HENRY SCHEIN INC
Form 10-Q
May 04, 2015

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

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

For the quarterly period ended March 28, 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	11-3136595
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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 X 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 X 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 X		Accelerated filer __
Non-accelerated filer __	(Do not check if a smaller reporting company)	Smaller reporting company __

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

Yes __ No X

As of April 27, 2015, there were 83,619,111 shares of the registrant's common stock outstanding.

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

	March 28, 2015 (unaudited)	December 27, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,202	$ 89,474
Accounts receivable, net of reserves of $74,051 and $80,671	1,099,273	1,127,517
Inventories, net	1,297,825	1,327,796
Deferred income taxes	52,619	56,591
Prepaid expenses and other	293,335	311,788
Total current assets	2,802,254	2,913,166
Property and equipment, net	292,044	311,496
Goodwill	1,855,714	1,884,123
Other intangibles, net	601,472	643,736
Investments and other	387,780	386,286
Total assets	$ 5,939,264	$ 6,138,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 716,975	$ 860,996
Bank credit lines	163,067	182,899
Current maturities of long-term debt	14,586	5,815
Accrued expenses:		
Payroll and related	181,584	237,511
Taxes	152,310	151,162
Other	318,317	341,728
Total current liabilities	1,546,839	1,780,111
Long-term debt	653,718	542,776
Deferred income taxes	248,445	253,118
Other liabilities	181,246	181,830
Total liabilities	2,630,248	2,757,835
Redeemable noncontrolling interests	573,137	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,		

83,870,731 outstanding on March 28, 2015 and				
84,008,537 outstanding on December 27, 2014		839		840
Additional paid-in capital		244,748		265,363
Retained earnings		2,689,620		2,642,523
Accumulated other comprehensive loss		(201,867)		(95,132)
Total Henry Schein, Inc. stockholders' equity		2,733,340		2,813,594
Noncontrolling interests		2,539		2,851
Total stockholders' equity		2,735,879		2,816,445
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$	5,939,264	$	6,138,807

See accompanying notes.

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

	Three Months Ended	
	March 28, 2015	March 29, 2014
Net sales	$ 2,463,646	$ 2,430,159
Cost of sales	1,750,251	1,733,446
Gross profit	713,395	696,713
Operating expenses:		
Selling, general and administrative	545,166	539,445
Restructuring costs	6,862	-
Operating income	161,367	157,268
Other income (expense):		
Interest income	3,455	3,455
Interest expense	(6,263)	(5,258)
Other, net	120	3,580
Income before taxes and equity in earnings of affiliates	158,679	159,045
Income taxes	(49,127)	(49,623)
Equity in earnings of affiliates	2,028	706
Net income	111,580	110,128
Less: Net income attributable to noncontrolling interests	(8,133)	(8,029)
Net income attributable to Henry Schein, Inc.	$ 103,447	$ 102,099
Earnings per share attributable to Henry Schein, Inc.:		
Basic	$ 1.24	$ 1.20
Diluted	$ 1.22	$ 1.18
Weighted-average common shares outstanding:		
Basic	83,230	84,808
Diluted	84,715	86,518

See accompanying notes.

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

	Three Months Ended	
	March 28, 2015	March 29, 2014
Net income	$ 111,580	$ 110,128
Other comprehensive income (loss), net of tax:		
Foreign currency translation gain (loss)	(109,872)	7,792
Unrealized loss from foreign currency hedging activities	(1,888)	(948)
Unrealized investment gain	-	11
Pension adjustment gain	1,449	268
Other comprehensive income (loss), net of tax	(110,311)	7,123
Comprehensive income	1,269	117,251
Comprehensive income attributable to noncontrolling interests:		
Net income	(8,133)	(8,029)
Foreign currency translation loss (gain)	3,576	(2,110)
Comprehensive income attributable to noncontrolling interests	(4,557)	(10,139)
Comprehensive income (loss) attributable to Henry Schein, Inc.	$ (3,288)	$ 107,112

See accompanying notes.

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

	Common Stock $.01 Par Value Shares	Common Stock $.01 Par Value Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 27, 2014	84,008,537	$ 840	$ 265,363	$ 2,642,523	$ (95,132)	$ 2,851	$ 2,816,445
Net income (excluding $7,946 attributable to Redeemable noncontrolling interests)	-	-	-	103,447	-	187	103,634
Foreign currency translation gain (loss) (excluding loss of $3,585 attributable to Redeemable noncontrolling interests)	-	-	-	-	(106,296)	9	(106,287)
Unrealized loss from foreign currency hedging activities, including tax benefit of $286	-	-	-	-	(1,888)	-	(1,888)
Pension adjustment gain, net of tax of $632	-	-	-	-	1,449	-	1,449
Dividends paid	-	-	-	-	-	(140)	(140)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	-	-	-	(368)	(368)
Change in fair value of redeemable securities	-	-	(6,042)	-	-	-	(6,042)

Other adjustments	-	-	58	-	-	-	58
Repurchase and retirement of common stock	(542,029)	(5)	(19,352)	(56,350)	-	-	(75,707)
Stock issued upon exercise of stock options, including tax benefit of $15,695	161,827	2	23,270	-	-	-	23,272
Stock-based compensation expense	431,921	4	8,495	-	-	-	8,499
Shares withheld for payroll taxes	(189,525)	(2)	(26,881)	-	-	-	(26,883)
Liability for cash settlement stock-based compensation awards	-	-	(163)	-	-	-	(163)
Balance, March 28, 2015	83,870,731	$ 839	$ 244,748	$ 2,689,620	$ (201,867)	$ 2,539	$ 2,735,879

See accompanying notes.

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

	Three Months Ended	
	March 28, 2015	March 29, 2014
Cash flows from operating activities:		
Net income	$ 111,580	$ 110,128
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	37,149	36,136
Stock-based compensation expense	8,499	8,963
Provision for losses on trade and other accounts receivable	1,251	1,323
Provision for deferred income taxes	17,226	15,744
Equity in earnings of affiliates	(2,028)	(706)
Distributions from equity affiliates	2,335	1,972
Changes in unrecognized tax benefits	1,268	2,455
Other	3,680	(482)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(9,861)	(29,602)
Inventories	(11,906)	41,559
Other current assets	(3,659)	(23,446)
Accounts payable and accrued expenses	(182,188)	(219,293)
Net cash used in operating activities	(26,654)	(55,249)
Cash flows from investing activities:		
Purchases of fixed assets	(15,493)	(18,484)
Payments for equity investments and business acquisitions, net of cash acquired	(13,637)	(144,679)
Other	(1,185)	(3,931)
Net cash used in investing activities	(30,315)	(167,094)
Cash flows from financing activities:		
Proceeds from (repayments of) bank borrowings	(19,886)	114,768
Proceeds from issuance of debt	125,000	190,387
Principal payments for long-term debt	(736)	(396)
Proceeds from issuance of stock upon exercise of stock options	7,577	16,450
Payments for repurchases of common stock	(75,707)	(75,306)
Excess tax benefits related to stock-based compensation	2,844	3,350
Distributions to noncontrolling shareholders	(3,113)	(3,763)
	(205)	(83,793)

Acquisitions of noncontrolling interests in subsidiaries				
Net cash provided by financing activities		35,774		161,697
Effect of exchange rate changes on cash and cash equivalents		(9,077)		1,145
Net change in cash and cash equivalents		(30,272)		(59,501)
Cash and cash equivalents, beginning of period		89,474		188,616
Cash and cash equivalents, end of period	$	59,202	$	129,115

See accompanying notes.

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

Note 1 – Basis of Presentation

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

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

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

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three months ended March 28, 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 29 countries worldwide.

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

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

Note 2 – Segment Data – (Continued)

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

	Three Months Ended March 28, 2015	Three Months Ended March 29, 2014
Net Sales:		
Health care distribution (1):		
Dental	$ 1,250,073	$ 1,296,928
Animal health	684,324	654,488
Medical	443,533	397,414
Total health care distribution	2,377,930	2,348,830
Technology and value-added services (2)	85,716	81,329
Total	$ 2,463,646	$ 2,430,159

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

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

	Three Months Ended March 28, 2015	Three Months Ended March 29, 2014
Operating Income:		
Health care distribution	$ 136,139	$ 133,819
Technology and value-added services	25,228	23,449
Total	$ 161,367	$ 157,268

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 March 28, 2015 and December 27, 2014. As of March 28, 2015 and December 27, 2014, there were $10.1 million of letters of credit provided to third parties under the credit facility.

As of March 28, 2015 and December 27, 2014, we had various other short-term bank credit lines available, of which $163.1 million and $182.9 million, respectively, were outstanding. At March 28, 2015 and December 27, 2014, borrowings under all of our credit lines had a weighted average interest rate of 1.31% and 1.26%, respectively.

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

Note 3 – Debt – (Continued)

Private Placement Facilities

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

The components of our private placement facility borrowings as of March 28, 2015 are presented in the following table (in thousands):

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate	Due Date
September 2, 2010	$ 100,000	3.79 %	September 2, 2020
January 20, 2012	50,000	3.45	January 20, 2024
January 20, 2012 (1)	50,000	3.09	January 20, 2022
December 24, 2012	50,000	3.00	December 24, 2024
June 2, 2014	100,000	3.19	June 2, 2021
	$ 350,000		

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

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

Note 3 – Debt – (Continued)

U.S. Trade Accounts Receivable Securitization

On April 17, 2013, we entered into a facility agreement of up to $300 million with a bank, as agent, based on the securitization of our U.S. trade accounts receivable. The new 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 $275.0 million as of March 28, 2015. At March 28, 2015, 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:

	March 28, 2015	December 27, 2014
Private placement facilities	$ 350,000	$ 350,000
U.S. trade accounts receivable securitization	275,000	150,000
Notes payable to banks at a weighted-average interest rate of 8.71%	19	30
Various collateralized and uncollateralized loans payable with interest, in varying installments through 2018 at interest rates ranging from 1.92% to 5.41%	40,831	41,259
Capital lease obligations payable through 2019 with interest rates ranging from 2.00% to 11.49%	2,454	7,302
Total	668,304	548,591
Less current maturities	(14,586)	(5,815)
Total long-term debt	$ 653,718	$ 542,776

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

Note 4 – Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification ("ASC") Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the three months ended March 28, 2015 and the year ended December 27, 2014 are presented in the following table:

	March 28, 2015	December 27, 2014
Balance, beginning of period	$ 564,527	$ 497,539
Decrease in redeemable noncontrolling interests due to redemptions	(205)	(105,383)
Increase in redeemable noncontrolling interests due to business acquisitions	1,337	120,220
Net income attributable to redeemable noncontrolling interests	7,946	38,741
Dividends declared	(2,925)	(23,346)
Effect of foreign currency translation loss attributable to redeemable noncontrolling interests	(3,585)	(4,080)
Change in fair value of redeemable securities	6,042	40,836
Balance, end of period	$ 573,137	$ 564,527

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

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

Note 5 – Comprehensive Income

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

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

	March 28, 2015	December 27, 2014
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	$ (9,168)	$ (5,583)
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	$ (27)	$ (36)
Attributable to Henry Schein, Inc.:		
Foreign currency translation loss	$ (177,590)	$ (71,294)
Unrealized loss from foreign currency hedging activities	(2,943)	(1,055)
Unrealized investment loss	(136)	(136)
Pension adjustment loss	(21,198)	(22,647)
Accumulated other comprehensive loss	$ (201,867)	$ (95,132)
Total Accumulated other comprehensive loss	$ (211,062)	$ (100,751)

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

	Three Months Ended	
	March 28, 2015	March 29, 2014
Net income	$ 111,580	$ 110,128
Foreign currency translation gain (loss)	(109,872)	7,792
Tax effect	-	-
Foreign currency translation gain (loss)	(109,872)	7,792
Unrealized loss from foreign currency hedging activities	(2,174)	(1,152)
Tax effect	286	204
Unrealized loss from foreign currency hedging activities	(1,888)	(948)
Unrealized investment gain	-	18
Tax effect	-	(7)
Unrealized investment gain	-	11

Pension adjustment gain	2,081	346
Tax effect	(632)	(78)
Pension adjustment gain	1,449	268
Comprehensive income	$ 1,269	$ 117,251

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

Note 5 – Comprehensive Income – (Continued)

During the three months ended March 28, 2015 and March 29, 2014, we recognized as a component of our comprehensive income, a foreign currency translation gain (loss) of $(109.9) million and $7.8 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 loss during the three months ended March 28, 2015 was impacted by changes in foreign currency exchange rates as follows:

Currency	Foreign Currency Translation Gain (Loss) for the Three Months Ended March 28, 2015	FX Rate into USD March 28, 2015	FX Rate into USD December 27, 2014	Foreign Currency Translation Gain (Loss) for the Three Months Ended March 29, 2014	FX Rate into USD March 29, 2014	FX Rate into USD December 28, 2013
Euro	$ (77,338)	1.09	1.22	$ (441)	1.38	1.38
British Pound	(14,252)	1.49	1.56	3,029	1.66	1.65
Australian Dollar	(7,487)	0.78	0.81	8,027	0.92	0.89
Polish Zloty	(2,065)	0.27	0.28	(78)	0.33	0.33
Canadian Dollar	(6,711)	0.80	0.86	(2,384)	0.90	0.94
Brazilian Real	(3,100)	0.31	0.37	-	0.44	0.43
All other currencies	1,081			(361)		
Total	$ (109,872)			$ 7,792		

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

	Three Months Ended March 28, 2015	Three Months Ended March 29, 2014
Comprehensive income attributable to Henry Schein, Inc.	$ (3,288)	$ 107,112
Comprehensive income attributable to noncontrolling interests	196	71
Comprehensive income attributable to Redeemable noncontrolling interests	4,361	10,068
Comprehensive income	$ 1,269	$ 117,251

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

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 March 28, 2015 and December 27, 2014 was estimated at $831.4 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.

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.

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Note 6 – Fair Value Measurements – (Continued)

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 March 28, 2015 and December 27, 2014:

	March 28, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	$ -	$ 1,820	$ -	$ 1,820
Total assets	$ -	$ 1,820	$ -	$ 1,820
Liabilities:				
Derivative contracts	$ -	$ 1,021	$ -	$ 1,021
Total liabilities	$ -	$ 1,021	$ -	$ 1,021
Redeemable noncontrolling interests	$ -	$ -	$ 573,137	$ 573,137

	December 27, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	$ -	$ 2,472	$ -	$ 2,472
Total assets	$ -	$ 2,472	$ -	$ 2,472
Liabilities:				
Derivative contracts	$ -	$ 1,307	$ -	$ 1,307
Total liabilities	$ -	$ 1,307	$ -	$ 1,307
Redeemable noncontrolling interests	$ -	$ -	$ 564,527	$ 564,527

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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 March 31, 2015, we completed the acquisition of scil animal care company GmbH (“scil”), a specialty distributor of animal health laboratory and imaging diagnostic products and services to veterinarians primarily in North America and Europe. scil has annual sales of approximately $83 million.

We completed certain other acquisitions during the three months ended March 28, 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 three months ended March 28, 2015 and March 29, 2014, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

Note 8 – Plan of Restructuring

On November 6, 2014, we announced a corporate initiative to rationalize our operations and provide expense efficiencies, which will occur throughout fiscal 2015. This initiative is expected to include the elimination of approximately 2% to 3% of our workforce and the closing of certain facilities. The costs associated with all actions to complete this restructuring are expected to be in the range of $35 million to $40 million pre-tax (approximately $0.29 to $0.33 per diluted share). We plan to reduce our cost structure to fund new initiatives to drive future growth as our 2015 – 2017 strategic planning cycle begins. During the three months ended March 28, 2015, we recorded $6.9 million in restructuring costs.

On April 30, 2015, we estimated that the total remaining restructuring costs we expect to incur in connection with the restructuring activity to be $30 million to $35 million, consisting of $18 million to $20 million in employee severance pay and benefits, $10 million to $12 million in facility costs, representing primarily lease termination and other facility closure related costs, and $2 million to $3 million in other restructuring costs.

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

The following table shows the amounts expensed and paid for restructuring costs that were incurred during the three months ended March 28, 2015 and during our 2014 fiscal year and the remaining accrued balance of restructuring costs as of March 28, 2015, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

Facility

	Severance Costs	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	5,086	886	890	6,862
Payments	(1,553)	(221)	(746)	(2,520)
Balance, March 28, 2015	$ 3,653	$ 966	$ 144	$ 4,763

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Note 8 – Plan of Restructuring – (Continued)

The following table shows, by reportable segment, the amounts expensed and paid for restructuring costs that were incurred during the three months ended March 28, 2015 and the 2014 fiscal year and the remaining accrued balance of restructuring costs as of March 28, 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	6,860	2	6,862
Payments	(2,518)	(2)	(2,520)
Balance, March 28, 2015	$ 4,763	$ -	$ 4,763

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 March 28, 2015	March 29, 2014
Basic	83,230	84,808
Effect of dilutive securities:		
Stock options, restricted stock and restricted stock units	1,485	1,710
Diluted	84,715	86,518

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Note 10 – Income Taxes

For the three months ended March 28, 2015, our effective tax rate was 31.0% compared to 31.2% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods primarily relates to state and foreign income taxes and interest expense.

The total amount of unrecognized tax benefits as of March 28, 2015 was approximately $82.9 million, of which $62.5 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 $15.9 million and $0, respectively, for the three months ended March 28, 2015.

The tax years subject to examination by major tax jurisdictions include the years 2009 and forward by the U.S. Internal Revenue Service, as well as the years 2005 and forward for certain states and certain foreign jurisdictions. In December 2014, the IRS issued a Statutory Notice of Deficiency for 2009, 2010 and 2011. We do not expect this to have a significant effect on our consolidated financial position, liquidity or the results of operations. During the quarter ended March 28, 2015, we filed our petition to the U.S. Tax Court disputing the adjustments proposed by the IRS.

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 $8.5 million ($5.9 million after-tax) and $9.0 million ($6.2 million after-tax) for the three months ended March 28, 2015 and March 29, 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 1996 Non-Employee Director Stock Incentive Plan, as amended (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 1996 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 March 28, 2015 was $139.7 million, which is expected to be recognized over a weighted-average period of approximately 2.6 years.

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Note 12 – Stock-Based Compensation – (Continued)

The following table summarizes stock option activity under the Plans