

ENVIVIO INC  
Form SC 13G/A  
February 17, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 13G

(Rule 13d-102)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT  
TO RULE 13d-1(b), (c), AND (d) AND AMENDMENTS THERETO FILED  
PURSUANT TO RULE 13d-2

(Amendment No. 2)\*

ENVIVIO, INC.  
(Name of Issuer)

Common Stock, par value \$0.001 per share  
(Title of Class of Securities)

29413T1060  
(CUSIP Number)

Dino Verardo  
Sageview Capital, L.P.  
55 Railroad Avenue  
Greenwich, CT 06830  
Tel. No.: 203-625-4215  
(Name, Address and Telephone Number of Person  
Authorized to Receive Notices and Communications)

with a copy to

Raphael M. Russo, Esq.  
Paul, Weiss, Rifkind, Wharton & Garrison LLP  
1285 Avenue of the Americas  
New York, New York 10019-6064

December 31, 2014  
(Date of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d-1(b)

Rule 13d-1(c)

Rule 13d-1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No.  
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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Capital Master, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)  x  
(b)  o

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

5 SOLE VOTING POWER

NUMBER OF 2,582,900

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED

-0-

BY EACH 7 SOLE DISPOSITIVE POWER

REPORTING PERSON

2,582,900

WITH

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,582,900

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES

o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.3%

12 TYPE OF REPORTING PERSON

PN

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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Capital Partners (A), L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)   
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF  
SHARES  
BENEFICIALLY  
OWNED  
BY EACH  
REPORTING  
PERSON  
WITH

-0-

6 SHARED VOTING POWER

2,582,900

7 SOLE DISPOSITIVE POWER

-0-

8 SHARED DISPOSITIVE POWER

2,582,900

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,582,900

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.3%

12 TYPE OF REPORTING PERSON

PN



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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Capital Partners (B), L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)  x  
(b)  o

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF  
SHARES

-0-

6 SHARED VOTING POWER

BENEFICIALLY

2,582,900

OWNED

BY EACH

7 SOLE DISPOSITIVE POWER

REPORTING

-0-

PERSON

WITH

8 SHARED DISPOSITIVE POWER

2,582,900

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,582,900

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES

o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.3%

12 TYPE OF REPORTING PERSON

PN

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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Partners (C) (Master), L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)  x  
(b)  o

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

5 SOLE VOTING POWER

NUMBER OF  
SHARES

-0-

6 SHARED VOTING POWER

BENEFICIALLY

2,582,900

OWNED

BY EACH

7 SOLE DISPOSITIVE POWER

REPORTING

-0-

PERSON

WITH

8 SHARED DISPOSITIVE POWER

2,582,900

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,582,900

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES  o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.3%

12 TYPE OF REPORTING PERSON

PN

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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Capital GenPar, Ltd.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)   
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

5 SOLE VOTING POWER

NUMBER OF 2,582,900

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED

-0-

BY EACH 7 SOLE DISPOSITIVE POWER

REPORTING PERSON

2,582,900

WITH

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,582,900

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.3%

12 TYPE OF REPORTING PERSON

PN



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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Capital GenPar, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) x  
(b) o

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF 2,582,900

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED

-0-

BY EACH 7 SOLE DISPOSITIVE POWER

REPORTING PERSON

2,582,900

WITH

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,582,900

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES

o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.3%

12 TYPE OF REPORTING PERSON

PN



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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Capital MGP, LLC

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) x  
(b) o

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF 2,582,900

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED

-0-

BY EACH 7 SOLE DISPOSITIVE POWER

REPORTING PERSON

2,582,900

WITH

8 SHARED DISPOSITIVE POWER

-0-

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,582,900

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES

o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.3%

12 TYPE OF REPORTING PERSON

OO





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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Sageview Capital, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)   
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

5 SOLE VOTING POWER

NUMBER OF 50,577

SHARES 6 SHARED VOTING POWER

BENEFICIALLY OWNED 2,582,900

BY EACH 7 SOLE DISPOSITIVE POWER

REPORTING PERSON 50,577

WITH 8 SHARED DISPOSITIVE POWER

2,582,900

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,633,477

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN

SHARES

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.5%

12 TYPE OF REPORTING PERSON

PN



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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Edward A. Gilhuly

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)   
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

United States

5 SOLE VOTING POWER

NUMBER OF  
SHARES  
BENEFICIALLY  
OWNED  
BY EACH  
REPORTING  
PERSON  
WITH

-0-

6 SHARED VOTING POWER

2,633,477

7 SOLE DISPOSITIVE POWER

-0-

8 SHARED DISPOSITIVE POWER

2,633,477

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,633,477

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN  
SHARES

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.5%

12 TYPE OF REPORTING PERSON

IN



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1 NAME OF REPORTING PERSON OR  
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

Scott M. Stuart

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)   
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION

United States

5 SOLE VOTING POWER

NUMBER OF  
SHARES -0-

6 SHARED VOTING POWER

BENEFICIALLY

2,633,477

OWNED  
BY EACH

7 SOLE DISPOSITIVE POWER

REPORTING

-0-

PERSON

8 SHARED DISPOSITIVE POWER

WITH

2,633,477

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,633,477

10 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN   
SHARES

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

9.5%

12 TYPE OF REPORTING PERSON

IN



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- Item 1. (a) Name of Issuer  
Envivio, Inc., a Delaware corporation (the “Issuer”)
- (b) Address of Issuer’s Principal Executive Offices  
400 Oyster Point Boulevard, Suite 325  
South San Francisco, CA 94080
- Item 2. (a) Name of Person Filing  
This Statement on Schedule 13G is being filed on behalf of the following persons (each, a “Reporting Person” and collectively, the “Reporting Persons”):
- (i) Sageview Capital Master, L.P. (“Sageview Master”);
  - (ii) Sageview Capital Partners (A), L.P. (“Sageview (A)”);
  - (iii) Sageview Capital Partners (B), L.P. (“Sageview (B)”);
  - (iv) Sageview Partners (C) (Master), L.P. (“Sageview (C)”);
  - (v) Sageview Capital GenPar, Ltd. (“Sageview GenPar Ltd.”);
  - (vi) Sageview Capital GenPar, L.P. (“Sageview GenPar”);
  - (vii) Sageview Capital MGP, LLC (“Sageview MGP”);
  - (viii) Sageview Capital, L.P. (“Sageview Capital”);
  - (ix) Edward A. Gilhuly; and
  - (x) Scott M. Stuart.
- (b) Address of Principal Business Office or, if none, Residence; (c) Citizenship
- (i) Sageview Master is a Cayman Islands exempted limited partnership formed in order to engage in the acquiring, holding and disposing of investments in various companies. The principal business office of Sageview Master is 55 Railroad Avenue, Greenwich, Connecticut 06830.

(ii), (iii), (iv) Sageview (A), Sageview (B) and Sageview (C) (collectively, the “Shareholders”) are collectively the holders of 100% of the limited partner interest in Sageview Master. Sageview (A) and Sageview (B) are Delaware limited partnerships and Sageview (C) is a Cayman Islands exempted limited partnership. The principal business office of each of the Shareholders is 55 Railroad Avenue, Greenwich, Connecticut 06830.

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- (v) Sageview GenPar Ltd. is a Cayman Islands exempted limited partnership formed to act as the general partner of Sageview Master and each of the Shareholders. The principal business office of Sageview GenPar Ltd. is 55 Railroad Avenue, Greenwich, Connecticut 06830.
- (vi) Sageview GenPar is a Delaware limited partnership formed to be the sole owner of Sageview GenPar Ltd. The principal business office of Sageview GenPar is 55 Railroad Avenue, Greenwich, Connecticut 06830. Sageview MGP is the general partner of Sageview GenPar.
- (vii) Sageview MGP is a Delaware limited liability company formed to act as the general partner of Sageview GenPar. The principal business office of Sageview MGP is 55 Railroad Avenue, Greenwich, Connecticut 06830. The managing members and controlling persons of Sageview MGP are Scott M. Stuart and Edward A. Gilhuly.
- (viii) Sageview Capital is a Delaware limited partnership and the investment adviser to each of the Shareholders.
- (ix) Mr. Gilhuly is a managing member and controlling person of Sageview MGP. Mr. Gilhuly is a United States citizen whose business address is c/o Sageview Capital, L.P., 245 Lytton Ave, Suite 250, Palo Alto, California 94301. Mr. Gilhuly's principal occupation is to act as Co-President of Sageview Management, LLC.
- (x) Mr. Stuart is a managing member and controlling person of Sageview MGP. Mr. Stuart is a United States citizen whose business address is 55 Railroad Avenue, Greenwich, Connecticut, 06830. Mr. Stuart's principal occupation is to act as Co-President of Sageview Management, LLC.
- (xi) As a managing member of Sageview MGP, each of Messrs. Stuart and Gilhuly may be deemed to beneficially own any shares of common stock that Sageview MGP may beneficially own or be deemed to beneficially own. Each such individual disclaims beneficial ownership of such shares. Neither the filing of this Schedule 13G nor any of its contents shall be deemed to constitute an admission that any Reporting Person is the beneficial owner of the common stock referred to herein for purposes of Section 13(g) of the Exchange Act or for any other purpose, and such beneficial ownership is expressly disclaimed.

(d)	Title of Class of Securities  Common stock, par value \$0.001 per share (the "Shares")
(e)	CUSIP Number  29413T1060

Item 3. If this statement is filed pursuant to §§ 240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:  
  
Not applicable.



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## Item 4. Ownership

All ownership percentages set forth herein assume that there are 27,712,592 Shares outstanding, representing the total number of Shares reported in the Quarterly Report of the Issuer filed on Form 10-Q with the Securities and Exchange Commission (the "SEC") on December 10, 2014.

- |     |   |
|-----|---|
| (a) | Amount Beneficially Owned   |
|     | See row 9 of cover page of each reporting person  |
| (b) | Percent of Class  |
|     | See row 11 of cover page of each reporting person   |
| (c) | Number of Shares as to which such person has  |
|     | (i) sole power to vote or to direct the vote:<br>See row 5 of cover page of each reporting person                 |
|     | (ii) shared power to vote or to direct the vote:<br>See row 6 of cover page of each reporting person              |
|     | (iii) sole power to dispose or to direct the disposition of:<br>See row 7 of cover page of each reporting person  |
|     | (iv) shared power to dispose or to direct the disposition of:<br>See row 8 of cover page of each reporting person |

## Item 5. Ownership of Five Percent or Less of a Class

Not applicable.

## Item 6. Ownership of More than Five Percent on Behalf of Another Person

Not applicable.

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Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person

Not applicable.

Item 8. Identification and Classification of Members of the Group

Not applicable.

Item 9. Notice of Dissolution of Group

Not applicable.

Item 10. Certifications

Not applicable.

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SIGNATURE

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this statement is true, complete and correct.

Date: February 17, 2015

SAGEVIEW CAPITAL MASTER, L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL PARTNERS (A), L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL PARTNERS (B), L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director



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29413T1060

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SAGEVIEW PARTNERS (C) (MASTER), L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL GENPAR, LTD.

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL GENPAR, L.P.

By: Sageview Capital MGP, LLC, its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Co-President

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CUSIP No.  
29413T1060

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SAGEVIEW CAPITAL MGP, LLC

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Co-President

SAGEVIEW CAPITAL, L.P.

By: Sageview Management, LLC, its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

/s/ Edward A. Gilhuly  
EDWARD A. GILHULY

/s/ Scott M. Stuart  
SCOTT M. STUART

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EXHIBIT 1

JOINT FILING AGREEMENT

In accordance with Rule 13d-1(k)(1) under the Securities Exchange Act of 1934, as amended, the persons named below agree to the joint filing on behalf of each of them of this Schedule 13G. This Joint Filing Agreement shall be included as an Exhibit to such joint filing. In evidence thereof, each of the undersigned, being duly authorized, hereby executed this Agreement.

Date: February 17, 2015

SAGEVIEW CAPITAL MASTER, L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL PARTNERS (A), L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL PARTNERS (B), L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director



CUSIP No.  
29413T1060

SCHEDULE 13G

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SAGEVIEW PARTNERS (C) (MASTER), L.P.

By: Sageview Capital GenPar, Ltd., its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL GENPAR, LTD.

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

SAGEVIEW CAPITAL GENPAR, L.P.

By: Sageview Capital MGP, LLC, its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Co-President

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CUSIP No.  
29413T1060

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SAGEVIEW CAPITAL MGP, LLC

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Co-President

SAGEVIEW CAPITAL, L.P.

By: Sageview Management, LLC, its  
General Partner

By: /s/ Edward A. Gilhuly  
Name: Edward A. Gilhuly  
Title: Director

/s/ Edward A. Gilhuly  
EDWARD A. GILHULY

/s/ Scott M. Stuart  
SCOTT M. STUART

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(6,463)

Balance, March 26, 2016

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\$	9,648
\$	12
\$	9,660

**Note 9 – Earnings Per Share**

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

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

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

**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

**(unaudited)**

**Note 10 – Income Taxes**

For the three months ended March 26, 2016, our effective tax rate was 30.5% compared to 31.0% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods primarily relates to state and foreign income taxes and interest expense.

The total amount of unrecognized tax benefits as of March 26, 2016 was approximately \$101.4 million, of which \$80.6 million would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties, which are classified as a component of the provision for income taxes, were approximately \$16.6 million and \$0.0, respectively, as of March 26, 2016.

The tax years subject to examination by major tax jurisdictions include the years 2009 and forward by the U.S. Internal Revenue Service (“IRS”), as well as the years 2008 and forward for certain states and certain foreign jurisdictions. In December 2014, the IRS issued a Statutory Notice of Deficiency for 2009, 2010 and 2011. We do not expect this to have a significant effect on our consolidated financial position, liquidity or results of operations. During the quarter ended March 28, 2015, we filed our petition to the U.S. Tax Court disputing the adjustments proposed by the IRS. During the quarter ended June 27, 2015, we were notified by the IRS that our protest was transferred to the Appellate Divisions (Appeals Section) of the IRS. During the quarter ended March 26, 2016, we filed our protest with the Appellate Division. Our opening Appeals conference is scheduled during the quarter ending June 25, 2016.

**Note 11 – Derivatives and Hedging Activities**

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

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

**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

**(unaudited)**

**Note 12 – Stock-Based Compensation**

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$14.1 million (\$9.8 million after-tax) and \$8.5 million (\$5.9 million after-tax) for the three months ended March 26, 2016 and March 28, 2015, 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 three-year 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 such as acquisitions, divestitures, new business ventures, certain capital transactions (including share repurchases), restructuring costs, if any, changes in accounting principles or in applicable laws or regulations and certain foreign exchange fluctuations. Over the performance period, the number of shares of common stock that will ultimately vest and be issued and the related compensation expense is adjusted upward or downward based upon our estimation of achieving such performance targets. The ultimate number of shares delivered to recipients and the related compensation cost recognized as an expense will be based on our actual performance metrics as defined under the Plans.

Total unrecognized compensation cost related to non-vested awards as of March 26, 2016 was \$108.8 million, which is expected to be recognized over a weighted-average period of approximately 2.6 years.

**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

**(unaudited)**

The following table summarizes stock option activity under the Plans during the three months ended March 26, 2016:

Outstanding at beginning of period .....	
Granted .....	
Exercised .....	
Forfeited .....	
Outstanding at end of period .....	
Options exercisable at end of period .....	

The following tables summarize the activity of our non-vested restricted stock/units for the three months ended March 26, 2016:

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

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

**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(in thousands, except per share data)**

**(unaudited)**

**Note 13 – Supplemental Cash Flow Information**

Cash paid for interest and income taxes was:

Interest.....	\$ 7.
Income taxes.....	12.

During the three months ended March 26, 2016 and March 28, 2015, we had \$2.2 million and \$(2.2) million of non-cash net unrealized gains (losses) related to foreign currency hedging activities, respectively.

**Note 14 – Legal Proceedings**

In September 2015, Henry Schein, Inc. was served with a summons and complaint in an action commenced in the United States District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. Plaintiff alleges that, through its website, it markets and sells dental supplies and equipment to dentists. Plaintiff alleges, among other things, that defendants conspired to eliminate plaintiff as a viable competitor and to exclude plaintiff from the market for the marketing, distribution and sale of dental supplies and equipment in the United States and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserts the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants’ ongoing tortious and anticompetitive conduct. Plaintiff seeks equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys’ fees and expert fees. We intend to defend ourselves vigorously against the action.

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

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

As of March 26, 2016, 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)**

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

**Cautionary Note Regarding Forward-Looking Statements**

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

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

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

### **Where You Can Find Important Information**

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

## **Executive-Level Overview**

We believe we are the world's largest provider of health care products and services primarily to office-based dental, animal health and medical practitioners. We serve more than 1 million customers worldwide including dental practitioners and laboratories, animal health clinics and physician practices, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 84 years of experience distributing health care products.

We are headquartered in Melville, New York, employ nearly 19,000 people (of which more than 8,500 are based outside the United States) and have operations or affiliates in 33 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand and the United Kingdom.

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

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

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

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

## ***Industry Overview***

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



affect demand for technology solutions, including software, which can enhance the efficiency and facilitation of practice management.

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

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

## ***Industry Consolidation***

The health care products distribution industry, as it relates to office-based health care practitioners, is fragmented and diverse. This industry, which encompasses the dental, animal health and medical markets, was estimated to produce revenues of approximately \$45 billion in 2015 in the global markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

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. 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 2015 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 65% 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 2014-2024” indicating that total national health care spending reached approximately \$3.1 trillion in 2014, or 17.7% 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 \$5.4 trillion in 2024, approximately 19.6% 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 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 and other laws and regulations. Failure to comply with law or regulations could have a material adverse effect on our business.

### *Health Care Reform*

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

The Health Care Reform Law requirements include a 2.3% excise tax on domestic sales of many medical devices by manufacturers and importers that began in 2013 and a fee on branded prescription drugs and biologics that was implemented in 2011, both of which may affect sales. However, with respect to the medical device excise tax, a two-year moratorium was imposed under the Consolidated Appropriations Act, 2016, suspending the imposition of the tax on device sales during the period beginning January 1, 2016 and ending on December 31, 2017. The Health Care Reform Law has also materially expanded the number of individuals in the United States with health insurance. The Health Care Reform Law has faced ongoing legal challenges, including litigation seeking to invalidate

some of or all of the law or the manner in which it has been interpreted. As a result, while upholding the law generally, the United States Supreme Court has effectively made the Health Care Reform Law's Medicaid expansion voluntary for each state. There has been an effort by the political party in control of Congress to repeal some or all of the law. 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, has imposed new reporting and disclosure requirements for drug and device manufacturers with regard to payments or other transfers of value made to certain practitioners (including physicians, dentists and teaching hospitals), and for such manufacturers and for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. On February 1, 2013, CMS released the final rule to implement the Physician Payment Sunshine Act. Under this rule, data collection activities began on August 1, 2013, and as required under the Physician Payment Sunshine Act, CMS publishes information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities.

Under the Physician Payment Sunshine Act, we are required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals, and 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.

### *Health Care Fraud*

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

The fraud and abuse laws and regulations have been subject to varying interpretations, as well as heightened enforcement activity over the past few years, and significant enforcement activity has been the result of “relators,” who serve as whistleblowers by filing complaints in the name of the United States (and if applicable, particular states) under federal and state false claims laws. Under the federal False Claims Act, relators can be entitled to receive up to 30% of total recoveries. Also, violations of the federal False Claims Act can result in treble damages, and each false claim submitted can be subject to a penalty of up to \$11,000 per claim. Most states have adopted similar state false claims laws, and these state laws have their own penalties which may be in addition to federal False Claims Act penalties. The Health Care Reform Law significantly strengthened the federal False Claims Act and the federal Anti-Kickback Law provisions, which could lead to the possibility of increased whistleblower or relator suits, and among other things made clear that a federal Anti-Kickback Law violation can be a basis for federal False Claims Act liability.

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

We also are subject to certain United States and foreign laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act 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*

The Federal Food, Drug, and Cosmetic 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.

The Federal Drug Quality and Security Act of 2013 brought about significant changes with respect to pharmaceutical supply chain requirements and pre-empts state law. Title II of this measure, known as the Drug Supply Chain Security Act (“DSCSA”), will be phased in over 10 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 began to take effect in January 2015, subject to certain enforcement delays by the United States Food and Drug Administration (“FDA”). For example, the FDA announced that in light of difficulties experienced by some dispensers in establishing electronic systems to handle required product tracing information, it delayed to March 1, 2016 its enforcement of certain track and trace requirements originally scheduled to apply to dispensers on July 1, 2015. The DSCSA product tracing requirements replace the former FDA drug pedigree requirements and pre-empt state requirements that are inconsistent with, more stringent than, or in addition to, the DSCSA requirements. Also starting in January 2015, the DSCSA required manufacturers and wholesale distributors to have systems in place by which they can identify whether a product in their possession or control is a “suspect” or “illegitimate” product, and handle it accordingly.

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. Beginning January 1, 2015, the DSCSA required wholesalers and 3PLs to submit annual reports to the FDA, which include information regarding each state where the wholesaler or 3PL is licensed, the name and address of each facility and contact information. According to FDA guidance, states are pre-empted from imposing any licensing requirements that are inconsistent with, less stringent than, directly related to, or covered by the standards established by federal law in this area. Current state licensing requirements will likely remain in effect until the FDA issues new regulations as directed by the DSCSA.

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



The Food and Drug Administration Amendments Act of 2007 (“FDAAA”) and the Food and Drug Administration Safety and Innovation Act of 2012 (“FDASIA”) amended the Federal Food, Drug, and Cosmetic Act (“FDCA”) to require the FDA to promulgate regulations to implement a Unique Device Identification System. The FDA issued a final rule on September 24, 2013 implementing the Unique Device Identification System, requiring the labels of most medical devices to bear a unique device identifier (“UDI”), and prescribing the content and format of the UDI. The rule also requires the submission of certain information concerning UDI-labeled devices to an FDA database, the Global Unique Device Identification Database (“GUDID”). Additional FDA UDI guidance has subsequently been issued, and the FDA’s UDI regulations are being phased in over seven years from the rule’s promulgation in September 2013, beginning with the highest-risk devices (i.e., Class III medical devices) and ending with the lowest-risk devices. For the lowest-risk, Class I medical devices, a Universal Product Code may take the place of a UDI on the device’s label.

The FDA's UDI regulations require certain entities, referred to as "labelers," to develop and include UDIs on the labels of medical devices, and to directly mark certain devices with UDIs. Labelers are entities that cause a device's label to be applied or modified, without any subsequent replacement or modification. Typically, these entities are device manufacturers, specification developers, single-use device reprocessors, convenience kit assemblers, repackagers and relabelers.

Violations of the UDI regulations, including failure to include a UDI on a device's label after the effective date for the device type, result in the misbranding of the device. The FDCA makes it unlawful to introduce or deliver for introduction into interstate commerce a misbranded device. It is also unlawful to cause a device to become misbranded.

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

#### *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, and has developed and continues to develop policies on regulating clinical decision support tools and other types of software as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA or foreign government authorities could determine that one or more of our products is a medical device, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

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

We also sell products and services that health care providers, such as physicians and dentists, use to store and manage patient medical or dental records. These customers are subject to laws and regulations, such as HIPAA, which require

that they protect the privacy and security of those records, and our products may be used as part of these customers' comprehensive data security programs, including in connection with their efforts to comply with applicable privacy and security laws. Perceived or actual security vulnerabilities in our products or services, or the perceived or actual failure by us or our customers who use our products to comply with applicable legal 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.

Federal initiatives provide a program of incentive payments available to certain health care providers involving the adoption and use of certain electronic health care records systems and processes. The initiatives include providing, among others, physicians and dentists, with financial incentives if they meaningfully use certified electronic health record technology (“EHR”) in accordance with applicable requirements. In addition, Medicare-eligible providers that fail to timely adopt certified EHR systems and meet “meaningful use” requirements for those systems in accordance with regulatory requirements are to be subject to cumulative Medicare reimbursement reductions, which reductions for applicable health professionals (including physicians and dentists) began on January 1, 2015. Qualification for the incentive payments requires the use of EHRs that have certain capabilities for meaningful use pursuant to evolving standards adopted by CMS and by the Office of the National Coordinator for Health Information Technology (“ONC”) of the Department of Health and Human Services (“HHS”). Generally, initial (“Stage 1”) standards addressed criteria for periods beginning in 2011, and more demanding “Stage 2” standards addressed criteria for periods beginning in 2014. On October 6, 2015, CMS and ONC released comprehensive final rules with respect to the EHR program that, among other things, establish the more challenging “Stage 3” criteria, make certain adjustments to Stage 1 and Stage 2 standards (e.g., reducing the 2015 reporting period from a full year to 90 days), and finalize 2015 edition health information technology (HIT) certification criteria (which is now added to the existing 2014 edition HIT certification criteria, but not required until 2018). Notably, under the new rules, compliance with Stage 3 standards will be optional for providers in 2017, and would generally be required for all eligible providers (regardless of prior participation in the EHR incentive program) for 2018 reporting periods and subsequently. Developers and others involved in the manufacture of EHR program technology will have this interim period to develop and certify products, and work with customers to implement products for the 2018 EHR program period. In connection with the release of the October 6 rules, HHS has also stated it will continue to modify applicable EHR program standards. In addition, under the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), which establishes the Merit-Based Incentive Payment System (MIPS), over the next few years the EHR program is expected to become part of a more comprehensive federal quality measurement and incentive program, apparently with modified applicable requirements, and CMS has indicated that it may even supplant certain Stage 3 rules with more streamlined MIPS approaches. Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs, and therefore, we must maintain compliance with, and are affected by, these changing governmental criteria.

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 and cash flows for the three months ended March 26, 2016 and March 28, 2015 (in thousands):

	<b>Three March 2016</b>
<b>Operating results:</b>	
Net sales .....	\$ 2,712
Cost of sales .....	1,933
Gross profit .....	779
Operating expenses:	
Selling, general and administrative .....	599
Restructuring costs .....	4
Operating income .....	\$ 176
Other expense, net .....	\$ (
Net income .....	124
Net income attributable to Henry Schein, Inc. .....	113
<b>Cash flows:</b>	
Net cash used in operating activities .....	\$ (101,
Net cash used in investing activities .....	(70,
Net cash provided by financing activities .....	169

### Plan of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which was expected to be completed by the end of fiscal 2015. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. We have subsequently

determined that the restructuring activities under this initiative will not be completed until the first half of fiscal 2016.

The total costs associated with the actions to complete this restructuring are now expected to be in the range of \$46 million to \$49 million pre-tax, of which \$34.9 million pre-tax, was recorded in fiscal 2015 and \$4.1 million pre-tax has been recorded in the quarter ended March 26, 2016.

On April 29, 2016, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be \$7 million to \$10 million, consisting of \$6 million to \$9 million in employee severance pay and benefits and up to \$1 million in facility costs, representing primarily lease termination and other facility closure related costs. These actions will allow us to execute on our plan to reduce our cost structure to fund new initiatives to drive future growth under our 2015 – 2017 strategic planning cycle.

During the three months ended March 26, 2016 and March 28, 2015, we recorded restructuring costs of \$4.1 million and \$6.9 million, respectively. The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

**Three Months Ended March 26, 2016 Compared to Three Months Ended March 28, 2015**

*Net Sales*

Net sales for the three months ended March 26, 2016 and March 28, 2015 were as follows (in thousands):

Health care distribution (1):

Dental .....	
Animal health .....	
Medical .....	
Total health care distribution .....	

Technology and value-added services

(2).....	
Total .....	

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

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

The \$249.3 million, or 10.1%, increase in net sales for the three months ended March 26, 2016 includes an increase of 12.0% in local currency growth (9.3% increase in internally generated revenue and 2.7% growth from acquisitions) partially offset by a decrease of 1.9% related to foreign currency exchange.

The \$51.7 million, or 4.1%, increase in dental net sales for the three months ended March 26, 2016 includes an increase of 6.1% in local currency growth (4.9% increase in internally generated revenue and 1.2% growth from acquisitions) offset by a decrease of 2.0% related to foreign currency exchange. The 6.1% increase in local currency sales was due to dental consumable merchandise sales growth of 4.9% (3.5% increase in internally generated revenue and 1.4% growth from acquisitions), as well as an increase in dental equipment sales and service revenues of 10.7% (9.7% increase in internally generated revenue and 1.0% growth from acquisitions).

The \$87.1 million, or 12.7%, increase in animal health net sales for the three months ended March 26, 2016 includes an increase of 15.6% in local currency growth (9.8% increase in internally generated revenue and 5.8% growth from



acquisitions) partially offset by a decrease of 2.9% related to foreign currency exchange. The growth in internally generated animal health revenue is affected by the revenue for certain products being recognized on a gross basis in 2016 that had been recognized on an agency basis in the prior year. When excluding the effects of this change, internally generated revenue grew by 5.2%.

The \$94.6 million, or 21.3%, increase in medical net sales for the three months ended March 26, 2016 includes an increase of 21.5% in local currency growth attributable to internally generated revenue, partially offset by a decrease of 0.2% related to foreign currency exchange. The growth in internally generated medical revenue is affected by certain sales being recognized on a gross basis in 2016 that had been recognized on an agency basis in the prior year under our strategic agreement with Cardinal Health. When excluding the effects of this change, internally generated revenue grew by 10.8%.

The \$16.0 million, or 18.6%, increase in technology and value-added services net sales for the three months ended March 26, 2016 includes an increase of 19.9% in local currency growth (7.5% increase in internally generated revenue and 12.4% growth from acquisitions) partially offset by a decrease of 1.3% related to foreign currency exchange.

**Gross Profit**

Gross profit and gross margin percentages by segment and in total for the three months ended March 26, 2016 and March 28, 2015 were as follows (in thousands):

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

For the three months ended March 26, 2016, gross profit increased \$65.9 million, or 9.2%, compared to the prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

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

Health care distribution gross profit increased \$55.9 million, or 8.5%, for the three months ended March 26, 2016 compared to the prior year period. Health care distribution gross profit margin decreased to 27.2 % for the three months ended March 26, 2016 from 27.6 % for the comparable prior year period. The overall decrease in our health care distribution gross profit margin reflects lower margins in our medical operating segment due to certain sales being recognized on a gross basis in 2016 that had been recognized on an agency basis in the prior year. Acquisitions accounted for \$21.8 million of our gross profit increase within our health care distribution segment for the three months ended March 26, 2016 compared to the prior year period. The remaining increase of \$34.1 million in our health care distribution gross profit was attributable to a \$43.5 million gross profit increase from an increase in internally generated revenue, partially offset by a \$9.4 million gross profit decrease related to the decrease in the gross

margin rates.

Technology and value-added services gross profit increased \$10.0 million, or 17.3%, for the three months ended March 26, 2016 compared to the prior year period. Technology gross profit margin decreased to 66.7 % for the three months ended March 26, 2016 from 67.5 % for the comparable prior year period. Acquisitions accounted for \$5.8 million of our gross profit increase within our technology and value-added services segment for the three months ended March 26, 2016 compared to the prior year period. The remaining increase of \$4.2 million in our technology and value-added services segment gross profit was primarily attributable to an increase in internally generated revenue.

***Selling, General and Administrative***

Selling, general and administrative expenses by segment and in total for the three months ended March 26, 2016 and March 28, 2015 were as follows (in thousands):

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

Selling, general and administrative expenses increased \$53.9 million, or 9.9%, to \$599.1 million for the three months ended March 26, 2016 from the comparable prior year period. The \$46.9 million increase in selling, general and administrative expenses within our health care distribution segment for the three months ended March 26, 2016 as compared to the prior year period was attributable to \$21.8 million of additional costs from acquired companies, and \$25.1 million of additional operating costs. The \$7.0 million increase in selling, general and administrative expenses within our technology and value-added services segment for the three months ended March 26, 2016 as compared to the prior year period was attributable to \$4.4 million of additional costs from acquired companies and \$2.6 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses remained consistent at 22.1%.

As a component of selling, general and administrative expenses, selling expenses increased \$24.2 million, or 7.0%, to \$367.9 million for the three months ended March 26, 2016 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.6% from 13.9% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$29.7 million, or 14.7%, to \$231.2 million for the three months ended March 26, 2016 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 8.5% from 8.2% for the comparable prior year period.

***Other Expense, Net***

Other expense, net, for the three months ended March 26, 2016 and March 28, 2015 was as follows (in thousands):

	Mar 26 2016
Interest income .....	\$ 3,
Interest expense .....	(7,1
Other, net .....	3,
Other expense, net .....	\$ (6

Other expense, net of \$0.6 million for the three months ended March 26, 2016 changed by \$2.0 million compared to other expense, net of \$2.7 million for the three months ended March 28, 2015. Interest income remained consistent with the comparable amount in the prior year period. Interest expense increased \$0.9 million primarily due to increased borrowings under our credit facilities. Other, net increased by \$3.0 million primarily due to investment proceeds received in 2016.

***Income Taxes***

For the three months ended March 26, 2016, our effective tax rate was 30.5% compared to 31.0% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods primarily relates to state and foreign income taxes and interest expense.

### ***Net Income***

Net income increased \$13.0 million, or 11.6%, for the three months ended March 26, 2016, compared to the prior year period due to the factors noted above.

### **Liquidity and Capital Resources**

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

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

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

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

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

Net cash used in operating activities was \$101.5 million for the three months ended March 26, 2016, compared to \$26.7 million for the comparable prior year period. The net change of \$74.8 million was primarily attributable to changes in net working capital, partially offset by an increase in net income.

Net cash used in investing activities was \$71.0 million for the three months ended March 26, 2016, compared to \$30.3 million for the comparable prior year period. The net change of \$40.7 million was primarily due to an increase in payments for equity investments and business acquisitions.

Net cash provided by financing activities was \$169.1 million for the three months ended March 26, 2016, compared to \$35.8 million for the comparable prior year period. The net change of \$133.3 million was primarily due to increased net proceeds from debt, partially offset by an increase in acquisitions of noncontrolling interests in subsidiaries and an increase of repurchases of common stock.

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

	March 26, 2016
Cash and cash equivalents	\$ 7,100
Working capital	1,280
Debt:	
Bank credit lines	\$ 420
Current maturities of long-term debt	1,000
Long-term debt	660
Total debt	\$ 1,100

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 42.1 days as of March 26, 2016 from 41.2 days as of March 28, 2015. During the three months ended March 26, 2016, we wrote off approximately \$1.1 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations decreased to 5.1 as of March 26, 2016 from 5.3 as of March 28, 2015. Our working capital accounts may be impacted by current and future economic conditions.

*Bank Credit Lines*

On September 12, 2012, we entered into a new \$500 million revolving credit agreement (the “Credit Agreement”) with a \$200 million expansion feature, which was originally set to expire on September 12, 2017. On September 22, 2014, we extended the expiration date of the Credit Agreement to September 22, 2019. The interest rate is based on the USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. The Credit Agreement provides, among other things, that we are required to maintain maximum leverage ratios, and contains customary representations, warranties and affirmative covenants. The Credit Agreement also contains customary



negative covenants, subject to exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. As of March 26, 2016 and December 26, 2015, the borrowings on this revolving credit facility were \$90.0 million and \$40.0 million, respectively. As of March 26, 2016 and December 26, 2015, there were \$11.8 million and \$11.4 million of letters of credit, respectively, provided to third parties under the credit facility.

As of March 26, 2016 and December 26, 2015, we had various other short-term bank credit lines available, of which \$334.0 million and \$288.6 million, respectively, were outstanding. At March 26, 2016 and December 26, 2015, borrowings under all of our credit lines had a weighted average interest rate of 1.29% and 1.21%, respectively.

*Private Placement Facilities*

On August 10, 2010, we entered into \$400 million private placement facilities with two insurance companies. On April 30, 2012, we increased our available credit facilities by \$375 million by entering into a new agreement with one insurance company and amending our existing agreements with two insurance companies. On September 22, 2014, we increased our available private placement facilities by \$200 million to a total facility amount of \$975 million, and extended the expiration date to September 22, 2017. These facilities are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time through September 22, 2017. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of March 26, 2016 are presented in the following table (in thousands):

<b>Date of Borrowing</b>	<b>Amount of Borrowing Outstanding</b>	<b>Borrowing Rate</b>	<b>Due Date</b>
September 2, 2010	\$ 100,000	3.79%	September 2, 2020
January 20, 2012	50,000	3.45	January 20, 2024
January 20, 2012 (1)	42,857	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
	\$ 342,857		

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

*U.S. Trade Accounts Receivable Securitization*

On April 17, 2013, we entered into a facility agreement of up to \$300 million with a bank, as agent, based on the securitization of our U.S. trade accounts receivable. This facility allowed us to replace public debt (approximately \$220 million), which had a higher interest rate at Henry Schein Animal Health during February 2013 and provided funding for working capital and general corporate purposes. The financing was structured as an asset-backed securitization program with pricing committed for up to three years. On April 17, 2015, we extended the expiration

date of this facility agreement to April 15, 2018. The borrowings outstanding under this securitization facility were \$300.0 million and \$90.0 million as of March 26, 2016 and December 26, 2015, respectively. At March 26, 2016, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 55 basis points plus 75 basis points, for a combined rate of 1.30%. At December 26, 2015, the interest rate on borrowings under this facility was based on the asset-backed commercial paper rate of 40 basis points plus 75 basis points, for a combined rate of 1.15%.

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

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

*Long-term debt*

Long-term debt consisted of the following:

Private placement facilities	\$ 34
U.S. trade accounts receivable securitization	30
Notes payable to banks at a weighted-average interest rate of 8.83%	
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2018 at interest rates ranging from 2.18% to 5.07%	3
Capital lease obligations payable through 2019 with interest rates ranging from 0.95% to 10.68%	
Total	68
Less current maturities	(17)
Total long-term debt	\$ 66

*Stock Repurchases*

From June 21, 2004 through March 26, 2016, we repurchased \$1.8 billion, or 22,105,909 shares, under our common stock repurchase programs, with \$300.0 million available as of March 26, 2016 for future common stock share repurchases.

*Redeemable Noncontrolling Interests*

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the three months ended March 26, 2016 and the year ended December 26, 2015 are presented in the following table:

Balance, beginning of period .....	\$ 5
Decrease in redeemable noncontrolling interests due to redemptions .....	(3)
Increase in redeemable noncontrolling interests due to business acquisitions.....	
Net income attributable to redeemable noncontrolling interests .....	
Dividends declared .....	
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests .....	
Change in fair value of redeemable securities .....	
Balance, end of period .....	\$ 5

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.

## 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 26, 2015.

### Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Stock Compensation (Topic 718). ASU 2016-09 contains amended guidance for share-based payment accounting. ASU 2016-09 requires that all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement in the reporting period in which the awards vest or are exercised. Excess tax benefits should be classified in the statement of cash flows as an operating activity instead of a financing activity. Within the statement of cash flows, cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. Accounting for forfeitures can be accomplished via a policy election to either estimate the number of awards that are expected to vest or account for forfeitures at the time that they occur. The threshold to qualify for equity accounting will be increased to permit withholding up to the maximum statutory tax rates in the applicable taxing jurisdictions. The standard which requires the use of a modified retrospective transition approach will be effective for annual periods beginning after December 15, 2016. Early adoption is permitted in any interim or annual period. We are currently evaluating the impact of ASU 2016-09 on our consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 contains guidance on accounting for leases and requires that most lease assets and liabilities and the associated rights and obligations be recognized on the Company’s balance sheet. ASU 2016-02 focuses on lease assets and lease liabilities by lessees classified as operating leases under previous GAAP. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. ASU 2016-02 will require disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. The standard which requires the use of a modified retrospective approach will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of ASU 2016-02 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 26, 2015.

#### **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 annual report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of March 26, 2016 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*

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 26, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Limitations of the Effectiveness of Internal Control*

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

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In September 2015, Henry Schein, Inc. was served with a summons and complaint in an action commenced in the United States District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. Plaintiff alleges that, through its website, it markets and sells dental supplies and equipment to dentists. Plaintiff alleges, among other things, that defendants conspired to eliminate plaintiff as a viable competitor and to exclude plaintiff from the market for the marketing, distribution and sale of dental supplies and equipment in the United States and that defendants unlawfully agreed with one another to boycott dentists, manufacturers and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserts the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants' ongoing tortious and anticompetitive conduct. Plaintiff seeks equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. We intend to defend ourselves vigorously against the action.

Beginning in January 2016, class action complaints were filed against Patterson Companies, Inc., Benco Dental Supply Co. and Henry Schein, Inc. Each of these complaints allege, among other things, that defendants conspired to fix prices, allocate customers and foreclose competitors by boycotting manufacturers, state dental associations and others that deal with defendants' competitors. Subject to certain exclusions, these classes seek to represent all persons



who purchased dental supplies or equipment in the United States directly from any of the defendants or Burkhart Dental Supply Co. since August 31, 2008. Each class action complaint asserts a single count under Section 1 of the Sherman Act, and seeks equitable relief, compensatory and treble damages, jointly and severally, and reasonable costs and expenses, including attorneys' fees and expert fees. We intend to defend ourselves vigorously against these actions.

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

As of March 26, 2016, 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 26, 2015.

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

Our share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to \$100 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. As summarized in the table below, subsequent additional increases totaling \$2.0 billion, authorized by our Board of Directors, to the repurchase program provide for a total of \$2.1 billion of shares of our common stock to be repurchased under this program.

<b>Date of Authorization</b>	<b>Amount of Additional Repurchases Authorized</b>
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

As of March 26, 2016, we had repurchased approximately \$1.8 billion of common stock (22,105,909 shares) under these initiatives, with \$300.0 million available as of March 26, 2016 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 March 26, 2016:

<b>Fiscal Month</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Our Publicly Announced Program</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under Our Program (2)</b>
12/27/15 through 01/30/16	390,163	\$ 149.65	390,163	2,255,914
01/31/16 through 02/27/16	274,235	151.73	274,235	1,790,886
02/28/16 through 03/26/16	-	-	-	1,786,088
	664,398		664,398	

(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.

## ITEM 5. OTHER INFORMATION

### *Plan of Restructuring*

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which was expected to be completed by the end of fiscal 2015. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. We have subsequently determined that the restructuring activities under this initiative will not be completed until the first half of fiscal 2016.

The total costs associated with the actions to complete this restructuring are now expected to be in the range of \$46 million to \$49 million pre-tax, of which \$34.9 million pre-tax, was recorded in fiscal 2015 and \$4.1 million pre-tax has been recorded in the quarter ended March 26, 2016.

On April 29, 2016, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be \$7 million to \$10 million, consisting of \$6 million to \$9 million in employee severance pay and benefits and up to \$1 million in facility costs, representing primarily lease termination and other facility closure related costs. These actions will allow us to execute on our plan to reduce our cost structure to fund new initiatives to drive future growth under our 2015 – 2017 strategic planning cycle.

During the three months ended March 26, 2016 and March 28, 2015, we recorded restructuring costs of \$4.1 million and \$6.9 million, respectively. The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

**ITEM 6. EXHIBITS**

Exhibits.

- 10.1 Form of 2016 Restricted Stock Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013).\*\*+
- 10.2 Form of 2016 Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013).\*\*+
- 10.3 Form of 2016 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013).\*\*+
- 10.4 Form of 2016 Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated effective as of May 14, 2013).\*\*+
- 10.5 Form of 2016 Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 2015 Non-Employee Director Stock Incentive Plan (as amended and restated effective as of June 22, 2015).\*\*+
- 10.6 Amended and Restated Employment Agreement dated as of December 31, 2016, by and between Henry Schein, Inc. and Stanley M. Bergman. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 7, 2016).\*\*
- 10.7 Form of Performance-Based RSU Award Agreement for Stanley M. Bergman pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated as of May 14, 2013). (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 7, 2016).\*\*
- 10.8 Form of Time-Based RSU Award Agreement for Stanley M. Bergman pursuant to the Henry Schein, Inc. 2013 Stock Incentive Plan (as amended and restated as of May 14, 2013). (Incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on April 7, 2016).\*\*
- 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.+

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+ Filed herewith

\*\* Indicates management contract or compensatory plan or agreement.

**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: May 3, 2016