
Net realized loss on marketable securities	—	—	—	—	—	—	—	—	43	43
Adjustment of redeemable limited partners' capital to redemption amount	—	—	—	—	—	—	(212,857)	175,681	—	(37,176)
Balance at June 30, 2017	51,943	$ 519	87,299	$ —	—	$—	$ —	$(1,662,772)	$ —	$(1,662,253)
Exchange of Class B units for Class A common stock by member owners	6,531	49	(6,531)	—	(1,649)	50,071	166,001	—	—	216,121
Redemption of limited partners	—	—	(432)	—	—	—	—	—	—	—
Decrease in additional paid-in capital related to quarterly exchange by member owners, including associated TRA revaluation	—	—	—	—	—	—	(5,766)	—	—	(5,766)
Issuance of Class A common stock under equity incentive plan	623	6	—	—	—	—	8,013	—	—	8,019
Issuance of Class A common stock under employee stock purchase plan	82	1	—	—	—	—	2,618	—	—	2,619
Treasury stock	(6,418)	—	—	—	6,418	(200,129)	—	—	—	(200,129)
Stock-based compensation expense	—	—	—	—	—	—	29,408	—	—	29,408
Repurchase of vested restricted units for employee tax-withholding	—	—	—	—	—	—	(5,965)	—	—	(5,965)
Net income	—	—	—	—	—	—	—	257,570	—	257,570
Net income attributable to non-controlling interest in Premier LP	—	—	—	—	—	—	—	(224,269)	—	(224,269)
Adjustment of redeemable limited partners' capital to redemption amount	—	—	—	—	—	—	(194,309)	351,890	—	157,581

Balance at June 30, 2018	52,761	$ 575	80,336	$ —	4,769	$ (150,058)	$ —	$ (1,277,581)	$ —	$ (1,427,064)

See accompanying notes to the consolidated financial statements.

86

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

	Year Ended June 30,		
	2018	2017	2016
Operating activities			
Net income	$257,570	$449,477	$235,161
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	126,759	107,211	84,156
Equity in net income of unconsolidated affiliates	(1,174)	(14,745)	(21,647)
Deferred income taxes	232,990	60,562	25,714
Stock-based compensation	29,408	26,470	48,670
Remeasurement of tax receivable agreement liabilities	(177,174)	(5,447)	(4,818)
Remeasurement gain attributable to acquisition of Innovatix, LLC	—	(205,146)	—
Loss on disposal of long-lived assets	2,376	2,422	—
Changes in operating assets and liabilities:			
Accounts receivable, prepaid expenses and other current assets	(14,291)	3,365	(37,250)
Other assets	(824)	6,821	(9,638)
Inventories	(15,713)	(16,349)	3,937
Accounts payable, accrued expenses and other current liabilities	32,767	(24,482)	50,313
Long-term liabilities	6,673	(901)	(4,195)
Loss on FFF put and call rights	22,036	3,935	—
Other operating activities	6,303	(946)	1,067
Net cash provided by operating activities	$507,706	$392,247	$371,470
Investing activities			
Purchases of property and equipment	$(92,680)	$(71,372)	$(76,990)
Purchase of marketable securities	—	—	(19,211)
Proceeds from sale of marketable securities	—	48,013	386,372
Acquisition of Innovatix, LLC and Essensa Ventures, LLC, net of cash acquired	—	(319,717)	—
Acquisition of Acro Pharmaceuticals, net of cash acquired	—	(62,892)	—
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)
Investment in unconsolidated affiliates	—	(65,660)	(3,250)
Distributions received on equity investments in unconsolidated affiliates	—	6,550	22,093
Other investing activities	—	25	(27)
Net cash used in investing activities	$(92,680)	$(465,053)	$(159,636)
Financing activities			
Payments made on notes payable	$(8,002)	$(5,486)	$(2,143)
Proceeds from credit facility	30,000	425,000	150,000
Payments on credit facility	(150,000)	(205,000)	(150,000)
Proceeds from exercise of stock options under equity incentive plans	8,019	9,168	3,552
Proceeds from issuance of Class A common stock under stock purchase plan	2,619	2,483	2,317
Repurchase of vested restricted units for employee tax-withholding	(5,965)	(17,717)	(7,863)
Settlement of exchange of Class B units by member owners	—	(123,331)	—
Distributions to limited partners of Premier LP	(79,255)	(90,434)	(92,707)
Payments to limited partners of Premier LP related to tax receivable agreements	—	(13,959)	(10,805)
Repurchase of Class A common stock (held as treasury stock)	(200,129)	—	—

87

	Year Ended June 30,		
	2018	2017	2016
Earn-out liability payment to GNYHA Holdings	(16,662)	—	—
Final remittance of net income attributable to former S2S Global minority shareholder	—	—	(1,890)
Net cash used in financing activities	$(419,375)	$(19,276)	$(109,539)
Net increase (decrease) in cash and cash equivalents	(4,349)	(92,082)	102,295
Cash and cash equivalents at beginning of year	156,735	248,817	146,522
Cash and cash equivalents at end of year	$152,386	$156,735	$248,817
Supplemental schedule of non cash investing and financing activities:			
Increase (decrease) in redeemable limited partners' capital for adjustment to fair value, with offsetting decrease (increase) in additional paid-in-capital and accumulated deficit	$(157,581)	$37,176	$(776,750)
Reduction in redeemable limited partners' capital, with offsetting increase in common stock and additional paid-in capital related to quarterly exchange by member owners	$216,122	$157,371	$267,681
Reduction in redeemable limited partners' capital for limited partners' distribution payable	$15,465	$24,951	$22,493
Distributions utilized to reduce subscriptions, notes, interest and accounts receivable from member owners	$1,972	$2,049	$5,407
Net increase in deferred tax assets related to quarterly exchanges by member owners and other adjustments	$86,788	$114,605	$94,839
Net increase in tax receivable agreement liabilities related to quarterly exchanges by member owners and other adjustments	$92,554	$79,463	$59,408
Net increase (decrease) in additional paid-in capital related to quarterly exchanges by member owners and other adjustments	$(5,766)	$35,141	$35,431
Net increase in investments in unconsolidated affiliates related to deferred taxes attributed to the net fair value of FFF enterprises, Inc. put and call rights, with offsetting increases in deferred tax assets and deferred tax liabilities	$—	$15,460	$—
Payable to member owners incurred upon repurchase of ownership interest	$942	$416	$3,556

See accompanying notes to the consolidated financial statements.

88

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 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 is a holding company with no material business operations of its own. The Company’s primary asset is a controlling equity interest in Premier Services, LLC, a Delaware limited liability company ("Premier GP"). Premier GP is the sole general partner of Premier Healthcare Alliance, L.P. ("Premier LP"), a California limited partnership. The Company conducts substantially all of its business operations through Premier LP and its other consolidated subsidiaries. The Company, together with its subsidiaries and affiliates, is a leading healthcare performance 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 to 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 21 - 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 organization ("GPO") programs in the United States, and integrated pharmacy and direct sourcing activities. The Performance Services segment includes one of the largest informatics and consulting services businesses in the United States focused on healthcare providers. The Company's software as a service ("SaaS") informatics products utilize the Company's 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, consulting services, government services and insurance management services.
The Company, through Premier GP, held an approximate 40% and 37% sole general partner interest in Premier LP at June 30, 2018 and 2017, respectively. In addition to their equity ownership interest in the Company, our member owners held an approximate 60% and 63% limited partner interest in Premier LP at June 30, 2018 and 2017, respectively. Below is a summary of the principal documents that define and regulate the governance and control relationships among Premier, Premier LP and the member owners.
LP Agreement
Pursuant to the Amended and Restated Limited Partnership Agreement, as amended ("LP Agreement"), Premier GP is the general partner of Premier LP, and 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 causes Premier LP to make quarterly distributions out of its estimated taxable net income to Premier GP and to the holders of Class B common units as a class in an aggregate amount equal to Premier LP's total taxable income 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 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 ("TRAs") and (iii) meet its obligations to the member owners under the Exchange Agreement (as defined below) 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

Pursuant to a voting trust agreement (the "Voting Trust Agreement"), 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

Pursuant to the terms of an exchange agreement ("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. This exchange right can be exercised on a quarterly basis 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

Pursuant to the terms of a registration rights agreement (the "Registration Rights Agreement") Premier filed with the Securities and Exchange Commission (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. Pursuant to the Registration Rights Agreement, Premier may, but is not required to, conduct a company-directed underwritten public offering to allow the member owners to resell Class A common stock received by them in exchange for their Class B common units. Premier, as well as the member owners, 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.

TRAs

Pursuant to the terms of the TRAs, 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 TRAs) as a result of the increases in tax basis resulting from the initial sale of Class B common units by the member owners in conjunction with the IPO, 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 TRAs, including tax benefits attributable to payments under the TRAs.

GPO Participation Agreement

Pursuant to the terms of a GPO participation agreement, each member owner will generally 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 general, our GPO participation agreements automatically extend for successive five-year or seven-year periods (corresponding to the length of their initial terms) unless the member owner notifies Premier LP, prior to the fourth anniversary (in the case of five-year agreements), or sixth anniversary (in the case of seven-year agreements), of the then-current term, that such member owner desires to terminate the GPO participation agreement effective upon the expiration of the then-current term.

The terms and conditions of certain GPO participation agreements vary as a result of provisions in Premier's existing arrangements with member owners that conflict with provisions 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 and conditions 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.

Basis of Presentation and Consolidation

Basis of Presentation

The member owners' interest in 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 accompanying Consolidated Statements of Income and within comprehensive income attributable to non-controlling interest in Premier LP in the Company's accompanying Consolidated Statements of Comprehensive Income.

At June 30, 2018 and 2017, the member owners owned approximately 60% and 63%, respectively, of the Company's combined Class A and Class B common stock through their ownership of Class B common stock. During the year ended June 30, 2018, the member owners exchanged 6.5 million Class B common units and associated Class B common shares for an equal number of Class A common shares pursuant to the Exchange Agreement (see Note 15 - Earnings (Loss) Per Share). During the year ended June 30, 2018, approximately 6.5 million Class B common units were contributed to Premier LP, converted to Class A common units and remain outstanding. Correspondingly, approximately 6.5 million Class B common shares were retired during the same period.

At June 30, 2018 and 2017, the public investors, which may include member owners that have received shares of Class A common stock in connection with previous exchanges of their Class B common units and associated Class B common shares for an equal number of Class A common shares, owned approximately 40% and 37% of the Company's outstanding common stock through their ownership of Class A common stock.

The Company has corrected prior period information within the current period financial statements related to a specific component used in calculating the tax effect on Premier, Inc. net income for purposes of diluted earnings per share. Diluted earnings per share for fiscal 2016 was previously stated at $1.33 per share and has been corrected to $0.97 per share. The Company believes the correction is immaterial and the amount had no impact on the Company's overall financial condition, results of operations or cash flows.

We have reclassified $5.4 million and $4.8 million from selling, general and administrative expenses to the remeasurement of tax receivable agreement liabilities for the year ended June 30, 2017 and 2016, respectively, within the Consolidated Statements of Income in order to conform to the current period presentation.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared pursuant to the rules and regulations of 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.

Variable Interest Entities

Premier LP is a variable interest entity ("VIE") as the limited partners do not have the ability to exercise a substantive removal right with respect to the general partner. The Company does not hold a majority interest but, through Premier GP, has the exclusive power and authority to manage the business and affairs of Premier LP, to make all decisions with respect to driving the economic performance of Premier LP, and has both an obligation to absorb losses and a right to receive benefits. As such, the Company is the primary beneficiary of the VIE and consolidates the operations of Premier LP under the Variable Interest Model.

91

The assets and liabilities of Premier LP at June 30, 2018 and 2017 consisted of the following (in thousands):

	June 30, 2018	June 30, 2017
Assets		
Current	$393,863	$385,477
Noncurrent	1,577,974	1,616,539
Total assets of Premier LP	$1,971,837	$2,002,016
Liabilities		
Current	$457,172	$560,582
Noncurrent	128,793	134,635
Total liabilities of Premier LP	$585,965	$695,217

Net income attributable to Premier LP during the years ended June 30, 2018, 2017 and 2016 was as follows (in thousands):

	Year Ended June 30,		
	2018	2017	2016
Premier LP net income	$371,131	$522,310	$275,955

Premier LP's cash flows for the years ended June 30, 2018, 2017 and 2016 consisted of the following (in thousands):

	Year Ended June 30,		
	2018	2017	2016
Net cash provided by (used in):			
Operating activities	$534,643	$439,746	$393,352
Investing activities	(92,680)	(465,053)	(159,636)
Financing activities	(457,673)	(51,290)	(150,330)
Net increase (decrease) in cash and cash equivalents	(15,710)	(76,597)	83,386
Cash and cash equivalents at beginning of year	133,451	210,048	126,662
Cash and cash equivalents at end of year	$117,741	$133,451	$210,048

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 are evaluated on an ongoing basis, including estimates for allowances for doubtful accounts, useful lives of property and equipment, stock-based compensation, payables under TRAs, deferred tax balances including valuation allowances on deferred tax assets, uncertain tax positions, values of investments not publicly traded, deferred revenue, future cash flows associated with asset impairments, values of put and call rights, values of earn-out liabilities and the allocation of purchase prices. 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.

Given the Company's use of estimates referenced above, it is important to highlight that on December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA includes significant changes to the U.S. corporate income tax system, specifically reducing the U.S. federal corporate income tax rate from 35% to 21%. As changes under the TCJA are broad and complex, the Company continues to interpret the breadth of its immediate and long-term impacts. The Company notes that concurrent with the enactment of the TCJA, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA.

SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which

the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional amount on its financial statements. If a company cannot determine a provisional estimate to be included on its financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately prior to the enactment of the TCJA. With this in mind, the Company has prescribed such provisional relief under SAB 118 by incorporating various estimates regarding timing and determination of temporary difference recognition when calculating components of its deferred tax balances. While the Company is able to provide reasonable estimates of the impacts related to the TCJA, the final impact may differ from these estimates, due to, among other things, changes in interpretations, assumptions, additional guidance that may be released by the Internal Revenue Service and other actions that we may take that are yet to be determined.

(2) SIGNIFICANT ACCOUNTING POLICIES

Business Combinations

We account for acquisitions of a business using the acquisition method. All of the assets acquired, liabilities assumed, contractual contingencies and contingent consideration are generally 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.

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 net realizable values on an average cost basis. Inventories consisting of pharmaceuticals and pharmaceutical-related products are stated at the lower of cost or net realizable values 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 calculated 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 7 - Property and Equipment, Net.

Costs associated with internally-developed 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. 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 or selling, general and administrative expenses in the accompanying Consolidated Statements of Income, based on the software's end use. 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. The Company capitalized costs related to internally-developed software of $74.9 million and $66.6 million during the years ended June 30, 2018 and 2017, 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 member relationships, technology, customer relationships, trade names, distribution networks, favorable lease commitments, and non-compete agreements, and are amortized on a straight-line basis over their EUL. See Note 8 - 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 on the measurement date. 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.

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 only required the first step of the two-step process, which consisted of a quantitative assessment, and did not result in any goodwill impairment charges during the fourth quarter of the year ended June 30, 2018.

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 $3.6 million and $5.7 million at June 30, 2018 and 2017, 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, 2018 and 2017. The non-current portion of the deferred compensation plan assets, totaling $44.6 million and $41.5 million at June 30, 2018 and 2017, 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, 2018 and 2017. Realized and unrealized gain (loss) of $4.0 million, $4.0 million and $(1.6) million on plan assets as of June 30, 2018, 2017 and 2016, respectively, are included in other income (expense), in the accompanying Consolidated

Statements of Income. Deferred compensation income (expense) from the change in the corresponding liability of $(4.0) million, $(4.0) million and $1.6 million, respectively, are included in selling, general and administrative expense in the accompanying Consolidated Statements of Income for the years ended June 30, 2018, 2017 and 2016, respectively.

TRAs

The Company records TRA liabilities 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 conjunction with the IPO. Tax payments under the TRA 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 made concurrently with the 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 estimated TRA liabilities that are the result of a change in tax accounting method are recorded in remeasurement of tax receivable agreement liabilities or in selling, general and administrative expense in the Consolidated Statements of Income. Changes in estimated TRA liabilities 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 or decrease to additional paid-in capital in the Consolidated Statements of Stockholders' Deficit.

Redeemable Limited Partners' 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 redeemable limited partners' capital as temporary equity in the mezzanine section of the Consolidated Balance Sheets. 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 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 Services 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, consulting services and performance improvement collaborative subscriptions. Product revenue consists of integrated pharmacy and direct sourcing product sales, which are included in the Supply Chain Services 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) collectibility 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 GPO programs, 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 collectibility 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 consulting 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 60 to 300 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 250 to 300 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 consulting services sold under contracts vary based on the nature and terms 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, which is generally one year.

Certain administrative and/or patient management integrated 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 consulting 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. 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 for the member 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 consulting 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 consulting 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 consulting 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 consulting 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 integrated 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 $4.3 million, $3.8 million and $3.3 million for the years ended June 30, 2018, 2017 and 2016, respectively.

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 as well as net operating losses and credit carryforwards, 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, interest and penalty 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 reserve 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' deficit 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.

Basic and Diluted Earnings (Loss) per Share ("EPS")

Basic 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 such 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 July 2015, the FASB issued Accounting Standards Update ("ASU") 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the guidance under which an entity must measure inventory at the lower of cost or market. This guidance does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. The Company adopted this standard effective July 1, 2017 using the prospective approach. The implementation of this ASU did not have a material effect on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. The Company adopted this standard effective October 1, 2017 using the prospective approach. The implementation of this ASU did not have a material effect on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU amendments add or clarify guidance on eight cash flow issues. The Company adopted this standard effective January 1, 2018 using the retrospective approach. The implementation of this ASU did not impact the classification or presentation of cash flows within the Company's consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. The guidance requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. In addition, the guidance eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The new standard will be effective for the Company for the fiscal year beginning July 1, 2020. Early adoption is permitted for interim and annual goodwill impairment tests performed after January 1, 2017. The Company is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which removes the prohibition in ASC 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The guidance is intended to reduce the complexity of GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property. 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. The implementation of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 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 2016-01, Financial Instruments-Overall (Subtopic 825-10): 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. The implementation of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), 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.

In August 2015, the FASB issued an amendment in ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, to defer the effective date of the new standard for all entities by one year. The new standard, as amended, is 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 is permitted.

In March 2016, the FASB issued another amendment in ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, 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 or to arrange for the good or service to be provided by a third party. If the entity provides the specific 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 the principal to recognize revenue for the gross amount and the agent to recognize revenue for the amount of any fee or commission for which it expects to be entitled in exchange for arranging for the specified good or service to be provided. The new standard is effective with ASU 2014-09.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which amends specific aspects of ASU 2014-09, including how to identify performance obligations and guidance related to licensing implementation. This amendment 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 amendment is effective with ASU 2014-09.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which clarifies specific aspects of ASU 2014-09, 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 is effective with ASU 2014-09.

In December 2016, the FASB issued ASU 2016-20, Technical Corrections and Improvements to Topic 606: Revenue from Contracts with Customers, which clarifies specific aspects of ASU 2014-09, including allowing entities not to make quantitative disclosures about remaining performance obligations in certain cases and requiring entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. The new standard also makes twelve other technical corrections and modifications to ASU 2014-09. The new standard is effective with ASU 2014-09.

The new revenue recognition standard related to Topic 606 discussed above, as amended, is effective for the Company for the fiscal year beginning July 1, 2018, and we plan to adopt the standard using the modified retrospective approach. To date, the Company has identified the following preliminary impacts of adopting the new standard on the various revenue streams across its operating segments.

Within the Supply Chain Services segment, the Company expects to recognize administrative fee revenue upon the occurrence of a sale by suppliers to the Company’s members. This differs from the previous treatment in which the Company recognizes revenue in the period that the respective supplier reports member purchasing data, which is typically one to three months in arrears of the actual member purchase activity. This change is expected to result in the Company recognizing revenue sooner in the revenue cycle than under the Company's previous revenue recognition policy and the creation of a contract asset associated with this shift in revenue recognition timing. With regards to product revenue, the Company does not expect a material impact on the timing of revenue recognition. The Company is continuing to assess the impact of the new standard on the financial statements and disclosures.

Within the Performance Services segment, the Company expects to recognize revenue associated with its perpetual and term licenses upon delivery to the customer (point in time) and the associated mandatory post-contract customer support ratably over the period during which the support is provided (over time). The Company expects that this change will result in a shift and acceleration in timing of revenue recognition relative to the previous treatment. Also under the new standard, the Company will be required to capitalize the incremental costs of obtaining a contract, which the Company has preliminarily identified as sales commissions and costs associated with implementing our SaaS informatics tools, and to amortize these costs in a manner that reflects the transfer of services to the customer. These costs are expensed as incurred under the Company's previous policy.

The Company is nearing completion of its assessment and is still in the process of quantifying the impact of the new standard on its consolidated financial statements. Based on this assessment thus far, the Company believes that the impact on its consolidated financial statements could be material. However, due to the inherent complexity of its revenue recognition, the Company continues to evaluate all potential impacts of the new standard and is concurrently refining its business processes, systems and internal controls necessary to support accounting, reporting and disclosure requirements. Accordingly, a significant amount of work remains as the Company finalizes its implementation, and any preliminary assessment is subject to change.

(3) BUSINESS ACQUISITIONS

Acquisition of Innovatix and Essensa

Innovatix, LLC ("Innovatix") and Essensa Ventures, LLC ("Essensa") are GPOs focused on serving alternate site health care providers and other organizations throughout the United States. Prior to December 2, 2016, the Company, through its consolidated subsidiary, Premier Supply Chain Improvement ("PSCI"), held 50% of the membership interests in Innovatix (see Note 4 - Investments). On December 2, 2016, the Company, through PSCI, acquired from GNYHA Holdings, LLC (see Note 19 - Related Party Transactions) the remaining 50% ownership interest of Innovatix and 100% of the ownership interest in Essensa for $325.0 million, of which $227.5 million was paid in cash at closing and $97.5 million was paid in cash on January 10, 2017. As a result of certain purchase price adjustments provided for in the purchase agreement, the adjusted purchase price was $336.0 million.

In connection with the acquisition, the Company utilized its credit facility dated June 24, 2014, as amended on June 4, 2015 (the "Credit Facility") to fund the $325.0 million purchase price (see Note 11 - Debt). The Company also incurred $5.2 million and $6.5 million of acquisition costs related to this acquisition during the years ended June 30, 2018 and 2017, respectively. These acquisition costs were included in selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

The Company has accounted for the Innovatix and Essensa acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets acquired (see Note 8 - Intangible Assets, Net) and liabilities assumed based on their preliminary fair values. The acquisition resulted in the recognition of approximately $334.7 million of goodwill attributable to the anticipated profitability of Innovatix and Essensa. The acquisition was considered an asset acquisition for tax purposes, and accordingly, the Company expects the goodwill to be deductible for tax purposes.

The fair values assigned to the net assets acquired and the liabilities assumed as of the acquisition date were as follows (in thousands):

	Acquisition Date Fair Value
Cash paid at closing	$ 227,500
Cash paid on January 10, 2017	97,500
Purchase price	325,000
Additional cash paid at closing	10,984
Adjusted purchase price	335,984
Earn-out liability	16,662
Receivable from GNYHA Holdings, LLC	(3,000)
Total consideration paid	349,646
Cash acquired	(16,267)
Net consideration	333,379
50% ownership interest in Innovatix	218,356
Payable to Innovatix and Essensa	(5,765)
Enterprise value	545,970
Accounts receivable	21,242
Prepaid expenses and other current assets	686
Fixed assets	3,476
Intangible assets	241,494
Total assets acquired	266,898
Accrued expenses	5,264
Revenue share obligations	7,011
Other current liabilities	694
Total liabilities assumed	12,969
Deferred tax liability	42,636
Goodwill	$ 334,677

The acquisition provided the sellers an earn-out opportunity of up to $43.0 million based on Innovatix's and Essensa's Adjusted EBITDA (as defined in the purchase agreement) for the fiscal year ended June 30, 2017. The Company and the seller finalized the amount payable pursuant to the earn-out opportunity and the Company paid the seller $21.1 million during the year ended June 30, 2018 (see Note 5 - Fair Value Measurements).

Certain executive officers of Innovatix and Essensa executed employment agreements that became effective upon the closing of the acquisition. The purchase agreement provides that in the event that Innovatix's and Essensa's Adjusted EBITDA exceeds agreed upon amounts, certain of those executive officers are entitled to receive a retention bonus payment of up to $3.0 million in the aggregate for which the Company will be reimbursed by GNYHA Holdings, LLC, of which $1.5 million was paid and reimbursed during the year ended June 30, 2018.

The Company's 50% ownership interest in Innovatix prior to the acquisition was accounted for under the equity method and had a carrying value of $13.3 million (see Note 4 - Investments). In connection with the acquisition, the Company's investment was remeasured under business combination accounting rules to a fair value of $218.4 million, resulting in a one-time gain of $205.1 million which was recorded as other income.

Pro forma results of operations for the acquisition have not been presented because the effects on revenue and net income were not material to our historic consolidated financial statements. The Company reports Innovatix and Essensa as part of its Supply Chain Services segment.

Acquisition of Acro Pharmaceuticals

Acro Pharmaceutical Services LLC and Community Pharmacy Services, LLC (collectively, "Acro Pharmaceuticals") are specialty pharmacy businesses that provide customized healthcare management solutions to members. On August 23, 2016, the Company, through its consolidated subsidiary, NS3 Health, LLC, acquired 100% of the membership interests of Acro Pharmaceuticals for $75.0 million in cash. As a result of certain purchase price adjustments provided for in the purchase agreement, the adjusted purchase price was $62.9 million. The acquisition was funded with available cash on hand.

The Company has accounted for the Acro Pharmaceuticals acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their fair values. The Acro Pharmaceuticals acquisition resulted in the recognition of approximately $33.9 million of goodwill (see Note 9 - Goodwill) attributable to the anticipated profitability of Acro Pharmaceuticals. The Acro Pharmaceuticals acquisition is considered an asset acquisition for tax purposes and accordingly, the Company expects the goodwill to be deductible for tax purposes.

Pro forma results of operations for the acquisition have not been presented because the effects on revenue and net income were not material to our historic consolidated financial statements. The Company reports Acro Pharmaceuticals as part of its Supply Chain Services segment.

Acquisition of InFlow

InFlowHealth, LLC ("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.

On October 1, 2015, PHSI acquired all of the limited liability company membership interests of 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. At June 30, 2018 and 2017, the fair value of the earn-out liability was zero and $0.2 million, respectively (see Note 5 - Fair Value Measurements). 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.

The Company accounted for the InFlow acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets (see Note 8 - 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 attributable to the anticipated profitability of InFlow. The InFlow acquisition is considered an asset acquisition for tax purposes and accordingly, the Company expects the goodwill to be deductible for tax purposes. The Company reports InFlow as part of its Performance Services segment.

Acquisition of CECity

CECity.com, Inc. ("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.
On August 20, 2015, PHSI acquired 100% of the outstanding shares of capital stock of 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 Credit Facility (see Note 11 - Debt). Approximately $4.0 million of pretax acquisition costs related to the CECity acquisition were recorded

in selling, general and administrative expenses in the accompanying Consolidated Statements of Income for the year ended June 30, 2016.
The Company accounted for the CECity acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets (see Note 8 - 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 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 and 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

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. The Company reports CECity as part of its Performance Services segment.
Acquisition of HCI
Healthcare Insights, LLC ("HCI") has two primary businesses exclusively serving the healthcare provider market: (i) financial analytics which include budgeting, forecasting, and labor productivity applications, and (ii) clinical analytics which includes service line analytics and direct costing analytics to support value-based care. On July 31, 2015, PHSI acquired all of the limited liability company membership interests of 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 twelve months ending December 31, 2017 as defined in the purchase agreement. The Company finalized the earn-out opportunity, which resulted in zero consideration paid to the seller.
The Company accounted for the HCI acquisition as a business combination whereby the purchase price was allocated to tangible and intangible assets (see Note 8 - 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 attributable to the anticipated profitability of HCI. The HCI acquisition is considered an asset acquisition for tax purposes and accordingly, the Company expects the goodwill to be deductible for tax purposes. The Company reports HCI as part of its Performance Services segment.

(4) INVESTMENTS
Investments in Unconsolidated Affiliates
The Company's investments in unconsolidated affiliates consisted of the following (in thousands):

	Carrying Value		Equity in Net Income (Loss)		
	June 30,		Year Ended June 30,		
	2018	2017	2018	2017	2016
FFF	$91,804	$85,520	$6,283	$4,400	$—
Bloodbuy	1,918	2,066	(147)	(119)	(65)
PharmaPoint	—	4,232	(4,232)	(340)	(379)
Innovatix	—	—	—	10,743	21,797
Other investments	331	1,061	(730)	61	294
Total investments	$94,053	$92,879	$1,174	$14,745	$21,647

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 plus consideration in the form of the FFF put and call rights. The Company recorded the initial investment in FFF in the accompanying Consolidated Balance Sheets at $81.1 million, of which $65.7 million was in cash and $15.4 million was consideration in the form of the initial net fair value of the FFF put and call rights (see Note 5 - Fair Value Measurements for additional information related to the fair values of the FFF put and call rights). The Company accounts for its investment in FFF using the equity method of accounting and includes the investment as part of the Supply Chain Services segment.
The Company, through its consolidated subsidiary, PSCI, held a 15% ownership interest in BloodSolutions, LLC ("Bloodbuy") through its ownership of 5.3 million units of Class B Membership Interests in Bloodbuy at June 30, 2018 and 2017. The Company accounts for its investment in Bloodbuy using the equity method of accounting as the Company has rights to appoint a Board member, and includes the investment as part of the Supply Chain Services segment.
The Company, through its consolidated subsidiary, PSCI, held a 28% ownership interest in PharmaPoint, LLC ("PharmaPoint") through its ownership of 5.0 million units of Class B Membership Interests in PharmaPoint at June 30, 2018 and 2017. During the year ended June 30, 2018, the Company determined that it was unlikely to recover its investment in PharmaPoint, and as a result recognized an other-than-temporary impairment of $4.0 million, which is included in equity in net income (loss) of unconsolidated affiliates in the accompanying Consolidated Statements of Income. The Company accounts for its investment in PharmaPoint using the equity method of accounting and includes the investment as part of the Supply Chain Services segment.
The Company, through its consolidated subsidiary, PSCI, held 50% of the membership interests in Innovatix until December 2, 2016, at which time it acquired the remaining 50% membership interests (see Note 3 - Business Acquisitions and Note 19 - Related Party Transactions). As a result, the Company recognized a one-time gain of $205.1 million during the year ended June 30, 2017 related to the remeasurement of the then-existing 50% ownership share to fair value. Prior to the acquisition, the Company accounted for its investment in Innovatix using the equity method of accounting and included the investment as part of the Supply Chain Services segment.

(5) FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The following table represents the Company's financial assets and liabilities, which are measured at fair value on a recurring basis (in thousands):

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Cash equivalents	$62,684	$62,684	$ —	$ —
FFF call right	610	—	—	610
Deferred compensation plan assets	48,215	48,215	—	—
Total assets	$111,509	$110,899	$ —	$ 610
FFF put right	$42,041	$—	$ —	$ 42,041
Total liabilities	$42,041	$—	$ —	$ 42,041
June 30, 2017				
Cash equivalents	$22,218	$22,218	$ —	$ —
FFF call right	4,655	—	—	4,655
Deferred compensation plan assets	47,202	47,202	—	—
Total assets	$74,075	$69,420	$ —	$ 4,655
Earn-out liabilities	$21,310	$—	$ —	$ 21,310
FFF put right	24,050	—	—	24,050
Total liabilities	$45,360	$—	$ —	$ 45,360

Cash equivalents were included in cash and cash equivalents in the accompanying Consolidated Balance Sheets (see Note 4 - Investments).

Deferred compensation plan assets consisted of highly liquid mutual fund investments, which were classified as Level 1. The current portion of deferred compensation plan assets was included in prepaid expenses and other current assets ($3.6 million and $5.7 million at June 30, 2018 and 2017, respectively) in the accompanying Consolidated Balance Sheets.

Financial Instruments Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

Earn-out liabilities

Earn-out liabilities were incurred in connection with acquisitions of HCI on July 31, 2015, Inflow on October 1, 2015 and Innovatix and Essensa on December 2, 2016 (see Note 3 - Business Acquisitions). The earn-out liabilities were classified as Level 3 of the fair value hierarchy and their values were determined based on estimated future earnings and the probability of achieving them. The decrease in the earn-out liabilities is attributable to the $21.1 million earn-out payment to GNYHA Holdings that occurred during the current year (see Note 3 - Business Acquisitions). Changes in the fair values of the earn-out liabilities were recorded within selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

FFF put and call rights

Pursuant to a shareholders' agreement entered into in connection with the Company's equity investment in FFF on July 26, 2016 (see Note 4 - Investments), which shareholders' agreement was amended and restated November 22, 2017, the majority shareholder of FFF holds a put right that provides such shareholder the right to require the Company to purchase (i) up to 50% of its interest in FFF, which is exercisable beginning on July 26, 2020, the fourth anniversary of the investment closing date and (ii) all or a portion of its remaining interest in FFF on or after December 31, 2020.

Any such required purchases are to be made at a per share price equal to FFF's earnings before interest, taxes, depreciation and amortization ("EBITDA") over the twelve calendar months prior to the purchase date multiplied by a market adjusted multiple, adjusted for any outstanding debt and cash and cash equivalents ("Equity Value per Share"). In addition, the amended and restated shareholders' agreement provides the Company with a call right requiring the majority shareholder to sell its remaining interest in FFF to the Company, which is exercisable at any time within the later of 180 calendar days after the date of a Key Man Event (generally defined in the amended and restated shareholders' agreement as the resignation, termination for cause, death or disability of the majority shareholder) or 30 calendar days after December 31, 2020. In the event that the FFF put or call rights are exercised, the purchase price for the additional interest in FFF will be at a per share price equal to the Equity Value per Share.

The fair values of the FFF put and call rights were determined based on the Equity Value per Share calculation using unobservable inputs, which included the estimated FFF put and call rights' expiration dates, the forecast of FFF's EBITDA over the option period, forecasted movements in the overall market and the likelihood of a Key Man Event. Significant changes to the Equity Value per Share resulting from changes in the unobservable inputs could have a significant impact on the fair values of the FFF put and call rights.

The Company recorded the FFF put and call rights within long-term other liabilities and long-term other assets, respectively, within the accompanying Consolidated Balance Sheets. Net changes in the fair values of the FFF put and call rights were recorded within other income (expense) in the accompanying Consolidated Statements of Income.

A reconciliation of the Company's earn-out liabilities and FFF put and call rights is as follows (in thousands):

	Beginning Balance	Purchases (Settlements)	Gain (Loss)	Ending Balance
Year ended June 30, 2018				
FFF call right	$ 4,655	$ —	$ (4,045)	$ 610
Total Level 3 assets	$ 4,655	$ —	$ (4,045)	$ 610
Earn-out liabilities	$ 21,310	$ (21,125)	$ 185	$ —
FFF put right	24,050	—	(17,991)	42,041
Total Level 3 liabilities	$ 45,360	$ (21,125)	$ (17,806)	$ 42,041
Year ended June 30, 2017				
FFF call right	$ —	$ 10,361	$ (5,706)	$ 4,655
Total Level 3 assets	$ —	$ 10,361	$ (5,706)	$ 4,655
Earn-out liabilities	$ 4,128	$ 16,662	$ (520)	$ 21,310
FFF put right	—	25,821	1,771	24,050
Total Level 3 liabilities	$ 4,128	$ 42,483	$ 1,251	$ 45,360

Non-Recurring Fair Value Measurements

During the year ended June 30, 2018, no non-recurring fair value measurements were required relating to the measurement of goodwill and intangible assets for impairment. However, purchase price allocations required significant non-recurring Level 3 inputs. The fair values of the acquired intangible assets resulting from the acquisitions of Acro Pharmaceuticals and Innovatix and Essensa were determined using the income approach (see Note 3 - Business Acquisitions).

The Company recognized a one-time gain of $205.1 million during the year ended June 30, 2017 related to the remeasurement of the Company's 50% equity method investment in Innovatix to fair value upon acquisition of the remaining interest in Innovatix (see Note 3 - Business Acquisitions). The fair value of the investment was calculated using a discounted cash flow model.

Financial Instruments For Which Fair Value Only is Disclosed

The fair values of non-interest bearing notes payable, classified as Level 2, were less than their carrying value by approximately $0.6 million and $0.6 million at June 30, 2018 and 2017, respectively, based on assumed market interest rates of 3.6% and 2.6%, respectively.

Other Financial Instruments

The fair values of cash, accounts receivable, accounts payable, accrued liabilities and the Company's Credit Facility approximated carrying value due to the short-term nature of these financial instruments.

(6) ACCOUNTS RECEIVABLE, NET

Trade accounts receivable consisted primarily of amounts due from hospital and healthcare system members for services and products. Managed services receivable consisted of amounts receivable related to fees for services provided to members utilizing the Company's integrated pharmacy services to support contract negotiation and administration, claims data, rebate processing and evaluation of pharmacy formulary and utilization.

	June 30,	
	2018	2017
Trade accounts receivable	$150,426	$130,126
Managed services receivable	35,766	31,383
Other	1,523	48
Total accounts receivable	187,715	161,557
Allowance for doubtful accounts	(1,841)	(1,812)
Accounts receivable, net	$185,874	$159,745

107

(7) PROPERTY AND EQUIPMENT, NET

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

		June 30,	
	Useful life	2018	2017
Capitalized software	2-5 years	$409,017	$340,271
Computer hardware	3-5 years	68,057	57,320
Furniture and other equipment	5 years	8,284	8,218
Leasehold improvements	Lesser of estimated useful life or term of lease	18,926	18,016
Total property and equipment		504,284	423,825
Accumulated depreciation and amortization		(297,591)	(236,460)
Property and equipment, net		$206,693	$187,365

Depreciation and amortization expense related to property and equipment was $71.3 million, $58.9 million and $51.1 million for the years ended June 30, 2018, 2017 and 2016, respectively. Unamortized capitalized software costs were $157.0 million and $161.4 million at June 30, 2018 and 2017, respectively.

The Company did not incur a material loss on disposal of long-lived assets during the years ended June 30, 2018, 2017 and 2016.

(8) INTANGIBLE ASSETS, NET

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

		June 30,	
	Useful Life	2018	2017
Member relationships	14.7 years	$220,100	$220,100
Technology	5.0 years	142,317	143,727
Customer relationships	8.3 years	48,120	48,120
Trade names	8.3 years	22,710	22,710
Distribution network	10.0 years	22,400	22,400
Favorable lease commitments	10.1 years	11,393	11,393
Non-compete agreements	5.9 years	8,710	8,710
Total intangible assets		475,750	477,160
Accumulated amortization		(153,635)	(99,198)
Total intangible assets, net		$322,115	$377,962

Intangible asset amortization totaled $55.4 million, $48.3 million and $33.1 million for the years ended June 30, 2018, 2017 and 2016, respectively.

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

2019	$53,941
2020	49,077
2021	27,953
2022	24,964
2023	23,890
Thereafter	139,290
Total amortization expense [(a)]	$319,115

(a) Estimated aggregate amortization expense for the next five fiscal years and thereafter excludes amortization on technology under development, which was classified as technology in the total intangible assets, net table, of $3.0 million at June 30, 2018.

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

	June 30,	
	2018	2017
Supply Chain Services	$235,485	$255,601
Performance Services	86,630	122,361

Total intangible assets, net	$322,115	$377,962

(9) GOODWILL

Goodwill consisted of the following (in thousands):

	June 30,	
	2018	2017
Supply Chain Services	$400,348	$400,348
Performance Services	506,197	506,197
Total goodwill	$906,545	$906,545

(10) OTHER LONG-TERM ASSETS

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

	June 30,	
	2018	2017
Deferred loan costs, net	$506	$1,051
FFF call right	610	4,655
Other	2,875	4,565
Total other long-term assets	$3,991	$10,271

The Company recorded $0.5 million, $0.5 million and $0.5 million in amortization expense on deferred loan costs during the years ended June 30, 2018, 2017 and 2016, respectively. Amortization expense on deferred loan costs was recognized based on the straight-line method, which approximates the effective interest method, and was included in interest and investment income, net in the Consolidated Statements of Income.

Pursuant to a shareholders' agreement entered into in connection with the Company's equity investment in FFF on July 26, 2016, as amended and restated on November 22, 2017 (see Note 4 - Investments), the Company obtained a call right to purchase the remaining interest in FFF from the majority shareholder (see Note 5 - Fair Value Measurements).

(11) DEBT

Long-term debt consisted of the following (in thousands):

			June 30,	
	Commitment Amount	Due Date	2018	2017
Credit Facility	$ 750,000	June 24, 2019	$100,000	$220,000
Notes payable	—	Various	7,212	14,272
Total debt			107,212	234,272
Less: current portion			(100,250)	(227,993)
Total long-term debt			$6,962	$6,279

Credit Facility

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 has a maturity date of June 24, 2019. The Company expects to commence negotiations to refinance or replace the Credit Facility during the first half of fiscal 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. 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 1.750% for Eurodollar

Loans and 0.125% to 0.750% for Base Rate Loans. At June 30, 2018, the interest rate for three-month Eurodollar Loans was 3.461% and the interest rate for Base Rate Loans was 5.125%. 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, 2018, 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 financial 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. Premier GP was in compliance with all such covenants at June 30, 2018.

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, discretionary cash settlements of Class B unit exchanges under the Exchange Agreement, repurchases of Class A common stock pursuant to stock repurchase programs and other general corporate activities. During the year ended June 30, 2018, the Company utilized borrowings of $30.0 million under the Credit Facility, to partially fund the $200.0 million authorized share repurchase program and other general corporate activities. During the year ended June 30, 2018, the Company repaid $150.0 million of borrowings under the Credit Facility.

Interest expense incurred during the year ended June 30, 2018 was $6.6 million and cash paid for interest during the year ended June 30, 2018 was $5.9 million.

Notes Payable

At June 30, 2018 and 2017, the Company had $7.2 million and $14.3 million, respectively, in notes payable consisting primarily of non-interest bearing notes payable outstanding to departed member owners, of which $0.2 million and $8.0 million, respectively, were included in current portion of long-term debt and $7.0 million and $6.3 million, respectively, were 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 on the notes as of June 30, 2018 are as follows (in thousands):

2019	$250
2020	2,046
2021	3,556
2022	416
2023	944
Thereafter	—
Total principal payments	$7,212

110

(12) OTHER LONG-TERM LIABILITIES

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

	June 30,	
	2018	2017
Deferred rent	$13,402	$14,045
Reserve for uncertain tax positions	8,261	3,819
Earn-out liability, less current portion	—	185
FFF put right	42,041	24,050
Total other long-term liabilities	$63,704	$42,099

Pursuant to an amended and restated shareholders' agreement entered into in connection with the Company's equity investment in FFF (see Note 4 - Investments), the majority shareholder of FFF obtained a put right that provides such shareholder the right to sell all or any portion of its interest in FFF to the Company (see Note 5 - Fair Value Measurements).

(13) REDEEMABLE LIMITED PARTNERS' CAPITAL

Redeemable limited partners' capital represents the member owners' 60% ownership of Premier LP through their ownership of Class B common units at June 30, 2018. The member owners 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. Therefore, redeemable limited partners' capital is recorded at the greater of the book value or redemption amount per the LP Agreement (see Note 1 - Organization and Basis of Presentation for more information), and is calculated 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, 2018, 2017 and 2016, the Company recorded adjustments to the fair value of redeemable limited partners' capital as an adjustment of redeemable limited partners' capital to redemption amount in the accompanying Consolidated Statements of Income in the amounts of $(157.6) million, $37.2 million and $(776.8) million, respectively.

Redeemable limited partners' capital is classified as temporary equity in the mezzanine section of the accompanying Consolidated Balance Sheets as, pursuant to the LP Agreement, withdrawal is at the option of each member owner and the conditions of the repurchase are not solely within the Company's control.

The table below provides a summary of the changes in the redeemable limited partners' capital from June 30, 2015 to June 30, 2018 (in thousands):

	Receivables From Limited Partners	Redeemable Limited Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Redeemable Limited Partners' Capital
June 30, 2015	$(11,633)	$4,091,473	$ (8)	$4,079,832
Distributions applied to receivables from limited partners	5,407	—	—	5,407
Redemption of limited partners	—	(4,281)	—	(4,281)
Net income attributable to non-controlling interest in 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 of redeemable limited partners' capital to redemption amount	—	(776,750)	—	(776,750)
June 30, 2016	$(6,226)	$3,143,541	$ (85)	$3,137,230
Distributions applied to receivables from limited partners	2,049	—	—	2,049

	Receivables From Limited Partners	Redeemable Limited Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Redeemable Limited Partners' Capital
Redemption of limited partners	—	(416)	—	(416)
Net income attributable to non-controlling interest in Premier LP	—	336,052	—	336,052
Distributions to limited partners	—	(92,892)	—	(92,892)
Net realized loss on marketable securities	—	—	85	85
Exchange of Class B common units for Class A common stock by member owners	—	(157,371)	—	(157,371)
Exchange of Class B common units for cash by member owners	—	(123,330)	—	(123,330)
Adjustment of redeemable limited partners' capital to redemption amount	—	37,176	—	37,176
June 30, 2017	$ (4,177)	$3,142,760	$ —	$3,138,583
Distributions applied to receivables from limited partners	1,972	—	—	1,972
Redemption of limited partners	—	(942)	—	(942)
Net income attributable to non-controlling interest in Premier LP	—	224,269	—	224,269
Distributions to limited partners	—	(69,770)	—	(69,770)
Exchange of Class B common units for Class A common stock by member owners	—	(216,121)	—	(216,121)
Adjustment of redeemable limited partners' capital to redemption amount	—	(157,581)	—	(157,581)
June 30, 2018	$ (2,205)	$2,922,615	$ —	$2,920,410

Receivables from limited partners represent amounts due from limited partners for their required capital in Premier LP. These receivables are either interest bearing notes that were issued to new limited partners or non-interest bearing loans (contribution loans) provided to existing limited partners. These receivables are reflected as a reduction to 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, 2018, 2017 and 2016.

During the year ended June 30, 2018, four limited partners withdrew from Premier LP. The limited partnership agreement provides for the redemption of former limited partner's Class B common units that are not eligible for exchange in the form 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 former limited partners are reflected in notes payable in the accompanying Consolidated Balance Sheets. Under the Exchange Agreement, Class B common units that are eligible for exchange by withdrawing limited partners must be exchanged in the subsequent quarter's exchange process.

Premier LP's distribution policy requires cash distributions 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. 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, they are not based directly on revenue generated from an individual partner's participation as the distributions are based on the net income (loss) of the partnership which encompasses 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 limited partners would not receive a quarterly distribution. As provided in the LP 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.

Quarterly distributions made to limited partners during the current fiscal year are as follows (in thousands):

Date	Distribution (a)
August 24, 2017	$ 24,951
November 22, 2017	$ 20,752
February 22, 2018	$ 20,396
May 24, 2018	$ 13,157

(a) Distributions are equal to Premier LP's total taxable income from the preceding fiscal quarter-to-date period for each respective distribution date multiplied by the Company's standalone effective combined federal, state and local income tax rate for each respective distribution date. Premier LP expects to make a $15.5 million quarterly distribution on or before August 23, 2018. The distribution is reflected in limited partners' distribution payable in the accompanying Consolidated Balance Sheets at June 30, 2018.

Pursuant to the Exchange Agreement (see Note 1 - Organization and Basis of Presentation for more information), 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 and Compliance Committee of the Board of Directors. During the year ended June 30, 2018, the Company recorded total reductions of $216.1 million to redeemable limited partners' capital to reflect the exchange of approximately 6.5 million Class B common units and surrender of associated shares of Class B common stock by member owners for a like number of shares of the Company's Class A common stock (see Note 15 - Earnings (Loss) Per Share for more information). Quarterly exchanges during the current fiscal year were as follows (in thousands, except Class B common units):

Date of Quarterly Exchange	Number of Class B Common Units Exchanged	Reduction in Redeemable Limited Partners' Capital
July 31, 2017	1,231,410	$ 42,976
October 31, 2017	3,651,294	119,289
January 31, 2018	1,006,435	32,659
April 30, 2018	642,566	21,197
	6,531,705	$ 216,121

(14) STOCKHOLDERS' DEFICIT

As of June 30, 2018, there were 57,530,733 shares of the Company's Class A common stock, par value $0.01 per share, and 80,335,701 shares of the Company's Class B common stock, par value $0.000001 per share, outstanding.

On October 31, 2017, the Company's Board of Directors authorized the repurchase of up to $200.0 million of our outstanding Class A common stock as part of a balanced capital deployment strategy, such repurchases to be made from time to time in private or open market transactions at the Company's discretion in accordance with applicable federal securities laws. The Company completed its stock repurchase program during the fiscal year ended June, 30 2018 and purchased approximately 6.4 million shares of Class A common stock at an average price of $31.16 per share for a total purchase price of $200.0 million.

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, subject to any statutory or contractual restrictions on the payment of dividends and subject 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 entitled to one vote for each share held of record on all matters submitted to a vote of stockholders, but are not entitled to receive dividends, other than dividends payable in shares of Premier's common stock, or to receive a distribution upon the dissolution or a liquidation of Premier. 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.

(15) EARNINGS (LOSS) PER SHARE

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

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

	Year Ended June 30,		
	2018	2017	2016
Numerator for basic earnings per share:			
Net income attributable to stockholders	$190,882	$76,249	$818,364
Numerator for diluted earnings per share:			
Net income attributable to stockholders	$190,882	$76,249	$818,364
Adjustment of redeemable limited partners' capital to redemption amount	(157,581)	—	(776,750)
Net income attributable to non-controlling interest in Premier LP	224,269	—	193,547
Net income	257,570	76,249	235,161
Tax effect on Premier, Inc. net income [(a)]	(70,257)	—	(93,836)
Adjusted net income	$187,313	$76,249	$141,325
Denominator for basic earnings per share:			
Weighted average shares [(b)]	53,518	49,654	42,368
Denominator for diluted earnings per share:			
Weighted average shares [(b)]	53,518	49,654	42,368
Effect of dilutive securities: [(c)]			
Stock options	275	286	348
Restricted stock	295	215	589
Performance share awards	252	219	1,429
Class B shares outstanding	83,000	—	100,574
Weighted average shares and assumed conversions	137,340	50,374	145,308
Basic earnings per share	$3.57	$1.54	$19.32
Diluted earnings per share	$1.36	$1.51	$0.97

(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 (loss) per share.

(b) Weighted average number of common shares used for basic earnings 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, 2018, 2017 and 2016.

(c) For the year ended June 30, 2018, the effect of 1.6 million stock options were excluded from diluted weighted average shares outstanding as they had an anti-dilutive effect. For the year ended June 30, 2017, the effect of 90.8 million Class B common units exchangeable for Class A common shares and 1.3 million stock options were excluded from diluted weighted average shares outstanding as they had an anti-dilutive effect. For the year ended June 30, 2016, the effect of 1.3 million stock options were excluded from diluted weighted average share outstanding as they had an anti-dilutive effect.

Pursuant to the terms of the Exchange Agreement, on a quarterly basis, the Company has the option, as determined by the independent Audit and Compliance Committee, to settle the exchange of Class B common units of Premier LP by member owners for cash, an equal number of Class A common shares of Premier, Inc. or a combination of cash and shares of Class A common stock. In connection with the exchange of Class B common units by member owners, regardless of the consideration used to settle the exchange, an equal number of shares of Premier's Class B common stock are surrendered by member owners and retired (see Note 13 - Redeemable Limited Partners' Capital). 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 and/or cash in connection with the quarterly exchanges pursuant to the terms of the Exchange Agreement, including activity related to the Class A and Class B common units and Class A and Class B common stock through the date of the applicable quarterly exchange:

Quarterly Exchange by Member Owners	Class B Common Shares Retired Upon Exchange (a)	Class B Common Shares Outstanding After Exchange (a)	Class A Common Shares Outstanding After Exchange (b)	Percentage of Combined Voting Power Class B/Class A Common Stock
July 31, 2017	1,231,410	86,067,478	53,212,057	62%/38%
October 31, 2017	3,651,294	82,416,184	57,215,143	59%/41%
January 31, 2018	1,006,435	81,169,319	54,829,086	60%/40%
April 30, 2018	642,566	80,335,701	52,585,392	60%/40%
July 31, 2018 (c)	816,468	79,519,233	53,256,897	60%/40%

(a) The number of Class B common shares retired or outstanding are equivalent to the number of Class B common units retired upon exchange or outstanding after the exchange, as applicable.

(b) The number of Class A common shares outstanding after exchange also includes activity related to the Company's share repurchase program (see Note 14 - Stockholders' Deficit), equity incentive plan (see Note 16 - Stock-Based Compensation) and departed member owners (see Note 13 - Redeemable Limited Partners' Capital).

(c) As the quarterly exchange occurred on July 31, 2018, the impact of the exchange is not reflected in the consolidated financial statements for the year ended June 30, 2018.

(16) 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 $29.4 million, $26.5 million and $48.7 million for the years ended June 30, 2018, 2017 and 2016, respectively, with a resulting deferred tax benefit of $7.3 million, $10.1 million and $18.5 million, respectively. The deferred tax benefit was calculated at a rate of 25% for the year ended June 30, 2018 and 38% for the years ended June 30, 2017 and 2016, which represents the expected effective income tax rate at the time of the compensation expense deduction primarily at PHSI, and differs from the Company's current effective income tax rate which includes the impact of partnership income not subject to federal and state income taxes. The decrease in the deferred tax benefit is a result of the Tax Cuts and Jobs Act, which was enacted on December 22, 2017 (see Note 18 - Income Taxes).

Premier 2013 Equity Incentive Plan

The Premier 2013 Equity Incentive Plan, as amended and restated (and including any further amendments thereto, the "2013 Equity Incentive Plan") provides for grants of up to 11.3 million 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 share awards. As of June 30, 2018, there were approximately 3.6 million shares available for grant under the 2013 Equity Incentive Plan.

The following table includes information related to restricted stock, performance share awards and stock options for the year ended June 30, 2018:

	Restricted Stock		Performance Share Awards		Stock Options	
	Number of Awards	Weighted Average Fair Value at Grant Date	Number of Awards	Weighted Average Fair Value at Grant Date	Number of Options	Weighted Average Exercise Price
Outstanding at June 30, 2017	576,988	$ 32.92	1,085,872	$ 32.79	3,372,499	$ 30.31
Granted	261,966	$ 32.92	700,733	$ 32.62	560,497	$ 32.79
Vested/exercised	(183,988)	$ 31.89	(352,867)	$ 31.73	(284,490)	$ 30.65
Forfeited	(49,093)	$ 32.71	(115,691)	$ 32.55	(149,255)	$ 33.70
Outstanding at June 30, 2018	605,873	$ 33.25	1,318,047	$ 33.00	3,499,251	$ 30.53
Stock options outstanding and exercisable at June 30, 2018					2,501,734	$ 29.56

Restricted stock units and restricted stock awards issued and outstanding generally vest over a three-year period for employees and a one-year period for directors. Performance share awards issued and outstanding generally vest over a three year period if performance targets are met. Stock options have a term of ten years from the date of grant. Vested stock options will expire either after twelve 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.

Unrecognized stock-based compensation expense at June 30, 2018 was as follows (in thousands):

	Unrecognized Stock-Based Compensation Expense	Weighted Average Amortization Period
Restricted stock	$ 8,233	1.65 years
Performance share awards	17,924	1.70 years
Stock options	6,620	1.77 years
Total unrecognized stock-based compensation expense	$ 32,777	1.70 years

The aggregate intrinsic value of stock options at June 30, 2018 was as follows (in thousands):

	Intrinsic Value of Stock Options
Outstanding and exercisable	$ 17,091
Expected to vest	3,398
Total outstanding	$ 20,489
Exercised during the year ended June 30, 2018	$ 1,157

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

	June 30,		
	2018	2017	2016
Expected life [a]	6 years	6 years	6 years
Expected dividend [b]	—	—	—
Expected volatility [c]	29.4% - 32.3%	32.0% - 33.0%	32.7% - 33.5%
Risk-free interest rate [d]	1.9% - 2.9%	1.3% - 2.1%	1.2% - 1.8%
Weighted average option grant date fair value	$9.48 - $11.42	$10.48 - $12.00	$11.11 - $12.40

(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 Constant Maturity Treasury rate published by the United States Treasury as of the date of the grant.

(17) POST-RETIREMENT BENEFITS

The Company maintains a defined contribution 401(k) retirement savings plan which covers employees who meet certain age and service requirements. This plan provides for monthly employee contributions of up to 20% and matching monthly employer contributions of up to 4% of the participant's compensation, not to exceed certain limits. The Company's 401(k) expense related to such matching of employee contributions was $9.7 million, $9.2 million and $8.5 million for the years ended June 30, 2018, 2017 and 2016, respectively.

The Company also 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 certain tax limits.

(18) 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.

On December 22, 2017, the U.S. government enacted the TCJA that made broad changes to the U.S. tax code. Most notable to the Company was the reduction in the U.S. federal corporate income tax rate from 35% to 21% for the first taxable year beginning on or after January 1, 2018. Due to the timing of the Company's fiscal year, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of approximately 28.1% for our fiscal year ended June 30, 2018, and 21% for subsequent fiscal years. In accordance with U.S. GAAP, the impact of changes in tax rates and tax laws is recognized as a component of income tax expense from continuing operations in the period of enactment. Accordingly, the Company has remeasured its deferred tax balances as of the enactment date.

Concurrent with the enactment of the TCJA, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting required under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional amount on its financial statements. If a company cannot determine a provisional estimate to be included on its financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately prior to the enactment of the TCJA. With this in mind, the Company has prescribed such provisional relief under

117

SAB 118 by incorporating various estimates regarding timing and determination of temporary difference recognition when calculating components of its deferred tax balances. While the Company is able to provide reasonable estimates of the impacts related to the TCJA, the final impact may differ from these estimates, due to, among other things, changes in interpretations, assumptions, additional guidance that may be released by the Internal Revenue Service and other actions that we may take that are yet to be determined.

In connection with its analysis of the impacts of the TCJA, the Company has recorded a net provisional tax expense of $210.4 million in fiscal year 2018 which consists of $224.9 million net deferred tax expense associated with the remeasurement of the Company's deferred tax assets and liabilities offset by $14.5 million of deferred tax benefit associated with the release of valuation allowances related to certain U.S. federal tax attributes that are now expected to be fully realized. The Company has not completed its accounting for the income tax effects of the TCJA. Where the Company has been able to make reasonable estimates of the effects for which its analysis is not yet complete, the Company has recorded provisional amounts in accordance with SAB 118.

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

	Year Ended June 30,		
	2018	2017	2016
Current:			
Federal	$22,103	$16,638	$19,765
State	4,141	4,614	4,242
Total current expense	26,244	21,252	24,007
Deferred:			
Federal	232,673	49,392	15,703
State	317	11,170	10,011
Total deferred expense	232,990	60,562	25,714
Provision for income taxes	$259,234	$81,814	$49,721

The reconciliation between the Company's effective tax rate on income from continuing operations and the statutory tax rates of 28.1%, 35.0%, 35.0% for fiscal year ended June 30, 2018, 2017 and 2016, respectively, is as follows (in thousands):

	Year Ended June 30,		
	2018	2017	2016
Computed tax expense	$145,015	$185,952	$99,709
Partnership income not subject to tax	(70,257)	(85,142)	(85,063)
State taxes (net of federal benefit)	12,901	9,823	664
Remeasurement adjustments and other permanent items	(53,151)	(78,998)	1,051
Expense (benefit) on subsidiaries treated separately for income tax purposes	(983)	18,660	(7,497)
Change in valuation allowance	(33,106)	26,829	36,279
Deferred tax remeasurement	256,787	9,950	8,080
Other	2,028	(5,260)	(3,502)
Provision for income taxes	$259,234	$81,814	$49,721
Effective income tax rate	50.2 %	15.4 %	17.5 %

The increase in the effective tax rate from the prior year is primarily attributable to the deferred tax expense associated with the remeasurement of deferred tax balances as a result of the TCJA, partially offset by the deferred tax benefit attributable to the release and remeasurement of valuation allowance and the reduction in the statutory rate from 35.0% to a blended statutory rate of 28.1% as a result of the TCJA. The lower effective tax rate in fiscal year 2017 was due to the one-time gain related to the remeasurement of the 50% equity method investment in Innovatix to fair value upon acquisition of Innovatix and Essensa.

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, 2018 and 2017 are presented below (in thousands):

	June 30, 2018	2017
Deferred tax asset		
Partnership basis differences in Premier LP	$298,306	$473,193
Stock compensation	18,347	23,037
Accrued expenses	32,543	44,096
Net operating losses and credits	35,444	47,629
Other	12,103	11,856
Total deferred tax assets	396,743	599,811
Valuation allowance for deferred tax assets	(58,681)	(91,787)
Net deferred tax assets	338,062	508,024
Deferred tax liability		
Purchased intangible assets and depreciation	(49,855)	(71,994)
Other liabilities	(152)	(1,774)
Net deferred tax asset	$288,055	$434,256

At June 30, 2018, the Company had federal and state net operating loss carryforwards of $115.4 million and $144.9 million, respectively, primarily attributable to PHSI. The resulting federal and state deferred tax assets are approximately $24.2 million and $5.4 million, respectively. The federal and state net operating loss carryforwards generated prior to fiscal year 2018 expire between the years ending June 30, 2019 through June 30, 2037, unless utilized. Under the TCJA, the Company’s net operating losses generated in fiscal year 2018 and beyond cannot be carried back to prior tax years but can be carried forward indefinitely. A valuation allowance was established for a portion of federal and state losses as the Company believes it is more likely than not that all or a portion of these losses will not be realized in the near future.

At June 30, 2018, the Company had federal research and development credit carryforwards of $10.2 million. The federal credit carryforwards expire at various times between the years ended June 30, 2020 through June 30, 2037, unless utilized. A valuation allowance was established as the Company believes it is more likely than not that all or a 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 a portion of the deferred tax assets will not be realized in the future. As a result, the Company recorded a valuation allowance of $58.7 million against its deferred tax assets at June 30, 2018. The valuation allowance decreased by $33.1 million from the $91.8 million valuation allowance recorded as of June 30, 2017. The decrease is primarily related to $31.9 million associated with the aforementioned remeasurement of deferred tax assets and $14.5 million associated with the release of valuation allowance as a result of the TCJA, partially offset by a $13.3 million increase in valuation allowance associated with current year operations.

As of June 30, 2018 and 2017, the Company had net deferred tax assets of $288.1 million and $434.3 million, respectively. The June 30, 2018 balance was comprised of $305.6 million in deferred tax assets at Premier, Inc. offset by $17.5 million in deferred tax liabilities at PHSI and PSCI. The decrease of $146.2 million in deferred tax assets was primarily attributable to $224.9 million in net reductions to deferred tax assets and liabilities in connection with the remeasurement associated with the previously mentioned decrease in the U.S. federal corporate income tax rate, partially offset by $76.4 million of deferred tax assets recorded in connection with the exchanges of Class B common units that occurred during the year ended June 30, 2018, pursuant to the Exchange Agreement.

119

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 Sheets. A reconciliation of the beginning and ending gross amounts of the Company's uncertain tax position reserves for the years ended June 30, 2018, 2017 and 2016 are as follows (in thousands):

	Year Ended June 30,		
	2018	2017	2016
Beginning of year balance	$5,043	$4,381	$3,436
Increases in prior period tax positions	12,965	101	318
Decreases in prior period tax positions	(179)	(870)	(201)
Reductions on settlements and lapse in statute of limitations	(611)	(22)	(721)
Increases in current period tax positions	1,261	1,453	1,549
End of year balance	$18,479	$5,043	$4,381

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 $7.4 million, $2.8 million and $2.8 million, including interest and penalties and net of the federal and state benefit for income taxes, for the years ended June 30, 2018, 2017 and 2016, 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 $0.9 million, $0.3 million, and $0.4 million at June 30, 2018, 2017 and 2016, respectively.

The Company has determined that it is reasonably possible that its existing reserve for uncertain income tax positions at June 30, 2018 will decrease by $12.2 million in the next twelve months, primarily related to the closing of ongoing audits.

Federal tax returns for tax years ended June 30, 2013 through 2017 remain open as of June 30, 2018. The IRS commenced an examination of PHSI's tax returns for tax years ended June 30, 2013, 2014 and 2016 in the first quarter of fiscal year 2018. The examination of the June 30, 2013 tax return was previously closed without any adjustments. As of June 30, 2018, the IRS has not proposed any adjustments to those returns and is expected to close the examination in the year ended June 30, 2019. Further, the Company is subject to ongoing state and local examinations for various periods. Activity related to these examinations did not have a material impact on the Company’s financial position or results of operations.

The Company made cash tax payments of $24.9 million and $26.1 million during the years ended June 30, 2018 and 2017, respectively.

(19) RELATED PARTY TRANSACTIONS

GNYHA

GNYHA Purchasing Alliance, LLC and its member organizations ("GNYHA PA") owned approximately 8% of the outstanding partnership interests in Premier LP as of June 30, 2018. Although we no longer consider GNYHA a related party under U.S. GAAP, prior period information is included below.

Net administrative fees revenue based on purchases by GNYHA Services, Inc. ("GNYHA") (an affiliate of GNYHA PA) and its member organizations was $69.9 million and $66.8 million for the years ended June 30, 2017 and 2016, 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 to Premier LP 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 $7.8 million of revenue share obligations in the accompanying Consolidated Balance Sheets related to revenue share obligations to GNYHA and its member organizations at June 30, 2017.

In addition, of the $25.0 million limited partners' distribution payable in the accompanying Consolidated Balance Sheets at June 30, 2017, $2.7 million was payable to GNYHA and its member organizations at June 30, 2017.

Services and support revenue earned from GNYHA and its member organizations was $14.2 million and $13.2 million during the years ended June 30, 2017 and 2016, respectively. Product revenue earned from, or attributable to services provided to, GNYHA and its member organizations was $17.2 million and $19.0 million during the years ended June 30, 2017 and 2016, respectively. Receivables from GNYHA and its member organizations, included in due from related parties in the accompanying Consolidated Balance Sheets, were $5.4 million at June 30, 2017.

Innovatix and Essensa

The Company held 50% of the membership interests in Innovatix until December 2, 2016, at which time it acquired the remaining 50% of the membership interests from GNYHA Holdings (see Note 3 - Business Acquisitions). The Company's share of Innovatix's net income included in equity in net income (loss) of unconsolidated affiliates in the accompanying Consolidated Statements of Income prior to the acquisition was $10.7 million and $21.8 million for the years ended June 30, 2017 and 2016, respectively. The Company maintained a group purchasing agreement with Innovatix under which Innovatix members were permitted to utilize Premier LP's GPO supplier contracts. Gross administrative fees revenue and a corresponding revenue share recorded under the arrangement prior to the acquisition were $19.9 million and $44.3 million for the years ended June 30, 2017 and 2016, respectively.

The Company historically maintained a group purchasing agreement with Essensa, under which Essensa utilized the Company's GPO supplier contracts. On December 2, 2016, the Company acquired 100% of the membership interests in Essensa from GNYHA Holdings (see Note 3 - Business Acquisitions). Net administrative fees revenue recorded from Essensa prior to the acquisition was $1.2 million and $2.8 million for the years ended June 30, 2017 and 2016, respectively.

FFF

The Company's 49% ownership share of net income of FFF, which was acquired on July 26, 2016, included in equity in net income of unconsolidated affiliates in the accompanying Consolidated Statements of Income was $6.3 million and $4.4 million for the years ended June 30, 2018 and 2017, respectively. The Company maintains group purchasing agreements with FFF and receives administrative fees for purchases made by the Company's members pursuant to those agreements. Net administrative fees revenue recorded from purchases under those agreements was $7.6 million and $4.8 million during the years ended June 30, 2018 and 2017.

AEIX

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 $6.0 million, $5.1 million and $4.3 million for the years ended June 30, 2018, 2017 and 2016, respectively, and annual incentive management fees of $0.3 million, $0.2 million and $0.2 million for the years ended June 30, 2018, 2017 and 2016, respectively. As of June 30, 2018 and 2017, $0.9 million and $0.6 million, respectively, in amounts receivable from AEIX are included in due from related parties in the accompanying Consolidated Balance Sheets.

(20) COMMITMENTS AND CONTINGENCIES

Operating Leases

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 $11.9 million, $9.5 million and $10.1 million for the years ended June 30, 2018, 2017 and 2016, respectively.

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

2019	$12,158
2020	11,220
2021	10,779
2022	10,945
2023	10,996
Thereafter	31,336
Total future minimum lease payments	$87,434

121

Other Matters

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, tort and personal injury, 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.

(21) 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, consulting services, government services and insurance services businesses.

Segment information was as follows (in thousands):

	Year Ended June 30,		
	2018	2017	2016
Net revenue:			
Supply Chain Services			
Net administrative fees	$643,839	$557,468	$498,394
Other services and support	11,454	9,704	4,385
Services	655,293	567,172	502,779
Products	645,284	534,118	326,646
Total Supply Chain Services	1,300,577	1,101,290	829,425
Performance Services	360,679	353,383	333,169
Net revenue	$1,661,256	$1,454,673	$1,162,594
Depreciation and amortization expense [(a)]:			
Supply Chain Services	$21,734	$14,209	$1,401
Performance Services	95,808	85,299	76,500
Corporate	9,217	7,703	6,255
Total depreciation and amortization expense	$126,759	$107,211	$84,156
Capital expenditures:			
Supply Chain Services	$1,691	$483	$914
Performance Services	80,900	66,686	62,337
Corporate	10,089	4,203	13,739
Total capital expenditures	$92,680	$71,372	$76,990

	June 30,	
Total assets:	2018	2017
Supply Chain Services	$991,837	$1,017,023
Performance Services	860,409	888,862
Corporate	459,970	601,951
Total assets	$2,312,216	$2,507,836

(a) Includes amortization of purchased intangible assets.

The Company uses Segment Adjusted EBITDA (a financial measure not determined in accordance with generally accepted accounting principles ("Non-GAAP")) as its primary measure of profit or loss to assess segment performance and to determine

122

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 (loss) 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. 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. Non-recurring items are income or expenses and other items that have not been earned or incurred within the prior two years and are not expected to recur within the next two years. General and administrative corporate expenses that are not specific to a particular segment are not included in the calculation of Segment Adjusted EBITDA.

For more information on Segment Adjusted EBITDA and the use of Non-GAAP financial measures, see "Our Use of Non-GAAP Financial Measures" within Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

	Year Ended June 30,		
	2018	2017	2016
Income before income taxes	$516,804	$531,291	$284,882
Remeasurement gain attributable to acquisition of Innovatix, LLC	—	(205,146)	—
Equity in net income of unconsolidated affiliates [(a)]	(1,174)	(14,745)	(21,647)
Interest and investment loss, net [(b)]	5,300	4,512	1,021
Loss on disposal of long-lived assets	2,376	2,422	—
Other expense (income)	16,324	(614)	1,692
Operating income	539,630	317,720	265,948
Depreciation and amortization	71,312	58,884	51,102
Amortization of purchased intangible assets	55,447	48,327	33,054
Stock-based compensation [(c)]	29,799	26,860	49,081
Acquisition related expenses	8,335	15,790	15,804
Strategic and financial restructuring expenses [(d)]	2,512	31	268
Remeasurement of tax receivable agreement liabilities [(e)]	(177,174)	(5,447)	(4,818)
ERP implementation expenses [(f)]	1,000	2,028	4,870
Acquisition related adjustment - revenue [(g)]	300	18,049	5,624
Equity in net income of unconsolidated affiliates [(a)]	1,174	14,745	21,647
Impairment on investments [(a)]	5,002	—	—
Deferred compensation plan income (expense) [(h)]	3,960	4,020	(1,605)
Other income	1,752	584	—
Adjusted EBITDA	$543,049	$501,591	$440,975
Segment Adjusted EBITDA:			
Supply Chain Services	$535,380	$493,763	$439,013
Performance Services	123,429	121,090	110,787
Corporate	(115,760)	(113,262)	(108,825)
Adjusted EBITDA	$543,049	$501,591	$440,975

(a) Refer to Note 4 - Investments for further information.

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

(c) Represents non-cash employee stock-based compensation expense and stock purchase plan expense of $0.4 million during both of the years ended June 30, 2018 and 2017.

(d) Represents legal, accounting and other expenses directly related to strategic and financial restructuring expenses.

(e) Represents adjustments to TRA liabilities for a 14% decrease in the U.S. federal corporate income tax rate that occurred during the year ended June 30, 2018, which is a result of the TCJA that was enacted on December 22, 2017, an increase in income apportioned to California and a 1.5% decrease in the North Carolina state income tax rate during the year ended June 30, 2017, and an adjustment for a 1% decrease in North Carolina state income tax rate during the year ended June 30, 2016.

(f) Represents implementation and other costs associated with the implementation of our enterprise resource planning ("ERP") system.

(g) This item includes non-cash adjustments to deferred revenue of acquired entities of $0.3 million, $0.6 million and $5.6 million for the years ended June 30, 2018, 2017 and 2016, respectively. 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 software license update fees 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 update fees and product support revenues is intended to include, and thus reflect, the full amount of such revenues.

Also, during the year ended June 30, 2017 we recorded $17.4 million of purchase accounting adjustments to Adjusted EBITDA related to our acquisition of Innovatix and Essensa on December 2, 2016. This adjustment reflects the fair value of administrative fees related to member purchases that occurred prior to December 2, 2016, but were reported to us subsequent to that date through June 30, 2017. Under our revenue recognition accounting policy, which is in accordance with GAAP, these administrative fees would be ordinarily recorded as revenue when reported to us; however, the acquisition method of accounting requires us to estimate the amount of purchases prior to the acquisition date and to record the fair value of the administrative fees to be received from those purchases as an account receivable (as opposed to recognizing revenue when these transactions are reported to us) and record any corresponding revenue share obligation as a liability. The purchase accounting adjustment amounted to an estimated $21.2 million of accounts receivable relating to these administrative fees and an estimated $3.8 million for the related revenue share obligation through June 30, 2017.

(h) Represents realized and unrealized gains and losses and dividend income on deferred compensation plan assets.

(22) QUARTERLY FINANCIAL DATA (UNAUDITED)

The Company has corrected prior period information within the current period financial statements related to a specific component used in calculating the tax effect on Premier, Inc. net income for purposes of diluted earnings (loss) per share. Diluted earnings (loss) per share for the first quarter of fiscal 2018 was previously stated at $0.36 per share and has been corrected to $0.30 per share; diluted earnings (loss) per share for the second quarter of fiscal 2018 was previously stated at $(1.66) per share and has been corrected to $0.06 per share; and diluted earnings (loss) per share for the second quarter of fiscal 2017 was previously stated at $1.50 per share and has been corrected to $1.58 per share. The Company believes the corrections are immaterial and the amounts had no impact on the Company’s overall financial condition, results of operations or cash flows.

The following tables present unaudited summarized financial data by quarter for the years ended June 30, 2018 and 2017 (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2018				
Net revenue	$390,564	$411,398	$425,338	$433,956
Gross profit	199,188	210,871	221,790	231,116
Net income	60,616	19,769	76,549	100,636
Net income attributable to non-controlling interest in Premier LP	(44,610)	(56,485)	(53,047)	(70,127)
Adjustment of redeemable limited partners' capital to redemption amount	320,424	317,916	(127,039)	(353,720)
Net income (loss) attributable to stockholders	$336,430	$281,200	$(103,537)	$(323,211)
Weighted average shares outstanding:				
Basic	52,909	55,209	53,529	52,412
Diluted	140,046	139,237	53,529	52,412
Net income (loss) per share attributable to stockholders:				
Basic	$6.36	$5.09	$(1.93)	$(6.17)
Diluted	$0.30	$0.06	$(1.93)	$(6.17)
Fiscal Year 2017				
Net revenue	$313,272	$358,500	$379,803	$403,098
Gross profit	174,769	182,486	202,555	214,815
Net income	58,095	246,184	71,338	73,860
Net income attributable to non-controlling interest in Premier LP	(49,601)	(181,173)	(51,433)	(53,845)
Adjustment of redeemable limited partners' capital to redemption amount	61,808	335,264	(100,506)	(333,742)
Net income (loss) attributable to stockholders	$70,302	$400,275	$(80,601)	$(313,727)
Weighted average shares outstanding:				
Basic	47,214	49,445	50,525	51,470
Diluted	142,962	141,308	50,525	51,470
Net income (loss) per share attributable to stockholders:				
Basic	$1.49	$8.10	$(1.60)	$(6.10)
Diluted	$0.26	$1.58	$(1.60)	$(6.10)

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, our chief executive officer and chief financial officer carried out an evaluation of the effectiveness of our disclosure controls and procedures. Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

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.

Our chief executive officer and chief financial officer conducted an assessment of the effectiveness of our internal control over financial reporting as of June 30, 2018. In making this assessment, the chief executive officer and chief financial officer 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 upon this evaluation, our chief executive officer and chief financial officer concluded that, as of June 30, 2018, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of June 30, 2018 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

There have been no 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, 2018, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

We expect to file a definitive proxy statement relating to our 2018 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 2018 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.

Code of Ethics

We maintain a Corporate Code of Conduct for all of our employees and officers, including the principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions, and, where applicable, to directors. In addition, the Board of Directors is subject to a separate Board Code of Ethics and Board Conflict of Interest Policy (collectively, the “Board Codes”). The Corporate Code of Conduct, along with the Board Codes, can be found on our Investor Relations website at investors.premierinc.com under "Corporate Governance-Governance Documents." A copy of the Corporate Code of Conduct is available to any stockholder who requests it by writing to Investor Relations, Premier, Inc., 13034 Ballantyne Corporate Place, Charlotte, North Carolina 28277. We will disclose any substantive amendments to, or waivers (for directors or executive officers) from, certain provisions (relating to one or more elements of Item 4.06(b) of Regulation S-K) of the Corporate Code of Conduct and Board Codes on our website promptly following the date of such amendment or waiver.

Our website and information contained on it or incorporated in it are not intended to be incorporated in this Annual Report or other filings with the SEC.

Item 11. Executive Compensation

We will provide information that is responsive to this Item 11 in our definitive proxy statement for our 2018 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 2018 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 “Security Ownership of Certain Beneficial Owners and Management” and possibly elsewhere therein. That information is incorporated in this Item 12 by reference.

Equity Compensation Plan Information

We have granted equity awards to employees and directors under the Amended and Restated Premier, Inc. 2013 Equity Incentive Plan, as amended and restated, which initially was approved by our stockholders prior to our IPO and was approved most recently by our stockholders in December 2017. The following table sets forth certain information as of June 30, 2018 concerning the shares of Class A common stock authorized for issuance under this equity incentive plan. No shares of Class B common stock are authorized for issuance under this plan, and we have no equity compensation plans under which shares may be issued that have not been approved by our stockholders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
Amended and Restated Premier, Inc. 2013 Equity Incentive Plan	5,423,171 (1)	$30.53 (2)	3,595,111 (3)
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	5,423,171 (1)	$30.53 (2)	3,595,111 (3)

(1) Assumes restricted stock unit (RSU), restricted stock (RSA), performance share (PSA) and stock option awards are paid at target, except for August 31, 2015 performance-based restricted stock awards that were granted at the maximum payout level (and are subject to forfeiture). Actual shares awarded may be higher or lower based upon actual performance over the measurement period. For more detailed information, see Note 16 - Stock-Based Compensation to our Consolidated Financial Statements.
(2) This calculation only reflects outstanding stock option awards.
(3) Reflects, as of June 30, 2018, shares reserved for future grants of stock options, RSUs, RSAs, PSAs and/or other equity awards. Any shares withheld to satisfy tax withholding obligations or tendered to pay the exercise price of an option shall again be available for grant under the terms of the plan.

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 2018 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 2018 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
(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, 2018, 2017 and 2016
(in thousands)

	Beginning Balance	Additions/(Reductions) to Expense or Other Accounts	Deductions	Ending Balance
Year ended June 30, 2018				
Allowance for doubtful accounts	$ 1,812	1,148	1,119	$ 1,841
Deferred tax assets valuation allowance	$ 91,787	(33,106)	—	$ 58,681
Year ended June 30, 2017				
Allowance for doubtful accounts	$ 1,981	781	950	$ 1,812
Deferred tax assets valuation allowance	$ 64,958	26,829	—	$ 91,787
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

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 at the end of this Item 15 are filed as a part of this report.

(b) Exhibits

See Exhibit Index at the end of this Item 15.

(c) Separate Financial Statements and Schedule

None.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Membership Interest Purchase Agreement, dated as of November 25, 2016 by and among Premier Supply Chain Improvement, Inc., GNYHA Holdings, LLC, and the guarantors named therein (Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on November 28, 2016)
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)
10.1.2	Second Amendment to Amended and Restated Limited Partnership Agreement of Premier Healthcare Alliance, L.P. entered into as of November 6, 2017 (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 7, 2017)
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	Amended and Restated Premier, Inc. 2013 Equity Incentive Plan, effective December 1, 2017*+
10.7	Form of Performance Share Award Agreement under the Amended and Restated Premier, Inc. 2013 Equity Incentive Plan*+
10.8	Form of Restricted Stock Unit Agreement under the Premier, Inc. 2013 Equity Incentive Plan*+
10.9	Form of Restricted Stock Unit Agreement for Non-Employee Directors under the Amended and Restated Premier, Inc. 2013 Equity Incentive Plan*+
10.10	Form of Stock Option Agreement under the Premier, Inc. 2013 Equity Incentive Plan (Incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K filed on August 23, 2017)+
10.11	Premier, Inc. Annual Incentive Compensation Plan, amended and restated effective June 15, 2018*+
10.12	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)+

10.13	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)+
10.14	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)+
10.15	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)+

Exhibit No.	Description
10.16	Executive Employment Agreement dated as of July 1, 2016, by and between Leigh Anderson and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.17	Executive Employment Agreement effective as of July 1, 2016, by and between David Klatsky and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.22 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.18	Executive Employment Agreement effective as of July 1, 2017, by and between David A. Hargraves and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K filed on August 23, 2017)+
10.19	Transition Agreement and Release dated October 9, 2017 by and between Durral R. Gilbert and Premier Healthcare Solutions, Inc. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 10, 2017)+
10.20	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)+
10.21	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)+
10.22	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)+
10.23	Premier, Inc. 2015 Employee Stock Purchase Plan (as amended and restated effective September 25, 2015) (Incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K filed on August 25, 2016)+
10.24	Premier Healthcare Solutions, Inc. Deferred Compensation Plan, (as amended and restated effective January 1, 2015) (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 12, 2014)+
10.25	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)
10.25.1	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*
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.

Item 16. Form 10-K Summary

We have elected not to provide a summary.

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 22, 2018

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 22, 2018
/s/ CRAIG S. MCKASSON Craig S. McKasson	Chief Financial Officer and Senior Vice President (principal financial and accounting officer)	August 22, 2018
/s/ BARCLAY E. BERDAN Barclay E. Berdan	Director	August 22, 2018
/s/ ERIC J. BIEBER, MD Eric J. Bieber, MD	Director	August 22, 2018
/s/ STEPHEN R. D'ARCY Stephen R. D'Arcy	Director	August 22, 2018
/s/ JODY R. DAVIDS Jody R. Davids	Director	August 22, 2018
/s/ WILLIAM B. DOWNEY	Director	August 22, 2018

William B. Downey

/s/ PETER S. FINE Peter S. Fine	Director	August 22, 2018

133

/s/ PHILIP A. INCARNATI Philip A. Incarnati	Director	August 22, 2018
/s/ DAVID LANGSTAFF David Langstaff	Director	August 22, 2018
/s/ WILLIAM E. MAYER William E. Mayer	Director	August 22, 2018
/s/ MARC D. MILLER Marc D. Miller	Director	August 22, 2018
/s/ MARVIN R. O'QUINN Marvin R. O'Quinn	Director	August 22, 2018
/s/ SCOTT REINER Scott Reiner	Director	August 22, 2018
/s/ TERRY D. SHAW Terry D. Shaw	Director	August 22, 2018
/s/ RICHARD J. STATUTO Richard J. Statuto	Director	August 22, 2018
/s/ ELLEN C. WOLF Ellen C. Wolf	Director	August 22, 2018