

HENRY SCHEIN INC  
Form 10-Q  
November 06, 2017

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 September 30, 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

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 October 31, 2017, there were 156,954,392 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 \$96,953 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,<br>none outstanding   | ..... |
| Common stock, \$.01 par value, 240,000,000 shares authorized,<br>156,952,738 outstanding on September 30, 2017 and<br>158,805,010 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)

|   | TH<br>Sep<br>30,<br>201 |
|---|-------------------------|
| Net sales .....   | \$3,                    |
| Cost of sales .....   | 2,                      |
| Gross profit .....  | 83                      |
| Operating expenses:   |                         |
| Selling, general and administrative .....                         | 62                      |
| Restructuring costs .....   | -                       |
| Operating income .....  | 21                      |
| Other income (expense):   |                         |
| Interest income .....   | 4,                      |
| Interest expense .....  | (1                      |
| Other, net .....  | (1                      |
| Income before taxes and equity in earnings<br>of affiliates ..... | 20                      |
| Income taxes .....  | (5                      |
| Equity in earnings of affiliates .....                            | 5,                      |
| Net income .....  | 15                      |
| Less: Net income attributable to noncontrolling interests .....   | (1                      |
| Net income attributable to Henry Schein, Inc. ....                | \$13                    |

Earnings per share attributable to Henry Schein, Inc.:

|               |      |
|---------------|------|
| Basic .....   | \$0. |
| Diluted ..... | \$0. |

Weighted-average common shares outstanding:

|               |    |
|---------------|----|
| Basic .....   | 15 |
| Diluted ..... | 15 |

See accompanying notes.

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HENRY SCHEIN, INC.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

(unaudited)

|  | Thru<br>Sep<br>30,<br>201 |
|--|---------------------------|
| Net income .....   | \$15                      |
| Other comprehensive income (loss), net of tax:                           |                           |
| Foreign currency translation gain<br>(loss).....                         | 58                        |
| Unrealized gain (loss) from foreign currency hedging<br>activities ..... | (3)                       |
| Unrealized investment loss .....   | (2)                       |
| Pension adjustment gain<br>(loss).....                                   | (3)                       |
| Other comprehensive income (loss), net of tax .....                      | 58                        |
| Comprehensive income .....   | 20                        |
| Comprehensive income attributable to noncontrolling<br>interests:        |                           |
| Net income .....   | (1)                       |
| Foreign currency translation<br>gain.....                                | (3)                       |
| Comprehensive income attributable to noncontrolling<br>interests .....   | (1)                       |
| Comprehensive income attributable to Henry Schein, Inc.<br>.....         | \$19                      |
| 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 \$35,398 attributable to Redeemable noncontrolling interests) .....

Foreign currency translation gain (excluding gain of \$7,961 attributable to Redeemable noncontrolling interests) .....

Unrealized loss from foreign currency hedging activities, net of tax benefit of \$4.....

Unrealized investment loss, net of tax of \$1.....

Pension adjustment loss, including tax benefit of \$508.....

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 \$681 .....

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, September 30, 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

.....  
Principal payments for long-term debt

.....  
Debt issuance costs .....

.....  
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.....

.....  
Excess tax benefits related to stock-based compensation.....

.....  
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 nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 30, 2017.

On August 16, 2017, we announced that our Board of Directors approved a 2-for-1 split of our common stock. Each Henry Schein, Inc. stockholder of record at the close of business on September 1, 2017 received a dividend of one additional share for every share held. Trading began on a split-adjusted basis on September 15, 2017 and has been retroactively reflected for all periods presented in this Form 10-Q.



**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 33 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 .....



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**HENRY SCHEIN, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

**(unaudited)**

**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 September 30, 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 September 30, 2017 and December 31, 2016, there were \$11.7 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 September 30, 2017 and December 31, 2016, we had various other short-term bank credit lines available, of which \$456.9 million and \$372.5 million, respectively, were outstanding. At September 30, 2017 and December 31, 2016, borrowings under all of our credit lines had a weighted average interest rate of 2.09% and 1.61%, respectively.

*Private Placement Facilities*

On September 15, 2017, we increased our available private placement facilities with three insurance companies to a total facility amount of \$1 billion, and extended the expiration date to September 15, 2020. 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 15, 2020. 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.

Table of Contents**HENRY SCHEIN, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

**(unaudited)**

The components of our private placement facility borrowings as of September 30, 2017 are presented in the following table (in thousands):

| Date of Borrowing                  | Amount of<br>Borrowing<br>Outstanding | Borrowing<br>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      |
| September 15, 2017                 | 100,000                               | 3.52              | September 15, 2029 |
| Less: Deferred debt issuance costs | (250)                                 |                   |                    |
|                                    | \$ 535,464                            |                   |                    |

(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 \$350.0 million and \$350.0 million as of September 30, 2017 and December 31, 2016, respectively. At September 30, 2017, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 134 basis points plus 75 basis points, for a combined rate of 2.09%. 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  | Sep<br>30,<br>201 |
| .....   | \$5               |
| U.S. trade accounts receivable securitization   |                   |
| .....   | 3                 |
| Note payable to bank at a weighted-average interest rate of<br>21.37% at December 31, 2016.....   | -                 |
| Various collateralized and uncollateralized loans payable with<br>interest, in varying installments through 2022 at interest rates<br>ranging from 2.56% to 12.90% at September 30, 2017 and<br>ranging from 2.56% to 12.90% at December 31,<br>2016..... | 3                 |
| Capital lease obligations payable through 2029 with interest rates<br>ranging from 0.84% to 19.79% at September 30, 2017 and<br>ranging from 1.38% to 19.15% at December 31, 2016   |                   |
| .....   | 5,                |
| Total .....   | 92                |
| Less current maturities   |                   |
| .....   | (1                |
| Total long-term debt .....  | \$90              |

**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 nine months ended September 30, 2017 and the year ended December 31, 2016 are presented in the following table:

|   |     |
|---|-----|
|   | Se  |
|   | 30  |
|   | 20  |
|   | \$6 |
| Balance, beginning of period .....  |     |
| Decrease in redeemable noncontrolling interests due to<br>redemptions .....                                     | (   |
| Increase in redeemable noncontrolling interests due to business<br>acquisitions.....                            | 2   |
| Net income attributable to redeemable noncontrolling interests<br>.....   | 3   |
| Dividends declared .....  | (   |
| Effect of foreign currency translation gain (loss) attributable to<br>redeemable noncontrolling interests ..... | 7   |
| Change in fair value of redeemable securities<br>.....  | 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.

Table of Contents**HENRY SCHEIN, INC.**

## 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 loss and pension adjustment gain (loss).

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

|   | September<br>30,<br>2017 | De<br>31<br>20 |
|---|--------------------------|----------------|
| Attributable to Redeemable noncontrolling interests:              |                          |                |
| Foreign currency translation adjustment .....                     | \$(5,064)                | \$(            |
| Attributable to noncontrolling interests:                         |                          |                |
| Foreign currency translation adjustment .....                     | \$ 184                   | \$(            |
| Attributable to Henry Schein, Inc.:                               |                          |                |
| Foreign currency translation loss .....                           | \$(131,304)              | \$(            |
| Unrealized loss from foreign currency hedging activities<br>..... | (1,327)                  | (              |
| Unrealized investment loss .....                                  | (2)                      | -              |
| Pension adjustment loss .....                                     | (21,839)                 | (              |
| Accumulated other comprehensive loss .....                        | \$(154,472)              | \$(            |
| Total Accumulated other comprehensive loss<br>.....               | \$(159,352)              | \$(            |