

HENRY SCHEIN INC
Form 10-Q
August 08, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2017

or

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: 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware 11-3136595
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

135 Duryea Road

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Melville, New York

(Address of principal executive offices)

11747

(Zip Code)

(631) 843-5500

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___

No X

As of August 2, 2017, there were 79,055,985 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HENRY SCHEIN, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

ASSETS

Current assets:

Cash and cash equivalents

Accounts receivable, net of reserves of \$89,145 and \$90,329

Inventories, net

Prepaid expenses and other

Total current assets

Property and equipment, net

Goodwill

Other intangibles, net

Investments and other

Total assets

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable

Bank credit lines

Current maturities of long-term debt

Accrued expenses:

Payroll and related

Taxes

Other

Total current liabilities	
Long-term debt	
Deferred income taxes	
Other liabilities	
Total liabilities	
Redeemable noncontrolling interests	
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none outstanding	
Common stock, \$.01 par value, 240,000,000 shares authorized, 79,194,792 outstanding on July 01, 2017 and 79,402,505 outstanding on December 31, 2016	
Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive loss	
Total Henry Schein, Inc. stockholders' equity	
Noncontrolling interests	
Total stockholders' equity	
Total liabilities, redeemable noncontrolling interests and stockholders' equity	

See accompanying notes.

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	T Jul 20
Net sales	\$3
Cost of sales	2
Gross profit	8
Operating expenses:	
Selling, general and administrative	6
Restructuring costs	-
Operating income	2
Other income (expense):	
Interest income	4
Interest expense	(1)
Other, net	7
Income before taxes and equity in earnings of affiliates	2
Income taxes	(5)
Equity in earnings of affiliates	4
Net income	1
Less: Net income attributable to noncontrolling interests	(1)
	\$1

Net income attributable to Henry Schein, Inc.
.....

Earnings per share attributable to Henry Schein, Inc.:

Basic \$1
Diluted \$1

Weighted-average common shares outstanding:

Basic 7
Diluted 7

See accompanying notes.

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Thre July 2011
Net income	\$14
Other comprehensive income (loss), net of tax:	
Foreign currency translation gain	
(loss).....	72
Unrealized gain (loss) from foreign currency hedging	
activities	1,6
Pension adjustment gain	
(loss).....	(79
Other comprehensive income (loss), net of tax	
.....	73
Comprehensive income	22
Comprehensive income attributable to noncontrolling	
interests:	
Net income	(13
Foreign currency translation loss (gain)	
.....	(1,
Comprehensive income attributable to noncontrolling	
interests	(14
Comprehensive income attributable to Henry Schein, Inc.	
.....	\$20
See accompanying notes.	

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share and per share data)

(unaudited)

Balance, December 31, 2016	
Net income (excluding \$22,740 attributable to Redeemable noncontrolling interests)	
Foreign currency translation gain (excluding gain of \$4,601 attributable to Redeemable noncontrolling interests)	
Unrealized loss from foreign currency hedging activities, net of tax benefit of \$64.....	
Pension adjustment gain, net of tax benefit of \$332.....	
Dividends paid	
Other adjustments	
Change in fair value of redeemable securities	
Repurchase and retirement of common stock	
Stock issued upon exercise of stock options, including tax benefit of \$841	
Stock-based compensation expense	
Shares withheld for payroll taxes	
Liability for cash settlement of stock-based compensation awards.....	
Transfer of charges in excess of capital.....	
Balance, July 01, 2017	
See accompanying notes.	

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HENRY SCHEIN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

Cash flows from operating activities:

Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	
Stock-based compensation expense	
Provision for losses on trade and other accounts receivable	
Provision for (benefit from) deferred income taxes	
Equity in earnings of affiliates	
Distributions from equity affiliates	
Changes in unrecognized tax benefits	
Other	
Changes in operating assets and liabilities, net of acquisitions:	
Accounts receivable	
Inventories	
Other current assets	
Accounts payable and accrued expenses	
Net cash provided by operating activities	

Cash flows from investing activities:

Purchases of fixed assets	
Payments for equity investments and business acquisitions, net of cash acquired	
Other	

Net cash used in investing activities

Cash flows from financing activities:

Proceeds from (repayments of) bank borrowings

Proceeds from issuance of long-term debt

Debt issuance costs

Principal payments for long-term debt

Proceeds from issuance of stock upon exercise of stock options

Payments for repurchases of common stock

Payments for taxes related to shares withheld for employee taxes

Distributions to noncontrolling shareholders

Acquisitions of noncontrolling interests in subsidiaries

Net cash provided by (used in) financing activities

Effect of exchange rate changes on cash and cash equivalents

Net change in cash and cash equivalents

Cash and cash equivalents, beginning of period

Cash and cash equivalents, end of period

See accompanying notes.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Note 1 – Basis of Presentation

Our consolidated financial statements include our accounts, as well as those of our wholly-owned and majority-owned subsidiaries. Certain prior period amounts have been reclassified to conform to the current period presentation.

Our accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnote disclosures required by U.S. GAAP for complete financial statements.

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the six months ended July 1, 2017 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 30, 2017.

Note 2 – Segment Data

We conduct our business through two reportable segments: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base.

The health care distribution reportable segment aggregates our global dental, animal health and medical operating segments. This segment distributes consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins. Our global dental group serves office-based dental practitioners, dental laboratories, schools and other institutions. Our global animal health group serves animal health practices and clinics. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global dental, animal health and medical groups serve practitioners in 32 countries worldwide.

Our global technology and value-added services group provides software, technology and other value-added services to health care practitioners. Our technology group offerings include practice management software systems for dental and medical practitioners and animal health clinics. Our value-added practice solutions include financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

The following tables present information about our reportable and operating segments:

Net Sales:

Health care distribution (1):

Dental

Animal health

Medical

Total health care distribution

Technology and value-added services

(2).....

Total

*CS

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, brand generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

(2) Consists of practice management software and other value-added products, which are distributed primarily to health care and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and services.

Operating Income:

Health care distribution

.....

Technology and value-added services

.....

Total

Note 3 -Debt

Bank Credit Lines

On April 18, 2017, we entered into a new \$750 million revolving agreement (the “Credit Agreement”). This facility, which matures in April 2022, replaced our \$500 million revolving credit facility, which was scheduled to mature in September 2019. The interest rate is based on the USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. The Credit Agreement provides, among other things, that we are required to maintain maximum leverage ratios, and contains customary representations, warranties and affirmative covenants. The Credit Agreement also contains customary negative covenants, subject to negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. As of July 1, 2017 and December 31, 2016, the borrowings on this revolving credit facility and the prior credit facility were \$175.0 million and \$65.0 million, respectively. As of July 1, 2017 and December 31, 2016, there were \$12.7 million and \$13.0 million of letters of credit, respectively, provided to third parties under the credit facility and the prior credit facility.

As of July 1, 2017 and December 31, 2016, we had various other short-term bank credit lines available, of which \$402.5 million and \$372.5 million, respectively, were outstanding. At July 1, 2017 and December 31, 2016, borrowings under all of our credit lines had a weighted average interest rate of 1.98% and 1.61%, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Private Placement Facilities

On September 22, 2014, we increased our available private placement facilities with three insurance companies to a total facility amount of \$975 million, and extended the expiration date to September 22, 2017. These facilities are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through September 22, 2017. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of July 1, 2017 are presented in the following table (in thousands):

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate		Due Date
September 2, 2010	\$ 100,000	3.79	%	September 2, 2020
January 20, 2012	50,000	3.45		January 20, 2024
January 20, 2012 (1)	35,714	3.09		January 20, 2022
December 24, 2012	50,000	3.00		December 24, 2024
June 2, 2014	100,000	3.19		June 2, 2021
June 16, 2017	100,000	3.42		June 16, 2027
	\$ 435,714			

(1) Annual repayments of approximately \$7.1 million for this borrowing commenced on January 20, 2016.

U.S. Trade Accounts Receivable Securitization

We have a facility agreement with a bank, as agent, based on the securitization of our U.S. trade accounts receivable that is structured as an asset-backed securitization program with pricing committed for up to three years. On June 1, 2016, we extended the expiration date of this facility agreement to April 29, 2019 and increased the purchase limit under the facility from \$300 million to \$350 million. On July 6, 2017, we extended the expiration date of this facility agreement to April 29, 2020. The borrowings outstanding under this securitization facility were \$349.6 million and \$350.0 million as of July 1, 2017 and December 31, 2016, respectively. At July 1, 2017, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 125 basis points plus 75 basis points, for a combined rate of 2.00%. At December 31, 2016, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 101 basis points plus 75 basis points, for a combined rate of 1.76%.

We are required to pay a commitment fee of 30 basis points on the daily balance of the unused portion of the facility if our usage is greater than or equal to 50% of the facility limit or a commitment fee of 35 basis points on the daily balance of the unused portion of the facility if our usage is less than 50% of the facility limit.

Borrowings under this facility are presented as a component of Long-term debt within our consolidated balance sheet.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Long-term debt

Long-term debt consisted of the following:

Private placement facilities	Jul 20
.....	\$4
U.S. trade accounts receivable securitization	
.....	3
Note payable to bank at a weighted-average interest rate of 21.37% at December 31, 2016.....	-
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2021 at interest rates ranging from 2.56% to 12.90% at July 1, 2017 and ranging from 2.56% to 12.90% at December 31, 2016.....	3
Capital lease obligations payable through 2029 with interest rates ranging from 0.84% to 19.79% at July 1, 2017 and ranging from 1.38% to 19.15% at December 31, 2016	
.....	5
Total	8
Less current maturities	
.....	(
Total long-term debt	\$8

Note 4 – Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification (“ASC”) Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the six months ended July 1, 2017 and the year ended December 31, 2016 are presented in the following table:

Balance, beginning of period	Jul 2017	\$6
Decrease in redeemable noncontrolling interests due to redemptions	(
Increase in redeemable noncontrolling interests due to business acquisitions.....	1	
Net income attributable to redeemable noncontrolling interests	2	
Dividends declared	(
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	4	
Change in fair value of redeemable securities	1	
Balance, end of period	\$7	

Changes in the estimated redemption amounts of the noncontrolling interests subject to put options are adjusted at each reporting period with a corresponding adjustment to Additional paid-in capital. Future reductions in the carrying amounts are subject to a floor amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not impact the calculation of earnings per share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Note 5 – Comprehensive Income

Comprehensive income includes certain gains and losses that, under U.S. GAAP, are excluded from net income as such amounts are recorded directly as an adjustment to stockholders' equity. Our comprehensive income is primarily comprised of net income, foreign currency translation gain (loss), unrealized gain (loss) on foreign currency hedging activities, unrealized investment gain (loss) and pension adjustment gain (loss).

The following table summarizes our Accumulated other comprehensive loss, net of applicable taxes as of:

	July 1, 2017	D 31 20
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	\$(8,424)	\$
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	\$71	\$
Attributable to Henry Schein, Inc.:		
Foreign currency translation loss	\$(186,747)	\$
Unrealized loss from foreign currency hedging activities	(1,293)	(
Pension adjustment loss	(21,486)	(
Accumulated other comprehensive loss	\$(209,526)	\$
Total Accumulated other comprehensive loss	\$(217,879)	\$

The following table summarizes the components of comprehensive income, net of applicable taxes as follows:

Net income	
Foreign currency translation gain (loss).....	
Tax effect	
Foreign currency translation gain (loss)	
Unrealized gain (loss) from foreign currency hedging activities	
Tax effect	
Unrealized gain (loss) from foreign currency hedging activities	
Pension adjustment gain (loss).....	
Tax effect	
Pension adjustment gain (loss).....	
Comprehensive income	

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

During the three months ended July 1, 2017 and June 25, 2016, we recognized, as a component of our comprehensive income, a foreign currency translation gain (loss) of \$72.8 million and \$(5.6) million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. During the six months ended July 1, 2017 and June 25, 2016, we recognized, as a component of our comprehensive income, a foreign currency translation gain of \$114.3 million and \$4.4 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. Our financial statements are denominated in the U.S. Dollar currency. Fluctuations in the value of foreign currencies as compared to the U.S. Dollar may have a significant impact on our comprehensive income (loss). The foreign currency translation loss during the three and six months ended July 1, 2017 and June 25, 2016 was impacted by changes in foreign currency exchange rates as follows:

	For
	Cu
	Tra
	Ga
	(Lo
	for
	Th
	Mo
	En
	Jul
	20
Currency	
Euro	\$5
British Pound	
.....	1
Australian Dollar	
.....	1
Canadian Dollar	
.....	3
Polish Zloty	
.....	4
Swiss Franc	
.....	3
Brazilian	
Real.....	(7
All other currencies	
.....	3

Total	\$7
Currency	
Euro	\$6
British Pound	1
.....	1
Australian Dollar	4
.....	6
Canadian Dollar	4
.....	6
Polish Zloty	4
.....	6
Swiss Franc	4
.....	6
Brazilian	
Real.....	(2
All other currencies	7
.....	7
Total	\$1



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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

The following table summarizes our total comprehensive income, net of applicable taxes, as follows:

	Three Months Ended July 1, 2017
Comprehensive income attributable to Henry Schein, Inc.	\$208,34
Comprehensive income attributable to noncontrolling interests	276
Comprehensive income attributable to Redeemable noncontrolling interests	14,583
Comprehensive income	\$223,20

Note 6 -Fair Value Measurements

ASC Topic 820 “Fair Value Measurements and Disclosures” (“ASC Topic 820”) provides a framework for measuring fair value in generally accepted accounting principles.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

- Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

- Level 2— Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3— Inputs that are unobservable for the asset or liability.

The following section describes the valuation methodologies that we used to measure different financial instruments at fair value.

Investments and notes receivable

There are no quoted market prices available for investments in unconsolidated affiliates and notes receivable; however, we believe the carrying amounts are a reasonable estimate of fair value.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Debt

The fair value of our debt as of July 1, 2017 and December 31, 2016 was estimated at \$1,402.3 million and \$1,218.9 million, respectively. Factors that we considered when estimating the fair value of our debt include market conditions, prepayment and make-whole provisions, liquidity levels in the private placement market, variability in pricing from multiple lenders and term of debt.

Derivative contracts

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. We use derivative instruments to minimize our exposure to fluctuations in foreign currency exchange rates. Our derivative instruments primarily include foreign currency forward agreements related to intercompany loans and certain forecasted inventory purchase commitments with suppliers.

The fair values for the majority of our foreign currency derivative contracts are obtained by comparing our contract rate to a published forward price of the underlying market rates, which is based on market rates for comparable transactions and are classified within Level 2 of the fair value hierarchy.

Redeemable noncontrolling interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value based on third-party valuations. The primary factor affecting the future value of redeemable noncontrolling interests is expected earnings and, if such earnings are not achieved, the value of the redeemable noncontrolling interests might be impacted. The noncontrolling interests subject to put options are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to Additional paid-in capital. Future reductions in the carrying amounts are subject to a “floor” amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not impact the

calculation of earnings per share. The values for Redeemable noncontrolling interests are classified within Level 3 of the fair value hierarchy. The details of the changes in Redeemable noncontrolling interests are presented in Note 4.

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of July 1, 2017 and December 31, 2016:

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Assets:		
Derivative contracts		\$
Total assets		\$
Liabilities:		
Derivative contracts		\$
Total liabilities		\$
Redeemable noncontrolling interests		\$
*CS		

Assets:		
Derivative contracts		\$
Total assets		\$
Liabilities:		
Derivative contracts		\$
Total liabilities		\$
Redeemable noncontrolling interests		\$

Note 7 – Business Acquisitions

Acquisitions

The operating results of all acquisitions are reflected in our financial statements from their respective acquisition dates.

We did not complete any material acquisitions during the six months ended July 1, 2017.

Some prior owners of acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. We have accrued liabilities for the estimated fair value of additional purchase price consideration at the time of the acquisition. Any adjustments to these accrual amounts are recorded in our consolidated statements of income. For the six months ended July 1, 2017 and June 25, 2016, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

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HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Note 8 -Plan of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which was expected to be completed by the end of fiscal 2015. This initiative originally planned for the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. We subsequently announced our plan to extend these restructuring activities through the end of 2016 to further implement cost-savings initiatives, which ultimately resulted in the elimination of approximately 900 positions, representing 4% of our workforce. We recorded restructuring costs of \$34.9 million pre-tax in fiscal 2015 and \$45.9 million pre-tax in fiscal 2016. Our restructuring activities are complete and we do not expect to report any such charges in 2017.

During the six months ended June 25, 2016, we recorded restructuring costs of \$24.4 million. The costs associated with this restructuring are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

The following table shows the amounts expensed and paid for restructuring costs that were incurred during the six months ended July 1, 2017 and during our 2016 fiscal year and the remaining accrued balance of restructuring costs as of July 1, 2017, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

Balance, December 26, 2015	\$
Provision	
Payments and other adjustments	
Balance, December 31, 2016	\$

Provision

Payments

Balance, July 01, 2017

The following table shows, by reportable segment, the amounts expensed and paid for restructuring costs that were incurred during the six months ended July 1, 2017 and the 2016 fiscal year and the remaining accrued balance of restructuring costs as of July 1, 2017:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance, December 26, 2015			
Provision	\$ 12,062	\$ 3	\$ 12,065
Payments and other adjustments	44,082	1,809	45,891
Balance, December 31, 2016	(30,906)	(1,347)	(32,253)
Provision	\$ 25,238	\$ 465	\$ 25,703
Payments	-	-	-
Balance, July 01, 2017	(16,905)	(254)	(17,159)
	\$ 8,333	\$ 211	\$ 8,544

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Note 9 – Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to Henry Schein, Inc. by the weighted-average number of common shares outstanding for the period. Our diluted earnings per share is computed similarly to basic earnings per share, except that it reflects the effect of common shares issuable for presently unvested restricted stock and restricted stock units and upon exercise of stock options, using the treasury stock method in periods in which they have a dilutive effect.

A reconciliation of shares used in calculating earnings per basic and diluted share follows:

Basic	
Effect of dilutive securities:	
Stock options, restricted stock and restricted stock units	
Diluted	

Note 10 – Income Taxes

For the six months ended July 1, 2017 and June 25, 2016, our effective tax rate was 24.8% and 29.1%. The difference between our effective tax rate and the federal statutory tax rate in 2017 primarily relates to the adoption of Accounting Standards Update No. 2016-09, “Stock Compensation” (Topic 718) (“ASU 2016-09”) in the first quarter of 2017, as well as state and foreign income taxes and interest expense for both periods. The 2016 effective tax rate was further affected by a federal tax audit settlement which reduced our income tax expense by approximately \$4.5 million in the period.

Under ASU 2016-09, all excess tax benefits and tax deficiencies resulting from the difference between the deduction for tax purposes and the stock-based compensation cost recognized for financial reporting purposes are included as a component of income tax expense as of January 1, 2017. Prior to the implementation of ASU 2016-09, excess tax benefits were recorded as a component of additional paid in capital and tax deficiencies were recognized either as an offset to accumulated excess tax benefits or in the income statement if there were no accumulated excess tax benefits. The adoption of ASU No. 2016-09 reduced income tax expense by approximately \$19.3 million for the six months ended July 1, 2017.

The total amount of unrecognized tax benefits as of July 1, 2017 was approximately \$101.0 million, of which \$74.8 million would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties, which are classified as a component of Other liabilities within our consolidated balance sheets, were approximately \$13.2 million and \$0.0, respectively, as of July 1, 2017.

The tax years subject to examination by major tax jurisdictions include the years 2012 and forward by the U.S. Internal Revenue Service ("IRS"), as well as the years 2008 and forward for certain states and certain foreign jurisdictions. We are currently under audit for the years 2012 and 2013. During the quarter ended December 31, 2016, we reached a settlement on a portion of the IRS audit of tax years 2012 and 2013. Additionally, during the quarter ended December 31, 2016 we filed a Mutual Agreement Procedure request with the IRS for assistance from the U.S. Competent Authority for an open transfer pricing matter. We received a 30-Day Letter from the IRS during the quarter ended April 1, 2017 for the remaining open audit matters for the years 2012 and 2013. We filed a protest with the Appellate Division regarding these matters during the second quarter of 2017. We do not expect this to have a material adverse effect on our consolidated financial condition, liquidity or results of operations.

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Note 11 – Derivatives and Hedging Activities

We are exposed to market risks as well as changes in foreign currency exchange rates as measured against the U.S. dollar and each other, and changes to the credit markets. We attempt to minimize these risks by primarily using foreign currency forward contracts and by maintaining counter-party credit limits. These hedging activities provide only limited protection against currency exchange and credit risks. Factors that could influence the effectiveness of our hedging programs include currency markets and availability of hedging instruments and liquidity of the credit markets. All foreign currency forward contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated currency exposure. We do not enter into such contracts for speculative purposes and we manage our credit risks by diversifying our investments, maintaining a strong balance sheet and having multiple sources of capital.

Fluctuations in the value of certain foreign currencies as compared to the U.S. dollar may positively or negatively affect our revenues, gross margins, operating expenses and retained earnings, all of which are expressed in U.S. dollars. Where we deem it prudent, we engage in hedging programs using primarily foreign currency forward contracts aimed at limiting the impact of foreign currency exchange rate fluctuations on earnings. We purchase short-term (i.e., 18 months or less) foreign currency forward contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to our foreign suppliers. We do not hedge the translation of foreign currency profits into U.S. dollars, as we regard this as an accounting exposure, not an economic exposure. Our hedging activities have historically not had a material impact on our consolidated financial statements. Accordingly, additional disclosures related to derivatives and hedging activities required by ASC Topic 815 have been omitted.

Note 12 – Stock-Based Compensation

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$10.9 million (\$7.8 million after-tax) and \$19.4 million (\$14.5 million after-tax) for the three and six months ended July 1, 2017, respectively, and \$13.3 million (\$9.6 million after-tax) and \$27.5 million (\$19.5 million after-tax) for the three and six months ended June 25, 2016, respectively.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee directors. We measure stock-based compensation at the grant date, based on the estimated fair value of the award, and recognize the cost (net of estimated forfeitures) as compensation expense on a straight-line basis over the requisite service period. Our stock-based compensation expense is reflected in selling, general and administrative expenses in our consolidated statements of income.

Stock-based awards are provided to certain employees and non-employee directors under the terms of our 2013 Stock Incentive Plan, as amended, and our 2015 Non-Employee Director Stock Incentive Plan (together, the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors. Prior to March 2009, awards under the Plans principally included a combination of at-the-money stock options and restricted stock/units. Since March 2009, equity-based awards have been granted solely in the form of restricted stock/units, with the exception of providing stock options to employees pursuant to certain pre-existing contractual obligations.

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Grants of restricted stock/units are stock-based awards granted to recipients with specified vesting provisions. In the case of restricted stock, common stock is delivered on the date of grant, subject to vesting conditions. In the case of restricted stock units, common stock is generally delivered on or following satisfaction of vesting conditions. We issue restricted stock/units that vest solely based on the recipient's continued service over time (primarily four-year cliff vesting, except for grants made under the 2015 Non-Employee Director Stock Incentive Plan, which are primarily 12-month cliff vesting) and restricted stock/units that vest based on our achieving specified performance measurements and the recipient's continued service over time (primarily three-year cliff vesting).

With respect to time-based restricted stock/units, we estimate the fair value on the date of grant based on our closing stock price. With respect to performance-based restricted stock/units, the number of shares that ultimately vest and are received by the recipient is based upon our performance as measured against specified targets over a specified period, as determined by the Compensation Committee of the Board of Directors. Although there is no guarantee that performance targets will be achieved, we estimate the fair value of performance-based restricted stock/units based on our closing stock price at time of grant.

The Plans provide for adjustments to the performance-based restricted stock/units targets for significant events, including, without limitation, acquisitions, divestitures, new business ventures, certain capital transactions (including share repurchases), restructuring costs, if any, changes in accounting principles or in applicable laws or regulations and certain foreign exchange fluctuations. Over the performance period, the number of shares of common stock that will ultimately vest and be issued and the related compensation expense is adjusted upward or downward based upon our estimation of achieving such performance targets. The ultimate number of shares delivered to recipients and the related compensation cost recognized as an expense will be based on our actual performance metrics as defined under the Plans.

Total unrecognized compensation cost related to non-vested awards as of July 1, 2017 was \$113.2 million, which is expected to be recognized over a weighted-average period of approximately 2.4 years.

The following table summarizes stock option activity under the Plans during the six months ended July 1, 2017:

Outstanding at beginning of period
Granted
Exercised
Forfeited
Outstanding at end of period

Options exercisable at end of period

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The following tables summarize the activity of our non-vested restricted stock/units for the six months ended July 1, 2017:

Outstanding at beginning of period
Granted
Vested
Forfeited
Outstanding at end of period

Outstanding at beginning of period
Granted
Vested
Forfeited
Outstanding at end of period

Note 13 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

Interest.....	Six July 201
Income taxes.....	\$21 12

During the six months ended July 1, 2017 and June 25, 2016, we had \$(1.3) million and \$2.1 million of non-cash net unrealized gains (losses) related to foreign currency hedging activities, respectively. As part of a business acquisition, we increased our ownership in a subsidiary through a non-cash transaction of \$16.8 million. The timing of remittances for shares withheld for payroll taxes resulted in a non-cash transaction of \$0.5 million.

Note 14 – Legal Proceedings

In September 2015, Henry Schein, Inc. was served with a summons and complaint in an action commenced in the United States District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. Plaintiff alleged that, through its website, it markets and sells dental supplies and equipment to dentists. Plaintiff alleged, among other things, that defendants conspired to eliminate plaintiff as a viable competitor and to exclude plaintiff from the market for the marketing, distribution and sale of dental supplies and equipment in the United States and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserted the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious

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interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants' ongoing tortious and anticompetitive conduct. Plaintiff sought equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. On June 27, 2017, we announced that we settled this litigation with SourceOne Dental Inc. The settlement resulted in a \$5.325 million pre-tax charge, or \$0.04 per share, to our second-quarter 2017 results. We deny any wrongdoing related to the SourceOne litigation and chose to pursue a settlement solely to avoid further distraction and cost resulting from this matter. We have now been dismissed from this litigation with prejudice.

Beginning in January 2016, class action complaints were filed against Patterson Companies, Inc., Benco Dental Supply Co. and Henry Schein, Inc. Each of these complaints allege, among other things, that defendants conspired to fix prices, allocate customers and foreclose competitors by boycotting manufacturers, state dental associations and others that deal with defendants' competitors. Subject to certain exclusions, these classes seek to represent all persons who purchased dental supplies or equipment in the United States directly from any of the defendants or Burkhart Dental Supply Co. since August 31, 2008. Each class action complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, compensatory and treble damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. We intend to defend ourselves vigorously against these actions.

From time to time, we may become a party to other legal proceedings, including, without limitation, product liability claims, employment matters, commercial disputes, governmental inquiries and investigations (which may in some cases involve our entering into settlement arrangements or consent decrees), and other matters arising out of the ordinary course of our business. While the results of any legal proceeding cannot be predicted with certainty, in our opinion none of these other pending matters are currently anticipated to have a material adverse effect on our financial condition or results of operations.

As of July 1, 2017, we had accrued our best estimate of potential losses relating to claims that were probable to result in liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other factors, including probable recoveries from third parties.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

In accordance with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, we provide the following cautionary remarks regarding important factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. All forward-looking statements made by us are subject to risks and uncertainties and are not guarantees of future performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "forecast," "project," "anticipate" or other comparable terms.

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: effects of a highly competitive and consolidating market; our dependence on third parties for the manufacture and supply of our products; our dependence upon sales personnel, customers, suppliers and manufacturers; our dependence on our senior management; fluctuations in quarterly earnings; risks from expansion of customer purchasing power and multi-tiered costing structures; increases in shipping costs for our products or other service issues with our third-party shippers; general global macro-economic conditions; risks associated with currency fluctuations; risks associated with political and economic uncertainty; disruptions in financial markets; volatility of the market price of our common stock; changes in the health care industry; implementation of health care laws; failure to comply with regulatory requirements and data privacy laws; risks associated with our global operations; transitional challenges associated with acquisitions and joint ventures, including the failure to achieve anticipated synergies; financial risks associated with acquisitions and joint ventures; litigation risks; the dependence on our continued product development, technical support and successful marketing in the technology segment; increased competition by third party online commerce sites; risks from disruption to our information systems; cyberattacks or other privacy or data security breaches; certain provisions in our governing documents that may discourage third-party acquisitions of us; and changes in tax legislation. The order in which these factors appear should not be construed to indicate their relative importance or priority.

We caution that these factors may not be exhaustive and that many of these factors are beyond our ability to control or predict. Accordingly, any forward-looking statements contained herein should not be relied upon as a prediction of actual results. We undertake no duty and have no obligation to update forward-looking statements.

Where You Can Find Important Information

We may disclose important information through one or more of the following channels: SEC filings, public conference calls and webcasts, press releases, the investor relations page of our website (www.henryschein.com) and the social media channels identified on the Newsroom page of our website.

Executive-Level Overview

We believe we are the world's largest provider of health care products and services primarily to office-based dental, animal health and medical practitioners. We serve more than 1 million customers worldwide including dental practitioners and laboratories, animal health clinics and physician practices, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 85 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 21,000 people (of which more than 11,000 are based outside the United States) and have operations or affiliates in 32 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand and the United Kingdom.

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We have established strategically located distribution centers to enable us to better serve our customers and increase our operating efficiency. This infrastructure, together with broad product and service offerings at competitive prices, and a strong commitment to customer service, enables us to be a single source of supply for our customers' needs. Our infrastructure also allows us to provide convenient ordering and rapid, accurate and complete order fulfillment.

We conduct our business through two reportable segments: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base.

The health care distribution reportable segment aggregates our global dental, animal health and medical operating segments. This segment distributes consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins. Our global dental group serves office-based dental practitioners, dental laboratories, schools and other institutions. Our global animal health group serves animal health practices and clinics. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions.

Our global technology and value-added services group provides software, technology and other value-added services to health care practitioners. Our technology group offerings include practice management software systems for dental and medical practitioners and animal health clinics. Our value-added practice solutions include financial services on a non-recourse basis, e-services, practice technology, network and hardware services, as well as continuing education services for practitioners.

Industry Overview

In recent years, the health care industry has increasingly focused on cost containment. This trend has benefited distributors capable of providing a broad array of products and services at low prices. It also has accelerated the growth of HMOs, group practices, other managed care accounts and collective buying groups, which, in addition to their emphasis on obtaining products at competitive prices, tend to favor distributors capable of providing specialized management information support. We believe that the trend towards cost containment has the potential to favorably affect demand for technology solutions, including software, which can enhance the efficiency and facilitation of practice management.

Our operating results in recent years have been significantly affected by strategies and transactions that we undertook to expand our business, domestically and internationally, in part to address significant changes in the health care industry, including consolidation of health care distribution companies, health care reform, trends toward managed care, cuts in Medicare and collective purchasing arrangements.

Our current and future results have been and could be impacted by the current economic environment and uncertainty, particularly impacting overall demand for our products and services.

Industry Consolidation

The health care products distribution industry, as it relates to office-based health care practitioners, is fragmented and diverse. This industry, which encompasses the dental, animal health and medical markets, was estimated to produce revenues of approximately \$45 billion in 2016 in the global markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

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Due in part to the inability of office-based health care practitioners to store and manage large quantities of supplies in their offices, the distribution of health care supplies and small equipment to office-based health care practitioners has been characterized by frequent, small quantity orders, and a need for rapid, reliable and substantially complete order fulfillment. The purchasing decisions within an office-based health care practice are typically made by the practitioner or an administrative assistant. Supplies and small equipment are generally purchased from more than one distributor, with one generally serving as the primary supplier.

The trend of consolidation extends to our customer base. Health care practitioners are increasingly seeking to partner, affiliate or combine with larger entities such as hospitals, health systems, group practices or physician hospital organizations. In many cases, purchasing decisions for consolidated groups are made at a centralized or professional staff level; however, orders are delivered to the practitioners' offices.

We believe that consolidation within the industry will continue to result in a number of distributors, particularly those with limited financial, operating and marketing resources, seeking to combine with larger companies that can provide growth opportunities. This consolidation also may continue to result in distributors seeking to acquire companies that can enhance their current product and service offerings or provide opportunities to serve a broader customer base.

Our trend with regard to acquisitions and joint ventures has been to expand our role as a provider of products and services to the health care industry. This trend has resulted in our expansion into service areas that complement our existing operations and provide opportunities for us to develop synergies with, and thus strengthen, the acquired businesses.

As industry consolidation continues, we believe that we are positioned to capitalize on this trend, as we believe we have the ability to support increased sales through our existing infrastructure, although there can be no assurances that we will be able to successfully accomplish this. We also have invested in expanding our sales/marketing infrastructure to include a focus on building relationships with decision makers who do not reside in the office-based practitioner setting.

As the health care industry continues to change, we continually evaluate possible candidates for merger and joint venture or acquisition and intend to continue to seek opportunities to expand our role as a provider of products and services to the health care industry. There can be no assurance that we will be able to successfully pursue any such opportunity or consummate any such transaction, if pursued. If additional transactions are entered into or consummated, we would incur merger and/or acquisition-related costs, and there can be no assurance that the integration efforts associated with any such transaction would be successful.

Aging Population and Other Market Influences

Industry Consolidation

The health care products distribution industry continues to experience growth due to the aging population, increased health care awareness, the proliferation of medical technology and testing, new pharmacology treatments and expanded third-party insurance coverage, partially offset by the effects of unemployment on insurance coverage. In addition, the physician market continues to benefit from the shift of procedures and diagnostic testing from acute care settings to alternate-care sites, particularly physicians' offices.

According to the U.S. Census Bureau's International Data Base, in 2016 there were more than six million Americans aged 85 years or older, the segment of the population most in need of long-term care and elder-care services. By the year 2050, that number is projected to nearly triple to approximately 19 million. The population aged 65 to 84 years is projected to increase over 60% during the same time period.

As a result of these market dynamics, annual expenditures for health care services continue to increase in the United States. We believe that demand for our products and services will grow, while continuing to be impacted by current and future operating, economic and industry conditions. The Centers for Medicare and Medicaid Services, or CMS, published "National Health Expenditure Projections 2016-2025" indicating that total national health care spending reached approximately \$3.4 trillion in 2016, or 18.1% of the nation's gross domestic product, the

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benchmark measure for annual production of goods and services in the United States. Health care spending is projected to reach approximately \$5.5 trillion in 2025, approximately 19.9% of the nation's gross domestic product.

Government

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to extensive local, state, federal and foreign governmental laws and regulations applicable to the distribution and sale of pharmaceuticals and medical devices. Additionally, government and private insurance programs fund a large portion of the total cost of medical care, and there has been an emphasis on efforts to control medical costs, including laws and regulations lowering reimbursement rates for pharmaceuticals, medical devices, and/or medical treatments or services. Also, many of these laws and regulations are subject to change and may impact our financial performance. In addition, our businesses are generally subject to numerous other laws and regulations that could impact our financial performance, including securities, antitrust, anti-bribery and anti-kickback, customer interaction transparency, data privacy, data security and other laws and regulations. Failure to comply with law or regulations could have a material adverse effect on our business.

Health Care Reform

The United States Health Care Reform Law adopted through the March 2010 enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act increased federal oversight of private health insurance plans and included a number of provisions designed to reduce Medicare expenditures and the cost of health care generally, to reduce fraud and abuse, and to provide access to increased health coverage.

The Health Care Reform Law requirements include a 2.3% excise tax on domestic sales of many medical devices by manufacturers and importers that began in 2013 and a fee on branded prescription drugs and biologics that was implemented in 2011, both of which may affect sales. However, with respect to the medical device excise tax, a two-year moratorium was imposed under the Consolidated Appropriations Act, 2016, suspending the imposition of the tax on device sales during the period beginning January 1, 2016 and ending on December 31, 2017. The Health Care Reform Law has also materially expanded the number of individuals in the United States with health insurance. The Health Care Reform Law has faced ongoing legal challenges, including litigation seeking to invalidate some of or all of the law or the manner in which it has been implemented. In addition, the President is seeking to repeal and replace the Health Care Reform Law. Repeal and replace legislation has been passed in the House of Representatives, but has not yet been passed in the Senate. The outcome of the President's efforts is uncertain at this time. On January 20, 2017, President Trump signed an Executive Order directing federal agencies with authorities and responsibilities under the Health Care Reform Law to waive, defer, grant exemptions from, or delay the implementation of any provision of the Health Care Reform Law that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. The uncertain status of the Health Care Reform Law affects our ability to plan.

Industry Consolidation

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act or Open Payments Program, imposes reporting and disclosure requirements for drug and device manufacturers and distributors with regard to payments or other transfers of value made to certain covered recipients (including physicians, dentists and teaching hospitals), and for such manufacturers and distributors and for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. CMS publishes information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities.

Under the Physician Payment Sunshine Act, we are required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. We believe that we are substantially compliant with applicable Physician Payment Sunshine Act requirements. The Physician Payment Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may be required to report under certain state transparency laws that address circumstances not covered by the Physician Payment Sunshine Act, and some of these state laws, as well as the federal law, can be ambiguous. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. While we believe we have substantially compliant programs and controls in place to comply with these requirements, our compliance with these rules imposes additional costs on us.

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Another notable Medicare health care reform initiative, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”), enacted on April 16, 2015, establishes a new payment framework, called the Quality Payment Program, which modifies certain Medicare payments to “eligible clinicians,” including physicians, dentists and other practitioners. Under MACRA, eligible clinicians will be required to participate in Medicare through the Merit-Based Incentive Payment System (“MIPS”) or Advanced Alternative Payment Models (“APMs”). MIPS generally will consolidate three current programs; the physician quality reporting system, the value-based payment modifier and the Medicare electronic health record (“EHR”) program, into a single program in which Medicare reimbursement to eligible clinicians will include both positive and negative payment adjustments that take into account quality, resource use, clinical practice improvement and meaningful use of certified EHR technology. Advanced APMs generally involve higher levels of financial and technology risk. The final rule was published in the Federal Register on November 4, 2016 and allows eligible Medicare clinicians to pick their pace of participation for the first performance period that began January 1, 2017. The data collected in the first performance year will determine payment adjustments beginning January 1, 2019. MACRA represents a fundamental change in physician reimbursement that is expected to provide substantial financial incentives for physicians to participate in risk contracts, and to increase physician information technology and reporting obligations. The implications of the implementation of MACRA are uncertain and will depend on future regulatory activity and physician activity in the marketplace. MACRA may encourage physicians to move from smaller practices to larger physician groups or hospital employment, leading to a consolidation of a portion of our customer base. Although we believe that we are positioned to capitalize on this consolidation trend, there can be no assurances that we will be able to successfully accomplish this.

Health Care Fraud

Certain of our businesses are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws and regulations with respect to their operations. Some of these laws, referred to as “false claims laws,” prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as “anti-kickback laws,” prohibit soliciting, offering, receiving or paying remuneration in order to induce the referral of a patient or ordering, purchasing, leasing or arranging for, or recommending ordering, purchasing or leasing of, items or services that are paid for by federal, state and other health care payers and programs.

The fraud and abuse laws and regulations have been subject to varying interpretations, as well as heightened enforcement activity over the past few years, and significant enforcement activity has been the result of “relators,” who serve as whistleblowers by filing complaints in the name of the United States (and if applicable, particular states) under federal and state false claims laws. Under the federal False Claims Act, relators can be entitled to receive up to 30% of total recoveries. Also, violations of the federal False Claims Act can result in treble damages, and each false claim submitted can be subject to a civil penalty which, for penalties assessed after February 3, 2017 whose associated violations occurred after November 2, 2015, ranges from a minimum of \$10,957 to a maximum of \$21,916 per claim. Most states have adopted similar state false claims laws, and these state laws have their own penalties which may be in addition to federal False Claims Act penalties. The Health Care Reform Law significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, which could lead to the possibility of

increased whistleblower or relator suits, and among other things made clear that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

The United States government (among others) has expressed concerns about financial relationships between suppliers on the one hand and physicians and dentists on the other. As a result, we regularly review and revise our marketing practices as necessary to facilitate compliance.

We also are subject to certain United States and foreign laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, German anti-corruption laws and other anti-bribery laws and laws pertaining to the accuracy of our internal books and records, which have been the focus of increasing enforcement activity globally in recent years.

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Failure to comply with fraud and abuse laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse effect on our business. Also, these measures may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and varied interpretation by prosecutorial and regulatory authorities, increasing the risk of noncompliance.

While we believe that we are substantially compliant with applicable fraud and abuse laws and regulations, and have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business.

Operating, Security and Licensure Standards

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to various local, state, federal and foreign governmental laws and regulations applicable to the distribution of pharmaceuticals and medical devices. Among the United States federal laws applicable to us are the Controlled Substances Act, the Federal Food, Drug, and Cosmetic Act, as amended (“FDC Act”), and Section 361 of the Public Health Service Act. We are also subject to comparable foreign regulations.

The FDC Act and similar foreign laws generally regulate the introduction, manufacture, advertising, labeling, packaging, storage, handling, reporting, marketing and distribution of, and record keeping for, pharmaceuticals and medical devices shipped in interstate commerce, and states may similarly regulate such activities within the state. Section 361 of the Public Health Service Act, which provides authority to prevent the spread of communicable diseases, serves as the legal basis for the United States Food and Drug Administration’s (“FDA”) regulation of human cells, tissues and cellular and tissue-based products, also known as “HCT/P products.”

The Federal Drug Quality and Security Act of 2013 brought about significant changes with respect to pharmaceutical supply chain requirements and pre-empts state law. Title II of this measure, known as the Drug Supply Chain Security Act (“DSCSA”), is being phased in over a period of ten years, and is intended to build a national electronic, interoperable system to identify and trace certain prescription drugs as they are distributed in the United States. The law’s track and trace requirements applicable to manufacturers, wholesalers, repackagers and dispensers (e.g., pharmacies) of prescription drugs took effect in January 2015, and will continue to be implemented. The DSCSA product tracing requirements replace the former FDA drug pedigree requirements and pre-empt state requirements that are inconsistent with, more stringent than, or in addition to, the DSCSA requirements.

The DSCSA also establishes certain requirements for the licensing and operation of prescription drug wholesalers and third party logistics providers (“3PLs”), and includes the eventual creation of national wholesaler and 3PL licenses in cases where states do not license such entities. The DSCSA requires that wholesalers and 3PLs distribute drugs in accordance with certain standards regarding the recordkeeping, storage and handling of prescription drugs. According to FDA guidance, states are pre-empted from imposing any licensing requirements that are inconsistent with, less stringent than, directly related to, or covered by the standards established by federal law in this area. Current state licensing requirements will likely remain in effect until the FDA issues new regulations as directed by the DSCSA.

We believe that we are substantially compliant with applicable DSCSA requirements.

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The Food and Drug Administration Amendments Act of 2007 and the Food and Drug Administration Safety and Innovation Act of 2012 amended the FDCA to require the FDA to promulgate regulations to implement a unique device identification (“UDI”) system. The FDA is phasing in the implementation of the UDI regulations over seven years, generally beginning with the highest-risk devices (i.e., Class III medical devices) and ending with the lowest-risk devices. The UDI regulations require “labelers” to include unique device identifiers (“UDIs”), with a content and format prescribed by the FDA and issued under a system operated by an FDA-accredited issuing agency, on the labels and packages of medical devices, and to directly mark certain devices with UDIs. The UDI regulations also require labelers to submit certain information concerning UDI-labeled devices to the FDA, much of which information is publicly available on an FDA database, the Global Unique Device Identification Database. The UDI regulations provide for certain exceptions, alternatives and time extensions. For example, the UDI regulations include a general exception for Class I devices exempt from the Quality System Regulation (other than record-keeping requirements and complaint files). Regulated labelers include entities such as device manufacturers, repackagers, reproducers and relabelers that cause a device’s label to be applied or modified, with the intent that the device will be commercially distributed without any subsequent replacement or modification of the label, and include certain of our businesses.

We believe that we are substantially compliant with applicable UDI requirements.

Under the Controlled Substances Act, as a distributor of controlled substances, we are required to obtain and renew annually registrations for our facilities from the United States Drug Enforcement Administration (“DEA”) permitting us to handle controlled substances. We are also subject to other statutory and regulatory requirements relating to the storage, sale, marketing, handling, reporting and distribution of such drugs, in accordance with the Controlled Substances Act and its implementing regulations, and these requirements have been subject to heightened enforcement activity in recent times. We are subject to inspection by the DEA.

Certain of our businesses are also required to register for permits and/or licenses with, and comply with operating and security standards of, the DEA, the FDA, the United States Department of Health and Human Services (“HHS”), and various state boards of pharmacy, state health departments and/or comparable state agencies as well as comparable foreign agencies, and certain accrediting bodies depending on the type of operations and location of product distribution, manufacturing or sale. These businesses include those that distribute, manufacture and/or repackage prescription pharmaceuticals and/or medical devices and/or HCT/P products, or own pharmacy operations, or install, maintain or repair equipment. In addition, Section 301 of the National Organ Transplant Act, and a number of comparable state laws, impose civil and/or criminal penalties for the transfer of certain human tissue (for example, human bone products) for valuable consideration, while generally permitting payments for the reasonable costs incurred in procuring, processing, storing and distributing that tissue. We are also subject to foreign government regulation of such products. The DEA, the FDA and state regulatory authorities have broad inspection and enforcement powers, including the ability to suspend or limit the distribution of products by our distribution centers, seize or order the recall of products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. Foreign regulations subject us to similar foreign enforcement powers. Furthermore, compliance with legal requirements has required and may in the future require us to institute voluntary recalls, or carry out recalls as a result of our suppliers’ legal obligations, of products we sell, which could result in financial losses and potential reputational harm. Our customers are also subject to significant federal, state, local and foreign

governmental regulation.

Certain of our businesses are subject to various additional federal, state, local and foreign laws and regulations, including with respect to the sale, transportation, storage, handling and disposal of hazardous or potentially hazardous substances, and safe working conditions.

Certain of our businesses also maintain contracts with governmental agencies and are subject to certain regulatory requirements specific to government contractors.

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Antitrust

The U.S. federal government, most U.S. states and many foreign countries have antitrust laws that prohibit certain types of conduct deemed to be anti-competitive. Violations of antitrust laws can result in various sanctions, including criminal and civil penalties. Private plaintiffs also could bring civil lawsuits against us in the United States for alleged antitrust law violations, including claims for treble damages.

Regulated Software and Data Processing; Electronic Health Records

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings, and has developed and continues to develop policies on regulating clinical decision support tools and other types of software as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA or foreign government authorities could determine that one or more of our products is a medical device that is subject to regulation, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

In addition, our businesses that involve physician and dental practice management products include electronic information technology systems that store and process personal health, clinical, financial and other sensitive information of individuals. These information technology systems may be vulnerable to breakdown, wrongful intrusions, data breaches and malicious attack, which could require us to expend significant resources to eliminate these problems and address related security concerns, and could involve claims against us by private parties and/or governmental agencies. For example, we are directly or indirectly subject to numerous federal, state, local and foreign laws and regulations that protect the privacy and security of such information, such as the privacy and security provisions of the federal Health Insurance Portability and Accountability Act of 1996, as amended, and implementing regulations (“HIPAA”). HIPAA requires, among other things, the implementation of various recordkeeping, operational, notice and other practices intended to safeguard that information, limit its use to allowed purposes and notify individuals in the event of privacy and security breaches. Failure to comply with these laws and regulations can result in substantial penalties and other liabilities.

In addition, the European Parliament and the Council of the European Union have adopted a new pan-European General Data Protection Regulation (“GDPR”), effective from May 25, 2018, which increases privacy rights for individuals in Europe, extends the scope of responsibilities for data controllers and data processors and imposes increased requirements and potential penalties on companies offering goods or services to individuals who are residents in Europe (“Data Subjects”) or monitoring the behavior of such individuals (including by companies based outside of Europe). Noncompliance can result in penalties of up to the greater of EUR 20 million, or 4% of global company revenues. Individual member states may impose additional requirements and penalties. Among other things, the GDPR requires with respect to data concerning Data Subjects identity, company accountability, consents

Industry Consolidation

from Data Subjects' or other acceptable legal basis needed to process the personal data, prompt breach notifications within 72 hours, fairness and transparency in how the personal data is stored, used or otherwise processed, and data integrity and security, and provides rights to Data Subjects relating to modification, erasure and transporting of the personal data. While we expect to have substantially compliant programs and controls in place to comply with the GDPR requirements, our compliance with the new regulation is likely to impose additional costs on us, and we cannot predict whether the interpretations of the requirements, or changes in our practices in response to new requirements or interpretations of the requirements, could have a material adverse effect on our business.

We also sell products and services that health care providers, such as physicians and dentists, use to store and manage patient medical or dental records. These customers are subject to laws and regulations, such as HIPAA, which require that they protect the privacy and security of those records, and our products may be used as part of these customers' comprehensive data security programs, including in connection with their efforts to comply with applicable privacy and security laws. Perceived or actual security vulnerabilities in our products or services, or the perceived or actual failure by us or our customers who use our products to comply with applicable legal or contractual requirements, may not only cause us significant reputational harm, but may also lead to claims against us by our customers and/or governmental agencies and involve substantial fines, penalties and other liabilities and expenses and costs for remediation.

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Federal initiatives provide a program of incentive payments available to certain health care providers involving the adoption and use of certain electronic health care records systems and processes. The initiatives include providing, among others, physicians and dentists, with financial incentives if they meaningfully use certified EHR technology in accordance with applicable and evolving requirements. In addition, Medicare-eligible providers that fail to timely adopt certified EHR systems and meet “meaningful use” requirements for those systems in accordance with regulatory requirements are to be subject to cumulative Medicare reimbursement reductions, which reductions for applicable health professionals (including physicians and dentists) began on January 1, 2015. Qualification for the incentive payments requires the use of EHRs that have certain capabilities for meaningful use pursuant to evolving standards adopted by CMS and by the Office of the National Coordinator for Health Information Technology (“ONC”) of HHS.

The use of certified EHR technology will continue as a feature of MACRA’s MIPS program, and in connection with this, Medicare EHR program payment adjustments to eligible professionals will sunset at the end of 2018 and MIPS payment adjustments will begin on January 1, 2019. The first performance period for MIPS began January 1, 2017, and will afford eligible clinicians different reporting options linked to the amount of data reported and the duration of the reporting period, with positive payment adjustments generally linked to more robust reporting.

On October 6, 2015, CMS and ONC released comprehensive final rules with respect to the EHR program that, among other things, established the more challenging “Stage 3” criteria, made certain adjustments to Stage 1 and Stage 2 standards (e.g., reducing the 2015 reporting period from a full year to 90 days), and finalized 2015 edition health information technology (HIT) certification criteria (which is now added to the existing 2014 edition HIT certification criteria, but not required until 2018). Notably, under the new rules, compliance with Stage 3 standards is optional for providers in 2017, and would generally be required for all eligible providers (regardless of prior participation in the EHR incentive program) for 2018 reporting periods and subsequently. Developers and others involved in the manufacture of EHR program technology will have this interim period to develop and certify products, and work with customers to implement products for the 2018 EHR program period. In connection with the release of the October 6 rules, HHS has also stated that it will continue to modify applicable EHR program standards. On November 14, 2016, CMS published a final rule that will impact Medicare and Medicaid EHR incentive programs through revisions to the objectives and measures for eligible hospitals, critical access hospitals and dual-eligible hospitals.

Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs. CMS and ONC establish criteria for certified EHR systems, and these criteria have been subject to change. In order to maintain certification of our EHR products, we must satisfy these changing governmental criteria. If any of our EHR systems do not meet these standards, yet have been relied upon by health care providers to receive federal incentive payments, as noted above, we are exposed to risk under federal health care fraud and abuse laws, such as the False Claims Act. For example, on May 31, 2017, the U.S. Department of Justice announced a \$155 million settlement and 5-year corporate integrity agreement involving a vendor of certified EHR systems, based on allegations that the vendor, by misrepresenting capabilities to the certifying body, caused its health care provider customers to submit false Medicare and Medicaid claims for meaningful use payments in violation of the False Claims Act. While we believe we are substantially in compliance with such certifications and with applicable fraud and abuse laws and regulations, and we have adequate compliance programs and controls in place to ensure substantial

compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business. Moreover, in order to satisfy our customers, our products may need to incorporate increasingly complex reporting functionality. Although we believe we are positioned to accomplish this, the effort may involve increased costs, and our failure to implement product modifications, or otherwise satisfy applicable standards, could have a material adverse effect on our business.

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Other health information standards, such as regulations under HIPAA, establish standards regarding electronic health data transmissions and transaction code set rules for specific electronic transactions, such as transactions involving claims submissions to third party payers. Certain of our businesses provide electronic practice management products that must meet these requirements. Failure to abide by electronic health data transmission standards could expose us to breach of contract claims, substantial fines, penalties, and other liabilities and expenses, costs for remediation and harm to our reputation.

There may be additional legislative initiatives in the future impacting health care.

E-Commerce

Electronic commerce solutions have become an integral part of traditional health care supply and distribution relationships. Our distribution business is characterized by rapid technological developments and intense competition. The continuing advancement of online commerce requires us to cost-effectively adapt to changing technologies, to enhance existing services and to develop and introduce a variety of new services to address the changing demands of consumers and our customers on a timely basis, particularly in response to competitive offerings.

Through our proprietary, technologically based suite of products, we offer customers a variety of competitive alternatives. We believe that our tradition of reliable service, our name recognition and large customer base built on solid customer relationships, position us well to participate in this significant aspect of the distribution business. We continue to explore ways and means to improve and expand our Internet presence and capabilities, including our online commerce offerings and our use of various social media outlets.

Table of Contents**Results of Operations**

The following table summarizes the significant components of our operating results for the three and six months ended July 1, 2017 and June 25, 2016 and cash flows for the six months ended July 1, 2017 and June 25, 2016 (in thousands):

	Three Months July 1, 2017
Operating results:	
Net sales	\$3,059
Cost of sales	2,220
Gross profit	839,1
Operating expenses:	
Selling, general and administrative	628,5
Restructuring costs	-
Operating income	\$210,6
Other expense, net	\$(7,363)
Net income	149,5
Net income attributable to Henry Schein, Inc.	136,0
Cash flows:	
Net cash provided by operating activities	
Net cash used in investing activities	
Net cash provided by (used in) financing activities	

Plan of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which was expected to be completed by the end of fiscal 2015. This initiative originally planned for the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. We subsequently announced our plan to extend these restructuring activities through the end of 2016 to further implement cost-savings initiatives, which ultimately resulted in the elimination of approximately 900 positions, representing 4% of our

workforce. We recorded restructuring costs of \$34.9 million pre-tax in fiscal 2015 and \$45.9 million pre-tax in fiscal 2016. Our restructuring activities are complete and we do not expect to report any such charges in 2017.

During the three and six months ended June 25, 2016, we recorded restructuring costs of \$20.4 million and \$24.4 million, respectively. The costs associated with this restructuring are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

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Three Months Ended July 1, 2017 Compared to Three Months Ended June 25, 2016

Net Sales

Net sales for the three months ended July 1, 2017 and June 25, 2016 were as follows (in thousands):

Health care distribution (1):

Dental	
Animal health	
Medical	
Total health care distribution	

Technology and value-added services

(2).....	
Total	

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

(2) Consists of practice management software and other value-added products, which are distributed primarily to health care providers and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.

The \$186.8 million, or 6.5%, increase in net sales for the three months ended July 1, 2017 includes 7.7% local currency growth (4.4% increase in internally generated revenue and 3.3% growth from acquisitions) partially offset by a decrease of 1.2% related to foreign currency exchange.

The \$115.0 million, or 8.4%, increase in dental net sales for the three months ended July 1, 2017 includes 9.4% local currency growth (3.1% increase in internally generated revenue and 6.3% growth from acquisitions) partially offset by a decrease of 1.0% related to foreign currency exchange. The 9.4% local currency growth was due to an increase in dental consumable merchandise sales of 8.8% (1.0% increase in internally generated revenue and 7.8% growth from acquisitions), as well as an increase in dental equipment sales and service revenues of 11.2% (10.3% increase in internally generated revenue and 0.9% growth from acquisitions).

The \$37.7 million, or 4.4%, increase in animal health net sales for the three months ended July 1, 2017 includes 6.7% local currency growth (5.8% increase in internally generated revenue and 0.9% growth from acquisitions) partially offset by a decrease of 2.3% related to foreign currency exchange. The growth in internally generated animal health revenue is affected by the revenue for certain products being recognized on a gross basis in 2017 that had been recognized on an agency basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 5.4%.

The \$32.6 million, or 6.1%, increase in medical net sales for the three months ended July 1, 2017 includes 6.2% local currency growth (6.1% increase in internally generated revenue and 0.1% growth from acquisitions) partially offset by a decrease of 0.1% related to foreign currency exchange.

The \$1.5 million, or 1.4%, increase in technology and value-added services net sales for the three months ended July 1, 2017 includes 2.8% local currency growth (2.2% internally generated revenue and 0.6% growth from acquisitions) partially offset by a decrease of 1.4% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended July 1, 2017 and June 25, 2016 were as follows (in thousands):

Health care distribution	Ju
.....	20
Technology and value-added services	\$7
.....	7
Total	\$8

Gross profit increased \$37.7 million, or 4.7% for the three months ended July 1, 2017, compared to the prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

Within our health care distribution segment, gross profit margins may vary from one period to the next. Changes in the mix of products sold as well as changes in our customer mix have been the most significant drivers affecting our gross profit margin. For example, sales of pharmaceutical products are generally at lower gross profit margins than other products. Conversely, sales of our private label products achieve gross profit margins that are higher than average. With respect to customer mix, sales to our large-group customers are typically completed at lower gross margins due to the higher volumes sold as opposed to the gross margin on sales to office-based practitioners who normally purchase lower volumes at greater frequencies.

Health care distribution gross profit increased \$35.1 million, or 4.8%, for the three months ended July 1, 2017 compared to the prior year period. Health care distribution gross profit margin decreased to 26.0% for the three months ended July 1, 2017 from 26.5% for the comparable prior year period. The overall increase in our health care distribution gross profit is attributable to a \$20.0 million gross profit increase from growth in internally generated revenue and \$31.0 million is attributable to acquisitions. These increases were partially offset by a \$15.9 million decline in gross profit due primarily to the effects of foreign exchange on revenues and the decrease in the gross margin rates.

Technology and value-added services gross profit increased \$2.6 million, or 3.8%, for the three months ended July 1, 2017 compared to the prior year period. Technology and value-added services gross profit margin increased to 65.9% for the three months ended July 1, 2017 from 64.4% for the comparable prior year period. The increase in gross profit in our technology and value-added services segment was attributable to \$2.1 million of growth in internally generated revenue. Acquisitions accounted for the remaining \$0.5 million increase of gross profit within our technology and value-added services segment for the three months ended July 1, 2017 compared to the prior year period.

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Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the three months ended July 1, 2017 and June 25, 2016 were as follows (in thousands):

Health care distribution	20
.....	\$5
Technology and value-added services	
.....	3
Total	\$6

Selling, general and administrative expenses increased \$28.1 million, or 4.7%, to \$628.5 million for the three months ended July 1, 2017 from the comparable prior year period. The \$28.2 million increase in selling, general and administrative expenses within our health care distribution segment for the three months ended July 1, 2017 as compared to the prior year period was attributable to \$30.8 million of additional costs from acquired companies, partially offset by a \$2.6 million reduction in operating costs. As a percentage of net sales, selling, general and administrative expenses decreased to 20.5% from 20.9% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased \$8.6 million, or 2.3%, for the three months ended July 1, 2017 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 12.5% from 13.0% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased \$19.5 million, or 8.6%, for the three months ended July 1, 2017 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 8.1% from 7.9% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the three months ended July 1, 2017 and June 25, 2016 was as follows (in thousands):

	July 1 2017
Interest income	\$4,10
Interest expense	(12,
Other, net	728
Other expense, net	\$(7,30

Other expense, net increased \$3.8 million to \$7.4 million for the three months ended July 1, 2017 from the comparable prior year period. Interest expense increased \$4.8 million primarily due to increased borrowings and higher interest rates under our bank credit lines and interest expense related to a financing arrangement entered into during the first quarter of 2017 in Brazil.

Income Taxes

For the three months ended July 1, 2017, our effective tax rate was 28.7% compared to 27.6% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates in 2017 primarily relates to the adoption of Accounting Standards Update No. 2016-09, “Stock Compensation” (Topic 718) in the first quarter of 2017 as well as state and foreign income taxes and interest expense for both periods. The 2016 effective tax rate was further affected by a federal tax audit settlement which reduced our income tax expense by approximately \$4.5 million in the period.

Net Income

Net income increased \$16.5 million, or 12.4%, for the three months ended July 1, 2017, compared to the prior year period due to the factors noted above.

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Six Months Ended July 1, 2017 Compared to Six Months Ended June 25, 2016

Net Sales

Net sales for the six months ended July 1, 2017 and June 25, 2016 were as follows (in thousands):

Health care distribution (1):

Dental	
Animal health	
Medical	
Total health care distribution	

Technology and value-added services

(2).....	
Total	

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

(2) Consists of practice management software and other value-added products, which are distributed primarily to health care providers and financial services on a non-recourse basis, e-services, continuing education services for practitioners, consulting and other services.

The \$396.8 million, or 7.1%, increase in net sales for the six months ended July 1, 2017 includes an increase of 8.2% in local currency growth (5.2% increase in internally generated revenue and 3.0% growth from acquisitions) partially offset by a decrease of 1.1% related to foreign currency exchange.

The \$218.4 million, or 8.2%, increase in dental net sales for the six months ended July 1, 2017 includes an increase of 8.8% in local currency growth (3.0% increase in internally generated revenue and 5.8% growth from acquisitions) partially offset by a decrease of 0.6% related to foreign currency exchange. The 8.8% increase in local currency sales was due to an increase in dental consumable merchandise sales growth of 9.8% (2.7% increase in internally generated revenue and 7.1% growth from acquisitions), as well as an increase in dental equipment sales and service revenues of 5.3% (4.3% increase in internally generated revenue and 1.0% growth from acquisitions).

The \$79.3 million, or 4.9%, increase in animal health net sales for the six months ended July 1, 2017 includes an increase of 7.4% in local currency growth (6.4% internally generated revenue and 1.0% growth from acquisitions) partially offset by a decrease of 2.5% related to foreign currency exchange. The growth in internally generated animal health revenue is affected by the revenue for certain products being recognized on a gross basis in 2017 that had been recognized on an agency basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 6.0%.

The \$93.4 million, or 8.7%, increase in medical net sales for the six months ended July 1, 2017 is the result of an increase of 8.8% in local currency growth, all of which is attributable to an increase in internally generated revenue, partially offset by a decrease of 0.1% related to foreign currency exchange.

The \$5.8 million, or 2.8%, increase in technology and value-added services net sales for the six months ended July 1, 2017 includes an increase of 4.1% in local currency growth (3.8% internally generated revenue and 0.3% growth from acquisitions) partially offset by a decrease of 1.3% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margin percentages by segment and in total for the six months ended July 1, 2017 and June 25, 2016 were as follows (in thousands):

Health care distribution	Ju
.....	20
Technology and value-added services	\$ 1
.....	1
Total	\$ 1

For the six months ended July 1, 2017, gross profit increased \$82.8 million, or 5.2%, from the comparable prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

Within our health care distribution segment, gross profit margins may vary from one period to the next. Changes in the mix of products sold as well as changes in our customer mix have been the most significant drivers affecting our gross profit margin. For example, sales of pharmaceutical products are generally at lower gross profit margins than other products. Conversely, sales of our private label products achieve gross profit margins that are higher than average. With respect to customer mix, sales to our large-group customers are typically completed at lower gross margins due to the higher volumes sold as opposed to the gross margin on sales to office-based practitioners who normally purchase lower volumes at greater frequencies.

Health care distribution gross profit increased \$77.4 million, or 5.4%, for the six months ended July 1, 2017 compared to the prior year period. Health care distribution gross profit margin decreased to 26.4% for the six months ended July 1, 2017 from 26.9% for the comparable prior year period. The overall increase in our health care distribution gross profit is attributable to a \$47.5 million gross profit increase from growth in internally generated revenue and \$57.9 million is attributable to acquisitions. These increases were partially offset by a \$28.0 million decline in gross profit due primarily to the effects of foreign exchange on revenues and the decrease in the gross margin rates.

Technology and value-added services gross profit increased \$5.4 million, or 4.0%, for the six months ended July 1, 2017 compared to the prior year period. Technology gross profit margin increased to 65.6% for the six months ended July 1, 2017 from 64.9% for the comparable prior year period. The increase in gross profit in our technology and value-added services segment was attributable to \$4.9 million growth in internally generated revenue. Acquisitions accounted for the remaining \$0.5 million increase of gross profit within our technology and value-added services segment for the six months ended July 1, 2017 compared to the prior year period.

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Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the six months ended July 1, 2017 and June 25, 2016 were as follows (in thousands):

Health care distribution	Ju
.....	20
Technology and value-added services	\$ 1
.....	7
Total	\$ 1

Selling, general and administrative expenses increased \$59.5 million, or 5.0%, to \$1,257.5 million for the six months ended July 1, 2017 from the comparable prior year period. The \$59.8 million increase in selling, general and administrative expenses within our health care distribution segment for the six months ended July 1, 2017 as compared to the prior year period was attributable to \$53.2 million of additional costs from acquired companies, and \$6.6 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses decreased to 21.0% from 21.4% for the comparable prior year period.

As a component of selling, general and administrative expenses, selling expenses increased \$19.2 million, or 2.6%, to \$760.5 million for the six months ended July 1, 2017 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 12.7% as compared to 13.3% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$40.3 million, or 8.8%, to \$497.0 million for the six months ended July 1, 2017 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 8.3% compared to 8.2% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the six months ended July 1, 2017 and June 25, 2016 was as follows (in thousands):

	July 1 2017
Interest income	\$8,41
Interest expense	(23,6
Other, net	683
Other expense, net	\$(14,5

Other expense, net increased \$10.3 million to \$14.5 million for the six months ended July 1, 2017 from the comparable prior year period. Interest expense increased \$9.1 million primarily due to increased borrowings and higher interest rates under our bank credit lines and interest expense related to a financing arrangement entered into during the first quarter of 2017 in Brazil. Other, net decreased by \$2.7 million primarily due to investment proceeds received in the first quarter of 2016.

Income Taxes

For the six months ended July 1, 2017 and June 25, 2016, our effective tax rate was 24.8% and 29.1%. The difference between our effective tax rate and the federal statutory tax rate in 2017 primarily relates to the adoption of Accounting Standards Update No. 2016-09, "Stock Compensation" (Topic 718) in the first quarter of 2017 as well as state and foreign income taxes and interest expense for both periods. See Note 10 "Income Taxes" in the Notes to Consolidated Financial Statements. The 2016 effective tax rate was further affected by a federal tax audit settlement which reduced our income tax expense by approximately \$4.5 million in the period.

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Net Income

Net income increased \$42.2 million, or 16.4%, for the six months ended July 1, 2017, compared to the prior year period due to the factors noted above.

Liquidity and Capital Resources

Our principal capital requirements include funding of acquisitions, purchases of additional noncontrolling interests, repayments of debt principal, the funding of working capital needs, purchases of fixed assets and repurchases of common stock. Working capital requirements generally result from increased sales, special inventory forward buy-in opportunities and payment terms for receivables and payables. Historically, sales have tended to be stronger during the third and fourth quarters and special inventory forward buy-in opportunities have been most prevalent just before the end of the year, which has caused our working capital requirements to be higher from the end of the third quarter to the end of the first quarter of the following year.

We finance our business primarily through cash generated from our operations, revolving credit facilities and debt placements. Our ability to generate sufficient cash flows from operations is dependent on the continued demand of our customers for our products and services, and access to products and services from our suppliers.

Our business requires a substantial investment in working capital, which is susceptible to fluctuations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity, special inventory forward buy-in opportunities and our desired level of inventory. We anticipate future increases in our working capital requirements.

We finance our business to provide adequate funding for at least 12 months. Funding requirements are based on forecasted profitability and working capital needs, which, on occasion, may change. Consequently, we may change our funding structure to reflect any new requirements.

We believe that our cash and cash equivalents, our ability to access private debt markets and public equity markets, and our available funds under existing credit facilities provide us with sufficient liquidity to meet our currently foreseeable short-term and long-term capital needs. We have no off-balance sheet arrangements.

Net cash provided by operating activities was \$176.1 million for the six months ended July 1, 2017, compared to \$199.4 million for the comparable prior year period. The net change of \$23.3 million was primarily attributable to changes in net working capital, partially offset by an increase in net income.

Net cash used in investing activities was \$191.4 million for the six months ended July 1, 2017, compared to \$120.4 million for the comparable prior year period. The net change of \$71.0 million was primarily due to increased payments for equity investments and business acquisitions and purchases of fixed assets.

Net cash provided by financing activities was \$15.5 million for the six months ended July 1, 2017, compared to net cash used in investing activities of \$91.9 million for the comparable prior year period. The net change of \$107.4 million was primarily due to increased net borrowings from debt, decreased repurchases of common stock and decreased acquisitions of noncontrolling interests in subsidiaries, partially offset by increased payments for taxes related to shares withheld for employee taxes.

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The following table summarizes selected measures of liquidity and capital resources (in thousands):

	July 2017
Cash and cash equivalents	
.....	\$74,4
Working capital	
.....	1,2
Debt:	
Bank credit lines	
.....	\$577
Current maturities of long-term debt	
.....	17,2
Long-term debt	
.....	807
Total debt	\$1,4

Our cash and cash equivalents consist of bank balances and investments in money market funds representing overnight investments with a high degree of liquidity.

Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations decreased to 40.9 days as of July 1, 2017 from 41.4 days as of June 25, 2016. During the six months ended July 1, 2017, we wrote off approximately \$4.4 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations remained consistent at 5.4 as of July 1, 2017 compared to comparable prior year period. Our working capital accounts may be impacted by current and future economic conditions.

Bank Credit Lines

On April 18, 2017, we entered into a new \$750 million revolving agreement (the “Credit Agreement”). This facility, which matures in April 2022, replaced our \$500 million revolving credit facility, which was scheduled to mature in September 2019. The interest rate is based on the USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. The Credit Agreement provides, among other things, that we are required to maintain maximum leverage ratios, and contains customary representations, warranties and affirmative covenants. The Credit

Agreement also contains customary negative covenants, subject to negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. As of July 1, 2017 and December 31, 2016, the borrowings on this revolving credit facility and the prior credit facility were \$175.0 million and \$65.0 million, respectively. As of July 1, 2017 and December 31, 2016, there were \$12.7 million and \$13.0 million of letters of credit, respectively, provided to third parties under the credit facility and the prior credit facility.

As of July 1, 2017 and December 31, 2016, we had various other short-term bank credit lines available, of which \$402.5 million and \$372.5 million, respectively, were outstanding. At July 1, 2017 and December 31, 2016, borrowings under all of our credit lines had a weighted average interest rate of 1.98% and 1.61%, respectively.

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Table of Contents*Private Placement Facilities*

On September 22, 2014, we increased our available private placement facilities with three insurance companies to a total facility amount of \$975 million, and extended the expiration date to September 22, 2017. These facilities are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through September 22, 2017. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of July 1, 2017 are presented in the following table (in thousands):

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate	Due Date
September 2, 2010	\$ 100,000	3.79 %	September 2, 2020
January 20, 2012	50,000	3.45	January 20, 2024
January 20, 2012 (1)	35,714	3.09	January 20, 2022
December 24, 2012	50,000	3.00	December 24, 2024
June 2, 2014	100,000	3.19	June 2, 2021
June 16, 2017	100,000	3.42	June 16, 2027
	\$ 435,714		

(1) Annual repayments of approximately \$7.1 million for this borrowing commenced on January 20, 2016.

U.S. Trade Accounts Receivable Securitization

We have a facility agreement with a bank, as agent, based on the securitization of our U.S. trade accounts receivable that is structured as an asset-backed securitization program with pricing committed for up to three years. On June 1, 2016, we extended the expiration date of this facility agreement to April 29, 2019 and increased the purchase limit under the facility from \$300 million to \$350 million. On July 6, 2017, we extended the expiration date of this facility agreement to April 29, 2020. The borrowings outstanding under this securitization facility were \$349.6 million and \$350.0 million as of July 1, 2017 and December 31, 2016, respectively. At July 1, 2017, the interest rate on

borrowings under this facility was based on the asset-backed commercial paper rate of 125 basis points plus 75 basis points, for a combined rate of 2.00%. At December 31, 2016, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 101 basis points plus 75 basis points, for a combined rate of 1.76%.

We are required to pay a commitment fee of 30 basis points on the daily balance of the unused portion of the facility if our usage is greater than or equal to 50% of the facility limit or a commitment fee of 35 basis points on the daily balance of the unused portion of the facility if our usage is less than 50% of the facility limit.

Borrowings under this facility are presented as a component of Long-term debt within our consolidated balance sheet.

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Long-term debt

Long-term debt consisted of the following:

Private placement facilities	Jul
.....	20
U.S. trade accounts receivable securitization	\$4
.....	3
Note payable to bank at a weighted-average interest rate of 21.37% at December 31, 2016.....	-
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2021 at interest rates ranging from 2.56% to 12.90% at July 1, 2017 and ranging from 2.56% to 12.90% at December 31, 2016.....	3
Capital lease obligations payable through 2029 with interest rates ranging from 0.84% to 19.79% at July 1, 2017 and ranging from 1.38% to 19.15% at December 31, 2016.....	5
Total	8
Less current maturities	(
.....)
Total long-term debt	\$8

Stock Repurchases

From June 21, 2004 through July 1, 2017, we repurchased \$2.4 billion, or 25,500,085 shares, under our common stock repurchase programs, with \$150.0 million available as of July 1, 2017 for future common stock share repurchases.

Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the six months ended July 1, 2017 and the year ended December 31, 2016 are presented in the following table:

	Jul 1, 2017
Balance, beginning of period	\$60
Decrease in redeemable noncontrolling interests due to redemptions	(1)
Increase in redeemable noncontrolling interests due to business acquisitions.....	18
Net income attributable to redeemable noncontrolling interests	22
Dividends declared	(1)
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	4
Change in fair value of redeemable securities	12
Balance, end of period	\$74

Changes in the estimated redemption amounts of the noncontrolling interests subject to put options are adjusted at each reporting period with a corresponding adjustment to Additional paid-in capital. Future reductions in the carrying amounts are subject to a floor amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not impact the calculation of earnings per share.

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Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. Any adjustments to these accrual amounts are recorded in our consolidated statement of income.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates from those disclosed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2016.

Accounting Pronouncement Adopted

In March 2016, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, “Stock Compensation” (Topic 718) (“ASU 2016-09”). ASU 2016-09 contains amended guidance for share-based payment accounting. We adopted the provisions of this standard during the first quarter of 2017.

Under ASU 2016-09, all excess tax benefits and tax deficiencies resulting from the difference between the deduction for tax purposes and the stock-based compensation cost recognized for financial reporting purposes are included as a component of income tax expense as of January 1, 2017. Prior to the implementation of ASU 2016-09, excess tax benefits were recorded as a component of additional paid in capital and tax deficiencies were recognized either as an offset to accumulated excess tax benefits or in the income statement if there were no accumulated excess tax benefits. The adoption of ASU 2016-09 reduced income tax expense by approximately \$19.3 million for the six months ended July 1, 2017.

The ASU clarifies the classification of certain share based payment activities within the statements of cash flow. We have elected to prospectively present the amount of excess tax benefits related to stock compensation as a component of cash flow from operating activities. Additionally, classification of all cash payments made to taxing authorities on an employees’ behalf when directly withholding shares for tax-withholding purposes, which was previously included as cash flows from operating activities, is now presented retrospectively as cash flows from financing activities within the statement of cash flows.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in United States (“U.S. GAAP”). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

In August 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers”, which deferred the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

When effective, ASU 2014-09 will require us to use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

Currently, we are reviewing our various revenue streams within our two reportable segments: (i) health care distribution and (ii) technology and value-added services. We are gathering data to quantify the amount of sales by type of revenue stream. Concurrently, through the use of various data gathering methods, we are categorizing the

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types of sales for our business units for the purpose of comparing how we currently recognize revenue for the purpose of quantifying the impact, if any, that this ASU will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”). ASU 2016-02 contains guidance on accounting for leases and requires that most lease assets and liabilities and the associated rights and obligations be recognized on the Company’s balance sheet. ASU 2016-02 focuses on lease assets and lease liabilities by lessees classified as operating leases under previous generally accepted accounting principles. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. ASU 2016-02 will require disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. The standard which requires the use of a modified retrospective approach will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. We are currently exploring the methods we can use to gather and process our operating lease data at a worldwide consolidated level.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other” (Topic 350) (“ASU 2017-04”). ASU 2017-04 eliminates step two from the goodwill impairment test, thereby eliminating the requirement to calculate the implied fair value of a reporting unit. ASU 2017-04 will require us to perform our annual goodwill impairment test by comparing the fair value of our reporting units to the carrying value of those units. If the carrying value exceeds the fair value, we will be required to recognize an impairment charge; however, the impairment charge should not exceed the amount of goodwill allocated to such reporting unit. ASU 2017-04 is required to be implemented on a prospective basis for fiscal years beginning after December 15, 2019. We do not expect that the requirements of ASU 2017-04 will have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 clarifies guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting. ASU 2017-09 requires modification accounting if the fair value, vesting conditions, or equity or liability classification of the award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 is required to be implemented on a prospective basis for fiscal years beginning after December 15, 2017. We do not expect that the requirements of ASU 2017-09 will have a material impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Critical Accounting Policies and Estimates

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of July 1, 2017 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

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Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended July 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In September 2015, Henry Schein, Inc. was served with a summons and complaint in an action commenced in the United States District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. Plaintiff alleged that, through its website, it markets and sells dental supplies and equipment to dentists. Plaintiff alleged, among other things, that defendants conspired to eliminate plaintiff as a viable competitor and to exclude plaintiff from the market for the marketing, distribution and sale of dental supplies and equipment in the United States and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserted the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants' ongoing tortious and anticompetitive conduct. Plaintiff sought equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. On June 27, 2017, we announced that we settled this litigation with SourceOne Dental Inc. The settlement resulted in a \$5.325 million pre-tax charge, or \$0.04 per share to our second-quarter 2017 results. We deny any wrongdoing related to the SourceOne litigation and chose to pursue a settlement solely to avoid further distraction and cost resulting from this matter. We have now been dismissed from this litigation with prejudice.

Beginning in January 2016, class action complaints were filed against Patterson Companies, Inc., Benco Dental Supply Co. and Henry Schein, Inc. Each of these complaints allege, among other things, that defendants conspired to fix prices, allocate customers and foreclose competitors by boycotting manufacturers, state dental associations and others that deal with defendants' competitors. Subject to certain exclusions, these classes seek to represent all persons who purchased dental supplies or equipment in the United States directly from any of the defendants or Burkhart Dental Supply Co. since August 31, 2008. Each class action complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, compensatory and treble damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. We intend to defend ourselves vigorously against these actions.

From time to time, we may become a party to other legal proceedings, including, without limitation, product liability claims, employment matters, commercial disputes, governmental inquiries and investigations (which may in some cases involve our entering into settlement arrangements or consent decrees), and other matters arising out of the ordinary course of our business. While the results of any legal proceeding cannot be predicted with certainty, in our opinion none of these other pending matters are currently anticipated to have a material adverse effect on our financial condition or results of operations.

As of July 1, 2017, we had accrued our best estimate of potential losses relating to claims that were probable to result in liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for

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determining estimated losses considers currently available facts, presently enacted laws and regulations and other factors, including probable recoveries from third parties.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*Purchases of equity securities by the issuer*

Our share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to \$100 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. As summarized in the table below, subsequent additional increases totaling \$2.4 billion, authorized by our Board of Directors, to the repurchase program provide for a total of \$2.5 billion of shares of our common stock to be repurchased under this program.

Date of Authorization	Amount of Additional Repurchases Authorized
October 31, 2005	\$ 100,000,000
March 28, 2007	100,000,000
November 16, 2010	100,000,000
August 18, 2011	200,000,000
April 18, 2012	200,000,000
November 12, 2012	300,000,000
December 9, 2013	300,000,000
December 4, 2014	300,000,000
November 30, 2015	400,000,000
October 18, 2016	400,000,000

As of July 1, 2017, we had repurchased approximately \$2.4 billion of common stock (25,500,085 shares) under these initiatives, with \$150.0 million available as of July 1, 2017 for future common stock share repurchases.

The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended July 1, 2017:

Fiscal Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Our Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under Our Program (2)
04/02/17 through 04/29/17	124,639	\$ 168.78	124,639	1,029,674
04/30/17 through 06/03/17	164,117	176.48	164,117	803,957
06/04/17 through 07/01/17	-	-	-	819,551
	288,756		288,756	

(1) All repurchases were executed in the open market under our existing publicly announced authorized program.

(2) The maximum number of shares that may yet be purchased under this program is determined at the end of each month based on the closing price of our common stock at that time.

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ITEM 5. OTHER INFORMATION

Amendment to Corporation's By-laws

On August 7, 2017, the Board of Directors of the Company approved an amendment (the "Amendment") to the Company's Amended and Restated By-laws, as amended (the "By-laws"). The Amendment provides that the Company's stockholders may remove any director from office, with or without cause, upon the affirmative vote of the holders of at least a majority of the voting power of the shares entitled to vote on the matter. The By-laws previously provided that the Company's stockholders may only remove a director from office with or without cause upon the affirmative vote of the holders of at least 66-2/3% of the voting power of the shares entitled to vote on the matter. The effective date of the Amendment is August 7, 2017.

The foregoing summary of the Amendment is qualified in its entirety by reference to the full text of the By-laws, as amended by the Amendment, which is filed as Exhibit 3.1 hereto and incorporated herein by reference.

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ITEM 6. EXHIBITS

Exhibits.

- 3.1 Amended and Restated By-laws of Henry Schein, Inc., as amended.+
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
- 10.1 Credit Agreement, dated as of April 18, 2017, among the Company, the several lenders parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, joint lead arranger and joint bookrunner, U. S. Bank National Association, as syndication agent, joint lead arranger and joint bookrunner, together with the exhibits and schedules thereto. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 19, 2017.)
- 10.2 Amendment Number Five to the Henry Schein, Inc. Section 162(m) Cash Bonus Plan, dated May 31, 2017. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 1, 2017.)**
- 101.INS XBRL Instance Document+
- 101.SCH XBRL Taxonomy Extension Schema Document+
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document+
- 101.DEF XBRL Taxonomy Definition Linkbase Document+
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document+
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document+

+ Filed herewith.

** Indicates management contract or compensatory plan or agreement.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Henry Schein, Inc.
(Registrant)

By: /s/ Steven Paladino
Steven Paladino
Executive Vice President and
Chief Financial Officer
(Authorized Signatory and Principal Financial
and Accounting Officer)

Dated: August 8, 2017

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