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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2019

or

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

For the transition period from _____ to _____

Commission File Number: 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-3136595**
(State or other jurisdiction of incorporation or organization)	**(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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $.01 per share	HSIC	Nasdaq Global Select Market

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

Large accelerated filer ☑
Accelerated filer ☐
Non-accelerated filer ☐
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 ☑

As of October 28, 2019, there were 146,740,149 shares of the registrant's common stock outstanding.

HENRY SCHEIN, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
HENRY SCHEIN, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 28, 2019 (unaudited)	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 75,256	$ 56,885
Accounts receivable, net of reserves of $55,116 and $53,121	1,278,939	1,168,776
Inventories, net	1,356,897	1,415,512
Prepaid expenses and other	404,650	451,033
Assets of discontinued operations	-	1,083,014
Total current assets	3,115,742	4,175,220
Property and equipment, net	311,123	314,221
Operating lease right-of-use assets, net	240,126	-
Goodwill	2,441,175	2,081,029
Other intangibles, net	603,172	376,031
Investments and other	385,744	420,367
Assets of discontinued operations	-	1,133,659
Total assets	$ 7,097,082	$ 8,500,527
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 854,658	$ 785,756
Bank credit lines	107,841	951,458
Current maturities of long-term debt	109,188	8,280
Operating lease liabilities	67,374	-
Liabilities of discontinued operations	-	577,607
Accrued expenses:		
Payroll and related	230,239	242,876
Taxes	111,051	154,613
Other	428,341	498,237
Total current liabilities	1,908,692	3,218,827
Long-term debt	872,229	980,344
Deferred income taxes	68,643	27,218
Operating lease liabilities	182,505	-
Other liabilities	322,378	357,741
Liabilities of discontinued operations	-	62,453
Total liabilities	3,354,447	4,646,583
Redeemable noncontrolling interests	283,325	219,724
Redeemable noncontrolling interests from discontinued operations	-	92,432
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, 146,254,864 outstanding on September 28, 2019 and 151,401,668 outstanding on December 29, 2018	1,463	1,514
Additional paid-in capital	65,641	-
Retained earnings	2,957,850	3,208,589
Accumulated other comprehensive loss	(195,426)	(248,771)
Total Henry Schein, Inc. stockholders' equity	2,829,528	2,961,332
Noncontrolling interests	629,782	580,456
Total stockholders' equity	3,459,310	3,541,788
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$ 7,097,082	$ 8,500,527

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net sales	$ 2,508,767	$ 2,355,565	$ 7,316,862	$ 6,945,047
Cost of sales	1,747,600	1,633,206	5,036,574	4,785,231
Gross profit	761,167	722,359	2,280,288	2,159,816
Operating expenses:				
Selling, general and administrative	574,771	552,051	1,742,597	1,658,988
Litigation settlements	-	38,488	-	38,488
Restructuring costs (credits)	(802)	8,551	15,764	19,723
Operating income	187,198	123,269	521,927	442,617
Other income (expense):				
Interest income	3,943	3,928	12,368	11,105
Interest expense	(12,373)	(20,430)	(41,459)	(54,569)
Other, net	(177)	(586)	(2,012)	(1,773)
Income from continuing operations before taxes, equity in earnings of affiliates and noncontrolling interests	178,591	106,181	490,824	397,380
Income taxes	(41,964)	(16,633)	(117,326)	(86,654)
Equity in earnings of affiliates	6,585	6,699	14,771	14,829
Net income from continuing operations	143,212	96,247	388,269	325,555
Income (loss) from discontinued operations	5,641	30,729	(5,576)	97,561
Net Income	148,853	126,976	382,693	423,116
Less: Net income attributable to noncontrolling interests	(8,296)	(5,477)	(18,187)	(12,615)
Less: Net (income) loss attributable to noncontrolling interests from discontinued operations	-	(21)	366	(7,593)
Net income attributable to Henry Schein, Inc.	$ 140,557	$ 121,478	$ 364,872	$ 402,908
Amounts attributable to Henry Schein Inc.:				
Continuing operations	$ 134,916	$ 90,770	$ 370,082	$ 312,940
Discontinued operations	5,641	30,708	(5,210)	89,968
Net income attributable to Henry Schein, Inc.	$ 140,557	$ 121,478	$ 364,872	$ 402,908
Earnings per share from continuing operations attributable to Henry Schein, Inc.:				
Basic	$ 0.92	$ 0.60	$ 2.49	$ 2.05
Diluted	$ 0.91	$ 0.59	$ 2.47	$ 2.03
Earnings (loss) per share from discontinued operations attributable to Henry Schein, Inc.:				
Basic	$ 0.04	$ 0.20	$ (0.04)	$ 0.59
Diluted	$ 0.04	$ 0.20	$ (0.04)	$ 0.58
Earnings per share attributable to Henry Schein, Inc.:				
Basic	$ 0.96	$ 0.80	$ 2.46	$ 2.63
Diluted	$ 0.95	$ 0.79	$ 2.43	$ 2.62
Weighted-average common shares outstanding:				
Basic	147,136	152,533	148,603	152,970
Diluted	148,575	153,614	149,920	153,982

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	$ 148,853	$ 126,976	$ 382,693	$ 423,116
Other comprehensive income (loss), net of tax:				
Foreign currency translation loss	(60,635)	(10,582)	(43,926)	(106,154)
Unrealized gain (loss) from foreign currency hedging activities	(1,263)	(379)	(1,586)	674
Unrealized investment gain (loss)	2	(1)	8	(2)
Pension adjustment gain	400	116	832	1,056
Other comprehensive income, net of tax	(61,496)	(10,846)	(44,672)	(104,426)
Comprehensive income	87,357	116,130	338,021	318,690
Comprehensive income attributable to noncontrolling interests:				
Net income	(8,296)	(5,498)	(17,821)	(20,208)
Foreign currency translation loss	6,014	2,589	4,609	14,844
Comprehensive income attributable to noncontrolling interests	(2,282)	(2,909)	(13,212)	(5,364)
Comprehensive income attributable to Henry Schein, Inc.	$ 85,075	$ 113,221	$ 324,809	$ 313,326

See accompanying notes.

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

	Common Stock $.01 Par Value		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Earnings	Income/(Loss)	Interests	Equity
Balance, June 29, 2019	147,823,846	$ 1,478	$ 65,356	$ 2,900,387	$ (139,944)	$ 618,937	$ 3,446,214
Net income (excluding $4,105 attributable to Redeemable noncontrolling interests from continuing operations)	-	-	-	140,557	-	4,191	144,748
Foreign currency translation loss (excluding loss of $5,748 attributable to Redeemable noncontrolling interests)	-	-	-	-	(54,621)	(266)	(54,887)
Unrealized loss from foreign currency hedging activities, net of tax benefit of $422	-	-	-	-	(1,263)	-	(1,263)
Unrealized investment gain, net of tax of $1	-	-	-	-	2	-	2
Pension adjustment gain, net of tax of $185	-	-	-	-	400	-	400
Dividends paid	-	-	-	-	-	(84)	(84)
Other adjustments	-	-	1	-	-	-	1
Change in fair value of redeemable securities	-	-	1,667	-	-	-	1,667
Initial noncontrolling interests and related adjustments related business acquisitions	-	-	-	-	-	7,004	7,004
Repurchase and retirement of common stock	(1,571,909)	(15)	(15,109)	(83,094)	-	-	(98,218)
Stock-based compensation expense	6,028	-	13,338	-	-	-	13,338
Shares withheld for payroll taxes	(3,101)	-	(199)	-	-	-	(199)
Settlement of stock-based compensation awards	-	-	(85)	-	-	-	(85)
Separation of Animal Health business	-	-	672	-	-	-	672
Balance, September 28, 2019	146,254,864	$ 1,463	$ 65,641	$ 2,957,850	$ (195,426)	$ 629,782	$ 3,459,310

	Common Stock $.01 Par Value		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Earnings	Income/(Loss)	Interests	Equity
Balance, June 30, 2018	153,231,669	$ 1,532	$ -	$ 3,123,398	$ (211,392)	$ 9,371	$ 2,922,909
Net income (excluding $2,648 attributable to Redeemable noncontrolling interests)	-	-	-	121,478	-	2,850	124,328
Foreign currency translation loss (excluding loss of $2,217 attributable to Redeemable noncontrolling interests)	-	-	-	-	(7,993)	(372)	(8,365)
Unrealized loss from foreign currency hedging activities, net of tax benefit of $27	-	-	-	-	(379)	-	(379)
Unrealized investment loss, net of tax benefit of $0	-	-	-	-	(1)	-	(1)
Pension adjustment gain, net of tax of $23	-	-	-	-	116	-	116
Dividends paid	-	-	-	-	-	(72)	(72)
Other adjustments	-	-	12	-	-	(28)	(16)
Purchase of noncontrolling interests	-	-	-	-	-	8	8
Change in fair value of redeemable securities	-	-	(2,988)	-	-	-	(2,988)
Initial noncontrolling interests and related adjustments related business acquisitions	-	-	-	-	-	431,824	431,824
Repurchase and retirement of common stock	(751,928)	(7)	(10,625)	(50,119)	-	-	(60,751)
Stock issued upon exercise of stock options	2,000	(1)	55	-	-	-	54
Stock-based compensation expense	(40,017)	-	10,890	-	-	-	10,890
Shares withheld for payroll taxes	(4,044)	-	(421)	-	-	-	(421)
Settlement of stock-based compensation awards	-	-	(420)	-	-	-	(420)
Transfer of charges in excess of capital	-	-	3,497	(3,497)	-	-	-
Balance, September 29, 2018	152,437,680	$ 1,524	$ -	$ 3,191,260	$ (219,649)	$ 443,581	$ 3,416,716

See accompanying notes.

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

	Common Stock $.01 Par Value		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Earnings	Income/(Loss)	Interests	Equity
Balance, December 29, 2018	151,401,668	$ 1,514	$ -	$ 3,208,589	$ (248,771)	$ 580,456	$ 3,541,788
Cumulative impact of adopting new accounting standards	-	-	-	(274)	-	-	(274)
Net income (excluding $10,618 attributable to Redeemable noncontrolling interests from continuing operations and ($366) from discontinued operations)	-	-	-	364,872	-	7,569	372,441
Foreign currency translation loss (excluding loss of $4,912 attributable to Redeemable noncontrolling interests and $592 gain from discontinued operations)	-	-	-	-	(39,317)	(289)	(39,606)
Unrealized loss from foreign currency hedging activities, net of tax benefit of $ 451	-	-	-	-	(1,586)	-	(1,586)
Unrealized investment gain, net of tax of $2	-	-	-	-	8	-	8
Pension adjustment gain, net of tax of $314	-	-	-	-	832	-	832
Dividends paid	-	-	-	-	-	(299)	(299)
Other adjustments	-	-	(3)	-	-	-	(3)
Change in fair value of redeemable securities	-	-	5,867	-	-	-	5,867
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	42,345	42,345
Adjustment for Animal Health Spin-off	87,629	1	-	-	-	-	1
Repurchase and retirement of common stock	(5,277,256)	(52)	(51,312)	(273,636)	-	-	(325,000)
Stock issued upon exercise of stock options	2,526	-	34	-	-	-	34
Stock-based compensation expense	218,563	2	33,433	-	-	-	33,435
Shares withheld for payroll taxes	(178,266)	(2)	(10,765)	-	-	-	(10,767)
Settlement of stock-based compensation awards	-	-	303	-	-	-	303
Share Sale related to Animal Health business	-	-	361,090	-	-	-	361,090
Separation of Animal Health business	-	-	(71,549)	(543,158)	93,408	-	(521,299)
Transfer of charges in excess of capital	-	-	(201,457)	201,457	-	-	-
Balance, September 28, 2019	146,254,864	$ 1,463	$ 65,641	$ 2,957,850	$ (195,426)	$ 629,782	$ 3,459,310

	Common Stock $.01 Par Value		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Earnings	Income/(Loss)	Interests	Equity
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 $17,019 attributable to Redeemable noncontrolling interests)	-	-	-	402,908	-	3,189	406,097
Foreign currency translation loss (excluding loss of $13,752 attributable to Redeemable noncontrolling interests)	-	-	-	-	(91,310)	(1,092)	(92,402)
Unrealized gain from foreign currency hedging activities, net of tax of $405	-	-	-	-	674	-	674
Unrealized investment loss, net of tax benefit of $0	-	-	-	-	(2)	-	(2)
Pension adjustment gain, including tax of $393	-	-	-	-	1,056	-	1,056
Dividends paid	-	-	-	-	-	(396)	(396)
Other adjustments	-	-	(11)	-	-	712	701
Purchase of noncontrolling interests	-	-	-	-	-	(207)	(207)
Change in fair value of redeemable securities	-	-	(119,695)	-	-	-	(119,695)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	428,464	428,464
Repurchase and retirement of common stock	(1,521,208)	(15)	(20,865)	(93,226)	-	-	(114,106)
Stock issued upon exercise of stock options	153,516	1	3,075	-	-	-	3,076
Stock-based compensation expense	379,428	4	34,231	-	-	-	34,235
Shares withheld for payroll taxes	(267,573)	(3)	(18,107)	-	-	-	(18,110)
Settlement of stock-based compensation awards	3,371	-	(642)	-	-	-	(642)
Deferred tax benefit arising from acquisition of noncontrolling interest in partnership	-	-	60,969	-	-	-	60,969
Transfer of charges in excess of capital	-	-	61,045	(61,045)	-	-	-
Balance, September 29, 2018	152,437,680	$ 1,524	$ -	$ 3,191,260	$ (219,649)	$ 443,581	$ 3,416,716

See accompanying notes.

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

	Nine Months Ended	
	September 28, 2019	September 29, 2018
Cash flows from operating activities:		
Net income	$ 382,693	$ 423,116
Income (loss) from discontinued operations	(5,576)	97,561
Income from continuing operations	388,269	325,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	136,210	106,930
Stock-based compensation expense	33,110	30,570
Provision for losses on trade and other accounts receivable	7,576	7,400
Benefit from deferred income taxes	(3,468)	(3,768)
Equity in earnings of affiliates	(14,771)	(14,829)
Distributions from equity affiliates	67,913	14,585
Changes in unrecognized tax benefits	3,535	2,853
Other	(2,122)	503
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(115,384)	(141,017)
Inventories	75,093	(59,794)
Other current assets	(70,348)	(58,856)
Accounts payable and accrued expenses	19,567	59,263
Net cash provided by operating activities from continuing operations	525,180	269,395
Net cash provided by (used in) operating activities from discontinued operations	(163,653)	121,359
Net cash provided by operating activities	361,527	390,754
Cash flows from investing activities:		
Purchases of fixed assets	(48,956)	(49,319)
Payments for equity investments and business acquisitions, net of cash acquired	(657,093)	(38,996)
Proceeds from sale of equity investment	10,500	-
Proceeds/(payments) for loan to affiliate	16,448	(24,200)
Other	(12,248)	(11,557)
Net cash used in investing activities from continuing operations	(691,349)	(124,072)
Net cash used in investing activities from discontinued operations	(2,064)	(22,285)
Net cash used in investing activities	(693,413)	(146,357)
Cash flows from financing activities:		
Proceeds from (repayments of) bank borrowings	(843,846)	404,098
Proceeds from issuance of debt	741	115,000
Principal payments for long-term debt	(10,252)	(24,483)
Debt issuance costs	(391)	(395)
Proceeds from issuance of stock upon exercise of stock options	34	3,076
Payments for repurchases of common stock	(325,000)	(114,106)
Payments for taxes related to shares withheld for employee taxes	(10,751)	(17,903)
Distribution received related to Animal Health Spin-off	1,120,000	-
Proceeds related to Animal Health Share Sale	361,090	-
Proceeds from (distributions to) noncontrolling stockholders	53,429	(6,142)
Acquisitions of noncontrolling interests in subsidiaries	(2,358)	(286,233)
Payments to Henry Schein Animal Health Business	(166,557)	(292,806)
Net cash provided by (used in) financing activities from continuing operations	176,139	(219,894)
Net cash provided by (used in) financing activities from discontinued operations	144,633	(98,622)
Net cash provided by (used in) financing activities	320,772	(318,516)
Effect of exchange rate changes on cash and cash equivalents-continuing operations	8,401	14,505
Effect of exchange rate changes on cash and cash equivalents-discontinued operations	(2,240)	4,696
Net change in cash and cash equivalents from continuing operations	18,371	(60,066)
Net change in cash and cash equivalents from discontinued operations	(23,324)	5,148
Cash and cash equivalents, beginning of period	56,885	158,002
Cash and cash equivalents, end of period	$ 75,256	$ 97,936

See accompanying notes.

HENRY SCHEIN, INC.

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

Note 1 – Basis of Presentation

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

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

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. At September 28, 2019 and December 29, 2018, trade accounts receivable that can only be used to settle obligations of this VIE were $419 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.

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 29, 2018.

On February 7, 2019 (the "Distribution Date"), we completed the 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"). All financial information within this Form 10-Q presents the Henry Schein Animal Health Business as a discontinued operation.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the nine months ended September 28, 2019 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 28, 2019.

Note 2 – Discontinued Operations

Animal Health Spin-off

On the Distribution Date, we completed the Separation and subsequent Merger of the Henry Schein Animal Health Business with Vets First Choice. 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 million from Covetrus pursuant to certain debt financing incurred by Covetrus. On the Distribution Date and prior to the Animal Health Spin-off, 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) held by certain employees of the Henry Schein Animal Health Business (in the form of certain equity awards), 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) held by certain employees of Vets First Choice (in the form of certain equity awards). 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.

In connection with the completion of the Animal Health Spin-off, we entered into a transition services agreement with Covetrus under which we have agreed to provide certain transition services for up to twenty-four months in areas such as information technology, finance and accounting, human resources, supply chain, and real estate and facility services.

As a result of the Separation, the financial position and results of operations of the Henry Schein Animal Health Business are presented as discontinued operations and have been excluded from continuing operations and segment results for all periods presented. The accompanying Notes to the Consolidated Financial Statements have been revised to reflect the effect of the Separation and all prior year balances have been revised accordingly to reflect continuing operations only. The historical statements of Comprehensive Income (Loss) and Shareholders' Equity have not been revised to reflect the Separation and instead reflect the Separation as an adjustment to the balances at September 28, 2019.

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

Summarized financial information for our discontinued operations is as follows:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net sales	$ -	$ 924,114	$ 319,522	$ 2,881,747
Gross profit	-	166,201	59,425	525,408
Operating income (loss)	(1,063)	42,657	(8,588)	130,800
Income tax expense (benefit)	(6,704)	12,767	(2,023)	37,430
Income (loss) from discontinued operations	5,641	30,729	(5,576)	97,561
Net (income) loss attributable to noncontrolling interests	-	(21)	366	(7,593)
Net income (loss) from discontinued operations attributable to Henry Schein, Inc.	5,641	30,708	(5,210)	89,968

The financial information above represents activity of the discontinued operations during the quarter through the Distribution Date.

The operating income (loss) from discontinued operations for the three and nine months ended September 28, 2019 was primarily attributable to the inclusion of approximately $0.3 million and $23.4 million, respectively, of transaction costs directly related to the Animal Health Spin-off.

The income from discontinued operations for the three months ended September 28, 2019 was primarily attributable a change in estimate of the tax deductibility of transaction costs incurred that were directly related to the Animal Health Spin-off. The loss from discontinued operations for the nine months ended September 28, 2019 was primarily attributable to the inclusion of the transaction costs directly related to the Animal Health Spin-off.

HENRY SCHEIN, INC.

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The following are the amounts of assets and liabilities that were transferred to Covetrus as of February 7, 2019 and December 29, 2018.

	February 7, 2019 (unaudited)	December 29, 2018 (unaudited)
Cash and cash equivalents	$ 6,815	$ 23,324
Accounts receivable, net	432,812	434,935
Inventories, net	536,637	555,230
Prepaid expenses and other	120,546	69,525
Total current assets of discontinued operations	1,096,810	1,083,014
Property and equipment, net	69,790	68,177
Operating lease right-of-use asset, net	57,012	-
Goodwill	742,931	739,266
Other intangibles, net	205,793	208,213
Investments and other	120,518	118,003
Total long-term assets of discontinued operations	1,196,044	1,133,659
Total assets of discontinued operations	$ 2,292,854	$ 2,216,673
Accounts payable	$ 316,162	$ 441,453
Current maturities of long-term debt	657	675
Operating lease liabilities	18,951	-
Accrued expenses:		
Payroll and related	36,847	36,888
Taxes	24,060	17,552
Other	80,400	81,039
Total current liabilities of discontinued operations	477,077	577,607
Long-term debt	1,176,105	23,529
Deferred income taxes	17,019	4,352
Operating lease liabilities	38,668	-
Other liabilities	29,209	34,572
Total long-term liabilities of discontinued operations	1,261,001	62,453
Total liabilities of discontinued operations	$ 1,738,078	$ 640,060
Redeemable noncontrolling interests	$ 28,270	$ 92,432

Note 3 – Critical Accounting Policies and Accounting Pronouncements Adopted

Critical Accounting Policies

Except for the accounting policy for leases appearing below, implemented as a result of adopting Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), there have been no material changes in our critical accounting policies during the nine months ended September 28, 2019, as compared to the critical accounting policies described in Item 7 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 29, 2018.

Leases

We determine if an arrangement contains a lease at inception. An arrangement contains a lease if it implicitly or explicitly identifies an asset to be used and conveys the right to control the use of the identified asset in exchange for consideration. As a lessee, we include operating leases in Operating lease right-of-use ("ROU") assets, Operating lease liabilities, and Non-current operating lease liabilities in our consolidated balance sheet. Finance leases are included in Property and equipment, Current maturities of long-term debt, and Long-term debt in our consolidated balance sheet.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized upon commencement of the lease based on the present value of the lease payments over the lease term. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at commencement date to determine the present value of lease payments. When readily determinable, we use the implicit rate. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Leases with a lease term of 12 months or less are not capitalized.

We have lease agreements with lease and non-lease components, which are generally accounted for as a single lease component, except non-lease components for leases of vehicles which are accounted for separately. When a vehicle lease contains both lease and non-lease components, we allocate the transaction price based on the relative standalone selling price.

Accounting Pronouncements Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02 "Leases (Topic 842)" related to leases requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most significant among the changes in the standard is the recognition of ROU assets and lease liabilities by lessors for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

We adopted the standard on December 30, 2018 using a modified retrospective approach utilizing a transition relief expedient method whereby we 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 elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed us to carry forward the historical lease classification. Information related to leases as of September 28, 2019 is presented under Topic 842, while prior period amounts are not adjusted and continue to be reported under legacy guidance in Topic 840.

The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while our accounting for finance leases remained substantially unchanged.

Adoption of the new standard resulted in the recording of additional net operating lease assets of $259.9 million and operating lease liabilities of $267.3 million, and a decrease of $1.1 million and $8.5 million in prepaid rent and deferred rent liabilities, respectively. The standard did not materially impact our consolidated net income and had no impact on cash flows.

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 Cuts and Jobs Act of 2017 (the “Tax Act”). This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging” (Topic 815), which simplified the requirements for hedge accounting, more closely aligns hedge accounting risk 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 relationships. This ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting. This ASU is effective for interim and annual reporting periods beginning after December 15, 2018. The adoption of this ASU did not have a material impact on our consolidated financial statements.

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 – Revenue from Contracts with Customers

Revenue is recognized in accordance with policies disclosed in Item 7 of our Annual Report on form 10-K for the year ended December 29, 2018.

Disaggregation of Revenue

The following table disaggregates our revenue by segment and geography:

	Three Months Ended September 28, 2019			Nine Months Ended September 28, 2019		
	North America	International	Global	North America	International	Global
Revenues:						
Health care distribution						
Dental	$ 951,796	$ 594,188	$ 1,545,984	$ 2,850,762	$ 1,843,041	$ 4,693,803
Medical	784,349	19,360	803,709	2,125,002	59,925	2,184,927
Total health care distribution	1,736,145	613,548	2,349,693	4,975,764	1,902,966	6,878,730
Technology and value-added services	120,197	17,134	137,331	327,618	50,273	377,891
Total excluding Corporate TSA revenues [1]	1,856,342	630,682	2,487,024	5,303,382	1,953,239	7,256,621
Corporate TSA revenues [1]	1,077	20,666	21,743	4,098	56,143	60,241
Total revenues	$ 1,857,419	$ 651,348	$ 2,508,767	$ 5,307,480	$ 2,009,382	$ 7,316,862

	Three Months Ended September 29, 2018			Nine Months Ended September 29, 2018		
	North America	International	Global	North America	International	Global
Revenues:						
Health care distribution						
Dental	$ 951,199	$ 563,126	$ 1,514,325	$ 2,830,384	$ 1,844,150	$ 4,674,534
Medical	702,758	19,184	721,942	1,915,944	60,423	1,976,367
Total health care distribution	1,653,957	582,310	2,236,267	4,746,328	1,904,573	6,650,901
Technology and value-added services	103,955	15,343	119,298	245,761	48,385	294,146
Total excluding Corporate TSA revenues [1]	1,757,912	597,653	2,355,565	4,992,089	1,952,958	6,945,047
Corporate TSA revenues [1]	-	-	-	-	-	-
Total revenues	$ 1,757,912	$ 597,653	$ 2,355,565	$ 4,992,089	$ 1,952,958	$ 6,945,047

(1) Corporate TSA revenues represents sales of certain animal health products to Covetrus under the transition services agreement entered into in connection with the Animal Health Spin-off, which we expect to continue through August 2020.

At December 29, 2018, the current portion of contract liabilities of $65.3 million was reported in Accrued expenses: Other, and $5.0 million related to non-current contract liabilities was reported in Other liabilities. During the nine months ended September 28, 2019, we recognized in revenue $55.0 million of the amounts previously deferred at December 29, 2018. At September 28, 2019, the current and non-current portion of contract liabilities were $58.2 million and $4.9 million, respectively.

HENRY SCHEIN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 5 – Segment Data

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

The health care distribution reportable segment aggregates our global dental 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 medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global dental and medical groups serve practitioners in 32 countries worldwide.

Our global technology and value-added services group provides software, technology and other value-added services to health care practitioners. Our technology group offerings include practice management software systems for dental and medical practitioners. 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.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net Sales:				
Health care distribution [1]:				
Dental	$ 1,545,984	$ 1,514,325	$ 4,693,803	$ 4,674,534
Medical	803,709	721,942	2,184,927	1,976,367
Total health care distribution	2,349,693	2,236,267	6,878,730	6,650,901
Technology and value-added services [2]	137,331	119,298	377,891	294,146
Total excluding Corporate TSA revenue	2,487,024	2,355,565	7,256,621	6,945,047
Corporate TSA revenues [3]	21,743	-	60,241	-
Total	$ 2,508,767	$ 2,355,565	$ 7,316,862	$ 6,945,047

(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.
(3) Corporate TSA revenues represents sales of certain products to Covetrus under the transition services agreement entered into in connection with the Animal Health Spin-off, which we expect to continue through August 2020.

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Operating Income:				
Health care distribution	$ 149,497	$ 91,306	$ 429,026	$ 358,978
Technology and value-added services	37,701	31,963	92,901	83,639
Total	$ 187,198	$ 123,269	$ 521,927	$ 442,617

HENRY SCHEIN, INC.

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Note 6 – Debt

Bank Credit Lines

Bank credit lines consisted of the following:

	September 28, 2019	December 29, 2018
Revolving credit agreement	$ 75,000	$ 175,000
Other short-term bank credit lines	32,841	376,458
Committed loan associated with Animal Health Spin-off	-	400,000
Total	$ 107,841	$ 951,458

Revolving Credit Agreement

On April 18, 2017, we entered into a $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. We expect that the LIBOR rate will be discontinued at some point during 2021. We expect to work with our lenders to identify a suitable replacement rate and amend our debt agreements to reflect this new reference rate accordingly. We do not believe that the discontinuation of LIBOR as a reference rate in our debt agreements will have a material adverse effect on our financial position or materially affect our interest expense. Additionally, the Credit Agreement provides, among other things, that we are required to maintain maximum leverage ratios, and contains customary representations, warranties and affirmative covenants. The Credit Agreement also contains customary negative covenants, subject to negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. As of September 28, 2019 and December 29, 2018, the borrowings on this revolving credit facility were $75.0 million and $175.0 million, respectively. As of September 28, 2019 and December 29, 2018, there were $9.6 million and $11.2 million of letters of credit, respectively, provided to third parties under the credit facility.

Other Short-Term Credit Lines

As of September 28, 2019 and December 29, 2018, we had various other short-term bank credit lines available, of which $32.8 million and $376.5 million, respectively, were outstanding. At September 28, 2019 and December 29, 2018, borrowings under all of our credit lines had a weighted average interest rate of 2.94% and 3.30%, 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.

(in thousands, except per share data)

Long-term debt

Long-term debt consisted of the following:

	September 28, 2019	December 29, 2018
Private placement facilities	$ 621,217	$ 628,189
U.S. trade accounts receivable securitization	350,000	350,000
Various collateralized and uncollateralized loans payable with interest		
in varying installments through 2024 at interest rates		
ranging from 2.56% to 10.5% at September 28,2019 and		
ranging from 2.61% to 4.17% at December 29, 2018	5,995	6,491
Finance lease obligations payable through 2029 with interest rates		
ranging from 1.64% to 19.13% at September 28,2019 and		
ranging from 1.45% to 6.00% at December 29, 2018	4,205	3,944
Total	981,417	988,624
Less current maturities	(109,188)	(8,280)
Total long-term debt	$ 872,229	$ 980,344

Private Placement Facilities

On September 15, 2017, we increased our available private placement facilities with three insurance companies to a total facility amount of $1 billion, and extended the expiration date to September 15, 2020. These facilities are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through September 15, 2020. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

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The components of our private placement facility borrowings as of September 28, 2019 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	21,429	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	(212)		
	$ 621,217		

(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. Our current facility, which has a purchase limit of $350 million, and was previously scheduled to expire on April 29, 2020, has been extended to April 29, 2022. The borrowings outstanding under this securitization facility were $350 million as of both September 28, 2019 and December 29, 2018, respectively. At September 28, 2019, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of2.21 % plus 0.75%, for a combined rate of 2.96%. 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%.

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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Note 7 – Leases

Leases

We have operating and finance leases for corporate offices, office space, distribution and other facilities, vehicles and certain equipment. Our leases have remaining terms of less than one year to 16 years, some of which may include options to extend the leases for up to 10 years. The components of lease expense were as follows (in thousands):

	Three Months Ended September 28, 2019	Nine Months Ended September 28, 2019
Operating lease cost: (1)	$ 21,840	$ 68,273
Finance lease cost:		
Amortization of right-of-use assets	290	798
Interest on lease liabilities	31	88
Total finance lease cost	$ 321	$ 886

(1) Includes variable lease expenses.

Supplemental balance sheet information related to leases is as follows:

	September 28, 2019
Operating Leases:	
Operating lease right-of-use assets	$ 240,126
Current operating lease liabilities	67,374
Non-current operating lease liabilities	182,505
Total operating lease liabilities	$ 249,879
Finance Leases:	
Property and equipment, at cost	$ 10,826
Accumulated depreciation	(6,115)
Property and equipment, net of accumulated depreciation	$ 4,711
Current maturities of long-term debt	$ 1,092
Long-term debt	3,113
Total finance lease liabilities	$ 4,205
Weighted Average Remaining Lease Term in Years:	
Operating leases	5.5
Finance leases	6.1
Weighted Average Discount Rate:	
Operating leases	3.4%
Finance leases	2.2%

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Supplemental cash flow information related to leases is as follows:

	September 28, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 60,275
Operating cash flows for finance leases	67
Financing cash flows for finance leases	862
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases (1)	$ 281,373
Finance leases	1,149

(1) Includes leases that commenced during the nine months ended September 28, 2019, as well as balances related to leases in existence as of the date of the adoption of Topic 842.

Maturities of lease liabilities are as follows:

	September 28, 2019	
	Operating Leases	Finance Leases
2019 (excluding the nine months ended September 28, 2019)	$ 21,149	$ 453
2020	69,052	1,135
2021	54,082	846
2022	37,886	434
2023	26,051	295
Thereafter	67,075	1,372
Total future lease payments	275,295	4,535
Less imputed interest	(25,416)	(330)
Total	$ 249,879	$ 4,205

As of September 28, 2019 we have additional operating leases with total lease payments of $6.8 million for buildings and vehicles that have not yet commenced. These operating leases will commence during 2019 with lease terms of two to 10 years.

As previously disclosed in our December 29, 2018 Form 10-K and under the previous lease accounting standard, future minimum lease payments under non-cancelable operating leases and capital leases as of December 29, 2018 were as follows (in thousands):

	Operating Leases	Finance Leases
2019	$ 62,535	$ 976
2020	47,686	801
2021	34,633	501
2022	25,626	305
2023	19,560	283
Thereafter	62,918	1,430
Total minimum lease payments	$ 252,958	4,296
Less imputed interest (Capital leases only)		(352)
Total present value of minimum lease payments		$ 3,944

HENRY SCHEIN, INC.

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Note 8 – 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 Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the redeemable noncontrolling interests for the nine months ended September 28, 2019 and the year ended December 29, 2018 are presented in the following table:

	September 28, 2019	December 29, 2018
Balance, beginning of period	$ 219,724	$ 465,585
Decrease in redeemable noncontrolling interests due to redemptions	(2,270)	(287,767)
Increase in redeemable noncontrolling interests due to business acquisitions	73,975	4,655
Net income attributable to redeemable noncontrolling interests	10,618	15,327
Dividends declared	(7,943)	(8,206)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(4,912)	(11,330)
Change in fair value of redeemable securities	(5,867)	41,460
Balance, end of period	$ 283,325	$ 219,724

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.

HENRY SCHEIN, INC.

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Note 9 – 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 loss, net of applicable taxes as of:

	September 28, 2019	December 29, 2018
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	$ (22,915)	$ (18,595)
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	$ (715)	$ (426)
Attributable to Henry Schein, Inc.:		
Foreign currency translation loss	$ (180,267)	$ (234,799)
Unrealized loss from foreign currency hedging activities	(1,742)	(156)
Unrealized investment gain (loss)	2	(6)
Pension adjustment loss	(13,419)	(13,810)
Accumulated other comprehensive loss	$ (195,426)	$ (248,771)
Total Accumulated other comprehensive loss	$ (219,056)	$ (267,792)

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net income	$ 148,853	$ 126,976	$ 382,693	$ 423,116
Foreign currency translation loss	(60,635)	(10,582)	(43,926)	(106,154)
Tax effect	-	-	-	-
Foreign currency translation loss	(60,635)	(10,582)	(43,926)	(106,154)
Unrealized gain (loss) from foreign currency hedging activities	(1,685)	(406)	(2,037)	1,079
Tax effect	422	27	451	(405)
Unrealized gain (loss) from foreign currency hedging activities	(1,263)	(379)	(1,586)	674
Unrealized investment gain (loss)	3	(1)	10	(2)
Tax effect	(1)	-	(2)	-
Unrealized investment gain (loss)	2	(1)	8	(2)
Pension adjustment gain	585	139	1,146	1,449
Tax effect	(185)	(23)	(314)	(393)
Pension adjustment gain	400	116	832	1,056
Comprehensive income	$ 87,357	$ 116,130	$ 338,021	$ 318,690

(in thousands, except per share data)

During the three months ended September 28, 2019 and September 29, 2018, we recognized, as a component of our comprehensive income, a foreign currency translation loss of $60.6 million and $10.6 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. During the nine months ended September 28, 2019 and September 29, 2018, we recognized, as a component of our comprehensive income, a foreign currency translation loss of $43.9 million and $106.2 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. Our financial statements are denominated in the U.S. Dollar currency. Fluctuations in the value of foreign currencies as compared to the U.S. Dollar may have a significant impact on our comprehensive income (loss). The foreign currency translation gain (loss) during the three and nine months ended September 28, 2019 and September 29, 2018 was primarily impacted by changes in foreign currency exchange rates of the Euro, Brazilian Real, British Pound and Australian Dollar.

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

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Comprehensive income attributable to				
Henry Schein, Inc.	$ 85,075	$ 113,221	$ 324,809	$ 313,326
Comprehensive income attributable to				
noncontrolling interests	3,924	2,478	7,280	2,097
Comprehensive income (loss) attributable to				
Redeemable noncontrolling interests	(1,642)	431	5,932	3,267
Comprehensive income	$ 87,357	$ 116,130	$ 338,021	$ 318,690

Note 10 – Fair Value Measurements

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

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

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

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

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

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

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

Investments and notes receivable

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

Debt

The fair value of our debt, including bank credit lines, as of September 28, 2019 and December 29, 2018 was estimated at $1,089.3 million and $1,940.1 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 8.

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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 September 28, 2019 and December 29, 2018:

	September 28, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Derivative contracts	$ -	$ 5,620	$ -	$ 5,620
Total assets	$ -	$ 5,620	$ -	$ 5,620
Liabilities:				
Derivative contracts	$ -	$ 3,629	$ -	$ 3,629
Total liabilities	$ -	$ 3,629	$ -	$ 3,629
Redeemable noncontrolling interests	$ -	$ -	$ 283,325	$ 283,325

	December 29, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Derivative contracts	$ -	$ 12,533	$ -	$ 12,533
Total assets	$ -	$ 12,533	$ -	$ 12,533
Liabilities:				
Derivative contracts	$ -	$ 1,708	$ -	$ 1,708
Total liabilities	$ -	$ 1,708	$ -	$ 1,708
Redeemable noncontrolling interests	$ -	$ -	$ 219,724	$ 219,724

Note 11 – Business Acquisitions

Acquisitions

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

During the nine months ended September 28, 2019 we completed the following acquisitions:

On March 4, 2019, we announced that we acquired North American Rescue ("NAR"), a leading provider of survivability and casualty-care medical products to the defense and public-safety markets. NAR has annual sales of approximately $184 million. As of September 28, 2019, we have recorded $168.9 million of goodwill related to this acquisition.

On March 18, 2019, we announced that our Henry Schein One subsidiary acquired Lighthouse 360, a provider of easy-to-use dental practice management and patient communication software. Lighthouse 360 has annual sales of approximately $50 million. As of September 28, 2019, we have recorded $143.4 million of goodwill related to this acquisition.

We completed certain other acquisitions during the nine months ended September 28, 2019 which were immaterial to our financial statements individually and in the aggregate.

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 nine months ended September 28, 2019 and September 29, 2018, 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 12 – Plans of Restructuring

On July 9, 2018, we committed to an initiative to rationalize our operations and provide expense efficiencies. These actions have allowed 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 has resulted in the elimination of approximately 4% of our workforce and the closing of certain facilities.

During the three and nine months ended September 28, 2019, we recorded restructuring (credits) costs of $(0.8) million and $15.8 million, respectively. The restructuring credits in the three months ended September 28, 2019 were attributable to a reduction in previously recorded estimated restructuring costs as of June 29, 2019. The total 2018 costs associated with the actions to complete this restructuring were $54.4 million from continuing operations, consisting primarily of severance costs. As of June 29, 2019, the restructuring activities under this initiative are complete and we do not expect to incur any additional restructuring charges for the remainder of 2019. The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

The following table shows the net amounts expensed and paid for restructuring costs that were incurred during the nine months ended September 28, 2019 and during our 2018 fiscal year and the remaining accrued balance of restructuring costs as of September 28, 2019, which is included in Accrued expenses: Other within our consolidated balance sheet:

	Severance Costs	Facility Closing Costs	Other	Total
Balance, December 30, 2017	$ 3,087	$ 1,315	$ 24	$ 4,426
Provision	50,197	3,153	1,017	54,367
Payments and other adjustments	(23,320)	(2,865)	(883)	(27,068)
Balance, December 29, 2018	$ 29,964	$ 1,603	$ 158	$ 31,725
Provision	14,733	945	86	15,764
Payments	(26,313)	(1,575)	(110)	(27,998)
Balance, September 28, 2019	$ 18,384	$ 973	$ 134	$ 19,491

The following table shows, by reportable segment, the net amounts expensed and paid for restructuring costs that were incurred during the nine months ended September 28, 2019 and during our 2018 fiscal year and the remaining accrued balance of restructuring costs as of September 28, 2019:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance, December 30, 2017	$ 4,426	$ -	$ 4,426
Provision	50,824	3,543	54,367
Payments and other adjustments	(24,959)	(2,109)	(27,068)
Balance, December 29, 2018	$ 30,291	$ 1,434	$ 31,725
Provision	14,966	798	15,764
Payments	(26,349)	(1,649)	(27,998)
Balance, September 28, 2019	$ 18,908	$ 583	$ 19,491

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Note 13 – 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:

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Basic	147,136	152,533	148,603	152,970
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units	1,439	1,081	1,317	1,012
Diluted	148,575	153,614	149,920	153,982

Note 14 – Income Taxes

For the nine months ended September 28, 2019, our effective tax rate was 23.9% compared to 21.8% for the prior year period. The difference between our effective tax rates and the federal statutory tax rate for the nine months ended September 28, 2019 primarily relates to state and foreign income taxes and interest expense. The difference between our effective tax rates and the federal statutory tax rate for the nine months ended September 29, 2018 primarily relates to a provisional transition tax benefit of $10 million related to the Tax Act, 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 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. For the BEAT, FDII and Interest Limitation computations, we have not recorded an estimate in our effective tax rate for the nine months ended September 28, 2019 because we have concluded that these provisions of the Tax Act will not apply to us in 2019.

The total amount of unrecognized tax benefits, which are included in “Other liabilities” within our consolidated balance sheets, as of September 28, 2019 was approximately $107.6 million, of which $86.5 million would affect the effective tax rate if recognized. It is possible that the amount of unrecognized tax benefits will change in the next 12 months, which may result in a material impact on our consolidated statement of income.

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 $18.3 million and $0, respectively, as of September 28, 2019.

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. 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 have provided all necessary documentation to the Appellate Division and the Advance Pricing and Mutual Agreement Program to date and are waiting for responses.

Note 15 – Derivatives and Hedging Activities

We are exposed to market risks as well as changes in foreign currency exchange rates as measured against the U.S. dollar and each other, and changes to the credit 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.

Note 16 – Stock-Based Compensation

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of $13.3 million ($10.2 million after-tax) and $33.1 million ($25.2 million after-tax) for the three and nine months ended September 28, 2019, respectively, and $9.5 million ($7.6 million after-tax) and $30.6 million ($23.4 million after-tax) for the three and nine months ended September 29, 2018, respectively.

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

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

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, certain litigation settlements or payments, if any, changes in accounting principles or in applicable laws or regulations and 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.

As a result of the Separation, the number of our unvested equity-based awards from previous grants to our remaining employees under our Long-term Incentive Program was increased in accordance with the provisions in the Plans. This was based on a factor of approximately 1.2633, corresponding with a decrease in our price per share.

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Total unrecognized compensation cost related to unvested awards as of September 28, 2019 was $97.5 million, which is expected to be recognized over a weighted-average period of approximately 2.2 years.

The following table summarizes stock option activity under the Plans during the nine months ended September 28, 2019:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	3	$ 13.63		
Granted	-	-		
Exercised	(3)	13.63		
Forfeited	-	-		
Outstanding at end of period	-	$ -	-	$ -
Options exercisable at end of period	-	$ -	-	$ -

The following tables summarize the activity of our unvested restricted stock/units for the nine months ended September 28, 2019:

	Time-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,513	$ 57.94	
Granted	449	59.47	
Vested	(338)	55.57	
Forfeited	(204)	60.39	
Outstanding at end of period	1,420	$ 58.66	$ 62.58

	Performance-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,163	$ 40.26	
Granted	656	60.04	
Vested	(185)	66.52	
Forfeited	(155)	61.37	
Outstanding at end of period	1,479	$ 61.41	$ 62.58

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Note 17 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Nine Months Ended	
	September 28, 2019	September 29, 2018
Interest	$ 45,543	$ 49,959
Income taxes	138,068	197,943

During the nine months ended September 28, 2019 and September 29, 2018, we had a $2.0 million non-cash net unrealized loss related to foreign currency hedging activities and a $1.1 million non-cash net unrealized gain related to foreign currency hedging activities, respectively.

Note 18 – 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, in our third quarter of fiscal 2018, we recorded a charge of $38.5 million, which was paid into a settlement fund in January 2019. On June 25, 2019, the district court granted final approval to the settlement, and entered final judgment dismissing the case. On July 16, 2019, Dr. William Roe, an unnamed class member that had objected to the settlement, filed a notice of appeal appealing the district court’s Final Judgment and Order Granting Motion for Final Approval of Class Settlement. On October 8, 2019, the class plaintiffs and the objector filed notice indicating that they had reached a settlement concerning the objection, which, once approved by the court, would resolve the objection. On October 24, 2019 the court approved the agreement between the objector and the plaintiffs.

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 aconspiracy 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 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. On April 2, 2019, the District Court stayed the proceeding in the trial court pending resolution by the Fifth Circuit. The Fifth Circuit heard oral argument on May 1, 2019 on whether the case should be arbitrated. The Fifth Circuit issued its opinion on August 14, 2019 affirming the District Court's order denying defendants' motions to compel arbitration. Defendants filed a petition for rehearing en banc before the Fifth Circuit. The Fifth Circuit has not ruled on that petition. On October 1, 2019, the District Court set the case for trial on February 3, 2020. 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. On May 10, 2019, the U.S. Court of Appeals for the Second Circuit affirmed in part and reversed in part the District Court's dismissal of the Complaint, holding that IQ Dental lacks antitrust standing to challenge the alleged boycott of SourceOne and state dental associations, but that it has standing to challenge injury related to the alleged direct boycott of its business. On June 29, 2019, the Second Circuit denied IQ Dental's petition for rehearing or rehearing en banc. Proceedings in the District Court are ongoing. 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 the hearing record was closed on February 21, 2019. On October 7, 2019, the administrative law judge issued his Initial Decision, finding in relevant part that the "evidence fails to prove a conspiracy involving Schein," and dismissing the Complaint as to Schein. The Initial Decision will become the decision of the Commission on or about November 7, 2019 unless the Commission places the case on its own docket for review or stays the effective date of the decision. 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. On September 27, 2019, the court issued a decision partially granting and partially denying defendants' motion to dismiss the securities action. The court dismissed all claims against Messrs. Bergman and Paladino as well as the Section 10(b) claim against Henry Schein to the extent that that claim relied on the Company's financial results and margins to allege a material misstatement or omission, and on the Company's August 8, 2017 disclosure to allege loss causation. The court otherwise denied the motion as to Henry Schein and Mr. Sullivan. 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 DistributorCo-Conspirators. The complaint alleges that the defendants entered into a vertical conspiracy to force health care 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 health care 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 a 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. The parties argued the appeal on September 27, 2019 and are currently awaiting the Seventh Circuit’s ruling.

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. Summit County alleges 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. On October 29, 2019, the Company was dismissed with prejudice from this lawsuit. Henry Schein, working with Summit County, will establish and donate $1 million to a Pain Management Education Foundation dedicated to making grants to programs within Summit County focused on (I) supporting and aggregating research around best practices for pain management, including the prescription of opioids and alternatives: (II) educating dentists and physicians, clinical associates, patients and patient networks on those best practices along with the risks of opioid addiction and alternative pain management treatment options for key indications; and (III) offering grants to develop and offer training to dentists and physicians or other qualified professionals to qualify a practitioner for a waiver to prescribe or dispense buprenorphine medications. Henry Schein will pay $250,000 of Summit County’s expenses.

In addition to the County of Summit Action, Henry Schein and/or one or more of its affiliated companies have currently been named as a defendant in multiple lawsuits (currently less than one-hundred (100)), which allege claims similar to those alleged in the County of Summit 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. Of Henry Schein’s 2018 revenue of $9.4 billion from continuing operations, sales of opioids represented less than one-tenth of 1 percent. Opioids represent a negligible part of our business. 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. On June 28, 2019, the court granted Defendants' motions to dismiss with leave to amend. The parties subsequently stipulated to dismissal of the action with prejudice, pursuant to a settlement in which Henry Schein agreed to pay the plaintiff a de minimis amount. The court entered the stipulation of dismissal with prejudice and terminated the case on August 2, 2019.

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.

On September 30, 2019, City of Hollywood Police Officers Retirement System, 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., Covetrus, Inc., and Benjamin Shaw and Christine Komola (Covetrus's then Chief Executive Officer and Chief Financial Officer, respectively) in the U.S. District Court for the Eastern District of New York, Case No. 2:19-cv-05530-FB-RLM. The complaint seeks to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased or otherwise acquired Covetrus common stock from February 8, 2019 through August 12, 2019. The case relates to the Animal Health Spin-off and Merger of the Henry Schein Animal Health Business with Vets First Choice in February 2019. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 and asserts that defendants' statements in the offering documents and after the transaction were materially false and misleading because they purportedly overstated Covetrus's capabilities as to inventory management and supply-chain services, understated the costs of integrating the Henry Schein Animal Health Business and Vets First Choice, understated Covetrus's separation costs from Henry Schein, and understated the impact on earnings from online competition and alternative distribution channels and from the loss of an allegedly large customer in North America just before the Separation and Merger. The complaint seeks unspecified monetary damages and a jury trial. 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 September 28, 2019, 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
(in thousands, except per share data)
(unaudited)

Note 19 – Subsequent Events

On October 1, 2019, the Company sold an equity investment in Hu-Friedy Mfg. Co., LLC, a manufacturer of dental instruments and infection prevention solutions. Our investment was non-controlling, we were not involved in running the business and had no representation on the board of directors. We estimate that in the fourth quarter of 2019 we will record a pretax gain from this sale in the range of $225 million to $275 million. Our final calculation of the gain will take into account the accounting treatment of contingent consideration associated with the transaction and the appropriate income tax treatment.

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

Cautionary Note Regarding Forward-Looking Statements

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

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: effects of a highly competitive and consolidating market; our dependence on third parties for the manufacture and supply of our products; our dependence upon sales personnel, customers, suppliers and manufacturers; our dependence on our senior management; fluctuations in quarterly earnings; risks from expansion of customer purchasing power and multi-tiered costing structures; increases in shipping costs for our products or other service issues with our third-party shippers; general global macro-economic conditions; risks associated with currency fluctuations; risks associated with political and economic uncertainty; disruptions in financial markets; volatility of the market price of our common stock; changes in the health care industry; implementation of health care laws; failure to comply with regulatory requirements and data privacy laws; risks associated with our global operations; transitional challenges associated with acquisitions, 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 and the status of litigation matters; 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.

Recent Developments

On October 1, 2019, the Company sold an equity investment in Hu-Friedy Mfg. Co., LLC, a manufacturer of dental instruments and infection prevention solutions. Our investment was non-controlling, we were not involved in running the business and had no representation on the board of directors. We estimate that in the fourth quarter of 2019 we will record a pretax gain from this sale in the range of $225 million to $275 million. Our final calculation of the gain will take into account the accounting treatment of contingent consideration associated with the transaction and the appropriate income tax treatment.

On February 7, 2019 (the “Distribution Date”), we completed the 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 million from Covetrus pursuant to certain debt financing incurred by Covetrus. On the Distribution Date and prior to the Animal Health Spin-off, 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) held by certain employees of the Henry Schein Animal Health Business (in the form of certain equity awards), 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) held by certain employees of Vets First Choice (in the form of certain equity awards). 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.

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 87 years of experience distributing health care products.

We are headquartered in Melville, New York, employ approximately 19,000 people (of which approximately 8,800 are based outside the United States) and have operations or affiliates in 32 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, the Netherlands, New Zealand, Poland, Portugal, Singapore, Slovakia, South Africa, Spain, Sweden, 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 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.

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 44% 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 and has taken a number of administrative actions to materially weaken it, which efforts are being challenged in various judicial proceedings. 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. health care 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, payments or other transfers of value to physician assistants, nurse practitioners, clinical nurse specialists, certified registered nurse anesthetists, and certified nurse midwives must also be reported, and this new requirement will be effective for data collected beginning in calendar year 2021.

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, cost and improvement activities. 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 that began 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. MIPS and APM performance measures and other program requirements continue to evolve. For example, in a Proposed Rule for the 2020 Medicare Physician Fee Schedule, published August 14, 2019, CMS proposed instituting a new MIPS framework, to be called the MIPS Value Pathways (MVPs), which would apply beginning with the 2021 performance year, and involve a new approach to measures and standards to be focused on clinical episodes of care. 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.

In 2019, there has been increased scrutiny on drug pricing and concurrent efforts to control or reduce drug costs by Congress, the President, and various states. Several related bills have been introduced at the federal level, and such legislation could have the potential to impose additional costs on our business.

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 $22,927 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 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 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 introduction, transmission or 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. 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 certain 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 concerning wholesalers will 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 UDI rule phased 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 and subsequent FDA guidance regarding the UDI requirements 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 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 (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 September 2019, the FDA issued draft and final guidance documents describing its 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 increases 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. The California Consumer Privacy Act ("CCPA"), signed into law on June 28, 2018, becomes effective January 1, 2020, and will require companies to institute additional protections on the collection, use and disclosure of certain "personal information" of California consumers. In addition to providing for enforcement by the California Attorney General, the CCPA also provides for a private right of action. Entities in violation of the CCPA may be liable for civil penalties. Other states, as well as the federal government, have increasingly considered the adoption of similar personal data privacy laws. While we believe we have substantially compliant programs and controls in place to comply with the GDPR and CCPA requirements, our compliance with these measures 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, and we, are subject to laws, regulations and industry standards, such as the federal Health Insurance Portability and Accountability Act of 1996, as amended, and implement regulations ("HIPAA") and the Payment Card Industry Data Security Standards, which require the protection of the privacy and security of those records, and our products may also 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 or services to comply with applicable legal or contractual data privacy and security 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, cost and improvement activities. 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 of the Department of Health and Human Services. 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 these 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, as noted above, 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. For example, on September 6, 2017, the FDA issued final 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 table summarizes the significant components of our operating results for the three and nine months ended September 28, 2019 and September 29, 2018 and cash flows for the nine months ended September 28, 2019 and September 29, 2018 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Operating results:				
Net sales	$ 2,508,767	$ 2,355,565	$ 7,316,862	$ 6,945,047
Cost of sales	1,747,600	1,633,206	5,036,574	4,785,231
Gross profit	761,167	722,359	2,280,288	2,159,816
Operating expenses:				
Selling, general and administrative	574,771	552,051	1,742,597	1,658,988
Litigation settlements	-	38,488	-	38,488
Restructuring costs (credits)	(802)	8,551	15,764	19,723
Operating income	$ 187,198	$ 123,269	$ 521,927	$ 442,617
Other expense, net	$ (8,607)	$ (17,088)	$ (31,103)	$ (45,237)
Net income from continuing operations	143,212	96,247	388,269	325,555
Income (loss) from discontinued operations	5,641	30,729	(5,576)	97,561
Net income attributable to Henry Schein, Inc.	140,557	121,478	364,872	402,908
Cash flows:				
Net cash provided by operating activities from continuing operations			$ 525,180	$ 269,395
Net cash used in investing activities from continuing operations			(691,349)	(124,072)
Net cash provided by (used in) financing activities from continuing operations			176,139	(219,894)

Plans of Restructuring

On July 9, 2018, we committed to an initiative to rationalize our operations and provide expense efficiencies. These actions have allowed 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 has resulted in the elimination of approximately 4% of our workforce and the closing of certain facilities.

During the three and nine months ended September 28, 2019, we recorded restructuring (credits) costs of $(0.8) million and $15.8 million, respectively. The restructuring credits in the three months ended September 28, 2019 were primarily attributable to a reduction in previously recorded estimated restructuring costs as of June 29, 2019. The total 2018 costs associated with the actions to complete this restructuring were $54.4 million from continuing operations, consisting primarily of severance costs. As of June 29, 2019, the restructuring activities under this initiative are complete and we do not expect to incur any additional restructuring charges for the remainder of 2019.

Three Months Ended September 28, 2019 Compared to Three Months Ended September 29, 2018

Net Sales

Net sales for the three months ended September 28, 2019 and September 29, 2018 were as follows (in thousands):

	September 28, 2019	% of Total	September 29, 2018	% of Total	Increase $	Increase %
Health care distribution [1]:						
Dental	$ 1,545,984	61.6%	$ 1,514,325	64.3%	$ 31,659	2.1%
Medical	803,709	32.0	721,942	30.6	81,767	11.3
Total health care distribution	2,349,693	93.6	2,236,267	94.9	113,426	5.1
Technology and value-added services [2]	137,331	5.5	119,298	5.1	18,033	15.1
Total excluding Corporate TSA revenue	2,487,024	99.1	2,355,565	100.0	131,459	5.6
Corporate TSA revenue[3]	21,743	0.9	-	-	21,743	-
Total	$ 2,508,767	100.0%	$ 2,355,565	100.0%	$ 153,202	6.5

(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.

(3) Corporate TSA revenues represents sales of certain products to Covetrus under the transition services agreement entered into in connection with the Animal Health spin-off, which we expect to continue through August 2020.

The 6.5% increase in net sales for the three months ended September 28, 2019 includes 7.6% local currency growth (3.9% increase in internally generated revenue and 3.7% growth from acquisitions) partially offset by a decrease of 1.1% related to foreign currency exchange. Excluding sales of products under the transition services agreement with Covetrus, our net sales increased 5.6%, including local currency growth of 6.6% (3.0% increase in internally generated revenue and 3.6% growth from acquisitions) partially offset by a decrease of 1.0% related to foreign currency exchange.

The 2.1% increase in dental net sales for the three months ended September 28, 2019 includes 3.6% local currency growth (1.7% increase in internally generated revenue and 1.9% growth from acquisitions) partially offset by a decrease of 1.5% related to foreign currency exchange. The 3.6% increase in local currency sales was attributable to dental consumable merchandise sales growth of 4.7% (2.3% increase in internally generated revenue and 2.4% growth from acquisitions). Growth in dental equipment sales and service revenues were flat versus the prior year. On a local currency basis, dental equipment sales and service revenues decreased in North America by 4.5%, but increased 7.9% internationally.

The 11.3% increase in medical net sales for the three months ended September 28, 2019 includes 11.4% local currency growth (5.3% increase in internally generated revenue and 6.1% growth from acquisitions) partially offset by a decrease of 0.1% related to foreign currency exchange.

The 15.1% increase in technology and value-added services net sales for the three months ended September 28, 2019 includes 15.8% local currency growth (4.9% increase in internally generated revenue and 10.9% growth from acquisitions) partially offset by a decrease of 0.7% related to foreign currency exchange. Our technology sales in 2019 were bolstered by increased revenues with the U.S. Department of Defense, which were $9.0 million versus $6.2 million in 2018. The local currency growth in technology and value-added services is affected by the revenue for certain products being recognized on a gross basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 6.6%

Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended September 28, 2019 and September 29, 2018 were as follows (in thousands):

	September 28, 2019	Gross Margin %	September 29, 2018	Gross Margin %	Increase $	Increase %
Health care distribution	$ 659,958	28.1%	$ 636,580	28.5%	$ 23,378	3.7%
Technology and value-added services	100,554	73.2	85,779	71.9	14,775	17.2
Total excluding Corporate TSA revenues	760,512	30.6	722,359	30.7	38,153	5.3
Corporate TSA revenues	655	3.0	-	-	655	-
Total	$ 761,167	30.3	$ 722,359	30.7	$ 38,808	5.4

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.

In connection with the completion of the Animal Health Spin-off (see Note 2 for additional details), we entered into a transition services agreement with Covetrus, pursuant to which Covetrus purchases certain products from us. The agreement provides that these products will be sold to Covetrus at a mark-up that ranges from 3% to 6% of our product cost to cover handling costs. We expect these sales to continue through August 2020.

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 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 $23.4 million, or 3.7%, for the three months ended September 28, 2019 compared to the prior year period. The overall increase in our health care distribution gross profit is attributable to $23.5 million additional gross profit from acquisitions and $8.8 is attributable to growth in internally generated revenue. These increases were partially offset by $8.9 million decline in gross profit due to the decrease in the gross margin rates. Health care distribution gross profit margin decreased to 28.1% for the three months ended September 28, 2019 from 28.5% for the comparable prior year period.

Technology and value-added services gross profit increased $14.8 million, or 17.2%, for the three months ended September 28, 2019 compared to the prior year period. The overall increase in our Technology and value-added services gross profit is attributable to $10.7 million additional gross profit from acquisitions, $3.6 million from growth in internally generated revenue, and $0.5 million from increased gross margin rates. Technology and value-added services gross profit margin increased to 73.2% for the three months ended September 28, 2019 from 71.9% for the comparable prior year period, primarily due to increased gross margin rates from certain businesses acquired during 2019.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the three months ended September 28, 2019 and September 29, 2018 were as follows (in thousands):

	September 28, 2019	% of Respective Net Sales	September 29, 2018	% of Respective Net Sales	Increase / (Decrease) $	Increase / (Decrease) %
Health care distribution	$ 511,116	21.8%	$ 545,275	24.4%	$ (34,159)	(6.3)%
Technology and value-added services	62,853	45.8	53,815	45.1	9,038	16.8
Total	$ 573,969	22.9	$ 599,090	25.4	$ (25,121)	(4.2)

Selling, general and administrative expenses (including restructuring credits in the three months ended September 28, 2019 and litigation settlements and restructuring costs in the three months ended September 29, 2018) decreased $25.1 million, or 4.2%, for the three months ended September 28, 2019 from the comparable prior year period. The $34.2 million decrease in selling, general and administrative expenses within our health care distribution segment for the three months ended September 28, 2019 as compared to the prior year period was attributable to a reduction of $44.3 million of operating costs (primarily due to $38.5 million of litigation settlement costs recorded in the third quarter of 2018), and a $8.0 million decrease in restructuring costs partially offset by $18.1 million of additional costs from acquired companies. The $9.0 million increase in selling, general and administrative expenses within our technology and value-added services segment for the three months ended September 28, 2019 as compared to the prior year period was attributable to $8.8 million of additional costs from acquired companies and an increase of $1.6 million of operating costs, partially offset by a $1.4 million decrease in restructuring costs. As a percentage of net sales, selling, general and administrative expenses decreased to 22.9% from 25.4% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased $18.5 million, or 5.3% to $365.2 million, for the three months ended September 28, 2019 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 14.6% from 14.7% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses decreased $43.6 million, or 17.3% to $208.8 million, for the three months ended September 28, 2019 from the comparable prior year period primarily due to $38.5 million of litigation settlement costs recorded in the third quarter of 2018 and a $9.4 million reduction of restructuring costs. As a percentage of net sales, general and administrative expenses decreased to 8.3% from 10.7% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the three months ended September 28, 2019 and September 29, 2018 was as follows (in thousands):

	September 28, 2019	September 29, 2018	Variance $	Variance %
Interest income	$ 3,943	$ 3,928	$ 15	0.4%
Interest expense	(12,373)	(20,430)	8,057	39.4
Other, net	(177)	(586)	409	69.8
Other expense, net	$ (8,607)	$ (17,088)	$ 8,481	49.6

Interest expense decreased $8.1 million primarily due to decreased borrowings under our bank credit lines.

Income Taxes

For the three months ended September 28, 2019, our effective tax rate was 23.5% compared to 15.7% for the prior year period. The difference between our effective tax rate and the federal statutory tax rate for the three months ended September 28, 2019 primarily relates to state and foreign income taxes and interest expense. The difference between our effective tax rate and the federal statutory tax rate for the three months ended September 29, 2018 primarily relates to a provisional transition tax benefit of $10 million related to the Tax Act, as well as state and foreign income taxes and interest expense.

Nine Months Ended September 28, 2019 Compared to Nine Months Ended September 29, 2018

Net Sales

Net sales for the nine months ended September 28, 2019 and September 29, 2018 were as follows (in thousands):

	September 28, 2019	% of Total	September 29, 2018	% of Total	Increase $	Increase %
Health care distribution [1]:						
Dental	$ 4,693,803	64.1%	$ 4,674,534	67.3%	$ 19,269	0.4%
Medical	2,184,927	29.9	1,976,367	28.5	208,560	10.6
Total health care distribution	6,878,730	94.0	6,650,901	95.8	227,829	3.4
Technology and value-added services [2]	377,891	5.2	294,146	4.2	83,745	28.5
Total excluding Corporate TSA revenue	7,256,621	99.2	6,945,047	100.0	311,574	4.5
Corporate TSA revenue[3]	60,241	0.8	-	-	60,241	-
Total	$ 7,316,862	100.0%	$ 6,945,047	100.0%	$ 371,815	5.4

(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.

(3) Corporate TSA revenues represents sales of certain products to Covetrus under the transition services agreement entered into in connection with the Animal Health spin-off, which we expect to continue through August 2020.

The 5.4% increase in net sales for the nine months ended September 28, 2019 includes 7.3% local currency growth (3.9% increase in internally generated revenue and 3.4% growth from acquisitions) partially offset by a decrease of 1.9% related to foreign currency exchange. Excluding sales of products under the transition services agreement with Covetrus, our net sales increased 4.5%, including local currency growth of 6.4% (3.0% increase in internally generated revenue and 3.4% growth from acquisitions) partially offset by a decrease of 1.9% related to foreign currency exchange.

The 0.4% increase in dental net sales for the nine months ended September 28, 2019 includes 3.2% local currency growth (1.9% increase in internally generated revenue and 1.3% growth from acquisitions) offset by a decrease of 2.8% related to foreign currency exchange. The 3.2% increase in local currency sales was attributable to dental consumable merchandise sales growth of 4.3% (2.6% increase in internally generated revenue and 1.7% growth from acquisitions), partially offset by a decrease in dental equipment sales and service revenues of 0.5%, all of which is attributable to a decrease in internally generated revenue. This decrease is primarily due to a decline in high-tech equipment sales in North America.

The 10.6% increase in medical net sales for the nine months ended September 28, 2019 includes an increase of 10.7% local currency growth (5.9% increase in internally generated revenue and 4.8% growth from acquisitions) partially offset by a decrease of 0.1% related to foreign currency exchange.

The 28.5% increase in technology and value-added services net sales for the nine months ended September 28, 2019 includes 29.6% local currency growth (2.2% increase in internally generated revenue and 27.4% growth from acquisitions) partially offset by a decrease of 1.1% related to foreign currency exchange. The local currency growth in technology and value-added services is affected by the revenue for certain products being recognized on a gross basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 3.9%

Gross Profit

Gross profit and gross margin percentages by segment and in total for the nine months ended September 28, 2019 and September 29, 2018 were as follows (in thousands):

	September 28, 2019	Gross Margin %	September 29, 2018	Gross Margin %	Increase $	Increase %
Health care distribution	$ 2,004,218	29.1%	$ 1,958,377	29.4%	$ 45,841	2.3 %
Technology and value-added services	274,266	72.6	201,439	68.5	72,827	36.2
Total excluding Corporate TSA revenues	2,278,484	31.4	2,159,816	31.1	118,668	5.5
Corporate TSA revenues	1,804	3.0	-	-	1,804	-
Total	$ 2,280,288	31.2	$ 2,159,816	31.1	$ 120,472	5.6

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 and value-added services 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.

In connection with the completion of the Animal Health Spin-off (see Note 2 for additional details), we entered into a transition services agreement with Covetrus, pursuant to which Covetrus purchases certain products from us. The agreement provides that these products will be sold to Covetrus at a mark-up that ranges from 3% to 6% of our product cost to cover handling costs. We expect these sales to continue through August 2020.

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 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 $45.8 million, or 2.3%, for the nine months ended September 28, 2019 compared to the prior year period. The overall increase in our health care distribution gross profit is attributable to $52.4 million additional gross profit from acquisitions and $10.4 is attributable to growth in internally generated revenue. These increases were partially offset by a $17.0 million decline in gross profit due to the decrease in the gross margin rates. Health care distribution gross profit margin decreased to 29.1% for the nine months ended September 28, 2019 from 29.4% for the comparable prior year period.

Technology and value-added services gross profit increased $72.8 million, or 36.2%, for the nine months ended September 28, 2019 compared to the prior year period. The overall increase in our Technology and value-added services gross profit is attributable to $70.6 million additional gross profit from acquisitions and $2.2 is attributable to growth in internally generated revenue. Technology and value-added services gross profit margin increased to 72.6% for the three months ended September 28, 2019 from 68.5% for the comparable prior year period, primarily due to additional product offerings at higher gross profit margins in our Henry Schein One subsidiary which was formed on July 1, 2018.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the nine months ended September 28, 2019 and September 29, 2018 were as follows (in thousands):

	September 28, 2019	% of Respective Net Sales	September 29, 2018	% of Respective Net Sales	Increase / (Decrease) $	Increase / (Decrease) %
Health care distribution	$ 1,576,996	22.9%	$ 1,599,399	24.0%	$ (22,403)	(1.4)%
Technology and value-added services	181,365	48.0	117,800	40.0	63,565	54.0
Total	$ 1,758,361	24.0	$ 1,717,199	24.7	$ 41,162	2.4

Selling, general and administrative expenses (including restructuring costs in the nine months ended September 28, 2019 and September 29, 2018, and litigation settlements in the nine months ended September 29, 2018) increased $41.2 million, or 2.4%, for the nine months ended September 28, 2019 from the comparable prior year period. The $22.4 million decrease in selling, general and administrative expenses within our health care distribution segment for the nine months ended September 28, 2019 as compared to the prior year period was attributable to a reduction of $65.1 million of operating costs (primarily due to $38.5 million of litigation settlement costs recorded in 2018) and a $3.1 million decrease in restructuring costs partially offset by $45.8 million of additional costs from acquired companies. The $63.6 million increase in selling, general and administrative expenses within our technology and value-added services segment for the nine months ended September 28, 2019 as compared to the prior year period was attributable to $64.4 million of additional costs from acquired companies, partially offset by a $0.8 million decrease in restructuring costs. As a percentage of net sales, selling, general and administrative expenses decreased to 24.0% from 24.7% for the comparable prior year period.

As a component of total selling, general and administrative expenses, selling expenses increased $47.7 million, or 4.5% to $ 1,112.2 million, for the nine months ended September 28, 2019 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 15.2% from 15.3% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses decreased $6.5 million, or 1.0% to $ 646.2 million, for the nine months ended September 28, 2019 from the comparable prior year period primarily due to $38.5 million of litigation settlement costs recorded in the third quarter of 2018. As a percentage of net sales, general and administrative expenses decreased to 8.8% from 9.4% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the nine months ended September 28, 2019 and September 29, 2018 was as follows (in thousands):

	September 28, 2019	September 29, 2018	Variance $	Variance %
Interest income	$ 12,368	$ 11,105	$ 1,263	11.4%
Interest expense	(41,459)	(54,569)	13,110	24.0
Other, net	(2,012)	(1,773)	(239)	(13.5)
Other expense, net	$ (31,103)	$ (45,237)	$ 14,134	31.2

Interest income increased by $1.3 million primarily due to increased investment and late fee income. Interest expense decreased $13.1 million primarily due to decreased borrowings under our bank credit lines.

Income Taxes

For the nine months ended September 28, 2019, our effective tax rate was 23.9% compared to 21.8% for the prior year period. The difference between our effective tax rates and the federal statutory tax rate for the nine months ended September 28, 2019 primarily relates to state and foreign income taxes and interest expense. The difference between our effective tax rates and the federal statutory tax rate for the nine months ended September 29, 2018 primarily relates to a provisional transition tax benefit of $10.0 million related to the Tax Act, as well as state and foreign income taxes and interest expense.

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.

On February 7, 2019, we completed the Animal Health Spin-off. On the Distribution Date we received a tax free distribution of $1,120 million from Covetrus, which has been used to pay down our debt, thereby generating additional debt capacity that can be used for general corporate purposes, including share repurchases and mergers and acquisitions.

Net cash from continuing operations provided by operating activities was $525.2 million for the nine months ended September 28, 2019, compared to net cash from continuing operations provided by operating activities of $269.4 million for the comparable prior year period. The net change of $255.8 million was primarily attributable to increased net income, decreases in working capital requirements and increased distributions from equity affiliates.

Net cash from continuing operations used in investing activities was $691.3 million for the nine months ended September 28, 2019, compared to $124.1 million for the comparable prior year period. The net change of $567.2 million was primarily attributable to increased payments for equity investments and business acquisitions.

Net cash from continuing operations provided by financing activities was $176.1 million for the nine months ended September 28, 2019, compared to net cash used in financing activities of $219.9 million for the comparable prior year period. The net change of $396.0 million was primarily due to a distribution received related to the Animal Health Spin-off, proceeds from the Animal Health Share Sale, a reduction in acquisitions of noncontrolling interests in subsidiaries, and payments to the Henry Schein Animal Health Business partially offset by increased repayments of debt related to the Animal Health Spin-off and increased repurchases of our common stock.

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

	September 28, 2019	December 29, 2018
Cash and cash equivalents	$ 75,256	$ 56,885
Working capital [1]	1,207,050	956,393
Debt:		
Bank credit lines	$ 107,841	$ 951,458
Current maturities of long-term debt	109,188	8,280
Long-term debt	872,229	980,344
Total debt	$ 1,089,258	$ 1,940,082
Leases:		
Current operating lease liabilities	$ 67,374	$ -
Non-current operating lease liabilities	182,505	-

(1) Includes $419 million and $422 million of accounts receivable which serve as security for U.S. trade accounts receivable securitization at September 28, 2019 and December 29, 2018 respectively.

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 45.3 days as of September 28, 2019 from 44.2 days as of September 29, 2018. During the nine months ended September 28, 2019, we wrote off approximately $4.4 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations increased to 4.9 as of September 28, 2019 from 4.4 as of September 29, 2018. Our working capital accounts may be impacted by current and future economic conditions.

Bank Credit Lines

Bank credit lines consisted of the following:

	September 28, 2019	December 29, 2018
Revolving credit agreement	$ 75,000	$ 175,000
Other short-term bank credit lines	32,841	376,458
Committed loan associated with Animal Health Spin-off	-	400,000
Total	$ 107,841	$ 951,458

Revolving Credit Agreement

On April 18, 2017, we entered into a $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. We expect that the LIBOR rate will be discontinued at some point during 2021. We expect to work with our lenders to identify a suitable replacement rate and amend our debt agreements to reflect this new reference rate accordingly. We do not believe that the discontinuation of LIBOR as a reference rate in our debt agreements will have a material adverse effect on our financial position or materially affect our interest expense. Additionally, the Credit Agreement provides, among other things, that we are required to maintain maximum leverage ratios, and contains customary representations, warranties and affirmative covenants. The Credit Agreement also contains customary negative covenants, subject to negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive

agreements. As of September 28, 2019 and December 29, 2018, the borrowings on this revolving credit facility were $75.0 million and $175.0 million, respectively. As of September 28, 2019 and December 29, 2018, there were $9.6 million and $11.2 million of letters of credit, respectively, provided to third parties under the credit facility.

Other Short-Term Credit Lines

As of September 28, 2019 and December 29, 2018, we had various other short-term bank credit lines available, of which $32.8 million and $376.5 million, respectively, were outstanding. At September 28, 2019 and December 29, 2018, borrowings under all of our credit lines had a weighted average interest rate of 2.94% and 3.30%, 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.

Long-term debt

Long-term debt consisted of the following:

	September 28, 2019	December 29, 2018
Private placement facilities	$ 621,217	$ 628,189
U.S. trade accounts receivable securitization	350,000	350,000
Various collateralized and uncollateralized loans payable with interest		
in varying installments through 2024 at interest rates		
ranging from 2.56% to 10.5% at September 28,2019 and		
ranging from 2.61% to 4.17% at December 29, 2018	5,995	6,491
Finance lease obligations payable through 2029 with interest rates		
ranging from 1.64% to 19.13% at September 28,2019 and		
ranging from 1.45% to 6% at December 29, 2018	4,205	3,944
Total	981,417	988,624
Less current maturities	(109,188)	(8,280)
Total long-term debt	$ 872,229	$ 980,344

Private Placement Facilities

On September 15, 2017, we increased our available private placement facilities with three insurance companies to a total facility amount of $1 billion, and extended the expiration date to September 15, 2020. These facilities are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through September 15, 2020. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of September 28, 2019 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)	21,429	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	(212)		
	$ 621,217		

(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. Our current facility, which has a purchase limit of $350 million, and was previously scheduled to expire on April 29, 2020, has been extended to April 29, 2022. The borrowings outstanding under this securitization facility were $350 million as of both September 28, 2019 and December 29, 2018, respectively. At September 28, 2019, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 2.21% plus 0.75%, for a combined rate of 2.96%. 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%.

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.

Leases

We have operating and finance leases for corporate offices, office space, distribution and other facilities, vehicles and certain equipment. Our leases have remaining terms of less than 1 year to 16 years, some of which may include options to extend the leases for up to 10 years. As of September 28, 2019, our right-of-use assets related to operating leases were $240.1 million and our current and non-current operating lease liabilities were $67.4 million and $182.5 million, respectively.

Stock Repurchases

From June 21, 2004 through September 28, 2019, we repurchased $3.2 billion, or 63,466,633 shares, under our common stock repurchase programs, with $75.0 million available as of September 28, 2019 for future common stock share repurchases.

On October 30, 2019, our Board of Directors authorized the repurchase of up to an additional $400 million in shares of our common stock.

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. Accounting Standards Codification Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the nine months ended September 28, 2019 and the year ended December 29, 2018 are presented in the following table:

	September 28, 2019	December 29, 2018
Balance, beginning of period	$ 219,724	$ 465,585
Decrease in redeemable noncontrolling interests due to redemptions	(2,270)	(287,767)
Increase in redeemable noncontrolling interests due to business acquisitions	73,975	4,655
Net income attributable to redeemable noncontrolling interests	10,618	15,327
Dividends declared	(7,943)	(8,206)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(4,912)	(11,330)
Change in fair value of redeemable securities	(5,867)	41,460
Balance, end of period	$ 283,325	$ 219,724

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. For the nine months ended September 28, 2019 and September 29, 2018, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

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.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates from those disclosed in Item 7 of our Annual Report on Form 10-K for the year ended December 29, 2018, except accounting policies adopted as of December 30, 2018 which are discussed in Note 3 of the Notes to Consolidated Financial Statements included in Item 1.

Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2018. 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 loan loss activity and current known activity regarding our outstanding loans, 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 29, 2018.

ITEM 4. 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 quarterly report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of September 28, 2019 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 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 September 28, 2019, post-acquisition integration related activities continued for our global dental and North American technology and medical businesses acquired during prior quarters, representing aggregate annual revenues of approximately $539 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 September 28, 2019, post-implementation system improvement activities continued for a new equipment system implemented during prior quarters for our U.S. dental business representing approximate aggregate annual revenues of $783 million, as well as the implementation of a new ERP system for our dental business in China representing approximate aggregate annual revenues of $15 million.

All continued 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.

Limitations of the Effectiveness of Internal Control

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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, in our third quarter of fiscal 2018, we recorded a charge of $38.5 million, which was paid into a settlement fund in January 2019. On June 25, 2019, the district court granted final approval to the settlement, and entered final judgment dismissing the case. On July 16, 2019, Dr. William Roe, an unnamed class member that had objected to the settlement, filed a notice of appeal appealing the district court's Final Judgment and Order Granting Motion for Final Approval of Class Settlement. On October 8, 2019, the class plaintiffs and the objector filed notice indicating that they had reached a settlement concerning the objection, which, once approved by the court, would resolve the objection. On October 24, 2019 the court approved the agreement between the objector and the plaintiffs.

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 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. On April 2, 2019, the District Court stayed the proceeding in the trial court pending resolution by the Fifth Circuit. The Fifth Circuit heard oral argument on May 1, 2019 on whether the case should be arbitrated. The Fifth Circuit issued its opinion on August 14, 2019 affirming the District Court's order denying defendants' motions to compel arbitration. Defendants filed a petition for rehearing en banc before the Fifth Circuit. The Fifth Circuit has not ruled on that petition. On October 1, 2019, the District Court set the case for trial on February 3, 2020. 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. On May 10, 2019, the U.S. Court of Appeals for the Second Circuit affirmed in part and reversed in part the District Court's dismissal of the Complaint, holding that IQ Dental lacks antitrust standing to challenge the alleged boycott of SourceOne and state dental associations, but that it has standing to challenge injury related to the alleged direct boycott of its business. On June 29, 2019, the Second Circuit denied IQ Dental's petition for rehearing or rehearing en banc. Proceedings in the District Court are ongoing. 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 the hearing record was closed on February 21, 2019. On October 7, 2019, the administrative law judge issued his Initial Decision, finding in relevant part that the "evidence fails to prove a conspiracy involving Schein," and dismissing the Complaint as to Schein. The Initial Decision will become the decision of the Commission on or about November 7, 2019 unless the Commission places the case on its own docket for review or stays the effective date of the decision. 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. On September 27, 2019, the court issued a decision partially granting and partially denying defendants' motion to dismiss the securities action. The court dismissed all claims against Messrs. Bergman and Paladino as well as the Section 10(b) claim against Henry Schein to the extent that that claim relied on the Company's financial results and margins to allege a material misstatement or omission, and on the Company's August 8, 2017 disclosure to allege loss causation. The court otherwise denied the motion as to Henry Schein and Mr. Sullivan. 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 health care 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 health care 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 a 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. The parties argued the appeal on September 27, 2019 and are currently awaiting the Seventh Circuit's ruling.

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. Summit County alleges 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. On October 29, 2019, the Company was dismissed with prejudice from this lawsuit. Henry Schein, working with Summit County, will establish and donate $1 million to a Pain Management Education Foundation dedicated to making grants to programs within Summit County focused on (I) supporting and aggregating research

around best practices for pain management, including the prescription of opioids and alternatives: (II) educating dentists and physicians, clinical associates, patients and patient networks on those best practices along with the risks of opioid addiction and alternative pain management treatment options for key indications; and (III) offering grants to develop and offer training to dentists and physicians or other qualified professionals to qualify a practitioner for a waiver to prescribe or dispense buprenorphine medications. Henry Schein will pay $250,000 of Summit County's expenses.

In addition to the County of Summit Action, Henry Schein and/or one or more of its affiliated companies have currently been named as a defendant in multiple lawsuits (currently less than one-hundred (100)), which allege claims similar to those alleged in the County of Summit 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. Of Henry Schein's 2018 revenue of $9.4 billion from continuing operations, sales of opioids represented less than one-tenth of 1 percent. Opioids represent a negligible part of our business. 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. On June 28, 2019, the court granted Defendants' motions to dismiss with leave to amend. The parties subsequently stipulated to dismissal of the action with prejudice, pursuant to a settlement in which Henry Schein agreed to pay the plaintiff a de minimis amount. The court entered the stipulation of dismissal with prejudice and terminated the case on August 2, 2019.

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.

On September 30, 2019, City of Hollywood Police Officers Retirement System, 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., Covetrus, Inc., and Benjamin Shaw and Christine Komola (Covetrus's then Chief Executive Officer and Chief Financial Officer, respectively) in the U.S. District Court for the Eastern District of New York, Case No. 2:19-cv-05530-FB-RLM. The complaint seeks to certify a class consisting of all persons and entities who, subject to certain exclusions, purchased or otherwise acquired Covetrus common stock from February 8, 2019 through August 12, 2019. The case relates to the Animal Health Spin-off and Merger of the Henry Schein Animal

Health Business with Vets First Choice in February 2019. The complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5 and asserts that defendants' statements in the offering documents and after the transaction were materially false and misleading because they purportedly overstated Covetrus's capabilities as to inventory management and supply-chain services, understated the costs of integrating the Henry Schein Animal Health Business and Vets First Choice, understated Covetrus's separation costs from Henry Schein, and understated the impact on earnings from online competition and alternative distribution channels and from the loss of an allegedly large customer in North America just before the Separation and Merger. The complaint seeks unspecified monetary damages and a jury trial. 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 September 28, 2019, 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 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 29, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of equity securities by the issuer

Our share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to $100 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. As summarized in the table below, subsequent additional increases totaling $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.

Date of Authorization	Amount of Additional Repurchases Authorized
October 31, 2005	$ 100,000,000
March 28, 2007	100,000,000
November 16, 2010	100,000,000
August 18, 2011	200,000,000
April 18, 2012	200,000,000
November 12, 2012	300,000,000
December 9, 2013	300,000,000
December 4, 2014	300,000,000
November 30, 2015	400,000,000
October 18, 2016	400,000,000
September 15, 2017	400,000,000
December 12, 2018	400,000,000

As of September 28, 2019, we had repurchased approximately $3.2 billion of common stock (63,466,633 shares) under these initiatives, with $75.0 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 September 28, 2019.

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)
6/30/19 through 8/2/19	40,000	$ 69.29	40,000	2,586,437
08/03/19 through 08/31/19	721,574	61.47	721,574	2,046,215
09/01/19 through 09/28/19	810,335	63.04	810,335	1,198,470
	1,571,909		1,571,909	

(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.

On October 30, 2019, our Board of Directors authorized the repurchase of up to an additional $400 million in shares of our common stock.

ITEM 6. EXHIBITS

Exhibits.

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.+
101.SCH	Inline XBRL Taxonomy Extension Schema Document+
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document+
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document+
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document+
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document+
104	The cover page of Henry Schein, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 28, 2019, formatted in Inline XBRL (included within Exhibit 101 attachments).+

+ Filed or furnished herewith.

SIGNATURE

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

Henry Schein, Inc.
(Registrant)

By: /s/ Steven Paladino

Steven Paladino
Executive Vice President and
Chief Financial Officer
(Authorized Signatory and Principal Financial and Accounting Officer)

Dated: November 5, 2019

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stanley M. Bergman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ Stanley M. Bergman
Stanley M. Bergman
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven Paladino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ Steven Paladino
Steven Paladino
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Henry Schein, Inc. (the "Company") for the period ending September 28, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley M. Bergman, the Chairman and Chief Executive Officer of the Company, and I, Steven Paladino, Executive Vice President and Chief Financial Officer of the Company, do hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2019

/s/ Stanley M. Bergman
Stanley M. Bergman
Chairman and Chief Executive Officer

Dated: November 5, 2019

/s/ Steven Paladino
Steven Paladino
Executive Vice President and
Chief Financial Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.