HENRY SCHEIN INC
Form 10-K
February 22, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 25, 2010

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

Commission file number 0-27078

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

DELAWARE	135 Duryea Road
(State or other jurisdiction of incorporation or organization)	Melville, New York (Address of principal executive offices)
11-3136595	11747
(I.R.S. Employer Identification No.)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.01 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES: X NO: __

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES: __ NO: X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES: X NO: __

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

YES: X NO: __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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

Large accelerated filer: X Accelerated filer: __ Non-accelerated filer: __ Smaller reporting company: __

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES: __ NO: X

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the NASDAQ Global Select Market on June 26, 2010 was approximately $5,099,185,000.

As of February 11, 2011, there were 91,897,104 shares of registrant's Common Stock, par value $.01 per share, outstanding.

Documents Incorporated by Reference:

Portions of the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year (December 25, 2010) are incorporated by reference in Part III hereof.

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PART I

ITEM 1. Business

General

We believe we are the largest distributor of healthcare products and services primarily to office-based healthcare practitioners. We serve more than 700,000 customers worldwide, including dental practitioners and laboratories, physician practices and animal health clinics, as well as government and other institutions. We believe that we have a strong brand identity due to our more than 78 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ more than 13,500 people (of which over 6,000 are based outside the United States) and have operations in the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland and the United Kingdom. We also have affiliates in Iceland, Saudi Arabia, Turkey and the United Arab Emirates.

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

We conduct our business through two reportable segments: healthcare distribution and technology. These segments offer different products and services to the same customer base. The healthcare distribution reportable segment aggregates our dental, medical, animal health and international operating segments. This segment consists of consumable products, small equipment, laboratory products, large dental equipment, equipment repair services, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products and vitamins. Our technology group provides software, technology and other value-added services to healthcare practitioners, primarily in the United States, Canada, the United Kingdom, Australia and New Zealand. Our value-added practice solutions include practice management software systems for dental and medical practitioners and animal health clinics. Our technology group offerings also include financial services on a non-recourse basis, e-services and continuing education services for practitioners.

Industry

The healthcare products distribution industry, as it relates to office-based healthcare practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical and animal health markets, was estimated to produce revenues of approximately $28 billion in 2010 in the combined North American, European and Australian/New Zealand markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

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

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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.

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.

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.

Competition

The distribution and manufacture of healthcare supplies and equipment is highly competitive. Many of the healthcare distribution products we sell are available to our customers from a number of suppliers. In addition, our competitors could obtain exclusive rights from manufacturers to market particular products. Manufacturers also could seek to sell directly to end-users, and thereby eliminate or reduce our role and that of other distributors.

In North America, we compete with other distributors, as well as several manufacturers, of dental, medical and animal health products, primarily on the basis of price, breadth of product line, customer service and value-added products and services. In the sale of our dental products, our primary competitors are the Patterson Dental division of Patterson Companies, Inc. and Benco Dental Supply Company. In addition, we compete against a number of other distributors that operate on a national, regional and local level. Our primary competitors in the sale of medical products are McKesson Corp., PSS World Medical, Inc. and Cardinal Health, Inc., which are national distributors. In the animal health market, our primary competitors are MWI Veterinary Supply Inc. and the Webster Veterinary division of Patterson Companies, Inc. We also compete against a number of regional and local medical and animal health distributors, as well as a number of manufacturers that sell directly to physicians and veterinarians. With regard to our dental practice management software, we compete against numerous companies, including PracticeWorks, Inc. and the Patterson Dental division of Patterson Companies, Inc. The medical practice management and electronic medical records market is very fragmented and therefore we compete with numerous companies such as NextGen Healthcare Information Systems, Inc., eClinicalWorks, Allscripts, LLC and athenahealth, Inc. In the animal health practice management market, our primary competitors are IDEXX Laboratories, Inc. and the Webster Veterinary division of Patterson Companies, Inc.

We also face significant competition internationally, where we compete on the basis of price and customer service against several large competitors, including the GACD Group, Pluradent AG & Co., Planmeca Oy, Arseus NV, Billericay Dental Supply Co. Ltd., National Veterinary Services and Alcyon SA, as well as a large number of dental, medical and animal health product distributors and manufacturers in Australia, Austria, Belgium, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland, Turkey and the United Kingdom.

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Significant price reductions by our competitors could result in a similar reduction in our prices. Any of these competitive pressures may materially adversely affect our operating results.

Competitive Strengths

We have more than 78 years of experience in distributing products to healthcare practitioners resulting in strong awareness of the "Henry Schein" brand. Our competitive strengths include:

Direct sales and marketing expertise. Our sales and marketing efforts are designed to establish and solidify customer relationships through personal visits by field sales representatives, frequent direct marketing and telesales contact, emphasizing our broad product lines, including exclusive distribution agreements, competitive prices and ease of order placement. The key elements of our direct sales and marketing efforts are:

- Field sales consultants. We have approximately 3,100 field sales consultants, including equipment sales specialists, covering major North American, European and other international markets. These consultants complement our direct marketing and telesales efforts and enable us to better market, service and support the sale of more sophisticated products and equipment.

- Direct marketing. During 2010, we distributed approximately 30.8 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to existing and potential office-based healthcare customers.

- Telesales. We support our direct marketing effort with approximately 1,600 inbound and outbound telesales representatives, who facilitate order processing and generate new sales through direct and frequent contact with customers.

Broad product and service offerings at competitive prices. We offer a broad range of products and services to our customers, at competitive prices, in the following categories:

- Consumable supplies and equipment. We offer over 90,000 Stock Keeping Units, or SKUs, to our customers. Of the SKUs offered, approximately 51,000 are offered to our dental customers, approximately 38,000 to our medical customers and approximately 21,000 to our animal health customers. We offer over 100,000 additional SKUs to our customers in the form of special order items.

- Technology and other value-added products and services. We sell practice management software systems to our dental, medical and animal health customers. Our practice management and electronic medical records software solutions provide practitioners with patient treatment history, billing, accounts receivable analyses and management, appointment calendars, electronic claims processing and word processing programs. As of December 25, 2010, we have an active user base of more than 70,000 practices, including Dentrix®, Easy Dental®, Oasis® and EXACT® for dental practices, MicroMD® for physician practices and AVImark® and DVM Manager® for animal health clinics.

- Repair services. We have 188 equipment sales and service centers worldwide that provide a variety of repair, installation and technical services for our healthcare customers. Our ProRepair technicians provide installation and repair services for dental handpieces; dental, medical and animal health small equipment; table top sterilizers; and large dental equipment.

- Financial services. We offer our customers solutions in operating their practices by providing access to a number of financial services and products (including non-recourse financing for equipment, technology and software products; non-recourse patient financing; collection services and credit card processing) at rates that we believe are generally lower than what they would be able to secure independently. We also provide dental practice valuation and brokerage services.

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Commitment to superior customer service. We maintain a strong commitment to providing superior customer service. We frequently monitor our customer service through customer surveys, focus groups and statistical reports. Our customer service policy primarily focuses on:

- Exceptional order fulfillment. Approximately 99% of items ordered in the United States and Canada are shipped without back ordering and are shipped on the same business day the order is received.

- Streamlined ordering process. Customers may place orders 24 hours a day, 7 days a week by mail, fax, telephone, e-mail, Internet and by using our computerized order entry systems.

Integrated management information systems. Our information systems generally allow for centralized management of key functions, including accounts receivable, inventory, accounts payable, payroll, purchasing, sales and order fulfillment. These systems allow us to manage our growth, deliver superior customer service, properly target customers, manage financial performance and monitor daily operational statistics.

Cost-effective purchasing. We believe that cost-effective purchasing is a key element to maintaining and enhancing our position as a competitive-pricing provider of healthcare products. We continuously evaluate our purchase requirements and suppliers' offerings and prices in order to obtain products at the lowest possible cost. In 2010, our top 10 healthcare distribution suppliers and our single largest supplier accounted for approximately 31% and 8%, respectively, of our aggregate purchases.

Efficient distribution. We distribute our products from our strategically located distribution centers. We strive to maintain optimal inventory levels in order to satisfy customer demand for prompt delivery and complete order fulfillment. These inventory levels are managed on a daily basis with the aid of our management information systems. Once an order is entered, it is electronically transmitted to the distribution center nearest the customer’s location and a packing slip for the entire order is printed for order fulfillment.

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Products

The following table sets forth the percentage of consolidated net sales by principal categories of products offered through our healthcare distribution and technology reportable segments:

	2010	2009	2008
Healthcare Distribution			
Dental:			
Consumable dental products, dental laboratory products and small equipment (1)	42.2 %	45.9 %	46.4 %
Large dental equipment (2)	15.5	17.1	17.9
Total dental	57.7	63.0	64.3
Medical products (3)	19.2	23.4	22.9
Animal health products (4)	20.4	11.0	10.2
Total Healthcare Distribution	97.3	97.4	97.4
Technology			
Software and related products and other value-added products (5)	2.7	2.6	2.6
Total	100.0 %	100.0 %	100.0 %

(1) Includes X-ray products, infection-control products, handpieces, preventatives, impression materials, composites, anesthetics, teeth, dental implants, gypsum, acrylics, articulators and abrasives.

(2) Includes dental chairs, delivery units and lights, X-ray equipment, equipment repair and high-tech equipment.

(3) Includes branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection-control products, X-ray products, equipment and vitamins.

(4) Includes branded and generic pharmaceuticals, surgical and consumable products and services and equipment.

(5) Includes software and related products and other value-added products, including financial products and continuing education.

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Business Strategy

Our objective is to continue to expand as a value-added distributor of healthcare products and services to office-based healthcare practitioners. To accomplish this, we will apply our competitive strengths in executing the following strategies:

- Increase penetration of our existing customer base. We have over 700,000 customers worldwide and we intend to increase sales to our existing customer base and enhance our position as their primary supplier.

- Increase the number of customers we serve. This strategy includes increasing the number and productivity of field sales consultants, as well as using our customer database to focus our marketing efforts.

- Leverage our value-added products and services. We continue to increase cross-selling efforts for key product lines. In the dental business, we have significant cross-selling opportunities between our dental practice management software users and our dental distribution customers. In the medical business, we have opportunities to expand our vaccine, injectables and other pharmaceuticals sales to medical distribution customers, as well as cross-selling core products and practice management software with these key products. In the animal health business, we have opportunities to cross-sell practice management software and other products.

- Pursue strategic acquisitions and joint ventures. Our acquisition strategy includes acquiring businesses and entering into joint ventures complementary to ours that will provide, among other things, additional sales to be channeled through our existing distribution infrastructure, access to additional product lines and field sales consultants and an opportunity to further expand into new geographic markets.

Markets Served

Demographic trends indicate that our markets are growing, as an aging U.S. population is increasingly using healthcare services. Between 2010 and 2020, the 45 and older population is expected to grow by approximately 15%. Between 2010 and 2030, this age group is expected to grow by approximately 29%. This compares with expected total U.S. population growth rates of approximately 10% between 2010 and 2020 and approximately 20% between 2010 and 2030.

In the dental industry, there is predicted to be a rise in oral healthcare expenditures as the 45 and older segment of the population increases. Cosmetic dentistry is another growing aspect of dental practices as new technologies allow dentists to offer cosmetic solutions that patients seek. At the same time, there is an expected increase in dental insurance coverage.

We support our dental professionals through the many SKUs that we offer, as well as through important value-added services, including practice management software, electronic claims processing, financial services and continuing education, all designed to help maximize a practitioner’s efficiency.

There continues to be a migration of procedures from acute-care settings to physicians’ offices, a trend that we believe provides additional opportunities for us. There also is the continuing use of vaccines, injectables and other pharmaceuticals in alternate-care settings. We believe we have established a leading position as a vaccine supplier to the office-based physician practitioner.

We believe our international group is a leading European healthcare supplier servicing office-based dental, medical and animal health practices. We are in the process of implementing SAP software across continental Europe. Additionally, we are expanding our dental full-service model and our animal health presence in Europe, as well as our medical offerings in countries where opportunities exist. Through our "Schein Direct" program, we also have the capability to provide door-to-door air package delivery to practitioners in over 200 countries around the world.

For information on revenues and long-lived assets by geographic area, see Note 15 of "Notes to Consolidated Financial Statements," which is incorporated herein by reference.

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Seasonality and Other Factors Affecting Our Business and Quarterly Results

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Net sales and operating profits generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based healthcare practitioners and year-end promotions. Net sales and operating profits generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. We expect our historical seasonality of sales to continue in the foreseeable future. Quarterly results also may be adversely affected by a variety of other factors, including:

- costs of developing new applications and services;
- costs related to acquisitions and/or integrations of technologies or businesses;
- timing and amount of sales and marketing expenditures;
- timing of pricing changes offered by our vendors;
- timing of the introduction of new products and services by our vendors;
- changes in or availability of vendor contracts or rebate programs;
- vendor rebates based upon attaining certain growth goals;
- changes in the way vendors introduce or deliver products to market;
- exclusivity requirements with certain vendors may prohibit us from distributing competitive products manufactured by other vendors;
- loss of sales representatives;
- general economic conditions, as well as those specific to the healthcare industry and related industries;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- our success in establishing or maintaining business relationships;
- restructuring costs;
- changes in accounting principles;
- unexpected difficulties in developing and manufacturing products;
- product demand and availability or recalls by manufacturers;

- exposure to product liability and other claims in the event that the use of the products we sell results in injury; and
- increases in the cost of shipping or service issues with our third-party shippers.

Any change in one or more of these or other factors could cause our annual or quarterly operating results to fluctuate. If our operating results do not meet market expectations, our stock price may decline.

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Governmental Regulations

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to various local, state, federal and foreign governmental laws and regulations applicable to the distribution of pharmaceuticals and medical devices. Among the federal laws applicable to us are the Controlled Substances Act, the Federal Food, Drug, and Cosmetic Act, as amended, the Prescription Drug Marketing Act of 1987, and Section 361 of the Public Health Service Act. We are also subject to comparable foreign regulations.

The Federal Food, Drug, and Cosmetic Act generally regulates the introduction, manufacture, advertising, labeling, packaging, storage, handling, reporting, marketing and distribution of, and record keeping for, pharmaceuticals and medical devices shipped in interstate commerce, and states may similarly regulate such activities within the state. Section 361 of the Public Health Service Act, which provides authority to prevent the spread of communicable diseases, serves as the legal basis for the United States Food and Drug Administration's regulation of human cells, tissues, and cellular and tissue-based products, also known as HCT/P products.

The Prescription Drug Marketing Act of 1987, or PDMA, which amended the Federal Food, Drug, and Cosmetic Act, establishes certain requirements applicable to the wholesale distribution of prescription drugs, including the requirement that wholesale drug distributors be licensed by each state in which they conduct business, provide certain drug pedigree information on the distribution of prescription drugs and act in accordance with federally established guidelines on storage, handling and record maintenance.

Under the Controlled Substances Act, as a distributor of controlled substances, we are required to obtain a registration annually from the United States Drug Enforcement Administration and are subject to other regulatory requirements relating to the sale, marketing, handling and distribution of such drugs, in accordance with specified rules and regulations. We are subject to inspection by the United States Drug Enforcement Administration.

Certain of our businesses are required to register for permits and/or licenses with, and comply with operating and security standards of, the United States Drug Enforcement Administration, the United States Food and Drug Administration, the United States Department of Health and Human Services, and various state boards of pharmacy, state health departments and/or comparable state agencies as well as foreign agencies, and certain accrediting bodies depending on the type of operations and location of product distribution, manufacturing or sale. These businesses include those that distribute, manufacture and/or repackage prescription pharmaceuticals and/or medical devices and/or HCT/P products, or own pharmacy operations, or install, maintain or repair equipment. In addition, Section 301 of the National Organ Transplant Act, and a number of comparable state laws, impose civil and/or criminal penalties for the transfer of certain human tissue (for example human bone products) for valuable consideration, while generally permitting payments for the reasonable costs incurred in procuring, processing, storing and distributing that tissue. The United States Drug Enforcement Administration, the United States Food and Drug Administration and state regulatory authorities have broad enforcement powers, including the ability to suspend or limit the distribution of products by our distribution centers, seize or order the recall of products and impose significant criminal, civil and administrative sanctions for violations of these laws and regulations. Our customers are also subject to significant federal, state, local and foreign governmental regulation.

Certain of our businesses are subject to federal and state (and similar foreign) healthcare fraud and abuse, referral and reimbursement laws, and regulations with respect to their operations. Such laws prohibit, among other things, the submission or causing the submission of false or fraudulent claims for reimbursement, and soliciting, offering, receiving or paying remuneration in order to induce the referral of a patient or ordering, purchasing, leasing or arranging for or recommending ordering, purchasing or leasing, of items or services that are paid for by government health care programs (known as "anti-kickback" laws). Violations of these laws could result in civil and criminal penalties. The fraud and abuse laws and regulations have been subject

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to heightened enforcement activity over the past few years, particularly through "relators," who serve as whistleblowers by filing complaints in the name of the United States (and if applicable, particular states) under federal and state False Claims Act statutes, and an anti-kickback violation could be a basis for a False Claims action. These laws and regulations are subject to frequent modification and varied interpretation, and can have a material adverse impact on us if a violation is found. The Patient Protection and Affordable Care Act, enacted in March 2010, known as The Health Care Reform Bill or PPACA, significantly strengthened the federal False Claims Act, and the anti-kickback provisions, which could lead to the possibility of increased whistleblower or relator suits.

PPACA also included other provisions to reduce fraud and abuse and Medicare expenditures and the cost of healthcare generally, to increase federal oversight of private health insurance plans and to provide access to health coverage for an additional 32 million people, some of which impact and further regulate some of our businesses. In addition to the foregoing, PPACA imposed new reporting and disclosure requirements for pharmaceutical and device manufacturers with regard to payments or other transfers of value made to certain practitioners, including physicians and dentists, and teaching hospitals beginning in January 2012. A provision in PPACA requiring those without insurance to pay a penalty was recently declared unconstitutional by a Virginia federal district court, which permitted other provisions of the legislation that do not relate to health insurance, as well as those provisions that could improve insurance coverage, to remain in effect. PPACA in its entirety was declared unconstitutional by a Florida federal district court on January 31, 2011. Two other federal district courts (in Michigan and Virginia) have affirmed the constitutionality of PPACA. Appeals are pending, and the matter is expected to be determined by the Supreme Court of the United States.

Certain of our businesses also maintain contracts with governmental agencies and are subject to certain regulatory requirements specific to government contractors.

Certain of our businesses are subject to various additional federal, state, local and foreign laws and regulations, including with respect to the sale, transportation, storage, handling and disposal of hazardous or potentially hazardous substances, and safe working conditions. In recent years, some states have passed or proposed laws and regulations that are intended to protect the integrity of the medical supply channel. For example, Florida and certain other states have implemented or are implementing drug pedigree requirements that require that prescription drugs be distributed with records or information documenting the prior distribution of the drug, back to the manufacturers. California has enacted a law requiring the implementation of an electronic drug pedigree system that provides track and trace chain of custody technologies, such as radio frequency identification, or RFID, technologies, although the effective date has been postponed until January 1, 2015 for pharmaceutical manufacturers, and July 1, 2016 for pharmaceutical wholesalers and repackagers. There have been increasing efforts by various levels of government to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated or misbranded pharmaceuticals into the distribution system. At the federal level, the United States Food and Drug Administration issued final regulations pursuant to PDMA that became effective in December 2006. The regulations impose drug pedigree and other chain of custody requirements that increase the costs and/or burden to us of selling our products and handling product returns. In early December 2006, the federal District Court for the Eastern District of New York issued a preliminary injunction enjoining the implementation of some of the federal drug pedigree requirements in response to a case initiated by secondary distributors. The court has continued to extend the injunction.

The United States Food and Drug Administration Amendments Act of 2007, which went into effect on September 27, 2007, requires the United States Food and Drug Administration to establish standards and identify and validate effective technologies for the purpose of securing the pharmaceutical supply chain against counterfeit drugs. These standards include any track and trace or authentication technologies, such as RFID and other technologies. The United States Food and Drug Administration has indicated that it is currently drafting a proposed rule as required by the statute. The United States Food and Drug Administration has also indicated that it is developing a proposal to require unique device identifiers for medical devices.

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Certain of our businesses involve access to personal health, medical, financial and other information of individuals, and are accordingly directly or indirectly subject to numerous federal, state, local and foreign laws and regulations that protect the privacy and security of such information, and require, among other things, the implementation of various recordkeeping, operational, notice and other practices intended to safeguard that information, limit its use to allowed purposes, and notify individuals in the event of privacy and security breaches. As a result of the federal Health Information Technology for Economic and Clinical Health Act (HITECH Act), which was passed in 2009, some of our businesses that were previously only indirectly subject to federal HIPAA privacy and security rules became directly subject to such rules because such businesses serve as "business associates" of HIPAA covered entities, such as health care providers. Additional rules under the HITECH Act are expected to be issued in early 2011, further expanding the privacy and security requirements applicable to some of our businesses.

In addition, United States and international import and export laws and regulations require us to abide by certain standards relating to the importation and exportation of products. We also are subject to certain laws and regulations concerning the conduct of our foreign operations, including the U.S. Foreign Corrupt Practices Act and anti-bribery laws and laws pertaining to the accuracy of our internal books and records.

While we believe that we are substantially compliant with the foregoing laws and regulations promulgated thereunder and possess all material permits and licenses required for the conduct of our business, there can be no assurance that regulations that impact our business or customers' practices will not have a material adverse impact on our business. As a result of political, economic and regulatory influences, the healthcare distribution industry in the United States is under intense scrutiny and subject to fundamental changes. We cannot predict what further reform proposals, if any, will be adopted, when they may be adopted, or what impact they may have on us.

See "ITEM 1A. Risk Factors" for a discussion of additional regulatory developments that may affect our results of operations and financial condition.

Proprietary Rights

We hold trademarks relating to the "Henry Schein" name and logo, as well as certain other trademarks. Pursuant to agreements executed in connection with our reorganization in 1994, both Henry Schein, Inc. and Schein Pharmaceutical, Inc. (which was acquired by Watson Pharmaceuticals, Inc. in 2000), a company previously engaged in the manufacture and distribution of multi-source pharmaceutical products, are entitled to use the "Schein" name in connection with their respective businesses, but Schein Pharmaceutical, Inc. must always use "Schein" in combination with the word "Pharmaceutical" and is not entitled to use the name "Henry Schein" or to use "Schein" alone or with any other word (other than "Pharmaceutical"). We intend to protect our trademarks to the fullest extent practicable.

Employees

As of December 25, 2010, we employed more than 13,500 full-time employees, including approximately 1,600 telesales representatives, 3,100 field sales consultants, including equipment sales specialists, 2,575 ware–house employees, 600 computer programmers and technicians, 1,250 management employees and 4,775 office, clerical and administrative employees. Approximately 305 or 2.3% of our employees were subject to collective bargaining agreements. We believe that our relations with our employees are excellent.

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Available Information

We make available free of charge through our Internet Web site, www.henryschein.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of beneficial ownership of securities on Forms 3, 4 and 5 and amendments to these reports and statements filed or furnished pursuant to Section 13(a) and Section 16 of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the United States Securities and Exchange Commission, or SEC.

The above information is also available at the SEC's Office of Investor Education and Advocacy at United States Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-0213 or obtainable by calling the SEC at (800) 732-0330. In addition, the SEC maintains an Internet Web site at www.sec.gov, where the above information can be viewed.

Our principal executive offices are located at 135 Duryea Road, Melville, New York 11747, and our telephone number is (631) 843-5500. Unless the context specifically requires otherwise, the terms the "Company," "Henry Schein," "we," "us" and "our" mean Henry Schein, Inc., a Delaware corporation, and its consolidated subsidiaries.

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Executive Officers of the Registrant

The following table sets forth certain information regarding our executive officers:

Name	Age	Position
Stanley M. Bergman	61	Chairman, Chief Executive Officer, Director
Gerald A. Benjamin	58	Executive Vice President, Chief Administrative Officer, Director
James P. Breslawski	57	President, Chief Operating Officer, Director
Leonard A. David	62	Senior Vice President, Chief Compliance Officer
James Harding	55	Senior Vice President, Chief Technology Officer
Stanley Komaroff	75	Senior Advisor
Mark E. Mlotek	55	Executive Vice President, Corporate Business Development, Director
Steven Paladino	53	Executive Vice President, Chief Financial Officer, Director
Michael Racioppi	56	Senior Vice President, Chief Merchandising Officer
Lonnie Shoff	52	President, Global Healthcare Specialties Group
Michael Zack	58	President, International Group

Stanley M. Bergman has been our Chairman and Chief Executive Officer since 1989 and a director since 1982. Mr. Bergman held the position of President from 1989 to 2005. Mr. Bergman held the position of Executive Vice President from 1985 to 1989 and Vice President of Finance and Administration from 1980 to 1985.

Gerald A. Benjamin has been our Executive Vice President and Chief Administrative Officer since 2000 and a director since 1994. Prior to holding his current position, Mr. Benjamin was Senior Vice President of Administration and Customer Satisfaction since 1993. Mr. Benjamin was Vice President of Distribution Operations from 1990 to 1992 and Director of Materials Management from 1988 to 1990. Before joining us in 1988, Mr. Benjamin was employed for 13 years in various management positions at Estée Lauder, Inc., where his last position was Director of Materials Planning and Control.

James P. Breslawski has been our President and Chief Operating Officer since 2005 and a director since 1992. Mr. Breslawski held the position of Executive Vice President and President of U.S. Dental from 1990 to 2005, with primary responsibility for the North American Dental Group. Between 1980 and 1990, Mr. Breslawski held various positions with us, including Chief Financial Officer, Vice President of Finance and Administration and Controller.

Leonard A. David has been our Senior Vice President and Chief Compliance Officer since 2006. Mr. David held the position of Vice President and Chief Compliance Officer from 2005 to 2006. Mr. David held the position of Vice President of Human Resources and Special Counsel from 1995 to 2005. Mr. David held the position of Vice President, General Counsel and Secretary from 1990 through 1994 and practiced corporate and business law for eight years prior to joining us.

James Harding has been our Chief Technology Officer since 2005 and Senior Vice President since 2001. Prior to holding his current position, Mr. Harding was Chief Information Officer since 2001, with primary responsibility for worldwide information technology.

Stanley Komaroff has been our Senior Advisor since 2003. Prior to joining us, Mr. Komaroff was a partner for 35 years in the law firm of Proskauer Rose LLP, counsel to us. He served as Chairman of that firm from 1991 to 1999.

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Mark E. Mlotek has been Executive Vice President of our Corporate Business Development Group since 2004 and was Senior Vice President of Corporate Business Development from 2000 to 2004. Prior to that, Mr. Mlotek was Vice President, General Counsel and Secretary from 1994 to 1999 and became a director in 1995. Prior to joining us, Mr. Mlotek was a partner in the law firm of Proskauer Rose LLP, counsel to us, specializing in mergers and acquisitions, corporate reorganizations and tax law from 1989 to 1994.

Steven Paladino has been our Executive Vice President and Chief Financial Officer since 2000. Prior to holding his current position, Mr. Paladino was Senior Vice President and Chief Financial Officer from 1993 to 2000 and has been a director since 1992. From 1990 to 1992, Mr. Paladino served as Vice President and Treasurer and from 1987 to 1990 served as Corporate Controller. Before joining us, Mr. Paladino was employed in public accounting for seven years, most recently with the international accounting firm of BDO USA, LLP. Mr. Paladino is a certified public accountant.

Michael Racioppi has been our Senior Vice President, Chief Merchandising Officer since 2008. Prior to holding his current position, Mr. Racioppi was President of the Medical Division from 2000 to 2008 and Interim President from 1999 to 2000, and Corporate Vice President from 1994 to 2008. Mr. Racioppi served as Senior Director, Corporate Merchandising from 1992 to 1994. Before joining us in 1992, Mr. Racioppi was employed by Ketchum Distributors, Inc. as the Vice President of Purchasing and Marketing.

Lonnie Shoff has been President of the Global Healthcare Specialties Group since September 2009. Prior to joining us, Ms. Shoff was employed with Roche Diagnostics, where she held a series of positions of increasing responsibility in the United States and Switzerland over the past 20 years, most recently as Senior Vice President General Manager, Applied Science.

Michael Zack has been President of our International Group since 2006. Mr. Zack held the position of Senior Vice President of our International Group from 1989 to 2006. Mr. Zack was employed by Polymer Technology (a subsidiary of Bausch & Lomb) as Vice President of International Operations from 1984 to 1989 and by Gruenenthal GmbH as Manager of International Subsidiaries from 1975 to 1984.

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ITEM 1A. Risk Factors

Recently enacted legislation may adversely impact us.

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

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

The healthcare products distribution industry is highly competitive, and we may not be able to compete successfully.

We compete with numerous companies, including several major manufacturers and distributors. Some of our competitors have greater financial and other resources than we do, which could allow them to compete more successfully. Most of our products are available from several sources and our customers tend to have relationships with several distributors. Competitors could obtain exclusive rights to market particular products, which we would then be unable to market. Manufacturers also could increase their efforts to sell directly to end-users and thereby eliminate or reduce our role and that of other distributors. Industry consolidation among healthcare products distributors, price competition, the unavailability of products, whether due to our inability to gain access to products or to interruptions in supply from manufacturers, or the emergence of new competitors also could increase competition. In the future, we may be unable to compete successfully and competitive pressures may reduce our revenues.

The healthcare industry is experiencing changes that could adversely affect our business.

The healthcare industry is highly regulated and subject to changing political, economic and regulatory influences. In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs, including the reduction of spending budgets by government and private insurance programs, such as Medicare, Medicaid and corporate health insurance plans; pressures relating to potential healthcare reform; trends toward managed care; consolidation of healthcare distribution companies; consolidation of healthcare manufacturers; collective purchasing arrangements and consolidation among office-based healthcare practitioners; and changes in reimbursements to customers. Both our own profit margins and the profit margins of our customers may be adversely affected by laws and regulations reducing reimbursement rates for pharmaceuticals and/or medical treatments or services or changing the methodology by which reimbursement levels are determined. If we are unable to react effectively to these and other changes in the healthcare industry, our operating results could be adversely affected. In addition, the enactment of any significant healthcare reforms could have a material adverse effect on our business.

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Failure to comply with existing and future regulatory requirements could negatively affect our business.

Our business is subject to requirements under various local, state, federal and international laws and regulations applicable to the distribution of pharmaceuticals and medical devices, and human cells, tissue, and cellular and tissue-based products, also known as HCT/P products. Among the federal laws with which we must comply are the Controlled Substances Act, the Federal Food, Drug, and Cosmetic Act, as amended, the Prescription Drug Marketing Act of 1987, and Section 361 of the Public Health Services Act. Among other things, such laws, and the regulations promulgated thereunder:

- regulate the storage and distribution, labeling, packaging, handling, reporting, record keeping, introduction, manufacturing and marketing of drugs, HCT/P products and medical devices;
- subject us to inspection by the United States Food and Drug Administration and the United States Drug Enforcement Administration;
- regulate the storage, transportation and disposal of certain of our products that are considered hazardous materials;
- require registration with the United States Food and Drug Administration and the United States Drug Enforcement Administration and various state agencies;
- require record keeping and documentation of transactions involving drug products;
- require us to design and operate a system to identify and report suspicious orders of controlled substances to the United States Drug Enforcement Agency;
- require us to manage returns of products that have been recalled and subject us to inspection of our recall procedures and activities; and
- impose reporting requirements if a pharmaceutical, HCT/P products or medical device causes serious illness, injury or death.

Applicable federal, state and local laws and regulations also may require us to meet various standards relating to, among other things, licensure or registration, sales and marketing practices, product integrity and supply tracking to the manufacturer of the product, personnel, privacy and security of health or other personal information, installation, maintenance and repair of equipment, and the importation and exportation of products. Our business also is subject to requirements of similar and other foreign governmental laws and regulations affecting our operations abroad. The United States Food and Drug Administration and Drug Enforcement Administration have recently increased their regulatory and enforcement activities.

The failure to comply with any of these regulations, or new interpretations of existing laws and regulations, or the imposition of any additional laws and regulations, could negatively affect our business. There can be no assurance that current government regulations will not adversely affect our business. The costs to us associated with complying with the various applicable statutes and regulations, as they now exist and as they may be modified, could be material. Allegations by a governmental body that we have not complied with these laws could have a material adverse impact on our businesses. If it is determined that we have not complied with these laws, we are potentially subject to penalties including warning letters, civil and criminal penalties, mandatory recall of product, seizure of product and injunction, and suspension or limitation of product sale and distribution. If we enter into settlement agreements to resolve allegations of non-compliance, we could be required to make settlement payments or be subject to civil and criminal penalties, including fines and the loss of licenses. Non-compliance with government requirements could adversely affect our ability to participate in federal and state government healthcare programs, and damage our reputation. Any of the foregoing could have a material adverse impact on our businesses. We believe that the healthcare services industry will continue to be subject to extensive domestic and foreign government regulation and that we have adequate compliance programs and controls in place to ensure substantial compliance with the laws and regulations.

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If we fail to comply with laws and regulations relating to healthcare fraud, we could suffer penalties or be required to make significant changes to our operations.

We are subject to extensive and frequently changing federal and state laws and regulations relating to healthcare fraud. These measures, which focus on our relationships with pharmaceutical manufacturers and healthcare providers, have been subject to varying interpretations, as well as heightened enforcement activity, over the past few years. Significant enforcement activity has been the result of actions brought by "relators," who file complaints in the name of the United States (and if applicable, particular states) under federal and state False Claims Act statutes. Damages can be catastrophic if a violation is found. These healthcare fraud laws and regulations, among other things, (i) prohibit persons from soliciting, offering, receiving or paying any remuneration in order to induce the referral of a patient for treatment or to induce the ordering, purchasing, leasing or arranging for or recommending ordering, purchasing or leasing of items or services that are in any way paid for by government-sponsored healthcare programs and (ii) impose a number of restrictions upon referring physicians and providers of designated health services under government healthcare programs. While we believe that we are substantially compliant with all applicable laws, many of the regulations applicable to us are vague or indefinite and have not been interpreted by the courts. They may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations. If we fail to comply with applicable laws and regulations, we could suffer civil and criminal penalties, including the loss of licenses or our ability to participate in federal and state healthcare programs.

Expansion of group purchasing organizations ("GPO") or hospital purchasing power and the multi-tiered costing structure may place us at a competitive disadvantage.

The medical-products industry is subject to a multi-tiered costing structure, which can vary by manufacturer and/or product. Under this structure, certain institutions can obtain more favorable prices for medical products than we are able to obtain. The multi-tiered costing structure continues to expand as many large integrated healthcare providers and others with significant purchasing power, such as GPOs, demand more favorable pricing terms. This may threaten our ability to compete effectively, which would in turn negatively impact our results of operations. Although we are seeking to obtain similar terms from manufacturers and obtain access to lower prices demanded by GPO contracts or other contracts, we cannot assure such terms will be obtained or contracts will be executed.

Our international operations are subject to inherent risks that could adversely affect our operating results.

International operations are subject to risks that may materially adversely affect our business, results of operations and financial condition. The risks that our international operations are subject to include, among other things:

- difficulties and costs relating to staffing and managing foreign operations;
- difficulties in establishing channels of distribution;
- fluctuations in the value of foreign currencies;
- longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions;
- repatriation of cash from our foreign operations to the United States;
- regulatory requirements;
- unexpected difficulties in importing or exporting our products;

- imposition of import/export duties, quotas, sanctions or penalties; and
- unexpected regulatory, economic and political changes in foreign markets.

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We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Net sales and operating profits generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based healthcare practitioners and year-end promotions. Net sales and operating profits generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. We expect our historical seasonality of sales to continue in the foreseeable future. Quarterly results may also be adversely affected by a variety of other factors, including:

- costs of developing new applications and services;
- costs related to acquisitions and/or integrations of technologies or businesses;
- timing and amount of sales and marketing expenditures;
- timing of pricing changes offered by our vendors;
- timing of the introduction of new products and services by our vendors;
- changes in or availability of vendor contracts or rebate programs;
- vendor rebates based upon attaining certain growth goals;
- changes in the way vendors introduce or deliver products to market;
- exclusivity requirements with certain vendors may prohibit us from distributing competitive products manufactured by other vendors;
- loss of sales representatives;
- general economic conditions, as well as those specific to the healthcare industry and related industries;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- our success in establishing or maintaining business relationships;
- restructuring costs;
- changes in accounting principles;
- unexpected difficulties in developing and manufacturing products;
- product demand and availability or recalls by manufacturers;
- exposure to product liability and other claims in the event that the use of the products we sell results in injury; and
- increases in the cost of shipping or service issues with our third-party shippers.

Any change in one or more of these or other factors could cause our annual or quarterly operating results to fluctuate. If our operating results do not meet market expectations, our stock price may decline.

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Because substantially all of the products that we distribute are not manufactured by us, we are dependent upon third parties for the manufacture and supply of substantially all of our products.

We obtain substantially all of our products from third-party suppliers. Generally, we do not have long-term contracts with our suppliers committing them to supply products to us. Therefore, suppliers may not provide the products we need in the quantities we request. Because we generally do not control the actual production of the products we sell, we may be subject to delays caused by interruption in production based on conditions outside of our control. In the event that any of our third-party suppliers were to become unable or unwilling to continue to provide the products in required volumes, we would need to identify and obtain acceptable replacement sources on a timely basis. There is no guarantee that we would be able to obtain such alternative sources of supply on a timely basis, if at all. An extended interruption in the supply of our products, including the supply of our influenza vaccine and any other high sales volume product, would have an adverse effect on our results of operations, which most likely would adversely affect the value of our common stock.

Our expansion through acquisitions and joint ventures involves risks.

We have expanded our domestic and international markets in part through acquisitions and joint ventures, and we expect to continue to make acquisitions and enter into joint ventures in the future. Such transactions involve numerous risks, including possible adverse effects on our operating results or the market price of our common stock. Some of our acquisitions and future acquisitions may also give rise to an obligation by us to make contingent payments or to satisfy certain repurchase obligations, which payments could have an adverse effect on our results of operations. In addition, integrating acquired businesses and joint ventures:

- may result in a loss of customers or product lines of the acquired businesses or joint ventures;
- requires significant management attention;
- may place significant demands on our operations, information systems and financial resources; and
- results in additional acquisition and integration expenses.

There can be no assurance that our future acquisitions or joint ventures will be successful. Our ability to continue to successfully effect acquisitions and joint ventures will depend upon the following:

- the availability of suitable acquisition or joint venture candidates at acceptable prices;
- our ability to consummate such transactions, which could potentially be prohibited due to U.S. or foreign antitrust regulations;
- the availability of financing on acceptable terms, in the case of non-stock transactions; and
- the liquidity of our investments and our ability to raise capital could be affected by the financial credit markets.

Our acquisitions may not result in the benefits and revenue growth we expect.

We are in the process of integrating companies that we acquired and including the operations, services, products and personnel of each company within our management policies, procedures and strategies. We cannot be sure that we will achieve the benefits of revenue growth that we expect from these acquisitions or that we will not incur unforeseen additional costs or expenses in connection with these acquisitions. To effectively manage our expected future growth, we must continue to successfully manage our integration of these companies and continue to improve our operational systems, internal procedures, working capital management, financial and operational controls. If we fail in any of these areas, our business could be adversely affected.

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We face inherent risk of exposure to product liability and other claims in the event that the use of the products we sell results in injury.

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 products, medical devices, bone regeneration and other healthcare products. Additionally, we own interests in companies that manufacture certain dental products. As a result, we are subject to the potential risk of product liability or other claims relating to the manufacture and distribution of products by those entities. One of the potential risks we face in the distribution of our products is liability resulting from counterfeit or tainted products infiltrating the supply chain. In addition, some of the products that we transport and sell are considered hazardous materials. The improper handling of such materials or accidents involving the transportation of such materials could subject us to liability. We have various insurance policies, including product liability insurance, covering risks and in amounts that we consider adequate. In many cases in which we have been sued in connection with products manufactured by others, the manufacturer of the product 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. A successful claim brought against us in excess of available insurance or not covered by indemnification agreements, or any claim that results in significant adverse publicity against us, could have an adverse effect on our business.

Our technology segment depends upon continued software and e-services product development, technical support and successful marketing.

Competition among companies supplying practice management software and/or e-services is intense and increasing. Our future sales of practice management software and e-services will depend on, among other factors:

- the effectiveness of our sales and marketing programs;
- our ability to enhance our products and services; and
- our ability to provide ongoing technical support.

We cannot be sure that we will be successful in introducing and marketing new software, software enhancements or e-services, or that such software, software enhancements and e-services will be released on time or accepted by the market. Our software and applicable e-services products, like software products generally, may contain undetected errors or bugs when introduced or as new versions are released. We cannot be sure that future problems with post-release software errors or bugs will not occur. Any such defective software may result in increased expenses related to the software and could adversely affect our relationships with the customers using such software. We do not have any patents on our software or e-services, and rely upon copyright, trademark and trade secret laws, as well as contractual and common law protections. We cannot provide assurance that such legal protections will be available or enforceable to protect our software or e-services products.

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Risks generally associated with our information systems could adversely affect our results of operations.

We rely on information systems in our business to obtain, rapidly process, analyze and manage data to, among other things:

- maintain and manage worldwide systems to facilitate the purchase and distribution of thousands of inventory items from numerous distribution centers;
- receive, process and ship orders on a timely basis;
- manage the accurate billing and collections for thousands of customers; and
- process payments to suppliers.

Our results of operations could be adversely affected if these systems are interrupted, damaged by unforeseen events, or fail for any extended period of time.

Declining economic conditions could adversely affect our results of operations and financial condition.

Macro-economic uncertainties that affect the economy and the economic outlook of the United States and other parts of the world could adversely impact our customers and vendors, which could adversely affect us. Recessionary conditions and depressed levels of consumer and commercial spending may cause customers to reduce, modify, delay or cancel plans to purchase our products and may cause vendors to reduce their output or change their terms of sales. We generally sell products to customers with payment terms. If customers' cash flow or operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, they may not be able to pay, or may delay payment to us. Likewise, for similar reasons vendors may restrict credit or impose different payment terms. Any inability of current and/or potential customers to pay us for our products and/or services or any demands by vendors for different payment terms may adversely affect our results of operations and financial condition.

Disruptions in the financial markets may adversely affect the availability and cost of credit to us.

Our ability to make scheduled payments or refinance our obligations with respect to indebtedness will depend on our operating and financial performance, which in turn is subject to prevailing economic conditions and financial, business and other factors beyond our control. Disruptions in the financial markets may adversely affect the availability and cost of credit to us.

Our revenues depend on our relationships with capable sales personnel as well as customers, suppliers and manufacturers of the products that we distribute.

Our future operating results depend on our ability to maintain satisfactory relationships with qualified sales personnel as well as customers, suppliers and manufacturers. If we fail to maintain our existing relationships with such persons or fail to acquire relationships with such key persons in the future, our business may be adversely affected.

Our future success is substantially dependent upon our senior management.

Our future success is substantially dependent upon the efforts and abilities of members of our existing senior management, particularly Stanley M. Bergman, Chairman and Chief Executive Officer, among others. The loss of the services of Mr. Bergman could have a material adverse effect on our business. We have an employment agreement with Mr. Bergman. We do not currently have "key man" life insurance policies on any of our employees. Competition for senior management is intense, and we may not be successful in attracting and retaining key personnel.

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Increases in the cost of shipping or service issues with our third-party shippers could harm our business.

Shipping is a significant expense in the operation of our business. We ship almost all of our orders through third-party delivery services, and typically bear the cost of shipment. Accordingly, any significant increase in shipping rates could have an adverse effect on our operating results. Similarly, strikes or other service interruptions by those shippers could cause our operating expenses to rise and adversely affect our ability to deliver products on a timely basis.

We may not be able to respond to technological change effectively.

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 continued 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 changing demands of consumers and our clients on a timely basis, particularly in response to competitive offerings. Our inability to anticipate and effectively respond to changes on a timely basis could have an adverse effect on our business.

The market price for our common stock may be highly volatile.

The market price for our common stock may be highly volatile. A variety of factors may have a significant impact on the market price of our common stock, including:

- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- changes in our industry and competitors;
- our financial condition, results of operations and cash flows and prospects;
- stock repurchases;
- any future issuances of our common stock, which may include primary offerings for cash, stock splits, issuances in connection with business acquisitions, restricted stock/units and the grant or exercise of stock options from time to time;
- general market and economic conditions; and
- any outbreak or escalation of hostilities in areas where we do business.

In addition, the NASDAQ Stock Market can experience extreme price and volume fluctuations that can be unrelated or disproportionate to the operating performance of the companies listed on NASDAQ. Broad market and industry factors may negatively affect the market price of our common stock, regardless of actual operating performance. In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been instituted against companies. This type of litigation, if instituted, could result in substantial costs and a diversion of management’s attention and resources, which would have an adverse effect on our business.

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Certain provisions in our governing documents and other documents to which we are a party may discourage third-party offers to acquire us that might otherwise result in our stockholders receiving a premium over the market price of their shares.

The provisions of our certificate of incorporation and by-laws may make it more difficult for a third party to acquire us, may discourage acquisition bids and may limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions, among other things:

- require the affirmative vote of the holders of at least 60% of the shares of common stock entitled to vote to approve a merger, consolidation, or a sale, lease, transfer or exchange of all or substantially all of our assets; and
- require the affirmative vote of the holders of at least 66 2/3% of our common stock entitled to vote to:
  - remove a director; and
  - to amend or repeal our by-laws, with certain limited exceptions.

In addition, our 1994 Stock Incentive Plan, 1996 Non-Employee Director Stock Incentive Plan and 2001 Non-Employee Director Incentive Plan provide for accelerated vesting of stock options upon a change in control, and certain agreements between us and our executive officers provide for increased severance payments if those executive officers are terminated without cause by the Company or if they terminate for good reason in each case, within two years after a change in control or within ninety days prior to the effective date of the change in control or after the first public announcement of the pendency of the change in control.

Tax legislation initiatives could adversely affect our net earnings and tax liabilities.

We are subject to the tax laws and regulations of the United States federal, state and local governments, as well as foreign jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In addition, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.

Item 1B. Unresolved Staff Comments

We have no unresolved comments from the staff of the SEC that were issued 180 days or more preceding the end of our 2010 fiscal year.

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ITEM 2. Properties

We own or lease the following properties:

Property	Location	Own or Lease	Approximate Square Footage	Lease Expiration Date
Corporate Headquarters	Melville, NY	Own	105,000	N/A
Corporate Headquarters	Melville, NY	Lease	185,000	July 2020
Office and Distribution Center	West Allis, WI	Lease	106,000	October 2017
Distribution Center	Denver, PA	Lease	613,000	February 2013
Distribution Center	Indianapolis, IN	Own	287,000	N/A
Distribution Center	Indianapolis, IN	Lease	243,000	August 2013
Distribution Center	Grapevine, TX	Lease	242,000	July 2013
Distribution Center	Gallin, Germany	Own	215,000	N/A
Distribution Center	Jacksonville, FL	Lease	212,000	June 2013
Office and Distribution Center	Niagara on the Lake, Canada	Lease	128,000	September 2016
Distribution Center	Sparks, NV	Lease	338,000	February 2013
Office and Distribution Center	Gillingham, United Kingdom	Lease	103,000	April 2020
Distribution Center	Tours, France	Own	133,000	N/A
Distribution Center	Lyssach, Switzerland	Lease	180,000	July 2016

The properties listed in the table above are our principal properties primarily used by our healthcare distribution segment. In addition, we lease numerous other distribution, office, showroom, manufacturing and sales space in locations including the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland, Turkey and the United Kingdom.

We believe that our properties are in good condition, are well maintained and are suitable and adequate to carry on our business. We have additional operating capacity at certain distribution center facilities.

ITEM 3. Legal Proceedings

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

We have various insurance policies, including product liability insurance, covering risks in amounts that we consider adequate. In many cases in which we have been sued in connection with products manufactured by others, the manufacturer provides us with indemnification. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide us with adequate protection.

As of December 25, 2010, we had accrued our best estimate of potential losses relating to product liability and other claims that were probable to result in a liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other external factors, including probable recoveries from third parties.

ITEM 4. [Removed and Reserved]

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market tier of the NASDAQ Stock Market, or NASDAQ, under the symbol HSIC. On October 2, 2007, our common stock became a component of the NASDAQ-100 stock market index. The following table sets forth, for the periods indicated, the high and low reported sales prices of our common stock as reported on NASDAQ for each quarterly period in fiscal 2010 and 2009:

	High	Low
Fiscal 2010:		
1st Quarter	$58.50	$51.49
2nd Quarter	62.63	53.41
3rd Quarter	57.60	50.96
4th Quarter	62.62	55.55
Fiscal 2009:		
1st Quarter	$40.60	$33.55
2nd Quarter	47.70	38.77
3rd Quarter	56.50	43.82
4th Quarter	56.92	49.10

On February 11, 2011, there were approximately 962 holders of record of our common stock and the last reported sales price was $67.36.

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Purchases of Equity Securities by the Issuer

Our current share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to $100.0 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. On October 31, 2005, March 28, 2007 and November 16, 2010, our Board of Directors authorized an additional $100.0 million, for a total of $400.0 million, of shares of our common stock to be repurchased under this program. As of December 25, 2010, we had repurchased $300.0 million of common stock (6,639,821 shares) under this initiative, with $100.0 million available for future common stock share repurchases.

The following table summarizes repurchases of our common stock under our stock repurchase program during the fiscal quarter ended December 25, 2010:

Fiscal Month	Total Number of Shares Purchased (1)		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Our Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under Our Program (2)
09/26/10 through 10/30/10	127,085	$	59.02	127,085	808,847
10/31/10 through 11/27/10	792,613		57.30	792,613	1,732,202
11/28/10 through 12/25/10	-		-	-	1,608,752
	919,698			919,698	

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

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

Dividend Policy

We have not declared any cash dividends on our common stock during fiscal years 2010 or 2009. We currently do not anticipate declaring any cash dividends on our common stock in the foreseeable future. We intend to retain earnings to finance the expansion of our business and for general corporate purposes, including our stock repurchase program. Any declaration of dividends will be at the discretion of our Board of Directors and will depend upon the earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends and other factors.

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Stock Performance Graph

The graph below compares the cumulative total stockholder return on $100 invested, assuming the reinvestment of all dividends, on December 31, 2005, the last trading day before the beginning of our 2006 fiscal year, through the end of fiscal 2010 with the cumulative total return on $100 invested for the same period in the Dow Jones U.S. Health Care Index, the NASDAQ Stock Market (U.S. companies) Composite Index and the NASDAQ Stock Market Composite Index.

This year, we selected the NASDAQ Stock Market Composite Index for the comparison as opposed to only the U.S. companies of the NASDAQ Stock Market Composite Index in order to compare our stock performance against a published index as opposed to a segment of a published index. We included both in the graph below for comparison purposes.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

ASSUMES $100 INVESTED ON DECEMBER 31, 2005
ASSUMES DIVIDENDS REINVESTED

	December 31, 2005	December 30, 2006	December 29, 2007	December 27, 2008	December 26, 2009	December 25, 2010
Henry Schein, Inc.	$100.00	$112.24	$142.19	$81.07	$121.47	$142.44
Dow Jones U.S. Health Care Index	100.00	106.88	116.82	87.10	109.87	114.50
NASDAQ Stock Market Composite Index	100.00	110.25	122.90	70.92	106.98	125.95
NASDAQ Stock Market (U.S. companies) Composite Index	100.00	112.51	122.09	72.15	104.22	120.63

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ITEM 6. Selected Financial Data

The following selected financial data, with respect to our financial position and results of operations for each of the five fiscal years in the period ended December 25, 2010, set forth below, has been derived from, should be read in conjunction with and is qualified in its entirety by reference to, our consolidated financial statements and notes thereto. The selected financial data presented below should also be read in conjunction with ITEM 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and ITEM 8, "Financial Statements and Supplementary Data."

	Years ended				
	December 25, 2010	December 26, 2009	December 27, 2008	December 29, 2007	December 30, 2006
	(in thousands, except per share data)				
Income Statement Data:					
Net sales	$7,526,790	$6,538,336	$6,380,413	$5,889,884	$5,021,523
Gross profit	2,170,876	1,916,820	1,874,295	1,706,092	1,459,330
Selling, general and administrative expenses	1,637,460	1,449,715	1,431,769	1,319,153	1,155,215
Restructuring costs (1)	12,285	3,020	23,240	-	-
Operating income	521,131	464,085	419,286	386,939	304,115
Other expense, net	(19,096)	(11,365)	(23,837)	(8,430)	(13,529)
Income from continuing operations before taxes, equity in earnings (losses) of affiliates and noncontrolling interests	502,035	452,720	395,449	378,509	290,586
Income taxes	(160,069)	(127,521)	(131,210)	(128,556)	(103,440)
Equity in earnings (losses) of affiliates	10,165	5,243	5,037	(73)	835
Income from continuing operations	352,131	330,442	269,276	249,880	187,981
Income (loss) from discontinued operations, net of tax (2)	-	2,715	(7,902)	(20,704)	(19,304)
Net income	352,131	333,157	261,374	229,176	168,677
Less: Net income attributable to noncontrolling interests	(26,342)	(22,004)	(21,917)	(17,442)	(8,090)
Net income attributable to Henry Schein, Inc.	$325,789	$311,153	$239,457	$211,734	$160,587
Amounts attributable to Henry Schein, Inc.:					
Income from continuing operations	325,789	308,551	247,347	232,529	180,049
Income (loss) from discontinued operations, net of tax	-	2,602	(7,890)	(20,795)	(19,462)
Net income	$325,789	$311,153	$239,457	$211,734	$160,587
Earnings (loss) per share attributable to Henry Schein, Inc.:					
From continuing operations:					
Basic	$3.62	$3.47	$2.78	$2.63	$2.05
Diluted	3.49	3.41	2.71	2.55	2.00

From discontinued operations:					
Basic	$-	$0.03	$(0.09)	$(0.24)	$(0.22)
Diluted	-	0.03	(0.08)	(0.23)	(0.21)
From net income:					
Basic	$3.62	$3.50	$2.69	$2.39	$1.83
Diluted	3.49	3.44	2.63	2.32	1.79
Weighted-average common shares outstanding:					
Basic	90,097	88,872	89,080	88,559	87,952
Diluted	93,268	90,556	91,221	91,163	89,820

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	Years ended				
	December 25, 2010	December 26, 2009	December 27, 2008	December 29, 2007	December 30, 2006
	(in thousands)				
Net Sales by Market Data:					
Healthcare distribution (3):					
Dental (4)	$2,678,830	$2,509,921	$2,567,064	$2,447,841	$2,122,415
Medical (5)	1,290,428	1,217,020	1,210,875	1,340,146	1,235,125
Animal health (6)	889,303	240,082	218,093	200,123	163,871
International (7)	2,468,277	2,398,105	2,221,092	1,769,881	1,401,889
Total healthcare distribution	7,326,838	6,365,128	6,217,124	5,757,991	4,923,300
Technology (8)	199,952	173,208	163,289	131,893	98,223
Total	$7,526,790	$6,538,336	$6,380,413	$5,889,884	$5,021,523

	As of				
	December 25, 2010	December 26, 2009	December 27, 2008	December 29, 2007	December 30, 2006
	(in thousands)				
Balance Sheet data:					
Total assets	$4,547,471	$3,835,985	$3,599,210	$3,313,472	$2,880,547
Long-term debt	395,309	243,373	256,648	407,627	434,804
Redeemable noncontrolling interests	304,140	178,570	233,035	150,028	111,902
Stockholders' equity	2,412,957	2,161,508	1,772,354	1,674,987	1,393,356

(1) Restructuring costs for the year ended December 25, 2010 consist primarily of severance costs, including severance pay and benefits of $8.8 million, facility closing costs of $3.4 million and other professional and consulting costs of $0.1 million. Restructuring costs for the year ended December 26, 2009 consist primarily of employee severance costs, including severance pay and benefits of $1.5 million and facility closing costs of $1.5 million. Restructuring costs for the year ended December 27, 2008 consist primarily of employee severance costs, including severance pay and benefits of $18.6 million, facility closing costs of $3.8 million and other professional and consulting costs of $0.8 million. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Plans of Restructuring” herein and the consolidated financial statements and related notes contained in ITEM 8.

(2) On August 5, 2009, we completed the sale of a wholesaler of dental consumables for aggregate consideration of $14.2 million, of which $13.2 million has been received as of December 26, 2009. As a result of this sale, included in operating results from discontinued operations for 2009 is a net gain, net of tax, of $2.6 million or $0.03 per diluted share.

During the fourth quarter of 2008, included in operating results from discontinued operations, we recorded an impairment charge of $11.2 million ($7.3 million, net of tax), or $0.08 per diluted share, related to the exit from our wholesale ultrasound business.

During 2007, we sold substantially all of the assets of our oncology pharmaceutical and specialty pharmacy businesses, previously reported as part of our healthcare distribution reportable segment. The aggregate sales price was $14.3 million, which was received during the third and fourth quarters of 2007. As a result of these sales, included in the operating results from discontinued operations for 2007 is a net gain, net of tax, of approximately $0.7 million or $0.01 per diluted share. We recorded an impairment charge to our related long-lived assets of approximately $20.6 million, net of tax, or $(0.23) per diluted share in 2007.

On April 1, 2006, we sold substantially all of the assets of our Hospital Supply Business, previously reported as part of our healthcare distribution reportable segment. The sale price was $36.5 million, which was received during the second quarter of 2006. As a result of this sale, included in the operating results from discontinued operations for 2007 is a $0.3 million ($0.2 million after-tax) expense relating to contract contingencies. Included in operating results from discontinued operations for 2006 is a $32.3 million ($19.4 million after-tax) loss on the sale, including $3.5 million ($2.1 million after-tax) of transitional service obligations and selling costs.

(3) 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.

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

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

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

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

(8) Consists of practice management software, financial services 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 for the years 2007 through 2010 and the United States and Canada for the year 2006.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

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

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

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

Executive Level Overview

We believe we are the largest distributor of healthcare products and services primarily to office-based healthcare practitioners. We serve more than 700,000 customers worldwide, including dental practitioners and laboratories, physician practices and animal health clinics, as well as government and other institutions. We believe that we have a strong brand identity due to our more than 78 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ more than 13,500 people (of which over 6,000 are based outside the United States) and have operations in the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland and the United Kingdom. We also have affiliates in Iceland, Saudi Arabia, Turkey and the United Arab Emirates.

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

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

Our dental group serves office-based dental practitioners, schools and other institutions in the combined United States and Canadian dental market. Our medical group serves office-based medical practitioners, surgical centers, other alternate-care settings and other institutions throughout the United States. Our animal health group serves animal health practices and clinics throughout the United States. Our international group serves dental, medical and animal health practitioners in 23 countries outside of North America and is what we believe to be a leading European healthcare supplier serving office-based practitioners.

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

Industry Overview

In recent years, the healthcare industry has increasingly focused on cost containment. This trend has benefited distributors capable of providing a broad array of products and services at low prices. It also has accelerated the growth of HMOs, group practices, other managed care accounts and collective buying groups, which, in addition to their emphasis on obtaining products at competitive prices, tend to favor distributors capable of providing specialized management information support. We believe that the trend towards cost containment has the potential to favorably affect demand for technology solutions, including software, which can enhance the efficiency and facilitation of practice management.

Our operating results in recent years have been significantly affected by strategies and transactions that we undertook to expand our business, domestically and internationally, in part to address significant changes in the healthcare industry, including consolidation of healthcare distribution companies, potential healthcare reform, trends toward managed care, cuts in Medicare and collective purchasing arrangements.

Our current and future results have been and could be impacted by the current economic environment and uncertainty, particularly impacting overall demand for our products and services.

Industry Consolidation

The healthcare products distribution industry, as it relates to office-based healthcare practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical and animal health markets, was estimated to produce revenues of approximately $28 billion in 2010 in the combined North American, European and Australian/New Zealand markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

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

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

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

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

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

Aging Population and Other Market Influences

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

The 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 2009 – 2019" indicating that total national healthcare spending reached approximately $2.5 trillion in 2009, or 17.3% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Healthcare spending is projected to reach approximately $4.6 trillion in 2019, approximately 19.6% of the nation's gross domestic product.

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Government

The healthcare industry is subject to extensive government regulation, licensure and operating compliance procedures. Additionally, government and private insurance programs fund a large portion of the total cost of medical care. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or MMA, was the largest expansion of the Medicare program since its inception, and provided participants with voluntary outpatient prescription drug benefits beginning in 2006. The MMA also included provisions relating to medication management programs, generic substitution and provider reimbursement. The Patient Protection and Affordable Care Act, enacted in March 2010, generally known as The Health Care Reform Bill or PPACA, increased federal oversight of private health insurance plans and included a number of provisions designed to reduce Medicare expenditures and the cost of healthcare generally, to reduce fraud and abuse, and to provide access to health coverage for an additional 32 million people. PPACA also imposes (i) a 2.3% excise tax on domestic sales of medical devices by manufacturers and importers beginning in 2013, and a "fee" on branded prescription drugs and biologics beginning in 2011, which may affect sales, (ii) mandates pharmacy benefit manager transparency regarding rebates, discounts and price concessions, which could affect pricing and competition and (iii) reduces the amount of out-of-pocket liability for patients participating in the Medicare outpatient drug benefit program created by the MMA. A provision in PPACA requiring those without insurance to pay a penalty was recently declared unconstitutional by a Virginia federal district court, which permitted other provisions of the legislation that do not relate to health insurance, as well as those provisions that could improve insurance coverage, to remain in effect. PPACA in its entirety was declared unconstitutional by a Florida federal district court on January 31, 2011. Two other federal district courts (in Michigan and Virginia) have affirmed the constitutionality of PPACA. Appeals are pending, and the matter is expected to be determined by the Supreme Court of the United States.

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

Regulations adopted under the federal Prescription Drug Marketing Act, effective December 2006, require the identification and documentation of transactions involving the receipt and distribution of prescription drugs, that is, drug pedigree information. In early December 2006, the federal District Court for the Eastern District of New York issued a preliminary injunction enjoining the implementation of some of the federal drug pedigree requirements in response to a case initiated by secondary distributors. On December 31, 2009, the U.S. District Court granted a motion to extend the time for either party to re-open the matter (which had been administratively closed in light of potential legislative action by Congress), and the Court in effect extended the injunction through June 30, 2011. Other states and government agencies are currently considering similar laws and regulations. We continue to work with our suppliers to help minimize the risks associated with counterfeit products in the supply chain and potential litigation.

There have been increasing efforts by various levels of government, including state departments of health, state boards of pharmacy and comparable agencies, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated or mislabeled pharmaceuticals into the distribution system. An increasing number of states, including Florida, have already adopted laws and regulations, including drug pedigree tracking requirements, that are intended to protect the integrity of the pharmaceutical distribution system. California has enacted a statute that, beginning in 2015, will require manufacturers to

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identify each package of a prescription pharmaceutical with a standard, machine-readable numerical identifier, and will require manufacturers and distributors to participate in an electronic track-and-trace system and provide or receive an electronic pedigree for each transaction in the drug distribution chain. Other states have passed or are reviewing the same type of requirements. Bills have been introduced in Congress that would impose similar requirements at the federal level.

The Combat Methamphetamine Enhancement Act of 2009, signed by President Obama in October 2010, prohibits distributors from selling listed chemical products, used to manufacture methamphetamine and amphetamine illegally, to individuals not currently registered with the Drug Enforcement Administration (DEA) or not on the United States Attorney General's published list of self-certified entities. The Secure and Responsible Drug Disposal Act of 2010, also signed by President Obama in October 2010, is intended to allow individuals to more easily and safely dispose of controlled substances while reducing the chance of diversion, by facilitating the return of unused portions of controlled substances to designated entities including long term care facilities and law enforcement agencies. The law does not authorize the DEA to mandate that entities establish a drug disposal program.

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

E-Commerce

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

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

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Results of Operations

The following tables summarize the significant components of our operating results and cash flows for each of the three years ended December 25, 2010, December 26, 2009 and December 27, 2008 (in thousands):

	Years ended December 25, 2010	December 26, 2009	December 27, 2008
Operating Results:			
Net sales	$7,526,790	$6,538,336	$6,380,413
Cost of sales	5,355,914	4,621,516	4,506,118
Gross profit	2,170,876	1,916,820	1,874,295
Operating expenses:			
Selling, general and administrative	1,637,460	1,449,715	1,431,769
Restructuring costs	12,285	3,020	23,240
Operating income	$521,131	$464,085	$419,286
Other expense, net	$(19,096)	$(11,365)	$(23,837)
Income from continuing operations	352,131	330,442	269,276
Income from continuing operations attributable to Henry Schein, Inc.	325,789	308,551	247,347

	Years ended December 25, 2010	December 26, 2009	December 27, 2008
Cash Flows:			
Net cash provided by operating activities	$388,874	$396,890	$384,782
Net cash used in investing activities	(428,404)	(97,448)	(168,010)
Net cash used in financing activities	(283,256)	(197,675)	(87,970)

Plans of Restructuring

On November 5, 2008, we announced certain actions to reduce operating costs. These actions included the elimination of approximately 430 positions from our operations and the closing of several smaller facilities. Also, during the first quarter of 2010, we completed an additional restructuring in order to further reduce operating expenses. This restructuring included headcount reductions of 184 positions, as well as the closing of a number of smaller locations.

During the years ended December 25, 2010, December 26, 2009 and December 27, 2008, we recorded restructuring costs of approximately $12.3 million (approximately $8.3 million after taxes), $3.0 million (approximately $2.1 million after taxes) and $23.2 million (approximately $16.0 million after taxes), respectively. These costs primarily consisted of employee severance pay and benefits, facility closing costs, representing primarily lease termination and asset write-off costs, and outside professional and consulting fees directly related to the restructuring plans. The costs associated with these restructurings are included in a separate line item, “Restructuring costs,” within our consolidated statements of income.

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2010 Compared to 2009

Net Sales

Net sales for 2010 and 2009 were as follows (in thousands):

	2010	% of Total	2009	% of Total	Increase $	Increase %
Healthcare distribution (1):						
Dental (2)	$ 2,678,830	35.6 %	$ 2,509,921	38.4 %	$ 168,909	6.7 %
Medical (3)	1,290,428	17.1	1,217,020	18.6	73,408	6.0
Animal health (4)	889,303	11.8	240,082	3.7	649,221	270.4
International (5)	2,468,277	32.8	2,398,105	36.7	70,172	2.9
Total healthcare distribution	7,326,838	97.3	6,365,128	97.4	961,710	15.1
Technology (6)	199,952	2.7	173,208	2.6	26,744	15.4
Total	$ 7,526,790	100.0 %	$ 6,538,336	100.0 %	$ 988,454	15.1

(1) 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.

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

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

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

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

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

The $988.5 million, or 15.1%, increase in net sales for the year ended December 25, 2010 includes an increase of 15.4% local currency growth (3.1% internally generated revenue and 12.3% growth from acquisitions) offset by a decrease of 0.3% related to foreign currency exchange.

The $168.9 million, or 6.7%, increase in dental net sales for the year ended December 25, 2010 includes a increase of 5.7% in local currencies (2.2% increase in internally generated revenue and 3.5% growth from acquisitions) and an increase of 1.0% related to foreign currency exchange. The 5.7% increase in local currency sales was due to increases in dental equipment sales and service revenues of 2.5% (2.3% increase in internally generated revenue and 0.2% growth from acquisitions) and dental consumable merchandise sales growth of 6.7% (2.2% increase in internally generated revenue and 4.5% growth from acquisitions).

The $73.4 million, or 6.0%, increase in medical net sales for the year ended December 25, 2010 includes an increase in internally generated revenue of 2.3% and acquisition growth of 3.7%.

The $649.2 million, or 270.4%, increase in animal health net sales for the year ended December 25, 2010 includes acquisition growth of 269.8%, due to the acquisition of a majority interest in Butler Animal Health Supply, LLC as of December 31, 2009, as well as internally generated revenue of 0.6%.

The $70.1 million, or 2.9%, increase in international net sales for the year ended December 25, 2010 includes sales growth of 4.9% in local currencies (4.2% internally generated growth and 0.7% growth from acquisitions) offset by a decrease of 2.0% related to foreign currency exchange.

The $26.7 million, or 15.4%, increase in technology net sales for the year ended December 25, 2010 includes an increase of 14.8% in local currency growth (10.4% internally generated growth and 4.4% growth from acquisitions) and an increase of 0.6% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margins for 2010 and 2009 by segment and in total were as follows (in thousands):

	2010	Gross Margin %	2009	Gross Margin %	Increase $	Increase %
Healthcare distribution	$ 2,033,860	27.8 %	$ 1,792,516	28.2 %	$ 241,344	13.5 %
Technology	137,016	68.5	124,304	71.8	12,712	10.2
Total	$ 2,170,876	28.8	$ 1,916,820	29.3	$ 254,056	13.3

Gross profit increased $254.1 million, or 13.3%, for the year ended December 25, 2010 compared to the prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our healthcare distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. For a number of reasons, the software industry typically realizes higher gross margins to recover investments in research and development.

Healthcare distribution gross profit increased $241.3 million, or 13.5%, for the year ended December 25, 2010 compared to the prior year period. Healthcare distribution gross profit margin decreased to 27.8% for the year ended December 25, 2010 from 28.2% for the comparable prior year period due to changes in product sales mix.

Technology gross profit increased $12.7 million, or 10.2%, for the year ended December 25, 2010 compared to the prior year period. Technology gross profit margin decreased to 68.5% for the year ended December 25, 2010 from 71.8% for the comparable prior year period, primarily due to changes in the product sales mix.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2010 and 2009 were as follows (in thousands):

	2010	% of Respective Net Sales	2009	% of Respective Net Sales	Increase $	Increase %
Healthcare distribution	$ 1,566,915	21.4 %	$ 1,387,581	21.8 %	$ 179,334	12.9 %
Technology	70,545	35.3	62,134	35.9	8,411	13.5
Total	$ 1,637,460	21.8	$ 1,449,715	22.2	$ 187,745	13.0

Selling, general and administrative expenses increased by $187.7 million, or 13.0%, for the year ended December 25, 2010 compared to the prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 21.8% from 22.2% from the comparable year period.

As a component of total selling, general and administrative expenses, selling expenses increased $117.7 million, or 12.2%, for the year ended December 25, 2010 from the prior year period. As a percentage of net sales, selling expenses decreased to 14.3% from 14.7% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $70.0 million, or 14.4%, for the year ended December 25, 2010 from the prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.4% from 7.5% for the comparable prior year period.

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Other Expense, Net

Other expense, net for the years ended 2010 and 2009 was as follows (in thousands):

			Increase / (Decrease)	
	2010	2009	$	%
Interest income	$ 14,098	$ 9,979	$ 4,119	41.3 %
Interest expense	(33,641)	(23,370)	(10,271)	(43.9)
Other, net	447	2,026	(1,579)	(77.9)
Other expense, net	$ (19,096)	$ (11,365)	$ (7,731)	(68.0)

Other expense, net increased $7.7 million to $19.1 million for the year ended December 25, 2010 from the comparable prior year period. Interest expense increased $10.3 million primarily due to debt associated with the acquisition of a majority interest in Butler Animal Health Supply, LLC, partially offset by reduced interest expense from the redemption of all of our Convertible Notes on September 3, 2010 and from repayment of our $130.0 million senior notes on June 30, 2009. Interest income increased $4.1 million as a result of increased late fee income, partially offset by lower interest income on our invested funds. Other, net decreased by $1.6 million due primarily to net proceeds received from litigation settlements in the third quarter of 2009, partially offset by the impact of foreign currency exchange.

Income Taxes

For the year ended December 25, 2010, our effective tax rate from continuing operations was 31.9% compared to 28.2% for the prior year period. The difference resulted primarily from the reduction of a valuation allowance in 2009 as explained below. Without the effect of the reduction of the valuation allowance described below, our effective tax rate from continuing operations for the year ended December 26, 2009 would have been 32.8%. The net reduction in our 2010 effective tax rate results from additional tax planning initiatives, settlements of tax audits, a reduction of valuation allowances and higher income from lower taxing countries. The difference between our effective tax rate and the federal statutory tax rate for both periods related primarily to foreign and state income taxes.

During the third quarter of 2009, we substantially completed a plan of reorganization outside the United States that allowed us to utilize tax loss carryforwards to offset taxable income beginning in 2010 in certain foreign tax jurisdictions. As a result, we determined that it is more likely than not that a portion of deferred tax assets previously fully reserved will be realized. Therefore, the 2009 provision for income taxes includes a $20.9 million reduction of the valuation allowance which is based on an estimate of future taxable income available to be offset by the tax loss carryforwards.

Loss from Discontinued Operations

During the year ended December 26, 2009, we recognized aggregate gains of $2.6 million, net of tax, related to discontinued operations (see Note 9 in the accompanying annual consolidated financial statements for further discussion).

Net Income

Net income increased $19.0 million, or 5.7%, for the year ended December 25, 2010 compared to the prior year period. The increase in net income is primarily due to increased net sales.

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2009 Compared to 2008

Net Sales

Net sales for 2009 and 2008 were as follows (in thousands):

	2009	% of Total	2008	% of Total	Increase / (Decrease) $	%
Healthcare distribution (1):						
Dental (2)	$ 2,509,921	38.4 %	$ 2,567,064	40.2 %	$ (57,143)	(2.2)%
Medical (3)	1,217,020	18.6	1,210,875	19.0	6,145	0.5
Animal health (4)	240,082	3.7	218,093	3.4	21,989	10.1
International (5)	2,398,105	36.7	2,221,092	34.8	177,013	8.0
Total healthcare distribution	6,365,128	97.4	6,217,124	97.4	148,004	2.4
Technology (6)	173,208	2.6	163,289	2.6	9,919	6.1
Total	$ 6,538,336	100.0 %	$ 6,380,413	100.0 %	$ 157,923	2.5

(1) 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.

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

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

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

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

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

The $157.9 million, or 2.5%, increase in net sales for the year ended December 26, 2009 includes an increase of 5.7% local currency growth (0.9% internally generated revenue and 4.8% growth from acquisitions) offset by a decrease of 3.2% related to foreign currency exchange. Excluding sales of influenza vaccines, sales increased 6.6%. Sales of influenza vaccines declined in 2009 compared to 2008 due to manufacturers' supply shortage.

The $57.1 million, or 2.2%, decrease in dental net sales for the year ended December 26, 2009 includes a decrease of 1.6% in local currencies (4.0% decline in internally generated revenue offset by 2.4% growth from acquisitions) and a decrease of 0.6% related to foreign currency exchange. The 1.6% decline in local currency sales was due to a decline in dental equipment sales and service revenues of 10.6% (11.3% decline in internally generated revenue reduced by 0.7% growth from acquisitions) offset by dental consumable merchandise sales growth of 1.9% (1.2% decrease in internally generated revenue reduced by 3.1% growth from acquisitions).

The $6.1 million, or 0.5%, increase in medical net sales for the year ended December 26, 2009 includes a decline in internally generated revenue of 0.9% and acquisition growth of 1.4%. Excluding sales of influenza vaccines, which declined in 2009, medical sales increased 5.0%.

The $22.0 million, or 10.1%, increase in animal net sales for the year ended December 26, 2009 was all internally generated.

The $177.0 million, or 8.0%, increase in international net sales for the year ended December 26, 2009 includes sales growth of 16.4% in local currencies (6.2% internally generated growth and 10.2% growth from acquisitions) offset by a decrease of 8.4% related to foreign currency exchange.

The $9.9 million, or 6.1%, increase in technology net sales for the year ended December 26, 2009 includes an increase of 8.3% in local currency growth (6.7% internally generated growth and 1.6% growth from acquisitions) offset by a decrease of 2.2% related to foreign currency exchange. During the year, we experienced continued growth in electronic services as well as sales of technology products in our international markets.

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Gross Profit

Gross profit and gross margins for 2009 and 2008 by segment and in total were as follows (in thousands):

	2009	Gross Margin %	2008	Gross Margin %	Increase $	Increase %
Healthcare distribution	$ 1,792,516	28.2 %	$ 1,753,655	28.2 %	$ 38,861	2.2 %
Technology	124,304	71.8	120,640	73.9	3,664	3.0
Total	$ 1,916,820	29.3	$ 1,874,295	29.4	$ 42,525	2.3

Gross profit increased $42.5 million, or 2.3%, for the year ended December 26, 2009 compared to the prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our healthcare distribution segment. These higher gross margins result from being both the developer and seller of software products, as well as certain financial services. For a number of reasons, the software industry typically realizes higher gross margins to recover investments in research and development.

Healthcare distribution gross profit increased $38.9 million, or 2.2%, for the year ended December 26, 2009 compared to the prior year period. Healthcare distribution gross profit margin remained constant at 28.2% for the year ended December 26, 2009 compared with the comparable prior year period.

Technology gross profit increased $3.7 million, or 3.0%, for the year ended December 26, 2009 compared to the prior year period. Technology gross profit margin decreased to 71.8% for the year ended December 26, 2009 from 73.9% for the comparable prior year period, primarily due to changes in the product sales mix.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2009 and 2008 were as follows (in thousands):

	2009	% of Respective Net Sales	2008	% of Respective Net Sales	Increase / (Decrease) $	Increase / (Decrease) %
Healthcare distribution	$ 1,387,581	21.8 %	$ 1,368,108	22.0 %	$ 19,473	1.4 %
Technology	62,134	35.9	63,661	39.0	(1,527)	(2.4)
Total	$ 1,449,715	22.2	$ 1,431,769	22.4	$ 17,946	1.3

Selling, general and administrative expenses increased by $17.9 million, or 1.3%, for the year ended December 26, 2009 compared to the prior year period. This increase results from $10.5 million in expense reductions and a $28.4 million net increase from the effects of 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 22.2% from 22.4% from the comparable year period.

As a component of total selling, general and administrative expenses, selling expenses decreased $9.7 million, or 1.0%, for the year ended December 26, 2009 from the prior year period. As a percentage of net sales, selling expenses decreased to 14.7% from 15.2% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $27.6 million, or 6.0%, for the year ended December 26, 2009 from the prior year period. As a percentage of net sales, general and administrative expenses increased to 7.5% from 7.2% for the comparable prior year period.

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Other Expense, Net

Other expense, net for the years ended 2009 and 2008 was as follows (in thousands):

	2009	2008	Increase / (Decrease) $	%
Interest income	$ 9,979	$ 16,355	$ (6,376)	(39.0)%
Interest expense	(23,370)	(34,605)	11,235	32.5
Other, net	2,026	(5,587)	7,613	136.3
Other expense, net	$ (11,365)	$ (23,837)	$ 12,472	52.3

Other expense, net decreased $12.5 million to $11.4 million for the year ended December 26, 2009 from the comparable prior year period. The decrease was primarily the result of decreased interest expense of $11.2 million due to repayment of our $130.0 million senior notes on June 30, 2009, as well as lower interest rates on our floating debt, partially offset by a decrease in interest income of $6.4 million resulting from lower interest rates on our invested funds. In addition, Other, net increased by $7.6 million due primarily to net proceeds received from litigation settlements in the third quarter of 2009 and non-recurring charges incurred during the third quarter of 2008 relating to the bankruptcy of Lehman Brothers Holdings, Inc.

Income Taxes

For the year ended December 26, 2009, our effective tax rate from continuing operations was 28.2% compared to 33.2% for the prior year period. The difference is primarily related to a reduction in the valuation allowance on certain foreign deferred tax assets, as well as additional tax planning initiatives, settlements of tax audits and higher income from lower taxing countries. Absent the effects of the reversal of a portion of the valuation allowance on certain foreign deferred tax assets in 2009, our effective tax rate for the year ended December 26, 2009 would have been 32.8%. The remaining difference in our effective tax rate between 2009 and 2008 is due to foreign and state income taxes.

Loss from Discontinued Operations

During the years ended December 26, 2009 and December 27, 2008, respectively, we recognized aggregate gains and (losses) of $2.6 million and $(7.9) million, net of tax, respectively, related to discontinued operations (see Note 7 in the accompanying annual consolidated financial statements for further discussion).

Net Income

Net income increased $71.8 million, or 27.5%, for the year ended December 26, 2009 compared to the prior year period. The increase in net income is primarily due to the factors noted above.

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Liquidity and Capital Resources

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

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

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

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

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

Net cash provided by operating activities was $388.9 million for the year ended December 25, 2010 compared to $396.9 million for the comparable prior year period. The net change of $8.0 million was primarily attributable to unfavorable working capital changes, offset by net income improvements.

Net cash used in investing activities was $428.4 million for the year ended December 25, 2010 compared to $97.4 million for the comparable prior year period. The net change of $331.0 million was primarily due to increased payments for business acquisitions.

Net cash used in financing activities was $283.3 million for the year ended December 25, 2010 compared to $197.7 million for the comparable prior year period. The net change of $85.6 million was primarily due to increased acquisitions of noncontrolling interests in certain subsidiaries, net repayments of long-term debt and increased repurchases of our common stock, partially offset by an increase in proceeds from stock option exercises.

We expect to invest approximately $55 million to $60 million during 2011 in capital projects to modernize and expand our facilities and computer systems and to integrate certain operations into our existing structure.

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

	December 25, 2010	December 26, 2009
Cash and cash equivalents	$150,348	$471,154
Available-for-sale securities - long-term	13,367	18,848
Working capital	1,001,215	1,127,279
Debt:		
Bank credit lines	$41,508	$932
Current maturities of long-term debt	4,487	23,560
Long-term debt	395,309	243,373
Total debt	$441,304	$267,865

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

Available-for-sale securities

As of December 25, 2010, we have approximately $15.1 million ($13.4 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 $13.1 million ($11.4 million net of temporary impairments) of our ARS are backed by student loans that are backed by the federal government and the remaining $2.0 million are invested in closed-end municipal bond funds. Our ARS portfolio is comprised of investments that are rated AAA by major independent rating agencies. Since the middle of February 2008, these auctions have failed to settle due to an excess number of sellers compared to buyers. The failure of these auctions has resulted in our inability to liquidate our ARS in the near term. We are currently not aware of any defaults or financial conditions that would negatively affect the issuers' ability to continue to pay interest and principal on our ARS. We continue to earn and receive interest at contractually agreed upon rates. We believe that the current lack of liquidity related to our ARS investments will have no impact on our ability to fund our ongoing operations and growth opportunities. As of December 25, 2010, we have classified ARS holdings as long-term, available-for-sale and they are included in the Investments and other line within our consolidated balance sheets.

Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from continuing operations remained constant at 40.4 days as of December 25, 2010 when compared to the prior year. During the years ended December 25, 2010 and December 26, 2009, we wrote off approximately $6.7 million and $6.1 million, respectively, of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from continuing operations increased to 6.5 for the year ended December 25, 2010 from 6.2 for the year ended December 26, 2009. Our working capital accounts may be impacted by current and future economic conditions.

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Contractual obligations

The following table summarizes our contractual obligations related to fixed and variable rate long-term debt, including interest (assuming an average long-term rate of interest of 4.9%), as well as operating and capital lease obligations, capital expenditure obligations and inventory purchase commitments as of December 25, 2010:

	Payments due by period (in thousands)				
	< 1 year	2 - 3 years	4 - 5 years	> 5 years	Total
Contractual obligations:					
Long-term debt, including interest	$23,129	$46,987	$58,388	$385,409	$513,913
Inventory purchase commitments	127,518	131,907	44,100	124,091	427,616
Operating lease obligations	60,100	79,156	32,333	35,423	207,012
Capital lease obligations, including interest	1,959	2,062	507	-	4,528
Total	$212,706	$260,112	$135,328	$544,923	$1,153,069

Inventory purchase commitments include obligations to purchase certain pharmaceutical products from a manufacturer through 2013, which require us to pay a price based on the prevailing market price or formula price in each respective year. The amounts included in the above table related to these purchase commitments were determined using current market conditions. We also have obligations to purchase certain pharmaceutical products from another manufacturer. Actual amounts may differ.

Redemption of convertible debt

On September 3, 2010, we paid approximately $240 million in cash and issued 732,422 shares of our common stock in connection with the redemption of our $240.0 million of Convertible Notes, which were issued in 2004.

The Convertible Notes were senior unsecured obligations bearing a fixed annual interest rate of 3.0% and were due to mature on August 15, 2034. The Convertible Notes were 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 was 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 Convertible Notes for that 10-trading-day period was less than 98% of the average conversion value for the Convertible Notes during that period;
- if the Convertible Notes have been called for redemption; or
- upon the occurrence of a fundamental change or specified corporate transactions, as defined in the Convertible Note agreement.

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Debt

On September 5, 2008, we entered into a $400.0 million revolving credit facility with a $100.0 million expansion feature. The $400.0 million credit line expires in September 2013. In addition to the amounts outstanding under our shelf facilities, as discussed below, we have outstanding borrowings of approximately $30.0 million under our $400.0 million credit facility. As of December 25, 2010, there were $9.8 million of letters of credit provided to third parties.

On August 10, 2010, we entered into a $400.0 million private placement facilities with two insurance companies. These shelf facilities are available through August 2013 on an uncommitted basis. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. As of December 25, 2010, we have an outstanding balance under the facilities of $100.0 million at a fixed rate of 3.79%, which is due on September 2, 2020.

Acquisitions and acquisition commitment

On October 14, 2010, we announced an agreement to acquire 100% of the outstanding shares of Provet Holdings Limited (ASX: PVT), Australia's largest distributor of veterinary products with sales in its 2010 fiscal year of approximately $278 million, for approximately $91 million, in a cash-for-stock exchange. This transaction closed after year end.

Effective December 31, 2009, Butler Animal Health Supply, LLC, or BAHS, a majority-owned subsidiary whose financial information is consolidated with ours, incurred approximately $320.0 million of debt (of which $37.5 million was provided by Henry Schein, Inc.) in connection with our acquisition of a majority interest in BAHS. The remaining outstanding balance of $279.1 million is reflected in our consolidated balance sheet as of December 25, 2010.

The debt incurred as part of the acquisition of BAHS is repayable in 23 quarterly installments of $0.8 million through September 30, 2015, and a final installment of $301.6 million on December 31, 2015. Interest on the BAHS debt is charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2% for a current effective rate of 5.5% as of December 25, 2010. The debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments of the loan commitment based on excess cash flows of BAHS as defined in the debt agreement. The debt agreement also contains provisions that require BAHS to hedge risks related to potential rising interest rates. As a result, BAHS entered into a series of interest rate caps with a notional amount of $160.0 million, protecting against LIBOR interest rates rising above 3.0% through March 30, 2012.

Stock repurchases

From June 21, 2004 through December 25, 2010, we repurchased $300.0 million, or 6,639,821 shares, under our common stock repurchase programs. On November 16, 2010, our Board of Directors authorized an additional $100.0 million for additional repurchases of our common stock, all of which is available as of December 25, 2010 for future common stock share repurchases.

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Redeemable noncontrolling interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities. Such redemption prices are equal to fair value based on third-party valuations. ASC Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements.   The components of the change in the Redeemable noncontrolling interests for the years ended December 25, 2010, December 26, 2009 and December 27, 2008 are presented in the following table:

	December 25, 2010	December 26, 2009	December 27, 2008
Balance, beginning of period	$178,570	$233,035	$150,028
Net increase (decrease) in redeemable noncontrolling interests due to business acquisitions or redemptions	62,314	(71,951)	14,994
Net income attributable to redeemable noncontrolling interests	26,054	21,975	21,929
Dividends declared	(12,360)	(5,973)	(2,994)
Effect of foreign currency translation attributable to redeemable noncontrolling interests	(2,281)	2,065	(2,060)
Change in fair value of redeemable securities	51,843	(581)	51,138
Balance, end of period	$304,140	$178,570	$233,035

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

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

Unrecognized tax benefits

As more fully disclosed in Note 12 of "Notes to Consolidated Financial Statements," we adopted ASC Topic 740, "Income Taxes," effective December 31, 2006. We cannot reasonably estimate the timing of future cash flows related to the unrecognized tax benefits, including accrued interest, of $26.9 million as of December 25, 2010.

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Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. We base our estimates on historical data, when available, experience, industry and market trends, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. However, by their nature, estimates are subject to various assumptions and uncertainties. Reported results are therefore sensitive to any changes in our assumptions, judgments and estimates, including the possibility of obtaining materially different results if different assumptions were to be applied.

We believe that the following critical accounting policies, which have been discussed with our audit committee, affect the significant estimates and judgments used in the preparation of our financial statements:

Revenue Recognition

We generate revenue from the sale of dental, medical and animal health consumable products, as well as equipment, software products and services and other sources. Provisions for discounts, rebates to customers, customer returns and other contra-revenue adjustments are recorded based upon historical data and estimates and are provided for in the period in which the related sales are recognized.

Revenue derived from the sale of consumable products is recognized when products are shipped to customers. Such sales typically entail high-volume, low-dollar orders shipped using third-party common carriers. We believe that the shipment date is the most appropriate point in time indicating the completion of the earnings process because we have no post-shipment obligations, the product price is fixed and determinable, collection of the resulting receivable is reasonably assured and product returns are reasonably estimable.

Revenue derived from the sale of equipment is recognized when products are delivered to customers. Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipment sales require minimal installation, which is typically completed at the time of delivery.

Revenue derived from the sale of software products is recognized when products are shipped to customers. Such software is generally installed by customers and does not require extensive training due to the nature of its design. Revenue derived from post-contract customer support for software, including annual support and/or training, is recognized over the period in which the services are provided.

Revenue derived from the sale of products consisting of multiple elements (i.e., hardware, software, installation, training and technical support) is allocated to the various elements based upon vendor-specific objective evidence of fair value or deferred until such time as vendor-specific objective evidence of fair value is obtained.

Revenue derived from other sources including freight charges, equipment repairs and financial services, is recognized when the related product revenue is recognized or when the services are provided.

Accounts Receivable and Reserves

The carrying amount of accounts receivable reflects a reserve representing our best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types, credit worthiness and economic trends. From time to time, we may adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectibility. Although we believe our judgments, estimates and/or assumptions related to accounts receivable and reserves are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

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Inventories and Reserves

Inventories consist primarily of finished goods and are valued at the lower of cost or market. Cost is determined by the first-in, first-out method for merchandise or actual cost for large equipment and high tech equipment. In accordance with our policy for inventory valuation, we consider many factors including the condition and salability of the inventory, historical sales, forecasted sales and market and economic trends.

From time to time, we may adjust our assumptions for anticipated changes in any of these or other factors expected to affect salability. Although we believe our judgments, estimates and/or assumptions related to inventory and reserves are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill and other indefinite-lived intangible assets (primarily trademarks) are not amortized, but are subject to impairment analysis at least once annually. Such impairment analyses for goodwill require the comparison of the fair value to the carrying value of reporting units. Measuring fair value of a reporting unit is generally based on valuation techniques using multiples of sales or earnings. Although we believe our judgments, estimates and/or assumptions used in determining fair value are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect such impairment analyses and our financial results.

We regard our reporting units to be our operating segments (dental, medical, animal health and international) and technology. Goodwill was allocated to such reporting units, for the purposes of preparing our impairment analyses, based on a specific identification basis. Our impairment analysis for indefinite-lived intangibles consists of a review of historical, current and forecasted sales and gross profit levels, as well as a review of any factors that may indicate potential impairment. We assess the potential impairment of goodwill and other indefinite-lived intangible assets annually (at the end of our third quarter) and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For certain indefinite-lived intangible assets, a present value technique, such as estimates of future cash flows, is utilized. There were no events or circumstances from the date of that assessment through December 25, 2010 that impacted our analysis. Some factors we consider important, which could trigger an interim impairment review, include:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of acquired assets or the strategy for our overall business (e.g., decision to divest a business); or
- significant negative industry or economic trends.

If we determine through the impairment review process that goodwill or other indefinite-lived intangible assets are impaired, we will record an impairment charge in our consolidated statement of income.

For the year ended December 25, 2010, the results of our goodwill impairment testing did not result in any impairments.

Supplier Rebates

Supplier rebates are included as a reduction of cost of sales and are recognized over the period they are earned. The factors we consider in estimating supplier rebate accruals include forecasted inventory purchases and sales in conjunction with supplier rebate contract terms which generally provide for increasing rebates based on either increased purchase or sales volume. Although we believe our judgments, estimates and/or assumptions related to supplier rebates are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

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Long-Lived Assets

Long-lived assets, other than goodwill and other indefinite-lived intangibles, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from such assets.

Definite-lived intangible assets primarily consist of non-compete agreements, trademarks, trade names, customer lists, customer relationships and intellectual property. For long-lived assets used in operations, impairment losses are only recorded if the asset's carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and the estimated fair value. When an impairment exists, the related assets are written down to fair value. Although we believe our judgments, estimates and/or assumptions used in estimating cash flows and determining fair value are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect such impairment analyses and our financial results.

Stock-Based Compensation

We measure stock-based compensation at the grant date, based on the estimated fair value of the award. Prior to March 2009, awards principally included a combination of at-the-money stock options and restricted stock (including restricted stock units). In March 2009 and March 2010, equity-based awards were granted solely in the form of restricted stock and restricted stock units, with the exception of stock options for certain pre-existing contractual obligations.

We estimate the fair value of stock options using the Black-Scholes valuation model which requires us to make assumptions about the expected life of options, stock price volatility, risk-free interest rates and dividend yields.

We issue restricted stock that vests 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 (three-year cliff vesting).

With respect to time-based restricted stock, we estimate the fair value on the date of grant based on our closing stock price. With respect to performance-based restricted stock, the number of shares that ultimately vest and are received by the recipient is based upon our performance as measured against specified targets over a three-year period as determined by the Compensation Committee of the Board of Directors. 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. Adjustments to the performance-based restricted stock targets are provided 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.

Although we believe our judgments, estimates and/or assumptions related to stock-based compensation are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect our financial results.

Recently Issued Accounting Standards

Accounting pronouncements adopted by us and recently issued accounting pronouncements not yet adopted by us are included in "Note 1 – Significant Accounting Policies" to the consolidated financial statements in Part II, Item 8 of this

Form 10-K.

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ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

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 an interest rate cap agreement and foreign currency forward contracts and through maintaining counter-party credit limits. These hedging activities provide only limited protection against interest rate and currency exchange and credit risks. Factors that could influence the effectiveness of our programs include volatility of the interest rate and currency markets and availability of hedging instruments and liquidity of the credit markets. All interest rate cap and foreign currency forward contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated interest rate or currency exposure. We do not enter into such contracts for speculative purposes. We manage our credit risks by diversifying our investments, maintaining a strong balance sheet and having multiple sources of capital.

Interest Rate Hedges

In connection with the debt incurred as part of the acquisition of Butler Animal Health Supply, LLC (“BAHS”), BAHS incurred $320.0 million of debt. Interest on the debt is charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2%. The debt agreement contains a provision that required BAHS to hedge risks related to potential rising interest rates. As a result, BAHS has entered into series of interest rate caps, with a notional amount of $160.0 million, protecting against LIBOR interest rates rising above 3% through March 12, 2012.

As of December 25, 2010, the fair value of our interest rate cap agreements recorded in other current and non-current assets in our consolidated balance sheet was $14 thousand, which represented the amount that would be received upon unwinding the interest rate cap agreements based on market conditions at that time. Changes in the fair value of these interest rate cap agreements are reflected as an adjustment to current and non-current assets or liabilities with an offsetting adjustment to Accumulated other comprehensive income since the hedge is deemed fully effective.

Foreign Currency Agreements

The value of certain foreign currencies as compared to the U.S. dollar may affect our financial results. Fluctuations in 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 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 contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to 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.

As of December 25, 2010, the fair value of our foreign currency exchange agreements, which expire through May 26, 2011, recorded in other current liabilities was $1.6 million, as determined by quoted market prices. A hypothetical 5% change in the value of the U.S. dollar would change the fair value of our foreign currency exchange agreements by $2.3 million.

Short-Term Investments

We limit our credit risk with respect to our cash equivalents, available-for-sale securities, short-term investments and derivative instruments, by monitoring the credit worthiness of the financial institutions who are the counter-parties to such financial instruments. As a risk management policy, we limit the amount of credit exposure by diversifying and utilizing numerous investment grade counter-parties.

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ITEM 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS
HENRY SCHEIN, INC.

All other schedules are omitted because the required information is either inapplicable or is included in the consolidated financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Henry Schein, Inc.
Melville, New York

We have audited the accompanying consolidated balance sheets of Henry Schein, Inc. as of December 25, 2010 and December 26, 2009 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 25, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Henry Schein, Inc. at December 25, 2010 and December 26, 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2010, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Henry Schein, Inc.'s internal control over financial reporting as of December 25, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 22, 2011 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
February 22, 2011

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

	December 25, 2010	December 26, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$150,348	$471,154
Accounts receivable, net of reserves of $56,267 and $51,724	885,784	725,397
Inventories, net	870,206	775,199
Deferred income taxes	48,951	48,001
Prepaid expenses and other	214,013	183,782
Total current assets	2,169,302	2,203,533
Property and equipment, net	252,573	259,576
Goodwill	1,424,794	986,395
Other intangibles, net	405,468	204,445
Investments and other	295,334	182,036
Total assets	$4,547,471	$3,835,985
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$590,029	$521,079
Bank credit lines	41,508	932
Current maturities of long-term debt	4,487	23,560
Accrued expenses:		
Payroll and related	172,746	155,298
Taxes	91,581	86,034
Other	267,736	289,351
Total current liabilities	1,168,087	1,076,254
Long-term debt	395,309	243,373
Deferred income taxes	190,225	100,976
Other liabilities	76,753	75,304
Total liabilities	1,830,374	1,495,907
Redeemable noncontrolling interests	304,140	178,570
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none outstanding	-	-
Common stock, $.01 par value, 240,000,000 shares authorized, 91,939,477 outstanding on December 25, 2010 and 90,630,889 outstanding on December 26, 2009	919	906
Additional paid-in capital	601,014	603,772
Retained earnings	1,779,178	1,492,607
Accumulated other comprehensive income	30,514	64,194

Total Henry Schein, Inc. stockholders' equity	2,411,625	2,161,479
Noncontrolling interests	1,332	29
Total stockholders' equity	2,412,957	2,161,508
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$4,547,471	$3,835,985

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

	Years ended December 25, 2010	December 26, 2009	December 27, 2008
Net sales	$7,526,790	$6,538,336	$6,380,413
Cost of sales	5,355,914	4,621,516	4,506,118
Gross profit	2,170,876	1,916,820	1,874,295
Operating expenses:			
Selling, general and administrative	1,637,460	1,449,715	1,431,769
Restructuring costs	12,285	3,020	23,240
Operating income	521,131	464,085	419,286
Other income (expense):			
Interest income	14,098	9,979	16,355
Interest expense	(33,641)	(23,370)	(34,605)
Other, net	447	2,026	(5,587)
Income from continuing operations before taxes, equity in earnings of affiliates and noncontrolling interests	502,035	452,720	395,449
Income taxes	(160,069)	(127,521)	(131,210)
Equity in earnings of affiliates	10,165	5,243	5,037
Income from continuing operations	352,131	330,442	269,276
Income (loss) from discontinued operations, net of tax	-	2,715	(7,902)
Net income	352,131	333,157	261,374
Less: Net income attributable to noncontrolling interests	(26,342)	(22,004)	(21,917)
Net income attributable to Henry Schein, Inc.	$325,789	$311,153	$239,457
Amounts attributable to Henry Schein, Inc.:			
Income from continuing operations	$325,789	$308,551	$247,347
Income (loss) from discontinued operations, net of tax	-	2,602	(7,890)
Net income	$325,789	$311,153	$239,457
Earnings (loss) per share attributable to Henry Schein, Inc.:			
From continuing operations:			
Basic	$3.62	$3.47	$2.78
Diluted	$3.49	$3.41	$2.71
From discontinued operations:			
Basic	$-	$0.03	$(0.09)
Diluted	$-	$0.03	$(0.08)
From net income:			
Basic	$3.62	$3.50	$2.69
Diluted	$3.49	$3.44	$2.63

Weighted-average common shares outstanding:			
Basic	90,097	88,872	89,080
Diluted	93,268	90,556	91,221

See accompanying notes.

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

	Common Stock $.01 Par Value						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 29, 2007	89,603,660	$ 896	$ 579,125	$ 994,424	$ 100,268	$ 274	$ 1,674,987
Net income (loss) (excluding $21,929 attributable to Redeemable noncontrolling interests)	-	-	-	239,457	-	(12)	239,445
Foreign currency translation loss (excluding $2,060 attributable to Redeemable noncontrolling interests)	-	-	-	-	(75,666)	-	(75,666)
Unrealized gain from foreign currency hedging activities, net of tax of $2,526	-	-	-	-	6,929	-	6,929
Unrealized investment loss, net of tax benefit of $821	-	-	-	-	(1,201)	-	(1,201)
Pension adjustment loss, net of tax benefit of $443	-	-	-	-	(609)	-	(609)
Total comprehensive income							168,898
Change in fair value of redeemable securities	-	-	(51,138)	-	-	-	(51,138)
Stock issued to 401(k) plan	79,723	1	4,661	-	-	-	4,662
Repurchase and retirement of common stock	(1,621,710)	(16)	(30,345)	(52,427)	-	-	(82,788)
Stock issued upon exercise of stock							

options, including tax benefit of $6,977	991,259	10	32,616	-	-	-	32,626
Stock-based compensation expense	298,917	3	25,104	-	-	-	25,107
Balance, December 27, 2008	89,351,849	894	560,023	1,181,454	29,721	262	1,772,354
Net income (excluding $21,975 attributable to Redeemable noncontrolling interests)	-	-	-	311,153	-	29	311,182
Foreign currency translation gain (excluding $2,065 attributable to Redeemable noncontrolling interests)	-	-	-	-	46,364	-	46,364
Unrealized gain from foreign currency hedging activities, net of tax benefit of $3,228	-	-	-	-	(8,238)	-	(8,238)
Unrealized investment loss, net of tax benefit of $105	-	-	-	-	(120)	-	(120)
Pension adjustment loss, net of tax benefit of $1,086	-	-	-	-	(3,533)	-	(3,533)
Total comprehensive income							345,655
Purchase of noncontrolling interest	-	-	-	-	-	(262)	(262)
Change in fair value of redeemable securities	-	-	581	-	-	-	581
Stock issued to 401(k) plan	100,778	1	5,300	-	-	-	5,301
Stock issued upon exercise of stock options, including tax benefit of $2,642	445,916	4	14,508	-	-	-	14,512

Stock-based compensation expense	802,068	8	25,916	-	-	-	25,924
Shares withheld for payroll taxes	(69,722)	(1)	(2,149)	-	-	-	(2,150)
Liability for cash settlement stock option awards	-	-	(407)	-	-	-	(407)
Balance, December 26, 2009	90,630,889	906	603,772	1,492,607	64,194	29	2,161,508
Net income (excluding $26,054 attributable to Redeemable noncontrolling interests)	-	-	-	325,789	-	288	326,077
Foreign currency translation loss (excluding $2,281 attributable to Redeemable noncontrolling interests)	-	-	-	-	(28,303)	-	(28,303)
Unrealized loss from foreign currency hedging activities, net of tax benefit of $255	-	-	-	-	(885)	-	(885)
Unrealized investment gain, net of tax of $215	-	-	-	-	145	-	