HENRY SCHEIN INC
Form 10-Q
May 03, 2011

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

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

For the quarterly period ended March 26, 2011

or

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

For the transition period from _____ to _____
Commission File Number: 0-27078

HENRY SCHEIN, INC.
(Exact name of registrant as specified in its charter)

Delaware	11-3136595
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Yes X No __

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

Yes X No __

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

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

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

Yes __ No X

As of April 25, 2011, there were 92,251,522 shares of the registrant’s common stock outstanding.

HENRY SCHEIN, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	March 26, 2011 (unaudited)	December 25, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$116,712	$150,348
Accounts receivable, net of reserves of $58,745 and $56,267	934,952	885,784
Inventories, net	930,341	870,206
Deferred income taxes	51,363	48,951
Prepaid expenses and other	228,143	214,013
Total current assets	2,261,511	2,169,302
Property and equipment, net	271,750	252,573
Goodwill	1,499,689	1,424,794
Other intangibles, net	458,480	405,468
Investments and other	303,564	295,334
Total assets	$4,794,994	$4,547,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$579,474	$590,029
Bank credit lines	97,194	41,508
Current maturities of long-term debt	8,357	4,487
Accrued expenses:		
Payroll and related	153,892	172,746
Taxes	131,387	91,581
Other	263,899	267,736
Total current liabilities	1,234,203	1,168,087
Long-term debt	407,462	395,309
Deferred income taxes	196,358	190,225
Other liabilities	82,711	76,753
Total liabilities	1,920,734	1,830,374
Redeemable noncontrolling interests	426,060	304,140
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, 92,261,494 outstanding on March 26, 2011 and 91,939,477 outstanding on December 25, 2010	923	919
Additional paid-in capital	518,842	601,014

Retained earnings	1,837,229	1,779,178
Accumulated other comprehensive income	89,836	30,514
Total Henry Schein, Inc. stockholders' equity	2,446,830	2,411,625
Noncontrolling interests	1,370	1,332
Total stockholders' equity	2,448,200	2,412,957
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$4,794,994	$4,547,471

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 26, 2011	March 27, 2010
Net sales	$1,947,761	$1,760,310
Cost of sales	1,381,939	1,247,277
Gross profit	565,822	513,033
Operating expenses:		
Selling, general and administrative	441,522	396,989
Restructuring costs	-	12,285
Operating income	124,300	103,759
Other income (expense):		
Interest income	3,933	3,388
Interest expense	(8,085)	(9,087)
Other, net	323	(115)
Income before taxes, equity in earnings of affiliates and noncontrolling interests	120,471	97,945
Income taxes	(39,153)	(32,224)
Equity in earnings of affiliates	1,653	1,531
Net income	82,971	67,252
Less: Net income attributable to noncontrolling interests	(6,476)	(6,352)
Net income attributable to Henry Schein, Inc.	$76,495	$60,900
Earnings per share attributable to Henry Schein, Inc.:		
Basic	$0.84	$0.68
Diluted	$0.82	$0.66
Weighted-average common shares outstanding:		
Basic	90,615	89,508
Diluted	93,161	92,721

See accompanying notes.

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

	Common Stock $.01 Par Value		Additional Paid-in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Earnings	Income	Interests	Equity
Balance, December 25, 2010	91,939,477	$ 919	$ 601,014	$ 1,779,178	$ 30,514	$ 1,332	$ 2,412,957
Net income (excluding $6,381 attributable to Redeemable noncontrolling interests)	-	-	-	76,495	-	95	76,590
Foreign currency translation gain (excluding $1,892 attributable to Redeemable noncontrolling interests)	-	-	-	-	57,817	-	57,817
Unrealized gain from foreign currency hedging activities, net of tax of $406	-	-	-	-	1,887	-	1,887
Unrealized investment gain, net of tax benefit of $100	-	-	-	-	136	-	136
Pension adjustment loss, net of tax benefit of $31	-	-	-	-	(518)	-	(518)
Total comprehensive income							135,912
Dividends paid	-	-	-	-	-	(103)	(103)
Other adjustments	-	-	-	-	-	46	46
Change in fair value of redeemable securities	-	-	(101,033)	-	-	-	(101,033)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	(2,138)	-	-	-	(2,138)

Repurchase and retirement of common stock	(409,755)	(4)	(8,650)	(18,444)	-	-	(27,098)
Stock issued upon exercise of stock options, including tax benefit of $5,513	538,813	6	24,321	-	-	-	24,327
Stock-based compensation expense	302,184	3	8,342	-	-	-	8,345
Shares withheld for payroll taxes	(109,225)	(1)	(2,872)	-	-	-	(2,873)
Liability for cash settlement stock option awards	-	-	(142)	-	-	-	(142)
Balance, March 26, 2011	92,261,494	$ 923	$ 518,842	$ 1,837,229	$ 89,836	$ 1,370	$ 2,448,200

See accompanying notes.

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

	Three Months Ended	
	March 26, 2011	March 27, 2010
Cash flows from operating activities:		
Net income	$82,971	$67,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,348	24,572
Amortization of bond discount	-	1,548
Stock-based compensation expense	8,345	6,142
Provision for losses on trade and other accounts receivable	1,728	994
Provision for (benefit from) deferred income taxes	(6,772)	272
Undistributed earnings of affiliates	(1,653)	(1,531)
Other	1,835	1,361
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	10,990	(7,394)
Inventories	(6,944)	14,482
Other current assets	(1,131)	7,730
Accounts payable and accrued expenses	(70,138)	(93,753)
Net cash provided by operating activities	47,579	21,675
Cash flows from investing activities:		
Purchases of fixed assets	(10,458)	(9,062)
Payments for equity investments and business acquisitions, net of cash acquired	(133,614)	(108,946)
Purchases of available-for-sale securities	-	(26,984)
Proceeds from sales of available-for-sale securities	2,100	1,300
Other	1,308	(720)
Net cash used in investing activities	(140,664)	(144,412)
Cash flows from financing activities:		
Proceeds from (repayments of) bank borrowings	55,660	(931)
Proceeds from issuance of long-term debt	3,000	-
Principal payments for long-term debt	(1,526)	(1,843)
Proceeds from issuance of stock upon exercise of stock options	18,814	15,280
Payments for repurchases of common stock	(27,098)	-
Excess tax benefits related to stock-based compensation	5,797	4,522
Distributions to noncontrolling shareholders	(1,062)	(1,298)
Acquisitions of noncontrolling interests in subsidiaries	(366)	(10,000)
Other	(90)	(90)
Net cash provided by financing activities	53,129	5,640
Net change in cash and cash equivalents	(39,956)	(117,097)

Effect of exchange rate changes on cash and cash equivalents	6,320	1,331
Cash and cash equivalents, beginning of period	150,348	471,154
Cash and cash equivalents, end of period	$116,712	$355,388

See accompanying notes.

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

Note 1. Basis of Presentation

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

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

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 25, 2010.

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 26, 2011 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 31, 2011.

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 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 23 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.

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

Note 2. Segment Data (Continued)

The following tables present information about our reportable segments:

	Three Months Ended	
	March 26, 2011	March 27, 2010
Net Sales:		
Healthcare distribution (1):		
Dental (2)	$662,783	$614,649
Medical (3)	319,795	284,589
Animal health (4)	230,565	206,646
International (5)	678,972	609,453
Total healthcare distribution	1,892,115	1,715,337
Technology (6)	55,646	44,973
Total	$1,947,761	$1,760,310

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

(2) Consists of products sold in the United States and Canadian dental markets.

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

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

(5) Consists of products sold in dental, medical and animal health markets, primarily in Europe, Australia and New Zealand.

(6) 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 26, 2011	March 27, 2010
Operating Income:		
Healthcare distribution	$109,532	$88,837
Technology	14,768	14,922
Total	$124,300	$103,759

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

Note 3. Debt

On September 5, 2008, we entered into a $400 million revolving credit facility with a $100 million expansion feature. The $400 million credit line expires in September 2013. The interest rate, which was 0.75% during the three months ended March 26, 2011, is based on USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. The agreement provides, among other things, that we maintain certain interest coverage and maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, liens, employee and shareholder loans, disposal of businesses and certain changes in ownership. In addition to the amounts outstanding under our shelf facilities, discussed below, we have outstanding borrowings of approximately $79.0 million under our $400 million credit facility. As of March 26, 2011, there were $9.8 million of letters of credit provided to third parties.

As of March 26, 2011, we had various other short-term bank credit lines available, of which approximately $18.2 million was outstanding. As of March 26, 2011, borrowings under all of our credit lines had a weighted average interest rate of 1.65%.

On August 10, 2010, we entered into $400 million private placement shelf facilities with two insurance companies. These shelf facilities are available through August 2013 on an uncommitted basis. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreement provides, among other things, that we maintain certain maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, liens, employee and shareholder loans, disposal of businesses and certain changes in ownership. As of March 26, 2011, we have an outstanding balance under the facilities of $100.0 million at a fixed rate of 3.79%, which is due on September 2, 2020.

Effective December 31, 2009, Butler Animal Health Supply, LLC, or BAHS, a majority-owned subsidiary whose financial information is consolidated with ours, had 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 BAHS. The remaining outstanding balance of $278.4 million is reflected in our consolidated balance sheet as of March 26, 2011. Borrowings incurred as part of the acquisition of BAHS, along with certain of our credit lines, are collateralized by assets with an aggregate net carrying value of $325.0 million.

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 26, 2011. The agreement provides, among other things, that we maintain certain interest coverage and maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, capital expenditures, liens, employee and shareholder loans, disposal of businesses and certain changes in ownership. In addition, the debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The debt agreement also contains provisions that require BAHS to hedge risks related to potential rising interest rates. As a result, BAHS entered into a series of interest rate caps, for which we have elected hedge accounting treatment, with a notional amount of $160.0 million, protecting against LIBOR

interest rates rising above 3.0% through March 30, 2012.

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

Note 4. Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification ("ASC") Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the three months ended March 26, 2011 and the year ended December 25, 2010 are presented in the following table:

	March 26, 2011	December 25, 2010
Balance, beginning of period	$304,140	$178,570
Net increase in redeemable noncontrolling interests due to business acquisitions, net of redemptions	13,354	62,314
Net income attributable to redeemable noncontrolling interests	6,381	26,054
Dividends declared	(740)	(12,360)
Effect of foreign currency translation attributable to redeemable noncontrolling interests	1,892	(2,281)
Change in fair value of redeemable securities	101,033	51,843
Balance, end of period	$426,060	$304,140

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

Some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial 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 our 2009 fiscal year, as required by ASC Topic 805, "Business Combinations," we have accrued 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. For the three months ended March 26, 2011, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

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

Note 5. Comprehensive Income

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

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

	March 26, 2011	December 25, 2010
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	$1,028	$(864)
Attributable to Henry Schein, Inc.:		
Foreign currency translation adjustment	$98,955	$41,138
Unrealized gain (loss) from foreign currency hedging activities	827	(1,060)
Unrealized investment loss	(1,040)	(1,176)
Pension adjustment loss	(8,906)	(8,388)
Accumulated other comprehensive income	$89,836	$30,514
Total Accumulated other comprehensive income	$90,864	$29,650

The following table summarizes other comprehensive income attributable to our Redeemable noncontrolling interests, net of applicable taxes as follows:

	Three Months Ended	
	March 26, 2011	March 27, 2010
Foreign currency translation adjustment	$1,892	$(3,487)

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

	Three Months Ended	
	March 26, 2011	March 27, 2010
Comprehensive income attributable to		
Henry Schein, Inc.	$135,817	$26,013
Comprehensive income attributable to		
noncontrolling interests	95	13
Comprehensive income attributable to		
Redeemable noncontrolling interests	8,273	2,852

Comprehensive income	$144,185	$28,878

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

Note 6. Fair Value Measurements

ASC Topic 820 “Fair Value Measurements and Disclosures” (“ASC Topic 820”) 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)
(in thousands, except per share data)
(unaudited)

Note 6. Fair Value Measurements (Continued)

Auction-rate securities

As of March 26, 2011, we have approximately $13.0 million ($11.3 million net of temporary impairments) invested in auction-rate securities ("ARS"), consisting of investments backed by student loans that are backed by the federal government and investments in closed-end municipal bond funds, 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. 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 2011, we received approximately $2.1 million of redemptions of our ARS. As of March 26, 2011, we have continued to classify our ARS, 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, including assumptions for estimated interest rates, timing and amount of cash flows and expected holding period for the ARS portfolio, in accordance with applicable authoritative guidance, our previously recorded cumulative temporary impairment at December 25, 2010 of $1.7 million related to our ARS remained unchanged during the three months ended March 26, 2011. The temporary impairment has been recorded as part of Accumulated other comprehensive income within the equity section of our consolidated balance sheet.

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.

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

Note 6. Fair Value Measurements (Continued)

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 26, 2011 and December 25, 2010 was estimated at $513.0 million and $441.3 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 caps related to our long-term floating rate debt and foreign currency forward agreements related to intercompany loans and certain forecasted inventory purchase commitments with suppliers.

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

Redeemable noncontrolling interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value based on third-party valuations. The 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 4.

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

Note 6. Fair Value Measurements (Continued)

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 26, 2011 and December 25, 2010:

	March 26, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities	$-	$-	$11,306	$11,306
Derivative contracts	-	1,435	-	1,435
Total assets	$-	$1,435	$11,306	$12,741
Liabilities:				
Derivative contracts	$-	$1,068	$-	$1,068
Total liabilities	$-	$1,068	$-	$1,068
Redeemable noncontrolling interests	$-	$-	$426,060	$426,060

	December 25, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities	$-	$-	$13,367	$13,367
Derivative contracts	-	1,213	-	1,213
Total assets	$-	$1,213	$13,367	$14,580
Liabilities:				
Derivative contracts	$-	$2,771	$-	$2,771
Total liabilities	$-	$2,771	$-	$2,771
Redeemable noncontrolling interests	$-	$-	$304,140	$304,140

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Note 6. Fair Value Measurements (Continued)

The following table presents a reconciliation of our assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3):

	Level 3 (1)
Balance, December 25, 2010	$317,507
Change in redeemable noncontrolling interests	121,920
Redemptions at par	(2,100)
Gain reported in accumulated other comprehensive income	39
Balance, March 26, 2011	$437,366

	Level 3 (1)
Balance, December 26, 2009	$199,164
Change in redeemable noncontrolling interests	107,965
Redemptions at par	(2,980)
Gain reported in accumulated other comprehensive income	100
Balance, March 27, 2010	$304,249

(1) Level 3 amounts consist of closed-end municipal bond funds, student loan backed auction-rate securities and redeemable noncontrolling interests. See Note 4 for the components of the changes in Redeemable noncontrolling interests.

Note 7. Business Acquisitions

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

On December 31, 2010, we acquired 100% of the outstanding shares of Provet Holdings Limited (ASX: PVT), Australia's largest distributor of veterinary products with sales in its 2010 fiscal year of approximately $278 million, for approximately $91 million, in a cash-for-stock exchange.

We completed other acquisitions during the three months ended March 26, 2011, the operating results of which 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 three months ended March 26, 2011 were immaterial to our financial results.

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Note 7. Business Acquisitions (Continued)

Effective December 31, 2009, we acquired a majority interest in Butler Animal Health Holding Company, LLC ("Butler Holding"), the holding company of 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 operating segment, which is reported as part of Healthcare distribution. We 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 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 Butler Holding stock redemptions. As a result, BSAH had incurred $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, summarized as follows:

Net cash consideration paid by Henry Schein, Inc.	$41,990
Net book value of the United States animal health operations' assets and liabilities contributed	86,048
Fair value of noncontrolling interest in BAHS	96,110
Incremental debt incurred	127,000
Total consideration	$351,148

We estimated the $96.1 million fair value of noncontrolling interest in BAHS as of the acquisition date by applying an income approach as our valuation technique. Our income approach followed a discounted cash flow method, which applied our best estimates of future cash flows and an estimated terminal value discounted to present value at a rate of return taking into account the relative risk of the cash flows. To confirm the reasonableness of the value derived from the income approach, we also analyzed the values of comparable companies which are publicly traded.

The total consideration of $351.1 million 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

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Note 7. Business Acquisitions (Continued)

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, Inc. 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 26, 2011. The debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The debt agreement also contains provisions that require BAHS to hedge risks related to potential rising interest rates. As a result, BAHS entered into a series of interest rate caps, for which we have elected hedge accounting treatment, with a notional amount of $160.0 million, protecting against LIBOR interest rates rising above 3.0% through March 30, 2012.

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”). 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.

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Note 8. Plans of Restructuring

During the first quarter of 2010, we completed a restructuring in order to 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 these restructurings 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 26, 2011 and the remaining accrued balance of restructuring costs as of March 26, 2011, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

	Balance at December 25, 2010	Provision	Payments and Other Adjustments	Balance at March 26, 2011
Severance costs (1)	$1,992	$-	$ 630	$1,362
Facility closing costs (2)	2,351	-	561	1,790
Total	$4,343	$-	$ 1,191	$3,152

(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.

The following table shows, by reportable segment, the restructuring costs incurred during our 2010 fiscal year and the remaining accrued balance of restructuring costs as of March 26, 2011:

	Balance at December 25, 2010	Provision	Payments and Other Adjustments	Balance at March 26, 2011
Healthcare distribution	$4,343	$-	$ 1,191	$3,152
Technology	-	-	-	-
Total	$4,343	$-	$ 1,191	$3,152

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HENRY SCHEIN, INC.
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Note 9. Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to Henry Schein, Inc. by the weighted-average number of common shares outstanding for the period. Our diluted earnings per share is computed similarly to basic earnings per share, except that it reflects the effect of common shares issuable 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 27, 2010, diluted earnings per share includes the effect of common shares issuable upon conversion of our convertible debt. During this 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 26, 2011	March 27, 2010
Basic	90,615	89,508
Effect of dilutive securities:		
Stock options, restricted stock and restricted units	2,546	2,339
Effect of assumed conversion of convertible debt	-	874
Diluted	93,161	92,721

Weighted-average options to purchase 2 shares of common stock at an exercise of $69.45 per share and 1,000 shares of common stock at exercise prices ranging from $56.21 to $62.05 per share that were outstanding during the three months ended March 26, 2011 and March 27, 2010, 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.

On September 3, 2010, we redeemed all of our 3% convertible contingent notes originally due in 2034 (the "Convertible Notes") for approximately $240 million in cash and issued 732 shares of our common stock. The effect of assumed conversion of our Convertible Notes, as it relates to the impact on diluted earnings per share, was included through September 3, 2010.

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Note 10. Income Taxes

For the three months ended March 26, 2011, our effective tax rate from operations was 32.5% compared to 32.9% 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 26, 2011 was approximately $28.5 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 were approximately $5.8 million and $0, respectively.

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 2003 and forward for certain foreign jurisdictions.

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 cap agreements, foreign currency forward 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 cap and foreign currency forward and interest rate cap 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 interest rate caps contracts aimed at limiting the impact of foreign currency exchange rate and interest rate fluctuations on earnings. We purchase short-term (i.e., 12 months or less) foreign currency forward contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to our foreign suppliers. We purchase interest rate caps to protect against interest rate risk on variable rate debt payable to third parties. 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 impact of our hedging activities has historically not had a material impact on our consolidated financial statements. Accordingly, additional disclosures related to derivatives and hedging activities required by ASC Topic 815 have been omitted.

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Note 12. Stock-Based Compensation

Our accompanying unaudited consolidated statements of income reflect share-based pretax compensation expense of $8.3 million ($5.6 million after-tax) and $6.1 million ($4.1 million after-tax) for the three months ended March 26, 2011 and March 27, 2010, 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 include a combination of at-the-money stock options and restricted stock (including restricted stock units). In March 2009, March 2010 and March 2011, 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 performance as measured against specified targets over a three-year period as determined by the Compensation Committee of the Board of Directors. Although there is no guarantee that performance targets will be achieved, we estimate the fair value of performance-based restricted stock, based on our closing stock price at time of grant.

The Plans provide for adjustments to the performance-based restricted stock targets for significant events such as acquisitions, divestitures, new business ventures and share repurchases. Over the performance period, the number of shares of common stock that will ultimately vest and be issued and the related compensation expense is adjusted upward or downward based upon our estimation of achieving such performance targets. The ultimate number of shares delivered to recipients and the related compensation cost recognized as an expense will be based on our actual performance metrics as defined under the Plans.

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

Total unrecognized compensation cost related to non-vested awards as of March 26, 2011 was $88.9 million, which is expected to be recognized over a weighted-average period of approximately 2.6 years.

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Note 12. Stock-Based Compensation (Continued)

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

	2011	2010
Expected dividend yield	0%	0%
Expected stock price volatility	20%	20%
Risk-free interest rate	2.13%	2.37%
Expected life of options (years)	4.75	4.5

The following table summarizes stock option activity under the Plans during the three months ended March 26, 2011:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	5,012	$43.05		
Granted	10	69.45		
Exercised	(539)	35.04		
Forfeited	(7)	35.44		
Outstanding at end of period	4,476	$44.09	4.7	$104,541
Options exercisable at end of period	4,176	$43.04	4.5	$102,005

The following tables summarize the status of our non-vested restricted stock/units for the three months ended March 26, 2011:

	Time-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at beginning of period	743	$ 34,804	
Granted	207	14,371	
Vested	(85)	(4,365)	
Forfeited	(3)	(127)	
Outstanding at end of period	862	$ 44,683	$ 58,083

	Performance-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant	Aggregate Intrinsic

		Date Fair Value	Value
Outstanding at beginning of period	1,347	$ 42,083	
Granted	438	30,939	
Vested	(45)	(2,685)	
Forfeited	(2)	(92)	
Outstanding at end of period	1,738	$ 70,245	$ 117,245

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Note 13. Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Three Months Ended	
	March 26, 2011	March 27, 2010
Interest	$7,496	$10,205
Income taxes	19,276	13,450

During the three months ended March 26, 2011, we had a $2.3 million non-cash net unrealized gain related to hedging activities. During the three months ended March 27, 2010, we had a $10.9 million non-cash net unrealized loss related to hedging activities.

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

Cautionary Note Regarding Forward-Looking Statements

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

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: recently enacted healthcare legislation; 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; general economic conditions; decreased customer demand and changes in vendor credit terms; disruptions in financial markets; 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 700,000 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 78 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ more than 14,000 people (of which over 6,400 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, Slovakia, Spain, Switzerland and the United Kingdom. We also have affiliates in Iceland, Saudi Arabia, Turkey 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 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 23 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 $28 billion in 2010 in the combined North American, European and Australian/New Zealand 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 and joint ventures 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 U.S. Census Bureau's "Statistical Abstract of the United States: 2011," reports that, in 2010, more than five 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 2050, that number is projected to more than triple to more than 19 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 2009 – 2019" indicating that total national healthcare spending reached approximately $2.5 trillion in 2009, or 17.3% 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 approximately $4.6 trillion in 2019, approximately 19.6% of the nation's gross domestic product.

Government

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, or MMA, was the largest expansion of the Medicare program since its inception, and provided participants with voluntary outpatient prescription drug benefits beginning in 2006. The MMA 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 or PPACA, 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

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32 million people. PPACA also imposes (i) a 2.3% excise tax on domestic sales of medical devices by manufacturers and importers beginning in 2013, and a "fee" on branded prescription drugs and biologics beginning in 2011, which may affect sales, (ii) mandates pharmacy benefit manager transparency regarding rebates, discounts and price concessions, which could affect pricing and competition and (iii) reduces the amount of out-of-pocket liability for patients participating in the Medicare outpatient drug benefit program created by the MMA. Certain federal district courts have declared PPACA, or portions of it, to be unconstitutional, while certain other courts have affirmed its constitutionality. Appeals are pending, and the matter is expected to be determined by the Supreme Court of the United States.

In addition to the foregoing, PPACA imposed 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, Massachusetts and Connecticut, 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, including on behalf of manufacturers, 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. These requirements include tracking sales and distribution of prescription products from distributors and potentially manufacturers. 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, including the requirement to identify transactions back to the manufacturer, in response to a case initiated by secondary distributors. On October 8, 2010, 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), until June 30, 2011, effectively continuing the injunction through this time. We continue to work with our suppliers to help minimize the risks associated with counterfeit products in the supply chain and potential litigation.

Other states and government agencies are currently considering similar drug pedigree laws and regulations. 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. Other states have passed or are reviewing the same type of requirements. Bills have been proposed in Congress that would impose similar requirements at the federal level.

The Combat Methamphetamine Enhancement Act of 2010, which became effective in April 2011, requires retail sellers of products containing certain chemicals, such as pseudoephedrine, to self certify to the Drug Enforcement Administration ("DEA") that they are in compliance with the laws and regulations regarding such sales. The law also prohibits distributors from selling these products to retailers who are not registered with the DEA or who have not self-certified compliance with the laws and regulations. The

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Secure and Responsible Drug Disposal Act of 2010, signed by President Obama in October 2010, is intended to allow individuals to return unused controlled substances to designated entities to more easily and safely dispose of controlled substances while reducing the chance of diversion. The law authorizes DEA to designate certain entities to receive returned controlled substances but it does not mandate that entities must participate in a drug disposal program.

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 and cash flows for the three months ended March 26, 2011 and March 27, 2010 (in thousands):

	Three Months Ended	
	March 26, 2011	March 27, 2010
Operating results:		
Net sales	$1,947,761	$1,760,310
Cost of sales	1,381,939	1,247,277
Gross profit	565,822	513,033
Operating expenses:		
Selling, general and administrative	441,522	396,989
Restructuring costs	-	12,285
Operating income	$124,300	$103,759
Other expense, net	$(3,829)	$(5,814)
Net income	82,971	67,252
Net income attributable to Henry Schein, Inc.	76,495	60,900
Cash flows:		
Net cash provided by operating activities	$47,579	$21,675
Net cash used in investing activities	(140,664)	(144,412)
Net cash provided by financing activities	53,129	5,640

Plans of Restructuring

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

During the three months ended March 27, 2010, we recorded restructuring costs of approximately $12.3 million (approximately $8.3 million after taxes). These costs primarily consisted 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 plans. The costs associated with these restructurings are included in a separate line item, “Restructuring costs,” within our consolidated statements of income.

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Three Months Ended March 26, 2011 Compared to Three Months Ended March 27, 2010

Net Sales

Net sales for the three months ended March 26, 2011 and March 27, 2010 were as follows (in thousands):

	March 26, 2011	% of Total	March 27, 2010	% of Total	Increase $	Increase %
Healthcare distribution (1):						
Dental (2)	$ 662,783	34.0 %	$ 614,649	34.9 %	$ 48,134	7.8 %
Medical (3)	319,795	16.4	284,589	16.2	35,206	12.4
Animal health (4)	230,565	11.8	206,646	11.7	23,919	11.6
International (5)	678,972	34.9	609,453	34.6	69,519	11.4
Total healthcare distribution	1,892,115	97.1	1,715,337	97.4	176,778	10.3
Technology (6)	55,646	2.9	44,973	2.6	10,673	23.7
Total	$ 1,947,761	100.0 %	$ 1,760,310	100.0 %	$ 187,451	10.6

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

(2) Consists of products sold in the United States and Canadian dental markets.

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

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

(5) Consists of products sold in the dental, medical and animal health markets, primarily in Europe, Australia and New Zealand.

(6) 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 $187.5 million, or 10.6%, increase in net sales for the three months ended March 26, 2011 includes an increase of 9.9% local currency growth (3.8% increase in internally generated revenue and 6.1% growth from acquisitions) as well as a increase of 0.7% related to foreign currency exchange.

The $48.1 million, or 7.8%, increase in dental net sales for the three months ended March 26, 2011 includes an increase of 7.2% in local currencies (2.9% increase in internally generated revenue and 4.3% growth from acquisitions) as well as an increase of 0.6% related to foreign currency exchange. The 7.2% increase in local currency sales was due to increases in dental equipment sales and service revenues of 1.3% (all internally generated) and dental consumable merchandise sales growth of 8.9% (3.3% increase in internally generated revenue and 5.6% growth from acquisitions).

The $35.2 million, or 12.4%, increase in medical net sales for the three months ended March 26, 2011 includes an increase in internally generated revenue of 9.9% and acquisition growth of 2.5%.

The $23.9 million, or 11.6%, increase in animal health net sales for the three months ended March 26, 2011 includes an increase in internally generated revenue of 7.5% and acquisition growth of 4.1%.

The $69.5 million, or 11.4%, increase in international net sales for the three months ended March 26, 2011 includes sales growth of 9.8% in local currencies (9.9% growth from acquisitions offset by an internally generated decrease of 0.1%) as well as an increase of 1.6% related to foreign currency exchange.

The $10.7 million, or 23.7%, increase in technology net sales for the three months ended March 26, 2011 includes an increase of 22.9% local currency growth (13.8% internally generated growth and 9.1% growth from acquisitions) as well as a increase of 0.8% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended March 26, 2011 and March 27, 2010 were as follows (in thousands):

	March 26, 2011	Gross Margin %	March 27, 2010	Gross Margin %	Increase $	Increase %
Healthcare distribution	$ 529,040	28.0 %	$ 482,010	28.1 %	$ 47,030	9.8 %
Technology	36,782	66.1	31,023	69.0	5,759	18.6
Total	$ 565,822	29.0	$ 513,033	29.1	52,789	10.3

For the three months ended March 26, 2011, gross profit increased $52.8 million, or 10.3%, 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 and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

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

Healthcare distribution gross profit increased $47.0 million, or 9.8%, for the three months ended March 26, 2011 compared to the prior year period. Healthcare distribution gross profit margin decreased to 28.0% for the three months ended March 26, 2011 from 28.1% for the comparable prior year period. The decrease in our gross profit margin is primarily due to the relative increase in sales of pharmaceutical products which occurred following our acquisition of Butler Animal Health Holding Company (BAHS).

Technology gross profit increased $5.8 million, or 18.6%, for the three months ended March 26, 2011 compared to the prior year period. Technology gross profit margin decreased to 66.1% for the three months ended March 26, 2011 from 69.0% for the comparable prior year period, primarily due to changes in the product sales mix. Specifically, revenues generated from network installations, which generally are completed at a lower than average gross margin, grew at a greater rate than electronic services (claims processing, statements generation, etc.), which typically generate higher than average gross margins.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the three months ended March 26, 2011 and March 27, 2010 were as follows (in thousands):

	March 26, 2011	% of Respective Net Sales	March 27, 2010	% of Respective Net Sales	Increase $	Increase %
Healthcare distribution	$ 419,508	22.2 %	$ 381,110	22.2 %	$ 38,398	10.1 %

Technology		22,014	39.6		15,879	35.3		6,135	38.6
Total	$	441,522	22.7	$	396,989	22.6	$	44,533	11.2

Selling, general and administrative expenses increased $44.5 million, or 11.2%, to $441.5 million for the three months ended March 26, 2011 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses increased to 22.7% from 22.6% for the comparable prior year period.

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As a component of selling, general and administrative expenses, selling expenses increased $27.5 million, or 10.6%, to $288.1 million for the three months ended March 26, 2011 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 14.8% from 14.9% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased $17.0 million, or 12.5%, to $153.4 million for the three months ended March 26, 2011 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 7.9% from 7.7% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the three months ended March 26, 2011 and March 27, 2010 were as follows (in thousands):

	March 26, 2011	March 27, 2010	Increase $	Increase %
Interest income	$ 3,933	$ 3,388	$ 545	16.1 %
Interest expense	(8,085)	(9,087)	1,002	11.0
Other, net	323	(115)	438	380.9
Other expense, net	$ (3,829)	$ (5,814)	$ 1,985	34.1

Other expense, net decreased $2.0 million for the three months ended March 26, 2011 from the comparable prior year period. Interest income increased $0.5 million primarily due to higher investment income. Interest expense decreased $1.0 million primarily due to reduced interest expense from the redemption of our Convertible Notes on September 3, 2010, partially offset by increased interest expense related to borrowings under our private placement shelf facilities and debt associated with the acquisition on a majority interest in Butler Animal Health Supply, LLC, as well as interest expense related to our credit lines. In addition, Other, net increased by $0.4 million due primarily to the impact of foreign currency exchange.

Income Taxes

For the three months ended March 26, 2011, our effective tax rate was 32.5% compared to 32.9% 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.

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Liquidity and Capital Resources

Our principal capital requirements include funding of acquisitions, repayments of debt principal, the funding of working capital needs, 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.

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

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

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

Net cash flow provided by operating activities was $47.6 million for the three months ended March 26, 2011, compared to $21.7 million for the comparable prior year period. This net change of $25.9 million was primarily attributable to favorable working capital changes as well as net income improvements, after taking into account depreciation and amortization and deferred taxes.

Net cash used in investing activities was $140.7 million for the three months ended March 26, 2011, compared to $144.4 million for the comparable prior year period. The net change of $3.7 million was primarily due to a decrease in purchases of available-for-sale securities, partially offset by increased payments for business acquisitions. We expect to invest approximately $40 million to $50 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 $53.1 million for the three months ended March 26, 2011, compared to $5.6 million provided by financing activities for the comparable prior year period. The net change of $47.5 million was primarily due to increased net borrowings and a reduction in acquisitions of noncontrolling interests in subsidiaries, partially offset by increased repurchases of common stock.

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

	March 26, 2011	December 25, 2010

Cash and cash equivalents	$116,712	$150,348
Available-for-sale securities - long-term	11,306	13,367
Working capital	1,027,308	1,001,215
Debt:		
Bank credit lines	$97,194	$41,508
Current maturities of long-term debt	8,357	4,487
Long-term debt	407,462	395,309
Total debt	$513,013	$441,304

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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.

Available-for-sale securities

As of March 26, 2011, we have approximately $13.0 million ($11.3 million net of temporary impairments) invested in auction-rate securities ("ARS"), consisting of investments backed by student loans that are backed by the federal government and investments in closed-end municipal bond funds. 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. 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 26, 2011, 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.

Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations increased to 42.7 days as of March 26, 2011 from 39.6 days as of March 27, 2010. Our inventory turns from operations decreased to 6.1 as of March 26, 2011 from 6.3 as of March 27, 2010. Our working capital accounts may be impacted by current and future economic conditions.

Debt

On September 5, 2008, we entered into a $400.0 million revolving credit facility with a $100.0 million expansion feature. The $400.0 million credit line expires in September 2013. The interest rate, which was 0.75% during the three months ended March 26, 2011, is based on the USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. In addition to the amounts outstanding under our shelf facilities, as discussed below, we have outstanding borrowings of approximately $79.0 million under our $400.0 million credit facility. As of March 26, 2011, we had various other short-term bank credit lines available, of which approximately $18.2 million was outstanding. As of March 26, 2011, there were $9.8 million of letters of credit provided to third parties.

On August 10, 2010, we entered into $400.0 million private placement facilities with two insurance companies. These shelf facilities are available through August 2013 on an uncommitted basis. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. As of March 26, 2011, we have an outstanding balance under the facilities of $100.0 million at a fixed rate of 3.79%, which is due on September 2, 2020.

Effective December 31, 2009, Butler Animal Health Supply, LLC, or BAHS, a majority-owned subsidiary whose financial information is consolidated with ours, had 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 BAHS. The remaining outstanding balance of $278.4 million is reflected in our consolidated balance sheet as of March 26, 2011.

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 26, 2011. The debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments of the loan commitment based on

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excess cash flows of BAHS as defined in the debt agreement. The debt agreement also contains provisions that require BAHS to hedge risks related to potential rising interest rates. As a result, BAHS entered into a series of interest rate caps, for which we elected hedge accounting treatment, with a notional amount of $160.0 million, protecting against LIBOR interest rates rising above 3.0% through March 30, 2012.

Acquisitions

On December 31, 2010, we acquired 100% of the outstanding shares of Provet Holdings Limited (ASX: PVT), Australia's largest distributor of veterinary products with sales in its 2010 fiscal year of approximately $278 million, for approximately $91 million, in a cash-for-stock exchange.

Stock repurchases

From June 21, 2004 through March 26, 2011, we repurchased $327.1 million, or 7,049,576 shares, under our common stock repurchase programs. On November 16, 2010, our Board of Directors authorized an additional $100.0 million for additional repurchases of our common stock, $72.9 million of which is available as of March 26, 2011 for future common stock share repurchases.

Redeemable noncontrolling interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. ASC Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the three months ended March 26, 2011 and the year ended December 25, 2010 are presented in the following table:

	March 26, 2011	December 25, 2010
Balance, beginning of period	$304,140	$178,570
Net increase in redeemable noncontrolling interests due to business acquisitions, net of redemptions	13,354	62,314
Net income attributable to redeemable noncontrolling interests	6,381	26,054
Dividends declared	(740)	(12,360)
Effect of foreign currency translation attributable to redeemable noncontrolling interests	1,892	(2,281)
Change in fair value of redeemable securities	101,033	51,843
Balance, end of period	$426,060	$304,140

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

Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. 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 have and 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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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 25, 2010.

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 25, 2010.

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 26, 2011 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 continued acquisition activity, ongoing acquisition integrations and systems implementations undertaken during the quarter and carried over from prior quarters, when considered in the aggregate, represents a material change in our internal control over financial reporting.

During the quarter ended March 26, 2011, we completed acquisitions of North American and international Animal Health, Dental and Technology businesses with approximate aggregate annual revenues of $284.0 million. In addition, post-acquisition related activities continued for the North American Animal Health and Dental businesses acquired during 2010, representing aggregate annual revenues of approximately $979.0 million. These acquisitions, which utilize separate information and financial accounting systems, have been included in our consolidated financial statements. Integration activities were completed during the quarter ended March 26, 2011 for international Dental, Medical and Animal Health businesses with approximate aggregate annual revenues of $751.0 million. Finally, for our Dental business in the United States, post-implementation related activities continued for the new sales compensation system which supports accounting for annual sales commissions of approximately $131.0 million.

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

Limitations of the Effectiveness of Internal Control

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

been detected.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become a party to legal proceedings, including, without limitation, product liability claims, employment matters, commercial disputes and other matters arising out of the ordinary course of our business. In our opinion, pending matters will not have a material adverse effect on our financial condition or results of operations.

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.

As of March 26, 2011, 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 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 25, 2010.

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 October 31, 2005, March 28, 2007 and November 16, 2010, our Board of Directors authorized an additional $100.0 million, for a total of $400.0 million, of shares of our common stock to be repurchased under this program. As of March 26, 2011, we had repurchased $327.1 million of common stock (7,049,576 shares) under this initiative, with $72.9 million available for future common stock share repurchases.

The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended March 26, 2011:

Fiscal Month	Total Number of Shares	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Our Publicly	Maximum Number of Shares that May Yet Be Purchased Under

	Purchased (1)		Announced Program	Our Program (2)
12/26/10 through 01/29/11	120,355	$62.32	120,355	1,413,941
01/30/11 through 02/26/11	-	-	-	1,332,470
02/27/11 through 03/26/11	289,400	$67.72	289,400	1,080,676
	409,755		409,755	

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

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

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ITEM 6. EXHIBITS

Exhibits.

4.1 Master Note Facility, dated as of August 9, 2010, by and among us, New York Life Investment Management LLC and each New York Life affiliate which becomes party thereto.+*

4.2 Private Shelf Agreement, dated as of August 9, 2010, by and among the Company, Prudential Investment Management, Inc. and each Prudential affiliate which becomes party thereto.+*

10.1 Credit Agreement among us, the several lenders parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and HSBC Bank USA, N.A., The Bank of New York Mellon, and UniCredit Markets and Investment Banking, acting through Bayerische Hypo- und Vereinsbank AG, New York Branch, as co-syndication agents, dated as of September 5, 2008.+*

10.2 Amendment dated November 29, 2009 to the Credit Agreement among us, the several lenders parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and HSBC Bank USA, N.A., The Bank of New York Mellon, and UniCredit Markets and Investment Banking, acting through Bayerische Hypo- und Vereinsbank AG, New York Branch, as co-syndication agents, dated as of September 5, 2008.+*

10.3 Credit Agreement among Butler Animal Health Supply, LLC, the several lenders parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent, dated as of December 31, 2009.+*

10.4 First Amendment dated December 21, 2010 to the Credit Agreement among Butler Animal Health Supply, LLC, the several lenders parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent, dated as of December 31, 2009.+*

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.

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+ Filed herewith

* Pursuant to a request for confidential treatment, portions of this Exhibit have been redacted from the publicly filed document and have been furnished separately to the Securities and Exchange Commission as required by Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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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 3, 2011