HENRY SCHEIN INC
Form 10-Q
May 03, 2011

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

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

For the quarterly period ended March 26, 2011

or

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

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

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

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

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

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

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

Yes X No __

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

Yes X No __

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

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

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

Yes __ No X

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

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

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

	March 26, 2011 (unaudited)	December 25, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$116,712	$150,348
Accounts receivable, net of reserves of $58,745 and $56,267	934,952	885,784
Inventories, net	930,341	870,206
Deferred income taxes	51,363	48,951
Prepaid expenses and other	228,143	214,013
Total current assets	2,261,511	2,169,302
Property and equipment, net	271,750	252,573
Goodwill	1,499,689	1,424,794
Other intangibles, net	458,480	405,468
Investments and other	303,564	295,334
Total assets	$4,794,994	$4,547,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$579,474	$590,029
Bank credit lines	97,194	41,508
Current maturities of long-term debt	8,357	4,487
Accrued expenses:		
Payroll and related	153,892	172,746
Taxes	131,387	91,581
Other	263,899	267,736
Total current liabilities	1,234,203	1,168,087
Long-term debt	407,462	395,309
Deferred income taxes	196,358	190,225
Other liabilities	82,711	76,753
Total liabilities	1,920,734	1,830,374
Redeemable noncontrolling interests	426,060	304,140
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none outstanding	-	-
Common stock, $.01 par value, 240,000,000 shares authorized, 92,261,494 outstanding on March 26, 2011 and 91,939,477 outstanding on December 25, 2010	923	919
Additional paid-in capital	518,842	601,014

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

See accompanying notes.

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

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

See accompanying notes.

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

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

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

See accompanying notes.

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

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

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

See accompanying notes.

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

Note 1. Basis of Presentation

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

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

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

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three months ended March 26, 2011 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 31, 2011.

Note 2. Segment Data

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

Our dental group serves office-based dental practitioners, schools and other institutions in the combined United States and Canadian dental market. Our medical group serves office-based medical practitioners, surgical centers, other alternate-care settings and other institutions throughout the United States. Our animal health group serves animal health practices and clinics throughout the United States. Our international group serves dental, medical and animal health practitioners in 23 countries outside of North America.

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

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

Note 2. Segment Data (Continued)

The following tables present information about our reportable segments:

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

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

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

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

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

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

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

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

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

Note 3. Debt

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

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

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

Effective December 31, 2009, Butler Animal Health Supply, LLC, or BAHS, a majority-owned subsidiary whose financial information is consolidated with ours, had incurred approximately $320.0 million of debt (of which $37.5 million was provided by Henry Schein, Inc.) in connection with our acquisition of a majority interest in BAHS. The remaining outstanding balance of $278.4 million is reflected in our consolidated balance sheet as of March 26, 2011. Borrowings incurred as part of the acquisition of BAHS, along with certain of our credit lines, are collateralized by assets with an aggregate net carrying value of $325.0 million.

The debt incurred as part of the acquisition of BAHS is repayable in 23 quarterly installments of $0.8 million through September 30, 2015, and a final installment of $301.6 million on December 31, 2015. Interest on the BAHS debt is charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2% for a current effective rate of 5.5% as of March 26, 2011. The agreement provides, among other things, that we maintain certain interest coverage and maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, capital expenditures, liens, employee and shareholder loans, disposal of businesses and certain changes in ownership. In addition, the debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The debt agreement also contains provisions that require BAHS to hedge risks related to potential rising interest rates. As a result, BAHS entered into a series of interest rate caps, for which we have elected hedge accounting treatment, with a notional amount of $160.0 million, protecting against LIBOR interest rates rising above 3.0% through March 30, 2012.

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

Note 4. Redeemable Noncontrolling Interests

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

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

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

Some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain financial targets are met. For acquisitions completed prior to 2009, we accrue liabilities that may arise from these transactions when we believe that the outcome of the contingency is determinable beyond a reasonable doubt. Starting in our 2009 fiscal year, as required by ASC Topic 805, "Business Combinations," we have accrued liabilities for the estimated fair value of additional purchase price adjustments at the time of the acquisition. Any adjustments to these accrual amounts will be recorded in our consolidated statement of income. For the three months ended March 26, 2011, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

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

Note 5. Comprehensive Income

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

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

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

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

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

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

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

Comprehensive income	$144,185	$28,878

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Note 6. Fair Value Measurements

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

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

- Level 1— Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

- Level 2— Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3— Inputs that are unobservable for the asset or liability.

The following section describes the valuation methodologies that we used to measure different financial instruments at fair value.

Cash equivalents and trade receivables

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

Long-term investments and notes receivable

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

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Note 6. Fair Value Measurements (Continued)

Auction-rate securities

As of March 26, 2011, we have approximately $13.0 million ($11.3 million net of temporary impairments) invested in auction-rate securities ("ARS"), consisting of investments backed by student loans that are backed by the federal government and investments in closed-end municipal bond funds, which are included as part of Investments and other within our consolidated balance sheets. ARS are publicly issued securities that represent long-term investments, typically 10-30 years, in which interest rates had reset periodically (typically every 7, 28 or 35 days) through a "dutch auction" process. Our ARS portfolio is comprised of investments that are rated AAA by major independent rating agencies. Since the middle of February 2008, ARS auctions have failed to settle due to an excess number of sellers compared to buyers. The failure of these auctions has resulted in our inability to liquidate our ARS in the near term. We are currently not aware of any defaults or financial conditions that would negatively affect the issuers' ability to continue to pay interest and principal on our ARS. We continue to earn and receive interest at contractually agreed upon rates.

During the first quarter of 2011, we received approximately $2.1 million of redemptions of our ARS. As of March 26, 2011, we have continued to classify our ARS, as Level 3 within the fair value hierarchy due to the lack of observable inputs and the absence of significant refinancing activity.

Based upon the information currently available and the use of a discounted cash flow model, including assumptions for estimated interest rates, timing and amount of cash flows and expected holding period for the ARS portfolio, in accordance with applicable authoritative guidance, our previously recorded cumulative temporary impairment at December 25, 2010 of $1.7 million related to our ARS remained unchanged during the three months ended March 26, 2011. The temporary impairment has been recorded as part of Accumulated other comprehensive income within the equity section of our consolidated balance sheet.

Accounts payable and accrued expenses

Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities. The carrying value of these financial instruments approximates fair value due to their short maturities.

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

Note 6. Fair Value Measurements (Continued)

Debt

The fair value of our debt is estimated based on quoted market prices for our traded debt and on market prices of similar issues for our private debt. The fair value of our debt as of March 26, 2011 and December 25, 2010 was estimated at $513.0 million and $441.3 million.

Derivative contracts

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

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

Redeemable noncontrolling interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value based on third-party valuations. The noncontrolling interests subject to put options are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to Additional paid-in capital. Future reductions in the carrying amounts are subject to a “floor” amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments will not impact the calculation of earnings per share. The details of the changes in Redeemable noncontrolling interests are shown in Note 4.

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

Note 6. Fair Value Measurements (Continued)

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of March 26, 2011 and December 25, 2010:

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

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

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Note 6. Fair Value Measurements (Continued)

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

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

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

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

Note 7. Business Acquisitions

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

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

We completed other acquisitions during the three months ended March 26, 2011, the operating results of which are reflected in our financial statements from their respective acquisition dates. All acquisitions individually and in the aggregate had an immaterial impact on our reported operating results. Total acquisition costs incurred in the three months ended March 26, 2011 were immaterial to our financial results.

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Note 7. Business Acquisitions (Continued)

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

Total consideration for the acquisition of BAHS, including $96.1 million of value for noncontrolling interests, was $351.1 million, summarized as follows:

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

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

The total consideration of $351.1 million was allocated as follows:

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

Total allocation of consideration	$351,148

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Note 7. Business Acquisitions (Continued)

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

The debt incurred as part of the acquisition of BAHS is repayable in 23 quarterly installments of $0.8 million through September 30, 2015, and a final installment of $301.6 million on December 31, 2015. Interest on the BAHS debt is charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2% for a current effective rate of 5.5% as of March 26, 2011. The debt agreement contains provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The debt agreement also contains provisions that require BAHS to hedge risks related to potential rising interest rates. As a result, BAHS entered into a series of interest rate caps, for which we have elected hedge accounting treatment, with a notional amount of $160.0 million, protecting against LIBOR interest rates rising above 3.0% through March 30, 2012.

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

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Note 8. Plans of Restructuring

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

For the three months ended March 27, 2010, we recorded restructuring costs of approximately $12.3 million (approximately $8.3 million after taxes) consisting of employee severance pay and benefits, facility closing costs, representing primarily lease termination and asset write-off costs, and outside professional and consulting fees directly related to the restructuring plan.

The costs associated with these restructurings are included in a separate line item, "Restructuring costs" within our consolidated statements of income.

The following table shows the amounts expensed and paid for restructuring costs that were incurred during the three months ended March 26, 2011 and the remaining accrued balance of restructuring costs as of March 26, 2011, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

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

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

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

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

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

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Note 9. Earnings Per Share

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

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

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

	Three Months Ended	
	March 26, 2011	March 27, 2010
Basic	90,615	89,508
Effect of dilutive securities:		
Stock options, restricted stock and restricted units	2,546	2,339
Effect of assumed conversion of convertible debt	-	874
Diluted	93,161	92,721

Weighted-average options to purchase 2 shares of common stock at an exercise of $69.45 per share and 1,000 shares of common stock at exercise prices ranging from $56.21 to $62.05 per share that were outstanding during the three months ended March 26, 2011 and March 27, 2010, respectively, were excluded from the computation of diluted earnings per share. In each of these periods, such options' exercise prices exceeded the average market price of our common stock, thereby causing the effect of such options to be anti-dilutive.

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

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Note 10. Income Taxes

For the three months ended March 26, 2011, our effective tax rate from operations was 32.5% compared to 32.9% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods primarily relates to state and foreign income taxes.

The total amount of unrecognized tax benefits as of March 26, 2011 was approximately $28.5 million, all of which would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties were approximately $5.8 million and $0, respectively.

The tax years subject to examination by major tax jurisdictions include the years 2006 and forward by the U.S. Internal Revenue Service, the years 1997 and forward for certain states and the years 2003 and forward for certain foreign jurisdictions.

Note 11. Derivatives and Hedging Activities

We are exposed to market risks, which include changes in interest rates, as well as changes in foreign currency exchange rates as measured against the U.S. dollar and each other, and changes to the credit markets. We attempt to minimize these risks by primarily using interest rate cap agreements, foreign currency forward contracts and by maintaining counter-party credit limits. These hedging activities provide only limited protection against interest rate, currency exchange and credit risks. Factors that could influence the effectiveness of our hedging programs include interest rate volatility, currency markets and availability of hedging instruments and liquidity of the credit markets. All interest rate cap and foreign currency forward and interest rate cap contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated interest rate and currency exposure. We do not enter into such contracts for speculative purposes and we manage our credit risks by diversifying our investments, maintaining a strong balance sheet and having multiple sources of capital.

Fluctuations in the value of certain foreign currencies as compared to the U.S. dollar may positively or negatively affect our revenues, gross margins, operating expenses and retained earnings, all of which are expressed in U.S. dollars. Where we deem it prudent, we engage in hedging programs using primarily foreign currency forward and interest rate caps contracts aimed at limiting the impact of foreign currency exchange rate and interest rate fluctuations on earnings. We purchase short-term (i.e., 12 months or less) foreign currency forward contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to our foreign suppliers. We purchase interest rate caps to protect against interest rate risk on variable rate debt payable to third parties. We do not hedge the translation of foreign currency profits into U.S. dollars, as we regard this as an accounting exposure, not an economic exposure. The impact of our hedging activities has historically not had a material impact on our consolidated financial statements. Accordingly, additional disclosures related to derivatives and hedging activities required by ASC Topic 815 have been omitted.

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Note 12. Stock-Based Compensation

Our accompanying unaudited consolidated statements of income reflect share-based pretax compensation expense of $8.3 million ($5.6 million after-tax) and $6.1 million ($4.1 million after-tax) for the three months ended March 26, 2011 and March 27, 2010, respectively.

Stock-based compensation represents the cost related to stock-based awards granted to employees and non-employee directors. We measure stock-based compensation at the grant date, based on the estimated fair value of the award, and recognize the cost (net of estimated forfeitures) as compensation expense on a straight-line basis over the requisite service period. Our stock-based compensation expense is reflected in selling, general and administrative expenses in our consolidated statements of income.

Stock-based awards are provided to certain employees and non-employee directors under the terms of our 1994 Stock Incentive Plan, as amended, and our 1996 Non-Employee Director Stock Incentive Plan, as amended (together, the “Plans”). The Plans are administered by the Compensation Committee of the Board of Directors. Prior to March 2009, awards under the Plans principally include a combination of at-the-money stock options and restricted stock (including restricted stock units). In March 2009, March 2010 and March 2011, equity-based awards were granted solely in the form of restricted stock and restricted stock units, with the exception of stock options for certain pre-existing contractual obligations.

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

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

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

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

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

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Note 12. Stock-Based Compensation (Continued)

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

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

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

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

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

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

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

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

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Note 13. Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

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

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

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

Cautionary Note Regarding Forward-Looking Statements

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

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

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

Executive-Level Overview

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

We are headquartered in Melville, New York, employ more than 14,000 people (of which over 6,400 are based outside the United States) and have operations in the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland and the United Kingdom. We also have affiliates in Iceland, Saudi Arabia, Turkey and the United Arab Emirates.

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

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

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

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

Industry Overview

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

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

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

Industry Consolidation

The healthcare products distribution industry, as it relates to office-based healthcare practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical and animal health markets, was estimated to produce revenues of approximately $28 billion in 2010 in the combined North American, European and Australian/New Zealand markets. The industry ranges from sole practitioners wor