

HENRY SCHEIN INC
Form 10-Q
November 01, 2011

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

(Mark One)

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

For the quarterly period ended September 24, 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
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Yes

No

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

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting
company)

Smaller reporting company

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

Yes

No

As of October 21, 2011, there were 90,360,895 shares of the registrant’s common stock outstanding.

HENRY SCHEIN, INC.
INDEX

Page

PART I. FINANCIAL INFORMATION

| | | |
|----------------|---|----|
| <u>ITEM 1.</u> | <u>Consolidated Financial Statements:</u> | |
| | <u>Balance Sheets as of September 24, 2011 and December 25, 2010</u> | 3 |
| | <u>Statements of Income for the three and nine months ended September 24, 2011 and September 25, 2010</u> | 4 |
| | <u>Statement of Changes in Stockholders' Equity for the nine months ended September 24, 2011</u> | 5 |
| | <u>Statements of Cash Flows for the nine months ended September 24, 2011 and September 25, 2010</u> | 6 |
| | <u>Notes to Consolidated Financial Statements</u> | 7 |
| <u>ITEM 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| <u>ITEM 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 40 |
| <u>ITEM 4.</u> | <u>Controls and Procedures</u> | 40 |

PART II. OTHER INFORMATION

| | | |
|-----------------|--|----|
| <u>ITEM 1.</u> | <u>Legal Proceedings</u> | 41 |
| <u>ITEM 1A.</u> | <u>Risk Factors</u> | 41 |
| <u>ITEM 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 41 |
| <u>ITEM 6.</u> | <u>Exhibits</u> | 42 |
| | <u>Signature</u> | 42 |

Table of Contents

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

| | September 24, 2011 (unaudited) | December 25, 2010 |
|--|---|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$106,872 | \$150,348 |
| Accounts receivable, net of reserves of \$62,107 and \$56,267 | 983,060 | 885,784 |
| Inventories, net | 923,687 | 870,206 |
| Deferred income taxes | 54,108 | 48,951 |
| Prepaid expenses and other | 249,405 | 214,013 |
| Total current assets | 2,317,132 | 2,169,302 |
| Property and equipment, net | 262,502 | 252,573 |
| Goodwill | 1,495,256 | 1,424,794 |
| Other intangibles, net | 426,061 | 405,468 |
| Investments and other | 297,345 | 295,334 |
| Total assets | \$4,798,296 | \$4,547,471 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$595,476 | \$590,029 |
| Bank credit lines | 40,015 | 41,508 |
| Current maturities of long-term debt | 20,076 | 4,487 |
| Accrued expenses: | | |
| Payroll and related | 175,919 | 172,746 |
| Taxes | 127,337 | 91,581 |
| Other | 242,529 | 267,736 |
| Total current liabilities | 1,201,352 | 1,168,087 |
| Long-term debt | 371,864 | 395,309 |
| Deferred income taxes | 190,726 | 190,225 |
| Other liabilities | 76,732 | 76,753 |
| Total liabilities | 1,840,674 | 1,830,374 |
| Redeemable noncontrolling interests | 417,060 | 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, | | |

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| | | |
|---|-------------|-------------|
| 90,881,484 outstanding on September 24, 2011 and 91,939,477 outstanding on December 25, 2010 | 909 | 919 |
| Additional paid-in capital | 538,029 | 601,014 |
| Retained earnings | 1,950,593 | 1,779,178 |
| Accumulated other comprehensive income | 49,623 | 30,514 |
| Total Henry Schein, Inc. stockholders' equity | 2,539,154 | 2,411,625 |
| Noncontrolling interests | 1,408 | 1,332 |
| Total stockholders' equity | 2,540,562 | 2,412,957 |
| Total liabilities, redeemable noncontrolling interests and stockholders' equity | \$4,798,296 | \$4,547,471 |

See accompanying notes.

Table of Contents

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | September 24, 2011 | September 25, 2010 | September 24, 2011 | September 25, 2010 |
| Net sales | \$2,111,693 | \$1,893,511 | \$6,190,094 | \$5,503,222 |
| Cost of sales | 1,524,273 | 1,356,055 | 4,424,628 | 3,907,089 |
| Gross profit | 587,420 | 537,456 | 1,765,466 | 1,596,133 |
| Operating expenses: | | | | |
| Selling, general and administrative | 444,159 | 400,088 | 1,346,690 | 1,204,715 |
| Restructuring costs | - | - | - | 12,285 |
| Operating income | 143,261 | 137,368 | 418,776 | 379,133 |
| Other income (expense): | | | | |
| Interest income | 3,830 | 3,422 | 11,955 | 10,318 |
| Interest expense | (6,813) | (7,824) | (22,800) | (26,096) |
| Other, net | 232 | 29 | 1,313 | 388 |
| Income before taxes, equity in earnings of affiliates and noncontrolling interests | 140,510 | 132,995 | 409,244 | 363,743 |
| Income taxes | (44,261) | (42,226) | (130,754) | (115,885) |
| Equity in earnings of affiliates | 4,559 | 3,721 | 10,345 | 7,047 |
| Net income | 100,808 | 94,490 | 288,835 | 254,905 |
| Less: Net income attributable to noncontrolling interests | (8,847) | (6,597) | (25,904) | (22,111) |
| Net income attributable to Henry Schein, Inc. | \$91,961 | \$87,893 | \$262,931 | \$232,794 |
| Earnings per share attributable to Henry Schein, Inc.: | | | | |
| Basic | \$1.02 | \$0.97 | \$2.90 | \$2.59 |
| Diluted | \$0.99 | \$0.94 | \$2.82 | \$2.50 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 90,251 | 90,326 | 90,582 | 89,932 |
| Diluted | 92,869 | 93,270 | 93,195 | 93,098 |

See accompanying notes.

Table of Contents

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

| | Common Stock \$.01 Par Value Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Noncontrolling Interests | Total Stockholders' Equity |
|---|---|------------------------|----------------------------------|----------------------|---|-----------------------------|----------------------------------|
| Balance, December 25, 2010 | 91,939,477 | \$ 919 | \$ 601,014 | \$ 1,779,178 | \$ 30,514 | \$ 1,332 | \$ 2,412,957 |
| Net income (excluding \$25,558 attributable to Redeemable noncontrolling interests) | - | - | - | 262,931 | - | 346 | 263,277 |
| Foreign currency translation gain (excluding \$249 attributable to Redeemable noncontrolling interests) | - | - | - | - | 17,095 | - | 17,095 |
| Unrealized gain from foreign currency hedging activities, net of tax of \$485 | - | - | - | - | 1,639 | - | 1,639 |
| Unrealized investment gain, net of tax of \$137 | - | - | - | - | 271 | - | 271 |
| Pension adjustment gain, net of tax of \$105 | - | - | - | - | 104 | - | 104 |
| Total comprehensive income | | | | | | | 282,386 |
| Dividends paid | - | - | - | - | - | (316) | (316) |
| Other adjustments | - | - | - | - | - | 46 | 46 |
| Change in fair value of redeemable securities | - | - | (85,932) | - | - | - | (85,932) |
| Initial noncontrolling interests and adjustments related | | | | | | | |

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| | | | | | | | |
|---------------------|--------------|--------|------------|--------------|-----------|----------|--------------|
| to | | | | | | | |
| business | | | | | | | |
| acquisitions | - | - | (1,995) | - | - | - | (1,995) |
| Shares issued to | | | | | | | |
| 401(k) | 93,204 | 1 | 5,797 | - | - | - | 5,798 |
| Repurchase and | | | | | | | |
| retirement of | | | | | | | |
| common stock | (2,089,699) | (20) | (40,939) | (91,516) | - | - | (132,475) |
| Stock issued upon | | | | | | | |
| exercise of stock | | | | | | | |
| options, | | | | | | | |
| including tax | | | | | | | |
| benefit of \$7,250 | 812,878 | 8 | 37,492 | - | - | - | 37,500 |
| Stock-based | | | | | | | |
| compensation | | | | | | | |
| expense | 236,009 | 2 | 26,043 | - | - | - | 26,045 |
| Shares withheld for | | | | | | | |
| payroll taxes | (110,385) | (1) | (2,961) | - | - | - | (2,962) |
| Liability for cash | | | | | | | |
| settlement stock | | | | | | | |
| option awards | - | - | (490) | - | - | - | (490) |
| Balance, | | | | | | | |
| September 24, | | | | | | | |
| 2011 | 90,881,484 | \$ 909 | \$ 538,029 | \$ 1,950,593 | \$ 49,623 | \$ 1,408 | \$ 2,540,562 |

See accompanying notes.

Table of Contents

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

| | Nine Months Ended | |
|---|--------------------------|--------------------------|
| | September 24, 2011 | September 25, 2010 |
| Cash flows from operating activities: | | |
| Net income | \$288,835 | \$254,905 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 86,040 | 75,510 |
| Amortization of bond discount | - | 4,007 |
| Stock-based compensation expense | 26,045 | 19,745 |
| Provision for losses on trade and other accounts receivable | 3,636 | 2,929 |
| Benefit from deferred income taxes | (12,828) | (2,068) |
| Stock issued to 401(k) plan | 5,798 | 5,721 |
| Undistributed earnings of affiliates | (10,345) | (7,047) |
| Other | 3,028 | 5,275 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (50,785) | (104,719) |
| Inventories | (14,657) | 5,799 |
| Other current assets | (18,537) | (37,526) |
| Accounts payable and accrued expenses | (39,589) | (45,706) |
| Net cash provided by operating activities | 266,641 | 176,825 |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (32,547) | (26,926) |
| Payments for equity investments and business acquisitions, net of cash acquired | (143,636) | (306,328) |
| Distributions from equity investments | 10,158 | 2,084 |
| Purchases of available-for-sale securities | - | (26,984) |
| Proceeds from sales of available-for-sale securities | 2,450 | 5,950 |
| Proceeds from maturities of available-for-sale securities | - | 26,984 |
| Other | (1,827) | (1,765) |
| Net cash used in investing activities | (165,402) | (326,985) |
| Cash flows from financing activities: | | |
| Proceeds from (repayments of) bank borrowings | (1,601) | 200,195 |
| Proceeds from issuance of long-term debt | 3,101 | 100,000 |
| Principal payments for long-term debt | (24,656) | (291,676) |
| Proceeds from issuance of stock upon exercise of stock options | 30,250 | 25,350 |
| Payments for repurchases of common stock | (132,475) | (4,819) |
| Excess tax benefits related to stock-based compensation | 7,425 | 7,586 |

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| | | |
|--|------------|------------|
| Distributions to noncontrolling shareholders | (7,878) | (9,739) |
| Acquisitions of noncontrolling interests in subsidiaries | (15,199) | (149,845) |
| Other | (90) | (269) |
| Net cash used in financing activities | (141,123) | (123,217) |
| Net change in cash and cash equivalents | (39,884) | (273,377) |
| Effect of exchange rate changes on cash and cash equivalents | (3,592) | 5,953 |
| Cash and cash equivalents, beginning of period | 150,348 | 471,154 |
| Cash and cash equivalents, end of period | \$ 106,872 | \$ 203,730 |

See accompanying notes.

Table of Contents

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 nine months ended September 24, 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.

Table of Contents

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 | | Nine Months Ended | |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 24, 2011 | September 25, 2010 | September 24, 2011 | September 25, 2010 |
| Net Sales: | | | | |
| Healthcare distribution (1): | | | | |
| Dental (2) | \$ 682,427 | \$ 665,940 | \$ 2,054,548 | \$ 1,958,149 |
| Medical (3) | 402,157 | 391,863 | 1,039,215 | 962,743 |
| Animal health (4) | 246,452 | 225,210 | 737,324 | 666,590 |
| International (5) | 718,465 | 561,353 | 2,179,112 | 1,773,241 |
| Total healthcare distribution | 2,049,501 | 1,844,366 | 6,010,199 | 5,360,723 |
| Technology (6) | 62,192 | 49,145 | 179,895 | 142,499 |
| Total | \$ 2,111,693 | \$ 1,893,511 | \$ 6,190,094 | \$ 5,503,222 |

- (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 | | Nine Months Ended | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 24, 2011 | September 25, 2010 | September 24, 2011 | September 25, 2010 |
| Operating Income: | | | | |
| Healthcare distribution | \$ 125,406 | \$ 121,012 | \$ 368,948 | \$ 330,984 |
| Technology | 17,855 | 16,356 | 49,828 | 48,149 |
| Total | \$ 143,261 | \$ 137,368 | \$ 418,776 | \$ 379,133 |

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 0.70% during the nine months ended September 24, 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 \$30.0 million under our \$400 million credit facility. As of September 24, 2011, there were \$8.8 million of letters of credit provided to third parties.

As of September 24, 2011, we had various other short-term bank credit lines available, of which approximately \$10.0 million was outstanding. As of September 24, 2011, borrowings under all of our credit lines had a weighted average interest rate of 1.38%.

Table of Contents

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

Note 3. Debt (Continued)

On August 10, 2010, we entered into \$400 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. 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 September 24, 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.

On May 27, 2011, BAHS refinanced the terms and amount of its debt. The refinanced debt consists of the following three components:

- Term loan A - \$100.0 million repayable in 14 quarterly installments in payment amounts ranging from \$1.25 million per quarter for the period September 30, 2011 through June 30, 2012, approximately \$1.88 million per quarter for the period September 30, 2012 through June 30, 2013, \$2.5 million per quarter for the period September 30, 2013 through June 30, 2014, approximately \$3.13 million for the quarter ended September 30, 2014 and a final installment of approximately \$74.4 million due on December 31, 2014. Interest on the \$100.0 million term loan is charged at LIBOR plus a margin of 3%;
- Term loan B - \$216.0 million (\$55.0 million provided by Henry Schein, Inc.) repayable in 17 quarterly installments of \$540 thousand from September 30, 2011 through September 30, 2015, and a final installment of approximately \$206.8 million due on December 31, 2015. Interest on the \$216.0 million term loan is charged at LIBOR plus a margin of 3.25% with a LIBOR floor of 1.25%; and
- Revolver of \$50.0 million with interest charged at LIBOR plus a margin of 3%.

The outstanding balance of \$259.9 million is reflected in our consolidated balance sheet as of September 24, 2011. Borrowings incurred as part of the acquisition of BAHS are collateralized by assets of BAHS with an aggregate net carrying value of \$227.0 million.

Certain of our other subsidiaries maintain credit lines which are collateralized by assets of those subsidiaries with an aggregate net carrying value of \$81.7 million.

Prior to the debt refinancing discussed above, the debt incurred as part of the acquisition of BAHS was repayable in 23 quarterly installments of \$0.8 million through September 30, 2015, and a final installment of \$301.6 million was due on December 31, 2015. Interest on the BAHS debt was charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2%.

Table of Contents

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

Note 3. Debt (Continued)

The revised debt agreement continues to provide, among other things, that BAHS 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 revised debt agreement continues to contain provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The revised 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.

Note 4. Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification (“ASC”) Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the nine months ended September 24, 2011 and the year ended December 25, 2010 are presented in the following table:

| | September 24, 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 | 8,466 | 62,314 |
| Net income attributable to redeemable noncontrolling interests | 25,558 | 26,054 |
| Dividends declared | (7,285) | (12,360) |
| Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests | 249 | (2,281) |
| Change in fair value of redeemable securities | 85,932 | 51,843 |
| Balance, end of period | \$ 417,060 | \$ 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 nine months

ended September 24, 2011, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

Table of Contents

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:

| | September 24, 2011 | December 25, 2010 |
|---|--------------------------|-------------------------|
| Attributable to Redeemable noncontrolling interests: | | |
| Foreign currency translation adjustment | \$(615) | \$(864) |
| Attributable to Henry Schein, Inc.: | | |
| Foreign currency translation adjustment | \$58,233 | \$41,138 |
| Unrealized gain (loss) from foreign currency hedging activities | 579 | (1,060) |
| Unrealized investment loss | (905) | (1,176) |
| Pension adjustment loss | (8,284) | (8,388) |
| Accumulated other comprehensive income | \$49,623 | \$30,514 |
| Total Accumulated other comprehensive income | \$49,008 | \$29,650 |

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | September 24, 2011 | September 25, 2010 | September 24, 2011 | September 25, 2010 |
| Foreign currency translation gain (loss) | \$(1,943) | \$6,018 | \$249 | \$(1,678) |

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | September 24, 2011 | September 25, 2010 | September 24, 2011 | September 25, 2010 |
| Comprehensive income attributable to Henry Schein, Inc. | \$38,663 | \$142,674 | \$282,040 | \$219,532 |
| Comprehensive income attributable to noncontrolling interests | 108 | 236 | 346 | 269 |
| Comprehensive income attributable to | | | | |

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| | | | | |
|-------------------------------------|----------|-----------|-----------|-----------|
| Redeemable noncontrolling interests | 6,796 | 12,379 | 25,807 | 20,164 |
| Comprehensive income | \$45,567 | \$155,289 | \$308,193 | \$239,965 |

11

Table of Contents

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.

Table of Contents

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 September 24, 2011, we have approximately \$12.6 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 nine months ended September 24, 2011, we received approximately \$2.5 million of redemptions of our ARS. As of September 24, 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 decreased by \$0.4 million during the nine months ended September 24, 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.

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 September 24, 2011 and December 25, 2010 was estimated at \$432.0 million and \$441.3 million, respectively.

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.

Table of Contents

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

Note 6. Fair Value Measurements (Continued)

Redeemable noncontrolling interests

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

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of September 24, 2011 and December 25, 2010:

| | September 24, 2011 | | | Total |
|-------------------------------------|--------------------|----------------|-----------------|-----------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Available-for-sale securities | \$- | \$- | \$11,317 | \$11,317 |
| Derivative contracts | - | 5,325 | - | 5,325 |
| Total assets | \$- | \$5,325 | \$11,317 | \$16,642 |
| Liabilities: | | | | |
| Derivative contracts | \$- | \$1,155 | \$- | \$1,155 |
| Total liabilities | \$- | \$1,155 | \$- | \$1,155 |
| Redeemable noncontrolling interests | \$- | \$- | \$417,060 | \$417,060 |
| | December 25, 2010 | | | Total |
| | Level 1 | Level 2 | Level 3 | |
| 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 |

Table of Contents

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 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 | 112,920 |
| Redemptions at par | (2,450) |
| Gain reported in accumulated other comprehensive income | 400 |
| Balance, September 24, 2011 | \$428,377 |

| | Level 3 (1) |
|---|-------------|
| Balance, December 26, 2009 | \$199,164 |
| Change in redeemable noncontrolling interests | 120,531 |
| Redemptions at par | (7,731) |
| Gain reported in accumulated other comprehensive income | 1,054 |
| Balance, September 25, 2010 | \$313,018 |

(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 nine months ended September 24, 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 nine months ended September 24, 2011 were immaterial to our financial results.

Table of Contents

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

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. See below for a discussion of the refinancing of debt incurred as part of the acquisition of BAHS.

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 |
|-----------------------------------|-----------|

16

Table of Contents

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

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.

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 put 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.

On May 27, 2011, BAHS refinanced the terms and amount of its debt. The refinanced debt consists of the following three components:

- Term loan A - \$100.0 million repayable in 14 quarterly installments in payment amounts ranging from \$1.25 million per quarter for the period September 30, 2011 through June 30, 2012, approximately \$1.88 million per quarter for the period September 30, 2012 through June 30, 2013, \$2.5 million per quarter for the period September 30, 2013 through June 30, 2014, approximately \$3.13 million for the quarter ended September 30, 2014 and a final installment of approximately \$74.4 million due on December 31, 2014. Interest on the \$100.0 million term loan is charged at LIBOR plus a margin of 3%;
- Term loan B - \$216.0 million (\$55.0 million provided by Henry Schein, Inc.) repayable in 17 quarterly installments of \$540 thousand from September 30, 2011 through September 30, 2015, and a final installment of approximately \$206.8 million due on December 31, 2015. Interest on the \$216.0 million term loan is charged at LIBOR plus a margin of 3.25% with a LIBOR floor of 1.25%; and
- Revolver of \$50.0 million with interest charged at LIBOR plus a margin of 3%.

Prior to the debt refinancing discussed above, the debt incurred as part of the acquisition of BAHS was repayable in 23 quarterly installments of \$0.8 million through September 30, 2015, and a final installment of \$301.6 million was due on December 31, 2015. Interest on the BAHS debt was charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2%.

The revised debt agreement continues to contain provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The revised debt agreement also continues to contain 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.

Table of Contents

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

Note 8. Plan 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 nine months ended September 25, 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 our 2010 fiscal year and the remaining accrued balance of restructuring costs as of September 24, 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 September 24, 2011 |
|----------------------------|---------------------------------------|------------|---|--|
| Severance costs (1) | \$1,992 | \$- | \$ 1,329 | \$663 |
| Facility closing costs (2) | 2,351 | - | 1,714 | 637 |
| Total | \$4,343 | \$- | \$ 3,043 | \$1,300 |

(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 remaining accrued balance of restructuring costs as of September 24, 2011:

| | Balance at December 25, 2010 | Provision | Payments and Other Adjustments | Balance at September 24, 2011 |
|-------------------------|------------------------------------|-------------|--------------------------------------|-------------------------------------|
| Healthcare distribution | \$ 4,343 | \$ - | \$ 3,043 | \$ 1,300 |
| Technology | - | - | - | - |
| Total | \$ 4,343 | \$ - | \$ 3,043 | \$ 1,300 |

Table of Contents

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

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.

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. For the three and nine months ended September 25, 2010, diluted earnings per share includes the effect of common shares issuable upon conversion of our Convertible Notes since 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 was presumed to be settled in common shares and is reflected in our calculation of diluted earnings per share. 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.

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | September 24, 2011 | September 25, 2010 | September 24, 2011 | September 25, 2010 |
| Basic | 90,251 | 90,326 | 90,582 | 89,932 |
| Effect of dilutive securities: | | | | |
| Stock options, restricted stock and restricted units | 2,618 | 2,213 | 2,613 | 2,266 |
| Effect of assumed conversion of convertible debt | - | 731 | - | 900 |
| Diluted | 92,869 | 93,270 | 93,195 | 93,098 |

Weighted-average options to purchase 10 shares of common stock at an exercise price of \$69.45 and 1,008 shares of common stock at exercise prices ranging from \$54.81 to \$62.05 per share that were outstanding during the three months ended September 24, 2011 and September 25, 2010 were excluded from the computation of diluted earnings per share. Weighted-average options to purchase 7 shares of common stock at an exercise price of \$69.45 and 994 shares of common stock at exercise prices ranging from \$56.21 to \$62.05 per share that were outstanding during the nine months ended September 24, 2011 and September 25, 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.

Table of Contents

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

Note 10. Income Taxes

For the nine months ended September 24, 2011, our effective tax rate from operations was 32.0% compared to 31.9% 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 September 24, 2011 was approximately \$30.2 million, all of which would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties were approximately \$6.7 million and \$0, respectively, for the nine months ended September 24, 2011.

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 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., 18 months or less) foreign currency forward contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to our foreign suppliers. We 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.

Table of Contents

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

Note 12. Stock-Based Compensation

Our accompanying unaudited consolidated statements of income reflect share-based pretax compensation expense of \$8.1 million (\$5.5 million after-tax) and \$26.0 million (\$17.7 million after-tax) for the three and nine months ended September 24, 2011, respectively, and \$6.7 million (\$4.6 million after-tax) and \$19.7 million (\$13.5 million after-tax) for the three and nine months ended September 25, 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 included a combination of at-the-money stock options and restricted stock (including restricted stock units). Since March 2009, equity-based awards have been granted solely in the form of restricted stock and restricted stock units, with the exception of 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 September 24, 2011 was \$67.2 million, which is expected to be recognized over a weighted-average period of approximately 2.2 years.

Table of Contents

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

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 | - % | - % |
| 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 nine months ended September 24, 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 | (813) | 37.42 | | |
| Forfeited | (19) | 46.55 | | |
| Outstanding at end of period | 4,190 | \$ 44.19 | 4.2 | \$ 77,254 |
| Options exercisable at end of period | 3,902 | \$ 43.11 | 4.0 | \$ 76,087 |

The following tables summarize the status of our non-vested restricted stock/units for the nine months ended September 24, 2011:

| | Shares/Units | Time-Based Restricted Stock/Units Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value |
|------------------------------------|--------------|---|---------------------------------|
| Outstanding at beginning of period | 743 | \$ 34,804 | |
| Granted | 237 | 16,440 | |
| Vested | (87) | (4,494) | |
| Forfeited | (16) | (780) | |
| Outstanding at end of period | 877 | \$ 45,970 | \$ 54,909 |

Performance-Based Restricted Stock/Units
Weighted Average

| | Shares/Units | Grant Date Fair Value | Aggregate Intrinsic Value |
|------------------------------------|--------------|-----------------------|---------------------------|
| Outstanding at beginning of period | 1,347 | \$ 42,083 | |
| Granted | 304 | 22,517 | |
| Vested | (46) | (2,731) | |
| Forfeited | (14) | (678) | |
| Outstanding at end of period | 1,591 | \$ 61,191 | \$ 99,613 |

Table of Contents

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

Note 13. Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

| | Nine Months Ended | |
|--------------|--------------------------|--------------------------|
| | September 24, 2011 | September 25, 2010 |
| Interest | \$22,429 | \$ 19,233 |
| Income taxes | 122,597 | 93,800 |

During the nine months ended September 24, 2011, we had a \$2.1 million non-cash net unrealized gain related to hedging activities. During the nine months ended September 25, 2010, we had a \$5.8 million non-cash net unrealized loss related to hedging activities.

Table of Contents

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

Cautionary Note Regarding Forward-Looking Statements

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

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: 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 6,500 are based outside the United States) and have operations in the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, 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.

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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, known as Medicare Part D. 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 Law 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 32 million people. PPACA requirements include, for example (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) mandated pharmacy benefit manager transparency regarding rebates, discounts and price concessions with respect to drug benefits under Medicare Part D, and in 2014 with respect to drug benefits offered through qualified health plans offered through state exchanges, which could affect pricing and competition and (iii) beginning in 2011, reductions in the amount of out-of-pocket liability for patients participating in the Medicare Part D outpatient drug benefit program. Certain federal courts have declared PPACA, or portions of it, to be unconstitutional, while certain other federal 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, with data collection obligations beginning in January 2012 and reporting requirements to be implemented in 2013. 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, or PDMA, 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 drug 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 certain parts of the federal drug pedigree requirements, including the requirement to identify transactions back to the manufacturer. On July 14, 2011, the FDA published a proposed rulemaking that would remove the requirement that a pedigree track back to the manufacturer and that certain information be identified on the pedigree. As a result of the FDA’s intent to resolve these issues, the case was voluntarily dismissed in August 2011. Nonetheless, prescription drug pedigrees are required under federal regulations and the PDMA, and the pedigree must track back to the last authorized distributor of record, or ADR, that handled the drug.

Many states have implemented or are 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. A number of states, including Florida, have already implemented pedigree requirements, including drug tracking requirements, which 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

Table of Contents

standard, machine-readable unique 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. Various states also impose restrictions on the sale of certain products containing pseudoephedrine and other chemicals. The Secure and Responsible Drug Disposal Act of 2010, signed by President Obama in October 2010, is intended to allow patients to deliver unused controlled substances to designated entities to more easily and safely dispose of controlled substances while reducing the chance of diversion. The law authorizes the DEA to promulgate regulations to allow, but not require, designated entities to receive unused controlled substances.

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.

Table of Contents

Results of Operations

The following table summarizes the significant components of our operating results for the three and nine months ended September 24, 2011 and September 25, 2010 and cash flows for the nine months ended September 24, 2011 and September 25, 2010 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|-------------|
| | September | September | September | September |
| | 24, | 25, | 24, | 25, |
| | 2011 | 2010 | 2011 | 2010 |
| Operating results: | | | | |
| Net sales | \$2,111,693 | \$1,893,511 | \$6,190,094 | \$5,503,222 |
| Cost of sales | 1,524,273 | 1,356,055 | 4,424,628 | 3,907,089 |
| Gross profit | 587,420 | 537,456 | 1,765,466 | 1,596,133 |
| Operating expenses: | | | | |
| Selling, general and administrative | 444,159 | 400,088 | 1,346,690 | 1,204,715 |
| Restructuring costs | - | - | - | 12,285 |
| Operating income | \$143,261 | \$137,368 | \$418,776 | \$379,133 |
| Other expense, net | \$(2,751) | \$(4,373) | \$(9,532) | \$(15,390) |
| Net income | 100,808 | 94,490 | 288,835 | 254,905 |
| Net income attributable to Henry Schein, Inc. | 91,961 | 87,893 | 262,931 | 232,794 |
| Cash flows: | | | | |
| Net cash provided by operating activities | | | \$266,641 | \$176,825 |
| Net cash used in investing activities | | | (165,402) | (326,985) |
| Net cash used in financing activities | | | (141,123) | (123,217) |

Plan 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 nine months ended September 25, 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.

Table of Contents

Three Months Ended September 24, 2011 Compared to Three Months Ended September 25, 2010

Net Sales

Net sales for the three months ended September 24, 2011 and September 25, 2010 were as follows (in thousands):

| | September 24, 2011 | % of Total | September 25, 2010 | % of Total | \$ | Increase % |
|-------------------------------------|--------------------------|---------------|--------------------------|---------------|------------|---------------|
| Healthcare distribution (1): | | | | | | |
| Dental (2) | \$ 682,427 | 32.3 % | \$ 665,940 | 35.2 % | \$ 16,487 | 2.5 % |
| Medical (3) | 402,157 | 19.1 | 391,863 | 20.7 | 10,294 | 2.6 |
| Animal health (4) | 246,452 | 11.7 | 225,210 | 11.9 | 21,242 | 9.4 |
| International (5) | 718,465 | 34.0 | 561,353 | 29.6 | 157,112 | 28.0 |
| Total healthcare distribution | 2,049,501 | 97.1 | 1,844,366 | 97.4 | 205,135 | 11.1 |
| Technology (6) | 62,192 | 2.9 | 49,145 | 2.6 | 13,047 | 26.5 |
| Total | \$ 2,111,693 | 100.0 % | \$ 1,893,511 | 100.0 % | \$ 218,182 | 11.5 |

(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 \$218.2 million, or 11.5%, increase in net sales for the three months ended September 24, 2011 includes an increase of 7.4% local currency growth (3.3% increase in internally generated revenue and 4.1% growth from acquisitions) as well as an increase of 4.1% related to foreign currency exchange.

The \$16.5 million, or 2.5%, increase in dental net sales for the three months ended September 24, 2011 includes an increase of 1.8% in local currencies (all internally generated) as well as an increase of 0.7% related to foreign currency exchange. The 1.8% increase in local currency sales was due to dental consumable merchandise sales growth of 2.9% partially offset by decreases in dental equipment sales and service revenues of 2.1%.

The \$10.3 million, or 2.6%, increase in medical net sales for the three months ended September 24, 2011 includes an increase in internally generated revenue of 1.8% and acquisition growth of 0.8%. Excluding the effect of influenza vaccine sales, internal medical net sales increased 7.1%.

The \$21.2 million, or 9.4%, increase in animal health net sales for the three months ended September 24, 2011 was all internally generated.

The \$157.1 million, or 28.0%, increase in international net sales for the three months ended September 24, 2011 includes sales growth of 15.2% in local currencies (3.1% internally generated revenue and 12.1% growth from acquisitions) as well as an increase of 12.8% related to foreign currency exchange.

The \$13.0 million, or 26.5%, increase in technology net sales for the three months ended September 24, 2011 includes an increase of 25.2% local currency growth (11.3% internally generated growth and 13.9% growth from acquisitions) as well as an increase of 1.3% related to foreign currency exchange.

Table of Contents

Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended September 24, 2011 and September 25, 2010 were as follows (in thousands):

| | September 24, 2011 | | September 25, 2010 | | Increase | |
|-------------------------|--------------------------|--------|--------------------------|--------|-----------|-------|
| | Gross Margin % | | Gross Margin % | | \$ | % |
| Healthcare distribution | \$ 546,752 | 26.7 % | \$ 503,867 | 27.3 % | \$ 42,885 | 8.5 % |
| Technology | 40,668 | 65.4 | 33,589 | 68.3 | 7,079 | 21.1 |
| Total | \$ 587,420 | 27.8 | \$ 537,456 | 28.4 | \$ 49,964 | 9.3 |

For the three months ended September 24, 2011, gross profit increased \$50.0 million, or 9.3%, 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 \$42.9 million, or 8.5%, for the three months ended September 24, 2011 compared to the prior year period. Healthcare distribution gross profit margin decreased to 26.7% for the three months ended September 24, 2011 from 27.3% for the comparable prior year period. The decrease in our healthcare distribution gross profit margin is primarily due to growth in sales within our animal health businesses, which typically include a greater percentage of lower-margin pharmaceutical products than our other operating units. The increase in animal health sales results from internal growth in the United States and the acquisition of Provet Holdings Limited (see Note 7 "Business Acquisitions" within our notes to our consolidated financial statements) at the beginning of our 2011 fiscal year.

Technology gross profit increased \$7.1 million, or 21.1%, for the three months ended September 24, 2011 compared to the prior year period. Technology gross profit margin decreased to 65.4% for the three months ended September 24, 2011 from 68.3% for the comparable prior year period, primarily due to changes in the product sales mix. Specifically, revenues generated from software 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 September 24, 2011 and September 25, 2010 were as follows (in thousands):

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| | September 24, 2011 | % of Respective Net Sales | September 25, 2010 | % of Respective Net Sales | Increase \$ | % |
|-------------------------|--------------------------|---------------------------------|--------------------------|---------------------------------|----------------|--------|
| Healthcare distribution | \$ 421,346 | 20.6 % | \$ 382,855 | 20.8 % | \$ 38,491 | 10.1 % |
| Technology | 22,813 | 36.7 | 17,233 | 35.1 | 5,580 | 32.4 |
| Total | \$ 444,159 | 21.0 | \$ 400,088 | 21.1 | \$ 44,071 | 11.0 |

31

Table of Contents

Selling, general and administrative expenses increased \$44.1 million, or 11.0%, to \$444.2 million for the three months ended September 24, 2011 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 21.0% from 21.1% for the comparable prior year period.

As a component of selling, general and administrative expenses, selling expenses increased \$12.4 million, or 4.6%, to \$280.5 million for the three months ended September 24, 2011 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.3% from 14.1% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$31.7 million, or 24.0%, to \$163.7 million for the three months ended September 24, 2011 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 7.7% from 7.0% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the three months ended September 24, 2011 and September 25, 2010 were as follows (in thousands):

| | September 24, 2011 | September 25, 2010 | Increase \$ | % |
|--------------------|-----------------------|-----------------------|----------------|--------|
| Interest income | \$ 3,830 | \$ 3,422 | \$ 408 | 11.9 % |
| Interest expense | (6,813) | (7,824) | 1,011 | 12.9 |
| Other, net | 232 | 29 | 203 | 700.0 |
| Other expense, net | \$ (2,751) | \$ (4,373) | \$ 1,622 | 37.1 |

Other expense, net decreased \$1.6 million for the three months ended September 24, 2011 from the comparable prior year period. Interest income increased \$0.4 million primarily due to higher investment income partially offset by a decrease in late fee income. Interest expense decreased \$1.0 million primarily due to reduced interest expense from the redemption of our Convertible Notes on September 3, 2010 and from the refinancing of Butler Animal Health Supply, LLC or BAHS, debt, partially offset by increased interest expense related to borrowings under our private placement shelf facilities, as well as interest expense related to our credit lines. In addition, Other, net increased by \$0.2 million due primarily to the impact of foreign currency exchange.

Income Taxes

For the three months ended September 24, 2011, our effective tax rate was 31.5% compared to 31.8% 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.

Net Income

Net income increased \$4.1 million, or 4.6%, for the three months ended September 24, 2011, compared to the prior year period due to the factors noted above. Excluding sales of seasonal influenza vaccines from both periods, net income increased by approximately 11%.

Table of Contents

Nine Months Ended September 24, 2011 Compared to Nine Months Ended September 25, 2010

Net Sales

Net sales for the nine months ended September 24, 2011 and September 25, 2010 were as follows (in thousands):

| | September 24, 2011 | % of Total | September 25, 2010 | % of Total | \$ | Increase % |
|-------------------------------------|--------------------------|---------------|--------------------------|---------------|------------|---------------|
| Healthcare distribution (1): | | | | | | |
| Dental (2) | \$ 2,054,548 | 33.2 % | \$ 1,958,149 | 35.6 % | \$ 96,399 | 4.9 % |
| Medical (3) | 1,039,215 | 16.8 | 962,743 | 17.5 | 76,472 | 7.9 |
| Animal health (4) | 737,324 | 11.9 | 666,590 | 12.1 | 70,734 | 10.6 |
| International (5) | 2,179,112 | 35.2 | 1,773,241 | 32.2 | 405,871 | 22.9 |
| Total healthcare distribution | 6,010,199 | 97.1 | 5,360,723 | 97.4 | 649,476 | 12.1 |
| Technology (6) | 179,895 | 2.9 | 142,499 | 2.6 | 37,396 | 26.2 |
| Total | \$ 6,190,094 | 100.0 % | \$ 5,503,222 | 100.0 % | \$ 686,872 | 12.5 |

(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 \$686.9 million, or 12.5%, increase in net sales for the nine months ended September 24, 2011 includes an increase of 9.1% local currency growth (4.2% increase in internally generated revenue and 4.9% growth from acquisitions) as well as an increase of 3.4% related to foreign currency exchange.

The \$96.4 million, or 4.9%, increase in dental net sales for the nine months ended September 24, 2011 includes an increase of 4.2% in local currencies (2.7% increase in internally generated revenue and 1.5% growth from acquisitions) as well as an increase of 0.7% related to foreign currency exchange. The 4.2% increase in local currency sales was due to increases in dental equipment sales and service revenues of 0.1% (all internally generated) and dental consumable merchandise sales growth of 5.5% (3.4% increase in internally generated revenue and 2.1% growth from acquisitions).

The \$76.5 million, or 7.9%, increase in medical net sales for the nine months ended September 24, 2011 includes an increase in internally generated revenue of 6.2% and acquisition growth of 1.7%. Excluding the effect of influenza vaccine sales, internal medical net sales increased 8.5%.

The \$70.7 million, or 10.6%, increase in animal health net sales for the nine months ended September 24, 2011 includes an increase in internally generated revenue of 9.4% and acquisition growth of 1.2%.

The \$405.9 million, or 22.9%, increase in international net sales for the nine months ended September 24, 2011 includes sales growth of 13.3% in local currencies (2.2% increase in internally generated revenue and 11.1% growth from acquisitions) as well as an increase of 9.6% related to foreign currency exchange.

The \$37.4 million, or 26.2%, increase in technology net sales for the nine months ended September 24, 2011 includes an increase of 24.8% local currency growth (12.5% internally generated growth and 12.3% growth from acquisitions) as well as an increase of 1.4% related to foreign currency exchange.

Table of Contents

Gross Profit

Gross profit and gross margin percentages by segment and in total for the nine months ended September 24, 2011 and September 25, 2010 were as follows (in thousands):

| | September 24, 2011 | Gross Margin % | September 25, 2010 | Gross Margin % | Increase \$ | Increase % |
|-------------------------|-----------------------|----------------------|-----------------------|----------------------|----------------|---------------|
| Healthcare distribution | \$ 1,647,782 | 27.4 % | \$ 1,498,024 | 27.9 % | \$ 149,758 | 10.0 % |
| Technology | 117,684 | 65.4 | 98,109 | 68.8 | 19,575 | 20.0 |
| Total | \$ 1,765,466 | 28.5 | \$ 1,596,133 | 29.0 | \$ 169,333 | 10.6 |

For the nine months ended September 24, 2011, gross profit increased \$169.3 million, or 10.6%, from the comparable prior year period.

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 \$149.8 million, or 10.0%, for the nine months ended September 24, 2011 compared to the prior year period. Healthcare distribution gross profit margin decreased to 27.4% for the nine months ended September 24, 2011 from 27.9% for the comparable prior year period. The decrease in our healthcare distribution gross profit margin is primarily due to growth in sales within our animal health businesses, which typically include a greater percentage of lower-margin pharmaceutical products than our other operating units. The increase in animal health sales results from internal growth in the United States and the acquisition of Provet Holdings Limited (see Note 7 “Business Acquisitions” within our notes to our consolidated financial statements) at the beginning of our 2011 fiscal year.

Technology gross profit increased \$19.6 million, or 20.0%, for the nine months ended September 24, 2011 compared to the prior year period. Technology gross profit margin decreased to 65.4% for the nine months ended September 24, 2011 from 68.8% for the comparable prior year period, primarily due to changes in the product sales mix. Specifically, revenues generated from software 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 nine months ended September 24, 2011 and September 25, 2010 were as follows (in thousands):

| | September 24, 2011 | % of Respective Net Sales | September 25, 2010 | % of Respective Net Sales | Increase \$ | Increase % |
|-------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|----------------|---------------|
| Healthcare distribution | \$ 1,278,834 | 21.3 % | \$ 1,154,977 | 21.5 % | \$ 123,857 | 10.7 % |
| Technology | 67,856 | 37.7 | 49,738 | 34.9 | 18,118 | 36.4 |

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| | | | | | | |
|-------|--------------|------|--------------|------|------------|------|
| Total | \$ 1,346,690 | 21.8 | \$ 1,204,715 | 21.9 | \$ 141,975 | 11.8 |
|-------|--------------|------|--------------|------|------------|------|

Selling, general and administrative expenses increased \$142.0 million, or 11.8%, to \$1.3 billion for the nine months ended September 24, 2011 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 21.8% from 21.9% for the comparable prior year period.

Table of Contents

As a component of selling, general and administrative expenses, selling expenses increased \$71.9 million, or 9.0%, to \$868.6 million for the nine months ended September 24, 2011 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 14.0% from 14.5% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased \$70.1 million, or 17.2%, to \$478.1 million for the nine months ended September 24, 2011 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 7.7% from 7.4% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the nine months ended September 24, 2011 and September 25, 2010 were as follows (in thousands):

| | September 24, 2011 | September 25, 2010 | Increase | |
|--------------------|-----------------------|-----------------------|----------|--------|
| | \$ | \$ | \$ | % |
| Interest income | \$ 11,955 | \$ 10,318 | \$ 1,637 | 15.9 % |
| Interest expense | (22,800) | (26,096) | 3,296 | 12.6 |
| Other, net | 1,313 | 388 | 925 | 238.4 |
| Other expense, net | \$ (9,532) | \$ (15,390) | \$ 5,858 | 38.1 |

Other expense, net decreased \$5.9 million for the nine months ended September 24, 2011 from the comparable prior year period. Interest income increased \$1.6 million primarily due to higher investment income. Interest expense decreased \$3.3 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 of a majority interest in BAHS, as well as interest expense related to our credit lines. In addition, Other, net increased by \$0.9 million due primarily to proceeds received from a legal settlement.

Income Taxes

For the nine months ended September 24, 2011, our effective tax rate was 32.0% compared to 31.9% 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.

Net Income

Net income increased \$30.1 million, or 12.9%, for the nine months ended September 24, 2011, compared to the prior year period due to the factors noted above. Excluding sales of seasonal influenza vaccines from both periods, net income increased by approximately 15%.

Table of Contents

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 \$266.6 million for the nine months ended September 24, 2011, compared to \$176.8 million for the comparable prior year period. The net change of \$89.8 million was primarily attributable to favorable working capital changes as well as net income improvements, after taking into account depreciation and amortization, stock-based compensation expense and deferred taxes.

Net cash used in investing activities was \$165.4 million for the nine months ended September 24, 2011, compared to \$327.0 million for the comparable prior year period. The net change of \$161.6 million was primarily due to decreases in payments for equity investments and business acquisitions. We expect to invest approximately \$15 million to \$20 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 used by financing activities was \$141.1 million for the nine months ended September 24, 2011, compared to \$123.2 million for the comparable prior year period. The net change of \$17.9 million was primarily due to increased repurchases of common stock and increased net payments of debt, partially offset by a reduction in acquisitions of noncontrolling interests in subsidiaries.

Table of Contents

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

| | September 24, 2011 | December 25, 2010 |
|---|--------------------------|-------------------------|
| Cash and cash equivalents | \$106,872 | \$150,348 |
| Available-for-sale securities - long-term | 11,317 | 13,367 |
| Working capital | 1,115,780 | 1,001,215 |
| Debt: | | |
| Bank credit lines | \$40,015 | \$41,508 |
| Current maturities of long-term debt | 20,076 | 4,487 |
| Long-term debt | 371,864 | 395,309 |
| Total debt | \$431,955 | \$441,304 |

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 September 24, 2011, we have approximately \$12.6 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 September 24, 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 41.7 days as of September 24, 2011 from 40.8 days as of September 25, 2010. Our inventory turns from operations remained constant at 6.5 as of September 24, 2011 compared to the comparable prior year period. Our working capital accounts may be impacted by current and future economic conditions.

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 0.70% during the nine months ended September 24, 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 \$30.0 million under our \$400 million credit facility. As of September 24, 2011, we had various other short-term bank credit lines available, of which approximately \$10.0

million was outstanding. As of September 24, 2011, borrowings under all of our credit lines had a weighted average interest rate of 1.38%. As of September 24, 2011, there were \$8.8 million of letters of credit provided to third parties.

Table of Contents

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 September 24, 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, 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.

On May 27, 2011, BAHS refinanced the terms and amount of its debt. The refinanced debt consists of the following three components:

- Term loan A - \$100.0 million repayable in 14 quarterly installments in payment amounts ranging from \$1.25 million per quarter for the period September 30, 2011 through June 30, 2012, approximately \$1.88 million per quarter for the period September 30, 2012 through June 30, 2013, \$2.5 million per quarter for the period September 30, 2013 through June 30, 2014, approximately \$3.13 million for the quarter ended September 30, 2014 and a final installment of approximately \$74.4 million due on December 31, 2014. Interest on the \$100.0 million term loan is charged at LIBOR plus a margin of 3%;
- Term loan B - \$216.0 million (\$55.0 million provided by Henry Schein, Inc.) repayable in 17 quarterly installments of \$540 thousand from September 30, 2011 through September 30, 2015, and a final installment of approximately \$206.8 million due on December 31, 2015. Interest on the \$216.0 million term loan is charged at LIBOR plus a margin of 3.25% with a LIBOR floor of 1.25%; and
- Revolver of \$50.0 million with interest charged at LIBOR plus a margin of 3%.

The outstanding balance of \$259.9 million is reflected in our consolidated balance sheet as of September 24, 2011.

Prior to the debt refinancing discussed above, the debt incurred as part of the acquisition of BAHS was repayable in 23 quarterly installments of \$0.8 million through September 30, 2015, and a final installment of \$301.6 million was due on December 31, 2015. Interest on the BAHS debt was charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2%.

The revised debt agreement continues to provide, among other things, that BAHS 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 revised debt agreement continues to contain provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The revised 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.

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.

Table of Contents

Stock repurchases

From June 21, 2004 through September 24, 2011, we repurchased \$432.5 million, or 8,729,520 shares, under our common stock repurchase programs. On August 18, 2011, our Board of Directors authorized an additional \$200.0 million for additional repurchases of our common stock, \$167.5 million of which is available as of September 24, 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 nine months ended September 24, 2011 and the year ended December 25, 2010 are presented in the following table:

| | September 24, 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 | 8,466 | 62,314 |
| Net income attributable to redeemable noncontrolling interests | 25,558 | 26,054 |
| Dividends declared | (7,285) | (12,360) |
| Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests | 249 | (2,281) |
| Change in fair value of redeemable securities | 85,932 | 51,843 |
| Balance, end of period | \$417,060 | \$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.

Table of Contents

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.

Recently Issued Accounting Standards

In September 2011, the Financial Accounting Standards Board issued Accounting Standards Update 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill Impairment" which is intended to simplify goodwill impairment testing by permitting the assessment of qualitative factors to determine whether events and circumstances lead to the conclusion that it is necessary to perform the traditional two-step impairment test. Under this update, we are not required to calculate the fair value of our reporting units unless we conclude that it is more likely than not (likelihood of more than 50%) that the carrying value of our reporting units is greater than the fair value of such units based on our assessment of events and circumstances. This update is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. We plan to adopt the provisions of this update at the end of our third quarter, which has historically been the time at which we assessed the potential impairment of our goodwill and other indefinite-lived intangible assets. We do not anticipate that the adoption of this provision will have a material impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 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 quarterly report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of September 24, 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

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 24, 2011 that have materially affected, or are reasonably likely to materially affect, 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.

40

Table of Contents

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 September 24, 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 and on August 18, 2011, our Board of Directors authorized an additional \$200.0 million, for a total of \$600.0 million, of shares of our common stock to be repurchased under this program. As of September 24, 2011, we had repurchased \$432.5 million of common stock (8,729,520 shares) under this initiative, with \$167.5 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 September 24, 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 |
|--------------|------------------------------|------------------------------------|--|---|
|--------------|------------------------------|------------------------------------|--|---|

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| | Purchased (1) | | Announced Program | Our Program (2) |
|---------------------------|------------------|----------|----------------------|--------------------|
| 06/26/11 through 07/30/11 | - | \$ - | - | 1,021,704 |
| 07/31/11 through 08/27/11 | 1,388,507 | | 1,388,507 | 2,842,509 |
| 08/28/11 through 09/24/11 | 220,099 | \$ 63.73 | 220,099 | 2,675,689 |
| | 1,608,606 | | 1,608,606 | |

(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.

Table of Contents

ITEM 6. EXHIBITS

Exhibits.

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.DEF XBRL Taxonomy Definition Linkbase Document*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*

+ Filed herewith

* This exhibit will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange reference. Act, except to the extent that the Company specifically incorporates it by reference.

SIGNATURE

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

Henry Schein, Inc.
(Registrant)

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

Dated: November 1, 2011

