

HENRY SCHEIN INC  
Form 10-Q  
July 29, 2015  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-3136595  
(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

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

Yes

No

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

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Large accelerated filer  X

Accelerated filer  \_\_

Non-accelerated filer  \_\_

(Do not check if a  
smaller reporting  
company)

Smaller reporting company  \_\_

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

Yes  \_\_

No  X

As of July 24, 2015, there were 83,396,962 shares of the registrant's common stock outstanding.

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

	June 27, 2015 (unaudited)	December 27, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 47,068	\$ 89,474
Accounts receivable, net of reserves of \$75,142 and \$80,671	1,164,380	1,127,517
Inventories, net	1,314,220	1,327,796
Deferred income taxes	57,535	56,591
Prepaid expenses and other	322,134	311,788
Total current assets	2,905,337	2,913,166
Property and equipment, net	310,333	311,496
Goodwill	1,871,844	1,884,123
Other intangibles, net	601,118	643,736
Investments and other	416,994	386,286
Total assets	\$ 6,105,626	\$ 6,138,807
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 778,748	\$ 860,996
Bank credit lines	132,428	182,899
Current maturities of long-term debt	14,716	5,815
Accrued expenses:		
Payroll and related	221,335	237,511
Taxes	155,420	151,162
Other	334,095	341,728
Total current liabilities	1,636,742	1,780,111
Long-term debt	588,523	542,776
Deferred income taxes	252,969	253,118
Other liabilities	193,704	181,830
Total liabilities	2,671,938	2,757,835
Redeemable noncontrolling interests	567,672	564,527
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none outstanding	-	-
Common stock, \$.01 par value, 240,000,000 shares authorized, 83,654,154 outstanding on June 27, 2015 and		

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84,008,537 outstanding on December 27, 2014	837	840
Additional paid-in capital	248,772	265,363
Retained earnings	2,779,521	2,642,523
Accumulated other comprehensive loss	(165,737 )	(95,132 )
Total Henry Schein, Inc. stockholders' equity	2,863,393	2,813,594
Noncontrolling interests	2,623	2,851
Total stockholders' equity	2,866,016	2,816,445
Total liabilities, redeemable noncontrolling interests and stockholders' equity	\$ 6,105,626	\$ 6,138,807

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net sales	\$ 2,629,320	\$ 2,615,406	\$ 5,092,966	\$ 5,045,565
Cost of sales	1,878,642	1,886,934	3,628,893	3,620,380
Gross profit	750,678	728,472	1,464,073	1,425,185
Operating expenses:				
Selling, general and administrative	560,426	547,628	1,105,592	1,087,073
Restructuring costs	7,222	-	14,084	-
Operating income	183,030	180,844	344,397	338,112
Other income (expense):				
Interest income	3,257	3,416	6,712	6,871
Interest expense	(6,290 )	(5,670 )	(12,553 )	(10,928 )
Other, net	(177 )	1,032	(57 )	4,612
Income before taxes and equity in earnings of affiliates	179,820	179,622	338,499	338,667
Income taxes	(53,784 )	(55,322 )	(102,911 )	(104,945 )
Equity in earnings of affiliates	3,572	2,817	5,600	3,523
Net income	129,608	127,117	241,188	237,245
Less: Net income attributable to noncontrolling interests	(11,680 )	(10,881 )	(19,813 )	(18,910 )
Net income attributable to Henry Schein, Inc.	\$ 117,928	\$ 116,236	\$ 221,375	\$ 218,335
Earnings per share attributable to Henry Schein, Inc.:				
Basic	\$ 1.42	\$ 1.37	\$ 2.66	\$ 2.58
Diluted	\$ 1.40	\$ 1.35	\$ 2.62	\$ 2.53
Weighted-average common shares outstanding:				
Basic	83,053	84,620	83,139	84,716
Diluted	84,249	85,980	84,433	86,189

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net income	\$ 129,608	\$ 127,117	\$ 241,188	\$ 237,245
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	35,725	6,828	(74,147 )	14,620
Unrealized gain (loss) from foreign currency hedging activities	1,234	(772 )	(654 )	(1,720 )
Unrealized investment gain	2	27	2	38
Pension adjustment gain (loss)	(275 )	249	1,174	517
Other comprehensive income (loss), net of tax	36,686	6,332	(73,625 )	13,455
Comprehensive income	166,294	133,449	167,563	250,700
Comprehensive income attributable to noncontrolling interests:				
Net income	(11,680 )	(10,881 )	(19,813 )	(18,910 )
Foreign currency translation loss (gain)	(556 )	(491 )	3,020	(2,601 )
Comprehensive income attributable to noncontrolling interests	(12,236 )	(11,372 )	(16,793 )	(21,511 )
Comprehensive income attributable to Henry Schein, Inc.	\$ 154,058	\$ 122,077	\$ 150,770	\$ 229,189

See accompanying notes.



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

	Common Stock		Additional	Retained	Accumulated	Noncontrolling	Total
	Shares	Amount	Paid-in	Earnings	Other	Interests	Stockholders'
			Capital		Comprehensive		Equity
					Loss		
Balance, December 27, 2014	84,008,537	\$ 840	\$ 265,363	\$ 2,642,523	\$ (95,132 )	\$ 2,851	\$ 2,816,445
Net income (excluding \$19,441 attributable to Redeemable noncontrolling interests)	-	-	-	221,375	-	372	221,747
Foreign currency translation gain (loss) (excluding loss of \$3,033 attributable to Redeemable noncontrolling interests)	-	-	-	-	(71,127 )	13	(71,114 )
Unrealized loss from foreign currency hedging activities, including tax benefit of \$167	-	-	-	-	(654 )	-	(654 )
Unrealized investment gain, net of tax of \$0	-	-	-	-	2	-	2
Pension adjustment gain, net of tax of \$538	-	-	-	-	1,174	-	1,174
Dividends paid	-	-	-	-	-	(245 )	(245 )
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	(368 )	(368 )
Change in fair value of	-	-	(9,319 )	-	-	-	(9,319 )

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redeemable securities							
Other adjustments	-	-	54	-	-	-	54
Repurchase and retirement of common stock	(808,786 )	(8 )	(28,822 )	(84,377 )	-	-	(113,207 )
Stock issued upon exercise of stock options, including tax benefit of \$16,547	221,226	2	27,403	-	-	-	27,405
Stock-based compensation expense	427,434	4	21,997	-	-	-	22,001
Shares withheld for payroll taxes	(194,257 )	(1 )	(27,555 )	-	-	-	(27,556 )
Liability for cash settlement stock-based compensation awards	-	-	(349 )	-	-	-	(349 )
Balance, June 27, 2015	83,654,154	\$ 837	\$ 248,772	\$ 2,779,521	\$ (165,737 )	\$ 2,623	\$ 2,866,016

See accompanying notes.

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

	Six Months Ended	
	June 27, 2015	June 28, 2014
<b>Cash flows from operating activities:</b>		
Net income	\$ 241,188	\$ 237,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,175	73,489
Stock-based compensation expense	22,001	19,505
Provision for losses on trade and other accounts receivable	2,290	2,415
Provision for deferred income taxes	12,335	6,009
Equity in earnings of affiliates	(5,600 )	(3,523 )
Distributions from equity affiliates	6,113	5,340
Changes in unrecognized tax benefits	4,297	7,434
Other	4,862	8,019
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(55,452 )	(86,199 )
Inventories	(3,024 )	48,550
Other current assets	(26,349 )	(23,251 )
Accounts payable and accrued expenses	(97,734 )	(151,050 )
Net cash provided by operating activities	181,102	143,983
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(33,430 )	(37,976 )
Payments for equity investments and business acquisitions, net of cash acquired	(61,316 )	(222,857 )
Proceeds from sales of available-for-sale securities	20	-
Other	(3,179 )	(6,497 )
Net cash used in investing activities	(97,905 )	(267,330 )
<b>Cash flows from financing activities:</b>		
Proceeds from (repayments of) bank borrowings	(49,989 )	53,239
Proceeds from issuance of debt	125,000	314,787
Debt issuance costs	(150 )	-
Principal payments for long-term debt	(69,243 )	(100,866 )
Proceeds from issuance of stock upon exercise of stock options	10,858	21,277
Payments for repurchases of common stock	(113,207 )	(151,443 )
Excess tax benefits related to stock-based compensation	2,932	4,579

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Distributions to noncontrolling shareholders	(14,681 )	(17,689 )
Acquisitions of noncontrolling interests in subsidiaries	(8,257 )	(102,552 )
Net cash provided by (used in) financing activities	(116,737 )	21,332
Effect of exchange rate changes on cash and cash equivalents	(8,866 )	3,097
Net change in cash and cash equivalents	(42,406 )	(98,918 )
Cash and cash equivalents, beginning of period	89,474	188,616
Cash and cash equivalents, end of period	\$ 47,068	\$ 89,698

See accompanying notes.

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

Note 1 – Basis of Presentation

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

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

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 27, 2014.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the six months ended June 27, 2015 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 26, 2015.

Note 2 – Segment Data

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

The health care distribution reportable segment aggregates our global dental, animal health and medical operating segments. This segment distributes consumable products, small equipment, laboratory products, large equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins. Our global dental group serves office-based dental practitioners, dental laboratories, schools and other institutions. Our global animal health group serves animal health practices and clinics. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global dental, animal health and medical groups serve practitioners in 30 countries worldwide.

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

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

## Note 2 – Segment Data – (Continued)

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

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
<b>Net Sales:</b>				
Health care distribution (1):				
Dental	\$ 1,320,743	\$ 1,368,481	\$ 2,570,816	\$ 2,665,409
Animal health	748,558	754,549	1,432,882	1,409,037
Medical	470,519	403,257	914,052	800,671
Total health care distribution	2,539,820	2,526,287	4,917,750	4,875,117
Technology and value-added services (2)	89,500	89,119	175,216	170,448
Total	\$ 2,629,320	\$ 2,615,406	\$ 5,092,966	\$ 5,045,565

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

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

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
<b>Operating Income:</b>				
Health care distribution	\$ 156,168	\$ 153,578	\$ 292,307	\$ 287,397
Technology and value-added services	26,862	27,266	52,090	50,715
Total	\$ 183,030	\$ 180,844	\$ 344,397	\$ 338,112

## Note 3 – Debt

## 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 negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. There was no balance outstanding under this revolving credit facility as of June 27, 2015 and December 27, 2014. As of June 27, 2015 and December 27, 2014, there were \$10.1 million of letters of credit provided to third parties under the credit facility.

As of June 27, 2015 and December 27, 2014, we had various other short-term bank credit lines available, of which \$132.4 million and \$182.9 million, respectively, were outstanding. At June 27, 2015 and December 27, 2014, borrowings under all of our credit lines had a weighted average interest rate of 1.36% and 1.26%, respectively.

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

## Note 3 – Debt – (Continued)

## 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 June 27, 2015 are presented in the following table (in thousands):

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate	Due Date
September 2, 2010	\$ 100,000	3.79 %	September 2, 2020
January 20, 2012	50,000	3.45	January 20, 2024
January 20, 2012 (1)	50,000	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
	\$ 350,000		

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



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

## Note 3 – Debt – (Continued)

## 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 \$210.0 million and \$150.0 million as of June 27, 2015 and December 27, 2014, respectively. At June 27, 2015, the interest rate on borrowings under this facility was based on the average asset-backed commercial paper rate of 21 basis points plus 75 basis points, for a combined rate of 0.96%. At December 27, 2014, the interest rate on borrowings under this facility was based on the average asset-backed commercial paper rate of 20 basis points plus 75 basis points, for a combined rate of 0.95%.

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:

	June 27, 2015	December 27, 2014
Private placement facilities	\$ 350,000	\$ 350,000
U.S. trade accounts receivable securitization	210,000	150,000
Notes payable to banks at a weighted-average interest rate of 8.83%	14	30
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2018 at interest rates ranging from 1.92% to 5.41%	41,038	41,259
Capital lease obligations payable through 2019 with interest rates ranging from 2.00% to 11.49%	2,187	7,302
<b>Total</b>	<b>603,239</b>	<b>548,591</b>
Less current maturities	(14,716 )	(5,815 )
<b>Total long-term debt</b>	<b>\$ 588,523</b>	<b>\$ 542,776</b>

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

## Note 4 – Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification (“ASC”) Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the six months ended June 27, 2015 and the year ended December 27, 2014 are presented in the following table:

	June 27, 2015	December 27, 2014
Balance, beginning of period	\$ 564,527	\$ 497,539
Decrease in redeemable noncontrolling interests due to redemptions	(8,257 )	(105,383 )
Increase in redeemable noncontrolling interests due to business acquisitions	885	120,220
Net income attributable to redeemable noncontrolling interests	19,441	38,741
Dividends declared	(15,210 )	(23,346 )
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(3,033 )	(4,080 )
Change in fair value of redeemable securities	9,319	40,836
Balance, end of period	\$ 567,672	\$ 564,527

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

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

## Note 5 – Comprehensive Income

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

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

	June 27, 2015	December 27, 2014
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	\$ (8,616 )	\$ (5,583 )
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	\$ (23 )	\$ (36 )
Attributable to Henry Schein, Inc.:		
Foreign currency translation loss	\$ (142,421 )	\$ (71,294 )
Unrealized loss from foreign currency hedging activities	(1,709 )	(1,055 )
Unrealized investment loss	(134 )	(136 )
Pension adjustment loss	(21,473 )	(22,647 )
Accumulated other comprehensive loss	\$ (165,737 )	\$ (95,132 )
Total Accumulated other comprehensive loss	\$ (174,376 )	\$ (100,751 )

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

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Net income	\$ 129,608	\$ 127,117	\$ 241,188	\$ 237,245
Foreign currency translation gain (loss)	35,725	6,828	(74,147 )	14,620
Tax effect	-	-	-	-
Foreign currency translation gain (loss)	35,725	6,828	(74,147 )	14,620
Unrealized gain (loss) from foreign currency hedging				
activities	1,353	(869 )	(821 )	(2,021 )
Tax effect	(119 )	97	167	301
Unrealized gain (loss) from foreign currency hedging				
activities	1,234	(772 )	(654 )	(1,720 )

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Unrealized investment gain	2	44	2	62
Tax effect	-	(17 )	-	(24 )
Unrealized investment gain	2	27	2	38
Pension adjustment gain (loss)	(369 )	235	1,712	581
Tax effect	94	14	(538 )	(64 )
Pension adjustment gain (loss)	(275 )	249	1,174	517
Comprehensive income	\$ 166,294	\$ 133,449	\$ 167,563	\$ 250,700

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HENRY SCHEIN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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## Note 5 – Comprehensive Income – (Continued)

During the three months ended June 27, 2015 and June 28, 2014, we recognized as a component of our comprehensive income, a foreign currency translation gain of \$35.7 million and \$6.8 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. During the six months ended June 27, 2015 and June 28, 2014, we recognized as a component of our comprehensive income, a foreign currency translation gain (loss) of \$(74.1) million and \$14.6 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. Our financial statements are denominated in the U.S. Dollar currency. Fluctuations in the value of foreign currencies as compared to the U.S. Dollar may have a significant impact on our comprehensive income. The foreign currency translation gain (loss) during the three and six months ended June 27, 2015 was impacted by changes in foreign currency exchange rates as follows:

Currency	Foreign Currency Translation Gain (Loss) for the Three Months Ended			Foreign Currency Translation Gain (Loss) for the Three Months Ended		
	FX Rate into USD			FX Rate into USD		
	June 27, 2015	June 27, 2015	March 28, 2015	June 28, 2014	June 28, 2014	March 29, 2014
Euro	\$ 17,698	1.12	1.09	\$ (7,088 )	1.36	1.38
British Pound	14,145	1.57	1.49	7,237	1.70	1.66
Australian Dollar	(4,318 )	0.77	0.78	3,380	0.94	0.92
Polish Zloty	214	0.27	0.27	(208 )	0.33	0.33
Canadian Dollar	5,368	0.81	0.80	3,090	0.94	0.90
Swiss Franc	1,866	1.07	1.04	(373 )	1.12	1.13
Brazilian Real	486	0.32	0.31	159	0.45	0.44
All other currencies	266			631		
<b>Total</b>	<b>\$ 35,725</b>			<b>\$ 6,828</b>		

Currency	Foreign Currency Translation Gain (Loss) for the Six Months Ended			Foreign Currency Translation Gain (Loss) for the Six Months Ended		
	FX Rate into USD			FX Rate into USD		
	June 27, 2015	June 27, 2015	December 27, 2014	June 28, 2014	June 28, 2014	December 28, 2013
Euro	\$ (59,640 )	1.12	1.22	\$ (7,529 )	1.36	1.38
British Pound	(107 )	1.57	1.56	10,266	1.70	1.65
Australian Dollar	(11,805 )	0.77	0.81	11,407	0.94	0.89

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Polish Zloty	(1,851 )	0.27	0.28	(286 )	0.33	0.33
Canadian Dollar	(1,343 )	0.81	0.86	706	0.94	0.94
Swiss Franc	3,704	1.07	1.01	(182 )	1.12	1.12
Brazilian Real	(2,614 )	0.32	0.37	159	0.45	0.43
All other currencies	(491 )			79		
Total	\$ (74,147 )			\$ 14,620		

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HENRY SCHEIN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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## Note 5 – Comprehensive Income – (Continued)

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

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Comprehensive income attributable to Henry Schein, Inc.	\$ 154,058	\$ 122,077	\$ 150,770	\$ 229,189
Comprehensive income attributable to noncontrolling interests	189	188	385	259
Comprehensive income attributable to Redeemable noncontrolling interests	12,047	11,184	16,408	21,252
Comprehensive income	\$ 166,294	\$ 133,449	\$ 167,563	\$ 250,700

## Note 6 – Fair Value Measurements

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

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

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

- Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2— Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3— Inputs that are unobservable for the asset or liability.

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

## Investments and notes receivable

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

#### Debt

The fair value of our debt as of June 27, 2015 and December 27, 2014 was estimated at \$735.7 million and \$731.5 million, respectively. Factors that we considered when estimating the fair value of our debt include market conditions, prepayment and make-whole provisions, liquidity levels in the private placement market, variability in pricing from multiple lenders and term of debt.



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HENRY SCHEIN, INC.  
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## Note 6 – Fair Value Measurements – (Continued)

## Derivative contracts

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

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

## Redeemable noncontrolling interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value based on third-party valuations. The primary factor affecting the future value of redeemable noncontrolling interests is expected earnings and, if such earnings are not achieved, the value of the redeemable noncontrolling interests might be impacted. The noncontrolling interests subject to put options are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to Additional paid-in capital. Future reductions in the carrying amounts are subject to a “floor” amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not impact the calculation of earnings per share. The values for Redeemable noncontrolling interests are classified within Level 3 of the fair value hierarchy. The details of the changes in Redeemable noncontrolling interests are presented in Note 4.

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 27, 2015 and December 27, 2014:

	June 27, 2015			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Derivative contracts	\$ -	\$ 1,226	\$ -	\$ 1,226
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 1,226</b>	<b>\$ -</b>	<b>\$ 1,226</b>
<b>Liabilities:</b>				
Derivative contracts	\$ -	\$ 1,579	\$ -	\$ 1,579
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 1,579</b>	<b>\$ -</b>	<b>\$ 1,579</b>
<b>Redeemable noncontrolling interests</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 567,672</b>	<b>\$ 567,672</b>

	December 27, 2014			Total
	Level 1	Level 2	Level 3	

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<b>Assets:</b>				
Derivative contracts	\$ -	\$ 2,472	\$ -	\$ 2,472
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 2,472</b>	<b>\$ -</b>	<b>\$ 2,472</b>
<b>Liabilities:</b>				
Derivative contracts	\$ -	\$ 1,307	\$ -	\$ 1,307
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 1,307</b>	<b>\$ -</b>	<b>\$ 1,307</b>
<b>Redeemable noncontrolling interests</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 564,527</b>	<b>\$ 564,527</b>

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Note 7 – Business Acquisitions

Acquisitions

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

On July 10, 2015, we announced that, during the second quarter ended June 27, 2015, we made a 50% ownership investment in Maravet S.A. (“Maravet”), an animal health distributor in Romania. Maravet is a privately held company with annual sales of approximately \$23 million.

On June 23, 2015, we announced an agreement to acquire an 85% interest in Jorgen Kruuse A/S (“KRUUSE”), a leading distributor of veterinary supplies in Denmark, Norway and Sweden. KRUUSE had sales in 2014 of approximately \$90 million. The transaction is expected to close in the third quarter of 2015.

We completed certain other acquisitions during the six months ended June 27, 2015. Such acquisitions were immaterial to our financial statements individually and in the aggregate.

Some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. We have accrued liabilities for the estimated fair value of additional purchase price consideration at the time of the acquisition. Any adjustments to these accrual amounts are recorded in our consolidated statements of income. For the six months ended June 27, 2015 and June 28, 2014, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

Note 8 – Plan of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which will occur throughout fiscal 2015. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. The costs associated with all actions to complete this restructuring are expected to be in the range of \$35 million to \$40 million pre-tax (approximately \$0.29 to \$0.33 per diluted share). We plan to reduce our cost structure to fund new initiatives to drive future growth as our 2015 – 2017 strategic planning cycle begins. During the three and six months ended June 27, 2015, we recorded \$7.2 million and \$14.1 million in restructuring costs, respectively.

On July 28, 2015, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be \$23 million to \$28 million, consisting of \$12 million to \$14 million in employee severance pay and benefits, \$9 million to \$11 million in facility costs, representing primarily lease termination and other facility closure related costs, and \$2 million to \$3 million in other restructuring costs.

The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.



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HENRY SCHEIN, INC.  
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## Note 8 – Plan of Restructuring – (Continued)

The following table shows the amounts expensed and paid for restructuring costs that were incurred during the six months ended June 27, 2015 and during our 2014 fiscal year and the remaining accrued balance of restructuring costs as of June 27, 2015, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

	Severance Costs	Facility Closing Costs	Other	Total
Balance, December 28, 2013	\$ 227	\$ 484	\$ -	\$ 711
Provision	-	-	-	-
Payments and other adjustments	(107 )	(183 )	-	(290 )
Balance, December 27, 2014	\$ 120	\$ 301	\$ -	\$ 421
Provision	11,227	1,753	1,104	14,084
Payments	(5,907 )	(796 )	(832 )	(7,535 )
Balance, June 27, 2015	\$ 5,440	\$ 1,258	\$ 272	\$ 6,970

The following table shows, by reportable segment, the amounts expensed and paid for restructuring costs that were incurred during the six months ended June 27, 2015 and the 2014 fiscal year and the remaining accrued balance of restructuring costs as of June 27, 2015:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance, December 28, 2013	\$ 711	\$ -	\$ 711
Provision	-	-	-
Payments and other adjustments	(290 )	-	(290 )
Balance, December 27, 2014	\$ 421	\$ -	\$ 421
Provision	13,104	980	14,084
Payments	(6,555 )	(980 )	(7,535 )
Balance, June 27, 2015	\$ 6,970	\$ -	\$ 6,970

## 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:

Three Months Ended                      Six Months Ended

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	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
Basic	83,053	84,620	83,139	84,716
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units	1,196	1,360	1,294	1,473
Diluted	84,249	85,980	84,433	86,189

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HENRY SCHEIN, INC.  
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Note 10 – Income Taxes

For the six months ended June 27, 2015, our effective tax rate was 30.4% 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 June 27, 2015 was approximately \$87.4 million, of which \$64.2 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 \$17.3 million and \$0, respectively, for the six months ended June 27, 2015.

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 2005 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 the 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.

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.





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HENRY SCHEIN, INC.  
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Note 12 – Stock-Based Compensation

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$13.5 million (\$9.4 million after-tax) and \$22.0 million (\$15.3 million after-tax) for the three and six months ended June 27, 2015, respectively, and \$10.5 million (\$7.3 million after-tax) and \$19.5 million (\$13.5 million after-tax) for the three and six months ended June 28, 2014, 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, share repurchases 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 June 27, 2015 was \$120.8 million, which is expected to be recognized over a weighted-average period of approximately 2.3 years.



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HENRY SCHEIN, INC.  
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## Note 12 – Stock-Based Compensation – (Continued)

The following table summarizes stock option activity under the Plans during the six months ended June 27, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	684	\$ 53.41		
Granted	-	-		
Exercised	(223)	49.31		
Forfeited	-	-		
Outstanding at end of period	461	\$ 55.39	2.1	\$ 41,541
Options exercisable at end of period	461	\$ 55.39	2.1	\$ 41,541

The following tables summarize the activity of our non-vested restricted stock/units for the six months ended June 27, 2015:

	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	836	\$ 83.86	
Granted	164	140.81	
Vested	(207)	72.17	
Forfeited	(10)	94.94	
Outstanding at end of period	783	\$ 98.72	\$ 145.45

	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,127	\$ 77.19	
Granted	253	130.09	
Vested	(297)	73.50	

Forfeited	(7)		102.74	
Outstanding at end of period	1,076	\$	96.12	\$ 145.45

Note 13 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Six Months Ended	
	June 27, 2015	June 28, 2014
Interest	\$ 11,596	\$ 9,712
Income taxes	93,936	95,105

During the six months ended June 27, 2015 and June 28, 2014, we had \$0.8 million and \$2.0 million of non-cash net unrealized losses related to foreign currency hedging activities, respectively.

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

Cautionary Note Regarding Forward-Looking Statements

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

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: effects of a highly competitive 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; possible increases in the cost of shipping our products or other service issues with our third-party shippers; general global macro-economic conditions; disruptions in financial markets; possible 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; risks from challenges associated with the emergence of potential increased competition by third-party online commerce sites; risks from disruption to our information systems; 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 83 years of experience distributing health care products.

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We are headquartered in Melville, New York, employ more than 18,000 people (of which more than 8,000 are based outside the United States) and have operations or affiliates in 30 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, France, Germany, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Switzerland, Thailand and the United Kingdom.

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

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

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

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

## Industry Overview

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

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

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

## Industry Consolidation

The health care products distribution industry, as it relates to office-based health care practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, animal health and medical markets, was estimated to produce revenues of approximately \$45 billion in 2014 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.



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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 2014 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 18 million. The population aged 65 to 84 years is projected to increase over 60% during the same time period.

As a result of these market dynamics, annual expenditures for health care services continue to increase in the United States. We believe that demand for our products and services will grow, while continuing to be impacted by current and future operating, economic and industry conditions. The Centers for Medicare and Medicaid Services, or CMS, published "National Health Expenditure Projections 2013-2023" indicating that total national health care spending reached approximately \$2.9 trillion in 2013, or 17.2% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Health care spending is projected to reach approximately \$5.2 trillion in 2023, approximately 19.3% of the nation's gross domestic product.



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### 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. 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, and the reduction in the expansion of health insurance coverage. Notably, on June 25, 2015, the United States Supreme Court upheld the Health Care Reform Law's use of health insurance subsidies for low and moderate income individuals who purchase coverage through health insurance exchanges established by the federal government. 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 has begun to publish 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. It is difficult to predict how the new requirements may impact existing relationships among manufacturers, distributors, physicians, dentists and teaching hospitals. The Physician Payment Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may be required to report under certain of such state laws in addition to Physician Payment Sunshine Act reporting, and some of these state laws are also ambiguous. We have made the required Physician Payment Sunshine Act submissions for 2013 and 2014. The 2013 submissions have been publicly available since September 30, 2014, and CMS published the 2014 submissions on June 30, 2015. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. While we believe we have substantially compliant programs and controls in place to comply with these reporting requirements, our compliance with these

rules imposes additional costs on us.

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### 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. 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.



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The Federal Drug Quality and Security Act of 2013 brings 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”). Most recently, on June 30, 2015, the FDA announced that in light of difficulties experienced by some dispensers in establishing electronic systems to handle required product tracing information, it would delay to November 1, 2015 its enforcement of certain track and trace requirements scheduled to apply to dispensers on July 1, 2015, although this delay does not affect current DSCSA requirements that apply to other trading partners, such as manufacturers and wholesale distributors. 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 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 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.

### 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.

Certain of our businesses involve access to personal health, medical, financial and other information of individuals, and are accordingly 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.





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In addition, federal initiatives are providing 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 initiative includes 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 eligible 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 standards adopted by the Department of Health and Human Services. Initial (“Stage 1”) standards addressed criteria for periods beginning in 2011. CMS has also issued a final rule with more demanding “Stage 2” criteria for periods beginning in 2014 for eligible health professionals (including physicians and dentists) and has issued a proposed rule for “Stage 3” criteria for periods beginning in 2017.

Recognizing difficulties encountered by some providers in acquiring and implementing 2014 edition-certified EHR technology, CMS published a final rule on September 4, 2014 that adds flexibility to the manner in which physicians, dentists and others may demonstrate meaningful use of EHR by extending through the 2014 reporting period the ability, in certain circumstances, to use 2011 edition-certified technology to attest to meaningful use, rather than requiring the use of 2014 edition-certified technology. CMS also continues to issue proposals to implement the EHR program. For example, on March 30, 2015, CMS issued a proposed rule setting forth the standards for what is expected to be the final stage of meaningful use, Stage 3. The proposed rule, among other things, would establish a single set of objectives and measures to meet the definition of meaningful use. Additionally, under the proposed rule, compliance with Stage 3 standards would be optional for any provider who chooses to attest to these objectives and measures for an EHR reporting period 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. An April 15, 2015 CMS proposed rule would, among other things, change the Stage 1 and Stage 2 EHR reporting periods in 2015 from a full year to a 90-day period, and change certain Stage 1 and Stage 2 reporting objectives and measures. Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs, and so must maintain compliance with, and are affected by, these evolving governmental criteria.

Also, HIPAA requires certain health care providers, such as physicians, to use certain transaction and code set rules for specified electronic transactions, such as transactions involving claims submissions. Commencing July 1, 2012, CMS required that electronic claim submissions and related electronic transactions be conducted under a new HIPAA transaction standard, called Version 5010. CMS has required this upgrade in connection with another new requirement applicable to the industry, the implementation of new diagnostic code sets to be used in claims submission. The new diagnostic code sets are called the ICD-10-CM. They were originally to be implemented on October 1, 2013 (and CMS delayed the implementation date until October 1, 2014), but as part of the Protecting Access to Medicare Act of 2014, enacted on April 1, 2014, Congress prohibited the Secretary of Health and Human Services from implementing ICD-10-CM any earlier than October 1, 2015. CMS published a final rule on August 4, 2014 adopting the October 1, 2015 compliance date and requiring the use of ICD-9-CM code sets through September 30, 2015, and there is no suggestion that implementation will be further delayed. Certain of our businesses provide electronic practice management products that must meet those requirements, and while we believe that we are prepared to timely adopt the new standards, it is possible that the transition to these new standards, particularly the transition to ICD-10-CM, may result in a degree of disruption and confusion, thus potentially increasing the costs associated with supporting this product.

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



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## E-Commerce

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

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

## Results of Operations

The following table summarizes the significant components of our operating results for the three and six months ended June 27, 2015 and June 28, 2014 and cash flows for the six months ended June 27, 2015 and June 28, 2014 (in thousands):

	Three Months Ended		Six Months Ended	
	June 27, 2015	June 28, 2014	June 27, 2015	June 28, 2014
<b>Operating results:</b>				
Net sales	\$ 2,629,320	\$ 2,615,406	\$ 5,092,966	\$ 5,045,565
Cost of sales	1,878,642	1,886,934	3,628,893	3,620,380
Gross profit	750,678	728,472	1,464,073	1,425,185
<b>Operating expenses:</b>				
Selling, general and administrative	560,426	547,628	1,105,592	1,087,073
Restructuring costs	7,222	-	14,084	-
Operating income	\$ 183,030	\$ 180,844	\$ 344,397	\$ 338,112
Other income (expense), net	\$ (3,210 )	\$ (1,222 )	\$ (5,898 )	\$ 555
Net income	129,608	127,117	241,188	237,245
Net income attributable to Henry Schein, Inc.	117,928	116,236	221,375	218,335
<b>Cash flows:</b>				
Net cash provided by operating activities			\$ 181,102	\$ 143,983
Net cash used in investing activities			(97,905 )	(267,330 )
Net cash provided by (used in) financing activities			(116,737 )	21,332

## Plan of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which will occur throughout fiscal 2015. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. The costs associated with all actions to complete this restructuring are expected to be in the range of \$35 million to \$40 million pre-tax (approximately \$0.29

to \$0.33 per diluted share). We plan to reduce our cost structure to fund new initiatives to drive future growth as our 2015 – 2017 strategic planning cycle begins. During the three and six months ended June 27, 2015, we recorded \$7.2 million and \$14.1 million in restructuring costs, respectively.

On July 28, 2015, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be \$23 million to \$28 million, consisting of \$12 million to \$14 million in employee severance pay and benefits, \$9 million to \$11 million in facility costs, representing primarily lease termination and other facility closure related costs, and \$2 million to \$3 million in other restructuring costs.

The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

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Three Months Ended June 27, 2015 Compared to Three Months Ended June 28, 2014

## Net Sales

Net sales for the three months ended June 27, 2015 and June 28, 2014 were as follows (in thousands):

	June 27, 2015	% of Total	June 28, 2014	% of Total	Increase/(Decrease) \$	%
<b>Health care distribution (1):</b>						
Dental	\$ 1,320,743	50.2 %	\$ 1,368,481	52.3 %	\$ (47,738 )	(3.5 )%
Animal health	748,558	28.5	754,549	28.9	(5,991 )	(0.8 )
Medical	470,519	17.9	403,257	15.4	67,262	16.7
Total health care distribution	2,539,820	96.6	2,526,287	96.6	13,533	0.5
<b>Technology and value-added services (2)</b>						
	89,500	3.4	89,119	3.4	381	0.4
<b>Total</b>	<b>\$ 2,629,320</b>	<b>100.0 %</b>	<b>\$ 2,615,406</b>	<b>100.0 %</b>	<b>\$ 13,914</b>	<b>0.5</b>

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

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

The \$13.9 million, or 0.5%, increase in net sales for the three months ended June 27, 2015 includes an increase of 7.5% in local currency growth (3.9% increase in internally generated revenue and 3.6% growth from acquisitions) partially offset by a decrease of 7.0% related to foreign currency exchange.

The \$47.7 million, or 3.5%, decrease in dental net sales for the three months ended June 27, 2015 includes an increase of 4.5% in local currency growth (4.1% increase in internally generated revenue and 0.4% growth from acquisitions) offset by a decrease of 8.0% related to foreign currency exchange. The 4.5% increase in local currency sales was due to dental consumable merchandise sales growth of 4.5% (4.1% increase in internally generated revenue and 0.4% growth from acquisitions), as well as an increase in dental equipment sales and service revenues of 4.8% (4.1% increase in internally generated revenue and 0.7% growth from acquisitions).

The \$6.0 million, or 0.8%, decrease in animal health net sales for the three months ended June 27, 2015 includes an increase of 7.9% in local currency growth (0.6% increase in internally generated revenue and 7.3% growth from acquisitions) offset by a decrease of 8.7% related to foreign currency exchange. The growth in internally generated animal health revenue is affected by certain products switching between agency sales and standard sales, as well as changes to our veterinary diagnostics manufacturer relationships. When excluding the effects of these items, internally generated revenue grew 5.0%.

The \$67.3 million, or 16.7%, increase in medical net sales for the three months ended June 27, 2015 includes an increase of 17.7% in local currency growth (9.9% increase in internally generated revenue and 7.8% growth from acquisitions) partially offset by a decrease of 1.0% related to foreign currency exchange.

The \$0.4 million, or 0.4%, increase in technology and value-added services net sales for the three months ended June 27, 2015 includes an increase of 3.3% in local currency growth (2.9% increase in internally generated revenue and 0.4% growth from acquisitions) partially offset by a decrease of 2.9% related to foreign currency exchange.

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## Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended June 27, 2015 and June 28, 2014 were as follows (in thousands):

	June 27, 2015	Gross Margin %	June 28, 2014	Gross Margin %	\$	Increase %
Health care distribution	\$ 689,648	27.2 %	\$ 669,955	26.5 %	\$ 19,693	2.9 %
Technology and value-added services	61,030	68.2	58,517	65.7	2,513	4.3
Total	\$ 750,678	28.6	\$ 728,472	27.9	\$ 22,206	3.0

For the three months ended June 27, 2015, gross profit increased \$22.2 million, or 3.0%, 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 \$19.7 million, or 2.9%, for the three months ended June 27, 2015 compared to the prior year period. Health care distribution gross profit margin increased to 27.2% for the three months ended June 27, 2015 from 26.5% for the comparable prior year period. The overall increase in our health care distribution gross profit margin reflects growing margins in our dental and animal health operating segments. Acquisitions accounted for \$29.7 million of our gross profit increase within our health care distribution segment for the three months ended June 27, 2015 compared to the prior year period. The offsetting decrease of \$10.0 million in our health care distribution segment gross profit was attributable to an \$18.0 million gross profit decrease from a decline in internally generated revenue, partially offset by an \$8.0 million gross profit increase related to an improvement in the gross margin rate on our dental consumable merchandise sales and changes in our animal health product mix.

Technology and value-added services gross profit increased \$2.5 million, or 4.3%, for the three months ended June 27, 2015 compared to the prior year period. Technology gross profit margin increased to 68.2% for the three months ended June 27, 2015 from 65.7% for the comparable prior year period. Acquisitions accounted for \$0.4 million of our gross profit increase within our technology and value-added services segment for the three months ended June 27, 2015 compared to the prior year period. The remaining increase of \$2.1 million in our technology and value-added services segment gross profit was attributable to improvements in the gross margin rate for our technology and value-added services segment.

## Selling, General and Administrative

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Selling, general and administrative expenses by segment and in total for the three months ended June 27, 2015 and June 28, 2014 were as follows (in thousands):

	June 27, 2015	% of Respective Net Sales	June 28, 2014	% of Respective Net Sales	\$	Increase %
Health care distribution	\$ 527,236	20.8 %	\$ 516,377	20.4 %	\$ 10,859	2.1 %
Technology and value-added services	33,190	37.1	31,251	35.1	1,939	6.2
Total	\$ 560,426	21.3	\$ 547,628	20.9	\$ 12,798	2.3



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Selling, general and administrative expenses increased \$12.8 million, or 2.3%, to \$560.4 million for the three months ended June 27, 2015 from the comparable prior year period. The \$10.9 million increase in selling, general and administrative expenses within our health care distribution segment for the three months ended June 27, 2015 as compared to the prior year period was attributable to \$28.7 million of additional costs from acquired companies, partially offset by a reduction of \$17.8 million of costs primarily due to the impact of foreign exchange. The \$1.9 million increase in selling, general and administrative expenses within our technology and value-added services segment for the three months ended June 27, 2015 as compared to the prior year period was attributable to \$0.5 million of additional costs from acquired companies and \$1.4 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses increased to 21.3% from 20.9% for the comparable prior year period.

As a component of selling, general and administrative expenses, selling expenses decreased \$2.6 million, or 0.8%, to \$344.1 million for the three months ended June 27, 2015 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.1% from 13.3% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$15.4 million, or 7.7%, to \$216.3 million for the three months ended June 27, 2015 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 8.2% from 7.7% for the comparable prior year period.

## Other Expense, Net

Other expense, net, for the three months ended June 27, 2015 and June 28, 2014 was as follows (in thousands):

	June 27, 2015	June 28, 2014	\$	Variance %
Interest income	\$ 3,257	\$ 3,416	\$ (159 )	(4.7 )%
Interest expense	(6,290 )	(5,670 )	(620 )	(10.9 )
Other, net	(177 )	1,032	(1,209 )	(117.2)
Other expense, net	\$ (3,210 )	\$ (1,222 )	\$ (1,988 )	(162.7)

Other expense, net increased by \$2.0 million for the three months ended June 27, 2015 compared to the prior year period. Interest income remained consistent with the comparable prior year period. Interest expense increased \$0.6 million primarily due to increased borrowings under our bank credit lines and our private placement facilities. Other, net decreased by \$1.2 million primarily due to proceeds received in the prior year period from an insurance claim.

## Income Taxes

For the three months ended June 27, 2015, our effective tax rate was 29.9% compared to 30.8% 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 \$2.5 million, or 2.0%, for the three months ended June 27, 2015, compared to the prior year period due to the factors noted above.



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Six Months Ended June 27, 2015 Compared to Six Months Ended June 28, 2014

## Net Sales

Net sales for the six months ended June 27, 2015 and June 28, 2014 were as follows (in thousands):

	June 27, 2015	% of Total	June 28, 2014	% of Total	Increase/(Decrease) \$	%
<b>Health care distribution (1):</b>						
Dental	\$ 2,570,816	50.5 %	\$ 2,665,409	52.8 %	\$ (94,593 )	(3.5 )%
Animal health	1,432,882	28.1	1,409,037	27.9	23,845	1.7
Medical	914,052	18.0	800,671	15.9	113,381	14.2
Total health care distribution	4,917,750	96.6	4,875,117	96.6	42,633	0.9
<b>Technology and value-added services (2)</b>						
	175,216	3.4	170,448	3.4	4,768	2.8
Total	\$ 5,092,966	100.0%	\$ 5,045,565	100.0%	\$ 47,401	0.9

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

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

The \$47.4 million, or 0.9%, increase in net sales for the six months ended June 27, 2015 includes an increase of 7.5% in local currency growth (4.4% increase in internally generated revenue and 3.1% growth from acquisitions) partially offset by a decrease of 6.6% related to foreign exchange.

The \$94.6 million, or 3.5%, decrease in dental net sales for the six months ended June 27, 2015 includes an increase of 4.0% in local currency growth (3.5% increase in internally generated revenue and 0.5% growth from acquisitions) offset by a decrease of 7.5% related to foreign currency exchange. The 4.0% increase in local currency sales was due to an increase in dental equipment sales and service revenues of 5.5% (4.4% increase in internally generated revenue and 1.1% growth from acquisitions) and dental consumable merchandise sales growth of 3.6% (3.2% increase in internally generated revenue and 0.4% growth from acquisitions).

The \$23.8 million, or 1.7%, increase in animal health net sales for the six months ended June 27, 2015 includes an increase of 9.9% in local currency growth (2.4% internally generated growth and 7.5% growth from acquisitions) partially offset by a decrease of 8.2% related to foreign currency exchange. The growth in internally generated animal health revenue is affected by certain products switching between agency sales and standard sales, as well as changes to our veterinary diagnostics manufacturer relationships. When excluding the effects of these items, internally generated revenue grew 6.9%.

The \$113.4 million, or 14.2%, increase in medical net sales for the six months ended June 27, 2015 includes an increase of 15.1% in local currency growth (10.8% internally generated revenue and 4.3% growth from acquisitions) partially offset by a decrease of 0.9% related to foreign currency exchange.

The \$4.8 million, or 2.8%, increase in technology and value-added services net sales for the six months ended June 27, 2015 includes an increase of 5.6% in local currency growth (5.3% internally generated growth and 0.3% growth from acquisitions) partially offset by a decrease of 2.8% related to foreign currency exchange.

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## Gross Profit

Gross profit and gross margin percentages by segment and in total for the six months ended June 27, 2015 and June 28, 2014 were as follows (in thousands):

	June 27, 2015	Gross Margin %	June 28, 2014	Gross Margin %	Increase \$	Increase %
Health care distribution	\$ 1,345,193	27.4 %	\$ 1,311,772	26.9 %	\$ 33,421	2.5 %
Technology and value-added services	118,880	67.8	113,413	66.5	5,467	4.8
Total	\$ 1,464,073	28.7	\$ 1,425,185	28.2	\$ 38,888	2.7

For the six months ended June 27, 2015, gross profit increased \$38.9 million, or 2.7%, from the comparable prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

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

Health care distribution gross profit increased \$33.4 million, or 2.5%, for the six months ended June 27, 2015 compared to the prior year period. Health care distribution gross profit margin increased to 27.4% for the six months ended June 27, 2015 from 26.9% for the comparable prior year period. The overall increase in our health care distribution gross profit margin reflects growing margins in our dental and animal health operating segments. Acquisitions accounted for \$49.2 million of our gross profit increase within our health care distribution segment for the six months ended June 27, 2015 compared to the prior year period. The offsetting decrease of \$15.8 million in our health care distribution segment gross profit was attributable to a \$29.2 million gross profit decrease from a decline in internally generated revenue, partially offset by a \$13.4 million gross profit increase related to an improvement in the gross margin rate on our dental consumable merchandise sales and changes in our animal health product mix.

Technology and value-added services gross profit increased \$5.5 million, or 4.8%, for the six months ended June 27, 2015 compared to the prior year period. Technology gross profit margin increased to 67.8% for the six months ended June 27, 2015 from 66.5% for the comparable prior year period. Acquisitions accounted for \$0.5 million of our gross profit increase within our technology and value-added services segment for the six months ended June 27, 2015 compared to the prior year period. The remaining increase of \$5.0 million in our technology and value-added services segment gross profit was attributable to a \$2.9 million gross profit increase from our growth in internally generated revenue and \$2.1 million gross profit increase related to a slight improvement in the gross margin rate for our technology and value-added services segment.

## Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the six months ended June 27, 2015 and June 28, 2014 were as follows (in thousands):

	June 27, 2015	% of Respective Net Sales	June 28, 2014	% of Respective Net Sales	Increase \$	%
Health care distribution	\$ 1,039,782	21.1 %	\$ 1,024,375	21.0 %	\$ 15,407	1.5 %
Technology and value-added services	65,810	37.6	62,698	36.8	3,112	5.0
Total	\$ 1,105,592	21.7	\$ 1,087,073	21.5	\$ 18,519	1.7

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Selling, general and administrative expenses increased \$18.5 million, or 1.7%, to \$1,105.6 million for the six months ended June 27, 2015 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses increased to 21.7% from 21.5% for the comparable prior year period. The \$15.4 million increase in selling, general and administrative expenses within our health care distribution segment for the six months ended June 27, 2015 as compared to the prior year period was attributable to \$46.4 million of additional costs from acquired companies, partially offset by a reduction of \$31.0 million of costs primarily due to the impact of foreign exchange. The \$3.1 million increase in selling, general and administrative expenses within our technology and value-added services segment for the six months ended June 27, 2015 as compared to the prior year period was attributable to \$0.6 million of additional costs from acquired companies and \$2.5 million of additional operating costs.

As a component of selling, general and administrative expenses, selling expenses decreased \$3.7 million, or 0.5%, to \$687.8 million for the six months ended June 27, 2015 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.5% as compared to 13.7% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$22.2 million, or 5.6%, to \$417.8 million for the six months ended June 27, 2015 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 8.2% from 7.8% for the comparable prior year period.

## Other Income (Expense), Net

Other income (expense), net, for the six months ended June 27, 2015 and June 28, 2014 was as follows (in thousands):

	June 27, 2015	June 28, 2014	Variance \$	%
Interest income	\$6,712	\$6,871	\$(159)	(2.3)%
Interest expense	(12,553)	(10,928)	(1,625)	(14.9)
Other, net	(57)	4,612	(4,669)	(101.2)
Other income (expense), net	\$(5,898)	\$555	\$(6,453)	(1,162.7)

Other expense, net of \$5.9 million for the six months ended June 27, 2015 changed by \$6.5 million compared to other income, net of \$0.6 million for the six months ended June 28, 2014. Interest income decreased \$0.2 million primarily due to lower late fee income. Interest expense increased by \$1.6 million primarily due to increased borrowings under our bank credit lines and our private placement facilities. Other, net decreased by \$4.7 million primarily due to a contractual payment in the prior year period from an animal health supplier in Europe related to a change to a non-exclusive sales model.

## Income Taxes

For the six months ended June 27, 2015, our effective tax rate was 30.4% 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 \$3.9 million, or 1.7%, for the six months ended June 27, 2015, compared to the prior year period due to the factors noted above.





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## 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 provided by operating activities was \$181.1 million for the six months ended June 27, 2015, compared to \$144.0 million for the comparable prior year period. The net change of \$37.1 million was primarily attributable to changes in net working capital.

Net cash used in investing activities was \$97.9 million for the six months ended June 27, 2015, compared to \$267.3 million for the comparable prior year period. The net change of \$169.4 million was primarily due to a reduction in payments for equity investments and business acquisitions.

Net cash used in financing activities was \$116.7 million for the six months ended June 27, 2015, compared to net cash provided by financing activities of \$21.3 million for the comparable prior year period. The net change of \$138.0 million was primarily due to decreased net proceeds from debt, partially offset by a reduction in acquisitions of noncontrolling interests in subsidiaries and a reduction of repurchases of common stock.

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

	June 27, 2015	December 27, 2014
Cash and cash equivalents	\$ 47,068	\$ 89,474
Working capital	1,268,595	1,133,055
Debt:		
Bank credit lines	\$ 132,428	\$ 182,899

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Current maturities of long-term debt	14,716	5,815
Long-term debt	588,523	542,776
Total debt	\$ 735,667	\$ 731,490

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

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### Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations remained consistent at 40.5 days as of June 27, 2015 compared to the comparable prior year period. During the six months ended June 27, 2015, we wrote off approximately \$3.7 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations decreased to 5.5 as of June 27, 2015 from 5.8 as of June 28, 2014. 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 negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements. There was no balance outstanding under this revolving credit facility as of June 27, 2015 and December 27, 2014. As of June 27, 2015 and December 27, 2014, there were \$10.1 million of letters of credit provided to third parties under the credit facility.

As of June 27, 2015 and December 27, 2014, we had various other short-term bank credit lines available, of which \$132.4 million and \$182.9 million, respectively, were outstanding. At June 27, 2015 and December 27, 2014, borrowings under all of our credit lines had a weighted average interest rate of 1.36% and 1.26%, 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.

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The components of our private placement facility borrowings as of June 27, 2015 are presented in the following table (in thousands):

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate	Due Date
September 2, 2010	\$ 100,000	3.79 %	September 2, 2020
January 20, 2012	50,000	3.45	January 20, 2024
January 20, 2012 (1)	50,000	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
	\$ 350,000		

(1) Annual repayments of approximately \$7.1 million for this borrowing will commence 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 \$210.0 million and \$150.0 million as of June 27, 2015 and December 27, 2014, respectively. At June 27, 2015, the interest rate on borrowings under this facility was based on the average asset-backed commercial paper rate of 21 basis points plus 75 basis points, for a combined rate of 0.96%. At December 27, 2014, the interest rate on borrowings under this facility was based on the average asset-backed commercial paper rate of 20 basis points plus 75 basis points, for a combined rate of 0.95%.

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:

	June 27, 2015	December 27, 2014
Private placement facilities	\$ 350,000	\$ 350,000
U.S. trade accounts receivable securitization	210,000	150,000
Notes payable to banks at a weighted-average interest rate of 8.83%	14	30
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2018 at interest rates ranging from 1.92% to 5.41%	41,038	41,259
Capital lease obligations payable through 2019 with interest rates		

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ranging from 2.00% to 11.49%	2,187	7,302
Total	603,239	548,591
Less current maturities	(14,716 )	(5,815 )
Total long-term debt	\$ 588,523	\$ 542,776

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## Stock Repurchases

From June 21, 2004 through June 27, 2015, we repurchased \$1.5 billion, or 20,166,000 shares, under our common stock repurchase programs, with \$186.7 million available as of June 27, 2015 for future common stock share repurchases.

## Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the six months ended June 27, 2015 and the year ended December 27, 2014 are presented in the following table:

	June 27, 2015	December 27, 2014
Balance, beginning of period	\$564,527	\$497,539
Decrease in redeemable noncontrolling interests due to redemptions	(8,257 )	(105,383 )
Increase in redeemable noncontrolling interests due to business acquisitions	885	120,220
Net income attributable to redeemable noncontrolling interests	19,441	38,741
Dividends declared	(15,210 )	(23,346 )
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(3,033 )	(4,080 )
Change in fair value of redeemable securities	9,319	40,836
Balance, end of period	\$567,672	\$564,527

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 27, 2014.

## Recently Issued Accounting Standard

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under accounting principles

generally accepted in United States (“U.S. GAAP”). The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

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On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. Early adoption of ASU 2014-09 is permitted but not before the original effective date (annual periods beginning after December 15, 2016.)

When effective, ASU 2014-09 will use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard.

**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 27, 2014.

**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 June 27, 2015 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

**Changes in Internal Control Over Financial Reporting**

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

During the quarter ended June 27, 2015, we completed the acquisition of an animal health business in Europe with approximate aggregate annual revenues of \$64.0 million. In addition, post-acquisition integration related activities continued for our global medical, animal health, and dental businesses acquired during prior quarters, representing aggregate annual revenues of approximately \$463.0 million. These acquisitions, which in some cases utilize separate information and financial accounting systems, have been included in our consolidated financial statements. Finally, systems implementation activities were also completed for upgrading our global financial reporting consolidation system.

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



Limitations of the Effectiveness of Internal Control

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

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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become a party to legal proceedings, including, without limitation, product liability claims, employment matters, commercial disputes, governmental inquiries and investigations, and other matters arising out of the ordinary course of our business. While the results of legal proceedings cannot be predicted with certainty, in our opinion pending matters are not currently anticipated to have a material adverse effect on our financial condition or results of operations.

As of June 27, 2015, 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 27, 2014.

## 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 \$1.6 billion, authorized by our Board of Directors, to the repurchase program provide for a total of \$1.7 billion of shares of our common stock to be repurchased under this program.

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

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December 4,  
2014                      300,000,000

As of June 27, 2015, we had repurchased approximately \$1.5 billion of common stock (20,166,000 shares) under these initiatives, with \$186.7 million available as of June 27, 2015 for future common stock share repurchases.

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The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended June 27, 2015:

Fiscal Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Our Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under Our Program (2)
03/29/15 through 04/25/15	266,757	\$ 140.58	266,757	1,309,583
04/26/15 through 05/30/15	-	-	-	1,317,625
05/31/15 through 06/27/15	-	-	-	1,283,382
	266,757		266,757	

(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 6. EXHIBITS

## Exhibits.

- 10.1 Henry Schein, Inc. 2015 Non-Employee Director Stock Incentive Plan.\*\*+
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
- 101.INS XBRL Instance Document+
- 101.SCHXBRL Taxonomy Extension Schema Document+
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document+
- 101.DEF XBRL Taxonomy Definition Linkbase Document+
- 101.LABXBRL Taxonomy Extension Label Linkbase Document+
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document+

+ Filed herewith

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

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SIGNATURE

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

Henry Schein, Inc.  
(Registrant)

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

Dated: July 29, 2015