

HENRY SCHEIN INC  
Form 10-Q  
May 04, 2010

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

(Mark One)

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

For the quarterly period ended March 27, 2010

Or

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

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

Commission File Number: 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

11747  
(Zip Code)

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

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

Yes

No

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

Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

Yes

No

As of April 23, 2010, there were 91,375,697 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION  
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HENRY SCHEIN, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)

	March 27, 2010 (unaudited)	December 26, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$355,388	\$471,154
Available-for-sale securities	26,980	-
Accounts receivable, net of reserves of \$48,159 and \$51,724	803,044	725,397
Inventories, net	806,115	775,199
Deferred income taxes	44,445	48,001
Prepaid expenses and other	183,400	183,782
Total current assets	2,219,372	2,203,533
Property and equipment, net	249,720	259,576
Goodwill	1,258,722	986,395
Other intangibles, net	349,657	204,445
Investments and other	185,160	182,036
Total assets	\$4,262,631	\$3,835,985
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$483,299	\$521,079
Bank credit lines	9	932
Current maturities of long-term debt	25,630	23,560
Accrued expenses:		
Payroll and related	129,727	155,298
Taxes	97,379	86,034
Other	277,827	289,351
Total current liabilities	1,013,871	1,076,254
Long-term debt	522,882	243,373
Deferred income taxes	173,269	100,976
Other liabilities	74,504	75,304
Total liabilities	1,784,526	1,495,907
Redeemable noncontrolling interests	286,535	178,570
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, 91,319,162 outstanding on March 27, 2010 and 90,630,889 outstanding on December 26, 2009	913	906

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Additional paid-in capital	607,679	603,772
Retained earnings	1,553,507	1,492,607
Accumulated other comprehensive income	29,307	64,194
Total Henry Schein, Inc. stockholders' equity	2,191,406	2,161,479
Noncontrolling interest	164	29
Total stockholders' equity	2,191,570	2,161,508
Total liabilities, redeemable noncontrolling interests and stockholders' equity	\$4,262,631	\$3,835,985

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 27, 2010	March 28, 2009
Net sales	\$1,760,310	\$1,485,388
Cost of sales	1,247,277	1,047,025
Gross profit	513,033	438,363
Operating expenses:		
Selling, general and administrative	396,989	343,732
Restructuring costs	12,285	4,043
Operating income	103,759	90,588
Other income (expense):		
Interest income	3,388	2,801
Interest expense	(9,087 )	(6,752 )
Other, net	(115 )	30
Income from continuing operations before taxes, equity in earnings of affiliates and noncontrolling interests	97,945	86,667
Income taxes	(32,224 )	(28,849 )
Equity in earnings of affiliates	1,531	1,365
Income from continuing operations	67,252	59,183
Income from discontinued operation, net of tax	-	117
Net income	67,252	59,300
Less: Net income attributable to noncontrolling interests	(6,352 )	(4,449 )
Net income attributable to Henry Schein, Inc.	\$60,900	\$54,851
Amounts attributable to Henry Schein, Inc.:		
Income from continuing operations	\$60,900	\$54,774
Income from discontinued operation, net of tax	-	77
Net income	\$60,900	\$54,851
Earnings per share attributable to Henry Schein, Inc.:		
From continuing operations:		
Basic	\$0.68	\$0.62
Diluted	\$0.66	\$0.61
From discontinued operation:		
Basic	\$-	\$-
Diluted	\$-	\$-
From net income:		
Basic	\$0.68	\$0.62
Diluted	\$0.66	\$0.61

Weighted-average common shares outstanding:		
Basic	89,508	88,731
Diluted	92,721	89,589

See accompanying notes.



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

	Common Stock \$.01 Par Value		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
	Shares	Amount					
Balance, December 26, 2009	90,630,889	\$ 906	\$ 603,772	\$ 1,492,607	\$ 64,194	\$ 29	\$ 2,161,508
Net income (excluding \$6,339 attributable to Redeemable noncontrolling interests)	-	-	-	60,900	-	13	60,913
Foreign currency translation loss (excluding \$3,487 attributable to Redeemable noncontrolling interests)	-	-	-	-	(28,033 )	-	(28,033 )
Unrealized loss from foreign currency hedging activities, net of tax benefit of \$3,869	-	-	-	-	(6,996 )	-	(6,996 )
Unrealized investment gain, net of tax of \$20	-	-	-	-	17	-	17
Pension adjustment gain, net of tax of \$5	-	-	-	-	125	-	125
Total comprehensive income							26,026
Other adjustments	-	-	-	-	-	122	122
Change in fair value of redeemable securities	-	-	7,630	-	-	-	7,630
Initial noncontrolling interests and adjustments related							

to							
business							
acquisitions	-	-	(23,761 )	-	-	-	(23,761 )
Stock issued upon							
exercise of stock							
options,							
including tax							
benefit of \$2,960	499,293	5	18,235	-	-	-	18,240
Stock-based							
compensation							
expense	248,520	2	6,140	-	-	-	6,142
Shares withheld for							
payroll taxes	(59,540 )	-	(4,219 )	-	-	-	(4,219 )
Liability for cash							
settlement stock							
option awards	-	-	(118 )	-	-	-	(118 )
Balance, March 27,							
2010	91,319,162	\$ 913	\$ 607,679	\$ 1,553,507	\$ 29,307	\$ 164	\$ 2,191,570

See accompanying notes.

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

	Three Months Ended	
	March 27, 2010	March 28, 2009
<b>Cash flows from operating activities:</b>		
Net income	\$67,252	\$59,300
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	24,572	19,921
Amortization of bond discount	1,548	1,464
Stock-based compensation expense	6,142	6,067
Provision for losses on trade and other accounts receivable	994	1,186
Provision for (benefit from) deferred income taxes	272	(5,485 )
Undistributed earnings of affiliates	(1,531 )	(1,365 )
Other	1,361	1,616
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(7,394 )	43,397
Inventories	14,482	(21,039 )
Other current assets	7,730	12,669
Accounts payable and accrued expenses	(93,753 )	(144,859 )
Net cash provided by (used in) operating activities	21,675	(27,128 )
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(9,062 )	(12,866 )
Payments for equity investment and business acquisitions, net of cash acquired	(108,946 )	(13,743 )
Purchases of available-for-sale securities	(26,984 )	-
Proceeds from sales of available-for-sale securities	1,300	2,740
Net proceeds from foreign exchange forward contract settlements	-	283
Other	(720 )	(4,294 )
Net cash used in investing activities	(144,412 )	(27,880 )
<b>Cash flows from financing activities:</b>		
Repayments of bank borrowings	(931 )	(3,189 )
Principal payments for long-term debt	(1,843 )	(1,712 )
Proceeds from issuance of stock upon exercise of stock options	15,280	377
Excess tax benefits related to stock-based compensation	4,522	180
Acquisitions of noncontrolling interests in subsidiaries	(10,000 )	-
Other	(1,388 )	(2,090 )
Net cash provided by (used in) financing activities	5,640	(6,434 )
Net change in cash and cash equivalents	(117,097 )	(61,442 )
Effect of exchange rate changes on cash and cash equivalents	1,331	28
Cash and cash equivalents, beginning of period	471,154	369,570

Cash and cash equivalents, end of period	\$355,388	\$308,156
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See accompanying notes.

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HENRY SCHEIN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and 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 26, 2009.

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 27, 2010 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 25, 2010.

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

## Note 2. Segment Data

We conduct our business through two reportable segments: healthcare distribution and technology. These segments offer different products and services to the same customer base. The healthcare distribution reportable segment aggregates our dental, medical, animal health and international operating segments. This segment consists of consumable products, small equipment, laboratory products, large dental and medical equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

Our dental group serves office-based dental practitioners, schools and other institutions in the combined United States and Canadian dental market. Our medical group serves office-based medical practitioners, surgical centers, other alternate-care settings and other institutions throughout the United States. Our animal health group serves animal health practices and clinics throughout the United States. Our international group serves dental, medical and animal health practitioners in 21 countries outside of North America.

Our technology group provides software, technology and other value-added services to healthcare practitioners, primarily in the United States, Canada, the United Kingdom, Australia and New Zealand. Our value-added practice solutions include practice management software systems for dental and medical practitioners and animal health clinics. Our technology group offerings also include financial services, on a non-recourse basis, e-services and continuing education services for practitioners.

The following tables present information about our reportable segments:

	Three Months Ended	
	March 27, 2010	March 28, 2009 (1)
<b>Net Sales:</b>		
Healthcare distribution (2):		
Dental (3)	\$614,649	\$593,956
Medical (4)	284,589	271,762
Animal health (5)	206,646	55,626
International (6)	609,453	523,719
Total healthcare distribution	1,715,337	1,445,063
Technology (7)	44,973	40,325
<b>Total</b>	<b>\$1,760,310</b>	<b>\$1,485,388</b>

(1) Adjusted to reflect the effects of a discontinued operation.

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

(3) Consists of products sold in the United States and Canada.

(4) Consists of products sold in the United States' medical market.

(5) Consists of products sold in the United States' animal health market.

(6) Consists of products sold in the dental, medical and animal health markets, primarily in Europe.

(7) Consists of practice management software and other value-added products and services, which are distributed primarily to healthcare providers in the United States, Canada, the United Kingdom, Australia and New Zealand.

	Three Months Ended	
	March 27, 2010	March 28, 2009 (1)
<b>Operating Income:</b>		
Healthcare distribution	\$88,837	\$75,708
Technology	14,922	14,880
Total	\$103,759	\$90,588

(1) Adjusted to reflect the effects of a discontinued operation.

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HENRY SCHEIN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(in thousands, except share and per share data)  
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Note 3. Stock-Based Compensation

Our accompanying unaudited consolidated statements of income reflect share-based pretax compensation expense of \$6.1 million (\$4.1 million after-tax) and \$6.1 million (\$4.0 million after-tax) for the three months ended March 27, 2010 and March 28, 2009, 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 1994 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). In March 2009 and March 2010, equity-based awards were granted solely in the form of restricted stock and restricted stock units, with the exception of stock options for certain pre-existing contractual obligations.

Grants of restricted stock are common stock awards granted to recipients with specified vesting provisions. We issue restricted stock that vests solely based on the recipient's continued service over time (four-year cliff vesting) and restricted stock that vests based on our achieving specified performance measurements and the recipient's continued service over time (three-year cliff vesting).

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 earnings per share performance as measured against specified targets over a three-year period as determined by the Compensation Committee of the Board of Directors. Though 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 unit 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 March 27, 2010 was \$78.7 million, which is expected to be recognized over a weighted-average period of approximately 2.6 years.

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HENRY SCHEIN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(in thousands, except share and per share data)  
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## Note 3. Stock-Based Compensation (Continued)

The following weighted-average assumptions were used in determining the fair values of stock options using the Black-Scholes valuation model:

	2010	2009
Expected dividend yield	0%	0%
Expected stock price volatility	20%	28%
Risk-free interest rate	2.37%	1.88%
Expected life of options (years)	4.5	4.5

The following table summarizes stock option activity under the Plans during the three months ended March 27, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	6,294,742	\$ 40.66		
Granted	10,000	56.03		
Exercised	(499,293 )	30.60		
Forfeited	(22,474 )	52.01		
Outstanding at end of period	5,782,975	\$ 41.51	5.3	\$ 96,391
Options exercisable at end of period	4,983,523	\$ 39.11	4.9	\$ 94,229

The following tables summarize the status of our non-vested restricted stock/units for the three months ended March 27, 2010:

	Shares/Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at beginning of period	597,605	\$ 25,662	
Granted	220,897	12,377	
Vested	(85,811 )	(4,061 )	
Forfeited	(7,873 )	(341 )	
Outstanding at end of period	724,818	\$ 33,637	\$ 41,902

	Shares/Units	Weighted Average	Aggregate Intrinsic Value

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		Grant Date Fair Value		
Outstanding at beginning of period	1,009,962	\$	22,271	
Granted	390,089		22,680	
Vested	(128,452 )		(6,586 )	
Forfeited	(6,679 )		(282 )	
Outstanding at end of period	1,264,920	\$	38,083	\$ 73,125

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HENRY SCHEIN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
(in thousands, except share and per share data)  
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## Note 4. Business Acquisitions and Other Transactions

## Acquisitions

Effective December 31, 2009, we acquired a majority interest in Butler Animal Health Supply, LLC (“BAHS”), a distributor of companion animal health supplies to veterinarians. BAHS further complements our domestic and international animal health operations and accordingly has been included in our Animal health business unit, which is reported as part of Healthcare distribution. We and certain of our subsidiaries contributed certain assets and liabilities with a net book value of approximately \$86.0 million related to our United States animal health business to BAHS and paid approximately \$42.0 million in cash to acquire 50.1% of the equity interests in Butler Animal Health Holding Company LLC (“Butler Holding”) indirectly through W.A. Butler Company, a holding company that is partially owned by Oak Hill Capital Partners (“OHCP”). As part of a recapitalization at closing, BAHS combined with our animal health business to form Butler Schein Animal Health (“BSAH”), while incurring approximately \$127.0 million in incremental debt used primarily to finance BSAH stock redemptions. As a result, BSAH had \$320.0 million of debt at closing, \$37.5 million of which was provided by Henry Schein, Inc. and is eliminated in the accompanying consolidated financial statements. Total consideration for the acquisition of BAHS, including \$96.1 million of value for noncontrolling interests, was \$351.1 million and was allocated as follows:

Net assets of BAHS at fair value:	
Current assets	\$ 164,789
Intangible assets:	
Trade name (useful life 3 years)	10,000
Customer relationships (useful life 12 years)	140,000
Non-compete agreements (useful life 2 years)	2,600
Goodwill	270,714
Other assets	14,138
Current liabilities	(62,770 )
Bank indebtedness	(200,100 )
Deferred income tax liabilities	(74,271 )
Net book value of our assets and liabilities contributed	86,048
Total allocation of consideration	\$ 351,148

The goodwill recognized is primarily attributable to expected synergies and the assembled workforce of BAHS. The goodwill is not expected to be tax deductible for income tax purposes. As a result of our contributed business being under the control of Henry Schein before and after the transaction, the assets and liabilities of this business remain at their original historical accounting basis in the accompanying consolidated financial statements.

The debt incurred as part of the acquisition of BAHS is repayable in 23 quarterly installments of \$0.8 million through September 30, 2015, and a final installment of \$301.6 million on December 31, 2015. Interest on the BAHS debt is charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2% for a current effective rate of 5.5% as of March 27, 2010. The debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments of the loan commitment based on excess cash flows of BAHS as defined in the debt agreement.



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

Note 4. Business Acquisitions and Other Transactions (Continued)

In connection with the acquisition of a majority interest in BAHS, we entered into (i) a Put Rights Agreement with OHCP and Butler Holding (the “Oak Hill Put Rights Agreement”), and (ii) a Put Rights Agreement with Burns Veterinary Supply, Inc. (“Burns”) and Butler Holding (the “Burns Put Rights Agreement” and together with the Oak Hill Put Rights Agreement, the “Put Rights Agreements”), which provide each of OHCP and Burns with certain rights to require us to purchase their respective direct and indirect ownership interests in Butler Holding at fair value based on third-party valuations (“Put Rights”). Pursuant to the Oak Hill Put Rights Agreement, OHCP can exercise its Put Rights from and after the earlier of (a) December 31, 2010, and (b) a change of control of Henry Schein, Inc. Except in connection with a change of control of us prior to the first anniversary of the closing (in which case there will not be any maximum), our maximum annual payment to OHCP under the Oak Hill Put Rights Agreement will not exceed \$125.0 million for the first year during which OHCP can exercise its rights, \$137.5 million for the second year and \$150.0 million for the third year and for each year thereafter. Pursuant to the Burns Put Rights Agreement, Burns can exercise its Put Rights from and after December 31, 2014, at which time Burns will be permitted to sell to us up to 20% of its closing date ownership interest in Butler Holding each year. If OHCP still holds ownership interests in Butler Holding at the time the Burns Put Rights begin, then the put amounts payable by us to OHCP and Burns in any year will not exceed \$150.0 million in the aggregate. As a result of the Put Right Agreements, the noncontrolling interest in BAHS has been reflected as part of Redeemable noncontrolling interests in the accompanying consolidated balance sheet.

In addition to the BAHS acquisition, we completed certain other acquisitions during the three months ended March 27, 2010. The operating results of all acquisitions are reflected in our financial statements from their respective acquisition dates. All acquisitions individually and in the aggregate had an immaterial impact on our reported operating results. Total acquisition costs incurred in the quarter ended March 27, 2010 were immaterial to our financial results.

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

## Note 5. 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 upon vesting of restricted stock and upon exercise of stock options using the treasury stock method in periods in which they have a dilutive effect.

For the three months ended March 28, 2009, our convertible debt was not convertible at a premium and thus the impact of an assumed conversion was not applicable.

For the three months ended March 27, 2010, diluted earnings per share includes the effect of common shares issuable upon conversion of our convertible debt. During the period, the debt was convertible at a premium as a result of the conditions of the debt. As a result, the amount in excess of the principal is presumed to be settled in common shares and is reflected in our calculation of diluted earnings per share.

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

	Three Months Ended	
	March 27, 2010	March 28, 2009
Basic	89,508,056	88,730,633
Effect of dilutive securities:		
Stock options, restricted stock and restricted units	2,339,132	858,398
Effect of assumed conversion of convertible debt	874,193	-
Diluted	92,721,381	89,589,031

Weighted-average options to purchase 999,783 shares of common stock at exercise prices ranging from \$56.21 to \$62.05 per share and 4,063,935 shares of common stock at exercise prices ranging from \$37.45 to \$62.05 per share that were outstanding during the three months ended March 27, 2010 and March 28, 2009, respectively, were excluded from the computation of diluted earnings per share. In each of these periods, such options' exercise prices exceeded the average market price of our common stock, thereby causing the effect of such options to be anti-dilutive.

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## Note 6. 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 adjustments, unrealized gains (losses) on hedging activity and investment and pension adjustments.

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

	March 27, 2010	March 28, 2009
<b>Attributable to Redeemable noncontrolling interests:</b>		
Foreign currency translation adjustment	\$(1,594 )	\$(3,796 )
<b>Attributable to Henry Schein, Inc.:</b>		
Foreign currency translation adjustment	\$26,696	\$(12,397 )
Unrealized gain from foreign currency hedging activities	7,541	1,359
Unrealized investment loss	(1,304 )	(1,286 )
Pension adjustment loss	(3,626 )	(495 )
Accumulated other comprehensive income	\$29,307	\$(12,819 )
<b>Total Accumulated other comprehensive income</b>	<b>\$27,713</b>	<b>\$(16,615 )</b>

The following table summarizes other comprehensive income attributable to our Redeemable noncontrolling interests, net of applicable taxes for the three months ended:

	March 27, 2010	March 28, 2009
Foreign currency translation adjustment	\$(3,487 )	\$(3,148 )

The following table summarizes our total comprehensive income, net of applicable taxes for the three months ended:

	March 27, 2010	March 28, 2009 (1)
Comprehensive income attributable to Henry Schein, Inc.	\$26,013	\$12,311
Comprehensive income attributable to noncontrolling interests	13	6
Comprehensive income attributable to Redeemable noncontrolling interests	2,852	1,295
<b>Comprehensive income</b>	<b>\$28,878</b>	<b>\$13,612</b>



(1) Adjusted to reflect the effects of a discontinued operation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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Note 7. Fair Value Measurements

ASC Topic 820 “Fair Value Measurements and Disclosures” (“ASC Topic 820”) establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC Topic 820 applies under other previously issued accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements.

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.

Cash equivalents and trade receivables

Due to the short-term maturity of such investments, the carrying amounts are a reasonable estimate of fair value.

Long-term investments and notes receivable

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

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HENRY SCHEIN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
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Note 7. Fair Value Measurements (Continued)

Available-for-sale securities

As of March 27, 2010, we have approximately \$19.8 million (\$17.6 million net of temporary impairments) invested in auction-rate securities (“ARS”), which are included as part of Investments and other within our consolidated balance sheets. ARS are publicly issued securities that represent long-term investments, typically 10-30 years, in which interest rates had reset periodically (typically every 7, 28 or 35 days) through a “dutch auction” process. Approximately \$17.8 million (\$15.6 million net of temporary impairments) of our ARS are backed by student loans that are backed by the federal government and the remaining \$2.0 million are invested in closed-end municipal bond funds. Our ARS portfolio is comprised of investments that are rated AAA by major independent rating agencies. Since the middle of February 2008, ARS auctions have failed to settle due to an excess number of sellers compared to buyers. The failure of these auctions has resulted in our inability to liquidate our ARS in the near term. We are currently not aware of any defaults or financial conditions that would negatively affect the issuers’ ability to continue to pay interest and principal on our ARS. We continue to earn and receive interest at contractually agreed upon rates.

During the first quarter of 2010, we have received approximately \$0.4 million and \$0.9 million of redemptions, at par, for our closed-end municipal bond funds and our student loan portfolios, respectively.

As of March 27, 2010, we have classified our closed-end municipal bond funds, as well as our student loan portfolios, as Level 3 within the fair value hierarchy due to the lack of observable inputs and the absence of significant refinancing activity.

Based upon the information currently available and the use of a discounted cash flow model in accordance with applicable authoritative guidance, our previously recorded cumulative temporary impairment at December 26, 2009 of \$2.2 million related to our closed-end municipal bond funds and our student loan portfolios was decreased to \$2.1 million during the three months ended March 27, 2010. The temporary impairment has been recorded as part of Accumulated other comprehensive income within the equity section of our consolidated balance sheet.

As of March 27, 2010, we have approximately \$27.0 million invested in treasury securities, agency securities and Federal Deposit Insurance Corporation (“FDIC”) backed certificates of deposit. These securities, which we intend to hold to maturity, have a maturity period of six months or less. As of March 27, 2010, we have classified our investments in treasury securities, agency securities and FDIC-backed certificates of deposit as Level 1 within the fair value hierarchy.

Money market fund

As of March 27, 2010, we had approximately \$0.3 million invested in the Reserve Primary Fund. This money market fund included in its holdings commercial paper of Lehman Brothers. As a result of the Chapter 11 bankruptcy of Lehman Brothers Holdings, Inc., the net asset value of the fund decreased below \$1.00. Currently, this fund is in the process of being liquidated. During the three months ended March 27, 2010, we have received approximately \$1.7 million of distributions from the Reserve Primary Fund. As of March 27, 2010, the value of our holdings in this fund are included within Prepaid expenses and other in our consolidated balance sheets and as Level 3 within the fair value hierarchy, due to the lack of observable inputs and the absence of trading activity.



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Note 7. Fair Value Measurements (Continued)

Accounts payable and accrued expenses

Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities. The carrying value of these financial instruments approximates fair value due to their short maturities or variable interest rates that approximate current market rates.

Debt

The fair value of our debt is estimated based on quoted market prices for our traded debt and on market prices of similar issues for our private debt. The fair value of our debt as of March 27, 2010 and December 26, 2009 was estimated at \$611.2 million and \$307.5 million.

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 interest rates and foreign currency exchange rates. Our derivative instruments primarily include interest rate swap agreements related to our long-term fixed rate debt and foreign currency forward and swap 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 currency, 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 7. 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 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 will not impact the calculation of earnings per share. The details of the changes in Redeemable noncontrolling interests are shown in Note 12.

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 27, 2010 and December 26, 2009:

	March 27, 2010			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Available-for-sale securities	\$26,980	\$-	\$17,649	\$44,629
Money market fund	-	-	65	65
Derivative contracts	-	2,717	-	2,717
<b>Total assets</b>	<b>\$26,980</b>	<b>\$2,717</b>	<b>\$17,714</b>	<b>\$47,411</b>
<b>Liabilities:</b>				
Derivative contracts	\$-	\$2,437	\$-	\$2,437
<b>Total liabilities</b>	<b>\$-</b>	<b>\$2,437</b>	<b>\$-</b>	<b>\$2,437</b>
Redeemable noncontrolling interests	\$-	\$-	\$286,535	\$286,535
	December 26, 2009			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Available-for-sale securities	\$-	\$-	\$18,848	\$18,848
Money market fund	-	-	1,746	1,746
Derivative contracts	-	6,177	-	6,177
<b>Total assets</b>	<b>\$-</b>	<b>\$6,177</b>	<b>\$20,594</b>	<b>\$26,771</b>
<b>Liabilities:</b>				

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Derivative contracts	\$-	\$3,829	\$-	\$3,829
Total liabilities	\$-	\$3,829	\$-	\$3,829
Redeemable noncontrolling interests	\$-	\$-	\$178,570	\$178,570

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HENRY SCHEIN, INC.  
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## Note 7. Fair Value Measurements (Continued)

As of March 27, 2010, we have estimated the value of our closed-end municipal bond fund ARS portfolio and our student loan backed ARS portfolio based upon a discounted cash flow model. The assumptions used in our valuation model include estimates for interest rates, timing and amount of cash flows and expected holding periods for the ARS portfolio. As a result of these analyses, our previously recorded cumulative temporary impairment at December 26, 2009 of \$2.2 million was decreased by \$0.1 million to \$2.1 million during the three months ended March 27, 2010.

We estimated the value of our holdings within the Reserve Primary Fund based upon the net asset value of the fund as of September 16, 2008, subsequent to the declaration of bankruptcy by Lehman Brothers Holdings, Inc. During the three months ended March 27, 2010, we received approximately \$1.7 million of distributions from The Reserve Primary Fund, leaving a remaining balance of approximately \$0.3 million as of March 27, 2010. The following table presents a reconciliation of our assets measured at fair value on a recurring basis using unobservable inputs (Level 3):

	Level 3 (1)
Balance, December 26, 2009	\$20,594
Transfers in (out)	-
Redemptions at par	(2,980 )
Gains and (losses):	
Reported in accumulated other comprehensive income	100
Balance, March 27, 2010	\$17,714

(1) Level 3 amounts consist of closed-end municipal bond funds, student loan backed auction-rate securities, money market fund and redeemable noncontrolling interests.



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## Note 8. Income Taxes

For the three months ended March 27, 2010, our effective tax rate from continuing operations was 32.9% compared to 33.3% 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.

The total amount of unrecognized tax benefits as of March 27, 2010 was approximately \$20.2 million, all of which 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 resulting from unrecognized tax benefits were approximately \$3.9 million and \$0, respectively, for the three months ended March 27, 2010. It is expected that the amount of interest will change in the next twelve months. However, we do not expect the change to have a material impact on our consolidated financial statements.

The tax years subject to examination by major tax jurisdictions include the years 2006 and forward by the U.S. Internal Revenue Service, the years 1997 and forward for certain states and the years 1998 and forward for certain foreign jurisdictions.

## Note 9. Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Three Months Ended	
	March 27, 2010	March 28, 2009
Interest	\$ 10,205	\$ 10,026
Income taxes	13,450	17,654

During the three months ended March 27, 2010, we had a \$10.9 million non-cash net unrealized loss related to hedging activities. During the three months ended March 28, 2009, we had a \$5.8 million non-cash net unrealized loss related to hedging activities.

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## Note 10. Plans of Restructuring

On November 5, 2008, we announced certain actions to reduce operating costs. These actions included the elimination of approximately 430 positions from our operations and the closing of several smaller facilities.

During the first quarter of 2010, we completed an additional restructuring in order to further reduce operating expenses. This restructuring included headcount reductions of 184 positions, as well as the closing of a number of smaller locations.

For the three months ended March 27, 2010, we recorded restructuring costs of approximately \$12.3 million (approximately \$8.3 million after taxes) consisting of employee severance pay and benefits, facility closing costs, representing primarily lease termination and asset write-off costs, and outside professional and consulting fees directly related to the restructuring plan. The costs associated with the 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 27, 2010 and the remaining accrued balance of restructuring costs as of March 27, 2010, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

	Balance at December 26, 2009	Provision	Payments and Other Adjustments	Balance at March 27, 2010
Severance costs (1)	\$ 2,165	\$ 8,800	\$ 2,784	\$ 8,181
Facility closing costs (2)	2,030	3,355	599	4,786
Other professional and consulting costs	102	130	64	168
Total	\$ 4,297	\$ 12,285	\$ 3,447	\$ 13,135

(1) Represents salaries and related benefits for employees separated from the Company.

(2) Represents costs associated with the closing of certain smaller facilities (primarily lease termination costs) and property and equipment write-offs.

We expect that the majority of these costs will be paid in 2010.

The following table shows, by reportable segment, the restructuring costs incurred during 2010 and the remaining accrued balance of restructuring costs as of March 27, 2010:

	Balance at December 26, 2009	Provision	Payments and Other Adjustments	Balance at March 27, 2010
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Healthcare distribution	\$4,225	\$12,086	\$ 3,385	\$12,926
Technology	72	199	62	209
Total	\$4,297	\$12,285	\$ 3,447	\$13,135

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HENRY SCHEIN, INC.  
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## Note 11. Derivatives and Hedging Activities

We are exposed to market risks, which include changes in interest rates, 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 interest rate swap agreements, foreign currency forward and swap contracts and by maintaining counter-party credit limits. These hedging activities provide only limited protection against interest rate, currency exchange and credit risks. Factors that could influence the effectiveness of our hedging programs include interest rate volatility, currency markets and availability of hedging instruments and liquidity of the credit markets. All interest rate swap and foreign currency forward and swap contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated interest rate and 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 and swap contracts aimed at limiting the impact of foreign currency exchange rate fluctuations on earnings. We purchase short-term (i.e., 12 months or less) foreign currency forward and swap 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.

The following tables present the fair value of our derivative instruments:

	Asset Derivatives March 27, 2010		Liability Derivatives March 27, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate contracts	Prepaid expenses and other	\$712	Accrued expenses other	\$-
Foreign exchange contracts	Prepaid expenses and other	666	Accrued expenses other	1,273
Total		1,378		1,273
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Prepaid expenses and other	1,339	Accrued expenses other	1,164
Total derivatives		\$2,717		\$2,437

	Asset Derivatives March 28, 2009		Liability Derivatives March 28, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Foreign exchange contracts	Prepaid expenses and other	1,339	Accrued expenses other	1,164
Total derivatives		\$2,717		\$2,437

Derivatives designated  
as  
hedging instruments:

Interest rate contracts	Prepaid expenses and other	\$ 1,423	Accrued expenses other	\$ -
Foreign exchange contracts	Prepaid expenses and other	6,385	Accrued expenses other	5,603
Total		\$ 7,808		\$ 5,603

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## Note 11. Derivatives and Hedging Activities (Continued)

## Fair Value Hedges

Our fair value hedges consist of interest rate swaps and foreign exchange contracts. Gains (losses) associated with these interest rate swaps and foreign exchange contracts are recorded in Other, net within our consolidated statements of income and totaled \$0.2 million and \$(0.8) million, respectively, for the three months ended March 27, 2010. Forward points related to these foreign exchange contracts, recorded in Interest expense within our consolidated statements of income, were immaterial for the three months ended March 27, 2010. Gains associated with foreign exchange contracts, recorded in Other, net within our consolidated statements of income, totaled \$4.5 million for the three months ended March 28, 2009. Forward points related to these foreign exchange contracts, recorded in Interest expense within our consolidated statements of income, totaled \$0.3 million for the three months ended March 28, 2009.

## Cash Flow Hedges

Our cash flow hedges consist of foreign exchange contracts. The amounts recorded in Accumulated other comprehensive income ("AOCI") primarily represent the change in spot rates at the time of the initial hedge compared to the spot rate when marked to market. The gain (loss) recognized in AOCI (effective portion) for the three months ended March 27, 2010 and March 28, 2009 was \$(0.6) million and \$6.2 million, respectively.

The activity recorded within our consolidated statements of income relating to cash flow hedges include amounts reclassified from AOCI (effective portion) and forward points (ineffective portion). The following table presents the effect of our cash flow hedges:

Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion) Three Months Ended March 27, 2010	Location where Forward Points are Recognized in Income on Derivative (Ineffective Portion)	Amount of Forward Points Recognized in Income on Derivative (Ineffective Portion) Three Months Ended March 27, 2010
Other, net	\$ (150)	Interest income	\$ 9
Cost of sales	(89)	Other, net	2

  

Location of Gain Reclassified from AOCI into Income (Effective Portion)	Gain Reclassified from AOCI into Income (Effective Portion)	Location where Forward Points are Recognized in Income on Derivative (Ineffective Portion)	Amount of Forward Points Recognized in Income on Derivative (Ineffective Portion)

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	Three Months Ended March 28, 2009		Portion) Three Months Ended March 28, 2009	
Other, net	\$	1,661	Interest income	\$ 108
Cost of sales		276	Other, net	(30 )

Economic Hedges

We are also a party to contracts that serve as economic hedges that we have not designated as hedges for accounting purposes, which consist of foreign exchange contracts. Gains associated with these foreign exchange contracts are recorded in Other, net within our consolidated statements of income and totaled \$0.8 million for the three months ended March 27, 2010. Forward points related to these foreign exchange contracts, which are recorded in Interest expense within our consolidated statements of income, totaled \$42 for the three months ended March 27, 2010.

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## Note 12. 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. 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 periods ended March 27, 2010 and December 26, 2009 are presented in the following table:

	March 27, 2010	December 26, 2009
Balance, beginning of period	\$ 178,570	\$ 233,035
Net increase (decrease) in noncontrolling interests due to		
business acquisitions or redemptions	114,021	(72,427 )
Net income attributable to noncontrolling interests	6,339	21,975
Dividends paid	(1,278 )	(5,973 )
Effect of foreign currency translation attributable to		
noncontrolling interests	(3,487 )	2,541
Change in fair value of redeemable securities	(7,630 )	(581 )
Balance, end of period	\$ 286,535	\$ 178,570

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 will not impact the calculation of earnings per share.

Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain profitability targets are met. For acquisitions completed prior to 2009, we accrue liabilities that may arise from these transactions when we believe that the outcome of the contingency is determinable beyond a reasonable doubt. Starting in 2009, as required by ASC Topic 805, “Business Combinations,” we will accrue liabilities for the estimated fair value of additional purchase price adjustments at the time of the acquisition. Any adjustments to these accrual amounts will be recorded in our consolidated statement of income.



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ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our 2009 Annual Report on Form 10-K, except as follows:

Recently enacted legislation may adversely impact us.

The Patient Protection and Affordable Care Act enacted in March 2010, generally known as The Health Care Reform Bill, imposes new reporting and disclosure requirements for pharmaceutical and device manufacturers with regard to payments or other transfers of value made to physicians and teaching hospitals beginning in January 2012. Implementing regulations have not yet been issued, but it is possible that such regulations, when issued, will treat us or one or more of our subsidiaries as a “manufacturer” subject to these reporting requirements. In addition, several states require pharmaceutical and/or device companies to report expenses relating to the marketing and promotion of products as well as gifts and payments to individual practitioners in the states, or prohibit certain marketing related activities. Other states, such as California, Nevada, and Massachusetts, require pharmaceutical and/or device companies to implement compliance programs or marketing codes. Wholesale distributors are covered by the laws in certain of these states. In others, it is possible that our activities or the activities of one or more of our subsidiaries will subject us to the state’s reporting requirements and prohibitions.

The Patient Protection and Affordable Care Act also imposes (i) a 2.3% excise tax on domestic sales of medical devices by manufacturers and importers beginning in 2013, which we may need to assist implementing and which may affect sales, and (ii) mandates pharmacy benefit manager transparency regarding rebates, discounts and price concessions, which could affect pricing and competition.

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

Cautionary Note Regarding Forward-Looking Statements

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

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: decreased customer demand and changes in vendor credit terms; disruptions in financial markets; general economic conditions; effects of a highly competitive market; changes in the healthcare industry; changes in regulatory requirements; risks from expansion of customer purchasing power and multi-tiered costing structures; risks associated with our international operations; fluctuations in quarterly earnings; our dependence on third parties for the manufacture and supply of our products; transitional challenges associated with acquisitions, including the failure to achieve anticipated synergies; financial risks associated with acquisitions; regulatory and litigation risks; the dependence on our continued product development, technical support and successful marketing in the technology segment; risks from disruption to our information systems; our dependence upon sales personnel, manufacturers and customers; our dependence on our senior management; possible increases in the cost of shipping our products or other service issues with our third-party shippers; risks from rapid technological change; possible volatility of the market price of our common stock; 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.

Executive-Level Overview

We believe we are the largest distributor of healthcare products and services primarily to office-based healthcare practitioners. We serve more than 600,000 customers worldwide, including dental practitioners and laboratories, physician practices and animal health clinics, as well as government and other institutions. We believe that we have a strong brand identity due to our more than 77 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ more than 13,500 people (of which over 5,500 are based outside the United States) and have operations in the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Spain, Switzerland and the United Kingdom. We also have affiliates in Iceland, Saudi Arabia and the United Arab Emirates.

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.

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We conduct our business through two reportable segments: healthcare distribution and technology. These segments offer different products and services to the same customer base. The healthcare distribution reportable segment aggregates our dental, medical, animal health and international operating segments. This segment consists of consumable products, small equipment, laboratory products, large dental and medical equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

Our dental group serves office-based dental practitioners, schools and other institutions in the combined United States and Canadian dental market. Our medical group serves office-based medical practitioners, surgical centers, other alternate-care settings and other institutions throughout the United States. Our animal health group serves animal health practices and clinics throughout the United States. Our international group serves dental, medical and animal health practitioners in 21 countries outside of North America and is what we believe to be a leading European healthcare supplier serving office-based practitioners.

Our technology group provides software, technology and other value-added services to healthcare practitioners, primarily in the United States, Canada, the United Kingdom, Australia and New Zealand. Our value-added practice solutions include practice management software systems for dental and medical practitioners and animal health clinics. Our technology group offerings also include financial services on a non-recourse basis, e-services and continuing education services for practitioners.

### Industry Overview

In recent years, the healthcare 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 healthcare industry, including consolidation of healthcare distribution companies, potential healthcare 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 healthcare products distribution industry, as it relates to office-based healthcare practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical and animal health markets, was estimated to produce revenues of approximately \$29.0 billion in 2009 in the combined North American and European 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 healthcare practitioners to store and manage large quantities of supplies in their offices, the distribution of healthcare supplies and small equipment to office-based healthcare 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 healthcare 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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We believe that consolidation within the industry will continue to result in a number of distributors, particularly those with limited financial 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 has been to expand our role as a provider of products and services to the healthcare industry. This trend has resulted in 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.

As the healthcare industry continues to change, we continually evaluate possible candidates for merger or acquisition and intend to continue to seek opportunities to expand our role as a provider of products and services to the healthcare 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 healthcare products distribution industry continues to experience growth due to the aging population, increased healthcare awareness, the proliferation of medical technology and testing, new pharmacology treatments and expanded third-party insurance coverage, partially offset by the affects 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.

The January 2000 U.S. Bureau of the Census estimated that the elderly population in the United States will more than double by the year 2040. In 2000, four million Americans were aged 85 or older, the segment of the population most in need of long-term care and elder-care services. By the year 2040, that number is projected to more than triple to more than 14 million. The population aged 65 to 84 years is projected to more than double in the same time period.

As a result of these market dynamics, annual expenditures for healthcare 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 2008 – 2018" indicating that total national healthcare spending reached \$2.4 trillion in 2008, or 16.6% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Healthcare spending is projected to reach \$4.4 trillion in 2018, approximately 20.3% of the nation's gross domestic product.

### Government Influences

The healthcare industry is subject to extensive government regulation, licensure and operating compliance procedures. Additionally, government and private insurance programs fund a large portion of the total cost of medical care. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 was the largest expansion of the Medicare program since its inception, and provided participants with voluntary outpatient prescription drug benefits beginning in 2006. This Act also included provisions relating to medication management programs, generic substitution and provider reimbursement. The Patient Protection and Affordable Care Act, enacted in March 2010, generally known as The Health Care Reform Bill, increased federal oversight of private health insurance plans and

included a number of provisions designed to reduce Medicare expenditures and the cost of healthcare generally, to reduce fraud and abuse, and to provide access to health coverage for an additional 32 million people. The Patient

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Protection and Affordable Care Act also imposes (i) a 2.3% excise tax on domestic sales of medical devices by manufacturers and importers beginning in 2013, which we may need to assist implementing and which may affect sales, and (ii) mandates pharmacy benefit manager transparency regarding rebates, discounts and price concessions, which could affect pricing and competition.

In addition to the foregoing, the Patient Protection and Affordable Care Act imposes new reporting and disclosure requirements for pharmaceutical and device manufacturers with regard to payments or other transfers of value made to certain practitioners, including physicians and dentists, and teaching hospitals beginning in January 2012. Implementing regulations have not yet been issued, but it is possible that such regulations, when issued, will treat us or one or more of our subsidiaries as a “manufacturer” subject to these reporting requirements. In addition, several states require pharmaceutical and/or device companies to report expenses relating to the marketing and promotion of products as well as gifts and payments to individual practitioners in the states, or prohibit certain marketing related activities. Other states, such as California, Nevada, and Massachusetts, require pharmaceutical and/or device companies to implement compliance programs or marketing codes. Wholesale distributors are covered by the laws in certain of these states. In others, it is possible that our activities or the activities of one or more of our subsidiaries will subject us to the state’s reporting requirements and prohibitions.

Regulations adopted under the federal Prescription Drug Marketing Act, effective December 2006, require the identification and documentation of transactions involving the receipt and distribution of prescription drugs, that is, drug pedigree information. In early December 2006, the federal District Court for the Eastern District of New York issued a preliminary injunction, enjoining the implementation of some of the federal drug pedigree requirements, in response to a case initiated by secondary distributors. On December 31, 2009, the U.S. District Court granted a motion to extend the time for either party to re-open the matter (which had been administratively closed in light of potential legislative action by Congress), and the Court in effect extended the injunction through September 30, 2010. Other states and government agencies are currently considering similar laws and regulations. We continue to work with our suppliers to help minimize the risks associated with counterfeit products in the supply chain and potential litigation.

There have been increasing efforts by various levels of government, including state departments of health, state boards of pharmacy and comparable agencies, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated or mislabeled pharmaceuticals into the distribution system. An increasing number of states, including Florida, have already adopted laws and regulations, including drug pedigree tracking requirements, that are intended to protect the integrity of the pharmaceutical distribution system. California has enacted a statute that, beginning in 2015, will require manufacturers to identify each package of a prescription pharmaceutical with a standard, machine-readable numerical identifier, and will require manufacturers and distributors to participate in an electronic track-and-trace system and provide or receive an electronic pedigree for each transaction in the drug distribution chain. Bills have been introduced in Congress that would impose similar requirements at the federal level.

There may be additional legislative initiatives in the future impacting healthcare.

## E-Commerce

Traditional healthcare supply and distribution relationships are being challenged by electronic online commerce solutions. Our distribution business is characterized by rapid technological developments and intense competition. The advancement of online commerce will require us to cost-effectively adapt to changing technologies, to enhance existing services and to develop and introduce a variety of new services to address the changing demands of consumers and our customers on a timely basis, particularly in response to competitive offerings.



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

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## Results of Operations

The following table summarizes the significant components of our operating results from continuing operations and cash flows for the three months ended March 27, 2010 and March 28, 2009 (in thousands):

	Three Months Ended	
	March 27, 2010	March 28, 2009 (1)
<b>Operating results:</b>		
Net sales	\$1,760,310	\$1,485,388
Cost of sales	1,247,277	1,047,025
Gross profit	513,033	438,363
<b>Operating expenses:</b>		
Selling, general and administrative	396,989	343,732
Restructuring costs	12,285	4,043
Operating income	\$103,759	\$90,588
Other expense, net	\$(5,814 )	\$(3,921 )
Income from continuing operations	67,252	59,183
Income from continuing operations attributable to Henry Schein, Inc.	60,900	54,774
<b>Cash flows:</b>		
Net cash provided by (used in) operating activities	\$21,675	\$(27,128 )
Net cash used in investing activities	(144,412 )	(27,880 )
Net cash provided by (used in) financing activities	5,640	(6,434 )

(1) Adjusted to reflect the effects of a discontinued operation.

## Plans of Restructuring

On November 5, 2008, we announced certain actions to reduce operating costs. These actions included the elimination of approximately 430 positions from our operations and the closing of several smaller facilities.

During the first quarter of 2010, we completed an additional restructuring in order to further reduce operating expenses. This restructuring included headcount reductions of 184 positions, as well as the closing of a number of smaller locations.

For the three months ended March 27, 2010, we recorded restructuring costs of approximately \$12.3 million (approximately \$8.3 million after taxes) consisting of employee severance pay and benefits, facility closing costs, representing primarily lease termination and asset write-off costs, and outside professional and consulting fees directly related to the restructuring plan. The costs associated with the restructuring are included in a separate line item, "Restructuring costs" within our consolidated statements of income.



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Three Months Ended March 27, 2010 Compared to Three Months Ended March 28, 2009

## Net Sales

Net sales from continuing operations for the three months ended March 27, 2010 and March 28, 2009 were as follows (in thousands):

	March 27, 2010	% of Total	March 28, 2009 (1)	% of Total	Increase / (Decrease) \$	%
<b>Healthcare distribution (2):</b>						
Dental (3)	\$ 614,649	34.9 %	\$ 593,956	40.0 %	\$ 20,693	3.5 %
Medical (4)	284,589	16.2	271,762	18.3	12,827	4.7
Animal health (5)	206,646	11.7	55,626	3.7	151,020	271.5
International (6)	609,453	34.6	523,719	35.3	85,734	16.4
Total healthcare distribution	1,715,337	97.4	1,445,063	97.3	270,274	18.7
Technology (7)	44,973	2.6	40,325	2.7	4,648	11.5
Total	\$ 1,760,310	100.0 %	\$ 1,485,388	100.0 %	\$ 274,922	18.5

(1) Adjusted to reflect the effects of a discontinued operation.

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

(3) Consists of products sold in the United States and Canada.

(4) Consists of products and equipment sold in the United States' medical markets.

(5) Consists of products sold in the United States' animal health market.

(6) Consists of products sold in the dental, medical and animal health markets, primarily in Europe.

(7) Consists of practice management software and other value-added products and services, which are distributed primarily to healthcare providers in the United States, Canada, the United Kingdom, Australia and New Zealand.

The \$274.9 million, or 18.5%, increase in net sales for the three months ended March 27, 2010 includes an increase of 14.6% local currency growth (3.2% increase in internally generated revenue and 11.4% growth from acquisitions) as well as an increase of 3.9% related to foreign currency exchange.

The \$20.7 million, or 3.5%, increase in dental net sales for the three months ended March 27, 2010 includes an increase of 1.8% in local currencies (1.0% increase in internally generated revenue and 0.8% growth from acquisitions) as well as an increase of 1.7% related to foreign currency exchange. The 1.8% increase in local currency sales was due to increases in dental equipment sales and service revenues of 0.8% (0.5% increase in internally generated revenue and 0.3% growth from acquisitions) and dental consumable merchandise sales growth of 2.0% (1.2% increase in internally generated revenue and 0.8% growth from acquisitions).

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The \$12.8 million, or 4.7%, increase in medical net sales for the three months ended March 27, 2010 includes an increase in internally generated revenue of 2.4% and acquisition growth of 2.3%.

The \$151.0 million, or 271.5%, increase in animal health sales for the three months ended March 27, 2010 includes an increase in internally generated revenue of 2.5% and acquisition growth of 269.0%, due to the acquisition of a majority interest in Butler Animal Health Supply, LLC.

The \$85.7 million, or 16.4%, increase in international net sales for the three months ended March 27, 2010 includes sales growth of 7.5% in local currencies (6.2% internally generated growth and 1.3% growth from acquisitions) as well as an increase of 8.9% related to foreign currency exchange.

The \$4.7 million, or 11.5%, increase in technology net sales for the three months ended March 27, 2010 includes an increase of 9.4% local currency growth (4.6% internally generated growth and 4.8% growth from acquisitions) as well as an increase of 2.1% related to foreign currency exchange.

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## Gross Profit

Gross profit and gross margin percentages from continuing operations by segment and in total for the three months ended March 27, 2010 and March 28, 2009 were as follows (in thousands):

	March 27, 2010	Gross Margin %	March 28, 2009 (1)	Gross Margin %	Increase / (Decrease)	
					\$	%
Healthcare distribution	\$ 482,010	28.1 %	\$ 409,202	28.3 %	\$ 72,808	17.8 %
Technology	31,023	69.0	29,161	72.3	1,862	6.4
Total	\$ 513,033	29.1	\$ 438,363	29.5	\$ 74,670	17.0

(1) Adjusted to reflect the effects of a discontinued operation.

For the three months ended March 27, 2010, gross profit increased \$74.7 million, or 17.0%, from the comparable prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our healthcare distribution segment. These higher gross margins result from being both the developer and seller of software products, as well as certain financial services. For a number of reasons, the software industry typically realizes higher gross margins to recover investments in research and development.

Healthcare distribution gross profit increased \$72.8 million, or 17.8%, for the three months ended March 27, 2010 from the comparable prior year period. Healthcare distribution gross profit margin decreased to 28.1% for the three months ended March 27, 2010 from 28.3% for the comparable prior year period primarily due to changes in the product sales mix.

Technology gross profit increased \$1.9 million, or 6.4%, for the three months ended March 27, 2010 from the comparable prior year period. Technology gross profit margin decreased to 69.0% for the three months ended March 27, 2010 from 72.3% for the comparable prior year period primarily due to changes in the product sales mix.

## Selling, General and Administrative

Selling, general and administrative expenses from continuing operations by segment and in total for the three months ended March 27, 2010 and March 28, 2009 were as follows (in thousands):

	March 27, 2010	% of Respective Net Sales	March 28, 2009 (1)	% of Respective Net Sales	Increase / (Decrease)	
					\$	%
Healthcare distribution	\$ 381,110	22.2 %	\$ 329,451	22.8 %	\$ 51,659	15.7 %
Technology	15,879	35.3	14,281	35.4	1,598	11.2
Total	\$ 396,989	22.6	\$ 343,732	23.1	\$ 53,257	15.5

(1) Adjusted to reflect the effects of a discontinued operation.

Selling, general and administrative expenses increased \$53.3 million, or 15.5%, to \$397.0 million for the three months ended March 27, 2010 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 22.6% from 23.1% for the comparable prior year period.

As a component of selling, general and administrative expenses, selling expenses increased \$34.5 million, or 15.2%, to \$261.1 million for the three months ended March 27, 2010 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 14.9% from 15.2% for the comparable prior year period.

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As a component of selling, general and administrative expenses, general and administrative expenses increased \$18.8 million, or 16.0%, to \$135.9 million for the three months ended March 27, 2010 from the comparable prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.7% from 7.9% for the comparable prior year period.

## Other Expense, Net

Other expense, net, from continuing operations for the three months ended March 27, 2010 and March 28, 2009 were as follows (in thousands):

	March 27, 2010	March 28, 2009 (1)	Increase / (Decrease)	
			\$	%
Interest income	\$ 3,388	\$ 2,801	\$ 587	21.0 %
Interest expense	(9,087 )	(6,752 )	(2,335 )	(34.6 )
Other, net	(115 )	30	(145 )	(483.3 )
Other expense, net	\$ (5,814 )	\$ (3,921 )	\$ (1,893 )	(48.3 )

(1) Adjusted to reflect the effects of a discontinued operation.

Other expense, net increased \$1.9 million for the three months ended March 27, 2010 from the comparable prior year period. Interest expense increased \$2.3 million due to interest associated with the acquisition of Butler Animal Health Supply, LLC partially offset by reduced interest expense resulting from repayment of our \$130.0 million senior notes on June 30, 2009. Interest income increased \$0.6 million as a result of increased late fee income partially offset by lower interest income on our invested funds.

## Income Taxes

For the three months ended March 27, 2010, our effective tax rate from continuing operations was 32.9% compared to 33.3% for the prior year period. The difference between our effective tax rates and the federal statutory tax rate for both periods primarily relates to state and foreign income taxes.



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## Liquidity and Capital Resources

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

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

Net cash flow provided by operating activities was \$21.7 million for the three months ended March 27, 2010, compared to net cash flow used of \$27.1 million for the comparable prior year period. This net change of \$48.8 million was primarily attributable to favorable working capital changes and net income improvements.

Net cash used in investing activities was \$144.4 million for the three months ended March 27, 2010, compared to \$27.9 million for the comparable prior year period. The net change of \$116.5 million was primarily due to an increase in payments for business acquisitions and purchases of marketable securities. We expect to invest approximately \$35 million to \$45 million during the remainder of the fiscal year in capital projects to modernize and expand our facilities and computer systems and to integrate certain operations into our existing structure.

Net cash provided by financing activities was \$5.6 million for the three months ended March 27, 2010, compared to net cash used in financing activities of \$6.4 million for the comparable prior year period. The net change of \$12.0 million was primarily due to an increase in proceeds received from the exercise of stock options and increased tax benefits related to stock-based compensation, partially offset by an increase in acquisitions of noncontrolling interests in subsidiaries.

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

	March 27, 2010	December 26, 2009
Cash and cash equivalents	\$355,388	\$471,154
Available-for-sale securities - short-term	26,980	-
Available-for-sale securities - long-term	17,649	18,848
Working capital	1,205,501	1,127,279
Debt:		
Bank credit lines	\$9	\$932
Current maturities of long-term debt	25,630	23,560
Long-term debt	522,882	243,373
Total debt	\$548,521	\$267,865



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

As of March 27, 2010, we have approximately \$19.8 million (\$17.6 million net of temporary impairments) invested in auction-rate securities (“ARS”). ARS are publicly issued securities that represent long-term investments, typically 10-30 years, in which interest rates had reset periodically (typically every 7, 28 or 35 days) through a “dutch auction” process. Approximately \$17.8 million (\$15.6 million net of temporary impairments) of our ARS are backed by student loans that are backed by the federal government and the remaining \$2.0 million are invested in closed-end municipal bond funds. Our ARS portfolio is comprised of investments that are rated AAA by major independent rating agencies. Since the middle of February 2008, these auctions have failed to settle due to an excess number of sellers compared to buyers. The failure of these auctions has resulted in our inability to liquidate our ARS in the near term. We are currently not aware of any defaults or financial conditions that would negatively affect the issuers’ ability to continue to pay interest and principal on our ARS. We continue to earn and receive interest at contractually agreed upon rates. We believe that the current lack of liquidity related to our ARS investments will have no impact on our ability to fund our ongoing operations and growth opportunities. As of March 27, 2010, we have classified ARS holdings as long-term, available-for-sale and they are included in the Investments and other line within our consolidated balance sheets.

As of March 27, 2010, we have approximately \$27.0 million invested in treasury securities, agency securities and FDIC-backed certificates of deposit. These securities, which we intend to hold to maturity, have a maturity period of six months or less.

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

Our accounts receivable days sales outstanding from continuing operations decreased to 39.6 days as of March 27, 2010 from 43.2 days as of March 28, 2009. Our inventory turns from continuing operations increased to 6.3 as of March 27, 2010 from 5.8 as of March 28, 2009. Our working capital accounts may be impacted by current and future economic conditions.

In 2004, we completed an issuance of \$240.0 million of convertible debt. These notes are senior unsecured obligations bearing a fixed annual interest rate of 3.0% and are due to mature on August 15, 2034. Interest on the notes is payable on February 15 and August 15 of each year. The notes are convertible into our common stock at a conversion ratio of 21.58 shares per one thousand dollars of principal amount of notes, which is equivalent to a conversion price of \$46.34 per share, under the following circumstances:

- if the price of our common stock is above 130% of the conversion price measured over a specified number of trading days;
- during the five-business-day period following any 10-consecutive-trading-day period in which the average of the trading prices for the notes for that 10-trading-day period was less than 98% of the average conversion value for the notes during that period;
- if the notes have been called for redemption; or
- upon the occurrence of a fundamental change or specified corporate transactions, as defined in the note agreement.



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Upon conversion, we are required to satisfy our conversion obligation with respect to the principal amount of the notes to be converted, in cash, with any remaining amount to be satisfied in shares of our common stock. We currently have sufficient availability of funds through our \$400.0 million revolving credit facility (discussed below) along with cash on hand to fully satisfy our debt obligations, including the cash portion of our convertible debt. We also will pay contingent interest during any six-month-interest period beginning August 20, 2010, if the average trading price of the notes is above specified levels. We may redeem some or all of the notes on or after August 20, 2010. The note holders may require us to purchase all or a portion of the notes on August 15, 2010, 2014, 2019, 2024 and 2029 or, subject to specified exceptions, upon a change of control event. If we are required by the note holders to purchase all or a portion of the notes, we expect to use our existing credit line to fund such purchase; therefore, we have classified our convertible debt as long-term in our consolidated balance sheet.

Our \$20.0 million of remaining senior notes bear interest at a fixed rate of 6.7% per annum and mature on September 27, 2010. Interest on our senior notes is payable semi-annually.

On September 5, 2008, we entered into a new \$400.0 million revolving credit facility with a \$100.0 million expansion feature. The \$400.0 million credit line expires in September 2013. This credit line replaced our then existing \$300.0 million revolving credit line, which would have expired in May 2010. As of March 27, 2010, there were no borrowings outstanding under this revolving credit facility and there were \$10.2 million of letters of credit provided to third parties.

Effective December 31, 2009, Butler Animal Health Supply, LLC, a majority-owned subsidiary whose financials are consolidated with ours, incurred approximately \$320.0 million of debt (of which \$37.5 million was provided by Henry Schein, Inc.) in connection with our acquisition of a majority interest in Butler Animal Health Supply, LLC. The resulting consolidated balance of \$282.5 million is reflected in our consolidated balance sheet as of March 27, 2010.

The debt incurred as part of the acquisition of BAHS is repayable in 23 quarterly installments of \$0.8 million through September 30, 2015, and a final installment of \$301.6 million on December 31, 2015. Interest on the BAHS debt is charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2% for a current effective rate of 5.5% as of March 27, 2010. The debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments of the loan commitment based on excess cash flows of BAHS as defined in the debt agreement.

Under our common stock repurchase programs approved by our Board of Directors, we have \$57.7 million available for future common stock share repurchases. During the quarter ended March 27, 2010, we did not repurchase any of our common stock.

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. 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 fair value of the Redeemable noncontrolling interests for the periods ended March 27, 2010 and December 26, 2009 are presented in the following table:

	March 27, 2010	December 26, 2009
Balance, beginning of period	\$178,570	\$233,035
Net increase (decrease) in noncontrolling interests due to		
business acquisitions or redemptions	114,021	(72,427 )
Net income attributable to noncontrolling interests	6,339	21,975

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Dividends paid	(1,278 )	(5,973 )
Effect of foreign currency translation attributable to noncontrolling interests	(3,487 )	2,541
Change in fair value of redeemable securities	(7,630 )	(581 )
Balance, end of period	\$286,535	\$178,570

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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 will not impact the calculation of earnings per share.

Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain profitability targets are met. For acquisitions completed prior to 2009, we accrue liabilities that may arise from these transactions when we believe that the outcome of the contingency is determinable beyond a reasonable doubt. For 2009 and future acquisitions, as required by ASC Topic 805, “Business Combinations,” we will accrue liabilities for the estimated fair value of additional purchase price adjustments at the time of the acquisition. Any adjustments to these accrual amounts will be recorded in our consolidated statement of income.

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

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

## Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates from those disclosed in Item 7 of our Annual Report on Form 10-K for the year ended December 26, 2009.

## Recently Issued Accounting Standards

### Accounting Pronouncements Adopted

During February 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-09, “Subsequent Events (Topic 855)”. The amended guidance in ASU 2010-09 states that an entity that is an SEC filer is required to evaluate subsequent events through the date that the financial statements are issued, but is not required to disclose the date through which subsequent events have been evaluated. The adoption of the provisions of this amendment did not have a material impact on our consolidated financial statements.

During January 2010, the FASB issued ASU 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” ASU 2010-06 includes new disclosure requirements related to fair value measurements, including transfers in and out of Levels 1 and 2 and information about purchases, sales, issuances and settlements for Level 3 fair value measurements. This update also clarifies existing disclosure requirements relating to levels of disaggregation and disclosures of inputs and valuation techniques. The new disclosures are required in interim and annual reporting periods beginning after December 15, 2009, except the disclosures relating to Level 3 activity are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Effective December 28, 2009, we have adopted the provisions relating to Level 1 and Level 2 disclosures and such provisions did not have a material impact on our consolidated financial statements.





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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 26, 2009.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of March 27, 2010 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported as specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

The combination of recent acquisition activity and integrations undertaken during the quarter, when considered in the aggregate, represents a material change in our internal control over financial reporting.

During the quarter ended March 27, 2010, we completed the acquisition of a U.S. animal health business with approximate aggregate annual revenues of \$600.0 million. This acquisition utilizes separate information and financial accounting systems into which we are in the process of integrating our existing animal health business which has approximate aggregate annual revenues of \$240.0 million. In addition, we completed two U.S. medical business acquisitions with aggregate annual revenues of \$27.0 million. Finally, integration activities were completed during the quarter ended March 27, 2010 for North American and international dental and medical businesses with approximate aggregate annual revenues of \$126.0 million.

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

Limitations of the Effectiveness of Internal Control

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Our business involves a risk of product liability and other claims in the ordinary course of business, and from time to time we are named as a defendant in cases as a result of our distribution of pharmaceutical, medical devices and other healthcare products. As a business practice, we generally obtain product liability indemnification from our suppliers.

We have various insurance policies, including product liability insurance, covering risks in amounts that we consider adequate. In many cases in which we have been sued in connection with products manufactured by others, the manufacturer provides us with indemnification. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide us with adequate protection. In our opinion, all pending matters are covered by insurance or will not have a material adverse effect on our financial condition or results of operations.

As of March 27, 2010, we had accrued our best estimate of potential losses relating to product liability and other claims that were probable to result in a liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other external factors, including probable recoveries from third parties.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of equity securities by the issuer

Our current share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to \$100.0 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. On both October 31, 2005 and March 28, 2007, our Board of Directors authorized an additional \$100.0 million, for a total of \$300.0 million, of shares of our common stock to be repurchased under this program. As of March 27, 2010, we had repurchased \$242.3 million of common stock (5,633,952 shares) under this initiative, with \$57.7 million available for future common stock share repurchases.

During the fiscal quarter ended March 27, 2010, we did not repurchase any of our common stock. The maximum number of shares that may yet be purchased under this program, as shown below, is determined at the end of each month based on the closing price of our common stock at that time.

Fiscal Month	Maximum Number of Shares that May Yet Be Purchased Under Our Program
12/27/09 through	1,068,185

01/30/10  
01/31/10  
through  
02/27/10 1,015,932  
02/28/10  
through  
03/27/10 998,709

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ITEM 6. EXHIBITS

Exhibits.

- 10.1 Amendment No. Three to the Henry Schein, Inc. 1994 Stock Incentive Plan, effective as of February 23, 2010.\*
- 10.2 Form of Restricted Stock Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 1994 Stock Incentive Plan (as amended and restated effective as of March 27, 2007).\*
- 10.3 Form of Restricted Stock Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 1994 Stock Incentive Plan (as amended and restated effective as of March 27, 2007).\*
- 10.4 Form of Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 1994 Stock Incentive Plan (as amended and restated effective as of March 27, 2007).\*
- 10.5 Form of Restricted Stock Unit Agreement for performance-based restricted stock awards pursuant to the Henry Schein, Inc. 1994 Stock Incentive Plan (as amended and restated effective as of March 27, 2007).\*
- 10.6 Form of Restricted Stock Unit Agreement for time-based restricted stock awards pursuant to the Henry Schein, Inc. 1996 Non-Employee Director Stock Incentive Plan (as amended and restated effective as of April 1, 2003, and as further amended effective as of April 1, 2004 and January 1, 2005).\*
- 10.7 Henry Schein Management Team Performance Incentive Plan and Plan Summary, effective as of January 1, 2010.\*
  - 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Indicates management contract or compensatory plan or agreement

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SIGNATURE

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

Henry Schein, Inc.  
(Registrant)

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

Dated: May 4, 2010

