



HENRY SCHEIN[®]
SOLUTIONS FOR HEALTH CARE PROFESSIONALS



INNOVATIVE SOLUTIONS

ANNUAL REPORT 2018

ABOUT HENRY SCHEIN, INC.

Henry Schein, Inc. (Nasdaq: HSIC) is a solutions company for health care professionals powered by a network of people and technology.

With more than 18,000 Team Schein Members worldwide, the Company's network of trusted advisors provides more than 1 million customers globally with more than 300 valued solutions that improve operational success and clinical outcomes. Our Business, Clinical, Technology, and Supply Chain solutions help office-based dental and medical practitioners work more efficiently so they can provide quality care more effectively. These solutions also support dental laboratories, government and institutional health care clinics, as well as other alternate care sites.

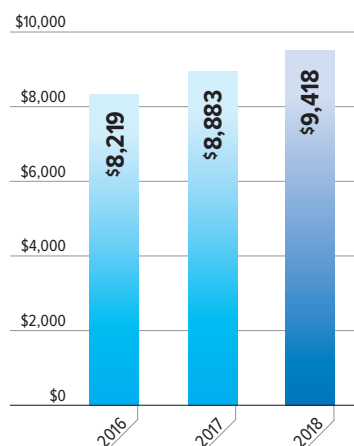
Henry Schein operates through a centralized and automated distribution network, with a selection of more than 120,000 branded products and Henry Schein private-brand products in stock, as well as more than 180,000 additional products available as special-order items.

A FORTUNE 500 Company and a member of the S&P 500® and the Nasdaq 100® indexes, Henry Schein is headquartered in Melville, New York, and has operations or affiliates in 31 countries. The Company's sales from continuing operations reached \$9.4 billion in 2018, and have grown at a compound annual rate of approximately 13% since Henry Schein became a public company in 1995.

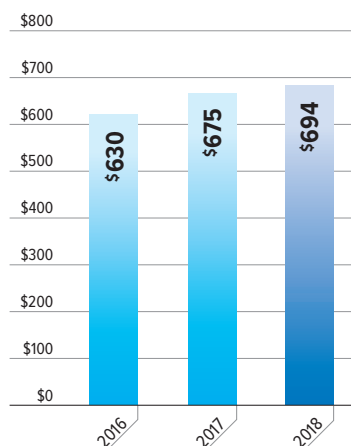
(As of March 2019)

HENRY SCHEIN FINANCIAL HIGHLIGHTS 2016–2018

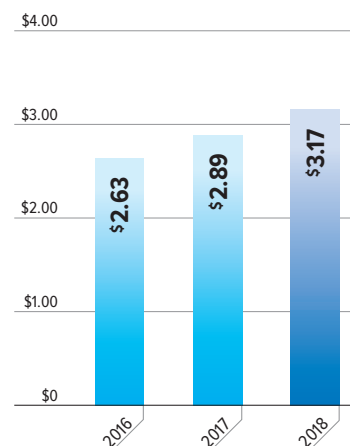
NET SALES
Unaudited
(\$ in Millions)
CAGR 7%



NON-GAAP⁽¹⁾
Operating Income
Unaudited
(\$ in Millions)
CAGR 5%



NON-GAAP⁽²⁾
Diluted EPS
Unaudited
CAGR 10%



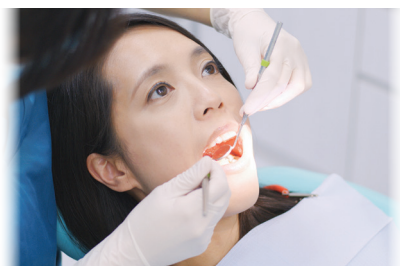
(1) GAAP operating income from continuing operations for 2016, 2017, and 2018 was \$592 million, \$670 million and \$601 million, respectively. See page 8 for a reconciliation of GAAP and non-GAAP measures.

(2) GAAP diluted EPS from continuing operations for 2016, 2017, and 2018 was \$2.45, \$1.85 and \$2.80, respectively. See page 8 for a reconciliation of GAAP and non-GAAP measures.

HENRY SCHEIN AT A GLANCE



- 67.4% DENTAL
- 28.3% MEDICAL
- 4.3% TECHNOLOGY & VALUE-ADDED SERVICES*



2018 net sales of \$6.3 billion

DENTAL

Only global dental distributor to general practitioners, specialists, and laboratories

Growth Opportunities:

- Increasing penetration with existing customers
- Geographic expansion
- Advancing technology solutions
- Greater penetration of specialty markets
- Continued focus on large group practices
- Digitalization of prosthetic solutions



2018 net sales of \$2.7 billion

MEDICAL

A leading U.S. distributor to health care providers in multiple segments: alternate-site practices; ambulatory surgery centers; laboratory; public safety; government; and health systems

Growth Opportunities:

- Increasing penetration organically and through acquisition
- Continued focus on large accounts, health systems, and surgery centers
- Focus on specialty segments and solutions
- Create unique offering with supply partners
- Select international opportunities



2018 net sales of \$408 million*

TECHNOLOGY & VALUE-ADDED SERVICES

A leader in practice management software, patient relationship management solutions, and patient demand generation solutions for dental practices

Full-service provider of financial services

Growth Opportunities:

- Increasing penetration with existing customers
- Geographic expansion
- Ability to serve large group practices
- Continued focus on facilitating financial services for technology investments and office expansion

FORTUNE 500
Ranking of the
Largest U.S.
Corporations
(15 Years)

A FORTUNE
WORLD'S
MOST ADMIRED
COMPANY
(18 Years)

AN ETHISPHERE®
INSTITUTE
WORLD'S
MOST ETHICAL
COMPANY
(8 Years)

COMPONENT OF
NASDAQ 100®
(12 Years)
AND S&P 500®
INDEXES
(4 Years)

FORTUNE
CHANGE THE
WORLD LIST
(2018)

HIGHER
AMBITION
COMPANY
OF THE
YEAR
(2018)

(As of March 2019)

*Sales from continuing operations (unaudited).

**A MESSAGE FROM THE
CHAIRMAN OF THE BOARD
AND CHIEF EXECUTIVE OFFICER**



To My Fellow Stockholders,

Henry Schein is a company of innovation. Over the course of nearly nine decades, our Company has transformed by anticipating and adapting to market dynamics, consistently offering our customers better and brighter ideas. Our true innovation is seen in how we apply these ideas to achieve results for our customers and other constituencies. That is how Henry Schein has become what we are today: a solutions company for health care professionals powered by a network of people and technology.

Innovation Through Focus

2018 was another year of innovation for Henry Schein. We announced the spin-off of our global animal

health business, which we completed in February 2019. That business is now part of a new, publicly traded company named Covetrus, which serves the global companion animal health market with technology-enabled solutions. We expect Covetrus customers will benefit from differentiated technology, practice management software, and insights to help drive better clinical and financial outcomes for their practices and pet patients. This past year we also announced the formation of Henry Schein One, which pairs our dental practice management software with new demand-generation tools to help customers better communicate with patients and to create opportunities for dental professionals to interact with new patients.

With this increased focus exclusively on the health of people, we are optimistic about the future of Henry Schein. We are excited about the long-term business opportunities in the global office-based dental and medical markets, while acknowledging that 2019 will be a year of transition. And we will continue to focus on driving growth in these market segments, supporting our customers around the world with innovative technology that expands our value-added solutions offering while pursuing new investment opportunities.

**Financial Performance
and Strategic Investments**

As a result of the spin-off of our global animal health business, we are providing financial results on the basis of continuing operations, which excludes animal health contribution. Our continued

commitment to innovation reaped financial benefits in 2018. We achieved net sales from continuing operations of \$9.4 billion, up 6.0% from 2017, with 4.0% internal growth in local currencies. Non-GAAP diluted EPS growth from continuing operations was 9.7%* versus 2017 non-GAAP results. Following the announcement of the animal health spin-off, we spent approximately \$200 million to repurchase approximately 2.5 million shares of our common stock in 2018, reflecting our confidence in the strength of our business and our commitment to delivering shareholder value.

In addition, in 2018 we completed five majority owned strategic transactions in our dental and medical businesses, as we continued to expand our geographic presence and enhance our product offering. In dental, our acquisitions expanded our digital dentistry solutions for implants and orthodontics, and we announced Henry Schein One. In medical, in early 2019 we acquired a leading provider of mission-critical products for the defense and public safety markets, North American Rescue.

We expect to continue to invest in technology and dental specialty solutions for implants and bone regeneration, and in endodontic and orthodontic products. These categories complement the growth profile of our traditional dental business and enhance our profitability margins. We will also invest in expanding our global medical business. We have no shortage of opportunities to allocate capital toward strategic investments.

“Henry Schein is a company of innovation.”

High-Touch, Consultative Sales Model

We foresee an exciting future for Henry Schein as we continue on our path of success through innovation, serving our customers whose needs are rapidly evolving. Our high-touch, consultative sales model is built on education, service and support, software and innovation, and strong customer relationships. Our consultative approach sets our business apart in an environment that demands fast access to a more expansive offering of products and services to dental and medical practitioners, as well as the power of technology to drive efficiency and better decision-making.

“Our long-term relationships are trust-based relationships that help drive our ability to reinvent our Company to anticipate industry changes and build shareholder value.”

Stakeholder Relationships Built Upon Trust

We have a goal of continuing to create long-term value for all of our constituencies: customers; investors; Team Schein Members; supplier partners; and society. We firmly believe our purpose-driven, values-based culture and highly engaged team create our success as we balance the needs and build trust with each constituency.

To create and sustain our trust-based relationships, we communicate our purpose, strategy, culture, and executional capabilities throughout Henry Schein, and we empower Team Schein Members to form innovative partnerships with our customers and supplier partners. In this way, we work with our constituencies to “Help Health Happen.” This innovative collaboration model establishes a common sense of purpose and creates a powerful vehicle to build value for society while driving our Company’s success.

Henry Schein’s partnership model is rooted in our values-based culture, and it distinguishes our Company in the global marketplace. Our long-term relationships are trust-based relationships that help drive our ability to reinvent our Company to anticipate industry changes and build shareholder value. In addition to providing exceptional customer service, we align our business strengths with societal issues that resonate with our customers and supplier partners, and together we make a positive difference in the world.

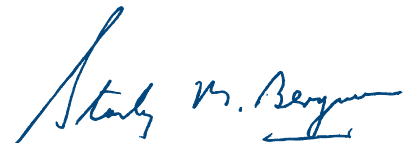
How is this approach working?

Over the past 10 years, Henry Schein has posted an average annual total shareholder return of approximately 17%** and average annual earnings per share growth of approximately 11%**.

I would like to thank our more than 18,000 Team Schein Members around the world, whose engagement and commitment to our customers has led us on this path of great success. Team Schein’s commitment to our values-based culture has been integral to our ability to be a trusted partner to every customer we serve. And we will continue to demonstrate to our customers, investors, Team Schein Members, supplier partners, and society that their trust in Henry Schein is well placed.

We look forward to an exciting future for Henry Schein, and to our next chapter of innovation.

Sincerely,



Stanley M. Bergman

*Chairman of the Board and
Chief Executive Officer*

March 2019

Forward-looking statements made in this report are subject to the reservations specified in the Safe Harbor statement noted in the Company’s Form 10-K filing.

* 2018 growth in GAAP diluted EPS from continuing operations was 51.4% versus 2017 GAAP results. See reconciliation of GAAP and non-GAAP measures on page 8.

** From 2008 through 2018; on both a GAAP and non-GAAP basis.

HENRY SCHEIN'S SOLUTIONS-BASED APPROACH

HENRY SCHEIN PROVIDES THE SOLUTIONS HEALTH CARE PROFESSIONALS RELY ON TO OPERATE MORE EFFICIENTLY AND PROVIDE PATIENTS WITH BETTER CARE.

Henry Schein is a solutions company for health care professionals powered by a network of people and technology. When we say **Rely on Us**, we make a promise to put the power of our knowledgeable

network of trusted advisors to work for our customers by providing information, education, and advice on the more than 300 Business, Clinical, Technology, and Supply Chain solutions we offer.



Business Solutions

To help customers manage and grow their business

Including equipment financing, recruiting and training, practice analysis, regulatory compliance, and much more.



Clinical Solutions

To help stay on the leading edge of patient care

With products such as implants, orthodontic devices, and bone regeneration materials, as well as telemedicine and clinical decision support services.



Technology Solutions

To help harness information and enhance the patient experience

Including innovative practice management software, CAD/CAM equipment, marketing and communications tools to attract patients, as well as remote technical support and on-site equipment service to improve practice efficiency.



Supply Chain Solutions

To deliver the right products at the right time

Through the industry's best-in-class performing fulfillment system, supported by customized inventory management systems for individual practices, large group practices, and integrated delivery networks.

SERVING MORE THAN
1 MILLION
CUSTOMERS



MORE THAN
300
SOLUTIONS

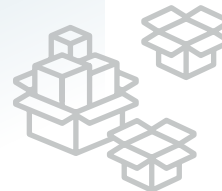


MORE THAN
18,000
TEAM SCHEIN MEMBERS

120,000
PRODUCTS IN STOCK
AND **180,000**
ADDITIONAL PRODUCTS
AS SPECIAL-ORDER ITEMS



AVERAGE OF
134,000
CARTONS
SHIPPED DAILY



99%
OF ITEMS ORDERED
ARE SHIPPED ON THE
SAME BUSINESS DAY
THE ORDER IS RECEIVED

HELPING HEALTH HAPPEN

Henry Schein aims to positively impact health around the world by aligning our strengths as a business with the needs of society, and we have pursued the ideal of “doing well by

doing good” since our founding 87 years ago. This spirit of corporate citizenship is exemplified through Henry Schein Cares, our global corporate social responsibility program.

SELECTED HENRY SCHEIN CARES ACCOMPLISHMENTS IN 2018



Give Kids A Smile: We celebrated 16 years of supporting this ADA Foundation initiative, which provides free oral health services to underserved children across the country. Henry Schein has served as the program’s official professional products sponsor since its inception, and helped dental professionals provide free oral health screenings, treatment, and education to **more than 5.5 million children**.



Special Olympics: Formed a multi-year partnership with Special Olympics to support **Special Olympics Healthy Athletes®**, an initiative that offers health screenings and education to participating athletes with the goal of promoting healthy lifestyle choices and identifying problems that may need additional follow-up.



Holiday Cheer for Children: The 20th annual celebration of this flagship corporate initiative helped **more than 1,200 families** celebrate the holiday, as Team Schein Members at 22 Company locations in seven countries collected and donated toys, clothing, supermarket gift cards, and other gifts to children and families in need.

Henry Schein Cares Medal:

Celebrated the third annual Henry Schein Cares Medal program, which honored organizations from the fields of oral health, animal health, and medicine. In 2018, the gold medalist for oral health was **Mary’s Center for Maternal and Child Care of Washington, DC**; for animal health, the gold went to the **Massachusetts Society for the Prevention of Cruelty to Animals**; and the gold medalist for medicine was **The Night Ministry**, based in Chicago.



Women’s Leadership Network (WLN):

The Company’s first **Employee Resource Group** helped connect Team Schein Members to a range of corporate social responsibility initiatives in 2018. For example, WLN members participated in a book drive to promote children’s literacy in Milwaukee, donated hygiene supplies for a domestic violence shelter in Indianapolis, and held a “dress for success” clothing drive to help women in need across Long Island thrive in work and in life.



Back to School: Team Schein helped **more than 5,000 underserved children** around the world return to the classroom ready to learn by providing them with new backpacks, school supplies, clothing, shoes, books, and hygiene products. Held at 30 Company locations in four countries, this is the 21st year that the Company has celebrated the Back to School program, having helped more than 50,000 kids return to school equipped for success since its inception.

Arnold P. Gold Foundation:

To promote our shared commitment to championing the human connection in health care, we supported the Foundation’s “Keep Healthcare Human” lapel pin program. In 2018, more than **47,000 of these pins** were presented to students at medical, physician’s assistant, and nursing schools across the U.S. The pins serve as a visual reminder that empathy and compassion are the cornerstones to the effective delivery of quality care.

EXECUTIVE MANAGEMENT



Front row, left to right:

David Brous	President, Strategic Business Units Group and Asia Pacific & Brazil Dental
Christopher Pendergast	Senior Vice President and Chief Technology Officer
Lorelei McGlynn	Senior Vice President, Chief Human Resources Officer
Stanley M. Bergman*	Chairman of the Board and Chief Executive Officer
James P. Breslawski*	Vice Chairman of the Board and President
Michael S. Ettinger*	Senior Vice President, Corporate & Legal Affairs and Chief of Staff, Secretary

Back row, left to right:

Walter Siegel*	Senior Vice President and General Counsel
Brad Connett	President, U.S. Medical Group
Michael Racioppi	Senior Vice President, Chief Merchandising Officer
Steven Paladino*	Executive Vice President, Chief Financial Officer, Member of the Board of Directors
Gerald A. Benjamin*	Executive Vice President, Chief Administrative Officer, Member of the Board of Directors
Jonathan Koch	Senior Vice President and Chief Executive Officer, Global Dental Group
Mark E. Mlotek*	Executive Vice President, Chief Strategic Officer, Member of the Board of Directors
James Mullins	Senior Vice President, Global Services
James A. Harding Jr.	Chief Executive Officer, Henry Schein One

*Executive Officers

BOARD OF DIRECTORS



Front row, left to right:

Carol Raphael	Senior Advisor for Manatt Health Solutions; and Former President and Chief Executive Officer, Visiting Nurse Service of New York (4) (5)
Barry J. Alperin	Retired Vice Chairman, Hasbro, Inc. (1) (2) (3)
Shira Goodman	Former Chief Executive Officer, Staples, Inc. and Advisory Director for Charlesbank Capital Partners, LLC (3) (4)
Stanley M. Bergman	Chairman of the Board and Chief Executive Officer
Philip A. Laskawy	Lead Director, Henry Schein, Inc.; and Retired Chairman, Ernst & Young, LLP (1) (3)
Anne H. Margulies	Vice President and Chief Information Officer, Harvard University (5)
Joseph L. Herring	Former Chief Executive Officer, Covance, Inc. (2) (4) (5)

Back row, left to right:

Gerald A. Benjamin	Executive Vice President, Chief Administrative Officer
Mark E. Mlotek	Executive Vice President, Chief Strategic Officer
Kurt P. Kuehn	Former Chief Financial Officer of United Parcel Service, Inc. (1) (5)
James P. Breslawski	Vice Chairman of the Board and President
Steven Paladino	Executive Vice President, Chief Financial Officer
Paul Brons	Former President of Organon International BV (4)
Bradley T. Sheares, Ph.D.	Former Chief Executive Officer, Reliant Pharmaceuticals; and Former President of U.S. Human Health for Merck & Co. (2) (3) (4)
E. Dianne Rekow, DDS, Ph.D.	Former Dean of the Dental Institute at King's College London and Professor of Orthodontics; Former Professor of Orthodontics, Senior Vice Provost of Engineering Technology and Provost of Polytechnic Institute at New York University (4)

(1) Member of Audit Committee (2) Member of Compensation Committee (3) Member of Nominating and Governance Committee
 (4) Member of Strategic Advisory Committee (5) Member of Regulatory, Compliance & Cybersecurity Committee

COMMON STOCK

Henry Schein Common Stock trades on the Nasdaq[®] Stock Market under the symbol "HSIC."

ANNUAL MEETING OF STOCKHOLDERS

Our Annual Meeting of Stockholders will be held on May 22, 2019, at 10:00 a.m. EDT at The Melville Marriott Long Island, located at 1350 Walt Whitman Road, Melville, New York 11747.

STOCKHOLDER REPORTS AND INVESTOR INQUIRIES

For stockholder inquiries, including requests for quarterly and annual reports, contact our Investor Relations department at (631) 843-5611, or e-mail your request to investor@henryschein.com.

Printed materials can also be requested through the Company's Website.

FORM 10-K

Our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 has been filed with the SEC and is available free of charge through our Internet website, www.henryschein.com. Stockholders may also obtain a copy of the Form 10-K upon written request to Henry Schein, Inc., 135 Duryea Road, Melville, New York 11747, Attn: Investor Relations; via email at investor@henryschein.com; or facsimile at (631) 843-5541. In response to such request, the Company will furnish without charge the Form 10-K including financial statements, financial schedules and a list of exhibits.

INDEPENDENT AUDITORS

BDO USA, LLP
100 Park Avenue, New York, New York 10017

LEGAL COUNSEL

Proskauer Rose, LLP
Eleven Times Square, New York, New York 10036

STOCK TRANSFER AGENT

For address changes, account cancellation, registration changes and lost stock certificates, please contact:
Continental Stock Transfer & Trust Company
1 State Street, 30th Floor
New York, New York 10004
(212) 509-4000

NON-GAAP DISCLOSURES

The following table sets forth, for the applicable periods, a reconciliation of accounting principles generally accepted in the United States ("GAAP") operating income, net income from continuing operations attributable to Henry Schein, Inc., and diluted earnings per share from continuing operations adjusted to reflect the effects of restructuring costs, litigation settlements, and other adjustments.

USE OF NON-GAAP MEASURES

The information in the table includes financial measures that are not calculated and presented in accordance with GAAP. The table reconciles differences between each of operating income from continuing operations, net income from continuing operations attributable to Henry Schein, Inc., and diluted earnings per share from continuing operations attributable to Henry Schein, Inc., each as presented in accordance with GAAP, and comparable non-GAAP amounts as adjusted to eliminate the effect of the items listed below.

We eliminated the effect of the items listed below to assist in evaluating the underlying operational performance of our business, excluding such costs, over the periods presented. Management believes that non-GAAP financial measures provide investors with useful supplemental information about the financial performance of our business, enable comparison of financial results between periods where certain items may vary independent of business performance and allow for greater transparency with respect to key metrics used by management in operating our business. These non-GAAP financial measures are presented solely for informational and comparative purposes and should not be regarded as a replacement for corresponding, similarly captioned, GAAP measures.

NOTES

(1) During 2018, we recorded restructuring costs of \$54.4 million pre-tax (\$40.8 million post-tax). During 2016, we recorded restructuring costs of \$38.6 million pre-tax (\$29.0 million post-tax). The effect that these charges had on earnings per diluted share from continuing operations attributable to Henry Schein, Inc. was \$(0.27), and \$(0.18), respectively.

(2) Represents a 2018 pre-tax charge of \$38,488 related to a litigation settlement, resulting in a net after tax charge of \$28,866. Represents a 2017 pre-tax charge of \$5,325 related to a litigation settlement. The associated tax benefit of \$2,130 resulted in a net after tax charge of \$3,195. The effect that these charges had on earnings per diluted share from continuing operations attributable to Henry Schein, Inc. was \$(0.19) and \$(0.02), respectively.

(3) Represents a loss on divestiture in 2017 of an equity ownership in E4D. The effect that this transaction had on earnings per diluted share from continuing operations attributable to Henry Schein, Inc. was \$(0.11) in 2017.

(4) Represents a 2018 net credit of \$10,000 related to a change in the estimate of the transition tax on deemed repatriated foreign earnings. Represents a 2017 one-time charge of \$140,000 related to an estimate of the transitional tax on deemed repatriated foreign earnings. The effect that these credits/charges had on earnings per diluted share from continuing operations attributed to Henry Schein, Inc. was \$0.07 and \$(0.88), respectively.

(5) Represents a 2017 one-time charge of \$2,952 for the revaluation of deferred taxes associated with U.S. tax reform legislation. The effect that this charge had on earnings per diluted share from continuing operations attributed to Henry Schein, Inc. was \$(0.02).

(6) Represents a 2018 one-time charge of \$3,914 to income tax expense as a result of a reorganization of legal entities related to forming Henry Schein One. The effect that this charge had on earnings per diluted share from continuing operations attributed to Henry Schein, Inc. was \$(0.03).

(7) Represents a \$10,649 effect on income resulting from an income tax credit of \$13,852, net of noncontrolling interest of \$3,203, originating from a legal entity reorganization outside the United States. The effect that this credit had on earnings per diluted share from continuing operations attributed to Henry Schein, Inc. was \$0.07.

(8) Represents a 2018 one-time charge of \$3,135 to income tax expense as a result of a reorganization of legal entities completed in preparation for the Animal Health spin-off. The effect that this charge had on earnings per diluted share from continuing operations attributed to Henry Schein, Inc. was \$(0.02).

	Year Ended December 29, 2018	Year Ended December 30, 2017	Year Ended December 31, 2016
(in thousands, except per share data)			
Operating income from continuing operations	\$ 600,618	\$ 669,762	\$ 591,841
Operating margin from continuing operations	6.4%	7.5%	7.2%
Adjustments:			
Restructuring costs (1)	\$ 54,367	--	\$ 38,622
Litigation settlement (2)	\$ 38,488	\$ 5,325	--
Adjusted operating income from continuing operations	\$ 693,473	\$ 675,087	\$ 630,463
Adjusted operating margin from continuing operations	7.4%	7.6%	7.7%
Net income from continuing operations attributable to Henry Schein, Inc.:	\$ 430,714	\$ 293,172	\$ 401,284
Adjustments, net of tax:			
Restructuring costs (1)	\$ 40,775	--	\$ 28,967
Litigation settlement (2)	\$ 28,866	\$ 3,195	--
Loss on sale of equity investment (3)	--	\$ 17,636	--
Transitional tax on repatriated Foreign earnings (4)	\$ (10,000)	\$ 140,000	--
Deferred tax adjustment (5)	--	\$ 2,952	--
One-time tax charge for Henry Schein One legal entity reorganization (6)	\$ 3,914	--	--
Tax credit (net of noncontrolling interest from international legal entity reorganization) (7)	\$ (10,649)	--	--
One-time tax for Animal Health legal entity reorganization (8)	\$ 3,135	--	--
Adjusted net income from continuing operations attributable to Henry Schein, Inc.:	\$ 486,755	\$ 456,955	\$ 430,251
Diluted earnings per share from continuing operations attributable to Henry Schein, Inc.:	\$ 2.80	\$ 1.85	\$ 2.45
Adjusted diluted earnings per share from continuing operations attributable to Henry Schein, Inc.:	\$ 3.17	\$ 2.89	\$ 2.63
Diluted weighted-average common shares outstanding:	153,707	158,208	163,724

FOLLOW HENRY SCHEIN:

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 Instagram: <http://instagram.com/henryschein>

 LinkedIn: <http://www.linkedin.com/company/henry-schein>

 You Tube: <http://www.youtube.com/user/henryscheininc>

Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747
U.S.A.
(631) 843-5500
www.henryschein.com



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 0-27078

 **HENRY SCHEIN, INC.**
(Exact name of registrant as specified in its charter)

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

135 Duryea Road
Melville, New York
(Address of principal executive offices)
11747
(Zip Code)

(631) 843-5500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u> Common Stock, par value \$.01 per share	<u>Name of each exchange on which registered</u> The Nasdaq Global Select Market
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Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES: NO:

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES: NO:

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 every Interactive Data File required to be submitted 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 such files).
YES: NO:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or 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: 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 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES: NO:

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the Nasdaq Global Select Market on June 30, 2018, was approximately \$11,016,833,000.

As of February 12, 2019, there were 151,403,703 shares of registrant's Common Stock, par value \$.01 per share, outstanding.

Documents Incorporated by Reference:

Portions of the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year (December 29, 2018) are incorporated by reference in Part III hereof.

PART I

ITEM 1. Business

Spin-Off of Henry Schein Animal Health Business

On February 7, 2019 (the “Distribution Date”), we completed the previously announced separation (the “Separation”) and subsequent merger of our animal health business (the “Henry Schein Animal Health Business”) with Direct Vet Marketing, Inc. (d/b/a Vets First Choice, “Vets First Choice”) (the “Merger”). This was accomplished by a series of transactions among us, Vets First Choice, Covetrus, Inc. (f/k/a HS Spinco, Inc. “Covetrus”), a wholly owned subsidiary of ours prior to the Distribution Date, and HS Merger Sub, Inc., a wholly owned subsidiary of Covetrus (“Merger Sub”). In connection with the Separation, we contributed, assigned and transferred to Covetrus certain applicable assets, liabilities and capital stock or other ownership interests relating to the Henry Schein Animal Health Business. On the Distribution Date, we received a tax-free distribution of \$1,120.0 million from Covetrus pursuant to certain debt financing incurred by Covetrus. On the Distribution Date and prior to the Distribution, Covetrus issued shares of Covetrus common stock to certain institutional accredited investors (the “Share Sale Investors”) for \$361.1 million (the “Share Sale”). The proceeds of the Share Sale were paid to Covetrus and distributed to us. Subsequent to the Share Sale, we distributed, on a pro rata basis, all of the shares of the common stock of Covetrus held by us to our stockholders of record as of the close of business on January 17, 2019 (the “Animal Health Spin-off”). After the Share Sale and Animal Health Spin-off, Merger Sub consummated the Merger whereby it merged with and into Vets First Choice, with Vets First Choice surviving the Merger as a wholly owned subsidiary of Covetrus. Immediately following the consummation of the Merger, on a fully diluted basis, (i) approximately 63% of the shares of Covetrus common stock were (a) owned by our stockholders and the Share Sale Investors, and (b) in respect of certain equity awards held by certain employees of the Henry Schein Animal Health Business, and (ii) approximately 37% of the shares of Covetrus common stock were (a) owned by stockholders of Vets First Choice immediately prior to the Merger, and (b) in respect of certain equity awards held by certain employees of Vets First Choice. After the Separation and the Merger, we no longer beneficially owned any shares of Covetrus common stock and, following the Distribution Date, will not consolidate the financial results of Covetrus for the purpose of our financial reporting. Following the Separation and the Merger, Covetrus was an independent, publicly traded company on the Nasdaq Global Select Market, under the symbol CVET.

All financial information within this Form 10-K includes the Henry Schein Animal Health Business as the Separation occurred in 2019. Effective first quarter 2019, we will report the historical earnings of the Henry Schein Animal Health Business as a discontinued operation. The Company estimates that on a continuing operations basis, its 2018 revenues were \$9.4 billion and its 2018 net income was \$430.7 million.

General

The description of our business throughout this Form 10-K excludes our global animal health business as the filing date of this Form 10-K is subsequent to the effective date of the Separation.

We believe we are the world’s largest provider of health care products and services primarily to office-based dental and medical practitioners. We serve more than 1 million customers worldwide including dental practitioners and laboratories 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 86 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 18,000 people (of which more than 8,800 are based outside the United States) and have operations or affiliates in 31 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Poland, Portugal, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

We offer a comprehensive selection of products and services and value-added solutions for operating efficient practices and delivering high quality care. We operate through a centralized and automated distribution network

with a selection of more than 120,000 branded products and Henry Schein private brand products in stock, as well as more than 180,000 additional products available as special order items. We also offer our customers exclusive, innovative technology solutions, including practice management software and e-commerce solutions, as well as a broad range of financial services.

We have established over 3.5 million square feet of space in 30 strategically located distribution centers around the world 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, medical and, prior to the completion of the Animal Health Spin-off, animal health 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 medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions.

Our 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, medical and, prior to the completion of the Animal Health Spin-off, animal health practitioners. 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

The health care products distribution industry, as it relates to office-based health care practitioners, is fragmented and diverse. 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.

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 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.

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.

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.

Competition

The distribution and manufacture of health care supplies and equipment is highly competitive. Many of the health care distribution products we sell are available to our customers from a number of suppliers. In addition, our competitors could obtain exclusive rights from manufacturers to market particular products. Manufacturers also could seek to sell directly to end-users, and thereby eliminate or reduce our role and that of other distributors.

In North America, we compete with other distributors, as well as several manufacturers, of dental and medical products, primarily on the basis of price, breadth of product line, customer service and value-added products and services. In the dental market, our primary competitors are the Patterson Dental division of Patterson Companies, Inc. and Benco Dental Supply Company. In addition, we compete against a number of other distributors that operate on a national, regional and local level. Our primary competitors in the medical market are McKesson Corporation and Medline Industries, Inc., which are national distributors. We also compete against a number of regional and local medical distributors, as well as a number of manufacturers that sell directly to physicians. With regard to our dental practice management software, we compete against numerous companies, including Carestream Health, Inc. and the Patterson Dental division of Patterson Companies, Inc. The medical practice management and electronic medical records market is very fragmented and we compete with numerous companies such as the NextGen division of Quality Systems, Inc., eClinicalWorks and Allscripts Healthcare Solutions, Inc.

We also face significant competition internationally, where we compete on the basis of price and customer service against several large competitors, including the GACD Group, Pluradent AG & Co., Lifco AB, Planmeca Oy, Billericay Dental Supply Co. Ltd., as well as a large number of dental and medical product distributors and manufacturers in Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Poland, Portugal, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

Significant price reductions by our competitors could result in a similar reduction in our prices. Any of these competitive pressures may materially adversely affect our operating results.

Competitive Strengths

We have more than 86 years of experience in distributing products to health care practitioners resulting in strong awareness of the Henry Schein® brand. Our competitive strengths include:

A focus on meeting our customers' unique needs. We are committed to providing customized solutions to our customers that are driven by our understanding of the market and reflect the technology-driven products and services best suited for their practice needs.

Direct sales and marketing expertise. Our sales and marketing efforts are designed to establish and solidify customer relationships through personal visits by field sales representatives, frequent direct marketing and telesales contact, emphasizing our broad product lines, including exclusive distribution agreements, competitive prices and ease of order placement. The key elements of our direct sales and marketing efforts are:

- *Field sales consultants.* We have over 3,600 field sales consultants, including equipment sales specialists, covering major North American, European and other international markets. These consultants complement our direct marketing and telesales efforts and enable us to better market, service and support the sale of more sophisticated products and equipment.

- *Direct marketing.* During 2018, we distributed approximately 26 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to existing and potential office-based health care customers.
- *Telesales.* We support our direct marketing effort with approximately 1,900 inbound and outbound telesales representatives, who facilitate order processing, generate new sales through direct and frequent contact with customers and stay abreast of market developments and the hundreds of new products, services and technologies introduced each year to educate practice personnel.
- *Electronic commerce solutions.* We provide our customers and sales teams with innovative and competitive Internet, PC and mobile e-commerce solutions.
- *Social media.* Our operating entities and employees engage our customers and supplier partners through various social media platforms.

Broad product and service offerings at competitive prices. We offer a broad range of products and services to our customers, at competitive prices, in the following categories:

- *Consumable supplies and equipment.* We offer over 120,000 Stock Keeping Units, or SKUs, to our customers. We offer over 180,000 additional SKUs to our customers in the form of special order items.
- *Technology and other value-added products and services.* We sell practice management software systems to our dental and medical customers. Our practice management solutions provide practitioners with electronic medical records, patient treatment history, billing, accounts receivable analyses and management, appointment calendars, electronic claims processing and word processing programs. We have approximately 500 technical representatives supporting customers using our practice management solutions. As of December 29, 2018, we had an active user base of almost 66,000 practices, including users of Dentrix® Dental Systems, Dentrix® Enterprise, Dentrix® Dental Vision™, Dentrix Ascend®, Easy Dental®, Oasis™, Evolution® and EXACT®, Gesden®, Julie®Software, Power Practice® Px, AxiUm™, EndoVision®, PerioVision®, OMSVision® and Viive® for dental practices; and MicroMD® for physician practices.
- *Repair services.* We have over 180 equipment sales and service centers worldwide that provide a variety of repair, installation and technical services for our health care customers. Our over 2,000 technicians provide installation and repair services for: dental handpieces; dental and medical small equipment; table top sterilizers; and large dental equipment.
- *Financial services.* We offer our customers solutions in operating their practices more efficiently by providing access to a number of financial services and products (including non-recourse financing for equipment, technology and software products; non-recourse patient financing; collection services and credit card processing) at rates that we believe are generally lower than what our customers would be able to secure independently. We also provide consulting services, dental practice valuation and brokerage services.

Commitment to superior customer service. We maintain a strong commitment to providing superior customer service. We frequently monitor our customer service through customer surveys, focus groups and statistical reports. Our customer service policy primarily focuses on:

- *Exceptional order fulfillment.* We ship an average of approximately 180,000 cartons daily. Approximately 99% of items ordered are shipped without back ordering and are shipped on the same business day the order is received.
- *Streamlined ordering process.* Customers may place orders 24 hours a day, 7 days a week by mail, fax, telephone, e-mail, Internet and by using our computerized order entry systems.

Integrated management information systems. Our information systems generally allow for centralized management of key functions, including accounts receivable, inventory, accounts payable, payroll, purchasing, sales and order fulfillment. These systems allow us to manage our growth, deliver superior customer service, properly target customers, manage financial performance and monitor daily operational statistics.

Cost-effective purchasing. We believe that cost-effective purchasing is a key element to maintaining and enhancing our position as a competitive-pricing provider of health care products. We continuously evaluate our purchase requirements and suppliers' offerings and prices in order to obtain products at the lowest possible cost. In 2018, our top 10 health care distribution suppliers and our single largest supplier accounted for approximately 32% and 6%, respectively, of our aggregate purchases.

Efficient distribution. We distribute our products from our strategically located distribution centers. We strive to maintain optimal inventory levels in order to satisfy customer demand for prompt delivery and complete order fulfillment. These inventory levels are managed on a daily basis with the aid of our management information systems. Once an order is entered, it is electronically transmitted to the distribution center nearest the customer's location and a packing slip for the entire order is printed for order fulfillment.

Products

The following table sets forth the percentage of consolidated net sales by principal categories of products offered through our health care distribution and technology reportable segments:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Health care distribution:			
Dental products (1)	48.1 %	48.5 %	48.0 %
Animal health products (2)	27.9	27.9	28.1
Medical products (3)	20.1	20.1	20.2
Total health care distribution	<u>96.1</u>	<u>96.5</u>	<u>96.3</u>
Technology:			
Software and related products and other value-added products (4)	<u>3.9</u>	<u>3.5</u>	<u>3.7</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

- (1) Includes infection-control products, handpieces, preventatives, impression materials, composites, anesthetics, teeth, dental implants, gypsum, acrylics, articulators, abrasives, dental chairs, delivery units and lights, X-ray supplies and equipment, equipment repair and high-tech and digital restoration equipment.
- (2) Includes branded and generic pharmaceuticals, surgical and consumable products and services and equipment.
- (3) Includes branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products, X-ray products, equipment and vitamins.
- (4) 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.

Business Strategy

Our objective is to continue to expand as a global value-added provider of health care products and services to office-based dental and medical practitioners. To accomplish this, we will apply our competitive strengths in executing the following strategies:

- *Increase penetration of our existing customer base.* We have over 1 million customers worldwide and we intend to increase sales to our existing customer base and enhance our position as their primary supplier.
- *Increase the number of customers we serve.* This strategy includes increasing the number and productivity of field sales consultants, as well as using our customer database to focus our marketing efforts in all of our operating segments. In the dental business, we provide products and services to traditional dental practices as well as new emerging segments, such as dental service organizations and community health centers. Leveraging our unique assets and capabilities, we offer solutions to address these new markets. In the medical business, we have expanded to serve customers located in settings outside of the traditional office, such as urgent care clinics, retail and occupational health settings. As settings of health care shift, we remain committed to serving these practitioners and providing them with the products and services they need.
- *Leverage our value-added products and services.* We continue to increase cross-selling efforts for key product lines utilizing a consultative selling process. In the dental business, we have significant cross-selling opportunities between our dental practice management software users and our dental distribution customers. In the medical business, we have opportunities to expand our vaccine, injectables and other pharmaceuticals sales to health care practitioners, as well as cross-selling core products and electronic health record and practice management software. Our strategy extends to providing health systems, integrated delivery networks and other large group and multi-site health care organizations, that include physician clinics, these same value added products and services. As physicians and health systems closely align, we have increased access to opportunities for cross-marketing and selling our product and service portfolios.
- *Pursue strategic acquisitions and joint ventures.* Our acquisition strategy includes acquiring businesses and entering into joint ventures complementary to ours that will provide, among other things, additional sales to be channeled through our existing distribution infrastructure, access to additional product lines and field sales consultants and an opportunity to further expand into new geographic markets.

Markets Served

Demographic trends indicate that our markets are growing, as an aging U.S. population is increasingly using health care services. Between 2018 and 2028, the 45 and older population is expected to grow by approximately 12%. Between 2018 and 2038, this age group is expected to grow by approximately 24%. This compares with expected total U.S. population growth rates of approximately 8% between 2018 and 2028 and approximately 14% between 2018 and 2038.

In the dental industry, there is predicted to be a rise in oral health care expenditures as the 45 and older segment of the population increases. There is increasing demand for new technologies that allow dentists to increase productivity, and this is being driven in the U.S. by lower insurance reimbursement rates. At the same time, there is an expected increase in dental insurance coverage.

We support our dental professionals through the many SKUs that we offer, as well as through important value-added services, including practice management software, electronic claims processing, financial services and continuing education, all designed to help maximize a practitioner's efficiency.

In the medical market, there continues to be a migration of procedures from acute-care settings to physicians' offices, a trend that we believe provides additional opportunities for us. There also is the continuing use of vaccines, injectables and other pharmaceuticals in alternate-care settings. We believe we have established a leading position as a vaccine supplier to the office-based physician practitioner.

Additionally, we are expanding our dental full-service model and our medical offerings in countries where opportunities exist. Through our "Schein Direct" program, we also have the capability to provide door-to-door air package delivery to practitioners in over 190 countries around the world.

For information on revenues and long-lived assets by geographic area, see Note 16 of "Notes to Consolidated Financial Statements."

Seasonality and Other Factors Affecting Our Business and Quarterly Results

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Revenues and profitability generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based health care practitioners and year-end promotions. Revenues and profitability generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. We expect our historical seasonality of sales to continue in the foreseeable future. Quarterly results may also be materially adversely affected by a variety of other factors, including:

- timing and amount of sales and marketing expenditures;
- timing of pricing changes offered by our suppliers;
- timing of the introduction of new products and services by our suppliers;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- changes in or availability of supplier contracts or rebate programs;
- supplier rebates based upon attaining certain growth goals;
- changes in the way suppliers introduce or deliver products to market;
- costs of developing new applications and services;
- our ability to correctly identify customer needs and preferences and predict future needs and preferences;
- uncertainties regarding potential significant breaches of data security or disruptions of our information technology systems;
- unexpected regulatory actions, or government regulation generally;
- exclusivity requirements with certain suppliers may prohibit us from distributing competitive products manufactured by other suppliers;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured medical and dental insurance programs;
- general market and economic conditions, as well as those specific to the health care industry and related industries;
- our success in establishing or maintaining business relationships;
- unexpected difficulties in developing and manufacturing products;
- product demand and availability or recalls by manufacturers;
- exposure to product liability and other claims in the event that the use of the products we sell results in injury;
- increases in shipping costs or service issues with our third-party shippers;

- fluctuations in the value of foreign currencies;
- restructuring costs;
- the adoption or repeal of legislation;
- changes in accounting principles; and
- litigation or regulatory judgments, expenses or settlements.

Any change in one or more of these or other factors could cause our annual or quarterly financial results to fluctuate. If our financial results do not meet market expectations, our stock price may decline.

Governmental Regulations

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 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 continues 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 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. The DSCSA requires wholesalers and 3PLs to submit annual reports to the FDA, which include information regarding each state where the wholesaler or 3PL is licensed, the name and address of each facility and contact information. 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.

The Food and Drug Administration Amendments Act of 2007 and the Food and Drug Administration Safety and Innovation Act of 2012 amended the FDC Act 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. Most compliance dates were reached as of September 24, 2018, with a final set of

requirements for low risk devices being reached on September 24, 2022, which will complete the phase in. 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, reprocessors 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, record-keeping 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, 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 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.

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.

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, and who may receive up to 30% of total government recoveries. Penalties under fraud and abuse laws may be severe. For example, under the federal False Claims Act, violations may result in treble damages, plus civil penalties of up to \$22,363 per claim, as well as exclusion from federal health care programs and criminal penalties. 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. With respect to “anti-kickback laws,” violations of, for example, the federal Anti-Kickback Law may result in civil penalties of up to \$100,000 for each violation, plus up to three times the total amount of remuneration offered, paid, solicited or received, as well as exclusion from federal health care programs and criminal penalties. Notably, effective October 24, 2018, a new federal anti-kickback law (the “Eliminating Kickbacks in Recovery Act of 2018”) enacted in connection with broader addiction services legislation, may impose criminal penalties for kickbacks involving clinical laboratory services, regardless of whether the services at issue involved addiction services, and regardless of whether the services were reimbursed by a federal health care program or by a commercial health insurer. Furthermore, the United States Patient Protection and Affordable Care Act as amended by the Health Care Education Reconciliation Act, each enacted in March 2010 (the “Health Care Reform Law”) significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, clarifying that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

With respect to measures of this type, 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.

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.

Health Care Reform

The Health Care Reform Law 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, and on January 22, 2018 an additional two-year moratorium was imposed under Public Law No. 115-120, suspending the imposition of the tax on device sales during the period beginning January 1, 2018 and ending on December 31, 2019. 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 did not obtain the necessary votes in the Senate. Subsequently, the President has affirmed his intention to repeal and replace the Health Care Reform Law and has taken a number of administrative actions to materially weaken it, including, without limitation, by permitting the use of less robust plans with lower coverage and eliminating “premium support” for insurers providing policies under the Health Care Reform Law. On December 22, 2017, the President signed the Tax Cuts and Jobs Act (“Tax Act”), which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions and which also repealed the individual mandate of the Health Care Reform Law. Further, in December 2018, a Texas federal court struck down the entire Health Care Reform Law, a ruling which is being appealed, and, if upheld could have a significant impact on the U.S. healthcare industry. The uncertain status of the Health Care Reform Law affects our ability to plan.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act or Open Payments Program, imposes annual reporting and disclosure requirements for drug and device manufacturers 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 for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. The Centers for Medicare and Medicaid Services (“CMS”) publishes information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities. Effective January 1, 2022, transfers of value to physician assistants, nurse practitioners or clinical nurse specialists, certified registered nurse anesthetists, and certified nurse-midwives must be reported.

Under the Physician Payment Sunshine Act we are required to collect and report detailed information regarding certain financial relationships we have with covered recipients such as 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 also 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.

Another notable Medicare health care reform initiative, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”), enacted on April 16, 2015, established 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, certain eligible clinicians are required to participate in Medicare through the Merit-Based Incentive Payment System (“MIPS”) or Advanced Alternative Payment Models (“APMs”). MIPS generally consolidated three current programs; the physician quality reporting system, the value-based payment

modifier and the Medicare electronic health record (“EHR”) programs into a single program in which Medicare reimbursement to eligible clinicians includes both positive and negative payment adjustments that take into account quality, promoting interoperability, resource use, clinical practice improvement and improving patient access to health information. Advanced APMs generally involve higher levels of financial and technology risk. The first MIPS performance year was 2017, and the data collected in the first performance year determines 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.

As a result of political, economic and regulatory influences, the health care distribution industry in the United States is under intense scrutiny and subject to fundamental changes. We cannot predict what further reform proposals, if any, will be adopted, when they may be adopted, or what impact they may have on us.

Regulated Software; Electronic Health Records

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings. The 21st Century Cures Act (“Cures Act”), signed into law on December 13, 2016, amended the device definition to exclude certain software, including clinical decision support software that meet certain criteria. In December 2017, the FDA issued draft guidance documents describing its proposed interpretation of the statutory language regarding which types of clinical decision support tools and other software are exempt from regulation 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, 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 and evolving 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 increased privacy rights for individuals in Europe, extended 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 located 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 as they relate to certain things such as employee personal data. Among other things, the GDPR requires with respect to data concerning Data Subjects, company accountability, consents 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 we 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, regulations and industry standards, such as HIPAA and the Payment Card Industry Data Security Standards, 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 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.

Various federal initiatives involve the adoption and use by health care providers of certain electronic health care records systems and processes. The initiatives include, among others, programs that incentivize physicians and dentists, through Medicare's MIPS, to use certified EHR technology in accordance with certain evolving requirements, including regarding quality, promoting interoperability, resource use, clinical practice improvement and improving patient access to health information. Qualification for the MIPS incentive payments requires the use of EHRs that are certified as having certain capabilities designated in standards adopted by CMS and by the Office of the National Coordinator for Health Information Technology ("ONC") of the Department of Health and Human Services ("HHS"). These standards have been subject to change.

Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to MIPS and other incentive programs. In order to maintain certification of our EHR products, we must satisfy the changing governmental standards. 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, we are exposed to risk, such as under federal health care fraud and abuse laws, including 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 incentive 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.

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.

Additionally, as electronic medical devices are increasingly connected to each other and to other technology, the ability of these connected systems safely and effectively to exchange and use exchanged information becomes increasingly important. On September 6, 2017, the FDA issued guidance to assist industry in identifying specific considerations related to the ability of electronic medical devices to safely and effectively exchange and use exchanged information. As a medical device manufacturer, we must manage risks including those associated with an electronic interface that is incorporated into a medical device.

There may be additional legislative or regulatory 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.

International Transactions

In addition, United States and foreign import and export laws and regulations require us to abide by certain standards relating to the importation and exportation of products. We also are subject to certain 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, as well as other types of foreign requirements similar to those imposed in the United States.

While we believe that we are substantially compliant with the foregoing laws and regulations promulgated thereunder and possess all material permits and licenses required for the conduct of our business, there can be no assurance that regulations that impact our business or customers' practices will not have a material adverse effect on our business.

See "ITEM 1A. Risk Factors" for a discussion of additional burdens, risks and regulatory developments that may affect our results of operations and financial condition.

Proprietary Rights

We hold trademarks relating to the "Henry Schein[®]" name and logo, as well as certain other trademarks. We intend to protect our trademarks to the fullest extent practicable.

Employees

We employ more than 18,000 full-time equivalent employees, including approximately 1,900 telesales representatives, over 3,600 field sales consultants, including equipment sales specialists, 4,000 warehouse employees, 500 computer programmers and technicians, 1,000 management employees and 7,800 office, clerical and administrative employees. Approximately 1,930, or 11%, of our employees are subject to collective bargaining agreements. We believe that our relations with our employees are excellent.

Available Information

We make available free of charge through our Internet website, www.henryschein.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of beneficial ownership of securities on Forms 3, 4 and 5 and amendments to these reports and statements filed or furnished pursuant to Section 13(a) and Section 16 of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the United States Securities and Exchange Commission, or SEC.

Our principal executive offices are located at 135 Duryea Road, Melville, New York 11747, and our telephone number is (631) 843-5500. Unless the context specifically requires otherwise, the terms the “Company,” “Henry Schein,” “we,” “us” and “our” mean Henry Schein, Inc., a Delaware corporation, and its consolidated subsidiaries.

Executive Officers of the Registrant

The following table sets forth certain information regarding our executive officers:

Name	Age	Position
Stanley M. Bergman	69	Chairman, Chief Executive Officer, Director
Gerald A. Benjamin	66	Executive Vice President, Chief Administrative Officer, Director
James P. Breslawski	65	Vice Chairman, President, Director
Michael S. Ettinger	57	Senior Vice President, Corporate & Legal Affairs and Chief of Staff, Secretary
Mark E. Mlotek	63	Executive Vice President, Chief Strategic Officer, Director
Steven Paladino	61	Executive Vice President, Chief Financial Officer, Director
Walter Siegel	59	Senior Vice President and General Counsel

Stanley M. Bergman has been our Chairman and Chief Executive Officer since 1989 and a director since 1982. Mr. Bergman held the position of President from 1989 to 2005. Mr. Bergman held the position of Executive Vice President from 1985 to 1989 and Vice President of Finance and Administration from 1980 to 1985.

Gerald A. Benjamin has been our Executive Vice President and Chief Administrative Officer since 2000 and a director since 1994. Prior to holding his current position, Mr. Benjamin was Senior Vice President of Administration and Customer Satisfaction since 1993. Mr. Benjamin was Vice President of Distribution Operations from 1990 to 1992 and Director of Materials Management from 1988 to 1990. Before joining us in 1988, Mr. Benjamin was employed for 12 years at Estée Lauder, Inc., in various management positions where his last position was Director of Materials Planning and Control.

James P. Breslawski has been our Vice Chairman since 2018, President since 2005 and a director since 1992. Mr. Breslawski was the Chief Executive Officer of our Henry Schein Global Dental Group from 2005 to 2018. Mr. Breslawski held the position of Executive Vice President and President of U.S. Dental from 1990 to 2005, with primary responsibility for the North American Dental Group. Between 1980 and 1990, Mr. Breslawski held various positions with us, including Chief Financial Officer, Vice President of Finance and Administration and Corporate Controller.

Michael S. Ettinger has been Senior Vice President, Corporate & Legal Affairs, Chief of Staff and Secretary since 2015. Prior to his current position, Mr. Ettinger served as Senior Vice President, Corporate & Legal Affairs and Secretary from 2013 to 2015, Corporate Senior Vice President, General Counsel & Secretary from 2006 to 2013, Vice President, General Counsel and Secretary from 2000 to 2006, Vice President and Associate General Counsel from 1998 to 2000 and Associate General Counsel from 1994 to 1998. Before joining us, Mr. Ettinger served as a senior associate with Bower & Gardner and as a member of the Tax Department at Arthur Andersen.

Mark E. Mlotek has been Executive Vice President and Chief Strategic Officer since 2012. Mr. Mlotek was Senior Vice President and subsequently Executive Vice President of the Corporate Business Development Group between 2000 and 2012. Prior to that, Mr. Mlotek was Vice President, General Counsel and Secretary from 1994 to 1999 and became a director in 1995. Prior to joining us, Mr. Mlotek was a partner in the law firm of Proskauer Rose LLP, counsel to us, specializing in mergers and acquisitions, corporate reorganizations and tax law from 1989 to 1994.

Steven Paladino has been our Executive Vice President and Chief Financial Officer since 2000. Prior to holding his current position, Mr. Paladino was Senior Vice President and Chief Financial Officer from 1993 to 2000 and has been a director since 1992. From 1990 to 1992, Mr. Paladino served as Vice President and Treasurer and from 1987 to 1990 served as Corporate Controller. Before joining us, Mr. Paladino was employed in public accounting for seven years, most recently with the international accounting firm of BDO USA, LLP. Mr. Paladino is a certified public accountant.

Walter Siegel has been Senior Vice President and General Counsel since 2013. Prior to joining us, Mr. Siegel was employed with Standard Microsystems Corporation, a publicly traded global semiconductor company from 2005 to 2012, holding positions of increasing responsibility, most recently as Senior Vice President, General Counsel and Secretary.

Other Executive Management

The following table sets forth certain information regarding other Executive Management:

Name	Age	Position
David Brous	50	President, Strategic Business Units Group and Asia Pacific & Brazil Dental
Brad Connett	60	President, U.S. Medical Group
James A. Harding	63	Chief Executive Officer, Henry Schein One
Jonathan Koch	44	Senior Vice President and Chief Executive Officer, Global Dental Group
Lorelei McGlynn	55	Senior Vice President, Global Human Resources and Financial Operations
James Mullins.....	54	Senior Vice President, Global Services
Christopher Pendergast	56	Senior Vice President and Chief Technology Officer
Michael Racioppi	64	Senior Vice President, Chief Merchandising Officer

David Brous has been our President, Strategic Business Units Group and Asia Pacific & Brazil Dental since 2019. Mr. Brous joined us in 2002 and has held many positions within the organization, including leading and managing the Corporate Business Development Group and the International Healthcare Group (managing our International Animal Health business, International Medical business and Australia / New Zealand Dental business).

Brad Connett has been President of our U.S. Medical Group since 2018. Mr. Connett joined us in 1997 and has held a number of increasingly responsible positions at the Company. Throughout his career, he has received numerous industry honors, including the John F. Saseen Leadership Award from the Health Industry Distributors Association (HIDA), in recognition of his service to the industry, and induction into the Medical Distribution Hall of Fame by Repertoire Magazine.

James A. Harding has been our Chief Executive Officer of Henry Schein One since 2018. Prior to his current position, Mr. Harding was our Corporate Chief Technology Officer from 2005 to 2018, and Senior Vice President and Chief Information Officer from 2001 to 2005. Prior to joining us, Mr. Harding held the positions of Chief Information Officer at Olsten Corporation from 1997 to 2000, and roles of increasing responsibility at Mobil Oil Corporation from 1977 to 1996, including Chief Information Officer for the Americas, Marketing and Refining, and head of Global Architecture.

Jonathan Koch has been our Senior Vice President and Chief Executive Officer of our Global Dental Group since 2018. Prior to joining us, for the years 2006 to 2018, Mr. Koch was a senior executive at Covance, the drug development services business of Laboratory Corporation of America. In his last role at Covance, Mr. Koch was the Executive Vice President and Group President of Covance Clinical Development & Commercialization Services. Prior to that, Mr. Koch was Executive Vice President and Group President of Covance Research and Development Laboratories from 2015 to 2017. Mr. Koch was also President of Covance Central Laboratory Services from 2010 to 2015, and Vice President at Covance, with various responsibilities, from 2006 to 2010. Prior to Covance, Mr. Koch held senior leadership roles of increasing responsibility while employed with Charles River Laboratories from 1998 to 2006.

Lorelei McGlynn has served as Senior Vice President, Global Human Resources and Financial Operations since 2013. Since joining us in 1999, Ms. McGlynn has served as Vice President, Global Human Resources and Financial Operations from 2008 to 2013, Chief Financial Officer, International Group and Vice President of Global Financial Operations from 2002 to 2008 and Vice President, Finance, North America from 1999 to 2002. Prior to joining us, Ms. McGlynn served as Assistant Vice President of Finance at Adecco Corporation.

James Mullins has served as our Senior Vice President of Global Services since 2018. Mr. Mullins joined us in 1988 and has held a number of key positions with increasing responsibility, including Global Chief Customer Service Officer.

Christopher Pendergast has been our Senior Vice President and Chief Technology Officer since 2018. Prior to joining us, Mr. Pendergast was employed by VSP Global from 2008 to 2018, most recently as the Chief Technology Officer and Chief Information Officer. Prior to VSP Global, Mr. Pendergast served in roles of increasing responsibility at Natural Organics, Inc., from 2006 to 2008, IdeaSphere Inc./Twinlab Corporation from 2000 to 2006, IBM Corporation from 1987 to 1994 and 1998 to 2000 and Rohm and Haas from 1994 to 1998.

Michael Racioppi has been our Senior Vice President, Chief Merchandising Officer since 2008. Prior to holding his current position, Mr. Racioppi was President of the Medical Division from 2000 to 2008 and Interim President from 1999 to 2000, and Corporate Vice President from 1994 to 2008, with primary responsibility for the Medical Group, Marketing and Merchandising departments. Mr. Racioppi served as Senior Director, Corporate Merchandising from 1992 to 1994. Before joining us in 1992, Mr. Racioppi was employed by Ketchum Distributors, Inc. as the Vice President of Purchasing and Marketing. He currently serves on the board of National Distribution and Contracting and previously served on the board of Health Distribution Management Association and Health Industry Distributors Association (HIDA).

ITEM 1A. Risk Factors

The risks described below could have a material adverse effect on our business, reputation, financial condition and/or the trading price of our common stock. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material to our operations. You should not consider this list to be a complete statement of all risks and uncertainties. The order in which these factors appear should not be construed to indicate their relative importance or priority.

The health care products distribution industry is highly competitive and consolidating, and we may not be able to compete successfully.

We compete with numerous companies, including several major manufacturers and distributors. Some of our competitors have greater financial and other resources than we do, which could allow them to compete more successfully. Most of our products are available from several sources and our customers tend to have relationships with several distributors. Competitors could obtain exclusive rights to market particular products, which we would then be unable to market. Manufacturers also could increase their efforts to sell directly to end-users and thereby eliminate or reduce our role and the roles of other distributors. Industry consolidation among health care product distributors, price competition, the unavailability of products, whether due to our inability to gain access to products or to interruptions in supply from manufacturers, or the emergence of new competitors, also could increase competition. There has also been increasing consolidation among manufacturers of health care products which could have a material adverse effect on our margins and product availability. Additionally, in this competitive market, some of our contracts contain minimum purchase commitments. We could be subject to charges and financial losses in the event we fail to satisfy minimum purchase commitments. In the future, we may be unable to compete successfully and competitive pressures may reduce our revenues and profitability.

Because substantially all of the products that we distribute are not manufactured by us, we are dependent upon third parties for the manufacture and supply of substantially all of our products.

We obtain substantially all of our products from third parties. Generally, we do not have long-term contracts with our suppliers committing them to supply products to us. Therefore, suppliers may not provide the products we need in the quantities we request. While there is generally more than one source of supply for most of the categories of products we sell, some key suppliers, in the aggregate, supply a significant portion of the products we sell. Additionally, because we generally do not control the actual production of the products we sell, we may be subject to delays caused by interruption in production based on conditions outside of our control, including the failure to comply with applicable government requirements. The failure of manufacturers of products regulated by the FDA or other governmental agencies to meet these requirements could result in product recall, cessation of sales or other market disruptions. In the event that any of our third-party suppliers were to become unable or unwilling to continue to provide the products in our required volumes, we would need to identify and obtain acceptable replacement sources on a timely basis. There is no guarantee that we would be able to obtain such alternative sources of supply on a timely basis, if at all. An extended interruption in the supply of our products, especially any high sales volume product, could have a material adverse effect on our results of operations, which most likely would adversely affect the value of our common stock.

Our revenues and profitability depend on our relationships with capable sales personnel as well as customers, suppliers and manufacturers of the products that we distribute.

Our future revenues and profitability depend on our ability to maintain satisfactory relationships with qualified sales personnel as well as customers, suppliers and manufacturers. If we fail to maintain our existing relationships with such persons or fail to acquire relationships with such key persons in the future, our business may be materially adversely affected.

Our future success is substantially dependent upon our senior management.

Our future success is substantially dependent upon the efforts and abilities of members of our existing senior management, particularly Stanley M. Bergman, Chairman and Chief Executive Officer. The loss of the services of Mr. Bergman could have a material adverse effect on our business. We have an employment agreement with Mr. Bergman. We do not currently have “key man” life insurance policies on any of our employees. Competition for senior management is intense and we may not be successful in attracting and retaining key personnel.

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Revenues and profitability generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based health care practitioners and year-end promotions. Revenues and profitability generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. We expect our historical seasonality of sales to continue in the foreseeable future. Quarterly results may also be materially adversely affected by a variety of other factors, including:

- timing and amount of sales and marketing expenditures;
- timing of pricing changes offered by our suppliers;
- timing of the introduction of new products and services by our suppliers;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- changes in or availability of supplier contracts or rebate programs;
- supplier rebates based upon attaining certain growth goals;
- changes in the way suppliers introduce or deliver products to market;
- costs of developing new applications and services;
- our ability to correctly identify customer needs and preferences and predict future needs and preferences;
- uncertainties regarding potential significant breaches of data security or disruptions of our information technology systems;
- unexpected regulatory actions, or government regulation generally;
- exclusivity requirements with certain suppliers, which may prohibit us from distributing competitive products manufactured by other suppliers;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured medical and dental insurance programs;
- general market and economic conditions, as well as those specific to the health care industry and related industries;
- our success in establishing or maintaining business relationships;
- unexpected difficulties in developing and manufacturing products;
- product demand and availability, or product recalls by manufacturers;

- exposure to product liability and other claims in the event that the use of the products we sell results in injury;
- increases in shipping costs or service issues with our third-party shippers;
- fluctuations in the value of foreign currencies;
- restructuring costs;
- the adoption or repeal of legislation;
- changes in accounting principles; and
- litigation or regulatory judgments, expenses or settlements.

Any change in one or more of these or other factors could cause our annual or quarterly financial results to fluctuate. If our financial results do not meet market expectations, our stock price may decline.

Expansion of group purchasing organizations (“GPO”) or provider networks and the multi-tiered costing structure may place us at a competitive disadvantage.

The medical products industry is subject to a multi-tiered costing structure, which can vary by manufacturer and/or product. Under this structure, certain institutions can obtain more favorable prices for medical products than we are able to obtain. The multi-tiered costing structure continues to expand as many large integrated health care providers and others with significant purchasing power, such as GPOs, demand more favorable pricing terms. Additionally, the formation of provider networks and GPOs may shift purchasing decisions to entities or persons with whom we do not have a historical relationship. This may threaten our ability to compete effectively, which could in turn negatively impact our financial results. Although we are seeking to obtain similar terms from manufacturers to obtain access to lower prices demanded by GPO contracts or other contracts, and to develop relationships with provider networks and new GPOs, we cannot assure that such terms will be obtained or contracts will be executed.

Increases in shipping costs or service issues with our third-party shippers could harm our business.

Shipping is a significant expense in the operation of our business. We ship almost all of our orders through third-party delivery services, and typically bear the cost of shipment. Accordingly, any significant increase in shipping rates could have a material adverse effect on our business, financial condition or operating results. Similarly, strikes or other service interruptions by those shippers could cause our operating expenses to rise and materially adversely affect our ability to deliver products on a timely basis.

Uncertain global macro-economic and political conditions could materially adversely affect our results of operations and financial condition.

Uncertain global macro-economic and political conditions that affect the economy and the economic outlook of the United States, Europe and other parts of the world could materially adversely affect our results of operations and financial condition. These uncertainties, include, among other things:

- the United Kingdom’s vote to leave the European Union (generally referred to as Brexit) and any other similar referenda or actions by other European Union member countries (during 2018, approximately 7% of our consolidated net sales were invoiced to customers in the United Kingdom and approximately 25% of our consolidated net sales were invoiced to customers in Europe overall, including the U.K.);
- election results;
- changes to laws and policies governing foreign trade (including, without limitation, North American Free Trade Agreement (NAFTA) and other international trade agreements);

- greater restrictions on imports and exports;
- changes in laws and policies governing health care;
- tariffs and sanctions;
- sovereign debt levels;
- the inability of political institutions to effectively resolve actual or perceived economic, currency or budgetary crises or issues;
- consumer confidence;
- unemployment levels (and a corresponding increase in the uninsured and underinsured population);
- changes in regulatory and tax regulations; including without limitation, the Tax Act;
- increases in interest rates;
- availability of capital;
- increases in fuel and energy costs;
- the effect of inflation on our ability to procure products and our ability to increase prices over time;
- changes in tax rates and the availability of certain tax deductions;
- increases in health care costs;
- the threat or outbreak of war, terrorism or public unrest; and
- changes in laws and policies governing manufacturing, development and investment in territories and countries where we do business.

Additionally, changes in government, government debt and/or budget crises may lead to reductions in government spending in certain countries, which could reduce overall health care spending, and/or higher income or corporate taxes, which could depress spending overall.

Recessionary conditions and depressed levels of consumer and commercial spending may also cause customers to reduce, modify, delay or cancel plans to purchase our products and may cause suppliers to reduce their output or change their terms of sale. We generally sell products to customers with payment terms. If customers' cash flow or operating and financial performance deteriorate, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment to us. Likewise, for similar reasons suppliers may restrict credit or impose different payment terms. Any inability of current and/or potential customers to pay us for our products and/or services or any demands by suppliers for different payment terms may materially adversely affect our results of operations and financial condition.

Disruptions in the financial markets may materially adversely affect the availability and cost of credit to us.

Our ability to make scheduled payments or refinance our obligations with respect to indebtedness will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and financial, business and other factors beyond our control. Disruptions in the financial markets may materially adversely affect the availability and cost of credit to us.

The market price for our common stock may be highly volatile.

The market price for our common stock may be highly volatile. A variety of factors may have a significant impact on the market price of our common stock, including, but not limited to:

- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- changes in our industry and competitors;
- changes in government or legislation;
- our financial condition, results of operations and cash flows and prospects;
- stock repurchases;
- any future issuances of our common stock, which may include primary offerings for cash, stock splits, issuances in connection with business acquisitions, issuances of restricted stock/units and the grant or exercise of stock options from time to time;
- general market and economic conditions; and
- any outbreak or escalation of hostilities in areas where we do business.

In addition, the Nasdaq Stock Market can experience extreme price and volume fluctuations that can be unrelated or disproportionate to the operating performance of the companies listed on Nasdaq. Broad market and industry factors may negatively affect the market price of our common stock, regardless of actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against companies. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our business.

The health care industry is experiencing changes that could materially adversely affect our business.

The health care industry is highly regulated and subject to changing political, economic and regulatory influences. In recent years, the health care industry has undergone, and is in the process of undergoing, significant changes driven by various efforts to reduce costs, including, among other things: trends toward managed care; consolidation of health care distribution companies; consolidation of health care manufacturers; collective purchasing arrangements and consolidation among office-based health care practitioners; and changes in reimbursements to customers, as well as growing enforcement activities (and related monetary recoveries) by governmental officials. Both our profitability and the profitability of our customers may be materially adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services, changes to the methodology by which reimbursement levels are determined. If we are unable to react effectively to these and other changes in the health care industry, our financial results could be materially adversely affected.

The implementation of the Health Care Reform Law could materially adversely affect our business.

The Health Care Reform Law 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 contains many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid, including imposing 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 adversely affect sales and cost of goods sold. 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, and on January 22, 2018 an additional two-year moratorium was imposed under Public Law No. 115-120, suspending the imposition of the tax on device sales during the period beginning January 1, 2018 and ending on December 31, 2019. 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 did not obtain the necessary votes in the Senate. Subsequently, the President has affirmed his intention to repeal and replace the Health Care Reform Law and has taken a number of administrative actions to materially weaken it, including without limitation, by permitting the use of less robust plans with lower coverage and eliminating “premium support” for insurers providing policies under the Health Care Reform Law. On December 22, 2017, the President signed into law the Tax Act, which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions and which also repealed the individual mandate of the Health Care Reform Law. Further, in December 2018, a Texas federal court struck down the entire Health Care Reform Law, a ruling which is being appealed, and, if upheld, could have a significant impact on the U.S. healthcare industry. The uncertain status of the Health Care Reform Law affects our ability to plan.

The implementation of the reporting and disclosure obligations of the Physician Payment Sunshine Act provisions of the Health Care Reform Law could adversely affect our business.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act, or Open Payments Program, imposes annual reporting and disclosure requirements for drug and device manufacturers with regard to payments or other transfers of value made to covered recipients (including physicians, dentists and teaching hospitals), and for such manufacturers 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. Effective January 1, 2022, transfers of value to physician assistants, nurse practitioners or clinical nurse specialists, certified registered nurse anesthetists, and certified nurse-midwives must also be reported.

Under the Physician Payment Sunshine Act we are required to collect and report detailed information regarding certain financial relationships we have with covered recipients such as 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 also 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 reporting requirements, our compliance with these new rules imposes additional costs on us.

Failure to comply with existing and future regulatory requirements could materially adversely affect our business.

Our business is subject to requirements under various local, state, federal and international laws and regulations applicable to the distribution of pharmaceuticals and medical devices, and human cells, tissue and cellular and tissue-based products, also known as HCT/P products, and animal feed and supplements. Among the federal laws with which we must comply are the Controlled Substances Act, the FDC Act, as amended, and Section 361 of the Public Health Services Act. Among other things, such laws, and the regulations promulgated thereunder:

- regulate the storage and distribution, labeling, packaging, handling, reporting, record keeping, introduction, manufacturing and marketing of drugs, HCT/P products and medical devices;
- subject us to inspection by the FDA and the DEA;
- regulate the storage, transportation and disposal of certain of our products that are considered hazardous materials;

- require us to advertise and promote our drugs and devices in accordance with applicable FDA requirements;
- require registration with the FDA and the DEA and various state agencies;
- require record keeping and documentation of transactions involving drug products;
- require us to design and operate a system to identify and report suspicious orders of controlled substances to the DEA;
- require us to manage returns of products that have been recalled and subject us to inspection of our recall procedures and activities; and
- impose reporting requirements if a pharmaceutical, HCT/P product or medical device causes serious illness, injury or death.

Applicable federal, state, local and foreign laws and regulations also may require us to meet various standards relating to, among other things, licensure or registration, sales and marketing practices, product integrity and supply tracking to the manufacturer of the product, personnel, privacy and security of health or other personal information, installation, maintenance and repair of equipment, and the importation and exportation of products. Our business is also subject to requirements of similar and other foreign governmental laws and regulations affecting our operations abroad. The FDA and DEA have recently increased their regulatory and enforcement activities.

The failure to comply with any of these regulations, or new interpretations of existing laws and regulations, or the imposition of any additional laws and regulations, could materially adversely affect our business. There can be no assurance that current and future government regulations will not adversely affect our business. The costs to us associated with complying with the various applicable statutes and regulations, as they now exist and as they may be modified, could be material. Allegations by a governmental body that we have not complied with these laws could have a material adverse effect on our businesses. While we believe that we are substantially compliant with applicable laws and regulations, and believe we have adequate compliance programs and controls in place to ensure substantial compliance, if it is determined that we have not complied with these laws, we are potentially subject to penalties including warning letters, civil and criminal penalties, mandatory recall of product, seizure of product and injunction, consent decrees and suspension or limitation of product sale and distribution. If we enter into settlement agreements to resolve allegations of non-compliance, we could be required to make settlement payments or be subject to civil and criminal penalties, including fines and the loss of licenses. Non-compliance with government requirements could adversely affect our ability to participate in federal and state government health care programs and damage our reputation.

If we fail to comply with laws and regulations relating to health care fraud or other laws and regulations, we could suffer penalties or be required to make significant changes to our operations, which could materially adversely affect our business.

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. Health care fraud measures may implicate, for example, our relationships with pharmaceutical manufacturers, our pricing and incentive programs for physician and dental practices, and our dental and physician practice management products that offer billing related functionality.

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, and who may receive up to 30% of total government recoveries. Penalties under fraud and abuse laws may be severe. For example, under the federal False Claims Act, violations may result in treble damages, plus civil penalties of up to \$22,363 per claim, as well as exclusion from federal health care programs and criminal penalties. 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. With respect to “anti-kickback laws,” violations of, for example, the federal Anti-Kickback Law may result in civil penalties of up to \$100,000 for each violation, plus up to three times the total amount of remuneration offered, paid, solicited or received, as well as exclusion from federal health care programs and criminal penalties. Notably, effective October 24, 2018, a new federal anti-kickback law (the “Eliminating Kickbacks in Recovery Act of 2018”) enacted in connection with broader addiction services legislation, may impose criminal penalties for kickbacks involving clinical laboratory services, regardless of whether the services at issue involved addiction services, and regardless of whether the services were reimbursed by a federal health care program or by a commercial health insurer. Furthermore, the Health Care Reform Law significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, clarifying that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

With respect to measures of this type, 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. Our businesses are generally subject to numerous other laws and regulations that could impact our financial results, including, without limitation, securities, antitrust and marketing laws and regulations. Failure to comply with laws or regulations could have a material adverse effect on our business.

Failure to comply with fraud and abuse laws and regulations and other 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 non-compliance. We may determine to enter into settlements, make payments, agree to consent decrees or enter into other arrangements to resolve such matters. For example, one of our subsidiaries recently resolved an investigation by the Federal Trade Commission related to the manner in which it advertised certain data security features of its dental practice management software, which resulted in a consent order and fine. Failure to comply with consent decrees could materially adversely affect our business.

While we believe that we are substantially compliant with applicable fraud and abuse and other laws and regulations, and believe 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 services or marketing practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business.

If we fail to comply with laws and regulations relating to the confidentiality of sensitive personal information or standards in electronic health records or transmissions, we could be required to make significant changes to our products, or incur substantial fines, penalties or other liabilities.

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings. The Cures Act, signed into law on December 13, 2016, amended the device definition to exclude certain software, including clinical decision support software that meet certain criteria. In December 2017, the FDA issued draft guidance documents describing its proposed interpretation of the statutory language regarding

which types of clinical decision support tools and other software are exempt from regulations 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, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

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 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 could expose us to breach of contract claims, substantial fines, penalties and other liabilities and expenses, costs for remediation and harm to our reputation. Also, evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information, or could require us to incur significant additional costs to re-design our products in a timely manner to reflect these legal requirements, either of which could have a material adverse effect on our results of operations.

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.

In addition, the European Parliament and the Council of the European Union have adopted the GDPR, effective from May 25, 2018, which increased privacy rights for individuals in Europe, extended the scope or responsibilities for data controllers and data processors and imposes increased requirements and potential penalties on companies offering goods or services to 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 as they relate to certain things such as employee personal data. Among other things, the GDPR requires with respect to data concerning Data Subjects, company accountability, consents 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 we 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, regulations and industry standards, such as HIPAA and the Payment Card Industry Data Security Standards, 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.

Various federal initiatives involve the adoption and use by health care providers of certain electronic health care records systems and processes. The initiatives include, among others, programs that incentivize physicians and dentists, through Medicare's MIPS, to use certified EHR technology in accordance with certain evolving requirements, including regarding quality, promoting interoperability, resource use, clinical practice improvement and improving patient access to health information. Qualification for the MIPS incentive payments requires the use of EHRs that are certified as having certain capabilities designated in standards adopted by CMS and ONC. These standards have been subject to change.

Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to MIPS and other incentive programs. In order to maintain certification of our EHR products, we must satisfy the changing governmental standards. 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, we are exposed to risk, such as under federal health care fraud and abuse laws, including 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 incentive 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.

Additionally, as electronic medical devices are increasingly connected to each other and to other technology, the ability of these connected systems safely and effectively to exchange and use exchanged information becomes increasingly important. On September 6, 2017, the FDA issued guidance to assist industry in identifying specific considerations related to the ability of electronic medical devices to safely and effectively exchange and use exchanged information. As a medical device manufacturer, we must manage risks including those associated with an electronic interface that is incorporated into a medical device.

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

Our global operations are subject to inherent risks that could materially adversely affect our business.

Global operations are subject to risks that may materially adversely affect our business. The risks that our global operations are subject to include, among other things:

- difficulties and costs relating to staffing and managing foreign operations;
- difficulties in establishing channels of distribution;
- fluctuations in the value of foreign currencies;
- longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions;
- repatriation of cash from our foreign operations to the United States;
- regulatory requirements;
- anti-bribery, anti-corruption and laws pertaining to the accuracy of our internal books and records;
- unexpected difficulties in importing or exporting our products;

- imposition of import/export tariffs, quotas, sanctions or penalties;
- difficulties and delays inherent in sourcing products and contract manufacturing in foreign markets;
- limitations on our ability under local laws to protect our intellectual property;
- unexpected regulatory, legal, economic and political changes in foreign markets;
- changes in tax regulations that influence purchases of capital equipment;
- civil disturbances, geopolitical turmoil, including terrorism, war or political or military coups; and
- public health emergencies.

Our expansion through acquisitions and joint ventures involves risks.

We have expanded our domestic and international markets in part through acquisitions and joint ventures, and we expect to continue to make acquisitions and enter into joint ventures in the future. Such transactions involve numerous risks, including possible material adverse effects on our financial results or the market price of our common stock. Some of our acquisitions and future acquisitions may also give rise to an obligation by us to make contingent payments or to satisfy certain repurchase obligations, which payments could have a material adverse effect on our financial results. In addition, integrating acquired businesses and joint ventures:

- may result in a loss of customers or product lines of the acquired businesses or joint ventures;
- requires significant management attention;
- may place significant demands on our operations, information systems and financial resources; and
- results in additional acquisition and integration expenses.

There can be no assurance that our future acquisitions or joint ventures will be successful. Our ability to continue to successfully effect acquisitions and joint ventures will depend upon the following:

- the availability of suitable acquisition or joint venture candidates at acceptable prices;
- our ability to consummate such transactions, which could potentially be prohibited due to U.S. or foreign antitrust regulations;
- the availability of financing on acceptable terms, in the case of non-stock transactions;
- the liquidity of our investments and our ability to raise capital could be affected by the financial credit markets; and
- our ability to retain, recruit and incentivize the management of the companies we acquire.

Our acquisitions may not result in the benefits and revenue growth we expect.

We are in the process of integrating companies that we acquired and including the operations, services, products and personnel of each company within our management policies, procedures and strategies. We cannot be sure that we will achieve the benefits of revenue growth that we expect from these acquisitions or that we will not incur unforeseen additional costs or expenses in connection with these acquisitions. To effectively manage our expected future growth, we must continue to manage successfully our integration of these companies and continue to improve our operational systems, internal procedures, working capital management and financial and operational controls. If we fail in any of these areas, our business could be materially adversely affected.

If the Animal Health Spin-off or certain internal transactions undertaken in anticipation of the Animal Health Spin-off are determined to be taxable in whole or in part, we and our stockholders may incur substantial tax liabilities.

In connection with the Animal Health Spin-off, we obtained an opinion of outside tax counsel that the Animal Health Spin-off will qualify as a tax-free transaction to us and our stockholders for U.S. federal income tax purposes. We have not sought or obtained a ruling from the Internal Revenue Service (“IRS”) on the tax consequences of the transaction. In addition, the tax opinion is subject to customary qualifications and assumptions, and is based on factual representations and undertakings. The failure of any factual representation or assumption to be true, correct and complete in all material respects, or any undertakings to be fully complied with, could affect the validity of the tax opinion. Moreover, an opinion of counsel represents counsel’s best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the conclusions set forth in the tax opinion. Even if the Animal Health Spin-off otherwise qualified as a tax-free transaction for U.S. federal income tax purposes, it may become taxable to us if certain events occur that affect either us or Covetrus. While Covetrus has agreed not to take certain actions that could cause the transaction not to qualify as a tax-free transaction and is generally obligated to indemnify us against any tax consequences if it breaches this agreement, the potential tax liabilities could have an adverse effect on us if we were not entitled to indemnification or if the indemnification obligations were not fulfilled. If the Animal Health Spin-off or certain internal transactions undertaken in anticipation of the Animal Health Spin-off are determined to be taxable for U.S. federal income tax purposes, we and/or our U.S. stockholders who participated in the Animal Health Spin-off could incur substantial U.S. federal income tax liabilities. There can be no assurance that we would be entitled to indemnification or that Covetrus would have the resources or liquidity required to indemnify us for any such taxable gain. In addition, we and/or our stockholders who participated in the Animal Health Spin-off could incur tax costs in foreign jurisdictions in connection with the transaction, irrespective of whether the Animal Health Spin-off qualifies as tax-free for U.S. federal income tax purposes.

The Animal Health Spin-off may not achieve the intended benefits and may expose us to potential risks and liabilities.

We completed the Animal Health Spin-off on February 7, 2019. We undertook the transaction because, among other things, we believed that our animal health business could achieve greater growth by combining with Vets First Choice and that we could benefit from greater strategic focus of our resources and management efforts. We may not benefit as expected from the increased focus on our core business, strategic programs and objectives made possible by the Animal Health Spin-off. In addition, the value of the transaction may be reduced by potential liabilities related to post-closing adjustments and indemnities, which could adversely affect our results of operations.

We face inherent risk of exposure to product liability, intellectual property infringement and other claims in the event that the use of the products we sell results in injury.

Our business involves a risk of product liability, intellectual property infringement and other claims in the ordinary course of business, and from time to time we are named as a defendant in cases as a result of our distribution of products. Additionally, we own interests in companies that manufacture certain dental products. As a result, we are subject to the potential risk of product liability, intellectual property infringement or other claims relating to the manufacture and distribution of products by those entities. Additionally, as our private-label business continues to grow, purchasers of such products may increasingly seek recourse directly from us, rather than the ultimate product manufacturer, for product-related claims. Another potential risk we face in the distribution of our products is liability resulting from counterfeit or tainted products infiltrating the supply chain. In addition, some of the products that we transport and sell are considered hazardous materials. The improper handling of such materials or accidents involving the transportation of such materials could subject us to liability. In addition, our reputation could be adversely affected by negative publicity surrounding such events regardless of whether or not claims against us are successful. We have various insurance policies, including product liability insurance, covering risks and in amounts that we consider adequate. In many cases in which we have been sued in connection with products manufactured by others, the manufacturer of the product provides us with indemnification. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide us with

adequate protection. A successful claim brought against us in excess of available insurance or not covered by indemnification agreements, or any claim that results in significant adverse publicity against us, could have a material adverse effect on our business and our reputation.

Our technology segment depends upon continued software and e-services product development, technical support and successful marketing.

Competition among companies supplying practice management software and/or e-services is intense and increasing. Our future sales of practice management software and e-services will depend on, among other factors:

- the effectiveness of our sales and marketing programs;
- our ability to enhance our products and services to satisfy customer requirements; and
- our ability to provide ongoing technical support.

We cannot be sure that we will be successful in introducing and marketing new software, software enhancements or e-services, or that such software, software enhancements and e-services will be released on time or accepted by the market. Our software and applicable e-services products, like software products generally, may contain undetected errors or bugs when introduced or as new versions are released. We cannot be sure that future problems with post-release software errors or bugs will not occur. Any such defective software may result in increased expenses related to the software and could adversely affect our relationships with the customers using such software as well as our reputation. We do not have any patents on our software or e-services, and rely upon copyright, trademark and trade secret laws, as well as contractual and common law protections. We cannot provide assurance that such legal protections will be available or enforceable to protect our software or e-services products.

We rely on third parties for certain technologically advanced products.

Some of our products contain technologically advanced components, including software, that are developed by third parties. We may not be able to replace the functions provided by these third-party components or products if they become obsolete, defective or incompatible with future versions of our products or with our services and solutions, or if they are not adequately maintained or updated.

In addition, third-party suppliers of software or other intellectual property assets could be unwilling to permit us to use their intellectual property and this could impede or disrupt use of their products or services by us and our customers. Alternate sources for the technology currently provided by third parties to us may not be available to us in a timely manner, and may not provide us with the same functions as currently provided to us or may be more expensive than products we currently use or sell.

Further, the risk of intellectual property infringement claims against us may increase as we expand our business to include more technologically advanced products and continue to incorporate third party components, software and/or other intellectual property into the products we sell. Also, individuals and firms have purchased intellectual property assets in order to assert claims of infringement against technology providers and customers that use such technology. Any infringement action brought against us or our customers could be costly to defend or lead to an expensive settlement or judgment against us.

The risks described above could have a material adverse effect on our business, financial condition or operating results and our reputation.

We may experience competition from third-party online commerce sites.

Traditional health care supply and distribution relationships are being challenged by electronic online commerce solutions. The continued advancement of online commerce by third parties will require us to cost-effectively adapt to changing technologies, to enhance existing services and to differentiate our business (including with additional value-added services) to address changing demands of consumers and our customers on a timely basis. The emergence of such potential competition and our inability to anticipate and effectively respond to changes on a timely basis could have a material adverse effect on our business.

Security risks generally associated with our information systems and our technology products and services could materially adversely affect our business, and our results of operations could be materially adversely affected if our information systems (or third-party systems we rely on) are interrupted, damaged by unforeseen events, are subject to cyberattacks or fail for any extended period of time.

We rely on information systems (IS) in our business to obtain, rapidly process, analyze, manage and store data to, among other things:

- maintain and manage worldwide systems to facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers;
- receive, process and ship orders on a timely basis;
- manage the accurate billing and collections for thousands of customers;
- process payments to suppliers; and
- provide products and services that maintain certain of our customers' electronic medical or dental records (including protected health information of their patients).

Information security risks have generally increased in recent years, and a cyberattack that bypasses our IS security systems causing an IS security breach may lead to a material disruption of our IS business systems and/or the loss of business information resulting in a material adverse effect on our business.

In addition, we develop products and provide services to our customers that are technology-based, and a cyberattack that bypasses the IS security systems of our products or services causing a security breach and/or perceived security vulnerabilities in our products or services could also cause significant reputational harm, and actual or perceived vulnerabilities may lead to claims against us by our customers and/or governmental agencies. In particular, certain of our practice management products and services purchased by health care providers, such as physicians and dentists, are used 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 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 fines and penalties, costs for remediation, and substantial defense and settlement expenses.

Regarding direct customer claims, although our customer license agreements typically contain provisions that seek to eliminate or limit our exposure to such liability, there is no assurance these provisions will withstand legal challenges, or that we will be able to obtain such provisions in all cases.

In addition, our information systems also utilize certain third party service organizations that manage a portion of our information systems, and our business may be materially adversely affected if these third party service organizations are subject to an IS security breach. Additionally, legislative or regulatory action related to cybersecurity may increase our costs to develop or implement new technology products and services.

Risks associated with these and other IS security breaches may include, among other things:

- future results could be materially adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;
- operational or business delays resulting from the disruption of information systems and subsequent clean-up and mitigation activities;
- procedures and safeguards must continually evolve to meet new IS challenges, and enhancing protections, and conducting investigations and remediation, may impose additional costs on us;

- we may incur claims, fines and penalties, and costs for remediation, or substantial defense and settlement expenses; and
- negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

We also deliver Internet-based services and, accordingly, depend on our ability and the ability of our customers to access the Internet. In the event of any difficulties, outages and delays by Internet service providers, we may be impeded from providing such services, which may have a material adverse effect on our business and our reputation.

We have various insurance policies, including cyber liability insurance, covering risks and in amounts that we consider adequate. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost. Successful claims for misappropriation or release of confidential or personal data brought against us in excess of available insurance or fines or other penalties assessed or any claim that results in significant adverse publicity against us could have a material adverse effect on our business and our reputation.

Certain provisions in our governing documents and other documents to which we are a party may discourage third-party offers to acquire us that might otherwise result in our stockholders receiving a premium over the market price of their shares.

The provisions of our certificate of incorporation and by-laws may make it more difficult for a third party to acquire us, may discourage acquisition bids and may limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions, among other things:

- require the affirmative vote of the holders of at least 60% of the shares of common stock entitled to vote to approve a merger, consolidation, or a sale, lease, transfer or exchange of all or substantially all of our assets; and
- require the affirmative vote of the holders of at least 66 2/3% of our common stock entitled to vote to (i) remove a director; and (ii) to amend or repeal our by-laws, with certain limited exceptions.

In addition, our 2013 Stock Incentive Plan and 2015 Non-Employee Director Stock Incentive Plan provide for accelerated vesting of stock options upon a change in control. These incentive plans also authorize the committee under the plans to provide for accelerated vesting of other types of equity awards in connection with a change in control at grant or thereafter, and certain other awards made under these incentive plans (such as restricted stock/unit awards) accelerate upon a change in control or upon certain termination events in connection with a change in control. Further, certain agreements between us and our executive officers provide for increased severance payments and certain benefits if those executive officers are terminated without cause by us or if they terminate for good reason, in each case within two years after a change in control or within ninety days prior to the effective date of the change in control or after the first public announcement of the pendency of the change in control.

Tax legislation could materially adversely affect our financial results and tax liabilities.

We are subject to the tax laws and regulations of the United States federal, state and local governments, as well as foreign jurisdictions. From time to time, various legislative initiatives may be proposed that could materially adversely affect our tax positions. There can be no assurance that our effective tax rate will not be materially adversely affected by legislation resulting from these initiatives. On December 22, 2017, the President signed the Tax Act into law, which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions. In addition, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Item 1B. Unresolved Staff Comments

We have no unresolved comments from the staff of the SEC that were issued 180 days or more preceding the end of our 2018 fiscal year.

ITEM 2. Properties

We own or lease the following properties with more than 100,000 square feet:

<u>Property</u>	<u>Location</u>	<u>Own or Lease</u>	<u>Approximate Square Footage</u>	<u>Lease Expiration Date</u>
Corporate Headquarters	Melville, NY	Lease	185,000	June 2020
Corporate Headquarters	Melville, NY	Own	105,000	N/A
Office and Distribution Center	Tours, France	Own	166,000	N/A
Office and Distribution Center	Gillingham, United Kingdom	Lease/Own	165,000	June 2033
Office and Distribution Center	Fiumana-Predappio, Italy	Own	183,000	N/A
Office and Distribution Center	Eastern Creek, New South Wales, Australia	Lease	161,000	July 2030
Office and Distribution Center	Niagara on the Lake, Canada	Lease	128,000	September 2021
Office and Distribution Center	Bastian, VA	Own	108,000	N/A
Office and Distribution Center	West Allis, WI	Lease	106,000	October 2027
Distribution Center	Denver, PA	Lease	624,000	December 2021
Distribution Center	Indianapolis, IN	Lease	380,000	March 2022
Distribution Center	Sparks, NV	Lease	370,000	December 2021
Distribution Center	Indianapolis, IN	Own	287,000	N/A
Distribution Center	Grapevine, TX	Lease	242,000	July 2023
Distribution Center	Gallin, Germany	Own	215,000	N/A
Distribution Center	Jacksonville, FL	Lease	212,000	February 2026
Distribution Center	Heppenheim, Germany	Lease	194,000	March 2030

The properties listed in the table above are our principal properties primarily used by our health care distribution segment. In addition, we lease numerous other distribution, office, showroom, manufacturing and sales space in locations including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Poland, Portugal, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

We believe that our properties are in good condition, are well maintained and are suitable and adequate to carry on our business. We have additional operating capacity at certain distribution center facilities.

ITEM 3. Legal Proceedings

Beginning in January 2016, purported class action complaints were filed against Patterson Companies, Inc. (“Patterson”), Benco Dental Supply Co. (“Benco”) and Henry Schein, Inc. Although there were factual and legal variations among these complaints, each of these complaints alleges, 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. On February 9, 2016, the U.S. District Court for the Eastern District of New York ordered all of these actions, and all other actions filed thereafter asserting substantially similar claims against defendants, consolidated for pre-trial purposes. On February 26, 2016, a consolidated class action complaint was filed by Arnell Prato, D.D.S., P.L.L.C., d/b/a Down to Earth Dental, Evolution Dental Sciences, LLC, Howard M. May, DDS, P.C., Casey Nelson, D.D.S., Jim Peck, D.D.S., Bernard W. Kurek, D.M.D., Larchmont Dental Associates, P.C., and Keith Schwartz, D.M.D., P.A. (collectively, “putative class representatives”) in the U.S. District Court for the Eastern District of New York, entitled *In re Dental Supplies Antitrust Litigation*, Civil Action No. 1:16-CV-00696-BMC-GRB. In the consolidated class action complaint, putative class representatives allege a nationwide agreement among Henry Schein, Benco, Patterson and non-party Burkhart Dental Supply Company, Inc. (“Burkhart”) not to compete on price. The consolidated 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. On September 28, 2018, the parties executed a settlement agreement that proposes, subject to court approval, a full and final settlement of the lawsuit on a classwide basis. Subject to certain exceptions, the settlement class consists of all persons or entities that purchased dental products directly from Henry Schein, Patterson, Benco, Burkhart, or any combination thereof, during the period August 31, 2008 through and including March 31, 2016. As a result, we recorded a charge of \$38.5 million in our third quarter 2018 results.

On August 31, 2012, Archer and White Sales, Inc. (“Archer”) filed a complaint against Henry Schein, Inc. as well as Danaher Corporation and its subsidiaries Instrumentarium Dental, Inc., Dental Equipment, LLC, Kavo Dental Technologies, LLC and Dental Imaging Technologies Corporation (collectively, the “Danaher Defendants”) in the U.S. District Court for the Eastern District of Texas, Civil Action No. 2:12-CV-00572-JRG, styled as an antitrust action under Section 1 of the Sherman Act, and the Texas Free Enterprise Antitrust Act. Archer alleges a conspiracy between Henry Schein, an unnamed company and the Danaher Defendants to terminate or limit Archer’s distribution rights. On August 1, 2017, Archer filed an amended complaint, adding Patterson and Benco as defendants, and alleging that Henry Schein, Patterson, Benco and Burkhart conspired to fix prices and refused to compete with each other for sales of dental equipment to dental professionals and agreed to enlist their common suppliers, the Danaher Defendants, to join a price-fixing conspiracy and boycott by reducing the distribution territory of, and eventually terminating, their price-cutting competing distributor Archer. Archer seeks damages in an amount to be proved at trial, to be trebled with interest and costs, including attorneys’ fees, jointly and severally, as well as injunctive relief. On October 30, 2017, Archer filed a second amended complaint, to add additional allegations that it believes support its claims. The named parties and causes of action are the same as the August 1, 2017 amended complaint.

On October 1, 2012, we filed a motion for an order: (i) compelling Archer to arbitrate its claims against us; (2) staying all proceedings pending arbitration; and (3) joining the Danaher Defendants’ motion to arbitrate and stay. On May 28, 2013, the Magistrate Judge granted the motions to arbitrate and stayed proceedings pending arbitration. On June 10, 2013, Archer moved for reconsideration before the District Court judge. On December 7, 2016, the District Court Judge granted Archer’s motion for reconsideration and lifted the stay. Defendants appealed the District Court’s order. On December 21, 2017, the U.S. Court of Appeals for the Fifth Circuit affirmed the District Court’s order denying the motions to compel arbitration. On February 12, 2018, defendants filed an Application for Stay of Proceedings in the District Court in the Supreme Court of the United States, seeking to stay proceedings in the District Court pending a decision on defendants’ forthcoming petition for writ of certiorari. On June 25, 2018, the Supreme Court of the United States granted defendants’ petition for writ of certiorari. On October 29, 2018, the Supreme Court heard oral arguments. On January 8, 2019, the Supreme Court issued its published decision vacating the judgment of the Fifth Circuit and remanding the case to the Fifth Circuit for further proceedings consistent with the Supreme Court’s opinion. We intend to defend ourselves vigorously against this action.

On August 17, 2017, IQ Dental Supply, Inc. (“IQ Dental”) filed a complaint in the U.S. District Court for the Eastern District of New York, entitled IQ Dental Supply, Inc. v. Henry Schein, Inc., Patterson Companies, Inc. and Benco Dental Supply Company, Case No. 2:17-cv-4834. Plaintiff alleges that it is a distributor of dental supplies and equipment, and sells dental products through an online dental distribution platform operated by SourceOne Dental (“SourceOne”). SourceOne had previously brought an antitrust lawsuit against Henry Schein, Patterson and Benco, which Henry Schein settled in the second quarter of 2017 and which is described in our prior filings with the SEC.

IQ Dental alleges, among other things, that defendants conspired to suppress competition from IQ Dental and SourceOne 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 and SourceOne. Plaintiff claims that this alleged conduct constitutes unreasonable restraint of trade in violation of Section 1 of the Sherman Act, New York’s Donnelly Act and the New Jersey Antitrust Act, and also makes pendant state law claims for tortious interference with prospective business relations, civil conspiracy and aiding and abetting. Plaintiff seeks injunctive relief, compensatory, treble and punitive damages, jointly and severally, and reasonable costs and expenses, including attorneys’ fees and expert fees. On December 21, 2017, the District Court granted the defendants’ motion to dismiss. On January 19, 2018, IQ Dental appealed the District Court’s order. The U.S. Court of Appeals for the Second Circuit heard oral argument on the appeal on September 13, 2018. The court’s decision is pending. We intend to defend ourselves vigorously against this action.

On February 12, 2018, the United States Federal Trade Commission (“FTC”) filed a complaint against Benco Dental Supply Co., Henry Schein, Inc. and Patterson Companies, Inc. The FTC alleges, among other things, that defendants violated U.S. antitrust laws by conspiring, and entering into an agreement, to refuse to provide discounts to or otherwise serve buying groups representing dental practitioners. The FTC alleges that defendants conspired in violation of Section 5 of the FTC Act. The complaint seeks equitable relief only and does not seek monetary damages. We deny the allegation that we conspired to refuse to provide discounts to or otherwise serve dental buying groups and intend to defend ourselves vigorously against this action. A hearing before an administrative law judge began on October 16, 2018 and is ongoing. We believe this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On March 7, 2018, Joseph Salkowitz, individually and on behalf of all others similarly situated, filed a putative class action complaint for violation of the federal securities laws against Henry Schein, Inc., Stanley M. Bergman and Steven Paladino in the U.S. District Court for the Eastern District of New York, Case No. 1:18-cv-01428. The complaint sought to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased Henry Schein securities from March 7, 2013 through February 12, 2018 (the “Class Period”). The complaint alleged, among other things, that the defendants had made materially false and misleading statements about Henry Schein’s business, operations and prospects during the Class Period, including matters relating to the issues in the antitrust class action and the FTC action described above, thereby causing the plaintiff and members of the purported class to pay artificially inflated prices for Henry Schein securities. The complaint sought unspecified monetary damages and a jury trial. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), the court appointed lead plaintiff and lead counsel on June 22, 2018 and recaptioned the putative class action as *In re Henry Schein, Inc. Securities Litigation*, under the same case number. Lead plaintiff filed a consolidated class action complaint on September 14, 2018. The consolidated class action complaint asserts similar claims against the same defendants (plus Timothy Sullivan) on behalf of the same putative class of purchasers during the Class Period. It alleges that Henry Schein’s stock price was inflated during that period because Henry Schein had misleadingly portrayed its dental-distribution business “as successfully producing excellent profits while operating in a highly competitive environment” even though, “in reality, [Henry Schein] had engaged for years in collusive and anticompetitive practices in order to maintain Schein’s margins, profits, and market share.” The complaint alleges that the stock price started to fall from August 8, 2017, when the company announced below-expected financial performance that allegedly “revealed that Schein’s poor results were a product of abandoning prior attempts to inflate sales volume and margins through anticompetitive collusion,” through February 13, 2018, after the FTC filed a complaint against Benco, Henry Schein and Patterson alleging that they

violated U.S. antitrust laws. The complaint alleges violations of Section 10(b) of the Exchange Act and Rule 10b-5 and Section 20(a) of the Exchange Act. We intend to defend ourselves vigorously against this action. Henry Schein has also received a request under 8 Del. C. § 220 to inspect corporate books and records relating to the issues raised in the securities class action and the antitrust matters discussed above.

On May 3, 2018, a purported class action complaint, Marion Diagnostic Center, LLC, et al. v. Becton, Dickinson, and Co., et al., Case No. 3:18-cv-010509, was filed in the U.S. District Court for the Southern District of Illinois against Becton, Dickinson, and Co. (“Becton”); Premier, Inc. (“Premier”), Vizient, Inc. (“Vizient”), Cardinal Health, Inc. (“Cardinal”), Owens & Minor Inc. (“O&M”), Henry Schein, Inc., and Unnamed Becton Distributor Co-Conspirators. The complaint alleges that the defendants entered into a vertical conspiracy to force healthcare providers into long-term exclusionary contracts that restrain trade in the nationwide markets for conventional and safety syringes and safety IV catheters and inflate the prices of certain Becton products to above-competitive levels. The named plaintiffs seek to represent three separate classes consisting of all healthcare providers that purchased (i) Becton’s conventional syringes, (ii) Becton’s safety syringes, or (iii) Becton’s safety catheters directly from Becton, Premier, Vizient, Cardinal, O&M or Henry Schein on or after May 3, 2014. The complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, treble damages, reasonable attorneys’ fees and costs and expenses, and pre-judgment and post-judgment interest. On June 15, 2018, an amended complaint was filed asserting the same allegations against the same parties and adding McKesson Medical-Surgical, Inc. as an additional defendant. On November 30, 2018, the District Court granted defendants’ motion to dismiss and entered a final judgment, dismissing plaintiffs’ complaint with prejudice. On December 27, 2018, plaintiffs appealed the District Court’s decision to the Seventh Circuit Court of Appeals. We intend to defend ourselves vigorously against this action.

On May 29, 2018, an amended complaint was filed in the MultiDistrict Litigation (“MDL”) proceeding In Re National Prescription Opiate Litigation (MDL No. 2804; Case No. 17-md-2804) in an action entitled The County of Summit, Ohio et al. v. Purdue Pharma, L.P., et al., Civil Action No. 1:18-op-45090-DAP (“County of Summit Action”), in the U.S. District Court for the Northern District of Ohio, adding Henry Schein, Inc., Henry Schein Medical Systems, Inc. and others as defendants. Plaintiffs allege that manufacturers of prescription opioid drugs engaged in a false advertising campaign to expand the market for such drugs and their own market share and that the entities in the supply chain (including Henry Schein, Inc. and Henry Schein Medical Systems, Inc.) reaped financial rewards by refusing or otherwise failing to monitor appropriately and restrict the improper distribution of those drugs. Plaintiffs assert the following claims for relief against Henry Schein, Inc. and Henry Schein Medical Systems, Inc.: statutory public nuisance; common law absolute public nuisance; negligence; injury through criminal acts (R.C. 2307.60); unjust enrichment; and civil conspiracy. This case has been designated “Track 1” and is currently set for trial on October 21, 2019. We intend to defend ourselves vigorously against this action.

In addition to the Summit County Action, Henry Schein and/or one or more of its affiliated companies have currently been named as a defendant in twenty-one (21) additional lawsuits, which allege claims similar to those alleged in the Summit County Action. None of these other cases have been set for trial. These actions consist of some that have been consolidated within the MDL and are currently abated for discovery purposes, and others which remain pending in state courts and are proceeding independently and outside of the MDL. Sales of opioids in North America from October 2017 through October 2018 were less than 1% of all North American sales. We intend to defend ourselves vigorously against these actions.

On October 9, 2018, a purported class action complaint entitled Kramer v. Henry Schein, Inc., Patterson Co., Inc., Benco Dental Supply Co., and Unnamed Co-Conspirators, was filed in the U.S. District Court for the Northern District of California. The complaint alleges that members of the proposed class, comprised of purchasers of dental services from dental practices in California, suffered antitrust injury due to an unlawful boycott, price-fixing or otherwise anticompetitive conspiracy among Henry Schein, Patterson and Benco. The complaint alleges that the alleged conspiracy overcharged California dental practices, orthodontic practices and dental laboratories on their purchase of dental supplies, which in turn passed on some or all of such overcharges to members of the California class purchasing dental services. Subject to certain exclusions, the complaint defines the class as “all persons residing in California purchasing and/or reimbursing for dental services from California dental practices on or after August 31, 2012.” The complaint alleges violations of California antitrust laws, including the Cartwright Act (Cal. Bus. and Prof. Code § 16720) and the Unfair Competition Act (Cal. Bus. and Prof. Code § 17200), and seeks a

permanent injunction, actual damages to be determined at trial, trebled, reasonable attorneys' fees and costs, and pre- and post-judgment interest. On December 7, 2018, an amended complaint was filed asserting the same claims against the same parties. We intend to defend ourselves vigorously against this action.

On January 29, 2019, a purported class action complaint was filed by R. Lawrence Hatchett, M.D. against Henry Schein, Inc., Patterson Co., Inc., Benco Dental Supply Co., and unnamed co-conspirators in the U.S. District Court for the Southern District of Illinois. The complaint alleges that members of the proposed class suffered antitrust injury due to an unlawful boycott, price-fixing or otherwise anticompetitive conspiracy among Henry Schein, Patterson and Benco. The complaint alleges that the alleged conspiracy overcharged Illinois dental practices, orthodontic practices and dental laboratories on their purchase of dental supplies, which in turn passed on some or all of such overcharges to members of the class. Subject to certain exclusions, the complaint defines the class as "all persons residing in Illinois purchasing and/or reimbursing for dental care provided by independent Illinois dental practices purchasing dental supplies from the defendants, or purchasing from buying groups purchasing these supplies from the defendants, on or after January 29, 2015." The complaint alleges violations of the Illinois Antitrust Act, 740 Ill. Comp. Stat. §§ 10/3(2), 10/7(2), and seeks a permanent injunction, actual damages to be determined at trial, trebled, reasonable attorneys' fees and costs, and pre- and post-judgment interest. We intend to defend ourselves vigorously against this action.

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 consolidated financial position, liquidity or results of operations.

As of December 29, 2018, 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.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

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

On August 16, 2017, we announced that our Board of Directors approved a two-for-one stock split of our common stock. Each Henry Schein, Inc. stockholder of record at the close of business on September 1, 2017 received a distribution of one additional share for every share held. Trading began on a split-adjusted basis on September 15, 2017.

Our common stock is traded on the Nasdaq Global Select Market tier of the Nasdaq Stock Market, or Nasdaq, under the symbol HSIC. On October 2, 2007, our common stock became a component of the Nasdaq -100 stock market index.

On February 12, 2019, there were approximately 324 holders of record of our common stock and the last reported sales price was \$61.01.

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 \$3.2 billion, authorized by our Board of Directors, to the repurchase program provide for a total of \$3.3 billion of shares of our common stock to be repurchased under this program.

<u>Date of Authorization</u>	<u>Amount of Additional Repurchases Authorized</u>
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
September 15, 2017	400,000,000
December 12, 2018	400,000,000

As of December 29, 2018, we had repurchased approximately \$2.9 billion of common stock (58,189,377 shares) under these initiatives, with \$400.0 million available 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 December 29, 2018:

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)
9/30/2018 through 11/3/18		\$ -		1,028,543
11/04/18 through 12/01/18	275,000	87.23	275,000	694,004
12/02/18 through 12/29/18	722,179	85.72	722,179	5,133,472
	<u>997,179</u>		<u>997,179</u>	

- (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.

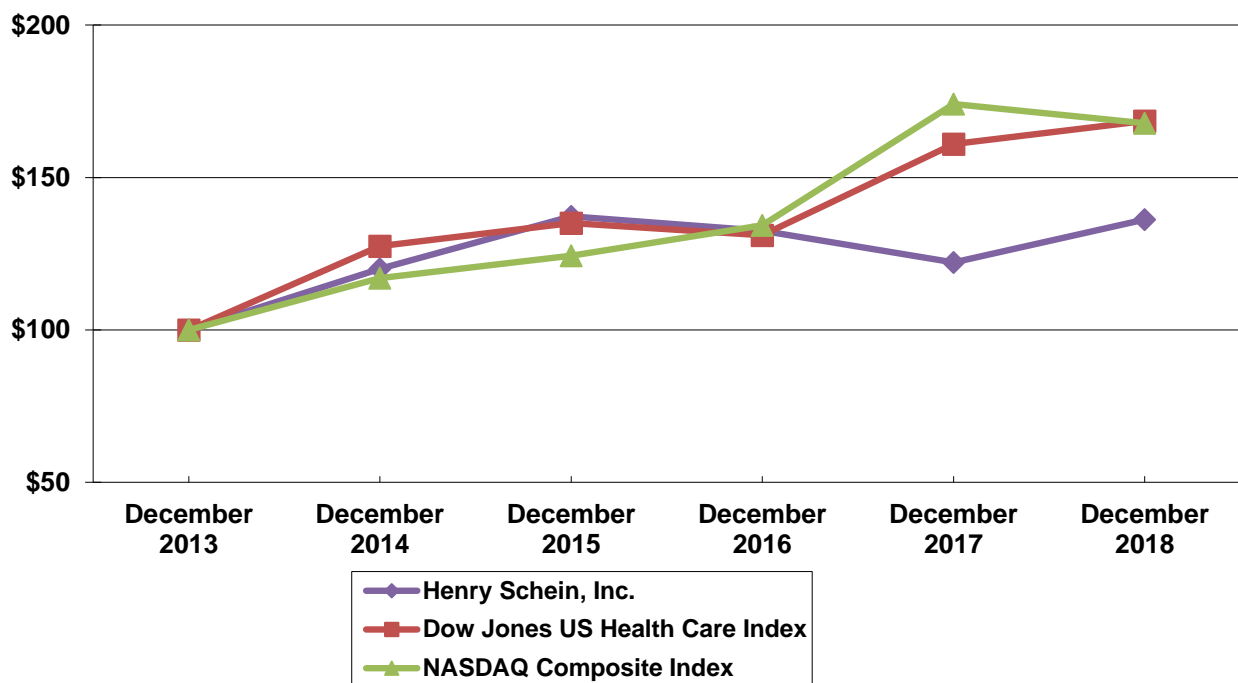
Dividend Policy

We have not declared any cash or stock dividends on our common stock during fiscal years 2018 or 2017. We currently do not anticipate declaring any cash or stock dividends on our common stock in the foreseeable future. We intend to retain earnings to finance the expansion of our business and for general corporate purposes, including our share repurchase program. Any declaration of dividends will be at the discretion of our Board of Directors and will depend upon the earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends and other factors.

Stock Performance Graph

The graph below compares the cumulative total stockholder return on \$100 invested, assuming the reinvestment of all dividends, on December 28, 2013, the last trading day before the beginning of our 2014 fiscal year, through the end of our 2018 fiscal year with the cumulative total return on \$100 invested for the same period in the Dow Jones U.S. Health Care Index and the Nasdaq Stock Market Composite Index.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN



ASSUMES \$100 INVESTED ON DECEMBER 28, 2013 ASSUMES DIVIDENDS REINVESTED

	December 28, 2013	December 27, 2014	December 26, 2015	December 31, 2016	December 30, 2017	December 29, 2018
Henry Schein, Inc.	\$ 100.00	\$ 120.06	\$ 137.28	\$ 132.58	\$ 122.14	\$ 136.19
Dow Jones U.S. Health Care Index	100.00	127.46	135.05	131.05	160.98	168.59
NASDAQ Stock Market Composite Index	100.00	117.02	124.33	134.27	174.07	167.82

ITEM 6. Selected Financial Data

The following selected financial data, with respect to our financial position and results of operations for each of the five fiscal years in the period ended December 29, 2018, set forth below, has been derived from, should be read in conjunction with and is qualified in its entirety by reference to, our consolidated financial statements and notes thereto. The selected financial data presented below should also be read in conjunction with ITEM 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and ITEM 8, “Financial Statements and Supplementary Data.”

	Years ended				
	December 29, 2018	December 30, 2017	December 31, 2016	December 26, 2015	December 27, 2014
	(in thousands, except per share data)				
Income Statement Data:					
Net sales	\$ 13,201,995	\$ 12,461,543	\$ 11,571,668	\$ 10,629,719	\$ 10,371,390
Gross profit	3,595,084	3,399,103	3,226,473	3,006,954	2,910,820
Selling, general and administrative expenses	2,701,876	2,534,409	2,409,008	2,238,051	2,195,678
Litigation settlements	38,488	5,325	-	-	-
Transaction costs related to Animal Health spin-off	38,756	-	-	-	-
Restructuring costs (1)	62,912	-	45,891	34,931	-
Operating income	753,052	859,369	771,574	733,972	715,142
Other expense, net	(57,704)	(36,521)	(15,739)	(13,214)	(5,830)
Income before taxes and equity in earnings					
of affiliates	695,348	822,848	755,835	720,758	709,312
Income taxes (2)	(155,492)	(362,506)	(217,958)	(211,391)	(215,610)
Equity in earnings of affiliates	22,270	16,587	18,518	14,060	11,734
Loss on sale of equity investment (3)	-	(17,636)	-	-	-
Net income	562,126	459,293	556,395	523,427	505,436
Less: Net income attributable to					
noncontrolling interests	(26,245)	(52,994)	(49,617)	(44,369)	(39,359)
Net income attributable to Henry Schein, Inc.	\$ 535,881	\$ 406,299	\$ 506,778	\$ 479,058	\$ 466,077
Earnings per share attributable to					
Henry Schein, Inc.: (4)					
Basic	\$ 3.51	\$ 2.59	\$ 3.14	\$ 2.89	\$ 2.77
Diluted	3.49	2.57	3.10	2.85	2.72
Weighted-average common shares outstanding:					
Basic	152,656	156,787	161,641	165,687	168,531
Diluted	153,707	158,208	163,723	168,250	171,480

	Years ended				
	December 29, 2018	December 30, 2017	December 31, 2016	December 26, 2015	December 27, 2014
	(in thousands)				
Net Sales by Market Data:					
Health care distribution (5):					
Dental	\$ 6,348,945	\$ 6,048,813	\$ 5,555,299	\$ 5,276,407	\$ 5,381,215
Animal health	3,682,639	3,476,635	3,253,095	2,921,624	2,898,612
Medical	2,661,166	2,497,994	2,337,661	2,072,915	1,742,685
Total health care distribution	12,692,750	12,023,442	11,146,055	10,270,946	10,022,512
Technology and value-added services (6)	509,245	438,101	425,613	358,773	348,878
Total	<u>\$ 13,201,995</u>	<u>\$ 12,461,543</u>	<u>\$ 11,571,668</u>	<u>\$ 10,629,719</u>	<u>\$ 10,371,390</u>

	As of				
	December 29, 2018	December 30, 2017	December 31, 2016	December 26, 2015	December 27, 2014
	(in thousands)				

Balance Sheet data:

Total assets	\$ 8,500,527	\$ 7,863,995	\$ 6,811,763	\$ 6,580,775	\$ 6,184,320
Long-term debt	1,003,873	907,756	715,457	463,752	542,776
Redeemable noncontrolling interests	312,156	832,138	607,636	542,194	564,527
Stockholders' equity	3,541,788	2,824,410	2,800,804	2,886,814	2,816,445

- (1) Restructuring costs for the year ended December 29, 2018 consist primarily of severance costs, including severance pay and benefits of \$58.2 million, facility closing costs of \$3.6 million and other costs of \$1.1 million. Restructuring costs for the year ended December 31, 2016 consist primarily of severance costs, including severance pay and benefits of \$40.7 million, facility closing costs of \$3.6 million and other costs of \$1.6 million. Restructuring costs for the year ended December 26, 2015 consist primarily of severance costs, including severance pay and benefits of \$26.7 million, facility closing costs of \$5.7 million and other costs of \$2.5 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Plans of Restructuring” herein and the consolidated financial statements and related notes contained in ITEM 8.
- (2) In 2018 we recorded (a) a \$10.0 million net credit to income tax representing a change in our estimate of the transition tax on deemed repatriated foreign earnings, (b) a one-time income tax charge of \$3.9 million to income tax as a result of a reorganization of legal entities related to Henry Schein One, (c) an income tax credit of \$13.9 million (\$10.6 million attributable to Henry Schein, Inc.) resulting from a legal entity reorganization outside of the United States and (d) a one-time income tax charge of \$3.1 million as a result of the reorganization of legal entities completed in preparation for the Animal Health spin-off. In 2017 we recorded a one-time income tax charge of \$140 million related to the transition tax on deemed repatriated foreign earnings and a one-time income tax charge of \$3.0 million for the revaluation of deferred taxes associated with U.S. tax reform legislation. In 2015, we recorded a \$6.3 million income tax benefit related to a favorable response to a tax petition, which allowed us to conclude that it is more likely than not that certain unrecognized tax benefits, which had been previously reserved, would be realized.
- (3) Represents a 2017 loss on divestiture of an equity ownership in E4D Technologies.
- (4) On August 16, 2017, we announced that our Board of Directors approved a two-for-one stock split of our common stock. Each Henry Schein, Inc. stockholder of record at the close of business on September 1, 2017 received a distribution of one additional share for every share held. Trading began on a split-adjusted basis on September 15, 2017. The effects of the stock split on share and per share amounts have been retroactively reflected for all periods presented in this Form 10-K.
- (5) Consists of 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.
- (6) 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.

ITEM 7. 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. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular the risks discussed under the caption “Risk Factors” in Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission (SEC).

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, dispositions and joint ventures, including the failure to achieve anticipated synergies/benefits; financial and tax risks associated with acquisitions, dispositions and joint ventures; litigation risks; new or unanticipated litigation developments; the dependence on our continued product development, technical support and successful marketing in the technology segment; our dependence on third parties for certain technologically advanced components; 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 and medical practitioners. We serve more than 1 million customers worldwide including dental practitioners and laboratories 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 86 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 18,000 people (of which more than 8,800 are based outside the United States) and have operations or affiliates in 31 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, France, Germany, Hong Kong SAR,

Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Poland, Portugal, Singapore, Slovakia, South Africa, Spain, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

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 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. 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.

Spin-Off of Henry Schein Animal Health Business

On February 7, 2019 (the "Distribution Date"), we completed the previously announced separation (the "Separation") and subsequent merger of our animal health business (the "Henry Schein Animal Health Business") with Direct Vet Marketing, Inc. (d/b/a Vets First Choice, "Vets First Choice") (the "Merger"). This was accomplished by a series of transactions among us, Vets First Choice, Covetrus, Inc. (f/k/a HS Spinco, Inc. "Covetrus"), a wholly owned subsidiary of ours prior to the Distribution Date, and HS Merger Sub, Inc., a wholly owned subsidiary of Covetrus ("Merger Sub"). In connection with the Separation, we contributed, assigned and transferred to Covetrus certain applicable assets, liabilities and capital stock or other ownership interests relating to the Henry Schein Animal Health Business. On the Distribution Date, we received a tax-free distribution of \$1,120.0 million from Covetrus pursuant to certain debt financing incurred by Covetrus. On the Distribution Date and prior to the Distribution, Covetrus issued shares of Covetrus common stock to certain institutional accredited investors (the "Share Sale Investors") for \$361.1 million (the "Share Sale"). The proceeds of the Share Sale were paid to Covetrus and distributed to us. Subsequent to the Share Sale, we distributed, on a pro rata basis, all of the shares of the common stock of Covetrus held by us to our stockholders of record as of the close of business on January 17, 2019 (the "Animal Health Spin-off"). After the Share Sale and Animal Health Spin-off, Merger Sub consummated the Merger whereby it merged with and into Vets First Choice, with Vets First Choice surviving the Merger as a wholly owned subsidiary of Covetrus. Immediately following the consummation of the Merger, on a fully diluted basis, (i) approximately 63% of the shares of Covetrus common stock were (a) owned by our stockholders and the Share Sale Investors, and (b) in respect of certain equity awards held by certain employees of the Henry Schein Animal Health Business, and (ii) approximately 37% of the shares of Covetrus common stock were (a) owned by stockholders of Vets First Choice immediately prior to the Merger, and (b) in respect of certain equity awards held by certain employees of Vets First Choice. After the Separation and the Merger, we no longer beneficially owned any shares of Covetrus common stock and, following the Distribution Date, will not consolidate the financial results of Covetrus for the purpose of our financial reporting. Following the Separation and the Merger, Covetrus was an independent, publicly traded company on the Nasdaq Global Select Market.

Effective first quarter 2019, we will report the historical earnings of the Henry Schein Animal Health Business as a discontinued operation. The Company estimates that on a continuing operations basis, its 2018 revenues were \$9.4 billion and its 2018 net income was \$430.7 million.

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. 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.

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

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 2018 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 50% 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 2017-2026" indicating that total national health care spending reached approximately \$3.7 trillion in 2018, or 18.2% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Health care spending is projected to reach approximately \$5.7 trillion in 2026, approximately 19.7% 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 Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010 (the "Health Care Reform Law") 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, and on January 22, 2018 an additional two-year moratorium was imposed under Public Law No. 115-120, suspending the imposition of the tax on device sales during the period beginning January 1, 2018 and ending on December 31, 2019. 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 did not obtain the necessary votes in the Senate. Subsequently, the President has affirmed his intention to repeal and replace the Health Care Reform Law and has taken a number of administrative actions to materially weaken it, including, without limitation, by permitting the use of less robust plans with lower coverage and eliminating “premium support” for insurers providing policies under the Health Care Reform Law. On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (the “Tax Act”), which contains a broad range of tax reform provisions that impact the individual and corporate tax rates, international tax provisions, income tax add-back provisions and deductions, and which also repealed the individual mandate of the Health Care Reform Law. Further, in December 2018, a Texas federal court struck down the entire Health Care Reform Law, a ruling which is being appealed, and if upheld, could have a significant impact on the U.S. healthcare industry. The uncertain status of the Health Care Reform Law affects our ability to plan.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act or Open Payments Program, imposes annual 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. Effective January 1, 2022, transfers of value to physician assistants, nurse practitioners or clinical nurse specialists, certified registered nurse anesthetists, and certified nurse-midwives must also be reported.

Under the Physician Payment Sunshine Act, we are required to collect and report detailed information regarding certain financial relationships we have with covered recipients such as 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.

Another notable Medicare health care reform initiative, the Medicare Access and CHIP Reauthorization Act of 2015 (“MACRA”), enacted on April 16, 2015, established 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, certain eligible clinicians are required to participate in Medicare through the Merit-Based Incentive Payment System (“MIPS”) or Advanced Alternative Payment Models (“APMs”). MIPS generally consolidated three 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 includes both positive and negative payment adjustments that take into account quality, promoting interoperability, resource use, clinical practice improvement and improving patient access to health information. Advanced APMs generally involve higher levels of financial and technology risk. The first MIPS performance year was 2017, and the data collected in the first performance year determines 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, and who may receive up to 30% of total government recoveries. Penalties under fraud and abuse laws may be severe. For example, under the federal False Claims Act, violations may result in treble damages, plus civil penalties of up to \$22,363 per claim, as well as exclusion from federal health care programs and criminal penalties. 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. With respect to “anti-kickback laws,” violations of, for example, the federal Anti-Kickback Law may result in civil penalties of up to \$100,000 for each violation, plus up to three times the total amount of remuneration offered, paid, solicited or received, as well as exclusion from federal health care programs and criminal penalties. Notably, effective October 24, 2018, a new federal anti-kickback law (the “Eliminating Kickbacks in Recovery Act of 2018”) enacted in connection with broader addiction services legislation, may impose criminal penalties for kickbacks involving clinical laboratory services, regardless of whether the services at issue involved addition services, and regardless of whether the services were reimbursed by a federal health care program or by a commercial health insurer. Furthermore, the Health Care Reform Law significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, clarifying that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

With respect to measures of this type, 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.

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 continues 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.

The Food and Drug Administration Amendments Act of 2007 and the Food and Drug Administration Safety and Innovation Act of 2012 amended the FDC Act 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. Most compliance dates were reached as of September 24, 2018, with a final set of requirements for low risk devices being reached on September 24, 2022, which will complete the phase in. 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 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, 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 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.

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; Electronic Health Records

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings. The 21st Century Cures Act (“Cures Act”), signed into law on December 13, 2016, amended the device definition to exclude certain software, including clinical decision support software that meet certain criteria. In December 2017, the FDA issued draft guidance documents describing its proposed interpretation of the statutory language regarding which types of clinical decision support tools and other software are exempt from regulation 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, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

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 increased privacy rights for individuals in Europe, extended 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 located 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 as they relate to certain things such as employee personal data. Among other things, the GDPR requires with respect to data concerning Data Subjects, company accountability, consents 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 we 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, regulations and industry standards, such as HIPAA and the Payment Card Industry Data Security Standards, 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.

Various federal initiatives involve the adoption and use by health care providers of certain electronic health care records systems and processes. The initiatives include, among others, programs that incentivize physicians and dentists, through Medicare’s MIPS, to use certified EHR technology in accordance with certain evolving requirements. Including regarding quality, promoting interoperability, resource use, clinical practice improvement and improving patient access to health information. Qualification for the MIPS incentive payments requires the use of EHRs that are certified as having certain capabilities designated in standards adopted by CMS and by the Office of the National Coordinator for Health Information Technology (“ONC”) of the Department of Health and Human Services (“HHS”). These standards have been subject to change.

Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to MIPS and other incentive programs. In order to maintain certification of our EHR products, we must satisfy the changing governmental standards. 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 we are exposed to risk, such as under federal health care fraud and abuse laws, including 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 incentive 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.

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.

Additionally, as electronic medical devices are increasingly connected to each other and to other technology, the ability of these connected systems safely and effectively to exchange and use exchanged information becomes increasingly important. On September 6, 2017, the FDA issued guidance to assist industry in identifying specific considerations related to the ability of electronic medical devices to safely and effectively exchange and use exchanged information. As a medical device manufacturer, we must manage risks including those associated with an electronic interface that is incorporated into a medical device.

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.

Results of Operations

The following tables summarize the significant components of our operating results and cash flows for each of the three years ended December 29, 2018, December 30, 2017 and December 31, 2016 (in thousands):

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Operating results:			
Net sales	\$ 13,201,995	\$ 12,461,543	\$ 11,571,668
Cost of sales	9,606,911	9,062,440	8,345,195
Gross profit	3,595,084	3,399,103	3,226,473
Operating expenses:			
Selling, general and administrative	2,701,876	2,534,409	2,409,008
Litigation settlements	38,488	5,325	-
Transaction costs related to Animal Health spin-off	38,756	-	-
Restructuring costs	62,912	-	45,891
Operating income	<u>\$ 753,052</u>	<u>\$ 859,369</u>	<u>\$ 771,574</u>
Other expense, net	\$ (57,704)	\$ (36,521)	\$ (15,739)
Net income	562,126	459,293	556,395
Net income attributable to Henry Schein, Inc.	535,881	406,299	506,778
	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Cash flows:			
Net cash provided by operating activities	\$ 684,706	\$ 545,515	\$ 642,576
Net cash used in investing activities	(192,954)	(342,276)	(316,422)
Net cash used in financing activities	(603,776)	(112,551)	(327,344)

Plans of Restructuring

On July 9, 2018, we committed to an initiative to rationalize our operations and provide expense efficiencies. These actions will allow us to execute on our plan to reduce our cost structure and fund new initiatives that are expected to drive future growth under our 2018 to 2020 strategic plan. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. The total 2018 costs associated with the actions to complete this restructuring were initially expected to be in the range of \$45 million to \$55 million. However, additional cost savings opportunities were identified in the fourth quarter of 2018 resulting in a charge of \$35.4 million in the quarter, which increased our full year 2018 restructuring charges to \$62.9 million, consisting primarily of severance costs.

We plan to continue restructuring activities in the first half of 2019 and expect to incur additional restructuring costs related to these activities during the first half of 2019. At this time we are identifying specific opportunities and cannot reasonably estimate the amount of additional restructuring costs in 2019.

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 slightly more than 4% of our workforce. The total costs associated with the actions for this restructuring included \$34.9 million pre-tax, which was recorded in fiscal 2015, and \$45.9 million pre-tax, which was recorded in fiscal 2016.

The costs associated with these restructurings are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

2018 Compared to 2017

Net Sales

Net sales for 2018 and 2017 were as follows (in thousands):

	2018	% of Total	2017	% of Total	Increase	
					\$	%
Health care distribution (1):						
Dental	\$ 6,348,945	48.1%	\$ 6,048,813	48.5%	\$ 300,132	5.0%
Animal health	3,682,639	27.9	3,476,635	27.9	206,004	5.9
Medical	2,661,166	20.1	2,497,994	20.1	163,172	6.5
Total health care distribution	12,692,750	96.1	12,023,442	96.5	669,308	5.6
Technology and value-added services (2)	509,245	3.9	438,101	3.5	71,144	16.2
Total	\$ 13,201,995	100.0%	\$ 12,461,543	100.0%	\$ 740,452	5.9

- (1) Consists of 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.
- (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 \$740.5 million, or 5.9%, increase in net sales for the year ended December 29, 2018 includes an increase of 5.2% local currency growth (3.4% increase in internally generated revenue and 1.8% growth from acquisitions) as well as an increase of 0.7% related to foreign currency exchange.

The \$300.1 million, or 5.0%, increase in dental net sales for the year ended December 29, 2018 includes an increase of 4.2% in local currencies (3.0% increase in internally generated revenue and 1.2% growth from acquisitions) as well as an increase of 0.8% related to foreign currency exchange. The 4.2% increase in local currency sales was due to increases in dental equipment sales and service revenues of 2.6% (2.5% increase in internally generated revenue and 0.1% growth from acquisitions) and dental consumable merchandise sales growth of 4.8% (3.2% increase in internally generated revenue and 1.6% growth from acquisitions).

The \$206.0 million, or 5.9%, increase in animal health net sales for the year ended December 29, 2018 includes an increase of 4.6% local currency growth (2.1% increase in internally generated revenue and 2.5% growth from acquisitions) as well as an increase of 1.3% related to foreign currency exchange. The growth in internally generated animal health revenue is affected by year-over-year changes to certain supplier agreements where we acted as an agent in 2018 versus acting as a principal in the prior year. When excluding the effects of this change, internally generated revenue grew by 5.4%. As indicated above, we completed the Animal Health Spin-off on February 7, 2019.

The \$163.2 million, or 6.5%, increase in medical net sales for the year ended December 29, 2018 includes an increase of 6.4% local currency growth (6.3% increase in internally generated revenue and 0.1% growth from acquisitions) as well as an increase of 0.1% related to foreign currency exchange.

The \$71.1 million, or 16.2%, increase in technology and value-added services net sales for the year ended December 29, 2018 includes an increase of 15.8% local currency growth (3.5% increase in internally generated revenue and 12.3% growth from acquisitions) as well as an increase of 0.4% related to foreign currency exchange.

Gross Profit

Gross profit and gross margins for 2018 and 2017 by segment and in total were as follows (in thousands):

	2018		2017		Increase	
	Gross Margin %		Gross Margin %		\$	%
Health care distribution	25.6%	\$ 3,253,452	25.9%	\$ 3,112,436	\$ 141,016	4.5%
Technology and value-added services	67.1	341,632	65.4	286,667	54,965	19.2
Total	27.2	<u>\$ 3,595,084</u>	27.3	<u>\$ 3,399,103</u>	<u>\$ 195,981</u>	5.8

Gross profit increased \$196.0 million, or 5.8%, for the year ended December 29, 2018 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 \$141.0 million, or 4.5%, for the year ended December 29, 2018 compared to the prior year period. Health care distribution gross profit margin decreased to 25.6% for the year ended December 29, 2018 from 25.9% for the comparable prior year period. The overall increase in our health care distribution gross profit is attributable to a \$128.9 million gross profit increase from growth in internally generated revenue and \$49.4 million is attributable to acquisitions. These increases were partially offset by a \$37.3 million decline in gross profit due to the decrease in the gross margin rates.

Technology and value-added services gross profit increased \$55.0 million, or 19.2%, for the year ended December 29, 2018 compared to the prior year period. Technology and value-added services gross profit margin increased to 67.1% for the year ended December 29, 2018 from 65.4% for the comparable prior year period. Acquisitions accounted for \$45.2 million of our gross profit increase within our technology and value-added services segment for the year ended December 29, 2018 compared to the prior year period. The remaining increase of \$9.8 million in our technology and value-added services segment gross profit was primarily attributable to \$11.4 million growth in internally generated revenue, partially offset by \$1.6 million related to gross margin rates.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2018 and 2017 were as follows (in thousands):

	2018		2017		Increase	
	% of Respective Net Sales		% of Respective Net Sales		\$	%
Health care distribution	20.8%	\$ 2,634,664	19.8%	\$ 2,383,916	\$ 250,748	10.5%
Technology and value-added services	40.7	207,368	35.6	155,818	51,550	33.1
Total	21.5	<u>\$ 2,842,032</u>	20.4	<u>\$ 2,539,734</u>	<u>\$ 302,298</u>	11.9

Selling, general and administrative expenses (together with litigation settlements, transaction costs related to the Animal Health spin-off and restructuring costs) increased \$302.3 million, or 11.9%, to \$2,842.0 million for the year ended December 29, 2018 from the comparable prior year period. The \$250.7 million increase in selling, general and administrative expenses within our health care distribution segment for the year ended December 29,

2018 as compared to the prior year period was attributable to \$209.3 million of additional operating costs (including an increase of \$33.2 million for litigation settlements, \$38.8 million of transaction costs related to the Animal Health spin-off and \$59.1 million of restructuring costs) and \$41.4 million of additional costs from acquired companies. The \$51.6 million increase in selling, general and administrative expenses within our technology and value-added services segment for the year ended December 29, 2018 as compared to the prior year period was attributable to \$45.6 million of additional costs from acquired companies and \$6.0 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses increased to 21.5% from 20.4% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased \$90.3 million, or 5.8%, to \$1,653.7 million for the year ended December 29, 2018 from the comparable prior year period. As a percentage of net sales, selling expenses remained consistent at 12.5%.

As a component of total selling, general and administrative expenses, general and administrative expenses increased \$212.0 million, or 21.7%, to \$1,188.3 million for the year ended December 29, 2018 from the comparable prior year period primarily due to an increase of \$33.2 million for litigation settlements, \$38.8 million of transaction costs related to the Animal Health spin-off and \$59.1 million of restructuring costs. As a percentage of net sales, general and administrative expenses increased to 9.0% from 7.8% for the comparable prior year period.

Other Expense, Net

Other expense, net for the years ended 2018 and 2017 was as follows (in thousands):

	2018	2017	Variance	
			\$	%
Interest income	\$ 21,236	\$ 17,553	\$ 3,683	21.0%
Interest expense	(78,786)	(53,654)	(25,132)	(46.8)
Other, net	(154)	(420)	266	63.3
Other expense, net	<u>\$ (57,704)</u>	<u>\$ (36,521)</u>	<u>\$ (21,183)</u>	<u>(58.0)</u>

Other expense, net increased \$21.2 million to \$57.7 million for the year ended December 29, 2018 from the comparable prior year period. Interest income increased \$3.7 million primarily due to increased investment and late fee income. Interest expense increased \$25.1 million primarily due to increased borrowings under our bank credit lines and our private placement facilities primarily to fund acquisitions of noncontrolling interests in subsidiaries, as well as higher interest rates.

Income Taxes

For the year ended December 29, 2018, our effective tax rate was 22.4% compared to 44.1% for the prior year period. In 2018, our effective tax rate was primarily impacted by a reduction in the estimate of our transition tax associated with the Tax Act, tax charges and credits associated with legal entity reorganizations outside the U.S., and state and foreign income taxes and interest expense. In 2017, our effective tax rate was primarily impacted by the Tax Act, the adoption of Accounting Standards Update (“ASU”) No. 2016-09, “Stock Compensation” (Topic 718) (“ASU 2016-09”), as well as state and foreign income taxes and interest expense.

On December 22, 2017, the U.S. government passed the Tax Act. The Tax Act is comprehensive tax legislation that implemented complex changes to the U.S. tax code including, but not limited to, the reduction of the corporate tax rate from 35% to 21%, modification of accelerated depreciation, the repeal of the domestic manufacturing deduction and changes to the limitations of the deductibility of interest. Additionally, the Tax Act moved from a global tax regime to a modified territorial regime, which requires U.S. companies to pay a mandatory one-time transition tax on historical offshore earnings that have not been repatriated to the U.S. The transition tax is payable over eight years. The Tax Act also included provisions to tax global intangible low-taxed income (“GILTI”), a beneficial tax rate foreign Derived Intangible Income (“FDII”), a base erosion and anti-abuse tax (“BEAT”) that imposes tax on certain foreign related-party payments, and IRC Section 163(j) interest limitation (Interest Limitation). We became subject to the GILTI, FDII, BEAT and Interest Limitation provisions effective January 1, 2018.

The Financial Accounting Standards Board (“FASB”) Staff Q&A, Topic 740 No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. We elected to recognize the tax on GILTI as a period expense in the period the tax is incurred. Under Topic 740, we estimated the impact of each provision of the Tax Act on our effective tax and recorded a current tax expense for the GILTI provision of \$7.5 million in our effective tax rate for the year ended December 29, 2018. For the BEAT, FDII and Interest Limitation computations, we have not recorded an estimate in our effective tax rate for the year ended December 29, 2018 because we have concluded that these provisions of the Tax Act will not apply to us or will have an immaterial impact in 2018.

Due to the complexities of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) that allowed the company to record a provisional amount for any income tax effects of the Tax Act in accordance with Accounting Standards Codification (“ASC”) 740, to the extent that a reasonable estimate can be made, in its 2017 financial statements. SAB 118 allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. In the fourth quarter of 2017, we recorded provisional amounts related to the Tax Act for any items that could be reasonably estimated at the time. This included the one-time transition tax that we estimated to be \$140.0 million and a net deferred tax expense of \$3.0 million attributable to the revaluation of deferred tax assets and liabilities due to the lower enacted federal income tax rate of 21%. Within our consolidated balance sheets, \$27.4 million was included in “Accrued taxes” and \$112.6 million was included in “Other liabilities”. In the aggregate, for the quarter ended December 30, 2017, these Tax Act modifications resulted in a one-time tax expense of approximately \$143.0 million. Absent the effects of the transition tax and the revaluation of deferred tax assets and liabilities, our effective tax rate for the year ended December 30, 2017 would have been 26.7% as compared to our actual effective tax rate of 44.1%.

For the year ended December 29, 2018 we have recorded a net \$10.0 million reduction to the one-time transition tax and an additional \$1.7 million net deferred tax benefit from the revaluation of deferred tax assets and liabilities to reflect the new tax rate. Within our consolidated balance sheets, \$9.9 million is included in “Accrued taxes” and \$104.2 million is included in “Other liabilities” for the transition tax. The changes were a result of additional analysis, changes in interpretation and assumptions, as well as additional regulatory guidance that was issued. As of December 29, 2018, the Company has completed its analysis of the impact of the Tax Act in accordance with SAB 118 and the amounts are now considered final.

Net Income

Net income increased \$102.8 million, or 22.4%, for the year ended December 29, 2018, compared to the prior year period due to the factors noted above.

2017 Compared to 2016

Net Sales

Net sales for 2017 and 2016 were as follows (in thousands):

	2017	% of Total	2016	% of Total	Increase	
					\$	%
Health care distribution (1):						
Dental	\$ 6,048,813	48.5%	\$ 5,555,299	48.0%	\$ 493,514	8.9%
Animal health	3,476,635	27.9	3,253,095	28.1	223,540	6.9
Medical	2,497,994	20.1	2,337,661	20.2	160,333	6.9
Total health care distribution	12,023,442	96.5	11,146,055	96.3	877,387	7.9
Technology and value-added services	438,101	3.5	425,613	3.7	12,488	2.9
Total	\$ 12,461,543	100.0%	\$ 11,571,668	100.0%	\$ 889,875	7.7

- (1) Consists of 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.
- (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 fiscal year ended December 30, 2017 consisted of 52 weeks as compared to the fiscal year ended December 31, 2016, which consisted of 53 weeks.

The \$889.9 million, or 7.7%, increase in net sales for the year ended December 30, 2017 includes an increase of 7.2% local currency growth (5.1% increase in internally generated revenue, 1.5% decrease due to the impact from the extra week in 2016 and 3.6% growth from acquisitions) as well as an increase of 0.5% related to foreign currency exchange.

The \$493.5 million, or 8.9%, increase in dental net sales for the year ended December 30, 2017 includes an increase of 7.9% in local currencies (3.0% increase in internally generated revenue, 1.4% decrease due to the impact from the extra week in 2016 and 6.3% growth from acquisitions) as well as an increase of 1.0% related to foreign currency exchange. The 7.9% increase in local currency sales was due to increases in dental equipment sales and service revenues of 4.5% (6.5% increase in internally generated revenue, 2.4% decrease due to the impact from the extra week in 2016 and 0.4% growth from acquisitions) and dental consumable merchandise sales growth of 9.0% (1.9% increase in internally generated revenue, 1.1% decrease due to the impact from the extra week in 2016 and 8.2% growth from acquisitions).

The \$223.6 million, or 6.9%, increase in animal health net sales for the year ended December 30, 2017 includes an increase of 6.9% local currency growth (6.3% increase in internally generated revenue, 1.3% decrease due to the impact from the extra week in 2016 and 1.9% growth from acquisitions). 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%. As indicated above, we completed the Animal Health Spin-off on February 7, 2019.

The \$160.3 million, or 6.9%, increase in medical net sales for the year ended December 30, 2017 includes an increase of 6.8% local currency growth (8.4% increase in internally generated revenue and 1.6% decrease due to the impact from the extra week in 2016) as well as an increase of 0.1% related to foreign currency exchange.

The \$12.5 million, or 2.9%, increase in technology and value-added services net sales for the year ended December 30, 2017 includes an increase of 3.2% local currency growth (3.5% increase in internally generated revenue, 0.8% decrease due to the impact from the extra week in 2016 and 0.5% growth from acquisitions) partially offset by a decrease of 0.3% related to foreign currency exchange.

Gross Profit

Gross profit and gross margins for 2017 and 2016 by segment and in total were as follows (in thousands):

	2017		2016		Increase	
	\$	Gross Margin %	\$	Gross Margin %	\$	%
Health care distribution	\$ 3,112,436	25.9%	\$ 2,953,136	26.5%	\$ 159,300	5.4%
Technology and value-added services	286,667	65.4	273,337	64.2	13,330	4.9
Total	<u>\$ 3,399,103</u>	27.3	<u>\$ 3,226,473</u>	27.9	<u>\$ 172,630</u>	5.4

Gross profit increased \$172.6 million, or 5.4%, for the year ended December 30, 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 \$159.3 million, or 5.4%, for the year ended December 30, 2017 compared to the prior year period. Health care distribution gross profit margin decreased to 25.9% for the year ended December 30, 2017 from 26.5% for the comparable prior year period. The overall increase in our health care distribution gross profit is attributable to a \$104.0 million gross profit increase from growth in internally generated revenue and \$125.3 million is attributable to acquisitions. These increases were partially offset by a \$70.0 million decline in gross profit due to the decrease in the gross margin rates.

Technology and value-added services gross profit increased \$13.3 million, or 4.9%, for the year ended December 30, 2017 compared to the prior year period. Technology and value-added services gross profit margin increased to 65.4% for the year ended December 30, 2017 from 64.2% for the comparable prior year period. Acquisitions accounted for \$2.0 million of our gross profit increase within our technology and value-added services segment for the year ended December 30, 2017 compared to the prior year period. The remaining increase of \$11.3 million in our technology and value-added services segment gross profit was primarily attributable to growth in internally generated revenue and the increase in gross margin rates.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2017 and 2016 were as follows (in thousands):

	2017		2016		Increase	
	\$	% of Respective Net Sales	\$	% of Respective Net Sales	\$	%
Health care distribution	\$ 2,383,916	19.8%	\$ 2,256,948	20.2%	\$ 126,968	5.6%
Technology and value-added services	155,818	35.6	152,060	35.7	3,758	2.5
Total	<u>\$ 2,539,734</u>	20.4	<u>\$ 2,409,008</u>	20.8	<u>\$ 130,726</u>	5.4

Selling, general and administrative expenses increased \$130.7 million, or 5.4%, for the year ended December 30, 2017 from the comparable prior year period. The \$127.0 million increase in selling, general and administrative expenses within our health care distribution segment for the year ended December 30, 2017 as compared to the prior year period was attributable to \$107.3 million of additional costs from acquired companies, and \$19.7 million

of additional operating costs. The \$3.7 million increase in selling, general and administrative expenses within our technology and value-added services segment for the year ended December 30, 2017 as compared to the prior year period was attributable to \$2.1 million of additional costs from acquired companies and \$1.6 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses decreased to 20.4% from 20.8% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased \$82.2 million, or 5.6%, for the year ended December 30, 2017 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 12.5% from 12.8% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased \$48.5 million, or 5.2%, for the year ended December 30, 2017 from the comparable prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.8% from 8.0% for the comparable prior year period.

Other Expense, Net

Other expense, net for the years ended 2017 and 2016 was as follows (in thousands):

	2017	2016	Variance	
			\$	%
Interest income	\$ 17,553	\$ 13,275	\$ 4,278	32.2%
Interest expense	(53,654)	(31,893)	(21,761)	(68.2)
Other, net	(420)	2,879	(3,299)	(114.6)
Other expense, net	<u>\$ (36,521)</u>	<u>\$ (15,739)</u>	<u>\$ (20,782)</u>	<u>(132.0)</u>

Other expense, net increased \$20.8 million to \$36.5 million for the year ended December 30, 2017 from the comparable prior year period. Interest income increased \$4.3 million primarily due to increased investment and late fee income. Interest expense increased \$21.8 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. Other, net decreased by \$3.3 million due primarily to investment proceeds received in the first quarter of 2016.

Income Taxes

For the year ended December 30, 2017, our effective tax rate was 44.1% compared to 28.8% for the prior year period. Our effective tax rate in 2017 was primarily higher due to the Tax Act. Our effective tax rate was favorably impacted in 2017 by the adoption of ASU 2016-09, Accounting for Stock Compensation, as well as savings from implementation of tax planning initiatives and higher income from lower tax jurisdictions. During the second quarter of 2016, the effective tax rate was affected by a federal tax audit settlement, which reduced our income tax expense by approximately \$4.5 million.

On December 22, 2017, the U.S. government passed the Tax Act. The Tax Act is comprehensive tax legislation that implements complex changes to the U.S. tax code including, but not limited to, the reduction of the corporate tax rate from 35% to 21%, modification of accelerated depreciation, the repeal of the domestic manufacturing deduction and changes to the limitations of the deductibility of interest. Additionally, the Tax Act moved from a global tax regime to a modified territorial regime, which required U.S. companies to pay a mandatory one-time transition tax on historical offshore earnings that have not been repatriated to the U.S. The transition tax is payable over eight years.

Due to the complexities of the Tax Act, the SEC staff issued SAB 118 that allowed the company to record a provisional amount for any income tax effects of the Tax Act in accordance with ASC 740, to the extent that a reasonable estimate can be made. SAB 118 allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts.

We have recorded provisional amounts for any items that could be reasonably estimated at that time. This included the one-time transition tax that we estimated to be \$140.0 million. Within our consolidated balance sheets, \$27.4 million is included in “Accrued taxes” and \$112.6 million is included in “Other liabilities”. The U.S. deferred tax assets and liabilities were revalued due to the lower enacted federal income tax rate, of 21%, that was effective January 1, 2018. The Company accrued a net deferred tax expense of \$3.0 million attributable to the revaluation. In the aggregate, for the quarter ended December 30, 2017, these Tax Act modifications resulted in a one-time tax expense of approximately \$143.0 million. Absent the effects of the transition tax and the revaluation of deferred tax assets and liabilities, our effective tax rate for the year ended December 30, 2017 would have been 26.7% as compared to our actual effective tax rate of 44.1%.

Net Income

Net income decreased \$97.1 million, or 17.5%, for the year ended December 30, 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, and have 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 \$684.7 million for the year ended December 29, 2018, compared to \$545.5 million for the prior year. The net change of \$139.2 million was primarily attributable to working capital requirements.

Net cash used in investing activities was \$193.0 million for the year ended December 29, 2018, compared to \$342.3 million for the prior year. The net change of \$149.3 million was primarily due to reduced payments for equity investments and business acquisitions, partially offset by reduced proceeds of sales of equity investments.

Net cash used in financing activities was \$603.8 million for the year ended December 29, 2018, compared to \$112.6 million for the prior year. The net change of \$491.2 million was primarily due to increased acquisitions of noncontrolling interests in subsidiaries and reduced net borrowings from debt, partially offset by decreased repurchases of common stock.

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

	December 29, 2018	December 30, 2017
Cash and cash equivalents	\$ 80,209	\$ 174,658
Working capital (1)	956,393	1,257,045
Debt:		
Bank credit lines	\$ 951,458	\$ 741,653
Current maturities of long-term debt	8,955	16,659
Long-term debt	1,003,873	907,756
Total debt	<u>\$ 1,964,286</u>	<u>\$ 1,666,068</u>

(1) Includes \$422 million of accounts receivable which serve as security for U.S. trade accounts receivable securitization at December 29, 2018 and December 30, 2017.

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 increased to 43.6 days as of December 29, 2018 from 42.7 days as of December 30, 2017. During the years ended December 29, 2018 and December 30, 2017, we wrote off approximately \$7.7 million and \$6.7 million, respectively, of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations were 4.9 as of December 29, 2018 and 5.3 as of December 30, 2017. Our working capital accounts may be impacted by current and future economic conditions.

Contractual obligations

The following table summarizes our contractual obligations related to fixed and variable rate long-term debt, including interest (assuming a weighted average interest rate of 3.4%), as well as inventory purchase commitments and operating and capital lease obligations as of December 29, 2018:

	Payments due by period (in thousands)				Total
	< 1 year	2 - 3 years	4 - 5 years	> 5 years	
Contractual obligations:					
Long-term debt, including interest	\$ 43,450	\$ 609,428	\$ 61,905	\$ 453,678	\$ 1,168,461
Inventory purchase commitments	499,346	446,412	124,911	-	1,070,669
Operating lease obligations	78,940	106,179	54,866	68,373	308,358
Transition tax obligations	9,923	19,845	43,411	31,008	104,187
Capital lease obligations, including interest	1,695	1,844	604	1,430	5,573
Total	<u>\$ 633,354</u>	<u>\$ 1,183,708</u>	<u>\$ 285,697</u>	<u>\$ 554,489</u>	<u>\$ 2,657,248</u>

Bank Credit Lines

On April 18, 2017, we entered into a new \$750 million revolving credit 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. On June 29, 2018, we amended the Credit Agreement to, among other things, (i) permit the consummation of the Animal Health Spin-off (See Note 21), (ii) provide for swing-line commitments in the amount of \$75 million, and (iii) provide for the designation of subsidiary borrowers under the facility. 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 December 29, 2018 and December 30, 2017, the borrowings outstanding on this revolving credit facility and the prior credit facility were \$175.0 million and \$320.0 million, respectively. As of December 29, 2018 and December 30, 2017, there were \$11.2 million and \$11.3 million of letters of credit, respectively, provided to third parties under this credit facility.

As of December 29, 2018 and December 30, 2017, we had various other short-term bank credit lines available, of which \$376.5 million and \$421.7 million, respectively, were outstanding. At December 29, 2018 and December 30, 2017, borrowings under all of our credit lines had a weighted average interest rate of 3.30% and 2.27%, respectively.

Committed Loan Associated with Animal Health Spin-off

On May 21, 2018, we obtained a \$400 million committed loan which matured on the earlier of (i) March 31, 2019 and (ii) the consummation of the Animal Health Spin-off. The proceeds of this loan were used, among other things, to fund our purchase of all of the equity interests in Butler Animal Health Holding Company, LLC (“BAHHC”) directly or indirectly owned by Darby Group Companies, Inc. (“Darby”) and certain other sellers pursuant to the terms of that certain Amendment to Put Rights Agreements, dated as of April 20, 2018, by and among us, Darby, BAHHC and the individual sellers party thereto for an aggregate purchase price of \$365 million. As of December 29, 2018, the balance outstanding on this loan was \$400 million and is included within the “Bank credit lines” caption within our consolidated balance sheet. At December 29, 2018, the interest rate on this loan was 3.38%. Concurrent with the completion of the Animal Health Spin-off on February 7, 2019, we re-paid the balance of this loan.

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. On June 29, 2018, we amended and restated the above private placement facilities to, among other things, (i) permit the consummation of the Animal Health Spin-off and (ii) provide for the issuance of notes in Euros, British Pounds and Australian Dollars, in addition to U.S. Dollars. 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 December 29, 2018 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)	28,571	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
January 2, 2018	100,000	3.32	January 2, 2028
Less: Deferred debt issuance costs	(382)		
	<u>\$ 628,189</u>		

(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 December 29, 2018 and December 30, 2017, respectively. At December 29, 2018, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 2.66% plus 0.75%, for a combined rate of 3.41%. At December 30, 2017, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 1.53% plus 0.75%, for a combined rate of 2.28%.

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.

Long-term debt

Long-term debt consisted of the following:

	December 29, 2018	December 30, 2017
Private placement facilities	\$ 628,189	\$ 535,295
U.S. trade accounts receivable securitization	350,000	350,000
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2023 at interest rates ranging from 2.61% to 5.01% at December 29, 2018 and ranging from 2.56% to 12.90% at December 30, 2017	29,491	34,027
Capital lease obligations (see Note 18)	5,148	5,093
Total	<u>1,012,828</u>	<u>924,415</u>
Less current maturities	<u>(8,955)</u>	<u>(16,659)</u>
Total long-term debt	<u>\$ 1,003,873</u>	<u>\$ 907,756</u>

Stock repurchases

From June 21, 2004 through December 29, 2018, we repurchased approximately \$2.9 billion, or 58,189,377 shares, under our common stock repurchase programs, with \$400.0 million available as of December 29, 2018 for future common stock share repurchases.

Noncontrolling interests

Some minority stockholders 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. 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 years ended December 29, 2018, December 30, 2017 and December 31, 2016 are presented in the following table:

	December 29, 2018	December 30, 2017	December 31, 2016
Balance, beginning of period	\$ 832,138	\$ 607,636	\$ 542,194
Decrease in redeemable noncontrolling interests due to redemptions	(669,947)	(48,669)	(72,729)
Increase in redeemable noncontrolling interests due to business acquisitions	10,294	78,939	58,172
Net income attributable to redeemable noncontrolling interests	21,848	52,203	48,760
Dividends declared	(18,065)	(28,161)	(32,973)
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	(13,031)	7,461	(2,652)
Change in fair value of redeemable securities	148,919	162,729	66,864
Balance, end of period	<u>\$ 312,156</u>	<u>\$ 832,138</u>	<u>\$ 607,636</u>

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.

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.

During 2018, we entered into a joint venture with Internet Brands to create a newly formed entity, Henry Schein One, LLC. The joint venture includes Henry Schein Practice Solutions products and services, as well as Henry Schein's international dental practice management systems and the dental businesses of Internet Brands. Internet Brands holds a 26% noncontrolling interest in Henry Schein One, LLC that is accounted for within stockholders' equity, as well as a freestanding and separately exercisable right to put its noncontrolling interest to Henry Schein, Inc. for fair value following the fifth anniversary of the effective date of the formation of the joint venture. Beginning with the second anniversary of the effective date of the formation of the joint venture, Henry Schein One will issue a fixed number of additional interests to Internet Brands through the fifth anniversary, thereby increasing Internet Brands' ownership by approximately 7.6%. Internet Brands will also be entitled to receive a fixed number of additional interests, in the aggregate up to approximately 1.6% of the joint venture's ownership, if certain operating targets are met by the joint venture in its fourth, fifth and sixth operating years. These additional shares are considered contingent consideration that are accounted for within stockholders' equity; however, these shares will not be allocated any net income of Henry Schein One until the shares vest or are earned by Internet Brands. As a result of this transaction with Internet Brands, we recorded \$567.6 million of noncontrolling interest within stockholders' equity reflecting certain fair value methodology.

Unrecognized tax benefits

As more fully disclosed in Note 12 of "Notes to Consolidated Financial Statements," we cannot reasonably estimate the timing of future cash flows related to the unrecognized tax benefits, including accrued interest, of \$100.0 million as of December 29, 2018.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical data, when available, experience, industry and market trends, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. However, by their nature, estimates are subject to various assumptions and uncertainties. Reported results are therefore sensitive to any changes in our assumptions, judgments and estimates, including the possibility of obtaining materially different results if different assumptions were to be applied.

We believe that the following critical accounting policies, which have been discussed with the Audit Committee of the Board of Directors, affect the significant estimates and judgments used in the preparation of our financial statements:

Revenue Recognition

On December 31, 2017, we adopted ASC 606 (“Topic 606”) using the modified retrospective method applied to those contracts which were not completed as of the adoption date. Results for reporting periods beginning after December 30, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for those periods. Our revenue recognition accounting policies applied prior to adoption of Topic 606 are outlined in the financial statements in our Annual Report on Form 10-K for the year ended December 30, 2017. The disclosures included herein reflect our accounting policies under Topic 606.

We generate revenue from the sale of dental, medical, and prior to the completion of the Animal Health Spin-off, animal health consumable products, as well as equipment, software products and services and other sources. Provisions for discounts, rebates to customers, customer returns and other contra revenue adjustments are included in the transaction price at contract inception by estimating the most likely amount based upon historical data and estimates and are provided for in the period in which the related sales are recognized.

Revenue derived from the sale of consumable products is recognized at a point in time when control transfers to the customer. Such sales typically entail high-volume, low-dollar orders shipped using third-party common carriers. We believe that the shipment date is the most appropriate point in time indicating control has transferred to the customer because we have no post-shipment obligations and this is when legal title and risks and rewards of ownership transfer to the customer and the point at which we have an enforceable right to payment.

Revenue derived from the sale of equipment is recognized when control transfers to the customer. This occurs when the equipment is delivered. Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipment sales require minimal installation, which is typically completed at the time of delivery. Our product generally carries standard warranty terms provided by the manufacturer, however, in instances where we provide warranty labor services, the warranty costs are accrued in accordance with ASC 460 “Guarantees”.

Revenue derived from the sale of software products is recognized when products are shipped to customers or made available electronically. Such software is generally installed by customers and does not require extensive training due to the nature of its design. Revenue derived from post-contract customer support for software, including annual support and/or training, is generally recognized over time using time elapsed as the input method that best depicts the transfer of control to the customer.

Revenue derived from other sources, including freight charges, equipment repairs and financial services, is recognized when the related product revenue is recognized or when the services are provided. We apply the practical expedient to treat shipping and handling activities performed after the customer obtains control as fulfillment activities, rather than a separate performance obligation in the contract.

Sales, value-add and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

Certain of our revenue is derived from bundled arrangements that include multiple distinct performance obligations which are accounted for separately. When we sell software products together with related services (i.e., training and technical support), we allocate revenue to software using the residual method, using an estimate of the standalone selling price to estimate the fair value of the undelivered elements. There are no cases where revenue is deferred due to a lack of a standalone selling price. Bundled arrangements that include elements that are not considered software consist primarily of equipment and the related installation service. We allocate revenue for such arrangements based on the relative selling prices of the goods or services. If an observable selling price is not available (i.e., we do not sell the goods or services separately), we use one of the following techniques to estimate the standalone selling price: adjusted market approach; cost-plus approach; or the residual method. There is no specific hierarchy for the use of these methods, but the estimated selling price reflects our best estimate of what the selling prices of each deliverable would be if it were sold regularly on a standalone basis taking into consideration the cost structure of our business, technical skill required, customer location and other market conditions.

Accounts Receivable

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types, credit worthiness and economic trends. From time to time, we adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability.

Contract Assets

Contract assets include amounts related to any conditional right to consideration for work completed but not billed as of the reporting date and generally represent amounts owed to us by customers, but not yet billed. Contract assets are transferred to accounts receivable when the right becomes unconditional. Current contract assets are included in Prepaid expenses and other and the non-current contract assets are included in Investments and other within our consolidated balance sheet.

Contract Liabilities

Contract liabilities are comprised of advance payments and deferred revenue amounts. Contract liabilities are transferred to revenue once the performance obligation has been satisfied. Current contract liabilities are included in Accrued expenses: Other and the non-current contract liabilities are included in Other liabilities within our consolidated balance sheet.

Deferred Commissions

Sales commissions earned by our sales force that relate to long term arrangements are capitalized as costs to obtain a contract when the costs incurred are incremental and are expected to be recovered. Deferred sales commissions are amortized over the estimated customer relationship period. We apply the practical expedient related to the capitalization of incremental costs of obtaining a contract, and recognize such costs as an expense when incurred if the amortization period of the assets that we would have recognized is one year or less.

Sales Returns

Sales returns are recognized as a reduction of revenue by the amount of expected returns and are recorded as refund liability within current liabilities. We estimate the amount of revenue expected to be reversed to calculate the sales return liability based on historical data for specific products, adjusted as necessary for new products. The allowance for returns is presented gross as a refund liability and we record an inventory asset (and a corresponding adjustment to cost of sales) for any goods or services that we expect to be returned.

Inventories and Reserves

Inventories consist primarily of finished goods and are valued at the lower of cost or market. Cost is determined by the first-in, first-out method for merchandise or actual cost for large equipment and high tech equipment. In accordance with our policy for inventory valuation, we consider many factors including the condition and salability of the inventory, historical sales, forecasted sales and market and economic trends.

From time to time, we may adjust our assumptions for anticipated changes in any of these or other factors expected to affect the value of inventory. Although we believe our judgments, estimates and/or assumptions related to inventory and reserves are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill and other indefinite-lived intangible assets (primarily trademarks) are not amortized, but are subject to impairment analysis at least once annually. Such impairment analyses for goodwill require a comparison of the fair value to the carrying value of reporting units. We regard our reporting units to be our operating segments: health care distribution (global dental, medical, and prior to the completion of the Animal Health Spin-off, animal health) and technology and value-added services. Goodwill was allocated to such reporting units, for the purposes of preparing our impairment analyses, based on a specific identification basis.

For the years ended December 29, 2018 and December 30, 2017, and December 31, 2016 we tested goodwill for impairment using a quantitative analysis consisting of a two-step approach. The first step of our quantitative analysis consists of a comparison of the carrying value of our reporting units, including goodwill, to the estimated fair value of our reporting units using a discounted cash flow methodology. If step one results in the carrying value of the reporting unit exceeding the fair value of such reporting unit, we would then proceed to step two which would require us to calculate the amount of impairment loss, if any, that we would record for such reporting unit. The calculation of the impairment loss in step two would be equivalent to the reporting unit's carrying value of goodwill less the implied fair value of such goodwill.

Our use of a discounted cash flow methodology includes estimates of future revenue based upon budget projections and growth rates which take into account estimated inflation rates. We also develop estimates for future levels of gross and operating profits and projected capital expenditures. Our methodology also includes the use of estimated discount rates based upon industry and competitor analysis as well as other factors. The estimates that we use in our discounted cash flow methodology involve many assumptions by management that are based upon future growth projections.

Our impairment analysis for indefinite-lived intangibles consists of a comparison of the fair value to the carrying value of the assets. This comparison is made based on a review of historical, current and forecasted sales and gross profit levels, as well as a review of any factors that may indicate potential impairment. For indefinite-lived intangible assets, a present value technique, such as estimates of future cash flows, is utilized. We assessed the potential impairment of goodwill and other indefinite-lived intangible assets annually (at the beginning of our fourth quarter) and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Some factors we consider important that could trigger an interim impairment review include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of acquired assets or the strategy for our overall business (e.g., decision to divest a business); or
- significant negative industry or economic trends.

If we determine through the impairment review process that goodwill or other indefinite-lived intangible assets are impaired, we record an impairment charge in our consolidated statements of income.

For the years ended December 29, 2018, December 30, 2017 and December 31, 2016, the results of our goodwill and intangible impairment analysis did not result in any impairments.

Supplier Rebates

Supplier rebates are included as a reduction of cost of sales and are recognized over the period they are earned. The factors we consider in estimating supplier rebate accruals include forecasted inventory purchases and sales in conjunction with supplier rebate contract terms which generally provide for increasing rebates based on either increased purchase or sales volume. Although we believe our judgments, estimates and/or assumptions related to supplier rebates are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Long-Lived Assets

Long-lived assets, other than goodwill and other indefinite-lived intangibles, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows to be derived from such assets.

Definite-lived intangible assets primarily consist of non-compete agreements, trademarks, trade names, customer lists, customer relationships and intellectual property. For long-lived assets used in operations, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and the estimated fair value. When an impairment exists, the related assets are written down to fair value. Although we believe our judgments, estimates and/or assumptions used in estimating cash flows and determining fair value are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect such impairment analyses and our financial results.

Stock-Based Compensation

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.

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, foreign exchange fluctuations, certain litigation related costs, and material changes in income tax rates. 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.

Although we believe our judgments, estimates and/or assumptions related to stock-based compensation are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Accounting Standards Update

For a discussion of accounting standards updates that have been adopted or will be adopted in the future, please refer to Note 1 of the Notes to Consolidated Financial Statements included under Item 8.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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.

Foreign Currency Agreements

The value of certain foreign currencies as compared to the U.S. dollar and the value of certain underlying functional currencies of the Company, including its foreign subsidiaries, may affect our financial results. Fluctuations in exchange rates 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 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. A hypothetical 5% change in the average value of the U.S. dollar in 2018 compared to foreign currencies would have changed our 2018 reported Net income attributable to Henry Schein, Inc. by approximately \$8.0 million.

As of December 29, 2018, we had forward foreign currency exchange agreements, which expire through November 27, 2019, which include a fair value gain of \$1.4 million as determined by quoted market prices. As of December 29, 2018, Henry Schein, Inc. had Euro to Brazilian Real (BRL) cross currency swap contracts notionally totaling an amount of €94.6 million, with a reported fair value of these contracts as a net asset of \$9.4 million. A 5% hypothetical change in the value of the Euro to the BRL from December 29, 2018, with all other variables held constant, would have had changed the value fair value of these swap contracts by approximately \$5.3 million.

Short-Term Investments

We limit our credit risk with respect to our cash equivalents, short-term investments and derivative instruments, by monitoring the credit worthiness of the financial institutions who are the counter-parties to such financial instruments. As a risk management policy, we limit the amount of credit exposure by diversifying and utilizing numerous investment grade counter-parties.

Variable Interest Rate Debt

As of December 29, 2018, we had variable interest rate exposure for certain of our revolving credit facilities and our U.S. trade accounts receivable securitization.

Our revolving credit facility which we entered into on April 18, 2017 and expires on April 18, 2022, has an interest rate that is based on the U.S. Dollar LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. As of December 29, 2018, there was \$175.0 million outstanding under this revolving credit facility. During the year ended December 29, 2018, the average outstanding balance under this revolving credit facility was approximately \$393.8 million. Based upon our average outstanding balance for this revolving credit facility, for each hypothetical increase of 25 basis points, our interest expense thereunder would have increased by \$1.0 million.

Our U.S trade accounts receivable securitization, which we entered into on April 17, 2013 and which expires on April 29, 2020, has an interest rate that is based upon the asset-backed commercial paper rate. As of December 29, 2018, the commercial paper rate was 2.66% plus 0.75%, for a combined rate of 3.41%. At December 29, 2018 the outstanding balance was \$350.0 million under this securitization facility. During the year ended December 29, 2018, the average outstanding balance under this securitization facility was approximately \$349.0 million. Based upon our average outstanding balance for this securitization facility, for each hypothetical increase of 25 basis points, our interest expense thereunder would have increased by \$0.9 million.

ITEM 8. Financial Statements and Supplementary Data

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All other schedules are omitted because the required information is either inapplicable or is included in the consolidated financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Henry Schein, Inc.
Melville, NY

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Henry Schein, Inc. (the “Company”) and subsidiaries as of December 29, 2018 and December 30, 2017, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and schedule presented in Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 29, 2018 and December 30, 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 29, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 20, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

/s/ BDO USA, LLP

We have served as the Company’s auditor since 1984.

New York, NY
February 20, 2019

HENRY SCHEIN, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	<u>December 29, 2018</u>	<u>December 30, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 80,209	\$ 174,658
Accounts receivable, net of reserves of \$60,533 and \$53,832	1,603,711	1,522,807
Inventories, net	1,970,742	1,933,803
Prepaid expenses and other	<u>520,558</u>	<u>454,752</u>
Total current assets	4,175,220	4,086,020
Property and equipment, net	382,398	375,001
Goodwill	2,820,295	2,301,331
Other intangibles, net	584,244	669,641
Investments and other	538,370	432,002
Total assets	<u>\$ 8,500,527</u>	<u>\$ 7,863,995</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,227,209	\$ 1,153,012
Bank credit lines	951,458	741,653
Current maturities of long-term debt	8,955	16,659
Accrued expenses:		
Payroll and related	279,764	272,998
Taxes	172,165	188,873
Other	<u>579,276</u>	<u>455,780</u>
Total current liabilities	3,218,827	2,828,975
Long-term debt, net	1,003,873	907,756
Deferred income taxes	31,570	50,431
Other liabilities	<u>392,313</u>	<u>420,285</u>
Total liabilities	4,646,583	4,207,447
Redeemable noncontrolling interests	312,156	832,138
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none outstanding	-	-
Common stock, \$.01 par value, 480,000,000 shares authorized, 151,401,668 outstanding on December 29, 2018 and 240,000,000 shares authorized, 153,690,146 outstanding on December 30, 2017	1,514	1,537
Retained earnings	3,208,589	2,940,029
Accumulated other comprehensive loss	<u>(248,771)</u>	<u>(130,067)</u>
Total Henry Schein, Inc. stockholders' equity	2,961,332	2,811,499
Noncontrolling interests	<u>580,456</u>	<u>12,911</u>
Total stockholders' equity	3,541,788	2,824,410
Total liabilities, redeemable noncontrolling interests and stockholders' equity	<u>\$ 8,500,527</u>	<u>\$ 7,863,995</u>

See accompanying notes.

HENRY SCHEIN, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net sales	\$ 13,201,995	\$ 12,461,543	\$ 11,571,668
Cost of sales	9,606,911	9,062,440	8,345,195
Gross profit	3,595,084	3,399,103	3,226,473
Operating expenses:			
Selling, general and administrative	2,701,876	2,534,409	2,409,008
Litigation settlements	38,488	5,325	-
Transaction costs related to Animal Health spin-off.....	38,756	-	-
Restructuring costs	62,912	-	45,891
Operating income	753,052	859,369	771,574
Other income (expense):			
Interest income	21,236	17,553	13,275
Interest expense	(78,786)	(53,654)	(31,893)
Other, net	(154)	(420)	2,879
Income before taxes and equity in earnings of affiliates	695,348	822,848	755,835
Income taxes	(155,492)	(362,506)	(217,958)
Equity in earnings of affiliates	22,270	16,587	18,518
Loss on sale of equity investment	-	(17,636)	-
Net income	562,126	459,293	556,395
Less: Net income attributable to noncontrolling interests	(26,245)	(52,994)	(49,617)
Net income attributable to Henry Schein, Inc.	<u>\$ 535,881</u>	<u>\$ 406,299</u>	<u>\$ 506,778</u>

Earnings per share attributable to Henry Schein, Inc.:

Basic	\$ 3.51	\$ 2.59	\$ 3.14
Diluted	<u>\$ 3.49</u>	<u>\$ 2.57</u>	<u>\$ 3.10</u>
Weighted-average common shares outstanding:			
Basic	152,656	156,787	161,641
Diluted	<u>153,707</u>	<u>158,208</u>	<u>163,723</u>

See accompanying notes.

HENRY SCHEIN, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net income	\$ 562,126	\$ 459,293	\$ 556,395
Other comprehensive income (loss), net of tax:			
Foreign currency translation gain (loss)	(136,356)	191,886	(98,402)
Unrealized gain (loss) from foreign currency hedging activities	626	(729)	(992)
Unrealized investment gain (loss).....	(3)	(3)	2
Pension adjustment gain (loss)	<u>3,033</u>	<u>3,933</u>	<u>(399)</u>
Other comprehensive income (loss), net of tax	<u>(132,700)</u>	<u>195,087</u>	<u>(99,791)</u>
Comprehensive income	429,426	654,380	456,604
Comprehensive income attributable to noncontrolling interests:			
Net income	(26,245)	(52,994)	(49,617)
Foreign currency translation (gain) loss	<u>13,996</u>	<u>(8,113)</u>	<u>2,689</u>
Comprehensive income attributable to noncontrolling interests	<u>(12,249)</u>	<u>(61,107)</u>	<u>(46,928)</u>
Comprehensive income attributable to Henry Schein, Inc.	<u>\$ 417,177</u>	<u>\$ 593,273</u>	<u>\$ 409,676</u>

See accompanying notes.

HENRY SCHEIN, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share and per share data)

	Common Stock \$.01 Par Value		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Stockholders' Equity
	Shares	Amount					
Balance, December 26, 2015	164,830,640	\$ 1,648	\$ 206,550	\$ 2,895,997	\$ (219,939)	\$ 2,558	\$ 2,886,814
Net income (excluding \$48,760 attributable to Redeemable noncontrolling interests)	-	-	-	506,778	-	857	507,635
Foreign currency translation loss (excluding \$2,652 attributable to Redeemable noncontrolling interests)	-	-	-	-	(95,713)	(37)	(95,750)
Unrealized loss from foreign currency hedging activities, net of tax benefit of \$33	-	-	-	-	(992)	-	(992)
Unrealized investment gain, net of tax of \$0	-	-	-	-	2	-	2
Pension adjustment loss net of tax of \$548	-	-	-	-	(399)	-	(399)
Dividends paid	-	-	-	-	-	(593)	(593)
Other adjustments	-	-	5	-	-	10	15
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	4,943	4,943
Change in fair value of redeemable securities	-	-	(66,864)	-	-	-	(66,864)
Repurchase and retirement of common stock	(6,923,564)	(70)	(128,956)	(420,998)	-	-	(550,024)
Stock issued upon exercise of stock options, including tax benefit of \$23,392	415,832	4	34,792	-	-	-	34,796
Stock-based compensation expense	755,104	8	58,238	-	-	-	58,246
Shares withheld for payroll taxes	(328,888)	(2)	(29,112)	-	-	-	(29,114)
Liability for cash settlement stock-based compensation awards	55,886	-	4,052	-	-	-	4,052
Deferred tax benefit arising from acquisition of partnership noncontrolling interests in partnership	-	-	48,037	-	-	-	48,037
Balance, December 31, 2016	158,805,010	\$ 1,588	\$ 126,742	\$ 2,981,777	\$ (317,041)	\$ 7,738	\$ 2,800,804
Net income (excluding \$52,203 attributable to Redeemable noncontrolling interests)	-	-	-	406,299	-	791	407,090
Foreign currency translation gain (excluding \$7,461 attributable to Redeemable noncontrolling interests)	-	-	-	-	183,773	652	184,425
Unrealized loss from foreign currency hedging activities, net of tax benefit of \$786	-	-	-	-	(729)	-	(729)
Unrealized investment loss, net of tax benefit of \$1	-	-	-	-	(3)	-	(3)
Pension adjustment gain, net of tax of \$314	-	-	-	-	3,933	-	3,933
Dividends paid	-	-	-	-	-	(546)	(546)
Other adjustments	-	-	23	-	-	376	399
Purchase of noncontrolling interests	-	-	-	-	-	(4,150)	(4,150)
Change in fair value of redeemable securities	-	-	(162,729)	-	-	-	(162,729)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	8,050	8,050
Repurchase and retirement of common stock	(5,864,404)	(59)	(97,205)	(352,736)	-	-	(450,000)
Stock issued upon exercise of stock options	197,434	2	5,264	-	-	-	5,266
Stock-based compensation expense	1,072,922	11	42,283	-	-	-	42,294
Shares withheld for payroll taxes	(520,816)	(5)	(44,771)	-	-	-	(44,776)
Settlement of stock-based compensation awards	-	-	(599)	-	-	-	(599)
Deferred tax benefit arising from acquisition of noncontrolling interest in partnership	-	-	35,681	-	-	-	35,681
Transfer of charges in excess of capital	-	-	95,311	(95,311)	-	-	-
Balance, December 30, 2017	153,690,146	\$ 1,537	\$ -	\$ 2,940,029	\$ (130,067)	\$ 12,911	\$ 2,824,410
Cumulative impact of adopting new accounting standards	-	-	-	2,594	-	-	2,594
Net income (excluding \$21,848 attributable to Redeemable noncontrolling interests)	-	-	-	535,881	-	4,397	540,278
Foreign currency translation loss (excluding \$13,031 attributable to Redeemable noncontrolling interests)	-	-	-	-	(122,360)	(965)	(123,325)
Unrealized gain from foreign currency hedging activities, net of tax of \$396	-	-	-	-	626	-	626
Unrealized investment loss, net of tax of \$0	-	-	-	-	(3)	-	(3)
Pension adjustment gain, net of tax of \$1,179	-	-	-	-	3,033	-	3,033
Dividends paid	-	-	-	-	-	(656)	(656)
Other adjustments	-	-	(19)	-	-	713	694
Purchase of noncontrolling interests	-	-	-	-	-	(214)	(214)
Change in fair value of redeemable securities	-	-	(148,919)	-	-	-	(148,919)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	564,270	564,270
Repurchase and retirement of common stock	(2,518,387)	(25)	(36,206)	(163,769)	-	-	(200,000)
Stock issued upon exercise of stock options	153,516	1	3,075	-	-	-	3,076
Stock-based compensation expense	340,794	4	36,236	-	-	-	36,240
Shares withheld for payroll taxes	(267,772)	(3)	(18,140)	-	-	-	(18,143)
Settlement of stock-based compensation awards	3,371	-	(727)	-	-	-	(727)
Deferred tax benefit arising from acquisition of noncontrolling interest in partnership	-	-	58,554	-	-	-	58,554
Transfer of charges in excess of capital	-	-	106,146	(106,146)	-	-	-
Balance, December 29, 2018	151,401,668	\$ 1,514	\$ -	\$ 3,208,589	\$ (248,771)	\$ 580,456	\$ 3,541,788

See accompanying notes.

HENRY SCHEIN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Cash flows from operating activities:			
Net income	\$ 562,126	\$ 459,293	\$ 556,395
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	207,560	193,072	169,780
Loss on sale of equity investment	-	17,636	-
Stock-based compensation expense	36,240	42,294	58,246
Provision for losses on trade and other accounts receivable	15,105	9,370	2,647
Provision for (benefit from) deferred income taxes	(41,213)	485	(37,066)
Equity in earnings of affiliates	(22,270)	(16,587)	(18,518)
Distributions from equity affiliates	21,311	23,157	20,351
Changes in unrecognized tax benefits	(650)	(2,318)	6,013
Provision for (benefit from) transition tax	(10,000)	140,000	-
Other	(807)	10,921	12,595
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(147,499)	(160,266)	(7,655)
Inventories	(84,784)	(175,059)	(104,787)
Other current assets	(92,059)	(85,759)	(22,657)
Accounts payable and accrued expenses	241,646	89,276	7,232
Net cash provided by operating activities	<u>684,706</u>	<u>545,515</u>	<u>642,576</u>
Cash flows from investing activities:			
Purchases of fixed assets	(90,637)	(81,501)	(70,179)
Payments related to equity investments and business acquisitions, net of cash acquired	(61,570)	(288,673)	(228,575)
Proceeds from sale of equity investment	1,000	34,048	-
Repayments from (borrowings for) loan to affiliate	(25,700)	6,700	(4,500)
Other	(16,047)	(12,850)	(13,168)
Net cash used in investing activities	<u>(192,954)</u>	<u>(342,276)</u>	<u>(316,422)</u>
Cash flows from financing activities:			
Proceeds from bank borrowings	210,741	302,941	98,748
Proceeds from issuance of long-term debt	115,000	200,440	260,799
Debt issuance costs	(501)	(1,990)	(233)
Principal payments for long-term debt	(28,042)	(60,050)	(15,381)
Proceeds from issuance of stock upon exercise of stock options	3,076	5,266	11,404
Payments for repurchases of common stock	(200,000)	(450,000)	(550,024)
Payments for taxes related to shares withheld for employee taxes	(18,023)	(44,832)	(27,115)
Excess tax benefits related to stock-based compensation	-	-	(463)
Distributions to noncontrolling stockholders	(17,515)	(29,134)	(32,350)
Acquisitions of noncontrolling interests in subsidiaries	(668,512)	(35,192)	(72,729)
Net cash used in financing activities	<u>(603,776)</u>	<u>(112,551)</u>	<u>(327,344)</u>
Effect of exchange rate changes on cash and cash equivalents	17,575	21,589	(8,515)
Net change in cash and cash equivalents	(94,449)	112,277	(9,705)
Cash and cash equivalents, beginning of period	174,658	62,381	72,086
Cash and cash equivalents, end of period	<u>\$ 80,209</u>	<u>\$ 174,658</u>	<u>\$ 62,381</u>

See accompanying notes.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

Note 1 –Significant Accounting Policies

Nature of Operations

We distribute health care products and services primarily to office-based health care practitioners with operations or affiliates in the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Singapore, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, United Arab Emirates and the United Kingdom.

Principles of Consolidation

Our consolidated financial statements include the accounts of Henry Schein, Inc. and all of our controlled subsidiaries. All intercompany accounts and transactions are eliminated in consolidation. Investments in unconsolidated affiliates, which are greater than or equal to 20% and less than or equal to 50% owned or investments in unconsolidated affiliates of less than 20% in which we have the ability to influence the operating or financial decisions, are accounted for under the equity method. See Note 6 for accounting treatment of Redeemable noncontrolling interests. Certain prior period amounts have been reclassified to conform to the current period presentation.

We consolidate a Variable Interest Entity (“VIE”) where we hold a variable interest and are the primary beneficiary. The VIE is a trade accounts receivable securitization. We are the primary beneficiary because we have the power to direct activities that most significantly affect the economic performance and have the obligation to absorb the majority of the losses or benefits. The results of operations and financial position of this VIE are included in our consolidated financial statements.

For the consolidated VIE, the trade accounts receivable transferred to the VIE are pledged as collateral to the related debt. The creditors have recourse to us for losses on these trade accounts receivable. For the years ended December 29, 2018 and December 30, 2017, trade accounts receivable that can only be used to settle obligations of this VIE were \$422 million and \$422 million, respectively, and the liabilities of the VIE where the creditors have recourse to us were \$350 million and \$350 million, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Fiscal Year

We report our results of operations and cash flows on a 52-53 week basis ending on the last Saturday of December. The years ended December 29, 2018 and December 30, 2017 consisted of 52 weeks, and the year ended December 31, 2016 consisted of 53 weeks.

Stock Split

On August 16, 2017, we announced that our Board of Directors approved a two-for-one stock split of our common stock. Each Henry Schein, Inc. stockholder of record at the close of business on September 1, 2017 received a distribution of one additional share for every share held. Trading began on a split-adjusted basis on September 15, 2017.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

Revenue Recognition

On December 31, 2017, we adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of the adoption date. Results for reporting periods beginning after December 30, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for those periods. Our revenue recognition accounting policies applied prior to adoption of Topic 606 are outlined in the financial statements in our Annual Report on Form 10-K for the year ended December 30, 2017. The disclosures included herein reflect our accounting policies under Topic 606.

Revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration that we expect to receive for those goods or services. To recognize revenue, we do the following:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognize revenue when, or as, the entity satisfies a performance obligation.

We generate revenue from the sale of dental, animal health and medical consumable products, equipment (Healthcare distribution revenues), software products and services and other sources (Technology and value-added services revenues). Provisions for discounts, rebates to customers, customer returns and other contra revenue adjustments are included in the transaction price at contract inception by estimating the most likely amount based upon historical data and estimates and are provided for in the period in which the related sales are recognized.

Revenue derived from the sale of consumable products is recognized at a point in time when control transfers to the customer. Such sales typically entail high-volume, low-dollar orders shipped using third-party common carriers. We believe that the shipment date is the most appropriate point in time indicating control has transferred to the customer because we have no post-shipment obligations and this is when legal title and risks and rewards of ownership transfer to the customer and the point at which we have an enforceable right to payment.

Revenue derived from the sale of equipment is recognized when control transfers to the customer. This occurs when the equipment is delivered. Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipment sales require minimal installation, which is typically completed at the time of delivery. Our product generally carries standard warranty terms provided by the manufacturer, however, in instances where we provide warranty labor services, the warranty costs are accrued in accordance with ASC 460 "Guarantees".

Revenue derived from the sale of software products is recognized when products are shipped to customers or made available electronically. Such software is generally installed by customers and does not require extensive training due to the nature of its design. Revenue derived from post-contract customer support for software, including annual support and/or training, is generally recognized over time using time elapsed as the input method that best depicts the transfer of control to the customer.

Revenue derived from other sources, including freight charges, equipment repairs and financial services, is recognized when the related product revenue is recognized or when the services are provided. We apply the practical expedient to treat shipping and handling activities performed after the customer obtains control as fulfillment activities, rather than a separate performance obligation in the contract.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Sales, value-add and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

Certain of our revenue is derived from bundled arrangements that include multiple distinct performance obligations which are accounted for separately. When we sell software products together with related services (i.e., training and technical support), we allocate revenue to software using the residual method, using an estimate of the standalone selling price to estimate the fair value of the undelivered elements. There are no cases where revenue is deferred due to a lack of a standalone selling price. Bundled arrangements that include elements that are not considered software consist primarily of equipment and the related installation service. We allocate revenue for such arrangements based on the relative selling prices of the goods or services. If an observable selling price is not available (i.e., we do not sell the goods or services separately), we use one of the following techniques to estimate the standalone selling price: adjusted market approach; cost-plus approach; or the residual method. There is no specific hierarchy for the use of these methods, but the estimated selling price reflects our best estimate of what the selling prices of each deliverable would be if it were sold regularly on a standalone basis taking into consideration the cost structure of our business, technical skill required, customer location and other market conditions

See Note 15 for additional disclosures of disaggregated net sales and Note 16 for disclosures of net sales by segment and geographic data.

Contract Balances

Contract balances represent amounts presented in our consolidated balance sheet when either we have transferred goods or services to the customer or the customer has paid consideration to us under the contract. These contract balances include accounts receivable, contract assets and contract liabilities.

Accounts Receivable

Accounts receivable are generally recognized when health care distribution and technology and value-added services revenues are recognized. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types, credit worthiness and economic trends. From time to time, we adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability.

Contract Assets

Contract assets include amounts related to any conditional right to consideration for work completed but not billed as of the reporting date and generally represent amounts owed to us by customers, but not yet billed. Contract assets are transferred to accounts receivable when the right becomes unconditional. The contract assets primarily relate to our bundled arrangements for the sale of equipment and consumables and sales of term software licenses. Current contract assets are included in Prepaid expenses and other and the non-current contract assets are included in Investments and other within our consolidated balance sheet. Current and non-current contract asset balances as of December 29, 2018 and December 31, 2017 were not material.

Contract Liabilities

Contract liabilities are comprised of advance payments and upfront payments for service arrangements provided over time that are accounted for as deferred revenue amounts. Contract liabilities are transferred to revenue once the performance obligation has been satisfied. Current contract liabilities are included in Accrued expenses: Other and the non-current contract liabilities are included in Other liabilities within our consolidated

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balance sheet. At December 31, 2017, the current portion of contract liabilities of \$85.7 million was reported in Accrued expenses: Other, and \$5.2 million related to non-current contract liabilities were reported in Other liabilities. During the year ended December 29, 2018, we recognized substantially all of the current contract liability amounts that were previously deferred at December 31, 2017. At December 29, 2018, the current and non-current portion of contract liabilities were \$83.6 million and \$5.3 million, respectively.

Deferred Commissions

Sales commissions earned by our sales force that relate to long term arrangements are capitalized as costs to obtain a contract when the costs incurred are incremental and are expected to be recovered. Deferred sales commissions are amortized over the estimated customer relationship period. We apply the practical expedient related to the capitalization of incremental costs of obtaining a contract, and recognize such costs as an expense when incurred if the amortization period of the assets that we would have recognized is one year or less.

Sales Returns

Sales returns are recognized as a reduction of revenue by the amount of expected returns and are recorded as refund liability within current liabilities. We estimate the amount of revenue expected to be reversed to calculate the sales return liability based on historical data for specific products, adjusted as necessary for new products. The allowance for returns is presented gross as a refund liability and we record an inventory asset (and a corresponding adjustment to cost of sales) for any goods or services that we expect to be returned.

Cash and Cash Equivalents

We consider all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. Due to the short-term maturity of such investments, the carrying amounts are a reasonable estimate of fair value. Outstanding checks in excess of funds on deposit of \$72.0 million and \$83.6 million, primarily related to payments for inventory, were classified as accounts payable as of December 29, 2018 and December 30, 2017.

Inventories and Reserves

Inventories consist primarily of finished goods and are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method for merchandise or actual cost for large equipment and high tech equipment. In accordance with our policy for inventory valuation, we consider many factors including the condition and salability of the inventory, historical sales, forecasted sales and market and economic trends. From time to time, we adjust our assumptions for anticipated changes in any of these or other factors expected to affect the value of inventory.

Direct Shipping and Handling Costs

Freight and other direct shipping costs are included in cost of sales. Direct handling costs, which represent primarily direct compensation costs of employees who pick, pack and otherwise prepare, if necessary, merchandise for shipment to our customers are reflected in selling, general and administrative expenses. Direct shipping and handling costs were \$102.1 million, \$93.3 million and \$84.0 million for the years ended December 29, 2018, December 30, 2017 and December 31, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Advertising and Promotional Costs

We generally expense advertising and promotional costs as incurred. Total advertising and promotional expenses were \$28.9 million, \$15.7 million and \$18.4 million for the years ended December 29, 2018, December 30, 2017 and December 31, 2016.

Supplier Rebates

Supplier rebates are included as a reduction of cost of sales and are recognized over the period they are earned. The factors we consider in estimating supplier rebate accruals include forecasted inventory purchases and sales, in conjunction with supplier rebate contract terms, which generally provide for increasing rebates based on either increased purchase or sales volume.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation or amortization. Depreciation is computed primarily under the straight-line method (see Note 2 - Property and Equipment, Net for estimated useful lives). Amortization of leasehold improvements is computed using the straight-line method over the lesser of the useful life of the assets or the lease term.

Capitalized software costs consist of costs to purchase and develop software. Costs incurred during the application development stage for software bought and further customized by outside suppliers for our use and software developed by a supplier for our proprietary use are capitalized. Costs incurred for our own personnel who are directly associated with software development are capitalized.

Income Taxes

We account for income taxes under an asset and liability approach that requires the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. In estimating future tax consequences, we generally consider all expected future events other than enactments of changes in tax laws or rates. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Our accounting for the Tax Cuts and Jobs Act, enacted on December 22, 2017, is further discussed in Note 12 of "Notes to Consolidated Financial Statements." We file a consolidated U.S. federal income tax return with our 80% or greater owned U.S. subsidiaries.

Foreign Currency Translation and Transactions

The financial position and results of operations of our foreign subsidiaries are determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in Accumulated other comprehensive income in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings.

Risk Management and Derivative Financial Instruments

We use derivative instruments to minimize our exposure to fluctuations in foreign currency exchange rates. Our objective is to manage the impact that foreign currency exchange rate fluctuations could have on recognized asset and liability fair values, earnings and cash flows. Our risk management policy requires that derivative contracts used as hedges be effective at reducing the risks associated with the exposure being hedged and be

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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designated as a hedge at the inception of the contract. We do not enter into derivative instruments for speculative purposes. Our derivative instruments primarily include foreign currency forward agreements related to certain intercompany loans and certain forecasted inventory purchase commitments with foreign suppliers.

Our foreign currency forward agreements related to forecasted inventory purchase commitments are designated as cash flow hedges. For cash flow hedges, the effective portion of the changes in the fair value of the derivative, along with any gain or loss on the hedged item, is recorded as a component of Accumulated other comprehensive income in stockholders' equity and subsequently reclassified into earnings in the period(s) during which the hedged transaction affects earnings. We classify the cash flows related to our hedging activities in the same category on our consolidated statements of cash flows as the cash flows related to the hedged item.

Our foreign currency forward agreements related to foreign currency balance sheet exposure provide economic hedges but are not designated as hedges for accounting purposes.

For agreements not designated as hedges, changes in the value of the derivative, along with the transaction gain or loss on the hedged item, are recorded in earnings.

Acquisitions

The net assets of businesses purchased are recorded at their fair value at the acquisition date and our consolidated financial statements include their results of operations from that date. Any excess of acquisition consideration over the fair value of identifiable net assets acquired is recorded as goodwill. The major classes of assets and liabilities that we generally allocate purchase price to, excluding goodwill, include identifiable intangible assets (i.e., trademarks and trade names, customer relationships and lists and non-compete agreements), property, plant and equipment, deferred taxes and other current and long-term assets and liabilities. The estimated fair value of identifiable intangible assets is based on critical estimates, judgments and assumptions derived from: analysis of market conditions; discount rates; discounted cash flows; customer retention rates; and estimated useful lives. Some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. For the years ended December 29, 2018, December 30, 2017 and December 31, 2016, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

Redeemable Noncontrolling Interests

Some minority stockholders 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. Their interests in these subsidiaries are classified outside permanent equity on our consolidated balance sheets and are carried at the estimated redemption amounts. The redemption amounts have been estimated based on expected future earnings and cash flow and, if such earnings and cash flow are not achieved, the value of the redeemable noncontrolling interests might be impacted. Changes in the estimated redemption amounts of the noncontrolling interests subject to put options are reflected 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.

Noncontrolling Interests

Noncontrolling interests represent our less than 50% ownership interest in an acquired subsidiary. Our net income is reduced by the portion of the subsidiaries net income that is attributable to noncontrolling interests.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill and other indefinite-lived intangible assets (primarily trademarks) are not amortized, but are subject to impairment analysis at least once annually. Such impairment analyses for goodwill require a comparison of the fair value to the carrying value of reporting units. We regard our reporting units to be our operating segments: health care distribution (global dental, animal health and medical) and technology and value-added services. Goodwill was allocated to such reporting units, for the purposes of preparing our impairment analyses, based on a specific identification basis.

For the years ended December 29, 2018 and December 30, 2017, and December 31, 2016 we tested goodwill for impairment using a quantitative analysis consisting of a two-step approach. The first step of our quantitative analysis consists of a comparison of the carrying value of our reporting units, including goodwill, to the estimated fair value of our reporting units using a discounted cash flow methodology. If step one results in the carrying value of the reporting unit exceeding the fair value of such reporting unit, we would then proceed to step two which would require us to calculate the amount of impairment loss, if any, that we would record for such reporting unit. The calculation of the impairment loss in step two would be equivalent to the reporting unit's carrying value of goodwill less the implied fair value of such goodwill.

Our use of a discounted cash flow methodology includes estimates of future revenue based upon budget projections and growth rates which take into account estimated inflation rates. We also develop estimates for future levels of gross profits and operating profits and projected capital expenditures. Our methodology also includes the use of estimated discount rates based upon industry and competitor analysis as well as other factors. The estimates that we use in our discounted cash flow methodology involve many assumptions by management that are based upon future growth projections.

Our impairment analysis for indefinite-lived intangibles consists of a comparison of the fair value to the carrying value of the assets. This comparison is made based on a review of historical, current and forecasted sales and gross profit levels, as well as a review of any factors that may indicate potential impairment. For indefinite-lived intangible assets, a present value technique, such as estimates of future cash flows, is utilized. We assess the potential impairment of goodwill and other indefinite-lived intangible assets annually (at the beginning of our fourth quarter) and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Some factors we consider important that could trigger an interim impairment review include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of acquired assets or the strategy for our overall business (e.g., decision to divest a business); or
- significant negative industry or economic trends.

If we determine through the impairment review process that goodwill or other indefinite-lived intangible assets are impaired, we record an impairment charge in our consolidated statements of income.

For the years ended December 29, 2018, December 30, 2017 and December 31, 2016, the results of our goodwill and intangible impairment analysis did not result in any impairments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Long-Lived Assets

Long-lived assets, other than goodwill and other indefinite-lived intangibles, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows to be derived from such assets.

Definite-lived intangible assets primarily consist of non-compete agreements, trademarks, trade names, customer lists, customer relationships and intellectual property. For long-lived assets used in operations, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and the estimated fair value. When an impairment exists, the related assets are written down to fair value.

Cost of Sales

The primary components of cost of sales include the cost of the product (net of purchase discounts, supplier chargebacks and rebates) and inbound and outbound freight charges. Costs related to purchasing, receiving, inspections, warehousing, internal inventory transfers and other costs of our distribution network are included in selling, general and administrative expenses along with other operating costs.

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. Total distribution network costs were \$87.3 million, \$83.2 million and \$79.4 million for the years ended December 29, 2018, December 30, 2017 and December 31, 2016.

Comprehensive Income

Comprehensive income includes certain gains and losses that, under accounting principles generally accepted in the United States, 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) from foreign currency hedging activities, unrealized investment gain (loss) and pension adjustment gain (loss).

Accounting Pronouncements Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers", Accounting Standards Codification ("ASC") 606 ("Topic 606"). We adopted the provisions of this standard as of December 31, 2017, on a modified retrospective basis. We applied the requirements of the new standard only to contracts that were not completed as of the adoption date. We recorded an immaterial adjustment to the opening balance of retained earnings for the adoption of Topic 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The impact of the new standard on our consolidated statements of income, which we expect to be immaterial on an ongoing basis, is primarily related to software sales and sales commissions and is described as follows:

Software Sales

For software licenses sold together with post contract support (PCS), we previously deferred software revenue if it did not have vendor-specific evidence of fair value of the PCS. Under Topic 606, the concept of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(in thousands, except per share data)

vendor-specific objective evidence is eliminated and there are no cases where revenue is deferred due to a lack of standalone selling price. In addition, we previously recognized revenue from term licenses ratably over the contract term. Under Topic 606, such licenses represent a right to use intellectual property and therefore require upfront recognition. Furthermore, certain upfront fees related to service arrangements were previously deferred and recognized over the estimated customer life. Under Topic 606, the period over which we will recognize these fees is reduced, as the upfront fee represents additional contract price which will be allocated to the performance obligations in the contract and recognized as those performance obligations are satisfied, rather than being amortized over the estimated customer life. Based on the aforementioned changes, such software revenue will be recognized sooner than under the previous revenue recognition standard.

Sales Commissions

We previously recognized sales commissions as an expense when incurred. Under Topic 606, we defer such sales commissions as costs to obtain a contract when the costs are incremental and expected to be recovered. Deferred sales commissions are amortized over the estimated customer relationship period. We apply the practical expedient to expense, as incurred, commissions with an expected amortization period of one year or less.

The impact of adoption on our consolidated balance sheet and income statement was as follows:

	As of December 29, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change Increase/(Decrease)
Balance Sheet			
Assets:			
Prepaid expenses and other	\$ 520,558	\$ 520,778	\$ (220)
Investments and other	538,370	535,879	2,491
Liabilities:			
Accrued expenses -Taxes	\$ 172,165	\$ 171,809	\$ 356
Accrued expenses - Other	579,276	581,138	(1,862)
Deferred income taxes	31,570	30,979	591
Other liabilities (long-term)	392,313	393,024	(711)
Stockholders' equity:			
Retained earnings	\$ 3,208,589	\$ 3,204,548	\$ 4,041
Accumulated other comprehensive loss ..	\$ (248,771)	\$ (248,627)	\$ (144)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(in thousands, except per share data)

Statement of Income	Year Ended December 29, 2018		
	As Reported	Balances Without Adoption of Topic 606	Effect of Change Increase/ (Decrease)
Net sales:			
Dental	\$ 6,348,945	\$ 6,348,945	\$ -
Animal Health	3,682,639	3,682,639	-
Medical	2,661,166	2,661,166	-
Total healthcare distribution	\$ 12,692,750	\$ 12,692,750	\$ -
Technology and value-added services	509,245	508,939	306
Total	\$ 13,201,995	\$ 13,201,689	\$ 306
Costs and expenses:			
Cost of sales	9,606,911	9,606,911	-
Selling, general and administrative	2,701,876	2,702,552	(676)
Income taxes	(155,492)	(155,347)	145
Net income	\$ 562,126	\$ 561,289	\$ 837

Additional information related to Topic 606 can be found below in “Critical Accounting Policies and Estimates” as well as in Note 15.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes, Intra-Entity Transfers of Assets Other Than Inventory” (“Topic 740”). Topic 740 requires companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period which the transfer occurs. Previously, companies were required to defer the income tax effects on intercompany transfer of assets until the asset has been sold to an outside party. On December 31, 2017, we adopted the guidance, which is effective for annual periods and related interim periods beginning after December 15, 2017 on a modified retrospective basis. As a result of the adoption of Topic 740, we have recorded an immaterial adjustment to the opening balance of retained earnings and a reduction to prepaid assets.

The cumulative effect of the changes made to our consolidated balance sheet as of December 31, 2017 related to Topic 606 and Topic 740 were as follows:

	Balance at December 30, 2017 (As Reported)	Adjustments Due To Topic 606	Adjustments Due To Topic 740	Balance at December 31, 2017
Assets:				
Prepaid expenses and other	\$ 454,752	\$ 119	\$ (610)	\$ 454,261
Investments and other	432,002	1,133	-	433,135
Liabilities:				
Accrued expenses - Taxes	\$ 188,873	\$ 437	\$ -	\$ 189,310
Accrued expenses - Other	455,780	(2,614)	-	453,166
Deferred income taxes	50,431	471	-	50,902
Other liabilities (long-term)	420,285	(246)	-	420,039
Stockholders' equity:				
Retained earnings	\$ 2,940,029	\$ 3,204	\$ (610)	\$ 2,942,623

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842) (“ASU 2016-02”), which will require lessees to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current accounting principles generally accepted in the United States (“U.S. GAAP”), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP, which requires only capital leases to be recognized on the balance sheet, the new guidance will require both types of leases to be recognized on the balance sheet. The ASU is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. In August 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements” which permits adoption of the guidance in ASU 2016-02 using either a modified retrospective transition, requiring application at the beginning of the earliest comparative period presented or a transition method whereby companies could continue to apply existing lease guidance during the comparative periods and apply the new lease requirements through a cumulative-effect adjustment in the period of adoption rather than in the earliest period presented without adjusting historical financial statements.

We will use the modified retrospective transition approach in ASU No. 2018-11 and apply the new lease requirements through a cumulative-effect adjustment in the period of adoption. We are currently finalizing the effects that the adoption of ASU 2016-02 will have on our consolidated financial statements, but anticipate that the new guidance will significantly impact our consolidated balance sheet as we will recognize right of use assets and lease liabilities for our operating leases. The new standard provides a number of optional practical expedients in transition. We expect to elect the package of practical expedients, which permits us not to reassess, under the new standard, our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. We do not expect that this accounting standard will have a material impact on our debt covenants. We also do not expect that the implementation of this standard will have a material impact on our results of operations. We are implementing a new lease accounting system and updating our processes in preparation for the adoption of the new standard.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. This ASU is required to be adopted using the modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance of this ASU is effective. Based upon the level and makeup of our financial asset portfolio, past receivables loss activity and current known activity regarding our outstanding receivables, we do not expect that this ASU will have a material impact on our consolidated financial statements.

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 August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging” (Topic 815) (“ASU 2017-12”), which simplifies the requirements for hedge accounting, more closely aligns hedge accounting with risk management activities and increases transparency of the scope and results of hedging activities. This ASU amends the presentation and disclosure requirements and changes how we can assess the effectiveness of our hedging

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relationships. This ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting. ASU 2017-12 is required to be implemented for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. We do not expect that the requirements of ASU 2017-12 will have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Treatment of Stranded Tax Effects in Accumulated Other Comprehensive Income Resulting From the Tax Cuts and Jobs Act of 2017 " which allows the reclassification from accumulated comprehensive income to retained earnings the income tax effects resulting from the Tax Act. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. We do not expect that the requirements of ASU 2018-02 will have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"), which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees. ASU 2018-07 is effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. We do not expect that the requirements of ASU-2018-07 will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles – Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. ASU 2018-15 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We do not expect that the requirements of this ASU will have a material impact on our consolidated financial statements.

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Note 2 – Property and Equipment, Net

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed primarily under the straight-line method over the estimated useful life. Depreciation of leasehold improvements is computed using the straight-line method over the lesser of the useful life of the assets or the lease term. Property and equipment, including related estimated useful lives, consisted of the following:

	December 29, 2018	December 30, 2017
Land	\$ 20,400	\$ 21,019
Buildings and permanent improvements	144,407	143,250
Leasehold improvements	115,993	106,236
Machinery and warehouse equipment	150,672	138,478
Furniture, fixtures and other	151,999	149,136
Computer equipment and software	463,240	432,379
	<u>1,046,711</u>	<u>990,498</u>
Less accumulated depreciation	<u>(664,313)</u>	<u>(615,497)</u>
Property and equipment, net	<u>\$ 382,398</u>	<u>\$ 375,001</u>

	<u>Estimated Useful Lives (in years)</u>
Buildings and permanent improvements	40
Machinery and warehouse equipment	5-10
Furniture, fixtures and other	3-10
Computer equipment and software	3-10

Property and equipment related depreciation expense for the years ended December 29, 2018, December 30, 2017 and December 31, 2016 was \$73.5 million, \$67.3 million and \$63.8 million.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Note 3 – Goodwill and Other Intangibles, Net

The changes in the carrying amount of goodwill for the years ended December 29, 2018 and December 30, 2017 were as follows:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance as of December 31, 2016	\$ 1,831,535	\$ 188,205	\$ 2,019,740
Adjustments to goodwill:			
Acquisitions	216,144	8,736	224,880
Foreign currency translation	48,915	7,796	56,711
Balance as of December 30, 2017	2,096,594	204,737	2,301,331
Adjustments to goodwill:			
Acquisitions	40,437	530,012	570,449
Foreign currency translation	(46,590)	(4,895)	(51,485)
Balance as of December 29, 2018	<u>\$ 2,090,441</u>	<u>\$ 729,854</u>	<u>\$ 2,820,295</u>

Other intangible assets consisted of the following:

	December 29, 2018			December 30, 2017		
	Accumulated		Net	Accumulated		Net
	Cost	Amortization		Cost	Amortization	
Non-compete agreements	\$ 38,384	\$ (9,224)	\$ 29,160	\$ 41,758	\$ (9,539)	\$ 32,219
Trademarks / trade names - definite lived	113,286	(59,038)	54,248	151,918	(76,497)	75,421
Customer relationships and lists	847,561	(409,301)	438,260	851,339	(355,327)	496,012
Product Development	79,363	(37,373)	41,990	77,958	(37,105)	40,853
Other	64,913	(44,327)	20,586	58,582	(33,446)	25,136
Total	<u>\$ 1,143,507</u>	<u>\$ (559,263)</u>	<u>\$ 584,244</u>	<u>\$ 1,181,555</u>	<u>\$ (511,914)</u>	<u>\$ 669,641</u>

Non-compete agreements represent amounts paid primarily to key employees and prior owners of acquired businesses, as well as certain sales persons, in exchange for placing restrictions on their ability to pose a competitive risk to us. Such amounts are amortized, on a straight-line basis over the respective non-compete period, which generally commences upon termination of employment or separation from us. The weighted-average non-compete period for agreements currently being amortized was approximately 5.2 years as of December 29, 2018.

Trademarks, trade names, customer lists and customer relationships were established through business acquisitions. Definite-lived trademarks and trade names are amortized on a straight-line basis over a weighted-average period of approximately 8.2 years as of December 29, 2018. Customer relationships and customer lists are definite-lived intangible assets that are amortized on a straight-line basis over a weighted-average period of approximately 10.8 years as of December 29, 2018. Product development is a definite-lived intangible asset that is amortized on a straight-line basis over a weighted-average period of approximately 10.1 years as of December 29, 2018.

Amortization expense related to definite-lived intangible assets for the years ended December 29, 2018, December 30, 2017 and December 31, 2016 was \$123.3 million, \$116.5 million and \$98.2 million. The annual

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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amortization expense expected to be recorded for existing intangibles assets for the years 2019 through 2023 is \$115.7 million, \$106.5 million, \$93.7 million, \$69.2 million and \$59.6 million.

Note 4 – Investments and Other

Investments and other consisted of the following:

	December 29, 2018	December 30, 2017
Investment in unconsolidated affiliates	\$ 283,091	\$ 268,364
Non-current deferred foreign, state and local income taxes	83,242	10,962
Notes receivable (1)	66,652	35,015
Capitalized costs for internally generated software for resale	40,070	35,359
Distribution rights and exclusivity agreements, net of amortization	582	1,378
Acquisition related indemnification	47,828	65,558
Other long-term assets	16,905	15,366
Total	<u>\$ 538,370</u>	<u>\$ 432,002</u>

(1) Long-term notes receivable carry interest rates ranging from 1.0% to 12.0% and are due in varying installments through December 31, 2030.

Amortization expense related to other long-term assets for the years ended December 29, 2018, December 30, 2017 and December 31, 2016 was \$10.7 million, \$9.3 million and \$7.8 million.

Note 5 – Debt

Bank Credit Lines

On April 18, 2017, we entered into a new \$750 million revolving credit 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. On June 29, 2018, we amended the Credit Agreement to, among other things, (i) permit the consummation of the Animal Health Spin-off (See Note 21), (ii) provide for swing-line commitments in the amount of \$75 million, and (iii) provide for the designation of subsidiary borrowers under the facility. 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 December 29, 2018 and December 30, 2017, the borrowings outstanding on this revolving credit facility were \$175.0 million and \$320.0 million, respectively. As of December 29, 2018 and December 30, 2017, there were \$11.2 million and \$11.3 million of letters of credit, respectively, provided to third parties under this credit facility.

As of December 29, 2018 and December 30, 2017, we had various other short-term bank credit lines available, of which \$376.5 million and \$421.7 million, respectively, were outstanding. At December 29, 2018 and December 30, 2017, borrowings under all of our credit lines had a weighted average interest rate of 3.30% and 2.27%, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Committed Loan Associated with Animal Health Spin-off

On May 21, 2018, we obtained a \$400 million committed loan which matured on the earlier of (i) March 31, 2019 and (ii) the consummation of the Animal Health Spin-off. The proceeds of this loan were used, among other things, to fund our purchase of all of the equity interests in Butler Animal Health Holding Company, LLC (“BAHHC”) directly or indirectly owned by Darby Group Companies, Inc. (“Darby”) and certain other sellers pursuant to the terms of that certain Amendment to Put Rights Agreements, dated as of April 20, 2018, by and among us, Darby, BAHHC and the individual sellers party thereto for an aggregate purchase price of \$365 million. As of December 29, 2018, the balance outstanding on this loan was \$400 million and is included within the “Bank credit lines” caption within our consolidated balance sheet. At December 29, 2018, the interest rate on this loan was 3.38%. Concurrent with the completion of the Animal Health Spin-off on February 7, 2019, we re-paid the balance of this loan.

Long-term debt

Long-term debt consisted of the following:

	December 29, 2018	December 30, 2017
Private placement facilities	\$ 628,189	\$ 535,295
U.S. trade accounts receivable securitization	350,000	350,000
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2023 at interest rates ranging from 2.61% to 5.01% at December 29, 2018 and ranging from 2.56% to 12.90% at December 30, 2017	29,491	34,027
Capital lease obligations (see Note 18)	5,148	5,093
Total	1,012,828	924,415
Less current maturities	(8,955)	(16,659)
Total long-term debt	<u>\$ 1,003,873</u>	<u>\$ 907,756</u>

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. On June 29, 2018, we amended and restated the above private placement facilities to, among other things, (i) permit the consummation of the Animal Health Spin-off and (ii) provide for the issuance of notes in Euros, British Pounds and Australian Dollars, in addition to U.S. Dollars. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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The components of our private placement facility borrowings as of December 29, 2018 are presented in the following table:

<u>Date of Borrowing</u>	<u>Amount of Borrowing Outstanding</u>	<u>Borrowing Rate</u>	<u>Due Date</u>
September 2, 2010	\$ 100,000	3.79%	September 2, 2020
January 20, 2012	50,000	3.45	January 20, 2024
January 20, 2012 (1)	28,571	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
January 2, 2018	100,000	3.32	January 2, 2028
Less: Deferred debt issuance costs	(382)		
	<u>\$ 628,189</u>		

(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 December 29, 2018 and December 30, 2017, respectively. At December 29, 2018, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 2.66% plus 0.75%, for a combined rate of 3.41%. At December 30, 2017, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 1.53% plus 0.75%, for a combined rate of 2.28%.

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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As of December 29, 2018, the aggregate amounts of long-term debt, including capital lease obligations and net of deferred debt issuance costs of \$382, maturing in each of the next five years and thereafter are as follows:

2019	\$	8,955
2020		458,445
2021		108,050
2022		30,421
2023		3,671
Thereafter		<u>403,286</u>
Total	\$	<u><u>1,012,828</u></u>

Note 6 – Redeemable Noncontrolling Interests

Some minority stockholders 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. ASC 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 years ended December 29, 2018, December 30, 2017 and December 31, 2016 are presented in the following table:

	December 29, 2018	December 30, 2017	December 31, 2016
Balance, beginning of period	\$ 832,138	\$ 607,636	\$ 542,194
Decrease in redeemable noncontrolling interests due to redemptions	(669,947)	(48,669)	(72,729)
Increase in redeemable noncontrolling interests due to business acquisitions	10,294	78,939	58,172
Net income attributable to redeemable noncontrolling interests	21,848	52,203	48,760
Dividends declared	(18,065)	(28,161)	(32,973)
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	(13,031)	7,461	(2,652)
Change in fair value of redeemable securities	<u>148,919</u>	<u>162,729</u>	<u>66,864</u>
Balance, end of period	<u>\$ 312,156</u>	<u>\$ 832,138</u>	<u>\$ 607,636</u>

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 – (Continued)
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Note 7 – 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.

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

	<u>December 29, 2018</u>	<u>December 30, 2017</u>	<u>December 31, 2016</u>
Attributable to Redeemable noncontrolling interests:			
Foreign currency translation adjustment	\$ (18,595)	\$ (5,564)	\$ (13,025)
Attributable to noncontrolling interests:			
Foreign currency translation adjustment	\$ (426)	\$ 539	\$ (113)
Attributable to Henry Schein, Inc.:			
Foreign currency translation loss	\$ (234,799)	\$ (112,439)	\$ (296,212)
Unrealized loss from foreign currency hedging activities	(156)	(782)	(53)
Unrealized investment loss	(6)	(3)	-
Pension adjustment loss	(13,810)	(16,843)	(20,776)
Accumulated other comprehensive loss	<u>\$ (248,771)</u>	<u>\$ (130,067)</u>	<u>\$ (317,041)</u>
Total Accumulated other comprehensive loss	<u>\$ (267,792)</u>	<u>\$ (135,092)</u>	<u>\$ (330,179)</u>

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

	<u>December 29, 2018</u>	<u>December 30, 2017</u>	<u>December 31, 2016</u>
Net income	\$ 562,126	\$ 459,293	\$ 556,395
Foreign currency translation gain (loss)	(136,356)	191,886	(98,402)
Tax effect	-	-	-
Foreign currency translation gain (loss)	<u>(136,356)</u>	<u>191,886</u>	<u>(98,402)</u>
Unrealized gain (loss) from foreign currency hedging activities	1,022	(1,515)	(1,025)
Tax effect	(396)	786	33
Unrealized gain (loss) from foreign currency hedging activities	<u>626</u>	<u>(729)</u>	<u>(992)</u>
Unrealized investment gain (loss)	(3)	(4)	2
Tax effect	-	1	-
Unrealized investment gain (loss)	<u>(3)</u>	<u>(3)</u>	<u>2</u>
Pension adjustment gain (loss)	4,212	4,247	(947)
Tax effect	(1,179)	(314)	548
Pension adjustment gain (loss)	<u>3,033</u>	<u>3,933</u>	<u>(399)</u>
Comprehensive income	<u>\$ 429,426</u>	<u>\$ 654,380</u>	<u>\$ 456,604</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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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. The foreign currency translation gain (loss) during the years ended December 29, 2018, December 30, 2017 and December 31, 2016 was impacted by changes in foreign currency exchange rates as follows:

Currency	Foreign Currency Translation Gain (Loss) for the		
	Year Ended	FX Rate in USD	
	December 29, 2018	December 29, 2018	December 30, 2017
Euro	\$ (40,681)	1.14	1.20
Brazilian Real	(27,313)	0.26	0.30
Australian Dollar	(25,639)	0.70	0.78
British Pound	(21,329)	1.26	1.35
Canadian Dollar	(9,111)	0.73	0.80
Polish Zloty	(5,025)	0.27	0.29
Swiss Franc	(2,442)	1.01	1.03
All other currencies	(4,816)		
Total	<u>\$ (136,356)</u>		

Currency	Foreign Currency Translation Gain (Loss) for the		
	Year Ended	FX Rate in USD	
	December 30, 2017	December 30, 2017	December 31, 2016
Euro	\$ 113,259	1.20	1.05
Brazilian Real	(2,411)	0.30	0.31
Australian Dollar	15,124	0.78	0.72
British Pound	28,001	1.35	1.23
Canadian Dollar	9,403	0.80	0.74
Polish Zloty	11,058	0.29	0.24
Swiss Franc	5,544	1.03	0.98
All other currencies	11,908		
Total	<u>\$ 191,886</u>		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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Currency	Foreign Currency Translation Gain (Loss) for the Year Ended		
	FX Rate in USD		
	December 31, 2016	December 31, 2016	December 26, 2015
Euro	\$ (41,245)	1.05	1.10
Brazilian Real.....	2,856	0.31	0.25
Australian Dollar	(562)	0.72	0.73
British Pound	(53,723)	1.23	1.49
Canadian Dollar	3,345	0.74	0.72
Polish Zloty	(3,849)	0.24	0.26
Swiss Franc.....	(2,365)	0.98	1.01
All other currencies	(2,859)		
Total	<u>\$ (98,402)</u>		

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

	December 29, 2018	December 30, 2017	December 31, 2016
Comprehensive income attributable to Henry Schein, Inc.	\$ 417,177	\$ 593,273	\$ 409,676
Comprehensive income attributable to noncontrolling interests	3,432	1,443	820
Comprehensive income attributable to Redeemable noncontrolling interests	8,817	59,664	46,108
Comprehensive income	<u>\$ 429,426</u>	<u>\$ 654,380</u>	<u>\$ 456,604</u>

Note 8 – 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

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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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 fair values of our financial instruments and the methodologies that we used to measure their fair values.

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.

Debt

The fair value of our debt (including bank credit lines) as of December 29, 2018 and December 30, 2017 was estimated at \$1,964.3 million and \$1,666.1 million, respectively. Factors that we considered when estimating the fair value of our debt include market conditions, such as interest rates and credit spreads.

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 stockholders 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 6.

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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 December 29, 2018 and December 30, 2017:

	December 29, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	\$ -	\$ 12,533	\$ -	\$ 12,533
Total assets	<u>\$ -</u>	<u>\$ 12,533</u>	<u>\$ -</u>	<u>\$ 12,533</u>
Liabilities:				
Derivative contracts	\$ -	\$ 1,708	\$ -	\$ 1,708
Total liabilities	<u>\$ -</u>	<u>\$ 1,708</u>	<u>\$ -</u>	<u>\$ 1,708</u>
Redeemable noncontrolling interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,156</u>	<u>\$ 312,156</u>
December 30, 2017				
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	\$ -	\$ 11,799	\$ -	\$ 11,799
Total assets	<u>\$ -</u>	<u>\$ 11,799</u>	<u>\$ -</u>	<u>\$ 11,799</u>
Liabilities:				
Derivative contracts	\$ -	\$ 2,089	\$ -	\$ 2,089
Total liabilities	<u>\$ -</u>	<u>\$ 2,089</u>	<u>\$ -</u>	<u>\$ 2,089</u>
Redeemable noncontrolling interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 832,138</u>	<u>\$ 832,138</u>

Note 9 – Business Acquisitions

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

On July 1, 2018, we closed on a joint venture with Internet Brands, a provider of web presence and online marketing software, to create a newly formed entity, Henry Schein One, LLC. The joint venture includes Henry Schein Practice Solutions products and services, as well as Henry Schein’s international dental practice management systems and the dental businesses of Internet Brands. We own 74% of the joint venture and Internet Brands owns the remaining 26% noncontrolling interest, which is accounted for within stockholders’ equity. In addition, Internet Brands received a freestanding and separately exercisable right to put their noncontrolling interest to Henry Schein, Inc. for fair value following the fifth anniversary of the effective date of the formation of the joint venture. Beginning with the second anniversary of the effective date of the formation of the joint venture, Henry Schein One will issue a fixed number of additional interests to Internet Brands through the fifth anniversary of the effective date, thereby increasing Internet Brands’ ownership by approximately 7.6%. Internet Brands will also be entitled to receive a fixed number of additional interests, in the aggregate up to approximately 1.6% of the joint venture’s ownership, if certain operating targets are met by the joint venture in its fourth, fifth and sixth operating years. These additional shares are considered contingent consideration that are accounted for within stockholders’ equity; however these shares will not be allocated any net income of Henry Schein One until the shares vest or are earned by Internet Brands. As a result of the transaction with Internet Brands, we recorded \$567.6 million of noncontrolling interest within stockholders’ equity reflecting certain fair value methodology.

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Senior management from Henry Schein and Internet Brands serve on the board of Henry Schein One. The goodwill recorded as part of the acquisition primarily reflects the value of future synergies. We allocated all of the goodwill to our Technology and value-added services reporting segment. As of December 29, 2018, the goodwill associated with this transaction is \$551.7 million. None of the goodwill recognized is deductible for income tax purposes, and as such, no deferred taxes have been recorded related to goodwill.

Concurrent with the formation of Henry Schein One, LLC, we entered into a separate agreement with Internet Brands whereby (1) beginning July 1, 2023, Internet Brands will have the right to require Henry Schein to purchase all or a portion of Internet Brands ownership interests in Henry Schein One, LLC for fair market value, and (2) beginning July 1, 2028, or earlier if certain events occur, Henry Schein will have the right to require Internet Brands to sell all or a portion of its ownership interests in Henry Schein One, LLC to Henry Schein for fair market value.

We completed certain other acquisitions during the year ended December 29, 2018, which were immaterial to our financial statements individually and in the aggregate. As of December 29, 2018, we recorded approximately \$15.2 million of goodwill through preliminary purchase price allocations for these acquisitions. Total acquisition transaction costs incurred in the year ended December 29, 2018 were immaterial to our financial results.

On May 2, 2017, we announced the acquisition of Southern Anesthesia and Surgical, Inc. (SAS), a leading U.S. distributor of anesthesia and surgical supplies to oral surgeons, dental anesthesiologists and periodontists. SAS had sales in 2016 of approximately \$72 million. As of December 29, 2018, we have recorded \$74.2 million of goodwill related to this acquisition.

On August 28, 2017, we announced the acquisition of Merritt Veterinary Supplies, Inc. (Merritt), an independent supplier of animal health products. Merritt had sales in 2016 of approximately \$115 million. As of December 29, 2018, we have recorded \$34.4 million of goodwill related to this acquisition.

We completed certain other acquisitions during the year ended December 30, 2017, which were immaterial to our financial statements individually and in the aggregate. As of December 29, 2018, we recorded approximately \$43.2 million of goodwill through preliminary purchase price allocations for these acquisitions. Total acquisition transaction costs incurred in the year ended December 30, 2017 were immaterial to our financial results.

On January 12, 2016, we announced that our U.S. animal health business, Henry Schein Animal Health, completed the purchase of an 80.1% interest in Vetstreet, Inc., a leading software as a service (SaaS) provider of marketing solutions and health information analytics to veterinary practices and animal health product manufacturers. Vetstreet had sales in 2015 of approximately \$40 million. As of December 29, 2018, we have recorded \$21.4 million of goodwill related to this acquisition.

On February 3, 2016, we announced the completion of the acquisition of RxWorks, Inc., a leading provider of veterinary practice management software primarily to customers in Australia, New Zealand, the United Kingdom, the Netherlands and other countries around the world. The company had sales for the 12 months ended June 30, 2015 of approximately \$7 million. As of December 29, 2018, we have recorded \$8.1 million of goodwill related to this acquisition.

On February 5, 2016, we announced that we entered into an agreement to acquire a majority ownership interest in Dental Cremer S.A., a distributor of dental supplies and equipment in Brazil. Headquartered in Blumenau, Brazil, Dental Cremer, which is the dental distribution business of Cremer S.A., had 2015 sales of approximately \$70 million. On December 28, 2016, we completed this transaction. As of December 29, 2018, we have recorded \$63.2 million of goodwill related to this acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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On March 23, 2016, we announced that we entered into a definitive agreement with J. Morita Corp. to expand our presence in Japan. This transaction was completed on June 20, 2016 and, as a result, we own a 50% non-consolidating interest in One Piece Corp., a subsidiary of J. Morita, one of the world's largest manufacturers and distributors of dental equipment and supplies. One Piece Corp. had aggregate sales in fiscal 2015 of approximately \$125 million.

We completed certain other acquisitions during the year ended December 31, 2016, which were immaterial to our financial statements individually and in the aggregate. As of December 29, 2018, we recorded approximately \$101.3 million of goodwill through preliminary purchase price allocations for these acquisitions. Total acquisition transaction costs incurred in the year ended December 31, 2016 were immaterial to our financial results.

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 years ended December 29, 2018, December 30, 2017 and December 31, 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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Note 10 – Plans of Restructuring

On July 9, 2018, we committed to an initiative to rationalize our operations and provide expense efficiencies. These actions will allow us to execute on our plan to reduce our cost structure and fund new initiatives that are expected to drive future growth under our 2018 to 2020 strategic plan. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. The total 2018 costs associated with the actions to complete this restructuring were previously expected to be in the range of \$45 million to \$55 million, however, additional cost savings opportunities were identified in the fourth quarter of 2018 resulting in a charge of \$35.4 million, which increased our full year 2018 restructuring charges to \$62.9 million, consisting primarily of severance costs.

We plan to continue restructuring activities in the first half of 2019 and expect to incur additional restructuring costs related to these activities during Q1 and Q2 2019. At this time we are identifying specific opportunities and cannot reasonably estimate the amount of additional restructuring costs in 2019.

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 slightly more than 4% of our workforce. The total costs associated with the actions for this restructuring included \$34.9 million pre-tax, which was recorded in fiscal 2015, and \$45.9 million pre-tax, which was recorded in fiscal 2016.

The costs associated with these restructurings 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 our 2018, 2017 and 2016 fiscal years and the remaining accrued balance of restructuring costs as of December 29, 2018, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

	Severance Costs	Facility Closing Costs	Other	Total
Balance, December 26, 2015	\$ 9,103	\$ 2,151	\$ 811	\$ 12,065
Provision	40,728	3,587	1,576	45,891
Payments and other adjustments	(27,477)	(3,284)	(1,492)	(32,253)
Balance, December 31, 2016	\$ 22,354	\$ 2,454	\$ 895	\$ 25,703
Provision	-	-	-	-
Payments and other adjustments	(19,136)	(1,139)	(871)	(21,146)
Balance, December 30, 2017	\$ 3,218	\$ 1,315	\$ 24	\$ 4,557
Provision	58,154	3,607	1,151	62,912
Payments and other adjustments	(30,649)	(3,167)	(1,017)	(34,833)
Balance, December 29, 2018	<u>\$ 30,723</u>	<u>\$ 1,755</u>	<u>\$ 158</u>	<u>\$ 32,636</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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The following table shows, by reportable segment, the amounts expensed and paid for restructuring costs that were incurred during our 2018, 2017 and 2016 fiscal years and the remaining accrued balance of restructuring costs as of December 29, 2018:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance, December 26, 2015	\$ 12,062	\$ 3	\$ 12,065
Provision	44,082	1,809	45,891
Payments and other adjustments	(30,906)	(1,347)	(32,253)
Balance, December 31, 2016	\$ 25,238	\$ 465	\$ 25,703
Provision	-	-	-
Payments and other adjustments	(20,681)	(465)	(21,146)
Balance, December 30, 2017	\$ 4,557	\$ -	\$ 4,557
Provision	59,126	3,786	62,912
Payments and other adjustments	(32,483)	(2,350)	(34,833)
Balance, December 29, 2018	<u>\$ 31,200</u>	<u>\$ 1,436</u>	<u>\$ 32,636</u>

Note 11 – 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:

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Basic	152,656	156,787	161,641
Effect of dilutive securities:			
Stock options, restricted stock and restricted stock units	1,051	1,421	2,082
Diluted	<u>153,707</u>	<u>158,208</u>	<u>163,723</u>

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Note 12 – Income Taxes

Income before taxes and equity in earnings of affiliates was as follows:

	Years ended		
	December 29, 2018	December 30, 2017	December 31, 2016
	Domestic	\$ 505,877	\$ 649,657
Foreign	189,471	173,191	130,043
Total	<u>\$ 695,348</u>	<u>\$ 822,848</u>	<u>\$ 755,835</u>

The provisions for income taxes were as follows:

	Years ended		
	December 29, 2018	December 30, 2017	December 31, 2016
	Current income tax expense:		
U.S. Federal	\$ 93,209	\$ 283,417	\$ 185,438
State and local	35,197	28,520	28,229
Foreign	68,299	50,084	41,357
Total current	<u>196,705</u>	<u>362,021</u>	<u>255,024</u>
Deferred income tax expense (benefit):			
U.S. Federal	(9,331)	13,686	(18,090)
State and local	(4,625)	856	(4,809)
Foreign	<u>(27,257)</u>	<u>(14,057)</u>	<u>(14,167)</u>
Total deferred	<u>(41,213)</u>	<u>485</u>	<u>(37,066)</u>
Total provision	<u>\$ 155,492</u>	<u>\$ 362,506</u>	<u>\$ 217,958</u>

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The tax effects of temporary differences that give rise to our deferred income tax asset (liability) were as follows:

	Years Ended	
	December 29, 2018	December 30, 2017
Deferred income tax asset:		
Investment in partnerships	\$ 76,232	\$ 22,600
Net operating losses and other carryforwards	44,630	48,711
Inventory, premium coupon redemptions and accounts receivable valuation allowances	25,270	23,715
Stock-based compensation	18,473	22,525
Uniform capitalization adjustment to inventories	8,189	6,591
Other asset	38,514	13,669
Total deferred income tax asset	211,308	137,811
Valuation allowance for deferred tax assets (1)	(23,535)	(31,223)
Net deferred income tax asset	187,773	106,588
Deferred income tax liability		
Intangibles amortization	(122,805)	(132,280)
Property and equipment	(13,296)	(13,777)
Total deferred tax liability	(136,101)	(146,057)
Net deferred income tax asset (liability) (2)	\$ 51,672	\$ (39,469)

- (1) Primarily relates to operating losses of acquired subsidiaries, the benefits of which are uncertain. Any future reductions of such valuation allowances will be reflected as a reduction of income tax expense in accordance with the provisions of ASC Topic 805, "Business Combinations."
- (2) Certain deferred tax amounts do not have a right of offset and are therefore reflected on a gross basis in non-current assets and liabilities in our consolidated balance sheets.

The table above has been revised for presentational purposes to separately present total deferred tax assets and total deferred tax liabilities.

The assessment of the amount of value assigned to our deferred tax assets under the applicable accounting rules is judgmental. We are required to consider all available positive and negative evidence in evaluating the likelihood that we will be able to realize the benefit of our deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations. Since this evaluation requires consideration of events that may occur some years into the future, there is an element of judgment involved. Realization of our deferred tax assets is dependent on generating sufficient taxable income in future periods. We believe that it is more likely than not that future taxable income will be sufficient to allow us to recover substantially all of the value assigned to our deferred tax assets. However, if future events cause us to conclude that it is not more likely than not that we will be able to recover all of the value assigned to our deferred tax assets, we will be required to adjust our valuation allowance accordingly.

As of December 29, 2018, we had foreign net operating loss carryforwards of \$2.4 million, which can be utilized against future foreign income through December 31, 2026. Additionally, as of December 29, 2018, there were foreign net operating loss carryforwards of \$135.9 million that have an indefinite life. As of December 29, 2018, the company had post-apportionment state net operating loss carryforwards of \$16.9 million, which can be

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utilized against future state income through December 31, 2038. Additionally, as of December 29, 2018, there were post-apportionment state operating loss carryforwards of \$12.5 million that have an indefinite life.

The tax provisions differ from the amount computed using the federal statutory income tax rate as follows:

	Years ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Income tax provision at federal statutory rate	\$ 146,023	\$ 287,996	\$ 264,542
State income tax provision, net of federal income tax effect	16,271	12,457	11,236
Foreign income tax provision	(420)	(24,433)	(18,036)
Pass through noncontrolling interest	(4,595)	(11,623)	(13,083)
Valuation allowance	2,037	1,008	1,472
Unrecognized tax benefits and audit settlements	4,166	3,899	3,066
Interest expense related to loans	(11,925)	(18,717)	(21,737)
Excess tax benefits related to stock compensation	(837)	(17,387)	-
Transition tax on deemed repatriation of foreign earnings	(10,000)	140,000	-
Revaluation of deferred tax assets and liabilities	(1,676)	2,953	-
Tax on global intangible low-taxed income ("GILTI")	7,455	-	-
Transaction costs related to Animal Health spin-off	7,325	-	-
Tax benefit related to legal entity reorganization outside the U.S.	(13,852)	-	-
Tax charge related to reorganization of legal entities related			
to forming Henry Schein One	3,914	-	-
Tax charge related to reorganization of legal entities completed ..			
in preparation for the Animal Health spin-off	3,135	-	-
Other	8,471	(13,647)	(9,502)
Total income tax provision	<u>\$ 155,492</u>	<u>\$ 362,506</u>	<u>\$ 217,958</u>

For the year ended December 29, 2018, our effective tax rate was 22.4% compared to 44.1% for the prior year period. In 2018, our effective tax rate was primarily impacted by a reduction in the estimate of our transition tax associated with the Tax Cuts and Jobs Act ("the Tax Act"), tax charges and credits associated with legal entity reorganizations outside the U.S., and state and foreign income taxes and interest expense. In 2017, our effective tax rate was primarily impacted by the Tax Act, the adoption of ASU 2016-09, as well as state and foreign income taxes and interest expense.

On December 22, 2017, the U.S. government passed the Tax Act. The Tax Act is comprehensive tax legislation that implemented complex changes to the U.S. tax code including, but not limited to, the reduction of the corporate tax rate from 35% to 21%, modification of accelerated depreciation, the repeal of the domestic manufacturing deduction and changes to the limitations of the deductibility of interest. Additionally, the Tax Act moved from a global tax regime to a modified territorial regime, which requires U.S. companies to pay a mandatory one-time transition tax on historical offshore earnings that have not been repatriated to the U.S. The transition tax is payable over eight years. The Tax Act also included provisions to tax global intangible low-taxed income ("GILTI"), a beneficial tax rate foreign Derived Intangible Income ("FDII"), a base erosion and anti-abuse tax ("BEAT") that imposes tax on certain foreign related-party payments, and IRC Section 163(j) interest limitation (Interest Limitation). We became subject to the GILTI, FDII, BEAT and Interest Limitation provisions effective January 1, 2018.

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The FASB Staff Q&A, Topic 740 No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. We elected to recognize the tax on GILTI as a period expense in the period the tax is incurred. Under Topic 740, we estimated the impact of each provision of the Tax Act on our effective tax and recorded a current tax expense for the GILTI provision of \$7.5 million in our effective tax rate for the year ended December 29, 2018. For the BEAT, FDII and Interest Limitation computations, we have not recorded an estimate in our effective tax rate for the year ended December 29, 2018 because we have concluded that these provisions of the Tax Act will not apply to us in 2018.

Due to the complexities of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) that allowed the company to record a provisional amount for any income tax effects of the Tax Act in accordance with ASC 740, to the extent that a reasonable estimate can be made, in its 2017 financial statements. SAB 118 allowed for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. In the fourth quarter of 2017, we recorded provisional amounts for any items that could be reasonably estimated at the time. This included the one-time transition tax that we estimated to be \$140.0 million and a net deferred tax expense of \$3.0 million attributable to the revaluation of deferred tax assets and liabilities due to the lower enacted federal income tax rate of 21%. Within our consolidated balance sheets, \$27.4 million was included in “Accrued taxes” and \$112.6 million was included in “Other liabilities”. In the aggregate, for the quarter ended December 30, 2017, these Tax Act modifications resulted in a one-time tax expense of approximately \$143.0 million. Absent the effects of the transition tax and the revaluation of deferred tax assets and liabilities, our effective tax rate for the year ended December 30, 2017 would have been 26.7% as compared to our actual effective tax rate of 44.1%.

For the year ended December 29, 2018 we have recorded a net \$10.0 million reduction to the one-time transition tax and an additional \$1.7 million net deferred tax benefit from the revaluation of deferred tax assets and liabilities to reflect the new tax rate. Within our consolidated balance sheets, \$9.9 million is included in “Accrued taxes” and \$104.2 million is included in “Other liabilities” for the transition tax. The changes were a result of additional analysis, changes in interpretation and assumptions, as well as additional regulatory guidance that was issued. As of December 22, 2018, the Company has completed its analysis of the impact of the Tax Act in accordance with SAB 118 and the amounts are now considered final.

During 2016, the effective tax rate was affected by a federal tax audit settlement, which reduced our income tax expense by approximately \$4.5 million which is included in the unrecognized tax benefits amount above.

Due to the one-time transition tax and the imposition of the GILTI provisions, all previously unremitted earnings will no longer be subject to U.S. federal income tax; however, there could be U.S. state and/or foreign withholding taxes upon distribution of such unremitted earnings. Determination of the amount of unrecognized deferred tax liability with respect to such earnings is not practicable.

ASC Topic 740 prescribes the accounting for uncertainty in income taxes recognized in the financial statements in accordance with other provisions contained within this guidance. This topic prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by the taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate audit settlement. In the normal course of business, our tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities for uncertain tax positions taken in respect to certain tax matters.

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The total amount of unrecognized tax benefits, which are included in “Other liabilities” within our consolidated balance sheets as of December 29, 2018 was approximately \$100.0 million, of which \$86.1 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 the provision for income taxes and included in “Other liabilities”, were approximately \$16.4 million and \$0, respectively, as of December 29, 2018.

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. In December 2014, the IRS issued a Statutory Notice of Deficiency for 2009, 2010 and 2011. During the quarter ended March 28, 2015, we filed our petition to the U.S. Tax Court disputing the adjustments proposed by the IRS. During the quarter ended June 27, 2015, we were notified by the IRS that our protest was transferred to the Appellate Divisions (Appeals Section) of the IRS. During the quarter ended March 26, 2016, we filed our protest with the Appellate Division. The opening appeals conference was held on June 8, 2016 and a proposed settlement was reached. On July 13, 2016, a joint status report was filed with the Tax Court indicating a basis for settlement had been reached on all of the issues in this case. On October 7, 2016 an executed decision document was signed by the Internal Revenue Service’s Special Trial Attorney and submitted to the Tax Court finalizing the Appeals decision. 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 issue which resulted in a partial settlement during the quarter ended December 30, 2017. We received a 30 Day Letter from the IRS during the quarter ended April 1, 2017 for the remaining open audit issues for the years 2012 and 2013. We filed a Protest with the Appellate Division regarding these issues during the second quarter of 2017. We had an initial Appeals Conference during the third quarter of 2018, of which we are awaiting a final settlement. During the quarter ended December 29, 2018, we submitted the first draft of our proposed Advanced Pricing Agreement covering tax years 2014-2024 to the IRS in which Henry Schein, Inc. and the IRS would agree on an appropriate transfer pricing methodology. We do not expect this to have a material effect on our consolidated financial position, liquidity or the results of operations.

The following table provides a reconciliation of unrecognized tax benefits excluding the effects of deferred taxes, interest and penalties:

	December 29, 2018	December 30, 2017	December 31, 2016
Balance, beginning of period	\$ 90,900	\$ 90,400	\$ 77,600
Additions based on current year tax positions	5,000	8,500	7,300
Additions based on prior year tax positions	11,600	6,100	20,400
Reductions based on prior year tax positions	(1,700)	(800)	(900)
Reductions resulting from settlements with taxing authorities	(1,900)	(10,500)	(9,700)
Reductions resulting from lapse in statutes of limitations	(20,400)	(2,800)	(4,300)
Balance, end of period	<u>\$ 83,500</u>	<u>\$ 90,900</u>	<u>\$ 90,400</u>

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Note 13 – Concentrations of Risk

Certain financial instruments potentially subject us to concentrations of credit risk. These financial instruments consist primarily of cash equivalents, trade receivables, long-term investments, notes receivable and derivative instruments. In all cases, our maximum exposure to loss from credit risk equals the gross fair value of the financial instruments. We continuously assess the need for reserves for such losses, which have been within our expectations. We do not require collateral or other security to support financial instruments subject to credit risk, except for long-term notes receivable.

We limit our credit risk with respect to our cash equivalents, short-term and long-term investments and derivative instruments, by monitoring the credit worthiness of the financial institutions who are the counter-parties to such financial instruments. As a risk management policy, we limit the amount of credit exposure by diversifying and utilizing numerous investment grade counter-parties.

With respect to our trade receivables, our credit risk is somewhat limited due to a relatively large customer base and its dispersion across different types of health care professionals and geographic areas. No single customer accounted for more than 1% of our net sales in 2018 or 2017. With respect to our sources of supply, our top 10 health care distribution suppliers and our single largest supplier accounted for approximately 32% and 6%, respectively, of our aggregate purchases in 2018 and approximately 34% and 5%, respectively, of our aggregate purchases in 2017.

Our long-term notes receivable primarily represent strategic financing arrangements with certain industry affiliates and amounts owed to us from sales of certain businesses. Generally, these notes are secured by certain assets of the counter-party; however, in most cases our security is subordinate to other commercial financial institutions. While we have exposure to credit loss in the event of non-performance by these counter-parties, we conduct ongoing assessments of their financial and operational performance.

Note 14 – 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 credit risk of the derivative counterparties. 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 counterparties, 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.

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Note 15 – Revenue from Contracts with Customers

Revenue (Net sales) is recognized in accordance with the policies discussed in Note 1 – Significant Accounting Policies.

Disaggregation of Net sales

The following table disaggregates our Net sales by reportable segment and geographic area:

	Year Ended December 29, 2018		
	North America	International	Global
Net sales:			
Health care distribution			
Dental	\$ 3,867,118	\$ 2,481,827	\$ 6,348,945
Animal health	1,865,316	1,817,323	3,682,639
Medical	2,581,696	79,470	2,661,166
Total health care distribution	8,314,130	4,378,620	12,692,750
Technology and value-added services	426,653	82,592	509,245
Total	\$ 8,740,783	\$ 4,461,212	\$ 13,201,995

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Note 16 – Segment and Geographic 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 31 countries worldwide.

Our 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.

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

	Years Ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Net Sales:			
Health care distribution (1):			
Dental	\$ 6,348,945	\$ 6,048,813	\$ 5,555,299
Animal health	3,682,639	3,476,635	3,253,095
Medical	2,661,166	2,497,994	2,337,661
Total health care distribution	12,692,750	12,023,442	11,146,055
Technology and value-added services (2).....	509,245	438,101	425,613
Total	<u>\$ 13,201,995</u>	<u>\$ 12,461,543</u>	<u>\$ 11,571,668</u>

- (1) Consists of 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.
- (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.

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	Years ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Operating Income:			
Health care distribution	\$ 618,788	\$ 728,520	\$ 652,106
Technology and value-added services	134,264	130,849	119,468
Total	<u>\$ 753,052</u>	<u>\$ 859,369</u>	<u>\$ 771,574</u>
Income before taxes and equity in earnings of affiliates:			
Health care distribution	\$ 563,006	\$ 696,453	\$ 640,184
Technology and value-added services	132,342	126,395	115,651
Total	<u>\$ 695,348</u>	<u>\$ 822,848</u>	<u>\$ 755,835</u>
Depreciation and Amortization:			
Health care distribution	\$ 179,760	\$ 168,186	\$ 146,276
Technology and value-added services	27,800	24,886	23,504
Total	<u>\$ 207,560</u>	<u>\$ 193,072</u>	<u>\$ 169,780</u>
Income Tax Expense:			
Health care distribution	\$ 101,179	\$ 325,302	\$ 185,571
Technology and value-added services	54,313	37,204	32,387
Total	<u>\$ 155,492</u>	<u>\$ 362,506</u>	<u>\$ 217,958</u>
Interest Income:			
Health care distribution	\$ 20,849	\$ 17,318	\$ 13,086
Technology and value-added services	387	235	189
Total	<u>\$ 21,236</u>	<u>\$ 17,553</u>	<u>\$ 13,275</u>
Interest Expense:			
Health care distribution	\$ 78,769	\$ 53,607	\$ 31,845
Technology and value-added services	17	47	48
Total	<u>\$ 78,786</u>	<u>\$ 53,654</u>	<u>\$ 31,893</u>
Purchases of Fixed Assets:			
Health care distribution	\$ 87,131	\$ 76,449	\$ 66,611
Technology and value-added services	3,506	5,052	3,568
Total	<u>\$ 90,637</u>	<u>\$ 81,501</u>	<u>\$ 70,179</u>
	As of		
	December 29, 2018	December 30, 2017	December 31, 2016
Total Assets:			
Health care distribution	\$ 7,375,723	\$ 7,399,718	\$ 6,377,253
Technology and value-added services	1,124,804	464,277	434,510
Total	<u>\$ 8,500,527</u>	<u>\$ 7,863,995</u>	<u>\$ 6,811,763</u>

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The following table presents information about our operations by geographic area as of and for the three years ended December 29, 2018. Net sales by geographic area are based on the respective locations of our subsidiaries. No country, except for the United States, generated net sales greater than 10% of consolidated net sales. There were no material amounts of sales or transfers among geographic areas and there were no material amounts of export sales.

	2018		2017		2016	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
United States	\$ 8,348,398	\$ 2,522,477	\$ 7,904,698	\$ 2,000,624	\$ 7,536,897	\$ 1,803,689
Other	4,853,597	1,264,459	4,556,845	1,345,349	4,034,771	1,171,137
Consolidated total	\$ 13,201,995	\$ 3,786,936	\$ 12,461,543	\$ 3,345,973	\$ 11,571,668	\$ 2,974,826

Note 17 – Employee Benefit Plans

Stock-based Compensation

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$36.2 million (\$28.1 million after-tax), \$42.3 million (\$23.7 million after-tax) and \$58.2 million (\$41.4 million after-tax) for the years ended December 29, 2018, December 30, 2017 and December 31, 2016.

Our accompanying consolidated statements of cash flows present our stock-based compensation expense as an adjustment to reconcile net income to net cash provided by operating activities for all periods presented. In the accompanying consolidated statements of cash flows, there were no benefits associated with tax deductions in excess of recognized compensation as a cash inflow from financing activities for the years ended December 29, 2018 and December 30, 2017 and \$0.5 million of such benefits for the year ended December 31, 2016.

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. As of December 29, 2018, there were 62,459 shares authorized and 6,262 shares available to be granted under the 2013 Stock Incentive Plan and 1,800 shares authorized and 256 shares available to be granted under the 2015 Non-Employee Director Stock Incentive Plan.

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

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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.

We record deferred income tax assets for awards that will result in future deductions on our income tax returns based on the amount of compensation cost recognized and our statutory tax rate in the jurisdiction in which we will receive a deduction.

During the first quarter of 2017, we adopted the provisions of ASU 2016-09 which requires that 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 be 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.

Stock-based compensation grants for the three years ended December 29, 2018 primarily consisted of restricted stock/unit grants. Certain stock-based compensation granted may require us to settle in the form of a cash payment. During the year ended December 29, 2018, we recorded a liability of \$0.8 million relating to the grant date fair value of stock-based compensation to be settled in cash. The weighted-average grant date fair value of stock-based awards granted before forfeitures was \$71.38, \$85.43 and \$83.90 per share during the years ended December 29, 2018, December 30, 2017 and December 31, 2016.

Total unrecognized compensation cost related to non-vested awards as of December 29, 2018 was \$77.9 million, which is expected to be recognized over a weighted-average period of approximately 2.0 years.

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A summary of the stock option activity under the Plans is presented below:

	Years Ended					
	December 29, 2018		December 30, 2017		December 31, 2016	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	155	\$ 29.65	353	\$ 28.59	769	\$ 28.00
Granted	-	-	-	-	-	-
Exercised	(153)	29.81	(198)	27.76	(416)	27.49
Forfeited	-	-	-	-	-	-
Outstanding at end of year	<u>2</u>	\$ 17.22	<u>155</u>	\$ 29.65	<u>353</u>	\$ 28.59
Options exercisable at end of year	<u>2</u>	\$ 17.22	<u>155</u>	\$ 29.65	<u>353</u>	\$ 28.59

During the years ended December 29, 2018, December 30, 2017 and December 31, 2016, we did not grant any stock options.

The following table represents the intrinsic values of:

	As of		
	December 29, 2018	December 30, 2017	December 31, 2016
Stock options outstanding	\$ 121	\$ 6,256	\$ 16,681
Stock options exercisable	121	6,256	16,681

The total cash received as a result of stock option exercises for the years ended December 29, 2018, December 30, 2017 and December 31, 2016 was approximately \$3.1 million, \$5.3 million and \$11.4 million. In connection with these exercises, we did not realize any tax benefits for the years ended December 29, 2018 and December 30, 2017. During the year ended December 31, 2016 the tax benefit that we realized was \$23.4 million. We settle employee stock option exercises with newly issued common shares.

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The total intrinsic value per share of restricted stock/units that vested was \$76.48, \$83.16 and \$81.86 during the years ended December 29, 2018, December 30, 2017 and December 31, 2016. The following table summarizes the status of our non-vested restricted stock/units for the year ended December 29, 2018:

	Time-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,233	\$ 70.28	
Granted	367	66.00	
Vested	(312)	62.98	
Forfeited	(88)	77.67	
Outstanding at end of period	<u>1,200</u>	<u>\$ 70.33</u>	<u>\$ 77.92</u>
	Performance-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,226	\$ 60.81	
Granted	200	72.16	
Vested	(426)	71.33	
Forfeited	(80)	77.27	
Outstanding at end of period	<u>920</u>	<u>\$ 50.86</u>	<u>\$ 77.92</u>

401(k) Plans

We offer qualified 401(k) plans to substantially all our domestic full-time employees. As determined by our Board of Directors, matching contributions to these plans generally do not exceed 100% of the participants' contributions up to 7% of their base compensation, subject to applicable legal limits. Matching contributions consist of cash and were allocated entirely to the participants' investment elections on file, subject to a 20% allocation limit to the Henry Schein Stock Fund. Forfeitures attributable to participants whose employment terminates prior to becoming fully vested are used to reduce our matching contributions and offset administrative expenses of the 401(k) plans.

Assets of the 401(k) and other defined contribution plans are held in self-directed accounts enabling participants to choose from various investment fund options. Matching contributions and administrative expenses related to these plans charged to operations during the years ended December 29, 2018, December 30, 2017 and December 31, 2016 amounted to \$35.0 million, \$39.0 million and \$33.9 million, respectively.

Supplemental Executive Retirement Plan

We offer an unfunded, non-qualified supplemental executive retirement plan to eligible employees. This plan generally covers officers and certain highly-compensated employees after they have reached the maximum IRS allowed pre-tax 401(k) contribution limit. Our contributions to this plan are equal to the 401(k) employee-elected contribution percentage applied to base compensation for the portion of the year in which such employees are not eligible to make pre-tax contributions to the 401(k) plan. The amounts charged (credited) to operations during the years ended December 29, 2018, December 30, 2017 and December 31, 2016 amounted to \$(0.4) million, \$0.6 million and \$0.3 million, respectively.

Deferred Compensation Plan

During 2011, we began to offer a deferred compensation plan to a select group of management or highly compensated employees of the Company and certain subsidiaries. This plan allows for the elective deferral of base salary, bonus and/or commission compensation by eligible employees. The amounts charged to operations during

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the years ended December 29, 2018, December 30, 2017 and December 31, 2016 were approximately \$2.3 million, \$5.0 million and \$1.7 million, respectively.

Note 18 – Commitments and Contingencies

Operating Leases

We lease facilities and equipment under non-cancelable operating leases expiring through 2033. We expect that in the normal course of business, leases will be renewed or replaced by other leases.

Future minimum annual rental payments under our non-cancelable operating leases as of December 29, 2018 were:

2019	\$	78,940
2020		61,605
2021		44,574
2022		31,501
2023		23,365
Thereafter		<u>68,373</u>
Total minimum operating lease payments	\$	<u>308,358</u>

Total rental expense for the years ended December 29, 2018, December 30, 2017 and December 31, 2016 was \$91.1 million, \$84.8 million and \$79.6 million, respectively.

Capital Leases

We lease certain equipment under capital leases. Future minimum annual lease payments under our capital leases together with the present value of the minimum capital lease payments as of December 29, 2018 were:

2019	\$	1,695
2020		1,134
2021		710
2022		313
2023		291
Thereafter		<u>1,430</u>
Total minimum capital lease payments		5,573
Less: Amount representing interest at 0.07% to 19.79%		<u>(425)</u>
Total present value of minimum capital lease payments	\$	<u>5,148</u>

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Purchase Commitments

In our health care distribution business, we sometimes enter into long-term purchase commitments to ensure the availability of products for distribution. Future minimum annual payments for inventory purchase commitments as of December 29, 2018 were:

2019	\$ 499,346
2020	215,445
2021	230,967
2022	124,465
2023	446
Thereafter	-
Total minimum inventory purchase commitment payments.....	<u>\$ 1,070,669</u>

Employment, Consulting and Non-Compete Agreements

We have definite-lived employment, consulting and non-compete agreements that have varying base aggregate annual payments for the years 2019 through 2023 and thereafter of approximately \$16.6 million, \$1.8 million, \$0.8 million, \$0.1 million and \$0.0 million. We also have lifetime consulting agreements that provide for current compensation of \$0.5 million per year, increasing \$25 every fifth year with the next increase in 2022. In addition, some agreements have provisions for additional incentives and compensation.

Litigation

Beginning in January 2016, purported class action complaints were filed against Patterson Companies, Inc. (“Patterson”), Benco Dental Supply Co. (“Benco”) and Henry Schein, Inc. Although there were factual and legal variations among these complaints, each of these complaints alleges, 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. On February 9, 2016, the U.S. District Court for the Eastern District of New York ordered all of these actions, and all other actions filed thereafter asserting substantially similar claims against defendants, consolidated for pre-trial purposes. On February 26, 2016, a consolidated class action complaint was filed by Arnell Prato, D.D.S., P.L.L.C., d/b/a Down to Earth Dental, Evolution Dental Sciences, LLC, Howard M. May, DDS, P.C., Casey Nelson, D.D.S., Jim Peck, D.D.S., Bernard W. Kurek, D.M.D., Larchmont Dental Associates, P.C., and Keith Schwartz, D.M.D., P.A. (collectively, “putative class representatives”) in the U.S. District Court for the Eastern District of New York, entitled In re Dental Supplies Antitrust Litigation, Civil Action No. 1:16-CV-00696-BMC-GRB. In the consolidated class action complaint, putative class representatives allege a nationwide agreement among Henry Schein, Benco, Patterson and non-party Burkhardt Dental Supply Company, Inc. (“Burkhardt”) not to compete on price. The consolidated 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. On September 28, 2018, the parties executed a settlement agreement that proposes, subject to court approval, a full and final settlement of the lawsuit on a classwide basis. Subject to certain exceptions, the settlement class consists of all persons or entities that purchased dental products directly from Henry Schein, Patterson, Benco, Burkhardt, or any combination thereof, during the period August 31, 2008 through and including March 31, 2016. As a result, we recorded a charge of \$38.5 million in our third quarter 2018 results.

On August 31, 2012, Archer and White Sales, Inc. (“Archer”) filed a complaint against Henry Schein, Inc. as well as Danaher Corporation and its subsidiaries Instrumentarium Dental, Inc., Dental Equipment, LLC, Kavo Dental Technologies, LLC and Dental Imaging Technologies Corporation (collectively, the “Danaher Defendants”)

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in the U.S. District Court for the Eastern District of Texas, Civil Action No. 2:12-CV-00572-JRG, styled as an antitrust action under Section 1 of the Sherman Act, and the Texas Free Enterprise Antitrust Act. Archer alleges a conspiracy between Henry Schein, an unnamed company and the Danaher Defendants to terminate or limit Archer's distribution rights. On August 1, 2017, Archer filed an amended complaint, adding Patterson and Benco as defendants, and alleging that Henry Schein, Patterson, Benco and Burkhart conspired to fix prices and refused to compete with each other for sales of dental equipment to dental professionals and agreed to enlist their common suppliers, the Danaher Defendants, to join a price-fixing conspiracy and boycott by reducing the distribution territory of, and eventually terminating, their price-cutting competing distributor Archer. Archer seeks damages in an amount to be proved at trial, to be trebled with interest and costs, including attorneys' fees, jointly and severally, as well as injunctive relief. On October 30, 2017, Archer filed a second amended complaint, to add additional allegations that it believes support its claims. The named parties and causes of action are the same as the August 1, 2017 amended complaint.

On October 1, 2012, we filed a motion for an order: (i) compelling Archer to arbitrate its claims against us; (2) staying all proceedings pending arbitration; and (3) joining the Danaher Defendants' motion to arbitrate and stay. On May 28, 2013, the Magistrate Judge granted the motions to arbitrate and stayed proceedings pending arbitration. On June 10, 2013, Archer moved for reconsideration before the District Court judge. On December 7, 2016, the District Court Judge granted Archer's motion for reconsideration and lifted the stay. Defendants appealed the District Court's order. On December 21, 2017, the U.S. Court of Appeals for the Fifth Circuit affirmed the District Court's order denying the motions to compel arbitration. On February 12, 2018, defendants filed an Application for Stay of Proceedings in the District Court in the Supreme Court of the United States, seeking to stay proceedings in the District Court pending a decision on defendants' forthcoming petition for writ of certiorari. On June 25, 2018, the Supreme Court of the United States granted defendants' petition for writ of certiorari. On October 29, 2018, the Supreme Court heard oral arguments. On January 8, 2019, the Supreme Court issued its published decision vacating the judgment of the Fifth Circuit and remanding the case to the Fifth Circuit for further proceedings consistent with the Supreme Court's opinion. We intend to defend ourselves vigorously against this action.

On August 17, 2017, IQ Dental Supply, Inc. ("IQ Dental") filed a complaint in the U.S. District Court for the Eastern District of New York, entitled IQ Dental Supply, Inc. v. Henry Schein, Inc., Patterson Companies, Inc. and Benco Dental Supply Company, Case No. 2:17-cv-4834. Plaintiff alleges that it is a distributor of dental supplies and equipment, and sells dental products through an online dental distribution platform operated by SourceOne Dental ("SourceOne"). SourceOne had previously brought an antitrust lawsuit against Henry Schein, Patterson and Benco, which Henry Schein settled in the second quarter of 2017 and which is described in our prior filings with the SEC.

IQ Dental alleges, among other things, that defendants conspired to suppress competition from IQ Dental and SourceOne 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 and SourceOne. Plaintiff claims that this alleged conduct constitutes unreasonable restraint of trade in violation of Section 1 of the Sherman Act, New York's Donnelly Act and the New Jersey Antitrust Act, and also makes pendant state law claims for tortious interference with prospective business relations, civil conspiracy and aiding and abetting. Plaintiff seeks injunctive relief, compensatory, treble and punitive damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. On December 21, 2017, the District Court granted the defendants' motion to dismiss. On January 19, 2018, IQ Dental appealed the District Court's order. The U.S. Court of Appeals for the Second Circuit heard oral argument on the appeal on September 13, 2018. The court's decision is pending. We intend to defend ourselves vigorously against this action.

On February 12, 2018, the United States Federal Trade Commission ("FTC") filed a complaint against Benco Dental Supply Co., Henry Schein, Inc. and Patterson Companies, Inc. The FTC alleges, among other things, that

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defendants violated U.S. antitrust laws by conspiring, and entering into an agreement, to refuse to provide discounts to or otherwise serve buying groups representing dental practitioners. The FTC alleges that defendants conspired in violation of Section 5 of the FTC Act. The complaint seeks equitable relief only and does not seek monetary damages. We deny the allegation that we conspired to refuse to provide discounts to or otherwise serve dental buying groups and intend to defend ourselves vigorously against this action. A hearing before an administrative law judge began on October 16, 2018 and is ongoing. We believe this matter will not have a material adverse effect on our consolidated financial position, liquidity or results of operations.

On March 7, 2018, Joseph Salkowitz, individually and on behalf of all others similarly situated, filed a putative class action complaint for violation of the federal securities laws against Henry Schein, Inc., Stanley M. Bergman and Steven Paladino in the U.S. District Court for the Eastern District of New York, Case No. 1:18-cv-01428. The complaint sought to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased Henry Schein securities from March 7, 2013 through February 12, 2018 (the “Class Period”). The complaint alleged, among other things, that the defendants had made materially false and misleading statements about Henry Schein’s business, operations and prospects during the Class Period, including matters relating to the issues in the antitrust class action and the FTC action described above, thereby causing the plaintiff and members of the purported class to pay artificially inflated prices for Henry Schein securities. The complaint sought unspecified monetary damages and a jury trial. Pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), the court appointed lead plaintiff and lead counsel on June 22, 2018 and recaptioned the putative class action as *In re Henry Schein, Inc. Securities Litigation*, under the same case number. Lead plaintiff filed a consolidated class action complaint on September 14, 2018. The consolidated class action complaint asserts similar claims against the same defendants (plus Timothy Sullivan) on behalf of the same putative class of purchasers during the Class Period. It alleges that Henry Schein’s stock price was inflated during that period because Henry Schein had misleadingly portrayed its dental-distribution business “as successfully producing excellent profits while operating in a highly competitive environment” even though, “in reality, [Henry Schein] had engaged for years in collusive and anticompetitive practices in order to maintain Schein’s margins, profits, and market share.” The complaint alleges that the stock price started to fall from August 8, 2017, when the company announced below-expected financial performance that allegedly “revealed that Schein’s poor results were a product of abandoning prior attempts to inflate sales volume and margins through anticompetitive collusion,” through February 13, 2018, after the FTC filed a complaint against Benco, Henry Schein and Patterson alleging that they violated U.S. antitrust laws. The complaint alleges violations of Section 10(b) of the Exchange Act and Rule 10b-5 and Section 20(a) of the Exchange Act. We intend to defend ourselves vigorously against this action. Henry Schein has also received a request under 8 Del. C. § 220 to inspect corporate books and records relating to the issues raised in the securities class action and the antitrust matters discussed above.

On May 3, 2018, a purported class action complaint, *Marion Diagnostic Center, LLC, et al. v. Becton, Dickinson, and Co., et al.*, Case No. 3:18-cv-010509, was filed in the U.S. District Court for the Southern District of Illinois against Becton, Dickinson, and Co. (“Becton”); Premier, Inc. (“Premier”), Vizient, Inc. (“Vizient”), Cardinal Health, Inc. (“Cardinal”), Owens & Minor Inc. (“O&M”), Henry Schein, Inc., and Unnamed Becton Distributor Co-Conspirators. The complaint alleges that the defendants entered into a vertical conspiracy to force healthcare providers into long-term exclusionary contracts that restrain trade in the nationwide markets for conventional and safety syringes and safety IV catheters and inflate the prices of certain Becton products to above-competitive levels. The named plaintiffs seek to represent three separate classes consisting of all healthcare providers that purchased (i) Becton’s conventional syringes, (ii) Becton’s safety syringes, or (iii) Becton’s safety catheters directly from Becton, Premier, Vizient, Cardinal, O&M or Henry Schein on or after May 3, 2014. The complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, treble damages, reasonable attorneys’ fees and costs and expenses, and pre-judgment and post-judgment interest. On June 15, 2018, an amended complaint was filed asserting the same allegations against the same parties and adding McKesson Medical-Surgical, Inc. as an additional defendant. On November 30, 2018, the District Court granted defendants’ motion to dismiss and entered a final judgment, dismissing plaintiffs’ complaint with prejudice. On December 27,

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2018, plaintiffs appealed the District Court’s decision to the Seventh Circuit Court of Appeals. We intend to defend ourselves vigorously against this action.

On May 29, 2018, an amended complaint was filed in the MultiDistrict Litigation (“MDL”) proceeding In Re National Prescription Opiate Litigation (MDL No. 2804; Case No. 17-md-2804) in an action entitled The County of Summit, Ohio et al. v. Purdue Pharma, L.P., et al., Civil Action No. 1:18-op-45090-DAP (“County of Summit Action”), in the U.S. District Court for the Northern District of Ohio, adding Henry Schein, Inc., Henry Schein Medical Systems, Inc. and others as defendants. Plaintiffs allege that manufacturers of prescription opioid drugs engaged in a false advertising campaign to expand the market for such drugs and their own market share and that the entities in the supply chain (including Henry Schein, Inc. and Henry Schein Medical Systems, Inc.) reaped financial rewards by refusing or otherwise failing to monitor appropriately and restrict the improper distribution of those drugs. Plaintiffs assert the following claims for relief against Henry Schein, Inc. and Henry Schein Medical Systems, Inc.: statutory public nuisance; common law absolute public nuisance; negligence; injury through criminal acts (R.C. 2307.60); unjust enrichment; and civil conspiracy. This case has been designated “Track 1” and is currently set for trial on October 21, 2019. We intend to defend ourselves vigorously against this action.

In addition to the Summit County Action, Henry Schein and/or one or more of its affiliated companies have currently been named as a defendant in twenty-one (21) additional lawsuits, which allege claims similar to those alleged in the Summit County Action. None of these other cases have been set for trial. These actions consist of some that have been consolidated within the MDL and are currently abated for discovery purposes, and others which remain pending in state courts and are proceeding independently and outside of the MDL. Sales of opioids in North America from October 2017 through October 2018 were less than 1% of all North American sales. We intend to defend ourselves vigorously against these actions.

On October 9, 2018, a purported class action complaint entitled Kramer v. Henry Schein, Inc., Patterson Co., Inc., Benco Dental Supply Co., and Unnamed Co-Conspirators, was filed in the U.S. District Court for the Northern District of California. The complaint alleges that members of the proposed class, comprised of purchasers of dental services from dental practices in California, suffered antitrust injury due to an unlawful boycott, price-fixing or otherwise anticompetitive conspiracy among Henry Schein, Patterson and Benco. The complaint alleges that the alleged conspiracy overcharged California dental practices, orthodontic practices and dental laboratories on their purchase of dental supplies, which in turn passed on some or all of such overcharges to members of the California class purchasing dental services. Subject to certain exclusions, the complaint defines the class as “all persons residing in California purchasing and/or reimbursing for dental services from California dental practices on or after August 31, 2012.” The complaint alleges violations of California antitrust laws, including the Cartwright Act (Cal. Bus. and Prof. Code § 16720) and the Unfair Competition Act (Cal. Bus. and Prof. Code § 17200), and seeks a permanent injunction, actual damages to be determined at trial, trebled, reasonable attorneys’ fees and costs, and pre- and post-judgment interest. On December 7, 2018, an amended complaint was filed asserting the same claims against the same parties. We intend to defend ourselves vigorously against this action.

On January 29, 2019, a purported class action complaint was filed by R. Lawrence Hatchett, M.D. against Henry Schein, Inc., Patterson Co., Inc., Benco Dental Supply Co., and unnamed co-conspirators in the U.S. District Court for the Southern District of Illinois. The complaint alleges that members of the proposed class suffered antitrust injury due to an unlawful boycott, price-fixing or otherwise anticompetitive conspiracy among Henry Schein, Patterson and Benco. The complaint alleges that the alleged conspiracy overcharged Illinois dental practices, orthodontic practices and dental laboratories on their purchase of dental supplies, which in turn passed on some or all of such overcharges to members of the class. Subject to certain exclusions, the complaint defines the class as “all persons residing in Illinois purchasing and/or reimbursing for dental care provided by independent Illinois dental practices purchasing dental supplies from the defendants, or purchasing from buying groups purchasing these supplies from the defendants, on or after January 29, 2015.” The complaint alleges violations of the Illinois Antitrust Act, 740 Ill. Comp. Stat. §§ 10/3(2), 10/7(2), and seeks a permanent injunction, actual

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damages to be determined at trial, trebled, reasonable attorneys' fees and costs, and pre- and post-judgment interest. We intend to defend ourselves vigorously against this action.

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 consolidated financial position, liquidity or results of operations.

As of December 29, 2018, 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.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(in thousands, except per share data)

Note 19 – Quarterly Information (Unaudited)

The following tables present certain quarterly financial data:

	Quarters ended			
	March 31, 2018 (1)	June 30, 2018 (1)	September 29, 2018 (1)	December 29, 2018 (1)
Net sales	\$ 3,220,439	\$ 3,326,676	\$ 3,279,678	\$ 3,375,202
Gross profit	895,592	901,072	888,560	909,860
Litigation settlements	-	-	38,488	-
Transaction costs related to Animal Health spin-off	3,777	7,611	7,282	20,086
Restructuring costs	3,762	14,896	8,853	35,401
Operating income	206,142	201,349	165,926	179,635
Net income	148,631	147,509	126,976	139,010

Amounts attributable to

Henry Schein, Inc.:

Net income	140,218	141,212	121,478	132,973
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Earnings per share attributable to

Henry Schein, Inc.:

Basic	\$ 0.92	\$ 0.92	\$ 0.80	\$ 0.88
Diluted	0.91	0.92	0.79	0.87

	Quarters ended			
	April 1, 2017 (2)	July 1, 2017 (2)	September 30, 2017 (2)	December 30, 2017 (2)
Net sales	\$ 2,922,948	\$ 3,059,458	\$ 3,161,083	\$ 3,318,054
Gross profit	822,920	839,173	836,054	900,956
Litigation settlement	-	5,325	-	-
Operating income	193,968	210,662	213,548	241,191
Net income	150,253	149,582	150,948	8,510

Amounts attributable to

Henry Schein, Inc.:

Net income (loss)	140,748	136,055	138,031	(8,535)
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Earnings (loss) per share attributable to

Henry Schein, Inc.:

Basic	\$ 0.89	\$ 0.86	\$ 0.88	\$ (0.06)
Diluted	0.88	0.86	0.87	(0.06)

(1) See Note 10 - "Plans of Restructuring" for details of the restructuring costs incurred during the fiscal year of 2018.

(2) See Item 5 - "Purchases of Equity Securities by the Issuer" for details of the 2-for-1 split of our common stock, during the third quarter of 2017.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(in thousands, except per share data)

Note 20 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Years ended		
	December 29, 2018	December 30, 2017	December 31, 2016
Interest	\$ 72,310	\$ 49,311	\$ 29,391
Income taxes	248,245	221,832	205,196

There was approximately \$0.0 million, \$0.4 million and \$63.8 million of debt assumed as a part of the acquisitions for the years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively. Debt assumed during the year ended December 31, 2016 primarily relates to the acquisitions of Dental Cremer S.A. and Dental Speed Graph.

For the years ended December 29, 2018, December 30, 2017 and December 31, 2016, we had \$1.0 million, \$(1.5) million and \$(1.0) million of non-cash net unrealized gains (losses) related to foreign currency hedging activities, respectively. During the years ended December 29, 2018 and December 30, 2017, as part of business acquisitions, we increased our ownerships in subsidiaries through non-cash transactions of \$1.4 million and \$17.6 million, respectively.

During the third quarter of 2018, we closed on a joint venture with Internet Brands to create a newly formed entity, Henry Schein One, LLC, through a non-cash transaction resulting in an initial estimate of approximately \$385 million of noncontrolling interest representing Internet Brands' current 26% minority interest and an initial estimate of \$182.6 million of deferred additional ownership interests of Internet Brands in Henry Schein One, representing up to an additional 9.2% ownership interests, a portion of which is contingent upon the achievement of certain operating targets (See Note 9).

Note 21 – Subsequent Event

On February 7, 2019 (the "Distribution Date"), we completed the previously announced separation (the "Separation") and subsequent merger of our animal health business (the "Henry Schein Animal Health Business") with Direct Vet Marketing, Inc. (d/b/a Vets First Choice, "Vets First Choice") (the "Merger"). This was accomplished by a series of transactions among us, Vets First Choice, Covetrus, Inc. (f/k/a HS Spinco, Inc. "Covetrus"), a wholly owned subsidiary of ours prior to the Distribution Date, and HS Merger Sub, Inc., a wholly owned subsidiary of Covetrus ("Merger Sub"). In connection with the Separation, we contributed, assigned and transferred to Covetrus certain applicable assets, liabilities and capital stock or other ownership interests relating to the Henry Schein Animal Health Business. On the Distribution Date, we received a tax-free distribution of \$1,120.0 million from Covetrus pursuant to certain debt financing incurred by Covetrus. On the Distribution Date and prior to the Distribution, Covetrus issued shares of Covetrus common stock to certain institutional accredited investors (the "Share Sale Investors") for \$361.1 million (the "Share Sale"). The proceeds of the Share Sale were paid to Covetrus and distributed to us. Subsequent to the Share Sale, we distributed, on a pro rata basis, all of the shares of the common stock of Covetrus held by us to our stockholders of record as of the close of business on January 17, 2019 (the "Animal Health Spin-off"). After the Share Sale and Animal Health Spin-off, Merger Sub consummated the Merger whereby it merged with and into Vets First Choice, with Vets First Choice surviving the Merger as a wholly owned subsidiary of Covetrus. Immediately following the consummation of the Merger, on a fully diluted basis, (i) approximately 63% of the shares of Covetrus common stock were (a) owned by our stockholders and the Share Sale Investors, and (b) in respect of certain equity awards held by certain employees of the Henry Schein Animal Health Business, and (ii) approximately 37% of the shares of Covetrus common stock were (a) owned by stockholders of Vets First Choice immediately prior to the Merger, and (b) in respect of certain

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(in thousands, except per share data)

equity awards held by certain employees of Vets First Choice. After the Separation and the Merger, we no longer beneficially owned any shares of Covetrus common stock and, following the Distribution Date, will not consolidate the financial results of Covetrus for the purpose of our financial reporting. Following the Separation and the Merger, Covetrus was an independent, publicly traded company on the Nasdaq Global Select Market.

Effective first quarter 2019, we will report the historical earnings of the Henry Schein Animal Health Business as a discontinued operation. The Company estimates that on a continuing operations basis, its 2018 revenues were \$9.4 billion and its 2018 net income was \$430.7 million.

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

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 annual 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 December 29, 2018 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.

Changes in Internal Control over Financial Reporting

The combination of acquisitions, continued acquisition integrations and systems implementations undertaken during the quarter and carried over from prior quarters, when considered in the aggregate, represents a material change in our internal control over financial reporting.

During the quarter ended December 29, 2018, post-acquisition integration related activities continued for our global dental, technology and animal health businesses acquired during prior quarters, representing aggregate annual revenues of approximately \$362 million. These acquisitions, the majority of which utilize separate information and financial accounting systems, have been included in our consolidated financial statements since their respective dates of acquisition.

Also, during the quarter ended December 29, 2018, post-implementation systems improvement activities continued for a new equipment system implemented during prior quarters for our U.S. dental business representing approximate aggregate annual revenues of \$453 million.

All acquisitions integrations and systems implementations involved necessary and appropriate change-management controls that are considered in our annual assessment of the design and operating effectiveness of our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013), updated and reissued by the Committee of Sponsoring Organizations, or the COSO Framework. Based on our evaluation under the COSO Framework, our management concluded that our internal control over financial reporting was effective at a reasonable assurance level as of December 29, 2018.

The effectiveness of our internal control over financial reporting as of December 29, 2018 has been independently audited by BDO USA, LLP, an independent registered public accounting firm, and their attestation is included herein.

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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Henry Schein, Inc.
Melville, NY

Opinion on Internal Control over Financial Reporting

We have audited Henry Schein Inc.'s (the "Company's") internal control over financial reporting as of December 29, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 29, 2018 and December 30, 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and schedule and our report dated February 20, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP
New York, NY
February 20, 2019

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information required by this item regarding our directors and executive officers and our corporate governance is hereby incorporated by reference to the Section entitled “Election of Directors,” with respect to directors, and the first paragraph of the Section entitled “Corporate Governance - Board of Directors Meetings and Committees - Audit Committee,” with respect to corporate governance, in each case in our definitive 2019 Proxy Statement to be filed pursuant to Regulation 14A and to the Section entitled “Executive Officers of the Registrant” in Part I of this report, with respect to executive officers.

There have been no changes to the procedures by which stockholders may recommend nominees to our Board of Directors since our last disclosure of such procedures, which appeared in our definitive 2018 Proxy Statement filed pursuant to Regulation 14A on April 12, 2018.

Information required by this item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is hereby incorporated by reference to the Section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive 2019 Proxy Statement to be filed pursuant to Regulation 14A.

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and Controller. We make available free of charge through our Internet website, www.henryschein.com, under the “About Henry Schein--Corporate Governance” caption, our Code of Ethics. We intend to disclose on our Web site any amendment to, or waiver of, a provision of the Code of Ethics.

ITEM 11. Executive Compensation

The information required by this item is hereby incorporated by reference to the Sections entitled “Compensation Discussion and Analysis,” “Compensation Committee Report” (which information shall be deemed furnished in this Annual Report on Form 10-K), “Executive and Director Compensation” and “Compensation Committee Interlocks and Insider Participation” in our definitive 2019 Proxy Statement to be filed pursuant to Regulation 14A.

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

We maintain several stock incentive plans for the benefit of certain officers, directors and employees. All active plans have been approved by our stockholders. Descriptions of these plans appear in the notes to our consolidated financial statements. The following table summarizes information relating to these plans as of December 29, 2018:

<u>Plan Category</u>	<u>Number of Common Shares to be Issued Upon Exercise of Outstanding Options and Rights</u>	<u>Weighted- Average Exercise Price of Outstanding Options</u>	<u>Number of Common Shares Available for Future Issuances</u>
Plans Approved by Stockholders	2,000	\$ 17.22	6,518,438
Plans Not Approved by Stockholders	-	-	-
Total	<u>2,000</u>	<u>\$ 17.22</u>	<u>6,518,438</u>

The other information required by this item is hereby incorporated by reference to the Section entitled “Security Ownership of Certain Beneficial Owners and Management” in our definitive 2019 Proxy Statement to be filed pursuant to Regulation 14A.

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

The information required by this item is hereby incorporated by reference to the Section entitled “Certain Relationships and Related Transactions” and “Corporate Governance – Board of Directors Meetings and Committees – Independent Directors” in our definitive 2019 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 14. Principal Accounting Fees and Services

The information required by this item is hereby incorporated by reference to the Section entitled “Independent Registered Public Accounting Firm Fees and Pre-Approval Policies and Procedures” in our definitive 2019 Proxy Statement to be filed pursuant to Regulation 14A.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) List of Documents Filed as a Part of This Report:

1. Financial Statements:
Our Consolidated Financial Statements filed as a part of this report are listed on the index on Page 77.
2. Financial Statement Schedules:
Schedule II – Valuation of Qualifying Accounts
No other schedules are required.
3. Index to Exhibits:
See exhibits listed under Item 15(b) below.

(b) Exhibits

- [2.1 Contribution and Distribution Agreement, dated as of April 20, 2018, by and among us, HS Spinco, Inc., Direct Vet Marketing, Inc. and Shareholder Representative Services LLC. \(Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed on April 23, 2018 \(film no. 18767875\).\)*](#)
- [2.2 Agreement and Plan of Merger, dated as of April 20, 2018, by and among us, HS Spinco, Inc., HS Merger Sub, Inc., Direct Vet Marketing, Inc. and Shareholder Representative Services LLC. \(Incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K filed on April 23, 2018 \(film no. 18767875\).\)*](#)
- [2.3 Letter Agreement, Amendment No. 1 to Contribution and Distribution Agreement and Amendment No. 1 to Agreement and Plan of Merger, dated as of September 14, 2018, by and among us, HS Spinco, Inc., HS Merger Sub, Inc., Direct Vet Marketing, Inc. and Shareholder Representative Services LLC.+](#)
- [2.4 Letter Agreement and Amendment No. 2 to Contribution and Distribution Agreement, dated as of November 30, 2018, by and among us, HS Spinco, Inc., Direct Vet Marketing, Inc. and Shareholder Representative Services LLC. +](#)
- [2.5 Letter Agreement and Amendment No. 3 to Contribution and Distribution Agreement and Amendment No. 2 to Agreement and Plan of Merger, dated as of December 25, 2018, by and among us, HS Spinco, Inc., HS Merger Sub, Inc., Direct Vet Marketing, Inc. and Shareholder Representative Services LLC.+](#)
- [2.6 Letter Agreement and Amendment No. 4 to Contribution and Distribution Agreement, dated as of January 15, 2019, by and among us, HS Spinco, Inc., Direct Vet Marketing, Inc. and Shareholder Representative Services LLC.+](#)
- [3.1 Second Amended and Restated Certificate of Incorporation of Henry Schein, Inc. \(Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on June 1, 2018.\)](#)
- [3.2 Second Amended and Restated By-Laws of Henry Schein, Inc. \(Incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on June 1, 2018.\)](#)
- [4.1 Second Amended and Restated Multicurrency Master Note Purchase Agreement dated as of June 29, 2018, by and among us, Metropolitan Life Insurance Company, MetLife Investment Advisors Company, LLC and each MetLife affiliate which becomes party thereto. \(Incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K filed on July 2, 2018.\)](#)
- [4.2 Second Amended and Restated Master Note Facility dated as of June 29, 2018, by and among us, NYL Investors LLC and each New York Life affiliate which becomes party thereto. \(Incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on July 2, 2018.\)](#)
- [4.3 Second Amended and Restated Multicurrency Private Shelf Agreement dated as of June 29, 2018, by and among us, PGIM, Inc. and each Prudential affiliate which becomes party thereto.](#)

(Incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on July 2, 2018.)

- 10.1 Henry Schein, Inc. 1994 Stock Incentive Plan, as amended and restated effective as of March 27, 2007. (Incorporated by reference to Appendix A to our definitive 2007 Proxy Statement on Schedule 14A filed on April 10, 2007.)**
- 10.2 Amendment Number One to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of January 1, 2005. (Incorporated by reference to Exhibit 10.2 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.)**
- 10.3 Amendment Number Two to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of May 28, 2009. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2009 filed on August 4, 2009.)**
- 10.4 Amendment Number Three to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of February 23, 2010. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 2010 filed on May 4, 2010.)**
- 10.5 Amendment Number Four to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of May 18, 2011. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2011 filed on August 2, 2011.)**
- 10.6 Amendment Number Five to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of May 18, 2011. (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2011 filed on August 2, 2011.)**
- 10.7 Henry Schein, Inc. 2013 Stock Incentive Plan, as amended and restated effective as of May 14, 2013. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 16, 2013.)**
- 10.8 Form of 2015 Restricted Stock Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2015 filed on May 4, 2015.)**
- 10.9 Form of 2015 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 28, 2015 filed on May 4, 2015.)**
- 10.10 Form of 2016 Restricted Stock Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**
- 10.11 Form of 2016 Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective

as of May 14, 2013). (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**

- 10.12 Form of 2016 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**
- 10.13 Form of 2016 Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 26, 2016 filed on May 3, 2016.)**
- 10.14 Form of 2017 Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2017 filed on May 9, 2017.)**
- 10.15 Form of 2017 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2017 filed on May 9, 2017.)**
- 10.16 Form of 2017 Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2017 filed on May 9, 2017.)**
- 10.17 Form of 2018 Restricted Stock Unit Agreement for time-based restricted stock unit awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018 filed on May 8, 2018.)**
- 10.18 Form of 2018 Restricted Stock Unit Agreement for performance-based restricted stock unit awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013). (Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018 filed on May 8, 2018.)**
- 10.19 Form of 2018 Restricted Stock Unit Agreement for time-based restricted stock unit awards pursuant to the Henry Schein, Inc. 2015 Non-Employee Director Stock Incentive Plan (as amended and restated effective as of June 22, 2015). (Incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2018 filed on May 8, 2018.)**
- 10.20 Henry Schein, Inc. 2015 Non-Employee Director Stock Incentive Plan. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2015 filed on July 29, 2015.)**

- [10.21](#) [Henry Schein, Inc. Supplemental Executive Retirement Plan, amended and restated effective as of January 1, 2014. \(Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 28, 2013 filed on November 5, 2013.\)**](#)
- [10.22](#) [2001 Henry Schein, Inc. Section 162\(m\) Cash Bonus Plan effective as of June 6, 2001. \(Incorporated by reference to Appendix B to our definitive 2001 Proxy Statement on Schedule 14A filed on April 30, 2001.\)**](#)
- [10.23](#) [Amendment Number One to the 2001 Henry Schein, Inc. Section 162\(m\) Cash Bonus Plan, effective as of May 24, 2005. \(Incorporated by reference to Exhibit B to our definitive 2005 Proxy Statement on Schedule 14A, filed on April 22, 2005.\)**](#)
- [10.24](#) [Amendment Number Two to the Henry Schein, Inc. Section 162\(m\) Cash Bonus Plan, effective as of January 1, 2007. \(Incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.\)**](#)
- [10.25](#) [Amendment Number Three to the Henry Schein, Inc. Section 162\(m\) Cash Bonus Plan effective as of December 31, 2009. \(Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 27, 2009 filed on August 4, 2009.\)**](#)
- [10.26](#) [Amendment Number Four to the Henry Schein, Inc. Section 162\(m\) Cash Bonus Plan, effective as of May 14, 2013. \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 16, 2013.\)**](#)
- [10.27](#) [Amendment Number Five to the Henry Schein, Inc. Section 162\(m\) Cash Bonus Plan, dated May 31, 2017. \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 1, 2017.\)**](#)
- [10.28](#) [Henry Schein, Inc. 2004 Employee Stock Purchase Plan, effective as of May 25, 2004. \(Incorporated by reference to Exhibit D to our definitive 2004 Proxy Statement on Schedule 14A, filed on April 27, 2004.\)**](#)
- [10.29](#) [Henry Schein, Inc. Non-Employee Director Deferred Compensation Plan, amended and restated effective as of January 1, 2005. \(Incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.\)**](#)
- [10.30](#) [Henry Schein, Inc. Deferred Compensation Plan. \(Incorporated by reference to Exhibit 10.23 to our Annual Report on Form 10-K for the fiscal year ended December 25, 2010 filed on February 22, 2011.\)**](#)
- [10.31](#) [Amendment to the Henry Schein, Inc. Deferred Compensation Plan. \(Incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed on February 15, 2012.\)**](#)
- [10.32](#) [Amendment Number Two to the Henry Schein, Inc. Deferred Compensation Plan. \(Incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 filed on February 11, 2014.\)**](#)

- [10.33](#) [Amendment Number Three to the Henry Schein, Inc. Deferred Compensation Plan. \(Incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 filed on February 11, 2014.\)**](#)
- [10.34](#) [Amendment Number Four to the Henry Schein, Inc. Deferred Compensation Plan. \(Incorporated by reference to Exhibit 10.46 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 21, 2017.\)**](#)
- [10.35](#) [Henry Schein Management Team Performance Incentive Plan and Plan Summary, effective as of January 1, 2014. \(Incorporated by reference to Exhibit 10.7 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.\)**](#)
- [10.36](#) [Amended and Restated Employment Agreement dated as of December 31, 2016, by and between us and Stanley M. Bergman. \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 7, 2016.\)**](#)
- [10.37](#) [Form of Performance-Based RSU Award Agreement for Stanley M. Bergman pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan \(as amended and restated as of May 14, 2013\). \(Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 7, 2016.\)**](#)
- [10.38](#) [Form of Time-Based RSU Award Agreement for Stanley M. Bergman pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan \(as amended and restated as of May 14, 2013\). \(Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on April 7, 2016.\)**](#)
- [10.39](#) [Employment Agreement dated as of April 5, 2016, by and between us and Karen Prange. \(Incorporated by reference to Exhibit 10.52 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 21, 2017.\)**](#)
- [10.40](#) [Confidentiality and Non-Solicitation/Non-Compete Agreement dated as of April 5, 2016, by and between us and Karen Prange.\(Incorporated by reference to Exhibit 10.53 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed on February 21, 2017.\)**](#)
- [10.41](#) [Release, dated April 23, 2018, between us and Karen Prange. \(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 23, 2018 \(film no. 18767936\).\)**](#)
- [10.42](#) [Form of Amended and Restated Change in Control Agreement dated December 12, 2008 between us and certain executive officers who are a party thereto \(Gerald Benjamin, James Breslawski, Michael S. Ettinger, Mark Mlotek and Steven Paladino, respectively\). \(Incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K for the fiscal year ended December 27, 2008 filed on February 24, 2009.\)**](#)
- [10.43](#) [Form of Amendment to Amended and Restated Change in Control Agreement effective January 1, 2012 between us and certain executive officers who are a party thereto \(Gerald Benjamin, James Breslawski, Michael S. Ettinger, Mark Mlotek and Steven Paladino, respectively\).](#)

(Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 20, 2012.)**

- 10.44 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.)
- 10.45 First Amendment, dated as of June 29, 2018, among us, the several lenders parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent, lead arranger and lead bookrunner. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 2, 2018.)
- 10.46 Promissory Note in favor of JPMorgan Chase Bank, N.A. dated as of May 21, 2018. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 21, 2018.)
- 10.47 Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent and the various purchaser groups from time to time party thereto. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 19, 2013.)
- 10.48 Amendment No. 1 dated as of September 22, 2014 to the Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, LTD., New York Branch, as agent and the various purchaser groups from time to time party thereto, as amended. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on September 26, 2014.)
- 10.49 Amendment No. 2 dated as of April 17, 2015 to Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as performance guarantor, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as agent and the various purchaser groups party thereto. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2016 filed on August 4, 2016.)
- 10.50 Amendment No. 3 dated as of June 1, 2016 to Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as performance guarantor, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as agent and the various purchaser groups party thereto. (Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 25, 2016 filed on August 4, 2016.)
- 10.51 Amendment No. 4 dated as of July 6, 2017 to Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as performance guarantor, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as agent and the various purchaser groups party thereto. (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2017 filed on November 6, 2017.)

- [10.52](#) [Receivables Sale Agreement, dated as of April 17, 2013, by and among us, certain of our wholly-owned subsidiaries and HSFR, Inc., as buyer. \(Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 19, 2013.\)](#)
- [10.53](#) [Omnibus Amendment No. 1, dated July 22, 2013, to Receivables Purchase Agreement dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent, and the various purchaser groups from time to time party thereto and Receivables Sales Agreement, dated as of April 17, 2013, by and among us, certain of our wholly-owned subsidiaries and HSFR, Inc., as buyer. \(Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2013 filed on August 6, 2013.\)](#)
- [10.54](#) [Omnibus Amendment No. 2, dated April 21, 2014, to Receivables Purchase Agreement dated as of April 17, 2013, as amended, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent, and the various purchaser groups from time to time party thereto and Receivables Sales Agreement, dated as of April 17, 2013, by and among us, certain of our wholly-owned subsidiaries and HSFR, Inc., as buyer. \(Incorporated by reference to Exhibit 10.8 to our Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014 filed on May 6, 2014.\)](#)
- [10.55](#) [Form of Indemnification Agreement between us and certain directors and executive officers who are a party thereto \(Barry J. Alperin, Ph.D., Paul Brons, Shira Goodman, Joseph L. Herring, Kurt P. Kuehn, Philip A. Laskawy, Anne H. Margulies, Carol Raphael, E. Dianne Rekow, DDS, Ph.D., Bradley T. Sheares, Ph.D., Gerald A. Benjamin, Stanley M. Bergman, James P. Breslawski, Michael S. Ettinger, Mark E. Mlotek, Steven Paladino, and Walter Siegel, respectively\). \(Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 2015 filed on November 4, 2015.\)**](#)
- [21.1](#) [List of our Subsidiaries.+](#)
- [23.1](#) [Consent of BDO USA, LLP.+](#)
- [31.1](#) [Certification of our Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+](#)
- [31.2](#) [Certification of our Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+](#)
- [32.1](#) [Certification of our Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+](#)
- 101.INS XBRL Instance Document+
- 101.SCH XBRL Taxonomy Extension Schema Document+
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document+
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document+

101.LAB XBRL Taxonomy Extension Label Linkbase Document+

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document+

+ Filed herewith.

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementally a copy of any of the omitted schedules and exhibits upon request by the U.S. Securities and Exchange Commission.

** Indicates management contract or compensatory plan or agreement.

ITEM 16. Form 10-K Summary

None.

SIGNATURES

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

Henry Schein, Inc.

By: /s/ STANLEY M. BERGMAN

Stanley M. Bergman

Chairman and Chief Executive Officer

February 20, 2019

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ STANLEY M. BERGMAN</u> Stanley M. Bergman	Chairman, Chief Executive Officer and Director (principal executive officer)	February 20, 2019
<u>/s/ STEVEN PALADINO</u> Steven Paladino	Executive Vice President, Chief Financial Officer and Director (principal financial and accounting officer)	February 20, 2019
<u>/s/ JAMES P. BRESLAWSKI</u> James P. Breslawski	Director	February 20, 2019
<u>/s/ GERALD A. BENJAMIN</u> Gerald A. Benjamin	Director	February 20, 2019
<u>/s/ MARK E. MLOTEK</u> Mark E. Mlotek	Director	February 20, 2019
<u>/s/ BARRY J. ALPERIN</u> Barry J. Alperin	Director	February 20, 2019
<u>/s/ PAUL BRONS</u> Paul Brons	Director	February 20, 2019
<u>/s/ SHIRA GOODMAN</u> Shira Goodman	Director	February 20, 2019
<u>/s/ JOSEPH L. HERRING</u> Joseph L. Herring	Director	February 20, 2019
<u>/s/ KURT P. KUEHN</u> Kurt P. Kuehn	Director	February 20, 2019
<u>/s/ PHILIP A. LASKAWY</u> Philip A. Laskawy	Director	February 20, 2019
<u>/s/ ANNE H. MARGULIES</u> Anne H. Margulies	Director	February 20, 2019
<u>/s/ CAROL RAPHAEL</u> Carol Raphael	Director	February 20, 2019
<u>/s/ E. DIANNE REKOW</u> E. Dianne Rekow, DDS, Ph.D.	Director	February 20, 2019
<u>/s/ BRADLEY T. SHEARES, PH. D.</u> Bradley T. Sheares, Ph. D.	Director	February 20, 2019

Schedule II
Valuation and Qualifying Accounts
(in thousands)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions</u>		<u>Deductions (3)</u>	<u>Balance at end of period</u>
		<u>Charged to statement of income (1)</u>	<u>Charged to other accounts (2)</u>		
Year ended December 29, 2018:					
Allowance for doubtful accounts and other	\$ 53,832	\$ 15,105	\$ (700)	\$ (7,704)	\$ 60,533
Year ended December 30, 2017:					
Allowance for doubtful accounts and other	\$ 38,962	\$ 9,370	\$ 12,206	\$ (6,706)	\$ 53,832
Year ended December 31, 2016:					
Allowance for doubtful accounts and other	\$ 30,974	\$ 2,647	\$ 11,576	\$ (6,235)	\$ 38,962

(1) Represents amounts charged to bad debt expense.

(2) Amounts charged to other accounts primarily relate to provision for late fees and the impact of foreign currency exchange rates.

(3) Deductions primarily consist of fully reserved accounts receivable that have been written off.