HENRY SCHEIN INC
Form 10-Q
August 04, 2014
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 June 28, 2014

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 July 28, 2014, there were 84,832,600 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)

		June 28, 2014 (unaudited)		December 28, 2013
ASSETS				
Current assets:				
Cash and cash equivalents	$	89,698	$	188,616
Accounts receivable, net of reserves of $81,932 and $78,298		1,188,143		1,055,216
Inventories, net		1,257,235		1,250,403
Deferred income taxes		66,431		63,865
Prepaid expenses and other		310,496		276,565
Total current assets		2,912,003		2,834,665
Property and equipment, net		292,972		275,888
Goodwill		1,832,377		1,635,005
Other intangibles, net		594,358		417,133
Investments and other		360,044		461,945
Total assets	$	5,991,754	$	5,624,636
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	755,999	$	824,495
Bank credit lines		83,671		29,508
Current maturities of long-term debt		6,302		5,441
Accrued expenses:				
Payroll and related		208,886		216,629
Taxes		158,363		145,161
Other		330,680		329,429
Total current liabilities		1,543,901		1,550,663
Long-term debt		665,909		450,233
Deferred income taxes		278,456		198,674
Other liabilities		152,029		139,526
Total liabilities		2,640,295		2,339,096
Redeemable noncontrolling interests		497,927		497,539
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,				

85,022,123 outstanding on June 28, 2014 and				
85,622,452 outstanding on December 28, 2013		850		856
Additional paid-in capital		265,469		318,225
Retained earnings		2,505,721		2,398,267
Accumulated other comprehensive income		78,703		67,849
Total Henry Schein, Inc. stockholders' equity		2,850,743		2,785,197
Noncontrolling interests		2,789		2,804
Total stockholders' equity		2,853,532		2,788,001
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$	5,991,754	$	5,624,636

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	$ 2,615,406	$ 2,391,810	$ 5,045,565	$ 4,685,321
Cost of sales	1,886,934	1,721,954	3,620,380	3,368,474
Gross profit	728,472	669,856	1,425,185	1,316,847
Operating expenses:				
Selling, general and administrative	547,628	493,791	1,087,073	987,153
Operating income	180,844	176,065	338,112	329,694
Other income (expense):				
Interest income	3,416	3,303	6,871	6,508
Interest expense	(5,670)	(4,890)	(10,928)	(17,617)
Other, net	1,032	(34)	4,612	(404)
Income before taxes and equity in earnings of affiliates	179,622	174,444	338,667	318,181
Income taxes	(55,322)	(54,775)	(104,945)	(100,627)
Equity in earnings of affiliates	2,817	1,766	3,523	2,567
Net income	127,117	121,435	237,245	220,121
Less: Net income attributable to noncontrolling interests	(10,881)	(13,005)	(18,910)	(20,213)
Net income attributable to Henry Schein, Inc.	$ 116,236	$ 108,430	$ 218,335	$ 199,908
Earnings per share attributable to Henry Schein, Inc.:				
Basic	$ 1.37	$ 1.26	$ 2.58	$ 2.31
Diluted	$ 1.35	$ 1.23	$ 2.53	$ 2.27
Weighted-average common shares outstanding:				
Basic	84,620	86,370	84,716	86,483
Diluted	85,980	87,968	86,189	88,205

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	$ 127,117	$ 121,435	$ 237,245	$ 220,121
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	6,828	(15,261)	14,620	(55,702)
Unrealized gain (loss) from foreign currency hedging activities	(772)	793	(1,720)	634
Unrealized investment gain (loss)	27	(74)	38	(83)
Pension adjustment gain	249	269	517	1,007
Other comprehensive income (loss), net of tax	6,332	(14,273)	13,455	(54,144)
Comprehensive income	133,449	107,162	250,700	165,977
Comprehensive income attributable to noncontrolling interests:				
Net income	(10,881)	(13,005)	(18,910)	(20,213)
Foreign currency translation loss (gain)	(491)	1,076	(2,601)	2,554
Comprehensive income attributable to noncontrolling interests	(11,372)	(11,929)	(21,511)	(17,659)
Comprehensive income attributable to Henry Schein, Inc.	$ 122,077	$ 95,233	$ 229,189	$ 148,318

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	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 28, 2013	85,622,452	$ 856	$ 318,225	$ 2,398,267	$ 67,849	$ 2,804	$ 2,788,001
Net income (excluding $18,638 attributable to Redeemable noncontrolling interests)	-	-	-	218,335	-	272	218,607
Foreign currency translation gain (loss) (excluding gain of $2,614 attributable to Redeemable noncontrolling interests)	-	-	-	-	12,019	(13)	12,006
Unrealized loss from foreign currency hedging activities, including tax benefit of $301	-	-	-	-	(1,720)	-	(1,720)
Unrealized investment gain, net of tax of $24	-	-	-	-	38	-	38
Pension adjustment gain, net of tax of $64	-	-	-	-	517	-	517
Dividends paid	-	-	-	-	-	(274)	(274)
Change in fair value of redeemable securities	-	-	(37,124)	-	-	-	(37,124)
Other adjustments	-	-	(285)	-	-	-	(285)
Repurchase and retirement of common stock	(1,301,267)	(13)	(40,549)	(110,881)	-	-	(151,443)

Stock issued upon exercise of stock options, including tax benefit of $7,044	438,172	4	28,317	-	-	-	28,321
Stock-based compensation expense	447,901	4	19,501	-	-	-	19,505
Shares withheld for payroll taxes	(185,135)	(1)	(22,372)	-	-	-	(22,373)
Liability for cash settlement stock-based compensation awards	-	-	(244)	-	-	-	(244)
Balance, June 28, 2014	85,022,123	$ 850	$ 265,469	$ 2,505,721	$ 78,703	$ 2,789	$ 2,853,532

See accompanying notes.

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

	Six Months Ended	
	June 28, 2014	June 29, 2013
Cash flows from operating activities:		
Net income	$ 237,245	$ 220,121
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,489	64,236
Accelerated amortization of deferred financing costs	-	6,203
Stock-based compensation expense	19,505	16,732
Provision for losses on trade and other accounts receivable	2,415	2,154
Provision for deferred income taxes	6,009	15,550
Equity in earnings of affiliates	(3,523)	(2,567)
Distributions from equity affiliates	5,340	6,450
Other	15,453	5,367
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(86,199)	(45,155)
Inventories	48,550	82,037
Other current assets	(23,251)	(12,924)
Accounts payable and accrued expenses	(151,050)	(121,453)
Net cash provided by operating activities	143,983	236,751
Cash flows from investing activities:		
Purchases of fixed assets	(37,976)	(21,934)
Payments for equity investments and business acquisitions, net of cash acquired	(222,857)	(33,708)
Other	(6,497)	(5,071)
Net cash used in investing activities	(267,330)	(60,713)
Cash flows from financing activities:		
Proceeds from (repayments of) bank borrowings	53,239	(11,640)
Proceeds from issuance of debt	314,787	483,781
Debt issuance costs	-	(1,319)
Principal payments for long-term debt	(100,866)	(538,000)
Proceeds from issuance of stock upon exercise of stock options	21,277	19,452
Payments for repurchases of common stock	(151,443)	(151,511)
Excess tax benefits related to stock-based compensation	4,579	5,328

Distributions to noncontrolling shareholders	(17,689)	(13,008)
Acquisitions of noncontrolling interests in subsidiaries	(102,552)	(5,754)
Net cash provided by (used in) financing activities	21,332	(212,671)
Effect of exchange rate changes on cash and cash equivalents	3,097	(6,608)
Net change in cash and cash equivalents	(98,918)	(43,241)
Cash and cash equivalents, beginning of period	188,616	122,080
Cash and cash equivalents, end of period	$ 89,698	$ 78,839

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 28, 2013.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the six months ended June 28, 2014 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 27, 2014.

Note 2 – Segment Data

We conduct our business through two reportable segments: health care distribution and 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 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.

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 27 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 and continuing education services for practitioners.

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

Note 2 – Segment Data – (Continued)

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net Sales:				
Health care distribution (1):				
Dental	$ 1,368,481	$ 1,259,581	$ 2,665,409	$ 2,450,376
Animal health	754,549	666,297	1,409,037	1,305,439
Medical	403,257	387,887	800,671	776,749
Total health care distribution	2,526,287	2,313,765	4,875,117	4,532,564
Technology and value-added services (2)	89,119	78,045	170,448	152,757
Total	$ 2,615,406	$ 2,391,810	$ 5,045,565	$ 4,685,321

(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 and other services, including e-services and continuing education services for practitioners.

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Operating Income:				
Health care distribution	$ 153,578	$ 154,682	$ 287,397	$ 289,142
Technology and value-added services	27,266	21,383	50,715	40,552
Total	$ 180,844	$ 176,065	$ 338,112	$ 329,694

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 expires on September 12, 2017. The interest rate is based on 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 certain interest coverage and 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 $60.0 million outstanding under this revolving credit facility as of June 28, 2014. As of June 28, 2014, there were $10.1 million of letters of credit provided to third parties under the credit facility.

As of June 28, 2014, we had various other short-term bank credit lines available, of which $23.7 million was outstanding. At June 28, 2014, borrowings under all of our credit lines had a weighted average interest rate of 1.50%. In July 2014, we extended credit lines with various financial institutions for an additional year.

Term Loan Note

On January 9, 2014, we entered into a $100 million term loan, of which none was outstanding as of June 28, 2014. The interest rate on this note is LIBOR plus 75 basis points. The note matured on July 9, 2014.

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. 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 during a three year issuance period, through April 26, 2015. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of June 28, 2014 are presented in the following table:

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

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

U.S. Trade Accounts Receivable Securitization

On April 17, 2013, we entered into a facility agreement of up to $300 million with a bank, as agent, based on the securitization of our U.S. trade accounts receivable. The new facility allowed us to replace public debt (approximately $220 million), which had a higher interest rate at Henry Schein Animal Health ("HSAH") 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. The borrowings outstanding under this securitization facility were $274.4 million as of June 28, 2014. At June 28, 2014, the interest rate on borrowings under this facility was based on the average asset-backed commercial paper rate of 19 basis points plus 75 basis points, for a combined rate of 0.94%.

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

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

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

Note 3 – Debt – (Continued)

Other Loans Payable

Certain of our subsidiaries have various collateralized and uncollateralized long-term loans payable with interest, with borrowings of $39.6 million outstanding at June 28, 2014, in varying installments through 2018 at interest rates ranging from 2.15% to 5.41%.

Henry Schein Animal Health

During the first quarter of 2013, we repaid the then outstanding debt related to the HSAH (formerly Butler Schein Animal Health) transaction using our existing Credit Agreement. As part of this transaction, we recorded a one-time interest expense charge of $6.2 million related to the accelerated amortization of deferred financing costs.

Note 4 – Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification ("ASC") Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the six months ended June 28, 2014 and the year ended December 28, 2013 are presented in the following table:

	June 28, 2014	December 28, 2013
Balance, beginning of period	$ 497,539	$ 435,175
Decrease in redeemable noncontrolling interests due to redemptions	(102,552)	(9,028)
Increase in redeemable noncontrolling interests due to business acquisitions	61,840	11,542
Net income attributable to redeemable noncontrolling interests	18,638	39,430
Dividends declared	(17,276)	(19,965)
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	2,614	(654)
Change in fair value of redeemable securities	37,124	41,039
Balance, end of period	$ 497,927	$ 497,539

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

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

Note 5 – Comprehensive Income

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

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

	June 28, 2014	December 28, 2013
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	$ 1,111	$ (1,503)
Attributable to noncontrolling interests:		
Foreign currency translation adjustment	$ (13)	$ -
Attributable to Henry Schein, Inc.:		
Foreign currency translation gain	$ 94,307	$ 82,288
Unrealized gain (loss) from foreign currency hedging activities	(438)	1,282
Unrealized investment loss	(477)	(515)
Pension adjustment loss	(14,689)	(15,206)
Accumulated other comprehensive income	$ 78,703	$ 67,849
Total Accumulated other comprehensive income	$ 79,801	$ 66,346

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	$ 127,117	$ 121,435	$ 237,245	$ 220,121
Foreign currency translation gain (loss)	6,828	(15,261)	14,620	(55,702)
Tax effect	-	-	-	-
Foreign currency translation gain (loss)	6,828	(15,261)	14,620	(55,702)
Unrealized gain (loss) from foreign currency hedging activities	(869)	932	(2,021)	856
Tax effect	97	(139)	301	(222)
Unrealized gain (loss) from foreign currency hedging activities	(772)	793	(1,720)	634

Unrealized investment gain (loss)	44	(123)	62	(138)
Tax effect	(17)	49	(24)	55
Unrealized investment gain (loss)	27	(74)	38	(83)
Pension adjustment gain	235	343	581	1,263
Tax effect	14	(74)	(64)	(256)
Pension adjustment gain	249	269	517	1,007
Comprehensive income	$ 133,449	$ 107,162	$ 250,700	$ 165,977

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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)

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Comprehensive income attributable to Henry Schein, Inc.	$ 122,077	$ 95,233	$ 229,189	$ 148,318
Comprehensive income attributable to noncontrolling interests	188	115	259	189
Comprehensive income attributable to Redeemable noncontrolling interests	11,184	11,814	21,252	17,470
Comprehensive income	$ 133,449	$ 107,162	$ 250,700	$ 165,977

Note 6 – Fair Value Measurements

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

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

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

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

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

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

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

Investments and notes receivable

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

Debt

The fair value of our debt as of June 28, 2014 and December 28, 2013 was estimated at $755.9 million and $485.2 million, respectively. Factors that we considered when estimating the fair value of our debt include market conditions, prepayment and make-whole provisions, liquidity levels in the private placement market, variability in pricing from multiple lenders and term of debt.

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Note 6 – Fair Value Measurements – (Continued)

Derivative contracts

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

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

Redeemable noncontrolling interests

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

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 28, 2014 and December 28, 2013:

	June 28, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	$ -	$ 242	$ -	$ 242
Total assets	$ -	$ 242	$ -	$ 242
Liabilities:				
Derivative contracts	$ -	$ 2,048	$ -	$ 2,048
Total liabilities	$ -	$ 2,048	$ -	$ 2,048
Redeemable noncontrolling interests	$ -	$ -	$ 497,927	$ 497,927

	December 28, 2013			
	Level 1	Level 2	Level 3	Total

Assets:								
Derivative contracts	$	-	$	1,235	$	-	$	1,235
Total assets	$	-	$	1,235	$	-	$	1,235
Liabilities:								
Derivative contracts	$	-	$	1,142	$	-	$	1,142
Total liabilities	$	-	$	1,142	$	-	$	1,142
Redeemable noncontrolling interests	$	-	$	-	$	497,539	$	497,539

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Note 7 – Business Acquisitions

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

On April 2, 2014, we completed our previously announced acquisition of an 80% ownership position in Medivet S.A., a privately held distributor of animal health products and services in Poland. Medivet has annual sales of approximately $80 million.

On May 22, 2014, we announced that our U.S. Animal Health business, Butler Animal Health Supply LLC ("BAHS"), together with our wholly-owned subsidiary, W.A. Butler Company ("WAB"), entered into a definitive agreement to acquire a 60% ownership position in SmartPak Equine, LLC ("SmartPak"), a privately held provider of equine supplements and horse supplies in the United States. SmartPak had sales of approximately $105 million in 2013. BAHS and WAB completed this transaction on June 30, 2014.

We completed certain other acquisitions during the six months ended June 28, 2014. Such acquisitions were immaterial to our financial statements individually and in the aggregate.

Some prior owners of acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. We have accrued liabilities for the estimated fair value of additional purchase price consideration at the time of the acquisition. Any adjustments to these accrual amounts are recorded in our consolidated statements of income. For the six months ended June 28, 2014 and June 29, 2013, 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

During the year ended December 29, 2012, we incurred restructuring costs of $15.2 million ($10.5 million after taxes) consisting of employee severance pay and benefits related to the elimination of approximately 200 positions; facility closing costs, representing primarily lease terminations and property and equipment write-off costs; and outside professional and consulting fees directly related to the restructuring plan. This restructuring program is complete and we do not expect any additional costs from this program.

The costs associated with this restructuring have been 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 six months ended June 28, 2014 and during our 2013 fiscal year and the remaining accrued balance of restructuring costs as of June 28, 2014, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

	Severance Costs	Facility Closing Costs	Total
Balance, December 29, 2012	$ 1,826	$ 1,231	$ 3,057

Provision		-			-			-	
Payments and other adjustments		(1,599	)		(747	)		(2,346	)
Balance, December 28, 2013	$	227		$	484		$	711	
Provision		-			-			-	
Payments and other adjustments		(75	)		(88	)		(163	)
Balance, June 28, 2014	$	152		$	396		$	548	

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HENRY SCHEIN, INC.
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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 six months ended June 28, 2014 and the 2013 fiscal year and the remaining accrued balance of restructuring costs as of June 28, 2014:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance, December 29, 2012	$ 3,043	$ 14	$ 3,057
Provision	-	-	-
Payments and other adjustments	(2,332)	(14)	(2,346)
Balance, December 28, 2013	$ 711	$ -	$ 711
Provision	-	-	-
Payments and other adjustments	(163)	-	(163)
Balance, June 28, 2014	$ 548	$ -	$ 548

Note 9 – Earnings Per Share

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

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

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Basic	84,620	86,370	84,716	86,483
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units	1,360	1,598	1,473	1,722
Diluted	85,980	87,968	86,189	88,205

Note 10 – Income Taxes

For the six months ended June 28, 2014, our effective tax rate was 31.0% compared to 31.6% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods primarily relates to state and foreign income taxes and interest expense.

The total amount of unrecognized tax benefits as of June 28, 2014 was approximately $61.5 million, of which $47.2 million would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties, which are classified as a component of the provision for income taxes, were approximately $10.9 million and $0, respectively, for the six months ended June 28, 2014.

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.

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HENRY SCHEIN, INC.
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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.

Note 12 – Stock-Based Compensation

Our accompanying consolidated statements of income reflect pre-tax share-based compensation expense of $10.5 million ($7.3 million after-tax) and $19.5 million ($13.5 million after-tax) for the three and six months ended June 28, 2014, respectively, and $11.4 million ($7.8 million after-tax) and $16.7 million ($11.4 million after-tax) for the three and six months ended June 29, 2013, 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 (including restricted stock units). Since March 2009, equity-based awards have been granted solely in the form of restricted stock and restricted stock units, with the exception of providing stock options to employees for certain pre-existing contractual obligations.

Grants of restricted stock are common stock awards granted to recipients with specified vesting provisions. Prior to 2014, we issued restricted stock that vests solely based on the recipient's continued service over time (primarily four-year cliff) and restricted stock that vests based on our achieving specified performance measurements and the recipient's continued service over time (primarily three-year cliff vesting). Since February 2014, we issue restricted stock that vests solely based on the recipient's continued service over time (primarily four-year cliff vesting under our 2013 Stock Incentive Plan and primarily 13-month cliff vesting under our 1996 Non-Employee Director Stock Incentive Plan) and restricted stock that vests based on our achieving specified performance measurements and the recipient's continued service over time (primarily three-year cliff vesting).

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Note 12 – Stock-Based Compensation – (Continued)

With respect to time-based restricted stock, we estimate the fair value on the date of grant based on our closing stock price. With respect to performance-based restricted stock, 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 based on our closing stock price at time of grant.

The Plans provide for adjustments to the performance-based restricted stock targets for significant events such as acquisitions, divestitures, new business ventures and share repurchases. 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.

Restricted stock units are awards that we grant to certain employees that entitle the recipient to shares of common stock upon vesting. We grant restricted stock units with the same time-based and performance-based vesting that we use for restricted stock. The fair value of restricted stock units is determined on the date of grant, based on our closing stock price.

Total unrecognized compensation cost related to non-vested awards as of June 28, 2014 was $102.0 million, which is expected to be recognized over a weighted-average period of approximately 2.4 years.

The following table summarizes stock option activity under the Plans during the six months ended June 28, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	1,323	$ 51.53		
Granted	-	-		
Exercised	(440)	48.66		
Forfeited	-	-		
Outstanding at end of period	883	$ 52.96	2.7	$ 58,205
Options exercisable at end of period	883	$ 52.96	2.7	$ 58,205

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

The following tables summarize the activity of our non-vested restricted stock/units for the six months ended June 28, 2014:

	Time-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	926	$ 70.70	
Granted	172	118.69	
Vested	(229)	57.66	
Forfeited	(19)	79.26	
Outstanding at end of period	850	$ 83.71	$ 118.86

	Performance-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,078	$ 59.85	
Granted	265	110.97	
Vested	(259)	70.03	
Forfeited	(14)	84.25	
Outstanding at end of period	1,070	$ 75.06	$ 118.86

Note 13 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Six Months Ended	
	June 28, 2014	June 29, 2013
Interest	$ 9,712	$ 11,200
Income taxes	95,105	65,246

During the six months ended June 28, 2014 and June 29, 2013, we had a $2.0 million non-cash net unrealized loss and a $0.9 million of non-cash net unrealized gain related to foreign currency hedging activities, respectively.

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

Cautionary Note Regarding Forward-Looking Statements

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

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

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

Where You Can Find Important Information

We may disclose important information through one or more of the following channels: SEC filings, public conference calls and webcasts, press releases, the investor relations page of our website (www.henryschein.com) 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 800,000 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 82 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 17,000 people (of which nearly 8,000 are based outside the United States) and have operations or affiliates in 27 countries, including the United States, Australia, Austria, Belgium, Brazil, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Luxembourg, Mauritius, the Netherlands, New Zealand, Poland, Portugal, Slovakia, South Africa, Spain, Switzerland, Thailand and the United Kingdom.

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

We conduct our business through two reportable segments: health care distribution and 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 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.

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 2013 in the global markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

Due in part to the inability of office-based health care practitioners to store and manage large quantities of supplies in their offices, the distribution of health care supplies and small equipment to office-based health care practitioners has been characterized by frequent, small quantity orders, and a need for rapid, reliable and substantially complete order fulfillment. The purchasing decisions within an office-based health care practice are typically made by the practitioner or an administrative assistant. Supplies and small equipment are generally purchased from more than one distributor, with one generally serving as the primary supplier.

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The trend of consolidation extends to our customer base. Health care practitioners are increasingly seeking to partner, affiliate or combine with larger entities such as hospitals, health systems, group practices or physician hospital organizations. In many cases, purchasing decisions for consolidated groups are made at a centralized or professional staff level; however, orders are delivered to the practitioners' offices.

We believe that consolidation within the industry will continue to result in a number of distributors, particularly those with limited financial, operating and marketing resources, seeking to combine with larger companies that can provide growth opportunities. This consolidation also may continue to result in distributors seeking to acquire companies that can enhance their current product and service offerings or provide opportunities to serve a broader customer base.

Our trend with regard to acquisitions and joint ventures has been to expand our role as a provider of products and services to the health care industry. This trend has resulted in our expansion into service areas that complement our existing operations and provide opportunities for us to develop synergies with, and thus strengthen, the acquired businesses.

As industry consolidation continues, we believe that we are positioned to capitalize on this trend, as we believe we have the ability to support increased sales through our existing infrastructure. We also have invested in expanding our sales/marketing infrastructure to include a focus on building relationships with decision makers who do not reside in the office-based practitioner setting.

As the health care industry continues to change, we continually evaluate possible candidates for merger and joint venture or acquisition and intend to continue to seek opportunities to expand our role as a provider of products and services to the health care industry. There can be no assurance that we will be able to successfully pursue any such opportunity or consummate any such transaction, if pursued. If additional transactions are entered into or consummated, we would incur merger and/or acquisition-related costs, and there can be no assurance that the integration efforts associated with any such transaction would be successful.

Aging Population and Other Market Influences

The health care products distribution industry continues to experience growth due to the aging population, increased health care awareness, the proliferation of medical technology and testing, new pharmacology treatments and expanded third-party insurance coverage, partially offset by the effects of increased 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 2013 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 triple to approximately 18 million. The population aged 65 to 84 years is projected to increase over 70% 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. Given current operating, economic and industry conditions, we believe that demand for our products and services will grow at slower rates. The Centers for Medicare and Medicaid Services, or CMS, published "National Health Expenditure Projections 2012-2022" indicating that total national health care spending reached approximately \$2.8 trillion in 2012, or 17.9% 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 \$5.0 trillion in 2022, approximately 19.9% of the nation's gross domestic product.

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Government

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

Health Care Reform

For example, the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010, generally known as the Health Care Reform Law, increased federal oversight of private health insurance plans and included a number of provisions designed to reduce Medicare expenditures and the cost of health care generally, to reduce fraud and abuse, and to provide access to increased health coverage. The Health Care Reform Law requirements include a 2.3% excise tax on domestic sales of many medical devices by manufacturers and importers that began in 2013 and a fee on branded prescription drugs and biologics that was implemented in 2011, both of which may affect sales. On June 28, 2012, the United States Supreme Court upheld as constitutional a key provision in the Health Care Reform Law, often referred to as the “individual mandate,” which will require most individuals to have health insurance in 2014, or pay a penalty. However, the decision also invalidated a provision in the Health Care Reform Law requiring states in 2014 to expand their Medicaid programs or risk the complete loss of all federal Medicaid funding. The Court held that the federal government may offer states the option of accepting the expansion requirement, but that it may not take away pre-existing Medicaid funds in order to coerce states into complying with the expansion. Almost half the states have not yet accepted the Medicaid expansion, so the full extent of increased health care coverage under the Health Care Reform Law is uncertain. Adding to this uncertainty, in responding to difficulties encountered in implementing Health Care Reform, the White House and federal agencies have instituted various temporary implementation delays, such as regarding the “employer mandate” that generally requires employers with 50 or more full time employees to provide certain health insurance to those employees or pay specified fines.

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 first disclosure reports were due by March 31, 2014 for the period August 1, 2013 through December 31, 2013. As required under the Physician Payment Sunshine Act, CMS will publish information from these reports on a publicly available website, including amounts transferred and physician, dentist and teaching hospital identities, which according to CMS will be available to the public by September 30, 2014.

The final rule implementing the Physician Payment Sunshine Act is complex, ambiguous and broad in scope. CMS commentary on the final rule and more recent CMS communications indicate that wholesale drug and device distributors which take title to such products are to be treated as “applicable manufacturers” subject to full reporting requirements. In addition, certain of our subsidiaries manufacture drugs and devices. Accordingly, we are required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. It is difficult to predict how the new requirements may impact existing relationships among manufacturers, distributors, physicians, dentists and teaching hospitals. The Physician Payment Sunshine Act pre-empts similar state reporting laws, although we or our subsidiaries may be required to continue to report under certain of such state laws. While we have completed the initial Physician Payment Sunshine Act submission to CMS due March 31, 2014, and believe we have substantially compliant programs and controls in place to comply with the Physician Payment Sunshine Act requirements, our compliance with the new final rule imposes additional costs on us.