

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

(Mark One)

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

For the quarterly period ended September 26, 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.

Large accelerated filer

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

As of October 26, 2015, there were 82,925,764 shares of the registrant's common stock outstanding.

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

	<b>September 26,</b>	<b>December 27,</b>
	<b>2015</b>	<b>2014</b>
	<u>(unaudited)</u>	<u></u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 60,481	\$ 89,474
Accounts receivable, net of reserves of \$76,100 and \$80,671	1,223,636	1,127,517
Inventories, net	1,424,923	1,327,796
Deferred income taxes	54,339	56,591
Prepaid expenses and other	356,794	311,788
Total current assets	<u>3,120,173</u>	<u>2,913,166</u>
Property and equipment, net	311,891	311,496
Goodwill	1,901,520	1,884,123
Other intangibles, net	615,258	643,736
Investments and other	422,716	386,286
Total assets	<u>\$ 6,371,558</u>	<u>\$ 6,138,807</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 873,785	\$ 860,996
Bank credit lines	186,886	182,899
Current maturities of long-term debt	14,456	5,815
Accrued expenses:		
Payroll and related	218,486	237,511
Taxes	167,333	151,162
Other	336,335	341,728
Total current liabilities	<u>1,797,281</u>	<u>1,780,111</u>
Long-term debt	597,106	542,776
Deferred income taxes	248,249	253,118
Other liabilities	202,385	181,830
Total liabilities	<u>2,845,021</u>	<u>2,757,835</u>
Redeemable noncontrolling interests	584,591	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, 83,384,956 outstanding on September 26, 2015 and 84,008,537 outstanding on December 27, 2014	834	840
Additional paid-in capital	259,504	265,363
Retained earnings	2,878,696	2,642,523
Accumulated other comprehensive loss	(199,682)	(95,132)
Total Henry Schein, Inc. stockholders' equity	<u>2,939,352</u>	<u>2,813,594</u>
Noncontrolling interests	2,594	2,851
Total stockholders' equity	<u>2,941,946</u>	<u>2,816,445</u>
Total liabilities, redeemable noncontrolling interests and stockholders' equity	<u>\$ 6,371,558</u>	<u>\$ 6,138,807</u>

See accompanying notes.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26, 2015</u>	<u>September 27, 2014</u>	<u>September 26, 2015</u>	<u>September 27, 2014</u>
Net sales	\$ 2,685,835	\$ 2,623,729	\$ 7,778,801	\$ 7,669,294
Cost of sales	1,936,927	1,902,063	5,565,820	5,522,443
Gross profit	748,908	721,666	2,212,981	2,146,851
Operating expenses:				
Selling, general and administrative	551,588	547,578	1,657,180	1,634,651
Restructuring costs	8,438	-	22,522	-
Operating income	188,882	174,088	533,279	512,200
Other income (expense):				
Interest income	3,129	3,452	9,841	10,323
Interest expense	(6,297)	(6,280)	(18,850)	(17,208)
Other, net	(277)	(484)	(334)	4,128
Income before taxes and equity in earnings of affiliates	185,437	170,776	523,936	509,443
Income taxes	(49,232)	(51,302)	(152,143)	(156,247)
Equity in earnings of affiliates	5,191	4,762	10,791	8,285
Net income	141,396	124,236	382,584	361,481
Less: Net income attributable to noncontrolling interests	(13,661)	(9,460)	(33,474)	(28,370)
Net income attributable to Henry Schein, Inc.	<u>\$ 127,735</u>	<u>\$ 114,776</u>	<u>\$ 349,110</u>	<u>\$ 333,111</u>
<b>Earnings per share attributable to Henry Schein, Inc.:</b>				
Basic	<u>\$ 1.54</u>	<u>\$ 1.36</u>	<u>\$ 4.20</u>	<u>\$ 3.94</u>
Diluted	<u>\$ 1.52</u>	<u>\$ 1.34</u>	<u>\$ 4.14</u>	<u>\$ 3.88</u>
Weighted-average common shares outstanding:				
Basic	<u>82,858</u>	<u>84,095</u>	<u>83,042</u>	<u>84,506</u>
Diluted	<u>84,084</u>	<u>85,450</u>	<u>84,312</u>	<u>85,918</u>

See accompanying notes.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26, 2015</u>	<u>September 27, 2014</u>	<u>September 26, 2015</u>	<u>September 27, 2014</u>
Net income	\$ 141,396	\$ 124,236	\$ 382,584	\$ 361,481
Other comprehensive loss, net of tax:				
Foreign currency translation loss	(38,730)	(99,445)	(112,877)	(84,825)
Unrealized gain (loss) from foreign currency hedging activities	1,924	(138)	1,270	(1,858)
Unrealized investment gain	-	142	2	180
Pension adjustment gain	1,363	973	2,537	1,490
Other comprehensive loss, net of tax	<u>(35,443)</u>	<u>(98,468)</u>	<u>(109,068)</u>	<u>(85,013)</u>
Comprehensive income	105,953	25,768	273,516	276,468
Comprehensive income attributable to noncontrolling interests:				
Net income	(13,661)	(9,460)	(33,474)	(28,370)
Foreign currency translation loss (gain)	1,498	2,474	4,518	(127)
Comprehensive income attributable to noncontrolling interests	<u>(12,163)</u>	<u>(6,986)</u>	<u>(28,956)</u>	<u>(28,497)</u>
Comprehensive income attributable to Henry Schein, Inc.	<u>\$ 93,790</u>	<u>\$ 18,782</u>	<u>\$ 244,560</u>	<u>\$ 247,971</u>

See accompanying notes.

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

	Common Stock \$.01 Par Value		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Stockholders' Equity
	Shares	Amount					
Balance, December 27, 2014	84,008,537	\$ 840	\$ 265,363	\$ 2,642,523	\$ (95,132)	\$ 2,851	\$ 2,816,445
Net income (excluding \$32,923 attributable to Redeemable noncontrolling interests)	-	-	-	349,110	-	551	349,661
Foreign currency translation loss (excluding loss of \$4,480 attributable to Redeemable noncontrolling interests)	-	-	-	-	(108,359)	(38)	(108,397)
Unrealized gain from foreign currency hedging activities, net of tax of \$580	-	-	-	-	1,270	-	1,270
Unrealized investment gain, net of tax of \$0	-	-	-	-	2	-	2
Pension adjustment gain, net of tax of \$879	-	-	-	-	2,537	-	2,537
Dividends paid	-	-	-	-	-	(402)	(402)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	(368)	(368)
Change in fair value of redeemable securities	-	-	(4,932)	-	-	-	(4,932)
Other adjustments	-	-	54	-	-	-	54
Repurchase and retirement of common stock	(1,070,081)	(10)	(37,916)	(112,937)	-	-	(150,863)
Stock issued upon exercise of stock options, including tax benefit of \$18,697	236,189	2	30,320	-	-	-	30,322
Stock-based compensation expense	407,250	4	35,076	-	-	-	35,080
Shares withheld for payroll taxes	(196,939)	(2)	(27,923)	-	-	-	(27,925)
Liability for cash settlement stock- based compensation awards	-	-	(538)	-	-	-	(538)
Balance, September 26, 2015	<u>83,384,956</u>	<u>\$ 834</u>	<u>\$ 259,504</u>	<u>\$ 2,878,696</u>	<u>\$ (199,682)</u>	<u>\$ 2,594</u>	<u>\$ 2,941,946</u>

See accompanying notes.

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

	<b>Nine Months Ended</b>	
	<b>September 26, 2015</b>	<b>September 27, 2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 382,584	\$ 361,481
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118,891	112,668
Stock-based compensation expense	35,080	33,252
Provision for losses on trade and other accounts receivable	2,878	2,689
Provision for (benefit from) deferred income taxes	7,382	(2,840)
Equity in earnings of affiliates	(10,791)	(8,285)
Distributions from equity affiliates	11,316	10,304
Changes in unrecognized tax benefits	8,541	14,013
Other	7,131	8,191
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(111,890)	(108,338)
Inventories	(108,268)	2,447
Other current assets	(63,485)	(41,928)
Accounts payable and accrued expenses	9,161	(65,169)
Net cash provided by operating activities	<u>288,530</u>	<u>318,485</u>
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(52,164)	(60,782)
Payments for equity investments and business acquisitions, net of cash acquired	(142,078)	(364,110)
Proceeds from sales of available-for-sale securities	20	-
Proceeds from maturities of available-for-sale securities	-	2,000
Other	(9,247)	(10,668)
Net cash used in investing activities	<u>(203,469)</u>	<u>(433,560)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from bank borrowings	4,920	158,284
Proceeds from issuance of debt	135,000	314,787
Debt issuance costs	(150)	(562)
Principal payments for long-term debt	(70,585)	(136,044)
Proceeds from issuance of stock upon exercise of stock options	11,625	24,115
Payments for repurchases of common stock	(150,863)	(226,282)
Excess tax benefits related to stock-based compensation	2,932	5,375
Distributions to noncontrolling shareholders	(22,316)	(22,800)
Acquisitions of noncontrolling interests in subsidiaries	(8,570)	(105,383)
Net cash provided by (used in) financing activities	<u>(98,007)</u>	<u>11,490</u>
Effect of exchange rate changes on cash and cash equivalents	(16,047)	(8,489)
Net change in cash and cash equivalents	(28,993)	(112,074)
Cash and cash equivalents, beginning of period	89,474	188,616
Cash and cash equivalents, end of period	<u>\$ 60,481</u>	<u>\$ 76,542</u>

See accompanying notes.

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

**Note 1 – Basis of Presentation**

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

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

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 nine months ended September 26, 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 33 countries worldwide.

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



**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:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26, 2015</u>	<u>September 27, 2014</u>	<u>September 26, 2015</u>	<u>September 27, 2014</u>
<b>Net Sales:</b>				
Health care distribution (1):				
Dental	\$ 1,266,321	\$ 1,298,352	\$ 3,837,137	\$ 3,963,761
Animal health	732,533	757,952	2,165,415	2,166,989
Medical	597,243	480,302	1,511,295	1,280,973
Total health care distribution	2,596,097	2,536,606	7,513,847	7,411,723
Technology and value-added services (2)	89,738	87,123	264,954	257,571
Total	<u>\$ 2,685,835</u>	<u>\$ 2,623,729</u>	<u>\$ 7,778,801</u>	<u>\$ 7,669,294</u>

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

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 26, 2015</u>	<u>September 27, 2014</u>	<u>September 26, 2015</u>	<u>September 27, 2014</u>
<b>Operating Income:</b>				
Health care distribution	\$ 161,702	\$ 148,773	\$ 454,009	\$ 436,170
Technology and value-added services	27,180	25,315	79,270	76,030
Total	<u>\$ 188,882</u>	<u>\$ 174,088</u>	<u>\$ 533,279</u>	<u>\$ 512,200</u>

**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 September 26, 2015 and December 27, 2014. As of September 26, 2015 and December 27, 2014, there were \$11.4 million and \$10.1 million of letters of credit, respectively, provided to third parties under the credit facility.

As of September 26, 2015 and December 27, 2014, we had various other short-term bank credit lines available, of which \$186.9 million and \$182.9 million, respectively, were outstanding. At September 26, 2015 and December 27, 2014, borrowings under all of our credit lines had a weighted average interest rate of 1.24% and 1.26%, respectively.

**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 September 26, 2015 are presented in the following table (in thousands):

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

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

**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 \$220.0 million and \$150.0 million as of September 26, 2015 and December 27, 2014, respectively. At September 26, 2015, the interest rate on borrowings under this facility was based on the average asset-backed commercial paper rate of 25 basis points plus 75 basis points, for a combined rate of 1.00%. 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:

	<u>September 26,</u> <u>2015</u>	<u>December 27,</u> <u>2014</u>
Private placement facilities	\$ 350,000	\$ 350,000
U.S. trade accounts receivable securitization	220,000	150,000
Notes payable to banks at a weighted-average interest rate of 8.83%	10	30
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2018 at interest rates ranging from 1.94% to 5.41%	39,626	41,259
Capital lease obligations payable through 2019 with interest rates ranging from 2.00% to 10.68%	1,926	7,302
<b>Total</b>	<u>611,562</u>	<u>548,591</u>
Less current maturities	<u>(14,456)</u>	<u>(5,815)</u>
<b>Total long-term debt</b>	<u>\$ 597,106</u>	<u>\$ 542,776</u>

**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 nine months ended September 26, 2015 and the year ended December 27, 2014 are presented in the following table:

	<b>September 26, 2015</b>	<b>December 27, 2014</b>
Balance, beginning of period	\$ 564,527	\$ 497,539
Decrease in redeemable noncontrolling interests due to redemptions	(9,026)	(105,383)
Increase in redeemable noncontrolling interests due to business acquisitions	17,961	120,220
Net income attributable to redeemable noncontrolling interests	32,923	38,741
Dividends declared	(22,246)	(23,346)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(4,480)	(4,080)
Change in fair value of redeemable securities	4,932	40,836
Balance, end of period	<u>\$ 584,591</u>	<u>\$ 564,527</u>

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

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**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:

	September 26, 2015	December 27, 2014
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	\$ (10,063)	\$ (5,583)
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	\$ (74)	\$ (36)
Attributable to Henry Schein, Inc.:		
Foreign currency translation loss	\$ (179,653)	\$ (71,294)
Unrealized gain (loss) from foreign currency hedging activities	215	(1,055)
Unrealized investment loss	(134)	(136)
Pension adjustment loss	(20,110)	(22,647)
Accumulated other comprehensive loss	\$ (199,682)	\$ (95,132)
Total Accumulated other comprehensive loss	\$ (209,819)	\$ (100,751)

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

	Three Months Ended		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net income	\$ 141,396	\$ 124,236	\$ 382,584	\$ 361,481
Foreign currency translation loss	(38,730)	(99,445)	(112,877)	(84,825)
Tax effect	-	-	-	-
Foreign currency translation loss	(38,730)	(99,445)	(112,877)	(84,825)
Unrealized gain (loss) from foreign currency hedging activities	2,671	(52)	1,850	(2,073)
Tax effect	(747)	(86)	(580)	215
Unrealized gain (loss) from foreign currency hedging activities	1,924	(138)	1,270	(1,858)
Unrealized investment gain	-	233	2	295
Tax effect	-	(91)	-	(115)
Unrealized investment gain	-	142	2	180
Pension adjustment gain	1,704	1,279	3,416	1,860
Tax effect	(341)	(306)	(879)	(370)
Pension adjustment gain	1,363	973	2,537	1,490
Comprehensive income	\$ 105,953	\$ 25,768	\$ 273,516	\$ 276,468

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

During the three months ended September 26, 2015 and September 27, 2014, we recognized, as a component of our comprehensive income, a foreign currency translation loss of \$38.7 million and \$99.4 million, respectively, due to changes in foreign exchange rates from the beginning of the period to the end of the period. During the nine months ended September 26, 2015 and September 27, 2014, we recognized, as a component of our comprehensive income, a foreign currency translation loss of \$112.9 million and \$84.8 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 nine months ended September 26, 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 Loss for the Three Months Ended		
	September 26, 2015	FX Rate into USD		September 27, 2014	FX Rate into USD	
		September 26, 2015	June 27, 2015		September 27, 2014	June 28, 2014
Euro	\$ 1,063	1.12	1.12	\$ (53,618)	1.27	1.36
British Pound	(9,668)	1.52	1.57	(16,017)	1.62	1.70
Australian Dollar	(14,004)	0.70	0.77	(14,632)	0.88	0.94
Polish Zloty	(458)	0.26	0.27	(3,381)	0.30	0.33
Canadian Dollar	(6,572)	0.75	0.81	(4,026)	0.90	0.94
Swiss Franc	(3,098)	1.02	1.07	(4,459)	1.05	1.12
Brazilian Real	(3,418)	0.25	0.32	(1,968)	0.41	0.45
All other currencies	(2,575)			(1,344)		
<b>Total</b>	<b>\$ (38,730)</b>			<b>\$ (99,445)</b>		

Currency	Foreign Currency Translation Gain (Loss) for the Nine Months Ended			Foreign Currency Translation Loss for the Nine Months Ended		
	September 26, 2015	FX Rate into USD		September 27, 2014	FX Rate into USD	
		September 26, 2015	December 27, 2014		September 27, 2014	December 28, 2013
Euro	\$ (58,577)	1.12	1.22	\$ (61,147)	1.27	1.38
British Pound	(9,775)	1.52	1.56	(5,751)	1.62	1.65
Australian Dollar	(25,809)	0.70	0.81	(3,225)	0.88	0.89
Polish Zloty	(2,309)	0.26	0.28	(3,667)	0.30	0.33
Canadian Dollar	(7,915)	0.75	0.86	(3,320)	0.90	0.94
Swiss Franc	606	1.02	1.01	(4,641)	1.05	1.12
Brazilian Real	(6,032)	0.25	0.37	(1,809)	0.41	0.43
All other currencies	(3,066)			(1,265)		
<b>Total</b>	<b>\$ (112,877)</b>			<b>\$ (84,825)</b>		

**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:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 26, 2015</b>	<b>September 27, 2014</b>	<b>September 26, 2015</b>	<b>September 27, 2014</b>
Comprehensive income attributable to Henry Schein, Inc.	\$ 93,790	\$ 18,782	\$ 244,560	\$ 247,971
Comprehensive income attributable to noncontrolling interests	128	155	513	414
Comprehensive income attributable to Redeemable noncontrolling interests	12,035	6,831	28,443	28,083
<b>Comprehensive income</b>	<b>\$ 105,953</b>	<b>\$ 25,768</b>	<b>\$ 273,516</b>	<b>\$ 276,468</b>

**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 September 26, 2015 and December 27, 2014 was estimated at \$798.4 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.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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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 September 26, 2015 and December 27, 2014:

	<b>September 26, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Derivative contracts	\$ -	\$ 2,071	\$ -	\$ 2,071
Total assets	<u>\$ -</u>	<u>\$ 2,071</u>	<u>\$ -</u>	<u>\$ 2,071</u>
<b>Liabilities:</b>				
Derivative contracts	\$ -	\$ 713	\$ -	\$ 713
Total liabilities	<u>\$ -</u>	<u>\$ 713</u>	<u>\$ -</u>	<u>\$ 713</u>
Redeemable noncontrolling interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 584,591</u>	<u>\$ 584,591</u>
<b>December 27, 2014</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Derivative contracts	\$ -	\$ 2,472	\$ -	\$ 2,472
Total assets	<u>\$ -</u>	<u>\$ 2,472</u>	<u>\$ -</u>	<u>\$ 2,472</u>
<b>Liabilities:</b>				
Derivative contracts	\$ -	\$ 1,307	\$ -	\$ 1,307
Total liabilities	<u>\$ -</u>	<u>\$ 1,307</u>	<u>\$ -</u>	<u>\$ 1,307</u>
Redeemable noncontrolling interests	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 564,527</u>	<u>\$ 564,527</u>



**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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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 September 1, 2015, we announced the completion of the acquisition of 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.

We completed certain other acquisitions during the nine months ended September 26, 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 nine months ended September 26, 2015 and September 27, 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 was expected to be completed by the end of fiscal 2015. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. We have subsequently determined that the restructuring activities under this initiative will not be completed until the first half of fiscal 2016.

The total costs associated with the actions to complete this restructuring are expected to be in the range of \$35 million to \$40 million pre-tax, of which approximately \$30 million to \$35 million pre-tax, will be recorded in fiscal 2015. These ongoing actions will allow us to execute on our plan to reduce our cost structure to fund new initiatives to drive future growth under our 2015 – 2017 strategic planning cycle.

On October 29, 2015, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be \$12 million to \$15 million, consisting of \$6 million to \$7 million in employee severance pay and benefits and \$6 million to \$8 million in facility costs, representing primarily lease termination and other facility closure related costs.

During the three and nine months ended September 26, 2015, we recorded \$8.4 million and \$22.5 million in restructuring costs, respectively. The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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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 nine months ended September 26, 2015 and during our 2014 fiscal year and the remaining accrued balance of restructuring costs as of September 26, 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	17,366	3,611	1,545	22,522
Payments	(12,489)	(2,045)	(1,109)	(15,643)
Balance, September 26, 2015	<u>\$ 4,997</u>	<u>\$ 1,867</u>	<u>\$ 436</u>	<u>\$ 7,300</u>

The following table shows, by reportable segment, the amounts expensed and paid for restructuring costs that were incurred during the nine months ended September 26, 2015 and the 2014 fiscal year and the remaining accrued balance of restructuring costs as of September 26, 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	21,506	1,016	22,522
Payments	(14,659)	(984)	(15,643)
Balance, September 26, 2015	<u>\$ 7,268</u>	<u>\$ 32</u>	<u>\$ 7,300</u>

**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		Nine Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Basic	82,858	84,095	83,042	84,506
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units	1,226	1,355	1,270	1,412
Diluted	<u>84,084</u>	<u>85,450</u>	<u>84,312</u>	<u>85,918</u>

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**Note 10 – Income Taxes**

For the nine months ended September 26, 2015, our effective tax rate was 29.0% compared to 30.7% for the prior year period. During the third quarter of 2015, we received a favorable response to a tax petition, which has allowed us to conclude that it is more likely than not that certain unrecognized tax benefits, which had been previously reserved, will be realized. As a result, our provision for income taxes includes a one-time \$6.3 million income tax benefit.

Absent the effects of this one-time income tax benefit in the third quarter of 2015, our effective tax rate for the nine months ended September 26, 2015 would have been 30.2% as compared to our actual effective tax rate of 29.0%. The remaining difference between our effective tax rate and the federal statutory tax rate for both periods primarily relates to state and foreign income taxes and interest expense.

The total amount of unrecognized tax benefits as of September 26, 2015 was approximately \$90.9 million, of which \$74.0 million would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties, which are classified as a component of the provision for income taxes, were approximately \$16.6 million and \$0, respectively, as of September 26, 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 2008 and forward for certain states and certain foreign jurisdictions. In December 2014, the IRS issued a Statutory Notice of Deficiency for 2009, 2010 and 2011. We do not expect this to have a significant effect on our consolidated financial position, liquidity or 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. By the end of the quarter ending December 26, 2015, we expect to have filed our protest with the Appellate Division. We anticipate that we will have our opening Appeals conference in the quarter ending March 26, 2016.

**Note 11 – Derivatives and Hedging Activities**

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

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

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**Note 12 – Stock-Based Compensation**

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of \$13.1 million (\$9.6 million after-tax) and \$35.1 million (\$24.9 million after-tax) for the three and nine months ended September 26, 2015, respectively, and \$13.8 million (\$9.6 million after-tax) and \$33.3 million (\$23.1 million after-tax) for the three and nine months ended September 27, 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 September 26, 2015 was \$100.4 million, which is expected to be recognized over a weighted-average period of approximately 2.2 years.

**HENRY SCHEIN, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**Note 12 – Stock-Based Compensation – (Continued)**

The following table summarizes stock option activity under the Plans during the nine months ended September 26, 2015:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Life in Years</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of period	684	\$ 53.41		
Granted	-	-		
Exercised	(238)	49.43		
Forfeited	-	-		
Outstanding at end of period	<u>446</u>	<u>\$ 55.53</u>	1.9	\$ 33,732
Options exercisable at end of period	<u>446</u>	<u>\$ 55.53</u>	1.9	\$ 33,732

The following tables summarize the activity of our non-vested restricted stock/units for the nine months ended September 26, 2015:

	<u>Time-Based Restricted Stock/Units</u>		
	<u>Shares/Units</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>	<u>Intrinsic Value Per Share</u>
Outstanding at beginning of period	836	\$ 83.86	
Granted	174	140.41	
Vested	(207)	72.17	
Forfeited	(16)	102.29	
Outstanding at end of period	<u>787</u>	<u>\$ 99.04</u>	\$ 131.11

	<u>Performance-Based Restricted Stock/Units</u>		
	<u>Shares/Units</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>	<u>Intrinsic Value Per Share</u>
Outstanding at beginning of period	1,127	\$ 77.19	
Granted	164	126.78	
Vested	(304)	73.61	
Forfeited	(13)	110.99	
Outstanding at end of period	<u>974</u>	<u>\$ 93.47</u>	\$ 131.11

**HENRY SCHEIN, INC.**  
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**Note 13 – Supplemental Cash Flow Information**

Cash paid for interest and income taxes was:

	Nine Months Ended	
	September 26, 2015	September 27, 2014
Interest	\$ 18,062	\$ 15,718
Income taxes	128,693	141,233

During the nine months ended September 26, 2015 and September 27, 2014, we had \$1.9 million and \$(2.1) million of non-cash net unrealized gains (losses) related to foreign currency hedging activities, respectively.

**Note 14 – 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.

In September 2015, Henry Schein, Inc. was served with a summons and complaint in an action commenced in the United States District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. Plaintiff alleges that, through its website, it markets and sells dental supplies and equipment to dentists. Plaintiff alleges, among other things, that defendants conspired to eliminate plaintiff as a viable competitor and to exclude plaintiff from the market for the marketing, distribution and sale of dental supplies and equipment in the United States and that defendants unlawfully agreed with one another to boycott dentists, manufacturers, and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserts the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants' ongoing tortious and anticompetitive conduct. Plaintiff seeks equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. Plaintiff has not specified a damage amount in its complaint. We intend to defend ourselves against the action vigorously. The Company does not anticipate that this matter will have a material adverse effect on the financial condition of the Company.

As of September 26, 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 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; cyberattacks or other privacy or data security breaches; certain provisions in our governing documents that may discourage third-party acquisitions of us; and changes in tax legislation. The order in which these factors appear should not be construed to indicate their relative importance or priority.

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

### Where You Can Find Important Information

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

### Executive-Level Overview

We believe we are the world's largest provider of health care products and services primarily to office-based dental, animal health and medical practitioners. We serve more than 1 million customers worldwide including dental practitioners and laboratories, animal health clinics and physician practices, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 83 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 18,000 people (of which more than 8,000 are based outside the United States) and have operations or affiliates in 33 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, France, Germany, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand and the United Kingdom.

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

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

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

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

### *Industry Overview*

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

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

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

### *Industry Consolidation*

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



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 2014-2024" indicating that total national health care spending reached approximately \$3.1 trillion in 2014, or 17.7% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Health care spending is projected to reach approximately \$5.4 trillion in 2024, approximately 19.6% of the nation's gross domestic product.

## *Government*

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to extensive local, state, federal and foreign governmental laws and regulations applicable to the distribution of pharmaceuticals and medical devices. Additionally, government and private insurance programs fund a large portion of the total cost of medical care, and there has been an emphasis on efforts to control medical costs, including laws and regulations lowering reimbursement rates for pharmaceuticals, medical devices, and/or medical treatments or services. Also, many of these laws and regulations are subject to change and may impact our financial performance. In addition, our businesses are generally subject to numerous other laws and regulations that could impact our financial performance, including securities, antitrust and other laws and regulations. Failure to comply with law or regulations could have a material adverse effect on our business.

### *Health Care Reform*

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

The Health Care Reform Law requirements include a 2.3% excise tax on domestic sales of many medical devices by manufacturers and importers that began in 2013 and a fee on branded prescription drugs and biologics that was implemented in 2011, both of which may affect sales. 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, and we believe that we are substantially compliant with applicable Physician Payment Sunshine Act requirements. The Physician Payment Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may be required to report under certain of such state laws in addition to Physician Payment Sunshine Act reporting, and some of these state laws are also ambiguous. We are also subject to foreign regulations requiring transparency of certain interactions between suppliers and their customers. While we believe we have substantially compliant programs and controls in place to comply with these reporting requirements, our compliance with these rules imposes additional costs on us.

### *Health Care Fraud*

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

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

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

We also are subject to certain United States and foreign laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-bribery laws and laws pertaining to the accuracy of our internal books and records, which have been the focus of increasing enforcement activity globally in recent years.

Failure to comply with fraud and abuse laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse effect on our business. Also, these measures may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and varied interpretation by prosecutorial and regulatory authorities, increasing the risk of noncompliance.

While we believe that we are substantially compliant with applicable fraud and abuse laws and regulations, and have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response to changes in applicable law or interpretation of laws, could have a material adverse effect on our business.

### *Operating Security and Licensure Standards*

The Federal Food, Drug, and Cosmetic Act and similar foreign laws generally regulate the introduction, manufacture, advertising, labeling, packaging, storage, handling, reporting, marketing and distribution of, and record keeping for, pharmaceuticals and medical devices shipped in interstate commerce, and states may similarly regulate such activities within the state.

The Federal Drug Quality and Security Act of 2013 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.

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

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

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

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

*Regulated Software; Electronic Health Records*

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings, and has developed and continues to develop policies on regulating clinical decision support tools and other types of software as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA or foreign government authorities could determine that one or more of our products is a medical device, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

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

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

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. The ICD-10-CM standard has been implemented and claims with dates of service of October 1, 2015 or after must be submitted using ICD-10-CM code sets. Certain of our businesses provide electronic practice management products that must meet these requirements, and while we believe that our products have timely adopted 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 these products.

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

## **E-Commerce**

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

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

**Results of Operations**

The following table summarizes the significant components of our operating results for the three and nine months ended September 26, 2015 and September 27, 2014 and cash flows for the nine months ended September 26, 2015 and September 27, 2014 (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 26, 2015</b>	<b>September 27, 2014</b>	<b>September 26, 2015</b>	<b>September 27, 2014</b>
<b>Operating results:</b>				
Net sales	\$ 2,685,835	\$ 2,623,729	\$ 7,778,801	\$ 7,669,294
Cost of sales	<u>1,936,927</u>	<u>1,902,063</u>	<u>5,565,820</u>	<u>5,522,443</u>
Gross profit	748,908	721,666	2,212,981	2,146,851
<b>Operating expenses:</b>				
Selling, general and administrative	551,588	547,578	1,657,180	1,634,651
Restructuring costs	8,438	-	22,522	-
Operating income	<u>\$ 188,882</u>	<u>\$ 174,088</u>	<u>\$ 533,279</u>	<u>\$ 512,200</u>
Other expense, net	\$ (3,445)	\$ (3,312)	\$ (9,343)	\$ (2,757)
Net income	141,396	124,236	382,584	361,481
Net income attributable to Henry Schein, Inc.	127,735	114,776	349,110	333,111
<b>Cash flows:</b>				
Net cash provided by operating activities			\$ 288,530	\$ 318,485
Net cash used in investing activities			(203,469)	(433,560)
Net cash provided by (used in) financing activities			(98,007)	11,490

**Plan of Restructuring**

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

The total costs associated with the actions to complete this restructuring are expected to be in the range of \$35 million to \$40 million pre-tax, of which approximately \$30 million to \$35 million pre-tax, will be recorded in fiscal 2015. These ongoing actions will allow us to execute on our plan to reduce our cost structure to fund new initiatives to drive future growth under our 2015 – 2017 strategic planning cycle.

On October 29, 2015, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be \$12 million to \$15 million, consisting of \$6 million to \$7 million in employee severance pay and benefits and \$6 million to \$8 million in facility costs, representing primarily lease termination and other facility closure related costs.

During the three and nine months ended September 26, 2015, we recorded \$8.4 million and \$22.5 million in restructuring costs, respectively. The costs associated with this restructuring are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

**Three Months Ended September 26, 2015 Compared to Three Months Ended September 27, 2014****Net Sales**

Net sales for the three months ended September 26, 2015 and September 27, 2014 were as follows (in thousands):

	September 26,	% of	September 27,	% of	Increase/(Decrease)	
	2015	Total	2014	Total	\$	%
<b>Health care distribution (1):</b>						
Dental	\$ 1,266,321	47.2%	\$ 1,298,352	49.5%	\$ (32,031)	(2.5)%
Animal health	732,533	27.3	757,952	28.9	(25,419)	(3.4)
Medical	597,243	22.2	480,302	18.3	116,941	24.3
Total health care distribution	2,596,097	96.7	2,536,606	96.7	59,491	2.3
Technology and value-added services (2)	89,738	3.3	87,123	3.3	2,615	3.0
Total	\$ 2,685,835	100.0%	\$ 2,623,729	100.0%	\$ 62,106	2.4

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

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

The \$62.1 million, or 2.4%, increase in net sales for the three months ended September 26, 2015 includes an increase of 8.3% in local currency growth (4.8% increase in internally generated revenue and 3.5% growth from acquisitions) partially offset by a decrease of 5.9% related to foreign currency exchange.

The \$32.0 million, or 2.5%, decrease in dental net sales for the three months ended September 26, 2015 includes an increase of 4.6% in local currency growth (4.1% increase in internally generated revenue and 0.5% growth from acquisitions) offset by a decrease of 7.1% related to foreign currency exchange. The 4.6% increase in local currency sales was due to dental consumable merchandise sales growth of 4.0% (3.5% increase in internally generated revenue and 0.5% growth from acquisitions), as well as an increase in dental equipment sales and service revenues of 6.2% (5.9% increase in internally generated revenue and 0.3% growth from acquisitions).

The \$25.4 million, or 3.4%, decrease in animal health net sales for the three months ended September 26, 2015 includes an increase of 4.5% in local currency growth (0.5% increase in internally generated revenue and 4.0% growth from acquisitions) offset by a decrease of 7.9% 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 3.4%.

The \$116.9 million, or 24.3%, increase in medical net sales for the three months ended September 26, 2015 includes an increase of 25.0% in local currency growth (13.6% increase in internally generated revenue and 11.4% growth from acquisitions) partially offset by a decrease of 0.7% related to foreign currency exchange.

The \$2.6 million, or 3.0%, increase in technology and value-added services net sales for the three months ended September 26, 2015 includes an increase of 5.8% in local currency growth (5.2% increase in internally generated revenue and 0.6% growth from acquisitions) partially offset by a decrease of 2.8% related to foreign currency exchange.



## Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended September 26, 2015 and September 27, 2014 were as follows (in thousands):

	September 26,	Gross	September 27,	Gross	Increase	
	2015	Margin	2014	Margin	\$	%
Health care distribution	\$ 687,184	26.5%	\$ 664,133	26.2%	\$ 23,050	3.5%
Technology and value-added services	61,724	68.8	57,533	66.0	4,192	7.3
Total	<u>\$ 748,908</u>	27.9	<u>\$ 721,666</u>	27.5	<u>\$ 27,242</u>	3.8

For the three months ended September 26, 2015, gross profit increased \$27.2 million, or 3.8%, 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 \$23.1 million, or 3.5%, for the three months ended September 26, 2015 compared to the prior year period. Health care distribution gross profit margin increased to 26.5% for the three months ended September 26, 2015 from 26.2% for the comparable prior year period. The overall increase in our health care distribution gross profit margin reflects growing margins in our animal health operating segment. Acquisitions accounted for \$22.0 million of our gross profit increase within our health care distribution segment for the three months ended September 26, 2015 compared to the prior year period.

Technology and value-added services gross profit increased \$4.2 million, or 7.3%, for the three months ended September 26, 2015 compared to the prior year period. Technology gross profit margin increased to 68.8% for the three months ended September 26, 2015 from 66.0% 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 three months ended September 26, 2015 compared to the prior year period. The remaining increase of \$3.7 million in our technology and value-added services segment gross profit was attributable to improvements in the gross margin rate resulting from changes in product mix.

## Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the three months ended September 26, 2015 and September 27, 2014 were as follows (in thousands):

	September 26,	% of	September 27,	% of	Increase	
	2015	Respective	2014	Respective	\$	%
Health care distribution	\$ 517,080	19.9%	\$ 515,360	20.3%	\$ 1,720	0.3%
Technology and value-added services	34,508	38.5	32,218	37.0	2,290	7.1
Total	<u>\$ 551,588</u>	20.5	<u>\$ 547,578</u>	20.9	<u>\$ 4,010</u>	0.7

Selling, general and administrative expenses increased \$4.0 million, or 0.7%, to \$551.6 million for the three months ended September 26, 2015 from the comparable prior year period. The \$1.7 million increase in selling, general and administrative expenses within our health care distribution segment for the three months ended September 26, 2015 as compared to the prior year period was attributable to \$28.6 million of additional costs from acquired companies, partially offset by a reduction of \$26.9 million of costs primarily due to the impact of foreign exchange. The \$2.3 million increase in selling, general and administrative expenses within our technology and value-added services segment for the three months ended September 26, 2015 as compared to the prior year period was attributable to \$1.8 million of additional costs from acquired companies and \$0.5 million of additional operating costs. As a percentage of net sales, selling, general and administrative expenses decreased to 20.5% from 20.9% for the comparable prior year period.

As a component of selling, general and administrative expenses, selling expenses decreased \$4.0 million, or 1.2%, to \$344.1 million for the three months ended September 26, 2015 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 12.8% from 13.3% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$8.0 million, or 4.0%, to \$207.5 million for the three months ended September 26, 2015 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 7.7% from 7.6% for the comparable prior year period.

### **Other Expense, Net**

Other expense, net, for the three months ended September 26, 2015 and September 27, 2014 was as follows (in thousands):

	September 26,	September 27,	Variance	
	2015	2014	\$	%
Interest income	\$ 3,129	\$ 3,452	\$ (323)	(9.4)%
Interest expense	(6,297)	(6,280)	(17)	(0.3)
Other, net	(277)	(484)	207	42.8
Other expense, net	\$ (3,445)	\$ (3,312)	\$ (133)	(4.0)

Other expense, net increased by \$0.1 million for the three months ended September 26, 2015 compared to the prior year period. Interest income decreased primarily due to lower late fee income. Interest expense and other, net remained consistent with the comparable prior year period.

### **Income Taxes**

For the three months ended September 26, 2015, our effective tax rate was 26.5% compared to 30.0% for the prior year period. During the third quarter of 2015, we received a favorable response to a tax petition, which has allowed us to conclude that it is more likely than not that certain unrecognized tax benefits, which had been previously reserved, will be realized. As a result, our provision for income taxes includes a one-time \$6.3 million income tax benefit.

Absent the effects of this one-time income tax benefit in the third quarter of 2015, our effective tax rate for the three months ended September 26, 2015 would have been 30.0% as compared to our actual effective tax rate of 26.5%. The remaining difference between our effective tax rate and the federal statutory tax rate for both periods primarily relates to state and foreign income taxes and interest expense.

### **Net Income**

Net income increased \$17.2 million, or 13.8%, for the three months ended September 26, 2015, compared to the prior year period due to the factors noted above.

**Nine Months Ended September 26, 2015 Compared to Nine Months Ended September 27, 2014****Net Sales**

Net sales for the nine months ended September 26, 2015 and September 27, 2014 were as follows (in thousands):

	September 26,	% of	September 27,	% of	Increase/(Decrease)	
	2015	Total	2014	Total	\$	%
<b>Health care distribution (1):</b>						
Dental	\$ 3,837,137	49.3%	\$ 3,963,761	51.7%	\$ (126,624)	(3.2)%
Animal health	2,165,415	27.8	2,166,989	28.2	(1,574)	(0.1)
Medical	1,511,295	19.5	1,280,973	16.7	230,322	18.0
Total health care distribution	7,513,847	96.6	7,411,723	96.6	102,124	1.4
<b>Technology and value-added services (2)</b>						
	264,954	3.4	257,571	3.4	7,383	2.9
Total	\$ 7,778,801	100.0%	\$ 7,669,294	100.0%	\$ 109,507	1.4

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

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

The \$109.5 million, or 1.4%, increase in net sales for the nine months ended September 26, 2015 includes an increase of 7.8% in local currency growth (4.5% increase in internally generated revenue and 3.3% growth from acquisitions) partially offset by a decrease of 6.4% related to foreign currency exchange.

The \$126.6 million, or 3.2%, decrease in dental net sales for the nine months ended September 26, 2015 includes an increase of 4.2% in local currency growth (3.7% increase in internally generated revenue and 0.5% growth from acquisitions) offset by a decrease of 7.4% related to foreign currency exchange. The 4.2% increase in local currency sales was due to an increase in dental equipment sales and service revenues of 5.8% (4.9% increase in internally generated revenue and 0.9% growth from acquisitions) and dental consumable merchandise sales growth of 3.7% (3.3% increase in internally generated revenue and 0.4% growth from acquisitions).

The \$1.6 million, or 0.1%, decrease in animal health net sales for the nine months ended September 26, 2015 includes an increase of 8.0% in local currency growth (1.7% internally generated revenue and 6.3% growth from acquisitions) offset by a decrease of 8.1% 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 5.6%.

The \$230.3 million, or 18.0%, increase in medical net sales for the nine months ended September 26, 2015 includes an increase of 18.8% in local currency growth (11.8% internally generated revenue and 7.0% growth from acquisitions) partially offset by a decrease of 0.8% related to foreign currency exchange.

The \$7.4 million, or 2.9%, increase in technology and value-added services net sales for the nine months ended September 26, 2015 includes an increase of 5.6% in local currency growth (5.2% internally generated revenue and 0.4% growth from acquisitions) partially offset by a decrease of 2.7% related to foreign currency exchange.

## Gross Profit

Gross profit and gross margin percentages by segment and in total for the nine months ended September 26, 2015 and September 27, 2014 were as follows (in thousands):

	September 26,	Gross	September 27,	Gross	Increase	
	2015	Margin	2014	Margin	\$	%
Health care distribution	\$ 2,032,377	27.0%	\$ 1,975,905	26.7%	\$ 56,472	2.9%
Technology and value-added services	180,604	68.2	170,946	66.4	9,658	5.6
Total	<u>\$ 2,212,981</u>	28.4	<u>\$ 2,146,851</u>	28.0	<u>\$ 66,130</u>	3.1

For the nine months ended September 26, 2015, gross profit increased \$66.1 million, or 3.1%, 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 \$56.5 million, or 2.9%, for the nine months ended September 26, 2015 compared to the prior year period. Health care distribution gross profit margin increased to 27.0% for the nine months ended September 26, 2015 from 26.7% 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 \$71.3 million of our gross profit increase within our health care distribution segment for the nine months ended September 26, 2015 compared to the prior year period. The offsetting decrease of \$14.8 million in our health care distribution segment gross profit was attributable to a \$21.2 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, offset by a \$36.0 million decline in gross profit due primarily to the effects of foreign exchange on revenues.

Technology and value-added services gross profit increased \$9.7 million, or 5.6%, for the nine months ended September 26, 2015 compared to the prior year period. Technology gross profit margin increased to 68.2% for the nine months ended September 26, 2015 from 66.4% for the comparable prior year period. Acquisitions accounted for \$1.0 million of our gross profit increase within our technology and value-added services segment for the nine months ended September 26, 2015 compared to the prior year period. The remaining increase of \$8.7 million in our technology and value-added services segment gross profit was attributable to a \$4.3 million gross profit increase from our growth in internally generated revenue and a \$4.4 million gross profit increase from improvement in the gross margin rate.

## Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the nine months ended September 26, 2015 and September 27, 2014 were as follows (in thousands):

	September 26,	% of	September 27,	% of	Increase	
	2015	Respective	2014	Respective	\$	%
Health care distribution	\$ 1,556,862	20.7%	\$ 1,539,735	20.8%	\$ 17,127	1.1%
Technology and value-added services	100,318	37.9	94,916	36.9	5,402	5.7
Total	<u>\$ 1,657,180</u>	21.3	<u>\$ 1,634,651</u>	21.3	<u>\$ 22,529</u>	1.4

Selling, general and administrative expenses increased \$22.5 million, or 1.4%, to \$1,657.2 million for the nine months ended September 26, 2015 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses remained consistent at 21.3% compared to the comparable prior year period. The \$17.1 million increase in selling, general and administrative expenses within our health care distribution segment for the nine months ended September 26, 2015 as compared to the prior year period was attributable to \$75.0 million of additional costs from acquired companies, partially offset by a reduction of \$57.9 million of costs primarily due to the impact of foreign exchange. The \$5.4 million increase in selling, general and administrative expenses within our technology and value-added services segment for the nine months ended September 26, 2015 as compared to the prior year period was attributable to \$0.9 million of additional costs from acquired companies and \$4.5 million of additional operating costs.

As a component of selling, general and administrative expenses, selling expenses decreased \$7.7 million, or 0.7%, to \$1,031.8 million for the nine months ended September 26, 2015 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.3% as compared to 13.5% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$30.2 million, or 5.1%, to \$625.4 million for the nine months ended September 26, 2015 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 8.0% from 7.8% for the comparable prior year period.

### **Other Expense, Net**

Other expense, net, for the nine months ended September 26, 2015 and September 27, 2014 was as follows (in thousands):

	September 26,	September 27,	Variance	
	2015	2014	\$	%
Interest income	\$ 9,841	\$ 10,323	\$ (482)	(4.7)%
Interest expense	(18,850)	(17,208)	(1,642)	(9.5)
Other, net	(334)	4,128	(4,462)	(108.1)
Other expense, net	\$ (9,343)	\$ (2,757)	\$ (6,586)	(238.9)

Other expense, net increased by \$6.6 million for the nine months ended September 26, 2015 compared to the comparable prior year period. Interest income decreased by \$0.5 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 \$4.5 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 nine months ended September 26, 2015, our effective tax rate was 29.0% compared to 30.7% for the prior year period. During the third quarter of 2015, we received a favorable response to a tax petition, which has allowed us to conclude that it is more likely than not that certain unrecognized tax benefits, which had been previously reserved, will be realized. As a result, our provision for income taxes includes a one-time \$6.3 million income tax benefit.

Absent the effects of this one-time income tax benefit in the third quarter of 2015, our effective tax rate for the nine months ended September 26, 2015 would have been 30.2% as compared to our actual effective tax rate of 29.0%. The remaining difference between our effective tax rate and the federal statutory tax rate for both periods primarily relates to state and foreign income taxes and interest expense.

### **Net Income**

Net income increased \$21.1 million, or 5.8%, for the nine months ended September 26, 2015, compared to the prior year period due to the factors noted above.

## Liquidity and Capital Resources

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

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

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

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

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

Net cash provided by operating activities was \$288.5 million for the nine months ended September 26, 2015, compared to \$318.5 million for the comparable prior year period. The net change of \$30.0 million was primarily attributable to changes in net working capital.

Net cash used in investing activities was \$203.5 million for the nine months ended September 26, 2015, compared to \$433.6 million for the comparable prior year period. The net change of \$230.1 million was primarily due to a reduction in payments for equity investments and business acquisitions.

Net cash used in financing activities was \$98.0 million for the nine months ended September 26, 2015, compared to net cash provided by financing activities of \$11.5 million for the comparable prior year period. The net change of \$109.5 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):

	<b>September 26, 2015</b>	<b>December 27, 2014</b>
Cash and cash equivalents	\$ 60,481	\$ 89,474
Working capital	1,322,892	1,133,055
Debt:		
Bank credit lines	\$ 186,886	\$ 182,899
Current maturities of long-term debt	14,456	5,815
Long-term debt	597,106	542,776
Total debt	<u>\$ 798,448</u>	<u>\$ 731,490</u>

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

### *Accounts receivable days sales outstanding and inventory turns*

Our accounts receivable days sales outstanding from operations increased to 40.6 days as of September 26, 2015 from 40.5 days as of September 27, 2014. During the nine months ended September 26, 2015, we wrote off approximately \$5.4 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations decreased to 5.5 as of September 26, 2015 from 5.8 as of September 27, 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 September 26, 2015 and December 27, 2014. As of September 26, 2015 and December 27, 2014, there were \$11.4 million and \$10.1 million of letters of credit, respectively, provided to third parties under the credit facility.

As of September 26, 2015 and December 27, 2014, we had various other short-term bank credit lines available, of which \$186.9 million and \$182.9 million, respectively, were outstanding. At September 26, 2015 and December 27, 2014, borrowings under all of our credit lines had a weighted average interest rate of 1.24% 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.

The components of our private placement facility borrowings as of September 26, 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
	<u>\$ 350,000</u>		

(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 \$220.0 million and \$150.0 million as of September 26, 2015 and December 27, 2014, respectively. At September 26, 2015, the interest rate on borrowings under this facility was based on the average asset-backed commercial paper rate of 25 basis points plus 75 basis points, for a combined rate of 1.00%. 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:

	September 26, 2015	December 27, 2014
Private placement facilities	\$ 350,000	\$ 350,000
U.S. trade accounts receivable securitization	220,000	150,000
Notes payable to banks at a weighted-average interest rate of 8.83%	10	30
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2018 at interest rates ranging from 1.94% to 5.41%	39,626	41,259
Capital lease obligations payable through 2019 with interest rates ranging from 2.00% to 10.68%	1,926	7,302
<b>Total</b>	<u>611,562</u>	<u>548,591</u>
Less current maturities	(14,456)	(5,815)
<b>Total long-term debt</b>	<u>\$ 597,106</u>	<u>\$ 542,776</u>



### Stock Repurchases

From June 21, 2004 through September 26, 2015, we repurchased \$1.6 billion, or 20,427,295 shares, under our common stock repurchase programs, with \$149.0 million available as of September 26, 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 nine months ended September 26, 2015 and the year ended December 27, 2014 are presented in the following table:

	<b>September 26, 2015</b>	<b>December 27, 2014</b>
Balance, beginning of period	\$ 564,527	\$ 497,539
Decrease in redeemable noncontrolling interests due to redemptions	(9,026)	(105,383)
Increase in redeemable noncontrolling interests due to business acquisitions	17,961	120,220
Net income attributable to redeemable noncontrolling interests	32,923	38,741
Dividends declared	(22,246)	(23,346)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(4,480)	(4,080)
Change in fair value of redeemable securities	4,932	40,836
Balance, end of period	<u>\$ 584,591</u>	<u>\$ 564,527</u>

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

Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. Any adjustments to these accrual amounts are recorded in our consolidated statement of income.

### 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 Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Standards Update No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Further, ASU 2015-03 requires the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate on the debt. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. ASU 2015-03 must be applied retrospectively. Entities may choose to adopt the new requirements as of an earlier date for financial statements that have not been previously issued. We are currently evaluating the impact of ASU 2015-03 on our consolidated financial statements.

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.

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.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”). ASU 2015-16 removes the previous requirement for an acquiring company to restate prior period financial results due to measurement-period adjustments. ASU 2015-16 requires that an acquirer recognize provisional amounts that are identified during the measurement-period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 also requires presentation of the amount recorded in current period earnings by line item, either on the face of the income statement or within the notes to financial statements, which would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the guidance. We are currently evaluating the impact of ASU 2015-16 on our consolidated financial statements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 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 September 26, 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 September 26, 2015, we completed the acquisition of an animal health business in Europe and a dental business in North America with approximate aggregate annual revenues of \$104.0 million. In addition, post-acquisition integration related activities continued for our global medical and animal health businesses acquired during prior quarters, representing aggregate annual revenues of approximately \$503.0 million. These acquisitions, which in some cases utilize separate information and financial accounting systems, have been included in our consolidated financial statements. Finally, we completed warehouse systems implementations that support our European and Australian dental and animal health businesses with approximate aggregate annual revenues of \$154.0 million.

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.

## **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.

In September 2015, Henry Schein, Inc. was served with a summons and complaint in an action commenced in the United States District Court for the Eastern District of New York, entitled SourceOne Dental, Inc. v. Patterson Companies, Inc., Henry Schein, Inc. and Benco Dental Supply Company, Civil Action No. 15-cv-05440-JMA-GRB. Plaintiff alleges that, through its website, it markets and sells dental supplies and equipment to dentists. Plaintiff alleges, among other things, that defendants conspired to eliminate plaintiff as a viable competitor and to exclude plaintiff from the market for the marketing, distribution and sale of dental supplies and equipment in the United States and that defendants unlawfully agreed with one another to boycott dentists, manufacturers, and state dental associations that deal with, or considered dealing with, plaintiff. Plaintiff asserts the following claims: (i) unreasonable restraint of trade in violation of state and federal antitrust laws; (ii) tortious interference with prospective business relations; (iii) civil conspiracy; and (iv) aiding and abetting the other defendants' ongoing tortious and anticompetitive conduct. Plaintiff seeks equitable relief, compensatory and treble damages, jointly and severally, punitive damages, interest, and reasonable costs and expenses, including attorneys' fees and expert fees. Plaintiff has not specified a damage amount in its complaint. We intend to defend ourselves against the action vigorously. The Company does not anticipate that this matter will have a material adverse effect on the financial condition of the Company.

As of September 26, 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.

<b>Date of Authorization</b>	<b>Amount of Additional Repurchases Authorized</b>
October 31, 2005	\$ 100,000,000
March 28, 2007	100,000,000
November 16, 2010	100,000,000
August 18, 2011	200,000,000
April 18, 2012	200,000,000
November 12, 2012	300,000,000
December 9, 2013	300,000,000
December 4, 2014	300,000,000

As of September 26, 2015, we had repurchased approximately \$1.6 billion of common stock (20,427,295 shares) under these initiatives, with \$149.0 million available as of September 26, 2015 for future common stock share repurchases.

The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended September 26, 2015:

<b>Fiscal Month</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Our Publicly Announced Program</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under Our Program (2)</b>
06/28/15 through 08/01/15	260,095	\$ 144.18	260,095	1,008,028
08/02/15 through 08/29/15	1,200	129.38	1,200	1,068,958
08/30/15 through 09/26/15	-	-	-	1,136,547
	<u>261,295</u>		<u>261,295</u>	

(1) All repurchases were executed in the open market under our existing publicly announced authorized program.

(2) The maximum number of shares that may yet be purchased under this program is determined at the end of each month based on the closing price of our common stock at that time.

## ITEM 5. OTHER INFORMATION

### *Plan of Restructuring*

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

The total costs associated with the actions to complete this restructuring are expected to be in the range of \$35 million to \$40 million pre-tax, of which approximately \$30 million to \$35 million pre-tax, will be recorded in fiscal 2015. These ongoing actions will allow us to execute on our plan to reduce our cost structure to fund new initiatives to drive future growth under our 2015 – 2017 strategic planning cycle.

On October 29, 2015, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be \$12 million to \$15 million, consisting of \$6 million to \$7 million in employee severance pay and benefits and \$6 million to \$8 million in facility costs, representing primarily lease termination and other facility closure related costs.

During the three and nine months ended September 26, 2015, we recorded \$8.4 million and \$22.5 million in restructuring costs, respectively. The costs associated with this restructuring are included in a separate line item, “Restructuring costs” within our consolidated statements of income.

### *Indemnification Agreements*

On November 3, 2015, the Company entered into indemnification agreements (collectively, the “Indemnification Agreements”) with each of the members of the Board of Directors of the Company and each of the Company’s executive officers. The Indemnification Agreements supplement the Company’s Amended and Restated Certificate of Incorporation, as amended, and Amended and Restated By-Laws, as amended, and Delaware law in providing certain indemnification rights to these individuals. The Indemnification Agreements provide, among other things, that we will indemnify these individuals to the fullest extent permitted by Delaware law and to any greater extent that Delaware law may in the future permit, including the advancement of attorneys’ fees and other expenses incurred by such individuals in connection with any threatened, pending or completed action, suit or other proceeding, whether of a civil, criminal, administrative, legislative or investigative nature, relating to any occurrence or event before or after the date of the Indemnification Agreements, by reason of the fact that such individuals are or were our directors or officers, subject to certain exclusions and procedures set forth in the Indemnification Agreements.

The foregoing description of the Indemnification Agreements does not purport to be complete and is qualified in its entirety by reference to the form of Indemnification Agreement, a copy of which is filed as Exhibit 10.1 to this Report and is incorporated herein by reference.

## ITEM 6. EXHIBITS

Exhibits.

- 10.1 Form of Indemnification Agreement, adopted on November 3, 2015, for members of the Board of Directors and executive officers.\*\*+
- 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.

## SIGNATURE

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

Henry Schein, Inc.  
(Registrant)

By: /s/ Steven Paladino

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

Dated: November 4, 2015

**FORM OF INDEMNIFICATION AGREEMENT**

This Indemnification Agreement (“Agreement”) is made as of \_\_\_\_\_ by and between Henry Schein, Inc., a Delaware corporation (the “Company”), and \_\_\_\_\_ (“Indemnitee”). This Agreement supersedes and replaces any and all previous Agreements between the Company and Indemnitee covering the subject matter of this Agreement.

**RECITALS**

**WHEREAS**, highly competent persons have become more reluctant to join and/or continue to serve publicly-held corporations as directors, officers or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation;

**WHEREAS**, in order to attract and retain qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities. Although the furnishing of such insurance has been a customary and widespread practice among United States-based corporations and other business enterprises, the Company believes that, given current market conditions and trends, such insurance may be available to it in the future only at higher premiums and with more exclusions. At the same time, directors, officers, and other persons in service to corporations or business enterprises are being increasingly subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the Company or business enterprise itself. The Certificate of Incorporation of the Company (the “Certificate of Incorporation”) requires indemnification of the officers and directors of the Company. Indemnitee may also be entitled to indemnification pursuant to the General Corporation Law of the State of Delaware (the “DGCL”). The Certificate of Incorporation and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers and other persons with respect to indemnification;

**WHEREAS**, the uncertainties relating to such insurance and to indemnification may increase the difficulty of attracting and retaining such persons;

**WHEREAS**, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

**WHEREAS**, the Board of Directors of the Company (the “Board”), upon recommendation from the Nominating and Governance Committee, has determined it is in the best interests of the Company and its stockholders that the Company should enter into indemnification agreements with its directors and officers;

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**WHEREAS**, this Agreement is a supplement to and in furtherance of the Certificate of Incorporation and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder; and

**WHEREAS**, Indemnitee does not regard the protection available under the Certificate of Incorporation and insurance as adequate in the present circumstances, and may not be willing to serve or continue to serve as an officer or director without adequate protection, and the Company desires Indemnitee to serve or continue to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that Indemnitee be so indemnified.

**NOW, THEREFORE**, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Services to the Company. Indemnitee agrees to serve as a [director / officer] of the Company. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in such position. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries or any Enterprise) and Indemnitee. Indemnitee specifically acknowledges that Indemnitee's employment with the Company (or any of its subsidiaries or any Enterprise), if any, is at will, and the Indemnitee may be discharged at any time for any reason, with or without cause, except as may be otherwise provided in any written employment contract between Indemnitee and the Company (or any of its subsidiaries or any Enterprise), other applicable formal severance policies duly adopted by the Board, or, with respect to service as a director or officer of the Company, by the Certificate of Incorporation, the Company's By-laws (the "By-laws"), and the DGCL. The foregoing notwithstanding, this Agreement shall continue in force after Indemnitee has ceased to serve as [an officer / director] of the Company, as provided in Section 16 hereof.

Section 2. Definitions. As used in this Agreement:

(a) References to "agent" shall mean any person who is or was a director, officer, or employee of the Company or a subsidiary of the Company or other person authorized by the Company to act for the Company, to include such person serving in such capacity as a director, officer, employee, fiduciary or other official of another corporation, partnership, limited liability company, joint venture, trust or other enterprise at the request of, for the convenience of, or to represent the interests of the Company or a subsidiary of the Company.

(b) A "Change in Control" shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

i. Acquisition of Stock by Third Party. Any Person (as defined below) is or becomes the Beneficial Owner (as defined below), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities unless the change in relative Beneficial Ownership of the Company's securities by any Person results solely from a reduction in the aggregate number of outstanding shares of securities entitled to vote generally in the election of directors;

ii. Change in Board of Directors. During any period of two (2) consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Sections 2(b)(i), 2(b)(iii) or 2(b)(iv)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Board;

iii. Corporate Transactions. The effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 51% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;

iv. Liquidation. The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; and

v. Other Events. There occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

For purposes of this Section 2(b), the following terms shall have the following meanings:

(A) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

(B) "Person" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act; provided, however, that Person shall exclude (i) the Company, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and (iii) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(C) "Beneficial Owner" shall have the meaning given to such term in Rule 13d-3 under the Exchange Act; provided, however, that Beneficial Owner shall exclude any Person otherwise becoming a Beneficial Owner by reason of the stockholders of the Company approving a merger of the Company with another entity.

(c) “Corporate Status” describes the status of a person who is or was a director, officer, employee or agent of the Company or of any other corporation, limited liability company, partnership or joint venture, trust or other enterprise which such person is or was serving at the request of the Company.

(d) “Disinterested Director” shall mean a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(e) “Enterprise” shall mean the Company and any other corporation, limited liability company, partnership, joint venture, trust or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, trustee, partner, managing member, employee, agent or fiduciary.

(f) “Expenses” shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts and other professionals, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also shall include (i) Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent, and (ii) for purposes of Section 14(d) only, Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee’s rights under this Agreement, by litigation or otherwise. The parties agree that for the purposes of any advancement of Expenses for which Indemnitee has made written demand to the Company in accordance with this Agreement, all Expenses included in such demand that are certified by affidavit of Indemnitee’s counsel as being reasonable in the good faith judgment of such counsel shall be presumed conclusively to be reasonable. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(g) “Independent Counsel” shall mean a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(h) The term “Proceeding” shall include any threatened, pending or completed action, suit, claim, counterclaim, cross claim, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative, legislative, or investigative (formal or informal) nature, including any appeal therefrom, in which Indemnitee was, is or will be involved as a party, potential party, non-party witness or otherwise by reason of the fact that Indemnitee is or was a director or officer of the Company, by reason of any action taken by Indemnitee (or a failure to take action by Indemnitee) or of any action (or failure to act) on Indemnitee’s part while acting pursuant to Indemnitee’s Corporate Status, in each case whether or not serving in such capacity at the time any liability or Expense is incurred for which indemnification, reimbursement, or advancement of Expenses can be provided under this Agreement. If the Indemnitee believes in good faith that a given situation may lead to or culminate in the institution of a Proceeding, this shall be considered a Proceeding under this paragraph.

(i) Reference to “other enterprise” shall include employee benefit plans; references to “fines” shall include any excise tax assessed with respect to any employee benefit plan; references to “serving at the request of the Company” shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Company” as referred to in this Agreement.

Section 3. Indemnity in Third-Party Proceedings. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor, by reason of Indemnitee’s Corporate Status. Pursuant to this Section 3, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on Indemnitee’s behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding had no reasonable cause to believe that Indemnitee’s conduct was unlawful. The parties hereto intend that this Agreement shall provide to the fullest extent permitted by law for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Certificate of Incorporation, the By-laws, vote of its stockholders or disinterested directors or applicable law.

Section 4. Indemnity in Proceedings by or in the Right of the Company. The Company shall indemnify Indemnitee in accordance with the provisions of this Section 4 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of Indemnitee's Corporate Status. Pursuant to this Section 4, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company. No indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court to be liable to the Company, unless and only to the extent that the Delaware Court (as hereinafter defined) or any court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification.

Section 5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, to the fullest extent permitted by applicable law and to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with or related to each successfully resolved claim, issue or matter to the fullest extent permitted by law. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 6. Indemnification For Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the fullest extent permitted by applicable law and to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness or otherwise asked to participate in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

Section 7. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of Expenses, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

Section 8. Additional Indemnification.

(a) Notwithstanding any limitation in Sections 3, 4, or 5, the Company shall indemnify Indemnitee to the fullest extent permitted by applicable law if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) by reason of Indemnitee's Corporate Status.

(b) For purposes of Section 8(a), the meaning of the phrase “to the fullest extent permitted by applicable law” shall include, but not be limited to:

i. to the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL, and

ii. to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

Section 9. Exclusions. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnification payment in connection with any claim involving Indemnitee:

(a) for which payment has actually been made to or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision; or

(b) for (i) an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act (as defined in Section 2(b) hereof) or similar provisions of state statutory law or common law, (ii) any reimbursement of the Company by the Indemnitee of any bonus or other incentive-based or equity-based compensation or of any profits realized by the Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), or the payment to the Company of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act) or (iii) any reimbursement of the Company by Indemnitee of any compensation pursuant to any compensation recoupment or clawback policy adopted by the Board or the compensation committee of the Board, including but not limited to any such policy adopted to comply with stock exchange listing requirements implementing Section 10D of the Exchange Act; or

(c) except as provided in Section 14(d) of this Agreement, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law.

Section 10. Advances of Expenses. Notwithstanding any provision of this Agreement to the contrary (other than Section 14(d)), the Company shall advance, to the extent not prohibited by law, the Expenses incurred by Indemnitee in connection with any Proceeding (or any part of any Proceeding) not initiated by Indemnitee or any Proceeding initiated by Indemnitee with the prior approval of the Board as provided in Section 9(c), and such advancement shall be made within thirty (30) days after the receipt by the Company of a statement or statements requesting such advances from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee’s ability to repay the Expenses and without regard to Indemnitee’s ultimate entitlement to indemnification under the other provisions of this Agreement. In accordance with Section 14(d), advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. The Indemnitee shall qualify for advances upon the execution and delivery to the Company of this Agreement, which shall constitute an undertaking providing that the Indemnitee undertakes to repay the amounts advanced (without interest) to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company. No other form of undertaking shall be required other than the execution of this Agreement. This Section 10 shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 9.

Section 11. Procedure for Notification and Defense of Claim.

(a) Indemnitee shall notify the Company in writing of any matter with respect to which Indemnitee intends to seek indemnification or advancement of Expenses hereunder as soon as reasonably practicable following the receipt by Indemnitee of written notice thereof. The written notification to the Company shall include a description of the nature of the Proceeding and the facts underlying the Proceeding. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of such Proceeding. The omission by Indemnitee to notify the Company hereunder will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise than under this Agreement, and any delay in so notifying the Company shall not constitute a waiver by Indemnitee of any rights under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

(b) The Company will be entitled to participate in the Proceeding at its own expense.

Section 12. Procedure Upon Application for Indemnification.

(a) Upon written request by Indemnitee for indemnification pursuant to Section 11(a), a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; or (ii) if a Change in Control shall not have occurred, (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum of the Board, (C) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee or (D) if so directed by the Board, by the stockholders of the Company; and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or Expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom. The Company promptly will advise Indemnitee in writing with respect to any determination that Indemnitee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) hereof, the Independent Counsel shall be selected as provided in this Section 12(b). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Board, and the Company shall give written notice to Indemnitee advising Indemnitee of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten (10) days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or the Delaware Court has determined that such objection is without merit. If, within twenty (20) days after the later of submission by Indemnitee of a written request for indemnification pursuant to Section 11(a) hereof and the final disposition of the Proceeding, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Delaware Court for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by such court or by such other person as such court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 12(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 14(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).



Section 13. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 11(a) of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) Subject to Section 14(e), if the person, persons or entity empowered or selected under Section 12 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall, to the fullest extent not prohibited by law, be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 13(b) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 12(a) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination the Board has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within seventy-five (75) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within sixty (60) days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) of this Agreement.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the directors or officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser, financial advisor or other expert selected with reasonable care by or on behalf of the Enterprise. The provisions of this Section 13(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(e) The knowledge and/or actions, or failure to act, of any director, officer, trustee, partner, managing member, fiduciary, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

Section 14. Remedies of Indemnitee.

(a) Subject to Section 14(e), in the event that (i) a determination is made pursuant to Section 12 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 10 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 12(a) of this Agreement within ninety (90) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5, 6 or 7 or the second to last sentence of Section 12(a) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, (v) payment of indemnification pursuant to Section 3, 4 or 8 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, or (vi) in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or Proceeding designed to deny, or to recover from, the Indemnitee the benefits provided or intended to be provided to the Indemnitee hereunder, Indemnitee shall be entitled to an adjudication by a court of Indemnitee's entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 14(a); provided, however, that the foregoing clause shall not apply in respect of a proceeding brought by Indemnitee to enforce Indemnitee's rights under Section 5 of this Agreement. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 14 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 14 the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 14, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 14 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. It is the intent of the Company that, to the fullest extent permitted by law, the Indemnitee not be required to incur legal fees or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Indemnitee hereunder. The Company shall, to the fullest extent permitted by law, indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefor) advance, to the extent not prohibited by law, such Expenses to Indemnitee, which are incurred by Indemnitee in connection with any action brought by Indemnitee for indemnification or advancement of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company if, in the case of indemnification, Indemnitee is wholly successful on the underlying claims; if Indemnitee is not wholly successful on the underlying claims, then such indemnification shall be only to the extent Indemnitee is successful on such underlying claims or otherwise as permitted by law, whichever is greater.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement of Indemnitee to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding.

Section 15. Non-exclusivity; Survival of Rights; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, the By-laws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Certificate of Incorporation and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents of the Enterprise, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such claim or of the commencement of a Proceeding, as the case may be, to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(c) In the event of any payment made by the Company under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable (or for which advancement is provided hereunder) hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(e) The Company's obligation to indemnify or advance Expenses hereunder to Indemnitee who is or was serving at the request of the Company as a director, officer, trustee, partner, managing member, fiduciary, employee or agent of any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of Expenses from such other corporation, limited liability company, partnership, joint venture, trust or other enterprise.

Section 16. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (a) ten (10) years after the date that Indemnitee shall have ceased to serve as [a director / officer] of the Company or (b) one (1) year after the final termination of any Proceeding then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 14 of this Agreement relating thereto. The indemnification and advancement of expenses rights provided by or granted pursuant to this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or of any other Enterprise, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

Section 17. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 18. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving or continuing to serve as a director or officer of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; provided, however, that this Agreement is a supplement to and in furtherance of the Certificate of Incorporation, the By-laws and applicable law, and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

Section 19. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

Section 20. Notice by Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder. The failure of Indemnitee to so notify the Company shall not relieve the Company of any obligation which it may have to the Indemnitee under this Agreement or otherwise.

Section 21. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, (c) mailed by reputable overnight courier and receipted for by the party to whom said notice or other communication shall have been directed or (d) sent by facsimile transmission, with receipt of oral confirmation that such transmission has been received:

(a) If to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide to the Company.

(b) If to the Company to

Henry Schein, Inc.  
135 Duryea Road  
Melville, New York 11747  
Attention: General Counsel

or to any other address as may have been furnished to Indemnitee by the Company.

Section 22. Contribution. To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

Section 23. Applicable Law. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules.

Section 24. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

Section 25. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

***[remainder of this page intentionally left blank]***

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

HENRY SCHEIN, INC.

INDEMNITEE

By: \_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Address:

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

I, Stanley M. Bergman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2015

/s/ Stanley M. Bergman

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Stanley M. Bergman  
Chairman and Chief Executive Officer



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

I, Steven Paladino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2015

/s/ Steven Paladino

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Steven Paladino  
Executive Vice President and  
Chief Financial Officer

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

In connection with the quarterly report on Form 10-Q of Henry Schein, Inc. (the "Company") for the period ending September 26, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley M. Bergman, the Chairman and Chief Executive Officer of the Company, and I, Steven Paladino, Executive Vice President and Chief Financial Officer of the Company, do hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 4, 2015

/s/ Stanley M. Bergman

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Stanley M. Bergman  
Chairman and Chief Executive Officer

Dated: November 4, 2015

/s/ Steven Paladino

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Steven Paladino  
Executive Vice President and  
Chief Financial Officer

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

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