Premier, Inc.
Form 10-Q
November 12, 2014

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-36092

Premier, Inc.
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of November 6, 2014, there were 37,076,235 shares of the registrant's Class A common stock, par value $0.01 per share, and 107,181,272 shares of the registrant's Class B common stock, par value $0.000001 per share, outstanding.

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EXPLANATORY NOTE

This report represents the quarterly report for the quarter ended September 30, 2014 for Premier, Inc. (this "Quarterly Report"). On October 1, 2013, Premier, Inc. completed the initial public offering ("IPO") of its Class A common stock, par value $0.01 per share (the "Class A common stock"). Premier, Inc. is a holding company that was incorporated as a Delaware corporation on May 14, 2013 which, prior to the IPO, had no substantial assets and conducted no substantial activity, except in connection with the IPO. Premier, Inc.'s sole asset is a controlling equity interest in Premier Services, LLC, a Delaware limited liability company ("Premier GP"). Premier GP is the general partner of Premier Healthcare Alliance, L.P. ("Premier LP"), a California limited partnership, which historically conducted the group purchasing portion of our supply chain services business. Unless the context suggests otherwise, references in this Quarterly Report to "Premier," the "Company," "we," "us" and "our" refer (1) prior to the IPO and related transactions, to PHSI (as defined herein) and its consolidated subsidiaries and (2) after our IPO and related transactions, to Premier, Inc. and its consolidated subsidiaries.

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

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

Throughout this Quarterly Report, references to "member owners" refer collectively to our past, present and future customers, or members, who have owned, or who currently own, limited partnership interests in Premier LP and/or common stock of PHSI, and, as the context relates to the completion of the Reorganization and IPO, as described in Premier's Annual Report on Form 10-K for the year ended June 30, 2014, filed with the United States Securities and Exchange Commission (the "SEC") on September 4, 2014 (the "Annual Report"), beneficially own shares of Premier, Inc. Class B common stock, par value $0.000001 per share (the "Class B common stock"), and Class B common units of Premier LP (the "Class B common units") after giving effect to the Reorganization and IPO, provided that, in the context of discussions of the group purchasing organization ("GPO") participation agreements throughout this Quarterly Report, the term "member owner" also includes any related entity or affiliate of a member owner that is approved by Premier LP to be the signatory of such GPO participation agreement in lieu of the member owner.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this Quarterly Report that are not statements of historical or current facts, such as those under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Premier to be materially different from historical results or from any future results or projections expressed or implied by such forward-looking statements. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements in conditional or future tenses or that include terms such as "believes," "belief," "expects," "estimates," "intends," "anticipates" or "plans" to be uncertain and forward-looking. Forward-looking statements may include comments as to Premier's beliefs and expectations regarding future events and trends affecting its business and are necessarily subject to uncertainties, many of which are outside Premier's control. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to: competition which could limit Premier’s ability to maintain or expand market share within its industry, consolidation in the healthcare industry, potential delays in generating or an inability to generate revenues if the sales cycle takes longer than expected, the terminability of member participation in Premier's GPO programs with limited or no notice, the impact of Premier's business strategy that involves reducing the prices for products and services in its supply chain services segment, the rate at which the markets for Premier's non-GPO services and products develop, the dependency of Premier's members on payments from third-party payors, Premier's reliance on administrative fees which it receives from GPO suppliers, Premier's ability to maintain third-party provider and strategic alliances or enter into new alliances, Premier's ability to offer new and innovative products and services, the portion of revenues Premier receives from its largest members, risks and expenses related to future acquisition opportunities and integration of acquisitions, potential litigation, Premier's reliance on Internet infrastructure, bandwidth providers, data center providers, other third parties and its own systems for providing services to its users, data loss or corruption due to failures or errors in Premier's systems and service disruptions at its data centers, breaches or failures of Premier's security measures, the consequences of cyber-attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our members or other third parties, Premier's ability to use, disclose, de-identify or license data and to integrate third-party technologies, Premier's reliance on partners and other third parties, Premier's use of "open source" software, changes in industry pricing benchmarks, any increase in the safety risk profiles of prescription drugs or the withdrawal of prescription drugs from the market, Premier's ability to maintain and expand its existing base of drugs in its specialty pharmacy, Premier's dependency on contract manufacturing facilities located in various parts of the world, Premier's ability to attract, hire, integrate and retain key personnel, adequate protection of Premier's intellectual property, any alleged infringement, misappropriation or violation of third-party proprietary rights, potential sales and use tax liability in certain jurisdictions, Premier's future indebtedness and its ability to obtain additional financing, fluctuation of Premier's cash flows, quarterly revenues and results of operations, changes in the political, economic or healthcare regulatory environment, Premier's compliance with federal and state laws governing financial relationships among healthcare providers and the submission of false or fraudulent healthcare claims, interpretation and enforcement of current or future antitrust laws and regulations, potential healthcare reform and new regulatory requirements placed on Premier's software, services and content, compliance with federal and state privacy, security and breach notification laws, product safety concerns and regulation, Premier's holding company structure, different interests among Premier's member owners or between Premier's member owners and itself, Premier's ability to effectively deploy the net proceeds from future issuances of Premier's Class A common stock or debt securities, the ability of Premier member owners to exercise significant control over it, including through the election of all of Premier's directors, Premier's status as a "controlled company" within the meaning of the Nasdaq Global Select Market ("NASDAQ") rules, the terms of agreements between Premier and its member owners, payments made under the tax receivable agreement to Premier LP's limited partners, Premier's ability to realize all or a portion of the tax benefits that are expected to result from the acquisition of Class B common units from the limited partners, changes to Premier LP's allocation methods that may increase a tax-exempt limited partner's risk that some allocated income is unrelated business taxable income, the dilutive effect of Premier LP's

issuance of additional units or future issuances by Premier of common stock and/or preferred stock, provisions in Premier's certificate of incorporation and bylaws and the LP Agreement and provisions of Delaware law that discourage or prevent strategic transactions, including a takeover of Premier, any determination that Premier, Inc. is an investment company, the requirements of being a newly public company, Premier's inexperience and limited operating history as a publicly-traded company, failure to establish and maintain an effective system of internal controls, the impact of reduced disclosure requirements applicable to emerging growth companies, Premier's smaller public float, any downgrade in securities or industry analysts' recommendations about Premier's business or Class A common stock, the volatility of Premier's Class A common stock price, the number of shares of Class A common stock that will be eligible for sale or exchange in the near future and the dilutive effect of such issuances, Premier's intention not to pay cash dividends on its Class A common stock, possible future issuances of debt securities, and the risk factors discussed under the heading "Risk Factors" in the Annual Report on Form 10-K.
More information on potential factors that could affect Premier's financial results is included from time to time in the "Cautionary Note Regarding Forward Looking Statements," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" or similarly captioned sections of this Quarterly Report and Premier's other periodic

and current filings made time to time with the SEC, and which are available on Premier's website at http://investors.premierinc.com/. You should not place undue reliance on any of Premier's forward looking statements which speak only as of the date they are made. Premier undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Furthermore, Premier cannot guarantee future results, events, levels of activity, performance or achievements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
PREMIER, INC.
Consolidated Balance Sheets
(Unaudited)
(In thousands, except share and per share data)

	September 30, 2014	June 30, 2014
Assets		
Cash and cash equivalents	$94,522	$131,786
Marketable securities	174,116	159,820
Accounts receivable (net of $721 and $1,054 allowance for doubtful accounts, respectively)	81,027	67,577
Inventories - finished goods	22,480	20,823
Prepaid expenses and other current assets	44,596	31,175
Due from related parties	1,416	1,228
Deferred tax assets	8,456	9,647
Total current assets	426,613	422,056
Property and equipment (net of $196,817 and $186,582 accumulated depreciation, respectively)	139,277	134,551
Restricted cash	5,000	5,000
Marketable securities	129,579	248,799
Deferred tax assets	277,960	286,936
Goodwill	214,625	94,451
Intangible assets (net of $21,203 and $20,302 accumulated amortization, respectively)	45,966	10,855
Other assets	43,925	44,008
Total assets	$1,282,945	$1,246,656
Liabilities, redeemable limited partners' capital and stockholders' deficit		
Accounts payable	$25,993	$28,007
Accrued expenses	27,799	25,536
Revenue share obligations	51,962	56,531
Limited partners' distribution payable	22,691	22,351
Accrued compensation and benefits	26,833	46,713
Deferred revenue	23,932	15,694
Current portion of tax receivable agreement	10,970	11,035
Current portion of notes payable and line of credit	17,872	17,696
Other current liabilities	3,123	319
Total current liabilities	211,175	223,882
Notes payable, less current portion	17,227	16,051
Tax receivable agreement, less current portion	180,248	181,256
Deferred compensation plan obligations	33,098	32,872
Deferred rent	15,999	15,960
Other long-term liabilities	2,216	2,272
Total liabilities	459,963	472,293
Commitments and contingencies (Note 18)		
Redeemable limited partners' capital	3,659,514	3,244,674

Stockholders' deficit:		
Series A Preferred stock, $0.01 par value, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Class A common stock, $0.01 par value, 500,000,000 shares authorized; 32,383,848 and 32,375,390 shares issued and outstanding at September 30, 2014 and June 30, 2014, respectively	324	324
Class B common stock, $0.000001 par value, 600,000,000 shares authorized; 111,866,539 and 112,510,905 shares issued and outstanding at September 30, 2014 and June 30, 2014, respectively	—	—
Additional paid-in capital	—	—
Accumulated deficit	(2,836,874)	(2,469,873)
Accumulated other comprehensive income	25	43
Noncontrolling interest	(7)	(805)
Total stockholders' deficit	(2,836,532)	(2,470,311)
Total liabilities, redeemable limited partners' capital and stockholders' deficit	$1,282,945	$1,246,656

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,	
	2014	2013
Net revenue:		
Net administrative fees	$106,523	$143,576
Other services and support	59,221	53,252
Services	165,744	196,828
Products	63,564	43,748
Net revenue	229,308	240,576
Cost of revenue:		
Services	32,764	27,488
Products	57,257	40,038
Cost of revenue	90,021	67,526
Gross profit	139,287	173,050
Operating expenses:		
Selling, general and administrative	71,166	62,643
Research and development	1,073	852
Amortization of purchased intangible assets	903	601
Total operating expenses	73,142	64,096
Operating income	66,145	108,954
Equity in net income of unconsolidated affiliates	4,866	4,114
Interest and investment income, net	191	220
Other (expense) income, net	(504)	4
Other income, net	4,553	4,338
Income before income taxes	70,698	113,292
Income tax expense	5,811	764
Net income	64,887	112,528
Net (income) loss attributable to noncontrolling interest in S2S Global	(798)	210
Net income attributable to noncontrolling interest in Premier LP	(54,816)	(113,214)
Net income attributable to noncontrolling interest	(55,614)	(113,004)
Net income (loss) attributable to shareholders	9,273	(476)
Adjustment of redeemable limited partners' capital to redemption amount	(382,657)	—
Net loss attributable to shareholders after adjustment of redeemable limited partners' capital to redemption amount	$(373,384)	$(476)
Weighted average shares outstanding:		
Basic	32,376	5,627
Diluted	32,376	5,627
Loss per share attributable to shareholders after adjustment to redeemable limited partners' capital to redemption amount:		
Basic	$(11.53)	$(0.08)
Diluted	$(11.53)	$(0.08)

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,	
	2014	2013
Net income	$64,887	$112,528
Net unrealized (loss) gain on marketable securities	(80)	26
Total comprehensive income	64,807	112,554
Less: Comprehensive income attributable to noncontrolling interest	(55,552)	(113,030)
Comprehensive income (loss) attributable to Premier, Inc.	$9,255	$(476)

See accompanying notes to the unaudited consolidated financial statements.

PREMIER, INC.
Consolidated Statement of Stockholders' Deficit
Three Months Ended September 30, 2014
(Unaudited)
(In thousands)

	Class A Common Stock Shares	Class A Common Stock Amount	Class B Common Stock Shares	Class B Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Accumulated Other Comprehensive Income	Total Stockholders' Deficit
Balance at June 30, 2014	32,375	$ 324	112,511	$ —	$ —	$ (2,469,873)	$ (805)	$ 43	$ (2,470,311)
Redemption of limited partner	—	—	(644)	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	6,439	—	—	—	6,439
Repurchase of vested restricted stock	—	—	—	—	(19)	—	—	—	(19)
Net income attributable to shareholders	—	—	—	—	—	9,273	—	—	9,273
Net income attributable to noncontrolling interest in S2S Global	—	—	—	—	—	—	798	—	798
Net unrealized loss on marketable securities	—	—	—	—	—	—	—	(18)	(18)
Adjustment of redeemable limited partners' capital to redemption amount	—	—	—	—	(6,420)	(376,274)	—	—	(382,694)
Balance at September 30, 2014	32,375	$ 324	111,867	$ —	$ —	$ (2,836,874)	$ (7)	$ 25	$ (2,836,532)

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30, 2014	2013
Operating activities		
Net income	$64,887	$112,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,211	8,957
Equity in net income of unconsolidated affiliates	(4,866)	(4,114)
Deferred taxes	4,409	2,461
Stock-based compensation	6,439	325
Adjustment to tax receivable agreement liability	1,073	—
Changes in operating assets and liabilities:		
Accounts receivable, prepaid expenses and other current assets	(17,590)	(8,582)
Other assets	128	(10)
Inventories	(1,657)	—
Accounts payable, accrued expenses, revenue share obligations and other current liabilities	(17,732)	(44,205)
Long-term liabilities	(1,025)	(590)
Other operating activities	596	22
Net cash provided by operating activities	45,873	66,792
Investing activities		
Purchase of marketable securities	(34,412)	(19,151)
Proceeds from sale of marketable securities	138,660	18,974
Acquisition of SYMMEDRx, net of cash acquired	—	(28,740)
Acquisition of Aperek, net of cash acquired	(47,446)	—
Acquisition of TheraDoc, net of cash acquired	(108,561)	—
Distributions received on equity investment	5,050	—
Purchases of property and equipment	(14,360)	(12,299)
Other investing activities	481	—
Net cash used in investing activities	(60,588)	(41,216)
Financing activities		
Payments made on notes payable	(322)	(1,475)
Proceeds from S2S Global revolving line of credit	200	—
Proceeds from senior secured line of credit	—	63,800
Payments made in connection with the IPO	—	(2,822)
Proceeds from issuance of PHSI common stock	—	300
Repurchase of restricted units	(19)	—
Distributions to limited partners of Premier LP	(22,408)	(208,324)
Net cash used in financing activities	(22,549)	(148,521)
Net decrease in cash and cash equivalents	(37,264)	(122,945)
Cash and cash equivalents at beginning of period	131,786	198,296
Cash and cash equivalents at end of period	$94,522	$75,351
Supplemental schedule of non cash investing and financing activities:		
Issuance of limited partnership interest for notes receivable	$—	$7,860

Payable to member owners incurred upon repurchase of ownership interest	$1,515	$1,652
Reduction in redeemable limited partners' capital to reduce outstanding receivable	$—	$28,009
Distributions utilized to reduce subscriptions, notes, interest and accounts receivable from member owners	$3,112	$6,186
Reduction in redeemable limited partners' capital for limited partners' distribution payable	$22,691	$—
Increase in redeemable limited partners' capital for adjustment to redemption amount, with offsetting decrease in additional paid-in-capital and accumulated deficit	$382,657	$—
Reduction in prepaid expenses and other current assets for IPO costs capitalized to additional paid-in-capital	$—	$2,822

See accompanying notes to the unaudited consolidated financial statements.

PREMIER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(1) ORGANIZATION AND BASIS OF PRESENTATION
Organization
Premier, Inc. ("Premier" or the "Company") is a publicly-held, for-profit Delaware corporation primarily owned by hospitals, health systems and other healthcare organizations (such owners of Premier are referred to herein as "member owners") located in the United States, and by public stockholders. The Company, together with its subsidiaries and affiliates, is a leading healthcare improvement company that unites hospitals, health systems, physicians and other healthcare providers to improve and innovate in the clinical, financial and operational areas of their business to meet the demands of a rapidly evolving healthcare industry.
The Company's business model and solutions are designed to provide its members access to scale efficiencies, spread the cost of their development, provide actionable intelligence derived from anonymized data in the Company's data warehouse, mitigate the risk of innovation and disseminate best practices that will help its 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. The supply chain services segment includes one of the largest healthcare group purchasing organizations ("GPOs") in the United States, a specialty pharmacy and direct sourcing activities. The performance services segment includes one of the largest informatics and advisory services businesses in the United States focused on healthcare providers. The Company's software as a service ("SaaS") informatics products utilize its comprehensive data set to provide actionable intelligence to its members, enabling them to benchmark, analyze and identify areas of improvement across three main categories: cost management, quality and safety and population health management. This segment also includes the Company's technology-enabled performance improvement collaboratives, advisory services and insurance services.
Basis of Presentation and Consolidation
The Company, through its wholly owned subsidiary, Premier Services, LLC ("Premier GP"), holds a 22% controlling general partner interest in, and, as a result, consolidates the financial statements of Premier Healthcare Alliance, L.P. ("Premier LP"). The limited partners' 78% ownership of Premier LP is reflected as redeemable limited partners' capital in the Company's consolidated balance sheets, and their proportionate share of income in Premier LP is reflected within net income attributable to noncontrolling interest in Premier LP in the Company's consolidated statements of income and within comprehensive income attributable to noncontrolling interest in the consolidated statements of comprehensive income.
After the completion of a series of transactions following the consummation of the initial public offering ("IPO"), referred to as the "Reorganization" (and, collectively with the IPO, "the Reorganization and IPO"), Premier Healthcare Solutions, Inc. ("PHSI") became a consolidated subsidiary of the Company. PHSI is considered the predecessor of the Company for accounting purposes, and accordingly, PHSI's consolidated financial statements are the Company's historical financial statements, for periods prior to October 1, 2013. The historical consolidated financial statements of PHSI are reflected herein based on PHSI's historical ownership interests of Premier LP and its consolidated subsidiaries.
The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, certain information and disclosures normally included in annual financial statements have been condensed or omitted. 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 interim periods shown, including normal recurring adjustments. The Company believes that all disclosures are adequate to make the information presented not misleading and should be read in conjunction with the consolidated financial statements and related footnotes contained in the Company's Annual Report on Form 10-K.
The Company has reclassified certain prior period amounts to be consistent with the current period presentation and corrected certain classification differences in the consolidated statements of cash flows. For the three months ended

September 30, 2013, the Company has presented $2.8 million in costs associated with the IPO as financing rather than operating activities.

Use of Estimates in the Preparation of Financial Statements

The preparation of the Company's consolidated financial statements 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. Estimates are evaluated on an ongoing basis, including allowances for doubtful accounts, useful lives of property and equipment, stock-based compensation, payables under the tax receivable agreement, values of investments not publicly traded, the valuation allowance on deferred tax assets and the fair value of purchased intangible assets and goodwill. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

(2) INITIAL PUBLIC OFFERING AND REORGANIZATION

Initial Public Offering

On October 1, 2013, Premier consummated its IPO of 32,374,751 shares of its Class A common stock, at a price of $27.00 per share, raising net proceeds of approximately $821.7 million after underwriting discounts and commissions, but before expenses.

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

Reorganization

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

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

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

LP Agreement

In connection with the Reorganization and IPO, pursuant to the LP Agreement, Premier GP became the general partner of Premier LP. As the general partner of Premier LP, Premier GP generally controls the day-to-day business affairs and decision-making of Premier LP without the approval of any other partner, subject to certain limited partner approval rights. As the sole member of Premier GP, Premier is responsible for all operational and administrative decisions of Premier LP. In accordance with the LP Agreement, subject to applicable law or regulation and the terms of Premier LP's financing agreements, Premier GP will cause Premier LP to make quarterly distributions out of its estimated taxable net income to Premier GP and to the holders of Class B common units as a class in an aggregate amount equal to Premier LP's total taxable income other than net profit attributable to dispositions not in the ordinary course of business for each such quarter multiplied by the effective combined federal, state and local income tax rate then payable by Premier to facilitate payment by each Premier LP partner of taxes, if required, on its share of taxable income of Premier LP. In addition, in accordance with the LP Agreement, Premier GP may cause Premier LP to make additional distributions to Premier GP and to the holders of Class B common units as a class in proportion to their respective number of units, subject to any applicable restrictions under Premier LP's financing agreements or applicable law. Premier GP 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 agreement and (iii) meet its obligations to the member owners under the exchange agreement if they elect to convert their Class B common units for shares of its Class A common stock and Premier elects to pay some or all of the consideration to such member owners in cash.

In the event that a limited partner of Premier LP holding Class B common units not yet eligible to be exchanged for shares of Premier's Class A common stock pursuant to the terms of the exchange agreement (i) ceases to participate in Premier's GPO programs, (ii) ceases to be a limited partner of Premier LP (except as a result of a permitted transfer of its Class B common units), (iii) ceases to be a party to a GPO participation agreement (subject to certain limited exceptions) or (iv) becomes a related entity of, or affiliated with, a competing business of Premier LP, in each case, Premier LP will have the option to redeem all of such limited partner's Class B common units not yet eligible to be exchanged at a purchase price set forth in the LP Agreement. In addition, the limited partner will be required to exchange all Class B common units eligible to be exchanged on the next exchange date following the date of the applicable termination event described above. There were no exchanges during the period from October 1, 2013 through September 30, 2014.

Voting Trust Agreement

Additionally, in connection with the Reorganization and IPO, Premier's member owners entered into a voting trust agreement, which became effective upon the completion of the Reorganization and IPO and pursuant to which the member owners contributed their Class B common stock into Premier Trust, under which Wells Fargo Delaware Trust Company, N.A., as trustee, acts on behalf of the member owners for purposes of voting their shares of Class B common stock. As a result of the voting trust agreement, the member owners retain beneficial ownership of the Class B common stock, while the trustee is the legal owner of such equity. Pursuant to the voting trust agreement, the trustee will vote all of the member owners' Class B common stock as a block in the manner determined by the plurality of the votes received by the trustee from the member owners for the election of directors to serve on our board of directors, and by a majority of the votes received by the trustee from the member owners for all other matters.

Exchange Agreement

In connection with the Reorganization and IPO, Premier, Premier LP and the member owners entered into an exchange agreement which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of the exchange agreement, subject to certain restrictions, commencing on October 31, 2014, and during each year thereafter, each member owner will have 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 committee (or another committee of independent directors). This exchange right can be exercised on a quarterly basis (subject to certain restrictions contained in the registration rights agreement described below) and is subject to rights of first refusal in favor of the other holders of Class B common units and Premier LP. For each Class B common unit that is exchanged pursuant to the exchange agreement, the member owner will also surrender one corresponding share of our Class B common stock, which will automatically be retired.

Registration Rights Agreement

In connection with the Reorganization and IPO, Premier and the member owners entered into a registration rights agreement which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of the registration rights agreement, as soon as practicable from the date that is 12 full calendar months after the completion of the Reorganization and IPO, Premier must use all reasonable efforts to cause a resale shelf registration statement to become effective for resales from time to time of its Class A common stock that may be issued to the member owners in exchange for their Class B common units pursuant to the exchange agreement, subject to various restrictions. Subject to certain exceptions, Premier will use reasonable efforts to keep the resale shelf registration statement effective for seven years. In addition, Premier will undertake to conduct an annual company-directed underwritten public offering to allow the member owners to resell Class A common stock and, at Premier's election, to permit it to sell primary shares, following the first quarterly exchange date of each of the first three years during which the member owners have the right to exchange their Class B common units for shares of Class A common stock. Premier will not be required to conduct a company-directed underwritten public offering unless the number of shares of Class

A common stock requested by the member owners (and any third parties) to be registered in the applicable company-directed underwritten public offering constitutes the equivalent of at least 3.5% of the aggregate number of Class A common units and Class B common units, or, collectively, the common units, outstanding. If the offering minimum has not been met, Premier will either proceed with the company-directed underwritten public offering (such decision being in Premier's sole discretion) or notify the member owners that Premier will abandon the offering. After the third year during which member owners have the right to exchange their Class B common units for shares of Premier's Class A common stock, Premier may elect to conduct a company-directed underwritten public offering in any subsequent year. Premier, as well as the member owners, and third parties, will be subject to customary prohibitions on sale prior to and for 60 days following any company-directed underwritten public offering. The registration rights agreement also grants the member owners certain "piggyback" registration rights with respect to other registrations of Class A common stock.

Tax Receivable Agreement

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

GPO Participation Agreement

In connection with the Reorganization and IPO, Premier's member owners entered into GPO participation agreements with Premier LP which became effective upon the completion of the Reorganization and IPO. Pursuant to the terms of its GPO participation agreement, each member owner will receive cash sharebacks, or revenue share, from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's acute and alternate site providers and other eligible non-healthcare organizations that are owned, leased or managed by, or affiliated with, each such member owner, or member facilities, through Premier's GPO supplier contracts. In addition, Premier's two largest regional GPO member owners, which represented approximately 16% of Premier LP's gross administrative fees revenue for fiscal year 2014, will each remit all gross administrative fees collected by such member owner based upon purchasing by such member owner's member facilities through the member owner's own GPO supplier contracts and receive revenue share from Premier LP equal to 30% of such gross administrative fees remitted to Premier LP. Subject to certain termination rights, these GPO participation agreements will be for an initial five-year term, although Premier LP's two largest regional GPO member owners have entered into agreements with seven-year terms.

The terms of the GPO participation agreements vary as a result of provisions in Premier's existing arrangements with member owners that conflict with the terms of the GPO participation agreement and which by the express terms of the GPO participation agreement are incorporated by reference and deemed controlling and will continue to remain in effect. In certain other instances, Premier LP and member owners have entered into GPO participation agreements with certain terms that vary from the standard form, which were approved by the member agreement review committee of Premier's board of directors, based upon regulatory constraints, pending merger and acquisition activity or other circumstances affecting those member owners.

Effects of the Reorganization

Immediately following the consummation of the Reorganization and IPO:

- Premier became the sole member of Premier GP and Premier GP became the general partner of Premier LP. Through Premier GP, Premier exercises indirect control over the business operated by Premier LP, subject to certain limited partner approval rights. Premier GP has no employees and acts solely through its board of managers and appointed officers in directing the affairs of Premier LP;
- the member owners held 112,607,832 shares of Class B common stock and 112,607,832 Class B common units;
- Premier GP held 32,374,751 Class A common units;
- through their holdings of Class B common stock, the member owners had approximately 78% of the voting power in Premier;
- the investors in the IPO collectively owned all of Premier's outstanding shares of Class A common stock and collectively had approximately 22% of the voting power in Premier; and
- Premier LP was the operating partnership and parent company to all of Premier's other operating subsidiaries, including Premier Supply Chain Improvement, Inc. ("PSCI") and PHSI.

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

Impact of the Reorganization

The impact of the Reorganization gave effect to:

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

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

The following table presents the adjustments to the balance sheet upon the consummation of the Reorganization and IPO at October 1, 2013 (in thousands):

Assets		
Cash and cash equivalents	$277,814	(1)
Prepaid expenses and other current assets	(5,911)	(2)
Total current assets	271,903	
Deferred tax assets	282,972	(3)
Total assets	$554,875	
Liabilities, redeemable limited partners' capital and stockholders' deficit		
Payable pursuant to tax receivable agreement	$6,966	(3)
Total current liabilities	6,966	
Payable pursuant to tax receivable agreement, less current portion	179,111	(3)
Total liabilities	186,077	
Redeemable limited partners' capital	2,799,121	(4)
Stockholders' deficit:		
Common stock, par value $0.01, 12,250,000 shares authorized; no shares outstanding	(56)	(5)
Class A common stock, par value $0.01, 500,000,000 shares authorized; 32,374,751 shares issued and outstanding	324	(5)
Class B common stock, par value $0.000001, 600,000,000 shares authorized; 112,607,832 shares issued and outstanding	—	(5)
Additional paid-in capital	(28,828)	(6)
Accumulated deficit	(2,401,766)	(7)
Accumulated other comprehensive income	3	(4)
Total stockholders' deficit	(2,430,323)	
Total liabilities, redeemable limited partners' capital and stockholders' deficit	$554,875	

(1) Reflects net effect on cash and cash equivalents of the receipt of gross proceeds from the IPO of $874.1 million (with an IPO price of $27.00 per share of Class A common stock) and the purchase of units from the member owners described above, as follows (in thousands):

Gross proceeds from the IPO	$874,118
Underwriting discounts, commissions and other expenses	(52,447)
Purchases of Class B common units from the member owners	(543,857)
Net cash proceeds from IPO	$277,814

(2) Reflects the reduction of prepaid expenses related to the IPO, with an offset to the proceeds of the IPO in additional paid-in capital.

(3) Premier LP intends to have in effect an election under Section 754 of the Internal Revenue Code of 1986, as amended, or the Code, and comparable elections under state and local tax law, such that the initial sale of Class B common units by PHSI and the member owners will result in adjustments to the tax basis of the assets of Premier LP. These increases in tax basis increase (for tax purposes) the depreciation and amortization deductions by Premier LP, and therefore, reduce the amount of income tax that Premier would otherwise be required to pay in the future. In connection with the Reorganization and IPO, Premier has entered into a tax receivable agreement with the member owners which became effective upon the completion of the Reorganization and IPO, pursuant to which Premier 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 and franchise income tax that Premier actually realizes (or is deemed to realize, in the case of payments required to be made upon certain occurrences under such tax receivable agreement) as a result of the increases in tax basis resulting from the sale or exchange of Class B common units by the member owners. The unaudited adjustments give effect to the Section 754 election and the tax receivable agreement based on the following assumptions:

- The increase in deferred tax assets representing the income tax effects of the increases in the tax basis as a result of Premier LP's election under Section 754 of the Code in connection with the initial sale of Class B common units described above. This adjustment is calculated based on an effective income tax rate for Premier of approximately 39%, which includes a provision for U.S. federal income taxes and assumes (i) Premier's statutory rates apportioned to each state and local tax jurisdiction, (ii) that there are no material changes in the relevant tax law, and (iii) that Premier earns sufficient taxable income in each year to realize the full tax benefit of the amortization of its assets. Premier determined the adjustments in connection with the Section 754 election by first calculating the excess of each selling member owner's and PHSI's selling price over such person's share of Premier LP's tax basis in its assets attributable to the Class B common units sold to Premier. Premier then allocated the aggregate excess among Premier LP's assets following applicable tax regulations governing adjustments that result from the Section 754 election.

- Premier determined each selling member owner's share of the tax basis in Premier LP's assets attributable to the Class B common units sold to Premier by multiplying the member owner's tax capital account balance as of the date of sale as maintained in Premier LP's books and records by a fraction, the numerator of which was the number of Class B common units sold to Premier, and the denominator of which was the number of Class B common units held by the selling member owner immediately prior to the sale. For purposes of the calculation, the selling price per Class B common unit was equal to the net price paid per share of the Class A common stock by the underwriters to Premier in the IPO. The adjustments increased Premier LP's basis in its assets (for tax purposes), and Premier calculates the amount of depreciation, amortization and other deductions to which it is entitled as a result of these adjustments. Premier then calculates Premier's tax liability with and without the deductions attributable to these adjustments, assuming that Premier earns sufficient taxable income in each year to realize the full benefit of the deductions. Premier computed the estimated tax benefit attributable to the election as the excess of Premier's tax liability as so computed without the deductions over Premier's tax liability as so computed with the deductions. Additionally, the tax receivable agreement payments give rise to adjustments that result in Premier LP becoming entitled to additional deductions, and the calculation of Premier's liability under the tax receivable agreement take these adjustments and additional resulting deductions into account.

- Premier LP's election under Section 754 of the Code is at the discretion of Premier LP and is not subject to review or approval by the IRS or other tax authorities. The computation of the adjustments resulting from the Section 754 election and Premier's tax liability is subject to audit by the IRS and other tax authorities in the same manner as all other items reported on income tax returns.
- Upon the Reorganization and IPO, the cumulative adjustments of $186.1 million, of which $7.0 million was expected to be paid over the next 12 months, and was reflected as a current liability with the remaining balance classified as a long-term liability, to reflect a liability equal to 85% of the estimated realizable tax benefit resulting from the increase in tax basis due to Premier LP's Section 754 election in connection with the initial sale by the member owners of the Class B common units described above as an increase to payable pursuant to the tax receivable agreement.
- Deferred tax assets are measured based on the difference in tax basis of Premier's investment in Premier LP as compared to its GAAP carrying value and include the change in allocations in connection with the Reorganization. The adjustments related to Premier LP's Section 754 election described above are a component of Premier's tax basis in Premier LP.

Pursuant to the terms of the exchange agreement, the member owners and new limited partners admitted to Premier LP following the completion of the IPO may subsequently exchange Class B common units in Premier LP for shares of Premier's Class A common stock, cash or a combination of both. Any subsequent exchanges of Class B common units for shares of Premier's Class A common stock pursuant to the exchange agreement may result in increases in the tax basis of the tangible and intangible assets of Premier LP (85% of the realized tax benefits from which will be due to the limited partners and recorded as an additional payable pursuant to the tax receivable agreement) that otherwise would not have been available. These subsequent exchanges have not been reflected in the consolidated financial statements.

(4) Reflects the increase in the noncontrolling interest held by the limited partners in Premier L.P. resulting from the net proceeds from the IPO used to purchase Class A common units from Premier LP of $247.7 million and Class B common units from PHSI of $30.1 million, and the contribution of the common stock of PHSI in connection with the Reorganization of $76.9 million. This is offset by an adjustment of $131.0 million to reflect the approximately 78% controlling interest held by the redeemable limited partners of Premier LP subsequent to the Reorganization and IPO, which is reflected in redeemable limited partners' capital on the unaudited consolidated balance sheets. Immediately following the effective date of the LP Agreement, all of Premier LP's limited partners that approved the Reorganization received Class B common units and capital account balances in Premier LP equal to their percentage interests and capital account balances in Premier LP immediately preceding the Reorganization. Premier used a portion of the net proceeds from the IPO to purchase (i) Class A common units, (ii) Class B common units from PHSI and (iii) Class B common units from the member owners, resulting in a reduction in the noncontrolling interest attributable to the limited partners from 99% to approximately 78%.

Reflects the increase in redeemable limited partners' capital of $2,575.5 million to record the balance at the redemption amount, which represents the greater of the book value or redemption amount, at the date of the Reorganization. This results in an offsetting decrease in retained earnings of $50.1 million, followed by an offsetting decrease in additional paid-in-capital of $173.7 million and with a final offsetting increase in accumulated deficit of $2,351.7 million.

(5) Reflects (i) the exchange of the existing PHSI shares of common stock, common stock subscribed and related subscriptions receivable for Class B common units, (ii) the issuance of Class B common stock in connection with the Reorganization and (iii) the issuance of Class A common stock in connection with the IPO.

(6) Reflects the impact of the adjustments in notes (1), (2), (3), (4) and (5) above to additional paid-in capital:

- an increase of $96.9 million due to an increase in deferred tax assets described in note (3) of $283.0 million offset by an increase in payables pursuant to the tax receivable agreement of $186.1 million;
- an increase of $821.7 million from the net proceeds from the IPO less the par value of the shares of Class A common stock sold in the IPO of $0.3 million and less prepaid offering expenses of $5.9 million;
- a decrease of $767.5 million to reflect the difference between the consideration paid to acquire the Class A common units and B common units and the adjustment to the carrying value of the noncontrolling interest described in note (4) above; and

- a decrease in the remaining balance of additional paid-in-capital related to the increase in redeemable limited partners' capital to its redemption value, as described in note (4) above.

(7) Reflects the decrease in retained earnings and increase in accumulated deficit related to the increase in redeemable limited partners' capital to its redemption value, as described in note (4) above.

In addition, following the completion of the Reorganization and the IPO:

- Premier LP became contractually required under the GPO participation agreements to pay each member owner revenue share from Premier LP equal to 30% of all gross administrative fees collected by Premier LP based upon purchasing by such member owner's member facilities through Premier LP's GPO supplier contracts. Historically, Premier LP did not generally have a contractual requirement to pay revenue share to member owners participating in its GPO programs, but paid semi-annual distributions of partnership income.
- Premier records redeemable limited partners' capital at redemption value, which represents the greater of the book value or redemption amount per the LP Agreement, at the reporting date.
- Premier became subject to additional U.S. federal, state and local income taxes with respect to its additional allocable share of any taxable income of Premier LP.
- Noncontrolling interest in Premier LP decreased from 99% to approximately 78%.

(3) SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K; however, given the Company's recent acquisition activity during the quarter ended September 30, 2014, the Company's significant accounting policy related to business combinations has been included below.

Business Combinations

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

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

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of the update is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The update 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 update will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is not permitted. The update allows for either full retrospective or modified retrospective adoption. The Company is currently evaluating the transition method that will be elected as well as the impact of the adoption of the update on its consolidated financial statements and related disclosures. The update will be effective for the Company for the fiscal year ending June 30, 2018.

(4) 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, a specialty pharmacy and direct sourcing activities. The performance services segment includes the Company's informatics, collaborative, advisory services and insurance services businesses.

The Company uses Segment Adjusted EBITDA (as defined herein) as its primary measure of profit or loss to assess segment performance and to determine the allocation of resources. The Company also uses Segment Adjusted EBITDA to facilitate the comparison of the segment operating performance on a consistent basis from period to period. The Company defines Segment Adjusted EBITDA as the segment's net revenue less operating expenses directly attributable to the segment excluding depreciation and amortization, amortization of purchased intangible assets, merger and acquisition related expenses and non-recurring or non-cash items, and including equity in net income of unconsolidated affiliates. Non-recurring items are expenses that have not been incurred within the prior two years and are not expected to recur within the next two years. Operating expenses directly attributable to the segment include expenses associated with sales and marketing, general and administrative and product development activities specific to the operation of each segment. General and administrative corporate expenses that are not specific to a particular segment are not included in the calculation of Segment Adjusted EBITDA.

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

The following tables present selected financial data for each of the Company's reportable segments (in thousands):

	Net Revenue	Segment Adjusted EBITDA	Depreciation & Amortization Expense	Capital Expenditures
Three Months Ended September 30, 2014				
Supply Chain Services:				
Net administrative fees	$106,523			
Other services and support	215			
Services	106,738			
Products	63,564			
Total Supply Chain Services	170,302	$91,268	$412	$655
Performance Services	59,006	18,362	9,553	13,539
Corporate	—	(19,112)	1,246	166
Total	$229,308	$90,518	$11,211	$14,360
Three Months Ended September 30, 2013				
Supply Chain Services:				
Net administrative fees	$143,576			
Other services and support	134			
Services	143,710			
Products	43,748			
Total Supply Chain Services	187,458	$125,480	$327	$300
Performance Services	53,118	16,329	7,435	11,979
Corporate	—	(17,475)	1,195	20
Total	$240,576	$124,334	$8,957	$12,299

	Total Assets
September 30, 2014	
Supply Chain Services	$341,191
Performance Services	426,434
Corporate	515,320
Total	$1,282,945
June 30, 2014	
Supply Chain Services	$373,746
Performance Services	266,567
Corporate	606,343
Total	$1,246,656

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

	Three Months Ended September 30,	
	2014	2013
Segment Adjusted EBITDA	$90,518	$124,334
Depreciation and amortization	(10,308)	(8,356)
Amortization of purchased intangible assets	(903)	(601)
Merger and acquisition related expenses [(a)]	(1,278)	(142)
Strategic and financial restructuring expenses [(b)]	(96)	(1,842)
Stock-based compensation expense	(6,439)	(325)
Adjustment to tax receivable agreement liability	1,073	—
Acquisition related adjustment - deferred revenue	(2,065)	—
Equity in net income of unconsolidated affiliates [(c)]	(4,866)	(4,114)
Deferred compensation plan expense	509	—
Operating income	$66,145	$108,954
Equity in net income of unconsolidated affiliates [(c)]	4,866	4,114
Interest and investment income, net	191	220
Other (expense) income, net	(504)	4
Income before income taxes	$70,698	$113,292

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

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

(c) Represents equity in net income from unconsolidated affiliates generated by the Company's 50% ownership interest in Innovatix, LLC ("Innovatix"), a privately held limited liability company that provides group purchasing services to alternate site providers in specific classes of trade, all of which is included in the supply chain services segment.

(5) INTANGIBLE ASSETS, NET

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

	Weighted Average Useful Life	September 30, 2014	June 30, 2014
Identifiable intangible assets acquired:			
Technology	5.0 years	$44,779	$20,257
Member relationships	8.3 years	16,080	6,830
Non-compete agreements	3.0 years	80	80
Trade names	5.0 years	6,230	3,990
	5.8 years	67,169	31,157
Accumulated amortization		(21,203)	(20,302)
Total identifiable intangible assets acquired, net		$45,966	$10,855

The increase in technology and member relationship intangible assets were due to acquisitions during the three months ended September 30, 2014. Amortization expense of intangible assets totaled $0.9 million and $0.6 million for the three months ended September 30, 2014 and 2013, respectively.

(6) LINES OF CREDIT

On June 24, 2014, Premier LP, along with its wholly owned subsidiaries, Premier Supply Chain Improvement, Inc. (“PSCI”) and PHSI, as Co-Borrowers, Premier GP, and certain domestic subsidiaries of Premier GP, as Guarantors, Wells Fargo Bank, National Association, as Administrative Agent (the “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, entered into an unsecured Credit Agreement, dated as of June 24, 2014 (the “Credit Agreement”). The Credit Agreement has a maturity date of June 24, 2019.

The Credit Agreement provides for borrowings of up to $750.0 million with (i) a $25.0 million subfacility for standby letters of credit and (ii) a $75.0 million subfacility for swingline loans. The Credit Agreement also provides that the maximum principal amount of 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 the approval of the lenders providing such increase. The Credit Agreement includes an unconditional and irrevocable guaranty of all obligations under the Credit Agreement by Premier GP, certain domestic subsidiaries of Premier GP and future guarantors, if any. Premier is not a guarantor under the Credit Agreement.

The Credit Agreement permits the Company to prepay amounts outstanding without premium or penalty provided that Co-Borrowers are required to compensate the lenders for losses and expenses incurred as a result of the prepayment of any Eurodollar Rate Loan, as defined in the Credit Agreement. Committed loans may be in the form of Eurodollar Rate Loans or Base Rate Loans, as defined in the Credit Agreement, 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 0.750% for Base Rate Loans. At September 30, 2014, the interest rate for three-month Eurodollar Rate Loans was 1.365% and the interest rate for Base Rate Loans was 3.375%. 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 September 30, 2014, the commitment fee was 0.125%.

The Credit Agreement 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. Under the terms of the Credit Agreement, 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 quarter. The Company was in compliance with all such covenants at September 30, 2014. The Credit Agreement 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 Agreement).

If any event of default occurs and is continuing, the Administrative Agent under the Credit Agreement 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 Agreement to be immediately due and payable.

Proceeds from borrowings under the Credit Agreement may generally be used to finance ongoing working capital requirements, including permitted acquisitions and other general corporate purposes. At September 30, 2014 and June 30, 2014, we had no outstanding borrowings under the Credit Agreement.

On August 17, 2012, S2S Global, a direct sourcing business which the Company consolidates and of which the Company owns 60% of the outstanding shares of common stock, obtained a revolving line of credit with a one-year term for up to $10.0 million at an interest rate which is generally the lower of LIBOR plus 1.25% or the Prime Rate plus 0.25%. On August 2, 2013, S2S Global renewed and amended its revolving line of credit to include a $15.0 million credit limit and a $5.0 million accordion feature. On January 30, 2014, S2S Global further amended its revolving line of credit to increase the credit limit to $20.0 million. The S2S Global revolving line of credit has customary covenants, which include, but are not limited to those regarding: the use of proceeds, provision of financial information, restriction on other debts and liens, maintenance of assets, investments, taxes, nature of business, mergers, transactions with affiliates, restricted payments, insurance and compliance with laws. S2S Global was in compliance with all such covenants at September 30, 2014. The amended revolving line of credit has a maturity date of December 16, 2014. The unused commitment fee on the revolving line of credit is 0.225% per annum.

At September 30, 2014 and June 30, 2014, S2S Global had $13.9 million and $13.7 million, respectively, outstanding on the revolving line of credit. Amounts due under the S2S Global line of credit are included within the current portion of notes payable in the accompanying consolidated balance sheets.

(7) NOTES PAYABLE

At September 30, 2014 and June 30, 2014, the Company had $21.2 million and $20.0 million, respectively, in notes payable consisting primarily of non-interest bearing notes payable outstanding to departed member owners, of which $4.0 million is included in current portion of notes payable and line of credit and $16.9 million and $15.8 million, respectively, are included in notes payable, less current portion, in the accompanying consolidated balance sheets at September 30, 2014 and June 30, 2014.

Principal payments of notes payable are as follows (in thousands):

Twelve Months Ending September 30,	
2015	$3,965
2016	3,975
2017	8,204
2018	3,023
2019	1,771
Thereafter	254
Total principal payments	$21,192

(8) FAIR VALUE MEASUREMENTS

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

Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2014				
Cash equivalents	$19,776	$19,776	$—	$—
Commercial paper	20,698	—	20,698	—
U.S. government debt securities	54,134	—	54,134	—
Corporate debt securities	137,722	—	137,722	—
Asset-backed securities	91,141	—	91,141	—
Deferred compensation plan assets	35,635	35,635	—	—
Total assets	$359,106	$55,411	$303,695	$—
June 30, 2014				
Cash equivalents	$64,207	$64,207	$—	$—
Commercial paper	33,572	—	33,572	—
U.S. government debt securities	116,744	—	116,744	—
Corporate debt securities	166,452	—	166,452	—
Asset-backed securities	91,851		91,851	—
Deferred compensation plan assets	33,256	33,256	—	—
Total assets	$506,082	$97,463	$408,619	$—

Cash equivalents are included in cash and cash equivalents; corporate debt securities are included in marketable securities; and deferred compensation plan assets are included in prepaid expenses and other current assets ($2.5 million and $0.3 million at September 30, 2014 and June 30, 2014, respectively) and other assets ($33.1 million and $32.9 million at September 30, 2014 and June 30, 2014, respectively) in the accompanying consolidated balance sheets. The fair value of the Company's corporate debt securities, classified as Level 2, are valued using quoted prices for similar securities in active markets or quoted prices for identical or similar securities in markets that are not active. The fair value of cash, accounts receivable, accounts payable, accrued liabilities and lines of credit approximate carrying value because of the short term nature of these financial instruments. The fair value of non-interest bearing notes payable, classified as Level 2, is less than their carrying value (see Note 7 for more information) by approximately $0.7 million at both September 30, 2014 and June 30, 2014, based on an assumed market interest rate of 1.5% at both September 30, 2014 and June 30, 2014.

(9) MARKETABLE SECURITIES

The Company invests its excess cash in commercial paper, U.S. government securities, corporate debt securities and other securities with maturities generally ranging from three months to five years from the date of purchase. The Company uses the specific-identification method to determine the cost of securities sold. Marketable securities, classified as available-for-sale, consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
September 30, 2014				
Commercial paper	$20,697	$1	$—	$20,698
U.S. government debt securities	54,080	54	—	54,134
Corporate debt securities	137,679	65	(22)	137,722
Asset-backed securities	91,129	20	(8)	91,141
	$303,585	$140	$(30)	$303,695
June 30, 2014				
Commercial paper	$33,561	$12	$(1)	$33,572
U.S. government debt securities	116,620	124	—	116,744
Corporate debt securities	166,424	69	(41)	166,452
Asset-backed securities	91,824	34	(7)	91,851
	$408,429	$239	$(49)	$408,619

U.S. government securities, corporate debt securities and asset-backed securities are included in the current portion of marketable securities and the long-term portion of marketable securities in the accompanying consolidated balance sheets.

At September 30, 2014, marketable securities consist of the following maturities (in thousands):

	Cost	Fair Market Value
Due in one year or less	$174,023	$174,116
Due after one year through five years	129,562	129,579
	303,585	303,695

(10) INVESTMENTS

Innovatix, LLC ("Innovatix") is a privately held limited liability company that provides group purchasing services to alternate site providers in specific classes of trade. The Company held 50% of the membership units in Innovatix at September 30, 2014 and June 30, 2014. The Company accounts for its investment in Innovatix using the equity method of accounting. The carrying value of the Company's investment in Innovatix was $6.7 million and $6.9 million at September 30, 2014 and June 30, 2014, respectively, and is included in Other Assets in the accompanying consolidated balance sheets. The Company's 50% ownership share of Innovatix's net income included in equity in net income from unconsolidated affiliates in the accompanying consolidated statements of income is $4.9 million and $4.1 million for the three months ended September 30, 2014 and 2013, respectively, all of which is included in the supply chain services segment.

(11) INCOME TAXES

The Company's income tax expense is attributable to the activities of the Company, PHSI and PSCI, which are all 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.

For the three months ended September 30, 2014 and 2013, the Company recorded tax expense on income before taxes of $5.8 million and $0.8 million, respectively, which equates to an effective tax rate of 8.2% and 0.7%, respectively. For the three months ended September 30, 2014 and 2013, the Company's effective income tax rate differs from income taxes recorded at the statutory rate primarily due to partnership income not subject to federal income taxes, state and local taxes and nondeductible expenses. The effective tax rate has increased from the prior year as a result of the Reorganization, which created additional partnership income subject to tax at the Company level.

The Company has deferred tax assets of $286.4 million as of September 30, 2014, a decrease of $10.2 million from $296.6 million as of June 30, 2014, which is primarily attributable to the deferred tax expense reported in the period and deferred tax liabilities reported in connection with the acquisitions of TheraDoc and Aperek. The Company also recorded a reduction of $1.1 million in tax receivable agreement liabilities of $192.3 million as of June 30, 2014, which resulted in $191.2 million in tax receivable agreement liabilities as of September 30, 2014. The $1.1 million reduction to the tax receivable liability recorded during the quarter ended September 30, 2014 was in connection with departed owners of Premier LP, which resulted in a $1.1 million reduction to selling, general and administrative expenses.

(12) REDEEMABLE LIMITED PARTNERS' CAPITAL

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

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

Redeemable limited partners' capital represents the member owners' 78% ownership of Premier LP at September 30, 2014. The limited partners hold the majority of the votes of the board of directors and any redemption or transfer or choice of consideration relating to the limited partners' exchange right cannot be assumed to be within the control of the Company. As such, classification outside of permanent equity is still required and the redeemable limited partners' capital is classified as temporary equity in the mezzanine section of the consolidated balance sheet at September 30, 2014. The Company records redeemable limited partners' capital at the greater of the book value or redemption amount. The Company calculates the redemption amount as the fair value of all Class B common units, as if immediately exchangeable into Class A common shares. For the three months ended September 30, 2014, the Company recorded an adjustment to fair value for the redemption amount to redeemable limited partners' capital of $382.7 million.

The table below shows the changes in the redeemable limited partners' capital classified as temporary equity from June 30, 2014 to September 30, 2014 (in thousands):

	Receivables From Limited Partners	Redeemable Limited Partners' Capital	Accumulated Other Comprehensive (Loss) Income	Total Redeemable Limited Partners' Capital
June 30, 2014	$(18,139)	$3,262,666	$147	$3,244,674
Distributions applied to receivables from limited partners	1,635	—	—	1,635
Repurchase of redeemable limited partnership interest	—	(1,515)	—	(1,515)
Net income attributable to Premier LP	—	54,816	—	54,816
Distributions to limited partners	—	(22,691)	—	(22,691)
Net unrealized gain on marketable securities	—	—	(62)	(62)
Adjustment to redemption amount	—	382,657	—	382,657
September 30, 2014	$(16,504)	$3,675,933	$85	$3,659,514

Receivables from limited partners represent amounts due from limited partners for their required capital in Premier LP. These receivables are either interest bearing notes issued to new limited partners or non-interest bearing loans (contribution loans) provided to existing limited partners and are reflected as a reduction in redeemable limited partners' capital (which includes the capital funded by such receivables) because 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 three months ended September 30, 2014.

During the three months ended September 30, 2014, three limited partners withdrew from Premier LP. In connection with such withdrawals, the Company issued a total of $1.5 million in five-year, unsecured, non-interest bearing term promissory notes. Partnership interest obligations to former limited partners are reflected in notes payable in the accompanying consolidated balance sheets.

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

During the three months ended September 30, 2013, Premier LP distributed $214.5 million to its limited partners, of which $2.8 million was retained to reduce limited partner notes payable and related interest obligations and an additional $3.4 million was retained to reduce other amounts payable by limited partners to the Company, resulting in a cash distribution of $208.3 million.

Upon the consummation of the Reorganization and IPO, Premier LP amended its distribution policy in which cash distributions will be required, as long as taxable income is generated and cash is available to distribute, on a quarterly basis prior to the 60th day after the end of each calendar quarter instead of a semi-annual basis. As provided in the limited partnership agreement, the amount of actual cash distributed may be reduced by the amount of such distributions used by limited partners to offset contribution loans or other amounts payable to the Company.

Premier LP made a quarterly distribution on August 28, 2014 to its limited partners of $22.4 million, which is equal to the total taxable income for Premier LP for the three months ended June 30, 2014 multiplied by the effective combined federal, state and local income tax rate. At June 30, 2014, the quarterly distribution payable to the limited partners of $22.4 million is reflected in limited partners' distribution payable in the accompanying consolidated balance sheets.

Premier LP will make a quarterly distribution, payable on or before November 28, 2014, equal to Premier LP's total taxable income for the three months ended September 30, 2014 multiplied by the effective combined federal, state and local income tax rate. The distribution payable attributable to limited partners of approximately $22.7 million at

September 30, 2014 is reflected in limited partners' distribution payable in the accompanying consolidated balance sheets.

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(13) STOCKHOLDERS' DEFICIT

In connection with the IPO, the Company issued 32,374,751 shares of its Class A common stock, for par value, of $0.01 per share. In connection with the Reorganization, the Company issued 112,607,832 shares of its Class B common stock, for par value, of $0.000001 per share.

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

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

(14) EARNINGS (LOSS) PER SHARE

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

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

	Three Months Ended September 30,	
	2014 [d]	2013 [e]
Numerator for Basic and Diluted Income Per Share:		
Net loss attributable to shareholders after adjustment of redeemable partners' capital to redemption amount	$(373,384)	$(476)
Denominator for basic income per share weighted average shares [a]	32,376	5,627
Effect of dilutive securities: [b]		
Stock options	—	—
Restricted stock units [c]	—	—
Denominator for diluted income per share-adjusted:		
Weighted average shares and assumed conversions	32,376	5,627
Basic net loss per share	$(11.53)	$(0.08)
Diluted net loss per share	$(11.53)	$(0.08)

(a)

Weighted average number of common shares used for basic earnings per share excludes weighted average shares of non-vested restricted stock units and non-vested performance share awards for the three months ended September 30, 2014.

(b) The exchange of 111,867 Class B common units for Class A common shares was excluded from the dilutive weighted average shares outstanding because to do so would have been anti-dilutive for the periods presented.

(c) The conversion of 252 Class A common shares was excluded from the dilutive weighted average shares outstanding for the three months ended September 30, 2014, because to do so would have been anti-dilutive for the period presented.

(d) The weighted average shares calculation is based on the Premier, Inc. common shares outstanding for the three months ended September 30, 2014.

(e) The weighted average shares calculation is based on the PHSI common shares outstanding for the three months ended September 30, 2013.

As a result of the consummation of the Reorganization and IPO, effective October 1, 2013, earnings (loss) per share is not comparable for all periods presented. In addition, earnings (loss) per share for the three months ended September 30, 2014 may not be indicative of prospective earnings per share information.

Subsequent to September 30, 2014, pursuant to the terms of the exchange agreement discussed in Note 2- Initial Public Offering and Reorganization, on October 31, 2014, the Company issued 4,685,267 shares of Class A common stock to member owners in exchange for a like number of Class B common units of Premier LP. Further in connection with the exchange of Class B common units by member owners, 4,685,267 shares of the Company’s Class B common stock were surrendered by member owners and retired by the Company. As of November 1, 2014, there were 37,075,734 shares of Class A common stock of the Company outstanding and 107,181,272 shares of Class B common stock of the Company outstanding.

(15) 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 $6.4 million for the three months ended September 30, 2014, with a resulting deferred tax benefit of $2.4 million, calculated at a rate of 38%, which represents the expected effective income tax rate at the time of the compensation expense deduction and differs from the Company's current effective income tax rate due to enacted state income tax rate changes.

At September 30, 2014, there was $59.7 million of unrecognized stock-based compensation expense related to non-vested awards that will be amortized over 2.14 years. Stock-based compensation expense for the three months ended September 30, 2013 was not significant to the Company.

Premier 2013 Equity Incentive Plan

The Premier 2013 Equity Incentive Plan (the "2013 Equity Incentive Plan") provides for grants of up to 11,260,783 shares of Class A common stock, all of which are eligible to be issued as non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units or performance awards. As of September 30, 2014, there were 6,665,798 shares available for grant under the 2013 Equity Incentive Plan.

Restricted Stock Units. Restricted stock unit awards issued and outstanding generally vest over a three-year period. The following table includes information related to restricted stock unit awards for the three months ended September 30, 2014:

	Number of Shares	Weighted Average Fair Value at Grant Date
Outstanding at June 30, 2014	717,304	$27.29
Granted	138,470	$31.58
Vested	(16,951)	$27.05
Forfeited	(13,512)	$27.28
Outstanding at September 30, 2014	825,311	$28.01

Performance Share Awards. Performance share awards issued and outstanding generally vest over three years if performance targets are met. The following table includes information related to performance share awards for the three months ended September 30, 2014:

	Number of Shares	Weighted Average Fair Value at Grant Date
Outstanding at June 30, 2014	827,174	$