

HENRY SCHEIN INC  
Form 10-Q  
August 04, 2009  
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 June 27, 2009

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

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(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 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

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As of July 28, 2009, there were 90,188,602 shares of the registrant's common stock outstanding.

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HENRY SCHEIN, INC.

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

	<b>June 27, 2009</b>	<b>December 27, 2008</b>
	<b>(unaudited)</b>	<b>(Adjusted - Notes 1 &amp; 8)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 393,873	\$ 369,570
Accounts receivable, net of reserves of \$46,419 and \$42,855	730,996	734,027
Inventories, net	737,956	731,654
Deferred income taxes	38,667	36,974
Prepaid expenses and other	187,798	193,841
Total current assets	2,089,290	2,066,066
Property and equipment, net	254,008	247,835
Goodwill	948,862	922,952
Other intangibles, net	206,429	214,093
Investments and other	146,901	148,264
Total assets	\$ 3,645,490	\$ 3,599,210
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 435,579	\$ 554,773
Bank credit lines	2,014	4,936
Current maturities of long-term debt	154,251	156,405
Accrued expenses:		
Payroll and related	123,182	135,523
Taxes	91,091	69,792
Other	251,495	262,236
Total current liabilities	1,057,612	1,183,665
Long-term debt	261,229	256,648
Deferred income taxes	96,542	95,399
Other liabilities	58,482	58,109
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, 90,167,656 outstanding on June 27, 2009 and 89,351,849 outstanding on December 27, 2008	902	894

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Additional paid-in capital	740,186	725,540
Retained earnings	1,309,778	1,181,454
Accumulated other comprehensive income	45,578	29,721
Total Henry Schein, Inc. stockholders' equity	2,096,444	1,937,609
Noncontrolling interest	75,181	67,780
Total stockholders' equity	2,171,625	2,005,389
Total liabilities and stockholders' equity	\$ 3,645,490	\$ 3,599,210

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 27, 2009	June 28, 2008 (Adjusted - Notes 1 & 8)	June 27, 2009	June 28, 2008 (Adjusted - Notes 1 & 8)
Net sales	\$ 1,611,006	\$ 1,640,851	\$ 3,099,611	\$ 3,162,628
Cost of sales	1,132,494	1,152,741	2,180,089	2,223,887
Gross profit	478,512	488,110	919,522	938,741
Operating expenses:				
Selling, general and administrative	356,202	374,118	702,282	739,474
Restructuring costs	-	-	4,043	-
Operating income	122,310	113,992	213,197	199,267
Other income (expense):				
Interest income	2,486	3,974	5,287	7,957
Interest expense	(6,467 )	(9,593 )	(13,281 )	(17,760 )
Other, net	(272 )	(291 )	(289 )	(674 )
Income from continuing operations before taxes, noncontrolling interest and equity in earnings of affiliates	118,057	108,082	204,914	188,790
Income taxes	(38,841 )	(36,874 )	(67,763 )	(64,320 )
Equity in earnings of affiliates	1,212	908	2,577	2,418
Income from continuing operations	80,428	72,116	139,728	126,888
Loss from discontinued operations, net of tax	-	(415 )	-	(497 )
Net income	80,428	71,701	139,728	126,391
Less: Net income attributable to noncontrolling interests	(6,955 )	(7,131 )	(11,404 )	(10,381 )
Net income attributable to Henry Schein, Inc.	\$ 73,473	\$ 64,570	\$ 128,324	\$ 116,010
<b>Amounts attributable to Henry Schein, Inc.:</b>				
Income from continuing operations	\$ 73,473	\$ 64,985	\$ 128,324	\$ 116,507
Loss from discontinued operations, net of tax	-	(415 )	-	(497 )
Net income	\$ 73,473	\$ 64,570	\$ 128,324	\$ 116,010
<b>Earnings per share attributable to Henry Schein, Inc.:</b>				
From continuing operations:				
Basic	\$ 0.83	\$ 0.73	\$ 1.44	\$ 1.30
Diluted	\$ 0.81	\$ 0.71	\$ 1.43	\$ 1.26
From discontinued operations:				
Basic	\$ 0.00	\$ (0.01 )	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ (0.01 )	\$ 0.00	\$ 0.00
From net income:				
Basic	\$ 0.83	\$ 0.72	\$ 1.44	\$ 1.30
Diluted	\$ 0.81	\$ 0.70	\$ 1.43	\$ 1.26



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Weighted-average common shares outstanding:

Basic	88,815	89,587	88,838	89,417
Diluted	90,534	92,012	90,021	92,212

See accompanying notes.

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**HENRY SCHEIN, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(in thousands, except share data)**  
**(unaudited)**

	Common Stock		Additional		Accumulated		Total
	\$.01 Par Value		Paid-in	Retained	Comprehensive	Noncontrolling	Stockholders'
	Shares	Amount	Capital	Earnings	Income	Interest	Equity
Balance, December 27, 2008 - as previously reported	89,351,849	\$ 894	\$ 705,799	\$ 1,195,771	\$ 29,721	\$ -	\$ 1,932,185
Cumulative impact of adopting FSP APB 14-1	-	-	19,741	(14,317 )	-	-	5,424
Cumulative impact of adopting FAS 160	-	-	-	-	-	67,780	67,780
Balance, December 27, 2008 - as adjusted	89,351,849	\$ 894	\$ 725,540	\$ 1,181,454	\$ 29,721	\$ 67,780	\$ 2,005,389
Net income	-	-	-	128,324	-	11,404	139,728
Foreign currency translation gain	-	-	-	-	6,862	1,115	7,977
Unrealized gain from foreign currency hedging activities, net of tax of \$5,878	-	-	-	-	10,461	-	10,461
Unrealized investment loss, net of tax of \$409	-	-	-	-	(526 )	-	(526 )
Pension adjustment loss, net of tax of \$127	-	-	-	-	(940 )	-	(940 )
Total comprehensive income	-	-	-	-	-	12,519	156,700
Dividends paid	-	-	-	-	-	(2,072 )	(2,072 )
Noncontrolling interest of acquired companies	-	-	-	-	-	(3,046 )	(3,046 )
Shares issued upon exercise of stock options, including tax benefit of \$59	137,382	1	3,868	-	-	-	3,869
Stock-based compensation expense	744,974	7	12,296	-	-	-	12,303
Shares withheld for payroll taxes	(66,549 )	-	(2,006 )	-	-	-	(2,006 )
Liability for cash settlement stock option awards and other	-	-	488	-	-	-	488
Balance, June 27, 2009	90,167,656	\$ 902	\$ 740,186	\$ 1,309,778	\$ 45,578	\$ 75,181	\$ 2,171,625

See accompanying notes.

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

	<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008 (Adjusted - Notes 1 &amp; 8)</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 139,728	\$ 126,391
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,734	39,708
Amortization of bond discount	2,964	2,792
Stock-based compensation expense	12,303	16,216
Provision for losses on trade and other accounts receivable	1,712	2,604
Benefit from deferred income taxes	(5,921)	(3,842)
Undistributed earnings of affiliates	(2,577)	(2,418)
Other	1,491	(1,317)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	14,443	(6,752)
Inventories	13,248	(5,064)
Other current assets	2,470	10,978
Accounts payable and accrued expenses	(141,020)	(40,612)
Net cash provided by operating activities	79,575	138,684
<b>Cash flows from investing activities:</b>		
Purchases of fixed assets	(28,403)	(23,466)
Payments for equity investment and business acquisitions, net of cash acquired	(26,489)	(23,581)
Purchases of available-for-sale securities	-	(35,925)
Proceeds from sales of available-for-sale securities	4,040	847
Net proceeds from (payments for) foreign exchange forward contract settlements	275	(5,052)
Other	(2,680)	4,504
Net cash used in investing activities	(53,257)	(82,673)
<b>Cash flows from financing activities:</b>		
Repayments of bank borrowings	(3,393)	(6,508)
Principal payments for long-term debt	(2,612)	(5,949)
Proceeds from issuance of stock upon exercise of stock options	3,928	12,695
Payments for repurchases of common stock	-	(31,647)
Excess tax benefits related to stock-based compensation	683	4,673
Other	(1,748)	(1,401)
Net cash used in financing activities	(3,142)	(28,137)
Net change in cash and cash equivalents	23,176	27,874
Effect of exchange rate changes on cash and cash equivalents	1,127	(4,032)
Cash and cash equivalents, beginning of period	369,570	247,590
Cash and cash equivalents, end of period	\$ 393,873	\$ 271,432

See accompanying notes.

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**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(in thousands, except share and per share data)

(unaudited)

**Note 1. Basis of Presentation**

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

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

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 27, 2008.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the six months ended June 27, 2009 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 26, 2009.

Effective December 28, 2008, we adopted the provisions of Financial Accounting Standards Board ("FASB") Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("FAS 160"). FAS 160 requires that a noncontrolling interest in a subsidiary be reported as equity in the consolidated financial statements. Consolidated net income includes the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statement of income. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. As of December 27, 2008, we included noncontrolling interests totaling approximately \$67.8 million in stockholders' equity within our consolidated balance sheets, as the cumulative impact of adopting FAS 160.

**Note 2. Segment Data**

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

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

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**HENRY SCHEIN, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 2. Segment Data (Continued)**

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, e-services and continuing education services for practitioners.

The following tables present information about our reportable segments:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>
<b>Net Sales:</b>				
Healthcare distribution (2):				
Dental (3)	\$ 625,791	\$ 659,539	\$ 1,222,964	\$ 1,271,322
Medical (4)	350,870	324,938	678,258	656,409
International (5)	591,794	615,256	1,115,513	1,154,984
Total healthcare distribution	1,568,455	1,599,733	3,016,735	3,082,715
Technology (6)	42,551	41,118	82,876	79,913
Total	\$ 1,611,006	\$ 1,640,851	\$ 3,099,611	\$ 3,162,628

(1) Adjusted to reflect the effects of discontinued operations.

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

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

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

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

(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.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>
<b>Operating Income:</b>				

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Healthcare distribution	\$ 107,000	\$ 99,750	\$ 183,007	\$ 171,871
Technology	15,310	14,242	30,190	27,396
Total	\$ 122,310	\$ 113,992	\$ 213,197	\$ 199,267

(1) Adjusted to reflect the effects of discontinued operations.

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**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except share and per share data)**

**(unaudited)**

**Note 3. Stock-Based Compensation**

Our accompanying unaudited consolidated statements of income reflect share-based pretax compensation expense, recorded in accordance with the provisions of FASB Statement No. 123(R), "Share-Based Payment," of \$6.2 million (\$4.2 million after-tax) and \$12.3 million (\$8.2 million after-tax) for the three and six months ended June 27, 2009, respectively, and \$6.9 million (\$4.6 million after-tax) and \$16.2 million (\$10.7 million after-tax) for the three and six months ended June 28, 2008, 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.

Prior to March 2009, stock-based awards were 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. Awards under the Plans principally include a combination of at-the-money stock options and restricted stock (including restricted stock units).

In March 2009, equity-based awards were granted solely in the form of restricted stock and restricted stock units, with the exception of stock options for certain pre-existing contractual obligations.

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

With respect to time-based restricted stock, we estimate the fair value on the date of grant based on our closing stock price. With respect to performance-based restricted stock, the number of shares that ultimately vest and are received by the recipient is based upon our earnings per share performance as measured against specified targets over a three-year period as determined by the Compensation Committee of the Board of Directors. Though there is no guarantee that performance targets will be achieved, we estimate the fair value of performance-based restricted stock, based on our closing stock price at time of grant.

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

Total unrecognized compensation cost related to non-vested awards as of June 27, 2009 was \$65.3 million, which is expected to be recognized over a weighted-average period of approximately 2.6 years.

**HENRY SCHEIN, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 3. Stock-Based Compensation (Continued)**

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

	<b>2009</b>	<b>2008</b>
Expected dividend yield	0%	0%
Expected stock price volatility	28%	20%
Risk-free interest rate	1.88%	2.75%
Expected life of options (years)	4.5	4.5

The following table summarizes stock option activity under the Plans during the six months ended June 27, 2009:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Remaining Contractual Life in Years</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at beginning of period	6,791,828	\$ 39.85		
Granted	42,206	38.33		
Exercised	(137,382)	28.59		\$ 2,007
Forfeited	(70,229)	47.00		
Outstanding at end of period	6,626,423	\$ 40.01	5.8	\$ 65,993
Options exercisable at end of period	5,127,339	\$ 35.67	5.1	\$ 65,482

The following tables summarize the status of our non-vested restricted stock/units for the six months ended June 27, 2009:

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	<b>Time-Based Restricted Stock/Units</b>		<b>Aggregate Intrinsic</b>
		<b>Weighted Average</b>	
	<b>Shares/Units</b>	<b>Grant Date Fair Value</b>	<b>Value</b>
Outstanding at beginning of period	285,225	\$ 14,771	
Granted	341,160	11,855	
Vested	(1,315 )	(49 )	
Forfeited	(20,449 )	(1,037 )	
Outstanding at end of period	604,621	\$ 25,540	\$ 28,726

	<b>Performance-Based Restricted Stock/Units</b>		<b>Aggregate Intrinsic</b>
		<b>Weighted Average</b>	
	<b>Shares/Units</b>	<b>Grant Date Fair Value</b>	<b>Value</b>
Outstanding at beginning of period	347,141	\$ 17,704	
Granted	904,147	11,830	
Vested	(178,593 )	(8,448 )	
Forfeited	(14,686 )	(676 )	
Outstanding at end of period	1,058,009	\$ 20,410	\$ 50,266

**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except share and per share data)**

**(unaudited)**

**Note 4. Business Acquisitions and Other Transactions**

*Acquisitions*

We completed certain acquisitions during the six months ended June 27, 2009. The operating results of our acquisitions are reflected in our financial statements from their respective acquisition dates. Such acquisitions were immaterial to our financial statements individually and in the aggregate.

*Loan and Investment Agreement*

On December 12, 2008, we converted \$10.4 million of loan receivables and related accrued interest into an equity interest of 15.33% in D4D Technologies, LLC ("D4D"). Due to the conversion, we now account for our equity interest in D4D under the equity method of accounting prospectively from the date of conversion.

In addition, under the original agreement (as previously amended), if certain product specification and performance milestones occurred, we were required to pay additional amounts (as equity contributions) to D4D and certain of its members equal to \$16.0 million. On August 3, 2009, we entered into a further amendment whereby we agreed to pay D4D and certain of its members \$8.0 million upon execution of the agreement and to make two contingent payments in each of 2010 and 2011 of up to \$4.0 million each based on D4D's financial performance. All payments made under the amended agreement will be accounted for as increases in the carrying value of our investment in D4D and any underlying allocations to intangible assets will be determined at time of payment.

**Note 5. Earnings Per Share**

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

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For the three and six months ended June 27, 2009, our convertible debt was not convertible at a premium and thus the impact of an assumed conversion was not applicable.

For the three and six months ended June 28, 2008, diluted earnings per share includes the effect of common shares issuable upon conversion of our convertible debt. During the period, the debt was convertible at a premium as a result of the conditions of the debt. As a result, the amount in excess of the principal is presumed to be settled in common shares and is reflected in our calculation of diluted earnings per share.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008</b>	<b>June 27, 2009</b>	<b>June 28, 2008</b>
Basic	88,814,906	89,587,080	88,837,941	89,416,532
Effect of dilutive securities:				
Stock options, restricted stock and restricted units	1,719,040	1,617,513	1,183,555	1,831,303
Effect of assumed conversion of convertible debt	-	807,540	-	964,164
Diluted	90,533,946	92,012,133	90,021,496	92,211,999

**HENRY SCHEIN, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 5. Earnings Per Share (Continued)**

Weighted-average options to purchase 2,741,364 shares of common stock at exercise prices ranging from \$45.85 to \$62.05 per share and 1,091,672 shares of common stock at exercise prices ranging from \$55.18 to \$62.05 per share that were outstanding during the three months ended June 27, 2009 and June 28, 2008, respectively, were excluded from the computation of diluted earnings per share. Weighted-average options to purchase 2,856,864 shares of common stock at exercise prices ranging from \$40.40 to \$62.05 per share and 705,196 shares of common stock at exercise prices ranging from \$59.89 to \$62.05 per share that were outstanding during the six months ended June 27, 2009 and June 28, 2008, 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.

**Note 6. Comprehensive Income**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>
Comprehensive income	\$ 142,701	\$ 69,391	\$ 156,700	\$ 157,954
Comprehensive income attributable to Henry Schein, Inc.	131,870	62,205	144,181	145,188
Comprehensive income for noncontrolling interests	10,831	7,186	12,519	12,766

(1) Adjusted to reflect the effects of discontinued operations and the adoption of FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)."

**Note 7. Fair Value Measurements**

Effective December 30, 2007, we adopted FASB Statement No. 157, "Fair Value Measurements" ("FAS 157"), as it relates to financial assets and financial liabilities. FAS 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 applies under other previously issued accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. The adoption of FAS 157 did not have a material impact on our consolidated financial statements.

FAS 157 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. FAS 157 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).



**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(in thousands, except share and per share data)**

**(unaudited)**

**Note 7. Fair Value Measurements (Continued)**

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 FAS 157 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.

**Available-for-sale securities**

The fair value of available-for-sale securities at June 27, 2009 is estimated based on internally generated discounted cash flow models.

**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.

**Auction-rate securities**

As of June 27, 2009, we have approximately \$27.0 million (\$24.0 million net of temporary impairments) invested in auction-rate securities ("ARS"). ARS are publicly issued securities that represent long-term investments, typically 10-30 years, in which interest rates had reset periodically (typically every 7, 28 or 35 days) through a "dutch auction" process. Approximately \$22.1 million (\$19.1 million net of temporary impairments) of our ARS are backed by student loans that are backed by the federal government and the remaining \$4.9 million are invested in closed-end municipal bond funds. Our ARS portfolio is comprised of investments that are rated AAA by major independent rating agencies. Since the middle of February 2008, ARS auctions have failed to settle due to an excess number of sellers compared to buyers. The failure of these auctions has resulted in our inability to liquidate our ARS in the near term. We are currently not aware of any defaults or financial conditions that would negatively affect the issuers' ability to continue to pay interest and principal on our ARS. We continue to earn and receive interest at contractually agreed upon rates.

**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 7. Fair Value Measurements (Continued)**

During 2009, we have received approximately \$2.3 million and \$1.7 million of redemptions, at par, for our closed-end municipal bond funds and our student loan portfolios, respectively.

As of June 27, 2009, we have classified our closed-end municipal bond funds, as well as our student loan portfolios, as Level 3 within the fair value hierarchy due to the lack of observable inputs and the absence of significant refinancing activity.

Based upon the information currently available and the use of a discounted cash flow model in accordance with applicable authoritative guidance, we have recorded a temporary impairment of \$0.9 million during the six months ended June 27, 2009, related to our closed-end municipal bond funds and our student loan portfolios. This adjustment has been recorded as part of Accumulated other comprehensive income within the equity section of our consolidated balance sheet and resulted in a cumulative impairment of \$3.0 million as of June 27, 2009.

The closed-end municipal bond fund and student loan portfolios have an aggregate carrying value at June 27, 2009 of approximately \$24.0 million, net of the temporary impairment, and are included as part of Investments and other within our consolidated balance sheet.

**Money market fund**

As of June 27, 2009, we had an investment of approximately \$2.5 million (\$1.7 million net of reserves) invested in the Reserve Primary Fund. This money market fund included in its holdings commercial paper of Lehman Brothers. As a result of the Chapter 11 bankruptcy of Lehman Brothers Holdings, Inc., the net asset value of the fund decreased below \$1.00. Currently, this fund is in the process of being liquidated. As of June 27, 2009, the value of our holdings in this fund has been classified within Prepaid expenses and other in our consolidated balance sheets and as Level 3 within the fair value hierarchy, due to the lack of observable inputs and the absence of trading activity.

**Debt**

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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 June 27, 2009 and December 27, 2008 was estimated at \$444.8 million and \$426.8 million.

### **Derivative contracts**

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

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

**HENRY SCHEIN, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 7. Fair Value Measurements (Continued)**

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 27, 2009:

	Level 1	Level 2	Level 3	Total
Assets:				
Auction-rate securities	\$ -	\$ -	\$ 24,053	\$ 24,053
Money market fund	-	-	1,734	1,734
Derivative contracts	-	2,567	-	2,567
Total assets	\$ -	\$ 2,567	\$ 25,787	\$ 28,354
Liabilities:				
Derivative contracts	\$ -	\$ 8,887	\$ -	\$ 8,887
Total liabilities	\$ -	\$ 8,887	\$ -	\$ 8,887

As of June 27, 2009, we have estimated the value of our closed-end municipal bond fund ARS portfolio and our student loan backed ARS portfolio based upon a discounted cash flow model. The assumptions used in our valuation model include estimates for interest rates, timing and amount of cash flows and expected holding periods for the ARS portfolio. We estimated the value of our holdings within the Reserve Primary Fund based upon the net asset value of the fund as of September 16, 2008, subsequent to the declaration of bankruptcy by Lehman Brothers Holdings, Inc. As a result of these analyses, for the six months ended June 27, 2009, we recorded a temporary impairment loss of \$0.9 million related to our ARS portfolio. The reserve recorded in 2008 of \$0.8 million related to our holdings within the Reserve Primary Fund remained unchanged as of June 27, 2009. The following table presents a reconciliation of our assets measured at fair value on a recurring basis using unobservable inputs (Level 3):

	<b>Level 3 (Unobservable Inputs) Closed-End Municipal Bond Fund and Student Loan Backed Auction-Rate Securities and Money Market Fund</b>
Balance, December 27, 2008	\$ 33,546
Transfers to Level 3	-

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Redemptions (at par)	(6,824	)
Gains and (losses):		
Reported in earnings	-	
Reported in accumulated other comprehensive income	(935	)
Balance, June 27, 2009	\$ 25,787	

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**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 8. Convertible Debt**

Effective December 28, 2008, we adopted the provisions of FASB Staff Position (“FSP”) APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).” The FSP requires that we allocate the liability and equity components of the convertible debt and reflect our non-convertible debt borrowing rate for the interest component of the convertible debt.

In 2004, we completed an issuance of \$240.0 million of convertible debt. These notes are senior unsecured obligations bearing a fixed annual interest rate of 3.0% and are due to mature on August 15, 2034. The notes are convertible into our common stock at a conversion ratio of 21.58 shares per one thousand dollars of principal amount of notes, which is equivalent to a conversion price of \$46.34 per share. For the three and six months ended June 27, 2009, our convertible debt was not convertible at a premium and thus the impact of an assumed conversion was not applicable.

Upon the retrospective implementation of this FSP, we recorded a debt discount of \$32.6 million, as of August 9, 2004, representing the difference between the fair value of our \$240.0 million 3% convertible debt at the time of issuance and the face amount of the convertible debt. We also recorded a related deferred tax liability of \$12.1 million representing the tax impact of recording the debt discount. This debt discount is being amortized over a period of six years from the date our convertible debt was issued until August 9, 2010. An offsetting amount was recorded in Additional paid-in capital to reflect the impact of the debt discount, net of the related deferred tax liability.

The principal amounts of the outstanding notes, the unamortized discount and the net carrying value at June 27, 2009 was \$240.0 million, \$7.0 million and \$233.0 million and at December 27, 2008 was \$240.0 million, \$10.0 million and \$230.0 million.

As of December 28, 2008, retained earnings includes a cumulative adjustment to interest expense of \$22.6 million (\$14.7 million, net of taxes) representing the non-cash difference between the stated interest rate (3%) on our convertible debt and our non-convertible debt borrowing rate (5.74%) at the time of issuance of our convertible debt.

For the three and six months ended June 27, 2009, we recorded additional non-cash interest expense of \$1.5 million (\$1.0 million, net of taxes) and \$3.0 million (\$2.0 million, net of taxes), respectively, and for the three and six months ended June 28, 2008 we recorded additional non-cash interest expense of \$1.4 million (\$0.9 million, net of taxes) and \$2.8 million (\$1.8 million, net of taxes), respectively, representing the difference between the stated interest rate on our convertible debt and our non-convertible debt borrowing rate at the time of issuance of our convertible debt.

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For each of the three and six month periods ended June 27, 2009 and June 28, 2008, contractual interest expense relating to our convertible debt was \$1.8 million (\$1.2 million, net of taxes) and \$3.6 million (\$2.4 million, net of taxes), respectively.



**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 9. Income Taxes**

The total amount of unrecognized tax benefits as of June 27, 2009 was \$14.5 million, all of which would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next twelve months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of accrued interest and penalties were \$2.6 million and \$0, respectively, as of June 27, 2009. It is expected that the amount of interest will change in the next twelve months. However, we do not expect the change to have a material impact on our consolidated financial statements.

The tax years subject to examination by major tax jurisdictions include the years 2004 and forward by the U.S. Internal Revenue Service, the years 1996 and forward for certain states and the years 1997 and forward for certain foreign jurisdictions.

**Note 10. Supplemental Cash Flow Information**

Cash paid for interest and income taxes was:

	<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008</b>
Interest	\$ 13,254	\$ 15,426
Income taxes	60,202	41,481

During the six months ended June 27, 2009, we had a \$9.9 million non-cash net unrealized gain related to hedging activities. During the six months ended June 28, 2008, we had a \$0.7 million non-cash net unrealized loss related to hedging activities.

**Note 11 – Plan of Restructuring**

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On November 5, 2008, we announced certain actions to reduce operating costs, which have resulted in the elimination of 430 positions from our operations and the closing of several smaller facilities. For the six months ended June 27, 2009, we recorded restructuring costs of approximately \$4.0 million (approximately \$2.8 million after taxes). The costs associated with the restructuring are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

The following table shows the amounts expensed and paid for restructuring costs that were incurred during the six months ended June 27, 2009 and the remaining accrued balance of restructuring costs as of June 27, 2009, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

	<b>Balance at</b>		<b>Payments</b>		<b>Balance at</b>
	<b>December 27, 2008</b>	<b>Provision</b>	<b>Adjustments</b>		<b>June 27, 2009</b>
Severance costs (1)	\$ 14,330	\$ 2,451	\$ (10,560	)	\$ 6,221
Facility closing costs (2)	3,688	1,531	(1,321	)	3,898
Other professional and consulting costs	519	61	(244	)	336
Total	\$ 18,537	\$ 4,043	\$ (12,125	)	\$ 10,455

- (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.

**HENRY SCHEIN, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 11 – Plan of Restructuring (Continued)**

We expect that the majority of these costs will be paid in 2009.

The following table shows, by reportable segment, the restructuring costs incurred during 2009 and the remaining accrued balance of restructuring costs as of June 27, 2009:

	<b>Balance at</b>	<b>Payments</b>		<b>Balance at</b>
	<b>December 27, 2008</b>	<b>Provision Adjustments</b>	<b>and Other</b>	<b>June 27, 2009</b>
Healthcare distribution	\$ 18,457	\$ 4,043	\$ (12,121)	) \$ 10,379
Technology	80	-	(4	) 76
Total	\$ 18,537	\$ 4,043	\$ (12,125)	) \$ 10,455

**Note 12 – Derivatives and Hedging Activities**

Effective December 28, 2008, we adopted the provisions of FASB Statement No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133” (“FAS 161”). FAS 161 requires enhanced disclosures of our derivatives and hedging activities. FAS 161 does not change the accounting for derivatives and hedging activities, but rather provides more detailed disclosures concerning our objectives for our use of derivatives, the locations within our consolidated financial statements of both the derivative positions existing at period end and the effect of using derivatives during the period and the impact that the use of derivatives and hedging activities had on our consolidated financial statements.

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 using interest rate swap agreements, foreign currency forward and swap contracts and by maintaining counter-party credit limits. These hedging activities provide only limited protection against interest rate, currency exchange and credit risks. Factors that could influence the effectiveness of our hedging programs include interest rate volatility, currency markets and availability of hedging instruments and liquidity of the credit markets. All interest

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rate swap and foreign currency forward and swap contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated interest rate and currency exposure. We do not enter into such contracts for speculative purposes and we manage our credit risks by diversifying our investments, maintaining a strong balance sheet and having multiple sources of capital.

The value of certain foreign currencies as compared to the U.S. dollar may affect our financial results. Fluctuations in foreign exchange rates may positively or negatively affect our revenues, gross margins, operating expenses, and retained earnings, all of which are expressed in U.S. dollars. Where we deem it prudent, we engage in hedging programs using primarily foreign currency forward and swap contracts aimed at limiting the impact of foreign currency exchange rate fluctuations on earnings. We purchase short-term (i.e., 12 months or less) foreign currency forward and swap contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to our foreign suppliers. We do not hedge the translation of foreign currency profits into U.S. dollars, as we regard this as an accounting exposure, not an economic exposure.

**HENRY SCHEIN, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 12 – Derivatives and Hedging Activities (Continued)**

The following table presents the fair value of our derivative instruments:

	<b>Asset Derivatives</b>		<b>Liability Derivatives</b>	
	<b>June 27, 2009</b>		<b>June 27, 2009</b>	
	<b>Balance Sheet Location</b>	<b>Fair Value</b>	<b>Balance Sheet Location</b>	<b>Fair Value</b>
Derivatives designated as hedging instruments under Statement 133:				
Interest rate contracts	Prepaid expenses and other	\$ 708	Accrued expenses other	\$ -
Foreign exchange contracts	Prepaid expenses and other	1,487	Accrued expenses other	6,460
Total		2,195		6,460
Derivatives not designated as hedging instruments under Statement 133:				
Foreign exchange contracts	Prepaid expenses and other	372	Accrued expenses other	2,427
Total derivatives		\$ 2,567		\$ 8,887

**Fair Value Hedges**

Our fair value hedges consist of foreign exchange contracts. Gains associated with these foreign exchange contracts are recorded in Other, net within our consolidated statements of income and totaled \$3.4 million and \$7.9 million for the three and six months ended June 27, 2009. Forward points related to these foreign exchange contracts, recorded in Interest expense within our consolidated statements of income, totaled \$0.1 million and \$0.4 million for the three and six months ended June 27, 2009.

**Cash Flow Hedges**

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Our cash flow hedges consist of foreign exchange contracts. The amounts recorded in Accumulated other comprehensive income (“AOCI”) primarily represent the change in spot rates at the time of the initial hedge compared to the spot rate when marked to market. The loss recognized in AOCI (effective portion) for the three months ended June 27, 2009 was \$5.7 million. The gain recognized in AOCI (effective portion) for the six months ended June 27, 2009 was \$0.5 million.

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

Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Location where Forward Points are Recognized in Income on Derivative (Ineffective Portion)	Amount of Forward Points Recognized in Income on Derivative (Ineffective Portion)	
	Three Months Ended June 27, 2009	Six Months Ended June 27, 2009		Three Months Ended June 27, 2009	Six Months Ended June 27, 2009
	Other, net	\$ 231		\$ 1,892	Interest expense
Cost of sales	(66 )	210	Other, net	16	(14 )

**HENRY SCHEIN, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share data)

(unaudited)

**Note 12 – Derivatives and Hedging Activities (Continued)**

**Undesignated Hedges**

Our undesignated hedges consist of foreign exchange contracts. Losses associated with these foreign exchange contracts are recorded in Other, net within our consolidated statements of income and totaled \$5.5 million for the three and six months ended June 27, 2009. Forward points related to these foreign exchange contracts, which are recorded in Interest expense within our consolidated statements of income, totaled \$0.1 million for the three and six months ended June 27, 2009.

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

### Cautionary Note Regarding Forward-Looking Statements

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

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: decreased customer demand and changes in vendor credit terms; disruptions in financial markets; general economic conditions; competitive factors; changes in the healthcare industry; changes in regulatory requirements that affect us; 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; our dependence upon sales personnel and key 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; risks from potential increases in variable interest rates; 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 that affect us. 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 575,000 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 76 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ more than 12,500 people (of which approximately 5,000 are based outside the United States) and have operations in the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland and the United Kingdom. We also have affiliates in Iceland, Saudi Arabia and the United Arab Emirates.



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

We conduct our business through two reportable segments: 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 (including animal health) and international operating segments. This segment consists of consumable products, small equipment, laboratory products, large dental and medical equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins.

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

Our technology group provides software, technology and other value-added services to healthcare practitioners, primarily in the United States, Canada, the United Kingdom, Australia and New Zealand. Our value-added practice solutions include practice management software systems for dental and medical practitioners and animal health clinics. Our technology group offerings also include financial services, 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 \$27.5 billion in 2008 in the combined North American and European markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

Due in part to the inability of office-based healthcare practitioners to store and manage large quantities of supplies in their offices, the distribution of healthcare supplies and small equipment to office-based healthcare practitioners has been characterized by frequent, small-quantity orders, and a need

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

As industry consolidation continues, we believe that we are positioned to capitalize on this trend, as we believe we have the ability to support increased sales through our existing infrastructure.

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

### *Aging Population and Other Market Influences*

The healthcare products distribution industry continues to experience growth due to the aging population, increased healthcare awareness, the proliferation of medical technology and testing, new pharmacology treatments and expanded third-party insurance coverage, partially offset by the affects of increased unemployment on insurance coverage. In addition, the physician market continues to benefit from the shift of procedures and diagnostic testing from acute care settings to alternate-care sites, particularly physicians' offices.

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

As a result of these market dynamics, annual expenditures for healthcare services continue to increase in the United States. Given current operating, economic and industry conditions, we believe that demand for our products and services will grow at slower rates. The Centers for Medicare and Medicaid Services, or CMS, published "National Health Expenditure Projections 2008 – 2018" indicating that total national healthcare spending reached \$2.4 trillion in 2008, or 16.6% of the nation's gross domestic product, the benchmark measure for annual production

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of goods and services in the United States. Healthcare spending is projected to reach \$4.4 trillion in 2018, approximately 20.3% of the nation's gross domestic product.

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*Government Influences*

The healthcare industry is subject to extensive government regulation, licensure and operating compliance procedures. National healthcare reform is currently the subject of a major Presidential initiative, and legislation expanding coverage and making other significant changes in the health care system is expected. Currently, and for the foreseeable future, a large portion of the total cost of medical care is and will be paid by government and private insurance programs. The reform effort may substantially modify rules governing such programs, affecting payment methods, rates and limits, as well as other matters.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 has been the largest expansion of the Medicare program since its inception, and provides participants with voluntary outpatient prescription drug benefits. This Act also includes provisions relating to medication management programs, generic substitution and provider reimbursement.

As a distributor of equipment, supplies and drugs for medical, dental and veterinary offices, we are subject to numerous federal laws regulating the intersection between health care providers and suppliers of goods and services to those providers. These laws make it unlawful to pay any remuneration, direct or indirect, to induce the referral, recommendation or arrangement of any health care services paid by a federal reimbursement program (e.g., Medicare and Medicaid). A violation may result in criminal or severe civil damages, and recent changes to the federal False Claims Act adopted in 2009 have expanded the potential liability. Many states have adopted similar laws, and recently, their own state false claims acts. A number of states have also recently passed legislation regulating interactions between vendors and physicians, but as a distributor (as opposed to a manufacturer), we are generally not covered by these laws.

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 human pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated or mislabeled pharmaceuticals into the distribution system. An increasing number of states, including Florida, have already adopted laws and regulations, including drug pedigree tracking requirements, that are intended to protect the integrity of the human pharmaceutical distribution system. Regulations adopted under the federal Prescription Drug Marketing Act, effective December, 2006, require the identification and documentation of transactions involving the receipt and distribution of human prescription drugs, that is, drug pedigree information. Other states and government agencies are currently considering similar laws and regulations. We continue to work with our suppliers to help minimize the risks associated with counterfeit products in the supply chain and potential litigation.

**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.



**Results of Operations**

The following table summarizes the significant components of our operating results from continuing operations for the three and six months ended June 27, 2009 and June 28, 2008 and cash flows for the six months ended June 27, 2009 and June 28, 2008 (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>
<b>Operating results:</b>				
Net sales	\$ 1,611,006	\$ 1,640,851	\$ 3,099,611	\$ 3,162,628
Cost of sales	1,132,494	1,152,741	2,180,089	2,223,887
Gross profit	478,512	488,110	919,522	938,741
Operating expenses:				
Selling, general and administrative	356,202	374,118	702,282	739,474
Restructuring costs	-	-	4,043	-
Operating income	\$ 122,310	\$ 113,992	\$ 213,197	\$ 199,267
Other expense, net	\$ (4,253 )	\$ (5,910 )	\$ (8,283 )	\$ (10,477 )
Income from continuing operations	80,428	72,116	139,728	126,888
Income from continuing operations attributable to Henry Schein, Inc.	73,473	64,985	128,324	116,507
<b>Cash flows:</b>				
Net cash provided by operating activities			\$ 79,575	\$ 138,684
Net cash used in investing activities			(53,257 )	(82,673 )
Net cash used in financing activities			(3,142 )	(28,137 )

(1) Adjusted to reflect the effects of discontinued operations and the adoption of FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments."

**Plan of Restructuring**

On November 5, 2008, we announced certain actions to reduce operating costs, which included the elimination of 430 positions from our operations and the closing of several smaller facilities. For the six months ended June 27, 2009, we recorded restructuring costs of approximately \$4.0 million (approximately \$2.8 million after taxes). The costs associated with the restructuring are included in a separate line item, "Restructuring costs", within our consolidated statements of income. We expect that the majority of these costs will be paid in 2009.

Annual pretax cost savings from this initiative are expected to be between \$24.0 million and \$27.0 million.





**Three Months Ended June 27, 2009 Compared to Three Months Ended June 28, 2008***Net Sales*

Net sales from continuing operations for the three months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27, 2009</b>	<b>% of Total</b>		<b>June 28, 2008 (1)</b>	<b>% of Total</b>	<b>Increase / (Decrease)</b>	
						<b>\$</b>	<b>%</b>
Healthcare distribution (2):							
Dental (3)	\$ 625,791	38.9 %		\$ 659,539	40.2 %	\$ (33,748 )	(5.1 ) %
Medical (4)	350,870	21.8		324,938	19.8	25,932	8.0
International (5)	591,794	36.7		615,256	37.5	(23,462 )	(3.8 )
Total healthcare distribution	1,568,455	97.4		1,599,733	97.5	(31,278 )	(2.0 )
Technology (6)	42,551	2.6		41,118	2.5	1,433	3.5
Total	\$ 1,611,006	100.0 %		\$ 1,640,851	100.0 %	\$ (29,845 )	(1.8 )

(1) Adjusted to reflect the effects of discontinued operations.

(2) Consists of consumable products, small equipment, laboratory products, large dental and medical equipment, equipment repair services, branded and generic pharmaceuticals.

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

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

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

(6) Consists of practice management software and other value-added products and services, which are distributed primarily to healthcare providers in the United States.

The \$29.8 million, or 1.8%, decrease in net sales for the three months ended June 27, 2009 includes an increase of 5.3% local currency growth (0.7% internally generated and 4.6% from acquisitions) offset by a decrease of 7.1% related to foreign currency exchange.

The \$33.7 million, or 5.1%, decrease in dental net sales for the three months ended June 27, 2009 includes a decrease of 3.6% in local currencies (6.0% decline in internally generated growth offset by 2.4% growth from acquisitions) and a decrease of 1.5% related to foreign currency exchange. The 3.6% decline in local currencies was due to a decline in dental equipment sales and service revenues of 17.5% (18.0% decline in internally generated revenue offset by 0.5% growth from acquisitions) offset by dental consumable merchandise sales growth of 1.3% (1.7% decline in internally generated revenue offset by 3.0% growth from acquisitions).

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The \$25.9 million, or 8.0%, increase in medical net sales for the three months ended June 27, 2009 includes an increase in internal growth of 6.7% and acquisition growth of 1.3%. Approximately 3% of the internal sales growth was due to increased sales of products related to the H1N1 virus.

The \$23.5 million, or 3.8%, decrease in international net sales for the three months ended June 27, 2009 includes sales growth of 13.4% in local currencies (4.1% internally generated and 9.3% from acquisitions) offset by a decrease of 17.2% related to foreign currency exchange. The increase in local currency sales was due to strength in our dental equipment and veterinary businesses.

The \$1.4 million, or 3.5%, increase in technology net sales for the three months ended June 27, 2009 includes an increase in internal sales growth of 7.3% offset by a decrease of 3.8% related to foreign currency exchange.

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### *Gross Profit*

Gross profit and gross margin percentages from continuing operations by segment and in total for the three months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27, 2009</b>	<b>Gross Margin %</b>	<b>June 28, 2008 (1)</b>	<b>Gross Margin %</b>	<b>Increase / (Decrease)</b>	
	\$	%	\$	%	\$	%
Healthcare distribution	\$ 447,729	28.5 %	\$ 457,284	28.6 %	\$ (9,555 )	(2.1 ) %
Technology	30,783	72.3	30,826	75.0	(43 )	(0.1 )
Total	\$ 478,512	29.7	\$ 488,110	29.7	\$ (9,598 )	(2.0 )

(1) Adjusted to reflect the effects of discontinued operations.

For the three months ended June 27, 2009, gross profit decreased \$9.6 million, or 2.0%, from the comparable prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our healthcare distribution segment. These higher gross margins result from being both the developer and seller of software products, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

Healthcare distribution gross profit decreased \$9.6 million, or 2.1%, for the three months ended June 27, 2009 from the comparable prior year period. Healthcare distribution gross profit margin decreased to 28.5% for the three months ended June 27, 2009 from 28.6% for the comparable prior year period primarily due to changes in the product sales mix.

Technology gross profit decreased \$0.04 million, or 0.1%, for the three months ended June 27, 2009 from the comparable prior year period. Technology gross profit margin decreased to 72.3% for the three months ended June 27, 2009 from 75.0% for the comparable prior year period primarily due to changes in the product sales mix.

### *Selling, General and Administrative*

Selling, general and administrative expenses from continuing operations by segment and in total for the three months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27,</b>	<b>% of Respective</b>	<b>June 28,</b>	<b>% of Respective</b>	<b>Increase / (Decrease)</b>
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	2009	Net Sales		2008 (1)	Net Sales		\$	%
Healthcare distribution	\$ 340,729	21.7	%	\$ 357,534	22.3	%	\$ (16,805 )	(4.7 ) %
Technology	15,473	36.4		16,584	40.3		(1,111 )	(6.7 )
Total	\$ 356,202	22.1		\$ 374,118	22.8		\$ (17,916 )	(4.8 )

(1) Adjusted to reflect the effects of discontinued operations.

Selling, general and administrative expenses decreased \$17.9 million, or 4.8%, to \$356.2 million for the three months ended June 27, 2009 from the comparable prior year period. This decrease consists of \$12.0 million in expense reductions and a \$5.9 million net reduction from the effects of favorable foreign exchange offset by the additional selling, general and administrative costs from operations acquired. As a percentage of net sales, selling, general and administrative expenses decreased to 22.1% from 22.8% for the comparable prior year period.

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As a component of selling, general and administrative expenses, selling expenses decreased \$14.3 million, or 5.7%, to \$238.0 million for the three months ended June 27, 2009 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 14.8% from 15.4% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses decreased \$3.6 million, or 3.0%, to \$118.2 million for the three months ended June 27, 2009 from the comparable prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.3% from 7.4% for the comparable prior year period.

### *Other Expense, Net*

Other expense, net, from continuing operations for the three months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>	<b>Increase / (Decrease)</b>	
	\$	\$	\$	%
Interest income	\$ 2,486	\$ 3,974	\$ (1,488 )	(37.4 ) %
Interest expense	(6,467 )	(9,593 )	3,126	32.6
Other, net	(272 )	(291 )	19	6.5
Other expense, net	\$ (4,253 )	\$ (5,910 )	\$ 1,657	28.0

(1) Adjusted to reflect the effects of discontinued operations and the adoption of FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instrum

Other expense, net decreased \$1.7 million for the three months ended June 27, 2009 from the comparable prior year period. This decrease was primarily the result of decreased interest expense due to interest rate swaps as well as lower interest rates on our floating rate debt, partially offset by a decrease in interest income resulting from lower interest rates on our invested funds.

### *Income Taxes*

For the three months ended June 27, 2009, our effective tax rate from continuing operations was 32.9% compared to 34.1% 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.



**Six Months Ended June 27, 2009 Compared to Six Months Ended June 28, 2008**

**Net Sales**

Net sales from continuing operations for the six months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27, 2009</b>	<b>% of Total</b>		<b>June 28, 2008 (1)</b>	<b>% of Total</b>		<b>Increase / (Decrease)</b>	
							<b>\$</b>	<b>%</b>
Healthcare distribution (2):								
Dental (3)	\$ 1,222,964	39.4 %	\$	1,271,322	40.2 %	\$	(48,358 )	(3.8 ) %
Medical (4)	678,258	21.9		656,409	20.8		21,849	3.3
International (5)	1,115,513	36.0		1,154,984	36.5		(39,471 )	(3.4 )
Total healthcare distribution	3,016,735	97.3		3,082,715	97.5		(65,980 )	(2.1 )
Technology (6)	82,876	2.7		79,913	2.5		2,963	3.7
Total	\$ 3,099,611	100.0 %	\$	3,162,628	100.0 %	\$	(63,017 )	(2.0 )

(1) Adjusted to reflect the effects of discontinued operations.

(2) Consists of consumable products, small equipment, laboratory products, large dental and medical equipment, equipment repair services, branded and generic pharmaceuticals.

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

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

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

(6) Consists of practice management software and other value-added products and services, which are distributed primarily to healthcare providers in the United States.

The \$63.0 million, or 2.0%, decrease in net sales for the six months ended June 27, 2009 includes an increase of 5.4% local currency growth (0.5% internally generated and 4.9% from acquisitions) offset by a decrease of 7.4% related to foreign currency exchange.

The \$48.4 million, or 3.8%, decrease in dental net sales for the six months ended June 27, 2009 includes a decrease of 2.1% in local currencies (4.3% decline in internally generated revenue offset by 2.2% growth from acquisitions) and a decrease of 1.7% related to foreign currency exchange. The 2.1% decline in local currencies was due to a decline in dental equipment sales and service revenues of 11.9% (12.3% decline in internally generated revenue offset by 0.4% growth from acquisitions) offset by dental consumable merchandise sales growth of 1.2% (1.7% decline in internally generated revenue offset by 2.9% growth from acquisitions).

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The \$21.9 million, or 3.3%, increase in medical net sales for the six months ended June 27, 2009 includes an increase from internal growth of 2.1% and acquisition growth of 1.2%.

The \$39.5 million, or 3.4%, decrease in international net sales for the six months ended June 27, 2009 includes sales growth of 14.7% in local currencies (4.5% internally generated and 10.2% from acquisitions) offset by a decrease of 18.1% related to foreign currency exchange.

The \$3.0 million, or 3.7%, increase in technology net sales for the six months ended June 27, 2009 includes an increase in internal sales growth of 8.0% and a decrease of 4.3% related to foreign currency exchange.



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**Gross Profit**

Gross profit and gross margin percentages from continuing operations by segment and in total for the six months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27, 2009</b>	<b>Gross Margin %</b>	<b>June 28, 2008 (1)</b>	<b>Gross Margin %</b>	<b>Increase / (Decrease)</b>	
					<b>\$</b>	<b>%</b>
Healthcare distribution	\$ 859,578	28.5 %	\$ 879,494	28.5 %	\$ (19,916 )	(2.3 ) %
Technology	59,944	72.3	59,247	74.1	697	1.2
Total	\$ 919,522	29.7	\$ 938,741	29.7	\$ (19,219 )	(2.0 )

(1) Adjusted to reflect the effects of discontinued operations.

For the six months ended June 27, 2009, gross profit decreased \$19.2 million, or 2.0%, from the comparable prior year period.

Healthcare distribution gross profit decreased \$19.9 million, or 2.3%, for the six months ended June 27, 2009 from the comparable prior year period. Healthcare distribution gross profit margin remained constant at 28.5% for the six months ended June 27, 2009 compared with the comparable prior year period.

Technology gross profit increased \$0.7 million, or 1.2%, for the six months ended June 27, 2009 from the comparable prior year period. Technology gross profit margin decreased to 72.3% for the six months ended June 27, 2009 from 74.1% for the comparable prior year period primarily due to changes in the product sales mix.

**Selling, General and Administrative**

Selling, general and administrative expenses from continuing operations by segment and in total for the six months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27, 2009</b>	<b>% of Respective Net Sales</b>	<b>June 28, 2008 (1)</b>	<b>% of Respective Net Sales</b>	<b>Increase / (Decrease)</b>	
					<b>\$</b>	<b>%</b>
Healthcare distribution	\$ 672,528	22.3 %	\$ 707,623	23.0 %	\$ (35,095 )	(5.0 ) %
Technology	29,754	35.9	31,851	39.9	(2,097 )	(6.6 )

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Total	\$	702,282	22.7	\$	739,474	23.4	\$	(37,192)	(5.0)
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(1) Adjusted to reflect the effects of discontinued operations.

Selling, general and administrative expenses decreased \$37.2 million, or 5.0%, to \$702.3 million for the six months ended June 27, 2009 from the comparable prior year period. This decrease consists of \$24.5 million in expense reductions and a \$12.7 million net reduction from the effects of favorable foreign exchange offset by the additional selling, general and administrative costs from operations acquired. As a percentage of net sales, selling, general and administrative expenses decreased to 22.7% from 23.4% for the comparable prior year period.

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As a component of selling, general and administrative expenses, selling expenses decreased \$33.5 million, or 6.7%, to \$466.9 million for the six months ended June 27, 2009 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 15.1% from 15.8% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses decreased \$3.7 million, or 1.6%, to \$235.4 million for the six months ended June 27, 2009 from the comparable prior year period. As a percentage of net sales, general and administrative expenses remained constant at 7.6% when compared with the comparable prior year period.

### *Other Expense, Net*

Other expense, net, from continuing operations for the six months ended June 27, 2009 and June 28, 2008 were as follows (in thousands):

	<b>June 27, 2009</b>	<b>June 28, 2008 (1)</b>	<b>Increase / (Decrease)</b>	
			<b>\$</b>	<b>%</b>
Interest income	\$ 5,287	\$ 7,957	\$ (2,670 )	(33.6 ) %
Interest expense	(13,281 )	(17,760 )	4,479	25.2
Other, net	(289 )	(674 )	385	57.1
Other expense, net	\$ (8,283 )	\$ (10,477 )	\$ 2,194	20.9

(1) Adjusted to reflect the effects of discontinued operations and the adoption of FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instrum

Other expense, net decreased \$2.2 million for the six months ended June 27, 2009 from the comparable prior year period. This decrease was primarily the result of decreased interest expense due to interest rate swaps as well as lower interest rates on our floating rate debt, partially offset by a decrease in interest income resulting from lower interest rates on our invested funds.

### *Income Taxes*

For the six months ended June 27, 2009, our effective tax rate from continuing operations was 33.1% compared to 34.1% 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.



## Liquidity and Capital Resources

Our principal capital requirements include the funding of working capital needs, funding of acquisitions, purchases of securities and fixed assets, repayments of debt principal 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 expect our historical seasonality of sales to continue in the foreseeable future.

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. Given current operating, economic and industry conditions, we believe that demand for our products and services may decline slightly.

Net cash flow provided by operating activities was \$79.6 million for the six months ended June 27, 2009, compared to \$138.7 million for the comparable prior year period. This net change of \$59.1 million was primarily due to changes in net working capital. The timing of vendor payments occurring early in the year unfavorably affected cash flow by approximately \$40 million to \$50 million.

Net cash used in investing activities was \$53.3 million for the six months ended June 27, 2009, compared to \$82.7 million for the comparable prior year period. The net change of \$29.4 million was primarily due to the absence of purchases of available-for-sale securities. We expect to invest approximately \$20 million to \$30 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 in financing activities was \$3.1 million for the six months ended June 27, 2009, compared to net cash used in financing activities of \$28.1 million for the comparable prior year period. The net change of \$25.0 million was primarily due to the absence of stock repurchases in the current year.

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

	<b>June 27, 2009</b>	<b>December 27, 2008 (1)</b>
Cash and cash equivalents	\$ 393,873	\$ 369,570
Available-for-sale securities - long-term	24,053	29,028
Working capital	1,031,678	882,401
Debt:		
Bank credit lines	\$ 2,014	\$ 4,936
Current maturities of long-term debt	154,251	156,405

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Long-term debt	261,229	256,648
Total debt	\$ 417,494	\$ 417,989

(1) Adjusted to reflect the adoption of FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon C

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

As of June 27, 2009, we have approximately \$27.0 million (\$24.0 million net of temporary impairments) invested in auction-rate securities (“ARS”). ARS are publicly issued securities that represent long-term investments, typically 10-30 years, in which interest rates had reset periodically (typically every 7, 28 or 35 days) through a “dutch auction” process. Approximately \$22.1 million (\$19.1 million net of temporary impairments) of our ARS are backed by student loans that are backed by the federal government and the remaining \$4.9 million are invested in closed-end municipal bond funds. Our ARS portfolio is comprised of investments that are rated AAA by major independent rating agencies. Since the middle of February 2008, these auctions have failed to settle due to an excess number of sellers compared to buyers. The failure of these auctions has resulted in our inability to liquidate our ARS in the near term. We are currently not aware of any defaults or financial conditions that would negatively affect the issuers’ ability to continue to pay interest and principal on our ARS. We continue to earn and receive interest at contractually agreed upon rates. We believe that the current lack of liquidity related to our ARS investments will have no impact on our ability to fund our ongoing operations and growth opportunities. As of June 27, 2009, we have classified ARS holdings as long-term, available-for-sale and they are included in the Investment and other line within our consolidated balance sheet.

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

Our accounts receivable days sales outstanding from continuing operations increased to 41.9 days as of June 27, 2009 from 40.9 days as of June 28, 2008. Our inventory turns from continuing operations decreased to 5.9 as of June 27, 2009 from 6.5 as of June 28, 2008. Our working capital accounts may be impacted by current and future economic conditions.

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

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

Upon conversion, we are required to satisfy our conversion obligation with respect to the principal amount of the notes to be converted, in cash, with any remaining amount to be satisfied in shares of our common stock. We currently have sufficient availability of funds through our \$400.0 million revolving credit facility (discussed below) along with cash on hand to fully satisfy our debt obligations, including the cash portion of our convertible debt. We also will pay contingent interest during any six-month-interest period beginning August 20, 2010, if the average trading price of the notes is above specified





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levels. We may redeem some or all of the notes on or after August 20, 2010. The note holders may require us to purchase all or a portion of the notes on August 15, 2010, 2014, 2019, 2024 and 2029 or, subject to specified exceptions, upon a change of control event.

Our \$170.0 million of senior notes include \$130.0 million of notes, which bear interest at a fixed rate of 6.9% per annum and matured and were repaid from existing cash balances on June 30, 2009, and \$40.0 million of notes which bear interest at a fixed rate of 6.7% per annum and mature at a rate of \$20.0 million per annum on September 25, 2009 and September 27, 2010, respectively. Interest on both notes is payable semi-annually.

In 2003, we entered into swap agreements relating to our \$230.0 million senior notes to exchange their fixed interest rates for variable interest rates. The value of debt exchanged to a variable rate of interest reduces according to the repayment schedule of the senior notes. As of June 27, 2009, there is \$170.0 million of principal remaining with a weighted-average interest rate of 4.92%. This weighted-average variable interest rate is comprised of LIBOR plus a spread and resets on the interest due dates for such senior notes.

On September 5, 2008, we entered into a new \$400.0 million revolving credit facility with a \$100.0 million expansion feature. The \$400.0 million credit line expires in September 2013. This credit line replaced our then existing \$300.0 million revolving credit line, which would have expired in May 2010. As of June 27, 2009, there were no borrowings outstanding under this revolving credit facility and there were \$13.0 million of letters of credit provided to third parties.

Under our common stock repurchase programs approved by our Board of Directors, we have \$57.7 million available for future common stock share repurchases. During the quarter ended June 27, 2009, we did not repurchase any of our common stock.

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value based on third-party valuations or at a price pursuant to a formula as defined in the agreements, which approximates fair value. Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain profitability targets are met. For acquisitions completed prior to 2009, we accrue liabilities that may arise from these transactions when we believe that the outcome of the contingency is determinable beyond a reasonable doubt. For 2009 and future acquisitions, as required by FASB Statement No. 141 (revised 2007), "Business Combinations", we will accrue liabilities for the estimated fair value of additional purchase price adjustments at the time of the acquisition. Any adjustments to these accrual amounts will be recorded in our consolidated statement of income.

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

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

### Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates from those disclosed in Item 7 of our Annual Report on Form 10-K for the year ended December 27, 2008.

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## Recently Issued Accounting Standards

### Accounting Pronouncements Adopted

In April 2009, the FASB issued Staff Position (“FSP”) No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP 107-1 and APB 28-1”). FSP 107-1 and APB 28-1 require that disclosures about the fair value of a company’s financial instruments be made whenever summarized financial information for interim reporting periods is made. The provisions of FSP 107-1 and APB 28-1 are effective for interim reporting periods ending after June 15, 2009. The adoption of FSP 107-1 and APB 28-1 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (“FSP 157-4”). FSP 157-4 does not change the definition of fair value as detailed in FAS 157, but provides additional guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for the asset or liability have significantly decreased. The provisions of FSP 157-4 are effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FSP 157-4 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (“FSP 115-2 and FAS 124-2”). FSP 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities and provides additional disclosure requirements for other-than-temporary impairments for debt and equity securities. FSP 115-2 and FAS 124-2 addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The provisions of FSP 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FSP 115-2 and FAS 124-2 did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued FASB Statement No. 165, “Subsequent Events” (“FAS 165”) effective for interim financial periods ending after June 15, 2009. FAS 165 establishes principles and requirements for subsequent events. FAS 165 defines the period after the balance sheet date during which events or transactions that may occur would be required to be disclosed in a company’s financial statements. Public entities are required to evaluate subsequent events through the date that financial statements are issued. FAS 165 also provides guidelines in evaluating whether or not events or transactions occurring after the balance sheet date should be recognized in the financial statements. FAS 165 requires disclosure of the date through which subsequent events have been evaluated. We have evaluated subsequent events through the date of issuance of this report.

### 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 27, 2008.

### 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 June 27, 2009 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 within the time periods specified in the SEC's rules and forms.

#### *Changes in Internal Control Over Financial Reporting*

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

During the quarter ended June 27, 2009, we completed two acquisitions with aggregate annual revenues of \$28.0 million in Canada and Israel.

Post acquisition related activities continued for Dental, Medical and Animal Health businesses acquired since September 2008 within the United States and internationally with approximate aggregate annual revenues of \$299.0 million. These acquisitions continue to utilize separate information and financial accounting systems, and have been included in our consolidated financial statements.

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

*Limitations of the Effectiveness of Internal Control*

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

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

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

As of June 27, 2009, we had accrued our best estimate of potential losses relating to product liability and other claims that were probable to result in a liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other external factors, including probable recoveries from third parties.

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

*Purchases of equity securities by the issuer*

Our current share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to \$100.0 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. On both October 31, 2005 and March 28, 2007, our Board of Directors authorized an additional \$100.0 million, for a total of \$300.0 million, of shares of our common stock to be repurchased under this program. As of June 27, 2009, we had repurchased \$242.3 million of common stock (5,633,952 shares) under this initiative, with \$57.7 million available for future common stock share repurchases.

During the fiscal quarter ended June 27, 2009, we did not repurchase any of our common stock. The maximum number of shares that may yet be purchased under this program, as shown below, is determined at the end of each month based on the closing price of our common stock at that time.

**Maximum Number  
of Shares that May Yet**

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<b>Fiscal Month</b>	<b>Be Purchased Under Our Program</b>
03/29/09 through 04/25/09	1,448,818
04/26/09 through 05/30/09	1,267,795
05/31/09 through 06/27/09	1,215,226

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

At our Annual Meeting of Stockholders held on May 28, 2009, our stockholders took the following actions:

- (i) Re-elected the following individuals to our Board of Directors:

Barry J. Alperin	(74,259,047 shares voting for, 9,504,344 shares withheld)
Gerald A. Benjamin	(73,900,754 shares voting for, 9,862,637 shares withheld)
Stanley M. Bergman	(73,862,723 shares voting for, 9,900,668 shares withheld)
James P. Breslawski	(73,900,298 shares voting for, 9,863,093 shares withheld)
Paul Brons	(74,910,104 shares voting for, 8,853,287 shares withheld)
Margaret A. Hamburg, M.D.*	(66,318,598 shares voting for, 17,444,793 shares withheld)
Donald J. Kabat	(74,418,755 shares voting for, 9,344,636 shares withheld)
Philip A. Laskawy	(68,792,415 shares voting for, 14,970,976 shares withheld)
Karyn Mashima	(74,911,475 shares voting for, 8,851,916 shares withheld)
Norman S. Matthews	(74,388,494 shares voting for, 9,374,897 shares withheld)
Mark E. Mlotek	(73,886,144 shares voting for, 9,877,247 shares withheld)
Steven Paladino	(68,495,594 shares voting for, 15,267,797 shares withheld)
Louis W. Sullivan, M.D.	(74,839,217 shares voting for, 8,924,174 shares withheld)

\* On May 19, 2009, Dr. Margaret A. Hamburg voluntarily resigned from her position as a member of the Company's Board of Directors and withdrew her name as a nominee for re-election to the Company's Board of Directors. Dr. Hamburg advised the Company that she was confirmed as the Commissioner of the U.S. Food and Drug Administration and her responsibilities in that connection precluded her continued service as a member of the Company's Board of Directors.

- (ii) Amended the Company's 1994 Stock Incentive Plan (64,763,655 shares voting for; 12,294,971 shares voting against; 225,856 shares abstaining and 6,478,909 broker non-votes).
- (iii) Amended the Company's 162(m) Cash Bonus Plan (80,675,151 shares voting for; 2,828,409 shares voting against and 259,831 shares abstaining).
- (iv) Ratified the selection of BDO Seidman, LLP as our independent registered public accounting firm for the year ending December 26, 2009 (83,004,607 shares voting for; 704,673 shares voting against and 53,911 shares abstaining).

**ITEM 6. EXHIBITS**



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Exhibits.

10.1 Amendment Number Two to the Henry Schein, Inc. 1994 Stock Incentive Plan (as amended and restated effective as of March 27, 2007)

10.2 Amendment Number Three to the Henry Schein, Inc. Section 162(m) Cash Bonus Plan

10.3 Amendment Number One to the Henry Schein, Inc. Supplemental Executive Retirement Plan, amended and restated effective as of January 1, 2008

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**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: August 4, 2009