HENRY SCHEIN INC
Form 10-K
February 13, 2013

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 29, 2012

__ 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. __

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 30, 2012, was approximately $6,978,125,000.

As of February 4, 2013, there were 87,573,322 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 29, 2012) are incorporated by reference in Part III hereof.

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PART I

ITEM 1. Business

General

We believe we are the world's largest provider of health care products and services primarily to office-based dental, medical and animal health care practitioners. We serve over 775,000 customers worldwide, including dental practitioners and laboratories, physician practices and animal health clinics, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 80 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 15,000 people (of which nearly 7,000 are based outside the United States) and have operations or affiliates in 25 countries, including the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Luxembourg, Mauritius, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland, Thailand, Turkey and the United Kingdom.

We offer a comprehensive selection of products and services and value-added solutions for operating efficient practices and delivering high quality care. We operate through a centralized and automated distribution network with a selection of more than 96,000 branded products and Henry Schein private brand products in stock, as well as more than 110,000 additional products available as special order items. We also offer our customers exclusive, innovative technology solutions, including practice management software and e-commerce solutions, as well as a broad range of financial services.

We have established approximately four million square feet of space in 67 strategically located distribution centers around the world 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: (i) health care distribution and (ii) technology and value-added services. These segments offer different products and services to the same customer base.

The health care distribution reportable segment aggregates our global dental, medical and animal health 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 global dental group serves office-based dental practitioners, schools and other institutions. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global animal health group serves animal health practices and clinics.

Our global technology and value-added services group provides software, technology and other value-added services to health care practitioners. Our technology group offerings include practice management software systems for dental and medical practitioners and animal health clinics. Our value-added practice solutions include financial services on a non-recourse basis, e-services, practice technology, network and hardware services, plus continuing education services for practitioners.

Industry

The health care products distribution industry, as it relates to office-based health care practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical and animal health markets, was estimated to produce revenues of approximately $30 billion in 2012 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.

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Due in part to the inability of office-based health care practitioners to store and manage large quantities of supplies in their offices, the distribution of health care supplies and small equipment to office-based health care 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 health care 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.

The health care products distribution industry continues to experience growth due to the aging population, increased health care 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 health care 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 health care supplies and equipment is highly competitive. Many of the health care 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 Patterson Veterinary Supply 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 Carestream Health, Inc. and the Patterson Dental division of Patterson Companies, Inc. The medical practice management and electronic medical records market is very fragmented and 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 Patterson Veterinary Supply 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, Thailand, Turkey and the United Kingdom.

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.

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Competitive Strengths

We have more than 80 years of experience in distributing products to health care practitioners resulting in strong awareness of the "Henry Schein" brand. Our competitive strengths include:

A focus on meeting our customers' unique needs. We are committed to providing customized solutions to our customers that are driven by our understanding of the market and reflect the technology-driven products and services best suited for their practice needs.

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 3,300 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 2012, we distributed approximately 31.6 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to existing and potential office-based health care customers.

- Telesales. We support our direct marketing effort with approximately 1,650 inbound and outbound telesales representatives, who facilitate order processing and generate new sales through direct and frequent contact with customers.

- Electronic commerce solutions. We provide our customers and sales teams with innovative and competitive Internet, PC and mobile e-commerce solutions.

- Social media. Our operating entities and employees engage our customers and supplier partners through various social media platforms.

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 96,000 Stock Keeping Units, or SKUs, to our customers. Of the SKUs offered, approximately 51,000 are offered to our dental customers, approximately 39,000 to our medical customers and approximately 15,500 to our animal health customers. We offer over 110,000 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 solutions provide practitioners with electronic medical records, patient treatment history, billing, accounts receivable analyses and management, appointment calendars, electronic claims processing and word processing programs. As of December 29, 2012, we have an active user base of more than 75,000 practices, including Dentrix®,

Easy Dental®, Oasis®, Evolution® and EXACT®, Power Practice Px, AxiUm, EndoVision, PerioVision, OMSVision and ViiveTM for dental practices, MicroMD® for physician practices and Advantage+, AVImark®, DVM Manager®, Infinity, Sunpoint, Triple Crown® and Vetech Advantage for animal health practices.

- Repair services. We have 187 equipment sales and service centers worldwide that provide a variety of repair, installation and technical services for our health care 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 more efficiently 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 our customers 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. We ship an average of approximately 120,000 cartons daily. Approximately 99% of items ordered 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 health care products. We continuously evaluate our purchase requirements and suppliers' offerings and prices in order to obtain products at the lowest possible cost. In 2012, our top 10 health care distribution suppliers and our single largest supplier accounted for approximately 37% and 7%, 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 health care distribution and technology reportable segments. Certain prior period amounts have been reclassified to conform to the current period presentation:

	2012	2011	2010
Health care distribution:			
Dental products (1)	53.4	55.9	58.7
Medical products (2)	17.4	17.6	18.2
Animal health products (3)	26.0	23.6	20.4
Total health care distribution	96.8	97.1	97.3
Technology:			
Software and related products and other value-added products (4)	3.2	2.9	2.7
Total	100.0 %	100.0 %	100.0 %

(1) Includes infection-control products, handpieces, preventatives, impression materials, composites, anesthetics, teeth, dental implants, gypsum, acrylics, articulators, abrasives, dental chairs, delivery units and lights, X-ray supplies and equipment, equipment repair and high-tech equipment.

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

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

(4) Includes software and related products and other value-added products, including financial products and other services, including e-services and continuing education services for practitioners.

Business Strategy

Our objective is to continue to expand as a global value-added provider of health care products and services to office-based dental, medical and animal health care 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 775,000 customers worldwide and we intend to increase sales to our existing customer base and enhance our position as their primary supplier.

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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 in all of our operating segments. In the dental business, we provide products and services to traditional dental practices as well as new emerging segments, such as dental support organizations and community health centers. Leveraging our unique assets and capabilities, we offer solutions to address these new markets. In the medical business, we have expanded to serve customers located in settings outside of the traditional office, such as urgent care clinics, retail and occupational health settings. As settings of health care shift, we remain committed to serving these practitioners and providing them with the products and services they need.

- Leverage our value-added products and services. We continue to increase cross-selling efforts for key product lines utilizing a consultative selling process. 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 health care practitioners, as well as cross-selling core products and electronic health record and practice management software. Our strategy extends to providing health systems, integrated delivery networks and other large group and multi-site health care organizations, that include physician clinics, these same value added products and services. As physicians and health systems closely align, we have increased access to opportunities for cross-marketing and selling our product and service portfolios. In the animal health business, we have opportunities to cross-sell practice management software and other products.

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- 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 health care services. Between 2012 and 2022, the 45 and older population is expected to grow by approximately 13%. Between 2012 and 2032, this age group is expected to grow by approximately 26%. This compares with expected total U.S. population growth rates of approximately 9% between 2012 and 2022 and approximately 18% between 2012 and 2032.

In the dental industry, there is predicted to be a rise in oral health care expenditures as the 45 and older segment of the population increases. There is increasing demand for new technologies that allow dentists to increase productivity, and this is being driven in the U.S. by lower insurance reimbursement rates. 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.

The animal health market, impacted by growing companion pet ownership and care, as well increased focus on safety and efficiency in livestock production, continues to provide additional growth opportunities for us. We support the animal health practitioners we serve through the distribution of biologicals, pharmaceuticals, supplies and equipment and by actively engaging in the development, sale and distribution of veterinary practice management software.

Additionally, we are expanding our dental full-service model, our animal health presence and 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 190 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 health care 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:

- 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;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- 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;
- costs of developing new applications and services;
- exclusivity requirements with certain vendors may prohibit us from distributing competitive products manufactured by other vendors;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured medical and dental insurance programs;
- general market and economic conditions, as well as those specific to the health care industry and related industries;
- our success in establishing or maintaining business relationships;
- 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;

- increases in the cost of shipping or service issues with our third-party shippers;
- restructuring costs; and
- changes in accounting principles.

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

Operating, Security and Licensure Standards

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, and Section 361 of the Public Health Service Act. We are also subject to comparable foreign regulations.

The Federal Food, Drug, and Cosmetic Act ("FDC 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 FDC Act also 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 and renew annually registrations from the United States Drug Enforcement Administration permitting us to handle controlled substances. We are also subject to other statutory and regulatory requirements relating to the sale, marketing, handling and distribution of such drugs, in accordance with specified rules and regulations, and these requirements have been subject to heightened enforcement activity in recent times. 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 comparable 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 inspection and 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. Furthermore, compliance with legal requirements has required and may in the future require us to institute voluntary recalls of products we sell, which could result in financial losses and potential reputational harm. Our customers are also subject to significant federal, state, local and foreign governmental regulation.

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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, from distributors and potentially 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. The law will take effect on a staggered basis, commencing on 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 FDC Act requires certain wholesalers to provide a drug pedigree for each wholesale distribution of prescription drugs which includes an identifying statement that records the chain of ownership of a prescription drug. Currently, the United States Food and Drug Administration, in the exercise of its enforcement discretion, requires these wholesalers to maintain drug pedigrees that include transaction dates, names and addresses regarding transactions going back to either the manufacturer or the last authorized distributor of record that handled the drugs.

The FDC Act also 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 continued to develop its policies in this area, such as issuing a Final Guidance in 2010 regarding standardized numerical identification for prescription drug packages, and issuing a proposed rule in July 2012 for a unique medical device identification system.

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

Health Care Fraud

Certain of our businesses are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws and regulations with respect to their operations. Some of these laws-referred to as “false claims laws”- prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as “anti-kickback laws”, prohibit 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 federal, state and other health care payers and programs.

The fraud and abuse laws and regulations have been subject to varying interpretations, as well as heightened enforcement activity over the past few years, and significant enforcement activity has been the result of “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 laws. Under the federal False Claims Act relators can be entitled to receive up to 30% of total recoveries. Also, violations of the federal False Claims Act can result in treble damages, and each false claim submitted can be subject to a penalty of up to $11,000 per claim. The Health Care Reform Law significantly strengthened the federal False Claims Act and the anti-kickback law provisions, which could lead to the possibility of increased whistleblower or relator suits, and among other things made clear that a federal anti-kickback law violation can be a basis for federal False Claims Act liability.

The government has expressed concerns about financial relationships between suppliers on the one hand and physicians and dentists on the other. As a result, we regularly review and revise our marketing practices as necessary to facilitate compliance. We are now engaged in discussions with the government that may lead to changes in certain of our marketing practices and, potentially, payments which we do not expect to be material. In addition, under the reporting and disclosure obligations of the Physician Payment Sunshine Act provisions of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010, generally known as the "Health Care Reform Law" (discussed in more detail in Health Care Reform, below), by the second quarter of 2014, the general public and government officials will be provided with new access to detailed information with regard to payments or other transfers of value to certain practitioners

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(including physicians, dentists and teaching hospitals) by applicable drug and device manufacturers subject to such reporting and disclosure obligations, which is likely to include us. This information may lead to greater scrutiny, which may result in modifications to established practices and additional costs.

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, which have been the focus of increasing enforcement activity in recent years.

Failure to comply with fraud and abuse laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse impact on our business. Also, these measures 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 or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and varied interpretation by prosecutorial and regulatory authorities, increasing the risk of noncompliance.

While we believe that we are substantially compliant with fraud and abuse laws and regulations, and have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response, could adversely affect our business.

Health Care Reform

The Health Care Reform Law also included other provisions to reduce fraud and abuse and Medicare expenditures and the cost of health care generally, to increase federal oversight of private health insurance plans and to increase access to health coverage, some of which impact and further regulate some of our businesses. In particular, a Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act, imposed new reporting and disclosure requirements for drug and device manufacturers with regard to payments or other transfers of value made to certain practitioners (including physicians, dentists and teaching hospitals), and for such manufacturers and group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. Implementation had been delayed pending the issuance of applicable rules by the Centers for Medicare and Medicaid Services (“CMS”). On February 1, 2013, CMS released the final rule to implement the Physician Payment Sunshine Act. The final rule provides that data collection activities begin on August 1, 2013, and first disclosure reports are due by March 31, 2014 for the period August 1, 2013 through December 31, 2013. On or about June 1, 2014, CMS will publish information from these reports, including amounts transferred and physician, dentist and teaching hospital identities, in a national publicly available data bank.

The final rule implementing the Physician Payment Sunshine Act is complex, ambiguous, and broad in scope, and we are in the process of analyzing its application to our businesses. For example, the final rule is unclear as to whether the Physician Payment Sunshine Act requires that wholesale drug and device distributors that take title to the products they distribute, such as we generally do, are to be treated as “applicable manufacturers” subject to full reporting requirements. The CMS commentary on the final rule indicates that they are; however, this interpretation appears to be inconsistent with the language of the Physician Payment Sunshine Act itself. In addition, because certain of our subsidiaries manufacture drugs and devices, we will in any event likely be required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. It is difficult to predict how the new requirements may impact existing relationships among manufacturers, distributors, physicians, dentists and teaching hospitals. The Physician Payment Sunshine Act preempts similar state reporting laws, although we or our subsidiaries may be required to continue to report under certain of such state laws. While we

expect to have adequate compliance programs and controls in place to comply with the Physician Payment Sunshine Act requirements, our compliance with the new final rule is likely to pose additional costs on us.

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On June 28, 2012, the United States Supreme Court overturned certain lower federal court decisions to uphold as constitutional a key provision in the Health Care Reform Law often referred to as the "individual mandate," which requires individuals without health insurance to pay a penalty. However, the decision also invalidated a provision in the Health Care Reform Law requiring states to expand their Medicaid programs or risk the complete loss of all federal Medicaid funding. The Court held that the federal government may offer states the option of accepting the expansion requirement, but that it may not take away pre-existing Medicaid funds in order to coerce states into complying with the expansion. A number of states have indicated a reluctance to accept the Medicaid expansion, so the full extent of increased health care coverage under the Health Care Reform Law is uncertain.

Regulated Software; Electronic Health Records

The United States Food and Drug Administration, or FDA, has become increasingly active in addressing the regulation of computer software intended for use in health care settings, and has been developing policies on regulating clinical decision support tools as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA could determine that one or more of our products is a medical device, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

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. Failure to comply with these laws can result in substantial penalties and other liabilities. 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 Health Insurance Portability and Accountability Act of 1996 ("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. On January 17, 2013 the Office for Civil Rights of the Department of Health and Human Services released a final rule implementing the HITECH Act and making certain other changes to HIPAA privacy and security requirements. Compliance with the rule is required by September 23, 2013, and will increase the requirements applicable to some of our businesses.

In addition, federal initiatives, including in particular the HITECH Act, are providing a program of incentive payments available to certain health care providers involving the adoption and use of certain electronic health care records systems and processes. The HITECH initiative includes providing, among others, physicians and dentists, with financial incentives, if they meaningfully use certified electronic health record technology ("EHR"). Also, eligible providers that fail to adopt certified EHR systems may be subject to Medicare reimbursement reductions beginning in 2015. Qualification for the incentive payments requires the use of EHRs that are certified as having certain capabilities for meaningful use pursuant to standards adopted by the Department of Health and Human Services. Initial ("stage one") standards addressed criteria for periods beginning in 2011. CMS has also issued a final rule with "stage two" criteria for periods beginning in 2014, which are more demanding, and new, incrementally more rigorous criteria are expected to be issued for stage "three" compliance, however, final standards have not yet been issued and so these criteria are not yet certain. Certain of our businesses involve the manufacture and sale of certified EHR systems and other products linked to incentive programs, and so must maintain compliance with these evolving governmental criteria.

Also, HIPAA requires certain health care providers, such as physicians, to use certain transaction and code set rules for specified electronic transactions, such as transactions involving claims submissions. Commencing July 1, 2012, CMS required that, electronic claim submissions and related electronic transactions be conducted under a new HIPAA

transaction standard, called Version 5010. CMS has required this upgrade in connection with another new requirement applicable to the industry, the implementation of new diagnostic code sets to be used in claims submission. The new diagnostic code sets are called the ICD-10-CM. They were originally to be implemented on October 1, 2013, but CMS recently issued a final rule that extended the implementation date until October 1, 2014. Certain of our businesses provide electronic practice management products that must meet those requirements, and while we believe we are prepared to timely adopt the new standards, it is possible that the transition to these new standards, particularly the transition to ICD-10-CM, may result in a degree of disruption and confusion, thus potentially increasing the costs associated with supporting this product.

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International Transactions

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, as well as other types of requirements similar to those imposed in the United States.

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 health care 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 burdens, risks and 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 29, 2012, we employed more than 15,000 full-time employees, including approximately 1,650 telesales representatives, 3,300 field sales consultants, including equipment sales specialists, 2,925 warehouse employees, 725 computer programmers and technicians, 1,475 management employees and 5,550 office, clerical and administrative employees. Over 315 or 2.1% of our employees were subject to collective bargaining agreements. We believe that our relations with our employees are excellent.

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	63	Chairman, Chief Executive Officer, Director
Gerald A. Benjamin	60	Executive Vice President, Chief Administrative Officer, Director
James P. Breslawski	59	President, Chief Operating Officer, Chief Executive Officer, Henry Schein Global Dental, Director
Leonard A. David	64	Senior Vice President, Chief Compliance Officer
James Harding	57	Senior Vice President, Chief Technology Officer
Stanley Komaroff	77	Senior Advisor
Mark E. Mlotek	57	Executive Vice President, Chief Strategic Officer, Director
Steven Paladino	55	Executive Vice President, Chief Financial Officer, Director
Michael Racioppi	58	Senior Vice President, Chief Merchandising Officer
Lonnie Shoff	54	President and Chief Executive Officer, Global Animal Health and Strategic Partnerships
Michael Zack	60	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 is also the Chief Executive Officer of our Henry Schein Global Dental Group. 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 and Chief Strategic Officer since 2004. Mr. Mlotek 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 and Chief Executive Officer of the Global Animal Health and Strategic Partnerships Group since 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

The risks described below could have a material adverse impact on our business, reputation, financial condition or the trading price of our common stock. Although it is not possible to predict or identify all such risks and uncertainties, they may include, but are not limited to, the factors discussed below. Our business operations could also be affected by additional factors that are not presently known to us or that we currently consider not to be material to our operations. You should not consider this list to be a complete statement of all risks and uncertainties. The order in which these factors appear should not be construed to indicate their relative importance or priority.

The health care 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 health care 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.

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 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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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 health care 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:

- 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;
- timing of the release of upgrades and enhancements to our technology-related products and services;
- 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;
- costs of developing new applications and services;
- exclusivity requirements with certain vendors may prohibit us from distributing competitive products manufactured by other vendors;
- loss of sales representatives;
- costs related to acquisitions and/or integrations of technologies or businesses;
- costs associated with our self-insured medical and dental insurance programs;
- general market and economic conditions, as well as those specific to the health care industry and related industries;
- our success in establishing or maintaining business relationships;
- 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;
- increases in the cost of shipping or service issues with our third-party shippers;

- restructuring costs; and
- changes in accounting principles.

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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Expansion of group purchasing organizations ("GPO") or provider networks 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 health care providers and others with significant purchasing power, such as GPOs, demand more favorable pricing terms. Additionally, the formation of provider networks and GPOs may shift purchasing decisions to entities or persons with whom we do not have a historical relationship. 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 and seeking to develop relationships with provider networks and new GPOs, we cannot assure such terms will be obtained or contracts will be executed.

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.

Uncertain global macro-economic conditions could adversely affect our results of operations and financial condition.

Uncertain global macro-economic conditions that affect the economy and the economic outlook of the United States, Europe and other parts of the world could adversely affect our customers and vendors, which could adversely affect our results of operations and financial condition. These uncertainties, including, among other things, sovereign debt levels, the inability of political institutions to effectively resolve actual or perceived economic, currency or budgetary crises or issues, consumer confidence, unemployment levels (and a corresponding increase in the uninsured and underinsured population), interest rates, availability of capital, fuel and energy costs, tax rates, health care costs and the threat or outbreak of terrorism or public unrest, could adversely impact our customers and vendors, which could adversely affect us. Government debt and/or budget crises may lead to reductions in government spending in certain countries, which could reduce overall health care spending, and/or higher income or corporate taxes, which could depress spending overall. Additionally, 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.

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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.

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

The health care industry is highly regulated and subject to changing political, economic and regulatory influences. In recent years, the health care industry has undergone significant change driven by various efforts to reduce costs, including: trends toward managed care; consolidation of health care distribution companies; consolidation of health care manufacturers; collective purchasing arrangements and consolidation among office-based health care practitioners; and changes in reimbursements to customers, as well as growing enforcement activities (and related monetary recoveries) by governmental officials. 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 health care industry, our operating results could be adversely affected. In addition, the enactment of significant health care reforms could have a material adverse effect on our businesses.

The implementation of the Health Care Reform Law could adversely affect our business.

The Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010, generally known as the Health Care Reform Law, significantly expand health insurance coverage to uninsured Americans and changes the way health care is financed by both governmental and private payers. We expect expansion of access to health insurance to increase the demand for our products and services, but other provisions of the Health Care Reform Law could affect us adversely. Additionally, further federal and state

proposals for health care reform are likely. 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.

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The Health Care Reform Law contains many provisions designed to generate the revenues necessary to fund the coverage expansions and to reduce costs of Medicare and Medicaid, including imposing 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 that was implemented in 2011, both of which may adversely affect sales and cost of goods sold. For example, (i) where we purchase medical devices from third-party manufacturers, the manufacturers may increase their prices to cover their payment of the excise tax and our costs to purchase such medical devices may therefore increase and (ii) where we manufacture medical devices or are the importer of record, our cost of goods sold have increased because we are subject to paying the excise tax.

The implementation of the reporting and disclosure obligations of the Physician Payment Sunshine Act provisions of the Health Care Reform Law could adversely affect our business.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act, imposed new reporting and disclosure requirements for drug and device manufacturers with regard to payments or other transfers of value made to certain practitioners (including physicians, dentists and teaching hospitals), and for such manufacturers and group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. Implementation had been delayed pending the issuance of applicable rules by the Centers for Medicare and Medicaid Services ("CMS"). On February 1, 2013, CMS released the final rule to implement the Physician Payment Sunshine Act. The final rule provides that data collection activities begin on August 1, 2013, and first disclosure reports are due by March 31, 2014 for the period August 1, 2013 through December 31, 2013. On or about June 1, 2014, CMS will publish information from these reports, including amounts transferred and physician, dentist and teaching hospital identities, in a national publicly available data bank.

The final rule implementing the Physician Payment Sunshine Act is complex, ambiguous, and broad in scope, and we are in the process of analyzing its application to our businesses. For example, the final rule is unclear as to whether the Physician Payment Sunshine Act requires that wholesale drug and device distributors that take title to the products they distribute, such as we generally do, are to be treated as "applicable manufacturers" subject to full reporting requirements. The CMS commentary on the final rule indicates that they are; however, this interpretation appears to be inconsistent with the language of the Physician Payment Sunshine Act. In addition, because certain of our subsidiaries manufacture drugs and devices, we will in any event likely be required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. It is difficult to predict how the new requirements may impact existing relationships among manufacturers, distributors, physicians, dentists and teaching hospitals. The Physician Payment Sunshine Act preempts similar state reporting laws, although we or our subsidiaries may be required to continue to report under certain of such state laws. While we expect to have adequate compliance programs and controls in place to comply with the Physician Payment Sunshine Act requirements, our compliance with the new final rule is likely to pose additional costs on us.

Failure to comply with existing and future regulatory requirements could adversely 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, 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 us to advertise and promote our drugs and devices in accordance with applicable United States Food and Drug Administration requirements;
- require registration with the United States Food and Drug Administration and the United States Drug Enforcement Administration and various state agencies;

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- 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 United States 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 health care programs, and damage our reputation.

If we fail to comply with laws and regulations relating to health care fraud, we could suffer penalties or be required to make significant changes to our operations, which could adversely affect our business.

We are subject to federal and state (and similar foreign) laws and regulations relating to health care fraud. Some of these laws, referred to as “false claims laws”, prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as “anti-kickback laws”, prohibit 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 federal, state and other health care payers and programs. Health care fraud measures may implicate, for example, our relationships with pharmaceutical manufacturers, our pricing and incentive programs for physician and dental practices, and our dental and physician practice management products that offer billing-related functionality.

The government has expressed concerns about financial relationships between suppliers on the one hand and physicians and dentists on the other. As a result, we regularly review and revise our marketing practices as necessary to facilitate compliance. We are now engaged in discussions with the government that may lead to changes in certain of our marketing practices and, potentially, payments which we do not expect to be material. In addition, under the

reporting and disclosure obligations of the Physician Payment Sunshine Act provisions of the Health Care Reform Law, by the second quarter of 2014, the general public and government officials will be provided with new access to detailed information with regard to payments or other transfers of value to certain practitioners (including physicians, dentists and teaching hospitals) by applicable drug and device manufacturers subject to such reporting and disclosure obligations, which is likely to include us. This information may lead to greater scrutiny, which may result in modifications to established practices and additional costs.

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The applicable requirements have been subject to varying interpretations, as well as heightened enforcement activity, over the past few years. Also, 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 laws, and under the federal False Claims Act can be entitled to receive up to 30% of total recoveries. Violations of the federal False Claims Act can result in treble damages, and each false claim submitted can be subject to a penalty of up to $11,000 per claim. The Health Care Reform Law significantly strengthened the federal False Claims Act and federal anti-kickback law provisions, which could lead to the possibility of increased whistleblower or relator suits, and among other things made clear that a federal anti-kickback law violation can be a basis for federal False Claims Act liability.

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, which have been the focus of increasing enforcement activity in recent years.

Failure to comply with health care fraud laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse impact on our business. Also, these laws 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 or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and varied interpretation by prosecutorial, regulatory authorities, increasing compliance risks.

While we believe that we are substantially compliant with the foregoing laws and regulations promulgated thereunder, and have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response, could adversely affect our business.

If we fail to comply with laws and regulations relating to the confidentiality of sensitive personal information or standards in electronic health data transmissions, we could be required to make significant changes to our products, or incur penalties or other liabilities.

State, federal and foreign laws, such as the federal Health Insurance Portability and Accountability Act of 1996, regulate the confidentiality of sensitive personal information and the circumstances under which such information may be released. These measures may govern the disclosure and use of personal and patient medical record information and may require users of such information to implement specified security measures, and to notify individuals in the event of privacy and security breaches. Evolving laws and regulations in this area could restrict the ability of our customers to obtain, use or disseminate patient information, or could require us to incur significant additional costs to re-design our products in a timely manner to reflect these legal requirements, either of which could have an adverse impact on our results of operations. Other health information standards, such as regulations under HIPAA, establish standards regarding electronic health data transmissions and transaction code set rules for specified electronic transactions, for example transactions involving claims submissions to third party payers. These also continue to evolve and are often unclear and difficult to apply. In addition, under 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 the businesses serve as "business associates" to our customers. On January 17, 2013, the Office for Civil Rights of the Department of Health and Human Services released a final rule implementing the HITECH Act and making certain other changes to HIPAA privacy and security requirements. Compliance with the rule is required by September 23, 2013, and will increase the requirements applicable to some of our businesses. Failure to maintain

the confidentiality of sensitive personal information in accordance with the applicable regulatory requirements, or to abide by electronic health data transmission standards, could expose us to breach of contract claims, fines and penalties, costs for remediation and harm to our reputation.

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

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

• difficulties and costs relating to staffing and managing foreign operations;

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- 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;
- anti-bribery, anti-corruption and laws pertaining to the accuracy of our internal books and records;
- unexpected difficulties in importing or exporting our products;
- imposition of import/export duties, quotas, sanctions or penalties;
- difficulties and delays inherent in sourcing products and contract manufacturing in foreign markets;
- limitations on our ability under local laws to protect our intellectual property;
- unexpected regulatory, legal, economic and political changes in foreign markets;
- civil disturbances, geopolitical turmoil, including terrorism, war or political or military coups; and
- public health emergencies.

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, and 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 health care 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 and our reputation.

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 to satisfy customer requirements; 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.

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

Traditional health care 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.

Cyber-security risks generally associated with our information systems and our technology products and services could adversely affect our results of operations.

We rely on information systems (IS) 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;

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- receive, process and ship orders on a timely basis;

- manage the accurate billing and collections for thousands of customers;

- process payments to suppliers; and

- maintain certain of our customers' electronic medical records.

A cyber-attack that bypasses our IS security systems causing an IS security breach may lead to a material disruption of our IS business systems and/or the loss of business information resulting in adverse business impact. Risks may include, among other things:

- future results could be adversely affected due to the theft, destruction, loss, misappropriation or release of confidential data or intellectual property;

- operational or business delays resulting from the disruption of IS systems and subsequent clean-up and mitigation activities; and

- negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

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

We develop products and provide services to our customers that are technology-based. A cyber-attack that bypasses the security systems of our products or services causing a security breach and/or perceived security vulnerabilities in our products or services could cause significant reputational harm. Actual or perceived vulnerabilities may lead to claims against us by our customers and/or governmental agencies. Although our customer license agreements typically contain provisions that eliminate or limit our exposure to such liability, there is no assurance these provisions will withstand all legal challenges.

Failure to maintain the confidentiality of sensitive customer data in accordance with applicable regulatory requirements, or to abide by electronic health data transmission standards, could also expose us to claims, fines and penalties and costs for remediation. Additionally, legislative or regulatory action related to cyber-security may increase our costs to develop or implement new technology products and services.

We have various insurance policies, including cyber liability insurance, covering risks and in amounts that we consider adequate. 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. Successful claims for misappropriation or release of confidential or personal data brought against us in excess of available insurance or fines or other penalties assessed or any claim that results in significant adverse publicity against us, could have an adverse effect on our business and our reputation.

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 (i) remove a director; and (ii) to amend or repeal our by-laws, with certain limited exceptions.

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In addition, our 1994 Stock Incentive Plan and 1996 Non-Employee Director Stock Incentive Plan provide for accelerated vesting of stock options upon a change in control. These incentive plans also authorize the committee under the plans to provide for accelerated vesting of other types of equity awards in connection with a change in control at grant or thereafter, and certain other awards made under these incentive plans (such as restricted stock and restricted stock unit awards) accelerate upon a change in control or upon certain termination events in connection with a change in control. Further, certain agreements between us and our executive officers provide for increased severance payments and certain benefits if those executive officers are terminated without cause by us 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 2012 fiscal year.

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ITEM 2. Properties

We own or lease the following properties with more than 100,000 square feet:

Property	Location	Own or Lease	Approximate Square Footage	Lease Expiration Date
Corporate Headquarters	Melville, NY	Lease	185,000	July 2020
Corporate Headquarters	Melville, NY	Own	105,000	N/A
Office and Distribution Center	Lyssach, Switzerland	Lease	180,000	July 2016
Office and Distribution Center	Tours, France	Own	161,000	N/A
Office and Distribution Center	Niagara on the Lake, Canada	Lease	128,000	September 2021
Office and Distribution Center	Bastian, VA	Own	108,000	N/A
Office and Distribution Center	West Allis, WI	Lease	106,000	October 2017
Office and Distribution Center	Gillingham, United Kingdom	Lease	103,000	April 2020
Office and Distribution Center	Cuijk, Netherlands	Lease	101,000	May 2022
Distribution Center	Denver, PA	Lease	624,000	December 2021
Distribution Center	Indianapolis, IN	Lease	380,000	February 2019
Distribution Center	Sparks, NV	Lease	370,000	December 2016
Distribution Center	Indianapolis, IN	Own	287,000	N/A
Distribution Center	Grapevine, TX	Lease	242,000	July 2018
Distribution Center	Gallin, Germany	Own	215,000	N/A
Distribution Center	Jacksonville, FL	Lease	212,000	February 2019

The properties listed in the table above are our principal properties primarily used by our health care 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, Mauritius, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland, Thailand, 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, governmental inquiries and investigations 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.

As of December 29, 2012, 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. Mine Safety Disclosures

Not applicable.

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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 2012 and 2011:

	High	Low
Fiscal 2012:		
1st Quarter	$ 77.05	$ 64.74
2nd Quarter	80.38	71.97
3rd Quarter	80.75	72.84
4th Quarter	82.91	73.35
Fiscal 2011:		
1st Quarter	$ 69.98	$ 61.26
2nd Quarter	74.48	67.21
3rd Quarter	74.98	58.50
4th Quarter	71.13	58.56

On February 4, 2013, there were approximately 508 holders of record of our common stock and the last reported sales price was $87.14.

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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 million of shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. As summarized in the table below, subsequent additional increases totaling $1 billion, authorized by our Board of Directors, to the repurchase program provide for a total of $1.1 billion of shares of our common stock to be repurchased under this program.

Date of Authorization	Amount of Additional Repurchases Authorized
October 31, 2005	$ 100,000,000
March 28, 2007	100,000,000
November 16, 2010	100,000,000
August 18, 2011	200,000,000
April 18, 2012	200,000,000
November 12, 2012	300,000,000

As of December 29, 2012, we had repurchased $799.9 million of common stock (13,756,063 shares) under these initiatives, with $300.1 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 29, 2012:

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)
09/30/12 through 11/03/12	281,428	$ 77.50	281,428	838,904
11/04/12 through 12/01/12	230,700	78.00	230,700	4,265,239
12/02/12 through 12/29/12	546,899	81.16	546,899	3,753,319
	1,059,027		1,059,027	

(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 or stock dividends on our common stock during fiscal years 2012 or 2011. We currently do not anticipate declaring any cash or stock 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 29, 2007, the last trading day before the beginning of our 2008 fiscal year, through the end of fiscal 2012 with the cumulative total return on $100 invested for the same period in the Dow Jones U.S. Health Care Index and the NASDAQ Stock Market Composite Index.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

ASSUMES $100 INVESTED ON DECEMBER 29, 2007
ASSUMES DIVIDENDS REINVESTED

	December 29, 2007	December 27, 2008	December 26, 2009	December 25, 2010	December 31, 2011	December 29, 2012
Henry Schein, Inc.	$100.00	$57.02	$85.43	$100.18	$103.84	$128.86
Dow Jones U.S. Health Care Index	100.00	74.56	94.05	98.01	108.79	128.17
NASDAQ Stock Market Composite Index	100.00	58.03	87.57	103.20	101.92	117.65

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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 29, 2012, 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 29, 2012	December 31, 2011	December 25, 2010	December 26, 2009	December 27, 2008
	(in thousands, except per share data)				
Income Statement Data:					
Net sales	$8,939,967	$8,530,242	$7,526,790	$6,538,336	$6,380,413
Gross profit	2,507,513	2,418,055	2,170,876	1,916,820	1,874,295
Selling, general and administrative expenses	1,873,360	1,835,906	1,637,460	1,449,715	1,431,769
Restructuring costs (1)	15,192	-	12,285	3,020	23,240
Operating income	618,961	582,149	521,131	464,085	419,286
Other expense, net	(14,773)	(12,842)	(19,096)	(11,365)	(23,837)
Income from continuing operations before taxes and equity in earnings of affiliates	604,188	569,307	502,035	452,720	395,449
Income taxes	(187,858)	(180,212)	(160,069)	(127,521)	(131,210)
Equity in earnings of affiliates	7,058	15,561	10,165	5,243	5,037
Income from continuing operations	423,388	404,656	352,131	330,442	269,276
Income (loss) from discontinued operations, net of tax (2)	-	-	-	2,715	(7,902)
Net income	423,388	404,656	352,131	333,157	261,374
Less: Net income attributable to noncontrolling interests	(35,312)	(36,995)	(26,342)	(22,004)	(21,917)
Net income attributable to Henry Schein, Inc.	$388,076	$367,661	$325,789	$311,153	$239,457
Amounts attributable to Henry Schein, Inc.:					
Income from continuing operations	$388,076	$367,661	$325,789	$308,551	$247,347
Income (loss) from discontinued operations, net of tax	-	-	-	2,602	(7,890)
Net income	$388,076	$367,661	$325,789	$311,153	$239,457
Earnings (loss) per share attributable to Henry Schein, Inc.:					
From continuing operations:					
Basic	$4.44	$4.08	$3.62	$3.47	$2.78
Diluted	4.32	3.97	3.49	3.41	2.71
From discontinued operations:					
Basic	$-	$-	$-	$0.03	$(0.09)

Diluted	-	-	-	0.03	(0.08)
From net income:					
Basic	$4.44	$4.08	$3.62	$3.50	$2.69
Diluted	4.32	3.97	3.49	3.44	2.63
Weighted-average common shares outstanding:					
Basic	87,499	90,120	90,097	88,872	89,080
Diluted	89,823	92,620	93,268	90,556	91,221

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	December 29, 2012	December 31, 2011	Years ended December 25, 2010	December 26, 2009	December 27, 2008
			(in thousands)		
Net Sales by Market Data:					
Health care distribution (3):					
Dental	$ 4,774,482	$ 4,764,898	$ 4,415,469	$ 4,177,101	$ 4,154,072
Medical	1,560,921	1,504,454	1,373,999	1,312,750	1,271,289
Animal health	2,321,151	2,010,270	1,537,370	875,277	791,763
Total health care distribution	8,656,554	8,279,622	7,326,838	6,365,128	6,217,124
Technology and value-added services (4)	283,413	250,620	199,952	173,208	163,289
Total	$ 8,939,967	$ 8,530,242	$ 7,526,790	$ 6,538,336	$ 6,380,413

	December 29, 2012	December 31, 2011	As of December 25, 2010	December 26, 2009	December 27, 2008
			(in thousands)		
Balance Sheet data:					
Total assets	$ 5,333,997	$ 4,740,144	$ 4,547,471	$ 3,835,985	$ 3,599,210
Long-term debt	488,121	363,524	395,309	243,373	256,648
Redeemable noncontrolling interests	435,175	402,050	304,140	178,570	233,035
Stockholders' equity	2,615,864	2,433,623	2,412,957	2,161,508	1,772,354

(1) Restructuring costs for the year ended December 29, 2012 consist primarily of severance costs, including severance pay and benefits of $12.8 million and facility closing costs of $2.4 million. Restructuring costs for the year ended December 25, 2010 consist primarily of severance costs, including severance pay and benefits of $8.9 million and facility closing costs of $3.4 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 $19.4 million and facility closing costs of $3.8 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 had 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.

(3) 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.

(4) Consists of practice management software and other value-added products, which are distributed primarily to health care providers, and financial and other services, including e-services and continuing education services for practitioners.

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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: effects of a highly competitive market; our dependence on third parties for the manufacture and supply of our products; our dependence upon sales personnel, customers, suppliers and manufacturers; our dependence on our senior management; fluctuations in quarterly earnings; risks from expansion of customer purchasing power and multi-tiered costing structures; possible increases in the cost of shipping our products or other service issues with our third-party shippers; general global macro-economic conditions; disruptions in financial markets; possible volatility of the market price of our common stock; changes in the health care industry; implementation of health care laws; failure to comply with regulatory requirements and data privacy laws; risks associated with our global operations; transitional challenges associated with acquisitions and joint ventures, including the failure to achieve anticipated synergies; financial risks associated with acquisitions and joint ventures; litigation risks; the dependence on our continued product development, technical support and successful marketing in the technology segment; risks from rapid technological change; risks from disruption to our information systems; 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 world's largest provider of health care products and services primarily to office-based dental, medical and animal health care practitioners. We serve over 775,000 customers worldwide, including dental practitioners and laboratories, physician practices and animal health clinics, as well as government, institutional health care clinics and other alternate care clinics. We believe that we have a strong brand identity due to our more than 80 years of experience distributing health care products.

We are headquartered in Melville, New York, employ more than 15,000 people (of which nearly 7,000 are based outside the United States) and have operations or affiliates in 25 countries, including the United States, Australia, Austria, Belgium, Canada, China, the Czech Republic, France, Germany, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Luxembourg, Mauritius, the Netherlands, New Zealand, Portugal, Slovakia, Spain, Switzerland, Thailand, Turkey and the United Kingdom.

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: health care distribution and technology and value-added services. These segments offer different products and services to the same customer base. The health care distribution reportable segment aggregates our global dental, medical and animal health 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 global dental group serves office-based dental practitioners, schools and other institutions. Our global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions. Our global animal health group serves animal health practices and clinics. Our global technology and value-added services group provides software, technology and other value-added services to health care practitioners. Our technology group offerings include practice management software systems for dental and medical practitioners and animal health clinics. Our value-added practice solutions include financial services on a non-recourse basis, e-services, practice technology, network and hardware services, plus continuing education services for practitioners.

Industry Overview

In recent years, the health care 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 health care industry, including consolidation of health care distribution companies, health care 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 health care products distribution industry, as it relates to office-based health care practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical and animal health markets, was estimated to produce revenues of approximately $30 billion in 2012 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 health care practitioners to store and manage large quantities of supplies in their offices, the distribution of health care supplies and small equipment to office-based health care 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 health care 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.

The trend of consolidation extends to our customer base. Health care practitioners are increasingly seeking to partner, affiliate or combine with larger entities such as hospitals, health systems, group practices or physician hospital organizations. In many cases, purchasing decisions for consolidated groups are made at a centralized or professional staff level; however orders are delivered to the practitioners' offices.

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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, operating 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 health care industry. This trend has resulted in our 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. We also have invested in expanding our sales/marketing infrastructure to include a focus on building relationships with decision makers who do not reside in the office-based practitioner setting.

As the health care industry continues to change, we continually evaluate possible candidates for merger and joint venture or acquisition and intend to continue to seek opportunities to expand our role as a provider of products and services to the health care 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 health care products distribution industry continues to experience growth due to the aging population, increased health care 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.

According to the U.S. Census Bureau's International Data Base, in 2012 there were more than five million Americans aged 85 years or older, the segment of the population most in need of long-term care and elder-care services. By the year 2050, that number is projected to more than triple to approximately 19 million. The population aged 65 to 84 years is projected to increase over 85% during the same time period.

As a result of these market dynamics, annual expenditures for health care 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 2011-2021" indicating that total national health care spending reached approximately $2.7 trillion in 2011, or 17.9% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Health care spending is projected to reach approximately $4.8 trillion in 2021, approximately 19.6% of the nation's gross domestic product.

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Government

Certain of our businesses involve the distribution of pharmaceuticals and medical devices, and in this regard we are subject to extensive local, state, federal and foreign governmental laws and regulations applicable to the distribution of pharmaceuticals and medical devices. Additionally, government and private insurance programs fund a large portion of the total cost of medical care. Many of these laws and regulations are subject to change and may impact our financial performance.

Health Care Reform

For example, the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010, generally known as the Health Care Reform Law, increased federal oversight of private health insurance plans and included a number of provisions designed to reduce Medicare expenditures and the cost of health care generally, to reduce fraud and abuse, and to provide access to increased health coverage. The Health Care Reform Law requirements include, for example 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 that was implemented in 2011, both of which may affect sales. On June 28, 2012, the United States Supreme Court upheld as constitutional a key provision in the Health Care Reform Law, often referred to as the "individual mandate," which requires individuals without health insurance to pay a penalty. However, the decision also invalidated a provision in the Health Care Reform Law requiring states to expand their Medicaid programs or risk the complete loss of all federal Medicaid funding. The Court held that the federal government may offer states the option of accepting the expansion requirement, but that it may not take away pre-existing Medicaid funds in order to coerce states into complying with the expansion. A number of states have indicated a reluctance to accept the Medicaid expansion, so the full extent of increased health care coverage under the Health Care Reform Law is uncertain.

A Health Care Reform Law provision, generally referred to as the Physician Payment Sunshine Act, imposed new reporting and disclosure requirements for drug and device manufacturers with regard to payments or other transfers of value made to certain practitioners (including physicians, dentists and teaching hospitals), and for such manufacturers and group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. Implementation had been delayed pending the issuance of applicable rules by the Centers for Medicare and Medicaid Services ("CMS"). On February 1, 2013, CMS released the final rule to implement the Physician Payment Sunshine Act. The final rule provides that data collection activities begin on August 1, 2013, and first disclosure reports are due by March 31, 2014 for the period August 1, 2013 through December 31, 2013. On or about June 1, 2014, CMS will publish information from these reports, including amounts transferred and physician, dentist and teaching hospital identities, in a national publicly available data bank.

The final rule implementing the Physician Payment Sunshine Act is complex, ambiguous, and broad in scope, and we are in the process of analyzing its application to our businesses. For example, the final rule is unclear as to whether the Physician Payment Sunshine Act requires that wholesale drug and device distributors that take title to the products they distribute, such as we generally do, are to be treated as "applicable manufacturers" subject to full reporting requirements. The CMS commentary on the final rule indicates that they are; however, this interpretation appears to be inconsistent with the language of the Physician Payment Sunshine Act itself. In addition, because certain of our subsidiaries manufacture drugs and devices, we will in any event likely be required to collect and report detailed information regarding certain financial relationships we have with physicians, dentists and teaching hospitals. It is difficult to predict how the new requirements may impact existing relationships among manufacturers, distributors, physicians, dentists and teaching hospitals. The Physician Payment Sunshine Act preempts similar state reporting laws, although we or our subsidiaries may be required to continue to report under certain of such state laws. While we expect to have adequate compliance programs and controls in place to comply with the Physician Payment Sunshine Act requirements, our compliance with the new final rule is likely to pose additional costs on us.

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Health Care Fraud

Certain of our businesses are subject to federal and state (and similar foreign) health care fraud and abuse, referral and reimbursement laws, and regulations with respect to their operations. Some of these laws, referred to as "false claims laws" prohibit the submission or causing the submission of false or fraudulent claims for reimbursement to federal, state and other health care payers and programs. Other laws, referred to as "anti-kickback laws", prohibit 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 federal, state and other health care payers and programs.

The fraud and abuse laws and regulations have been subject to varying interpretations, as well as heightened enforcement activity over the past few years, and significant enforcement activity has been the result of "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 laws. Under the federal False Claims Act relators can be entitled to receive up to 30% of total recoveries. Also, violations of the federal False Claims Act can result in treble damages, and each false claim submitted can be subject to a penalty of up to $11,000 per claim. The Health Care Reform Law significantly strengthened the federal False Claims Act and the anti-kickback law provisions, which could lead to the possibility of increased whistleblower or relator suits, and among other things made clear that a federal anti-kickback law violation can be a basis for federal False Claims Act liability.

The government has expressed concerns about financial relationships between suppliers on the one hand and physicians and dentists on the other. As a result, we regularly review and revise our marketing practices as necessary to facilitate compliance. In addition, under the reporting and disclosure obligations of the Physician Payment Sunshine Act provisions of the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, each enacted in March 2010, generally known as the "Health Care Reform Law," discussed in more detail in Health Care Reform, above, by the second quarter of 2014, the general public and government officials will be provided with new access to detailed information with regard to payments or other transfers of value to certain practitioners (including physicians, dentists and teaching hospitals) by applicable drug and device manufacturers subject to such reporting and disclosure obligations, which is likely to include us. This information may lead to greater scrutiny, which may result in modifications to established practices and additional costs.

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, which have been the focus of increasing enforcement activity in recent years.

Failure to comply with fraud and abuse laws and regulations could result in significant civil and criminal penalties and costs, including the loss of licenses and the ability to participate in federal and state health care programs, and could have a material adverse impact on our business. Also, these measures 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 or incur substantial defense and settlement expenses. Even unsuccessful challenges by regulatory authorities or private relators could result in reputational harm and the incurring of substantial costs. In addition, many of these laws are vague or indefinite and have not been interpreted by the courts, and have been subject to frequent modification and varied interpretation by prosecutorial and regulatory authorities, increasing the risk of noncompliance.

While we believe that we are substantially compliant with fraud and abuse laws and regulations, and have adequate compliance programs and controls in place to ensure substantial compliance, we cannot predict whether changes in applicable law, or interpretation of laws, or changes in our services or marketing practices in response, could adversely affect our business.

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Operating and Security Standards

At the federal level, the Federal Food, Drug, and Cosmetic Act, or FDC Act, requires certain wholesalers to provide a drug pedigree for each wholesale distribution of prescription drugs, which includes an identifying statement that records the chain of ownership of a prescription drug. Currently, the United States Food and Drug Administration, in exercise of its enforcement discretion, requires these wholesalers to maintain drug pedigrees that include transaction dates, names and addresses regarding transactions going back to either the manufacturer or the last authorized distributor of record that handled the drugs. The United States Food and Drug Administration, or FDA, has continued to develop its policies regarding the integrity of the supply chain, such as by issuing a Final Guidance in 2010 regarding standardized numerical identification for prescription drug packages, and by issuing a proposed rule in 2012 for a unique medical device identification system.

Many states have implemented or are considering similar drug pedigree laws and regulations. There have been increasing efforts by various levels of government, including state departments of health, state boards of pharmacy and comparable agencies, to regulate the pharmaceutical distribution system in order to prevent the introduction of counterfeit, adulterated or mislabeled pharmaceuticals into the distribution system. A number of states, including Florida, have already implemented pedigree requirements, including drug tracking requirements, which are intended to protect the integrity of the pharmaceutical distribution system. California has enacted a statute that, beginning in 2015, will require manufacturers to identify each package of a prescription pharmaceutical with a standard, machine-readable unique numerical identifier, and will require manufacturers and distributors to participate in an electronic track-and-trace system and provide or receive an electronic pedigree for each transaction in the drug distribution chain. The law will take effect on a staggered basis, commencing on January 1, 2015 for pharmaceutical manufacturers, and July 1, 2016 for pharmaceutical wholesalers and repackagers. Other states have passed or are reviewing similar requirements. Bills have been proposed in Congress that would impose similar requirements at the federal level.

The Combat Methamphetamine Enhancement Act of 2010, which became effective in April 2011, requires retail sellers of products containing certain chemicals, such as pseudoephedrine, to self-certify to the Drug Enforcement Administration (“DEA”) that they understand and agree to comply with the laws and regulations regarding such sales. The law also prohibits distributors from selling these products to retailers who are not registered with the DEA or who have not self-certified compliance with the laws and regulations. Various states also impose restrictions on the sale of certain products containing pseudoephedrine and other chemicals. The Secure and Responsible Drug Disposal Act of 2010, signed by President Obama in October 2010, is intended to allow patients to deliver unused controlled substances to designated entities to more easily and safely dispose of controlled substances while reducing the chance of diversion. The law authorizes the DEA to promulgate regulations to allow, but not require, designated entities to receive unused controlled substances.

Regulated Software; Electronic Health Records

The FDA has become increasingly active in addressing the regulation of computer software intended for use in health care settings, and has been developing policies on regulating clinical decision support tools as medical devices. Certain of our businesses involve the development and sale of software and related products to support physician and dental practice management, and it is possible that the FDA could determine that one or more of our products is a medical device, which could subject us or one or more of our businesses to substantial additional requirements with respect to these products.

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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, such as the privacy and security provisions of the federal Health Insurance Portability and Accountability Act of 1996, as amended, and implementing regulations ("HIPAA"). HIPAA requires, 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. Failure to comply with these laws and regulations can result in substantial penalties and other liabilities. As a result of the federal Health Information Technology for Economic and Clinical Health Act ("HITECH Act"), which was enacted in 2009, some of our businesses that were previously only indirectly affected by 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. On January 17, 2013, the Office for Civil Rights of the Department of Health and Human Services released a final rule implementing the HITECH Act and making certain other changes to HIPAA privacy and security requirements. Compliance with the rule is required by September 23, 2013, and will increase the requirements applicable to some of our businesses.

In addition, federal initiatives, including in particular the HITECH Act, are providing a program of incentive payments available to certain health care providers involving the adoption and use of certain electronic health care records systems and processes. The HITECH initiative includes providing, among others, physicians and dentists, with financial incentives if they meaningfully use certified electronic health record technology ("EHR"). Also, eligible providers that fail to adopt certified EHR systems may be subject to Medicare reimbursement reductions beginning in 2015. Qualification for the incentive payments requires the use of EHRs that are certified as having certain capabilities for meaningful use pursuant to standards adopted by the Department of Health and Human Services. Initial ("stage one") standards addressed criteria for periods beginning in 2011. CMS has also issued a final rule with "stage two" criteria for periods beginning in 2014, which are more demanding, and new, incrementally more rigorous criteria are expected to be issued for stage "three" compliance, however final standards have not yet been issued and so these criteria are not yet certain. Certain of our businesses involve the manufacture and sale of certified EHR systems, and other products linked to incentive programs, and so must maintain compliance with these evolving governmental criteria.

Also, HIPAA requires certain health care providers, such as physicians, to use certain transaction and code set rules for specified electronic transactions, such as transactions involving claims submissions. Commencing July 1, 2012, CMS required that electronic claim submissions and related electronic transactions be conducted under a new HIPAA transaction standard, called Version 5010. CMS has required this upgrade in connection with another new requirement applicable to the industry, the implementation of new diagnostic code sets to be used in claims submission. The new diagnostic code sets are called the ICD-10-CM. They were originally to be implemented on October 1, 2013, but CMS recently issued a final rule that extended the implementation date until October 1, 2014. Certain of our businesses provide electronic practice management products that must meet those requirements, and while we believe that we are prepared to timely adopt the new standards, it is possible that the transition to these new standards, particularly the transition to ICD-10-CM, may result in a degree of disruption and confusion, thus potentially increasing the costs associated with supporting this product.

There may be additional legislative initiatives in the future impacting health care.

E-Commerce

Electronic commerce solutions have become an integral part of traditional health care supply and distribution relationships. Our distribution business is characterized by rapid technological developments and intense competition. The continuing advancement of online commerce requires 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 significant aspect of the distribution business. We continue to explore ways and means to improve and expand our Internet presence and capabilities, including our online commerce offerings and our use of various social media outlets.

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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 29, 2012, December 31, 2011 and December 25, 2010 (in thousands):

	Years Ended		
	December 29, 2012	December 31, 2011	December 25, 2010
Operating results:			
Net sales	$ 8,939,967	$ 8,530,242	$ 7,526,790
Cost of sales	6,432,454	6,112,187	5,355,914
Gross profit	2,507,513	2,418,055	2,170,876
Operating expenses:			
Selling, general and administrative	1,873,360	1,835,906	1,637,460
Restructuring costs	15,192	-	12,285
Operating income	$ 618,961	$ 582,149	$ 521,131
Other expense, net	$ (14,773)	$ (12,842)	$ (19,096)
Net income	423,388	404,656	352,131
Net income attributable to Henry Schein, Inc.	388,076	367,661	325,789

	Years Ended		
	December 29, 2012	December 31, 2011	December 25, 2010
Cash flows:			
Net cash provided by operating activities	$ 408,099	$ 554,625	$ 395,480
Net cash used in investing activities	(269,604)	(193,222)	(387,623)
Net cash used in financing activities	(170,601)	(357,214)	(330,643)

Plans of Restructuring

During the year ended December 29, 2012, we incurred restructuring costs of approximately $15.2 million (approximately $10.5 million after taxes) consisting of employee severance pay and benefits related to the elimination of approximately 200 positions, facility closing costs, representing primarily lease terminations and asset write-off costs, and outside professional and consulting fees directly related to the restructuring plan. This restructuring program is complete and we do not expect any additional costs from this program. We expect that the majority of these costs will be paid in 2013.

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

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2012 Compared to 2011

Net Sales

Net sales for 2012 and 2011 were as follows (in thousands):

	2012	% of Total	2011	% of Total	Increase $	Increase %
Health care distribution (1):						
Dental	$ 4,774,482	53.4 %	$ 4,764,898	55.9 %	$ 9,584	0.2 %
Medical	1,560,921	17.4	1,504,454	17.6	56,467	3.8
Animal health	2,321,151	26.0	2,010,270	23.6	310,881	15.5
Total health care distribution	8,656,554	96.8	8,279,622	97.1	376,932	4.6
Technology and value-added services (2)	283,413	3.2	250,620	2.9	32,793	13.1
Total	$ 8,939,967	100.0%	$ 8,530,242	100.0%	$ 409,725	4.8

(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 practice management software and other value-added products, which are distributed primarily to health care providers, and financial services, including e-services and continuing education services for practitioners.

The fiscal year ended December 29, 2012 consisted of 52 weeks as compared to the fiscal year ended December 31, 2011, which consisted of 53 weeks.

Beginning with the first quarter of 2012, we have reported net sales and prior-year sales comparisons for each of our global dental, medical, animal health and global technology and value-added services business groups.

This sales reporting is consistent with our global business groups as realigned in 2012. These groups were formed to provide distinct organizational focus for reaching and serving each practitioner segment with the benefits of a global perspective, as well as global product and service offerings and best practices.

We will continue to report financial results for our health care distribution and technology and value-added services reportable segments. The health care distribution segment comprises three global operating segments (dental, medical and animal health) and the technology and value-added services segment remains unchanged.

The $409.7 million, or 4.8%, increase in net sales for the year ended December 29, 2012 includes an increase of 6.7% local currency growth (5.1% increase in internally generated revenue, 1.5% decrease due to the impact from extra week and 3.1% growth from acquisitions) as well as a decrease of 1.9% related to foreign currency exchange.

The $9.6 million, or 0.2%, increase in dental net sales for the year ended December 29, 2012 includes an increase of 2.5% in local currencies (2.8% increase in internally generated revenue, 1.5%decrease due to the impact from extra week and 1.2% growth from acquisitions) as well as a decrease of 2.3% related to foreign currency exchange. The 2.5% increase in local currency sales was due to increases in dental equipment sales and service revenues of 0.4%

(3.1% decrease in internally generated revenue, 3.0% decrease due to the impact from extra week and 0.3% growth from acquisitions) and dental consumable merchandise sales growth of 3.3% (2.7% increase in internally generated revenue, 0.9% decrease due to the impact from extra week and 1.5% growth from acquisitions).

The $56.5 million, or 3.8%, increase in medical net sales for the year ended December 29, 2012 includes an increase of 4.2% local currency growth (4.8% increase in internally generated revenue, 1.5% decrease due to the impact from extra week and 0.9% growth from acquisitions) as well as a decrease of 0.4% related to foreign currency exchange.

The $310.9 million, or 15.5%, increase in animal health net sales for the year ended December 29, 2012 includes an increase of 17.7% local currency growth (10.2% increase in internally generated revenue, 1.6% decrease due to the impact from extra week and 9.1% growth from acquisitions) as well as a decrease of 2.2% related to foreign currency exchange.

The $32.8 million, or 13.1%, increase in technology and value-added services net sales for the year ended December 29, 2012 includes an increase of 13.4% local currency growth (10.8% increase in internally generated revenue, 1.5% decrease due to the impact from extra week and 4.1% growth from acquisitions) as well as a decrease of 0.3% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margins for 2012 and 2011 by segment and in total were as follows (in thousands):

	2012	Gross Margin %	2011	Gross Margin %	Increase $	Increase %
Health care distribution	$ 2,323,913	26.8 %	$ 2,253,814	27.2 %	$ 70,099	3.1 %
Technology and value-added services	183,600	64.8	164,241	65.5	19,359	11.8
Total	$ 2,507,513	28.0	$ 2,418,055	28.3	$ 89,458	3.7

Gross profit increased $89.5 million, or 3.7%, for the year ended December 29, 2012 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 health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

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

Health care distribution gross profit increased $70.1 million, or 3.1%, for the year ended December 29, 2012 compared to the prior year period. Health care distribution gross profit margin decreased to 26.8% for the year ended December 29, 2012 from 27.2% for the comparable prior year period. The decrease in our health care distribution gross profit margin is primarily due to growth in sales within our animal health businesses, which typically include a greater percentage of lower-margin pharmaceutical products than our other operating units.

Technology and value-added services gross profit increased $19.4 million, or 11.8%, for the year ended December 29, 2012 compared to the prior year period. Technology and value-added services gross profit margin decreased to 64.8% for the year ended December 29, 2012 from 65.5% for the comparable prior year period, primarily due to changes in the product sales mix and from higher support costs associated with our growing number of software and eServices customers. Revenues generated from lower than average gross margins grew at a greater rate than traditional electronic services (e.g., claims processing) or software sales, which typically generate higher than average gross margins.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2012 and 2011 were as follows (in thousands):

2012	% of Respective Net Sales	2011	% of Respective Net Sales	Increase $	Increase %

Health care distribution	$ 1,767,265	20.4	%	$ 1,741,720	21.0	%	$ 25,545	1.5	%
Technology and value-added services	106,095	37.4		94,186	37.6		11,909	12.6	
Total	$ 1,873,360	21.0		$ 1,835,906	21.5		$ 37,454	2.0	

Selling, general and administrative expenses increased $37.5 million, or 2.0%, for the year ended December 29, 2012 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 21.0% from 21.5% for the comparable prior year period.

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As a component of total selling, general and administrative expenses, selling expenses increased $6.2 million, or 0.5%, for the year ended December 29, 2012 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.3% from 13.8% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $31.3 million, or 4.8%, for the year ended December 29, 2012 from the comparable prior year period. As a percentage of net sales, general and administrative expenses remained constant at 7.7% when compared with the comparable prior year period.

Other Expense, Net

Other expense, net for the years ended 2012 and 2011 was as follows (in thousands):

			Variance	
	2012	2011	$	%
Interest income	$ 13,394	$ 15,593	$ (2,199)	(14.1)%
Interest expense	(30,902)	(30,377)	(525)	(1.7)
Other, net	2,735	1,942	793	40.8
Other expense, net	$ (14,773)	$ (12,842)	$ (1,931)	(15.0)

Other expense, net increased $1.9 million to $14.8 million for the year ended December 29, 2012 from the comparable prior year period. Interest income decreased $2.2 million primarily due to lower investment income. Interest expense increased $0.5 million primarily due to an increase in borrowings under our private placement facilities and our bank credit lines, partially offset by lower interest expense due to a reduction in borrowings under our Butler Animal Health Supply, LLC (“BAHS”) debt. Other, net increased by $0.8 million due primarily to a gain related to an increase in the fair value of an equity affiliate which is now being reported as a consolidated entity beginning in the third quarter of 2012.

Income Taxes

For the year ended December 29, 2012, our effective tax rate was 31.1% compared to 31.7% for the prior year period. The net reduction in our 2012 effective tax rate results from additional tax planning, settlements of tax audits 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 state and foreign income taxes and interest expense. For 2013, we expect our effective tax rate to be in the range of 31.0%

Net Income

Net income increased $18.7 million, or 4.6%, for the year ended December 29, 2012, compared to the prior year period due to the factors noted above.

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2011 Compared to 2010

Net Sales

Net sales for 2011 and 2010 were as follows (in thousands):

	2011	% of Total	2010	% of Total	Increase $	Increase %
Health care distribution (1):						
Dental	$ 4,764,898	55.9 %	$ 4,415,469	58.7 %	$ 349,429	7.9 %
Medical	1,504,454	17.6	1,373,999	18.2	130,455	9.5
Animal health	2,010,270	23.6	1,537,370	20.4	472,900	30.8
Total health care distribution	8,279,622	97.1	7,326,838	97.3	952,784	13.0
Technology and value-added services (2)	250,620	2.9	199,952	2.7	50,668	25.3
Total	$ 8,530,242	100.0%	$ 7,526,790	100.0%	$ 1,003,452	13.3

(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 practice management software and other value-added products, which are distributed primarily to health care providers, and financial and other services, including e-services and continuing education services for practitioners.

The fiscal year ended December 31, 2011 consisted of 53 weeks as compared to the fiscal year ended December 25, 2010, which consisted of 52 weeks.

The $1,003.5 million, or 13.3%, increase in net sales for the year ended December 31, 2011 includes an increase of 10.9% local currency growth (4.5% increase in internally generated revenue, 1.5% impact from extra week and 4.9% growth from acquisitions) as well as an increase of 2.4% related to foreign currency exchange.

The $349.4 million, or 7.9%, increase in dental net sales for the year ended December 31, 2011 includes an increase of 5.5% in local currencies (3.0% increase in internally generated revenue, 1.5% impact from extra week and 1.0% growth from acquisitions) as well as an increase of 2.4% related to foreign currency exchange. The 5.5% increase in local currency sales was due to increases in dental equipment sales and service revenues of 3.6% (0.1% decrease in internally generated revenue, 3.0% impact from extra week and 0.7% growth from acquisitions) and dental consumable merchandise sales growth of 6.2% (4.1% increase in internally generated revenue, 0.9% impact from extra week and 1.2% growth from acquisitions).

The $130.5 million, or 9.5%, increase in medical net sales for the year ended December 31, 2011 includes an increase of 9.2% local currency growth (6.3% internally generated, 1.5% impact from extra week and 1.4% growth from acquisitions) as well as an increase of 0.3% related to foreign currency exchange.

The $472.9 million, or 30.8%, increase in animal health net sales for the year ended December 31, 2011 includes an increase of 26.2% local currency growth (6.7% internally generated, 1.5% impact from extra week and 18.0% growth

from acquisitions) as well as an increase of 4.6% related to foreign currency exchange.

The $50.7 million, or 25.3%, increase in technology and value-added services net sales for the year ended December 31, 2011 includes an increase of 24.4% local currency growth (9.6% internally generated growth, 1.9% impact from extra week and 12.9% growth from acquisitions) as well as an increase of 0.9% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margins for 2011 and 2010 by segment and in total were as follows (in thousands):

	2011	Gross Margin %	2010	Gross Margin %	Increase $	Increase %
Health care distribution	$ 2,253,814	27.2 %	$ 2,033,860	27.8 %	$ 219,954	10.8 %
Technology and value-added services	164,241	65.5	137,016	68.5	27,225	19.9
Total	$ 2,418,055	28.3	$ 2,170,876	28.8	$ 247,179	11.4

Gross profit increased $247.2 million, or 11.4%, for the year ended December 31, 2011 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 health care distribution segment. These higher gross margins result from being both the developer and seller of software products and services, as well as certain financial services. The software industry typically realizes higher gross margins to recover investments in research and development.

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

Health care distribution gross profit increased $220.0 million, or 10.8%, for the year ended December 31, 2011 compared to the prior year period. Health care distribution gross profit margin decreased to 27.2% for the year ended December 31, 2011 from 27.8% for the comparable prior year period. The decrease in our health care distribution gross profit margin is primarily due to growth in sales within our animal health businesses, which typically include a greater percentage of lower-margin pharmaceutical products than our other operating units. The increase in animal health sales results from internal growth in the United States and the acquisition of Provet Holdings Limited (see Note 9 “Business Acquisitions and Other Transactions” within our notes to our consolidated financial statements) at the beginning of our 2011 fiscal year.

Technology and value-added services gross profit increased $27.2 million, or 19.9%, for the year ended December 31, 2011 compared to the prior year period. Technology and value-added services gross profit margin decreased to 65.5% for the year ended December 31, 2011 from 68.5% for the comparable prior year period, primarily due to changes in the product sales mix. Specifically, revenues generated from hardware sales and installations, which generally are completed at a lower than average gross margin, grew at a greater rate than electronic services (claims processing, statements generation, etc.) or software sales, which typically generate higher than average gross margins.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2011 and 2010 were as follows (in thousands):

		% of		% of

	2011	Respective Net Sales	2010	Respective Net Sales	Increase $	Increase %
Health care distribution	$ 1,741,720	21.0 %	$ 1,566,190	21.4 %	$ 175,530	11.2 %
Technology and value-added services	94,186	37.6	71,270	35.6	22,916	32.2
Total	$ 1,835,906	21.5	$ 1,637,460	21.8	$ 198,446	12.1

Selling, general and administrative expenses increased $198.4 million, or 12.1%, for the year ended December 31, 2011 compared to the prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 21.5% from 21.8% for the comparable prior year period.

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As a component of total selling, general and administrative expenses, selling expenses increased $101.4 million, or 9.4%, for the year ended December 31, 2011 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.8% from 14.3% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $97.0 million, or 17.4%, for the year ended December 31, 2011 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 7.7% from 7.4% for the comparable prior year period.

Other Expense, Net

Other expense, net for the years ended 2011 and 2010 was as follows (in thousands):

			Variance	
	2011	2010	$	%
Interest income	$ 15,593	$ 14,098	$ 1,495	10.6 %
Interest expense	(30,377)	(33,641)	3,264	9.7
Other, net	1,942	447	1,495	334.5
Other expense, net	$ (12,842)	$ (19,096)	$ 6,254	32.8

Other expense, net decreased $6.3 million to $12.8 million for the year ended December 31, 2011 from the comparable prior year period. Interest income increased $1.5 million primarily due to higher investment income partially offset by a decrease in late fee income. Interest expense decreased $3.3 million primarily due to reduced interest expense from the redemption of our 3% convertible contingent notes originally due in 2034 (the “Convertible Notes”) on September 3, 2010, partially offset by increased interest expense related to borrowings under our private placement facilities, as well as interest expense related to our credit lines. Other, net increased by $1.5 million due primarily to a gain associated with the acquisition of the remaining interest in an equity investment and proceeds received from a litigation settlement.

Income Taxes

For the year ended December 31, 2011, our effective tax was 31.7% compared to 31.9% for the prior year period. The net reduction in our 2011 effective tax rate results from additional tax planning, settlements of tax audits 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.

Net Income

Net income increased $52.5 million, or 14.9%, for the year ended December 31, 2011 compared to the prior year period due to the factors noted above.

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Liquidity and Capital Resources

Our principal capital requirements include funding of acquisitions, purchases of additional noncontrolling interests, 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 $408.1 million for the year ended December 29, 2012, compared to $554.6 million for the comparable prior year period. The net change of $146.5 million was primarily attributable to inventory buy-ins during the fourth quarter of 2012 in advance of potential price increases related to the medical device excise tax.

Net cash used in investing activities was $269.6 million for the year ended December 29, 2012, compared to $193.2 million for the comparable prior year period. The net change of $76.4 million was primarily due to increases in payments for equity investments and business acquisitions.

Net cash used in financing activities was $170.6 million for the year ended December 29, 2012, compared to $357.2 million for the comparable prior year period. The net change of $186.6 million was primarily due to increased net proceeds from issuance of debt and decreased acquisitions of noncontrolling interests in subsidiaries, partially offset by increased repurchases of common stock.

We expect to invest approximately $60 million to $65 million during 2013 in capital projects to modernize and expand our facilities and computer systems and to integrate certain operations into our existing structure.

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

	December 29, 2012	December 31, 2011

Cash and cash equivalents	$122,080	$147,284
Available-for-sale securities - long-term	2,816	11,329
Working capital	1,231,668	1,000,868
Debt:		
Bank credit lines	$27,166	$55,014
Current maturities of long-term debt	17,992	22,819
Long-term debt	488,121	363,524
Total debt	$533,279	$441,357

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

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Available-for-sale securities

As of December 29, 2012, we have approximately $3.3 million ($2.8 million net of temporary impairments) invested in auction-rate securities ("ARS"). These investments are backed by student loans (backed by the federal government) and investments in closed-end municipal bond funds. ARS are publicly issued securities that represent long-term investments, typically 10-30 years, in which interest rates had reset periodically (typically every 7, 28 or 35 days) through a "dutch auction" process. Our ARS portfolio is comprised of investments that are rated investment grade 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 29, 2012, we have classified ARS holdings as long-term, available-for-sale and they are included in the Investments and other line within our consolidated balance sheets.

Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations decreased to 39.8 days as of December 29, 2012 from 40.6 days as of December 31, 2011. During the years ended December 29, 2012 and December 31, 2011, we wrote off approximately $8.3 million and $6.2 million, respectively, of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations decreased to 6.2 for the year ended December 29, 2012 from 6.6 for the year ended December 31, 2011, primarily due to inventory buy-ins in advance of potential price increases related to the medical device excise tax. Our working capital accounts may be impacted by current and future economic conditions.

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 3.7%), as well as operating and capital lease obligations, capital expenditure obligations and inventory purchase commitments as of December 29, 2012:

	Payments due by period (in thousands)				
	< 1 year	2 - 3 years	4 - 5 years	> 5 years	Total
Contractual obligations:					
Long-term debt, including interest	$34,660	$130,290	$171,799	$273,569	$610,318
Inventory purchase commitments	67,245	50,329	48,139	78,053	243,766
Operating lease obligations	75,901	104,972	61,488	65,718	308,079
Capital lease obligations, including interest	1,739	1,485	207	-	3,431
Fixed asset obligations	1,311	-	-	-	1,311
Total	$180,856	$287,076	$281,633	$417,340	$1,166,905

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.

During 2013, we intend to refinance the debt of approximately $220 million related to the Butler Schein Animal Health transaction. The refinancing is expected to reduce interest expense and to be accretive to earnings per share by $0.02 to $0.03 on an annualized basis. We expect the refinancing to occur at the end of the first quarter of 2013. As part of that refinancing, we expect to incur a one-time, non-cash charge of approximately $0.04 to $0.05 per diluted share.

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 million of Convertible Notes, which were issued in 2004.

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Credit Facilities

On September 12, 2012, we entered into a new $500 million revolving credit agreement (the "Credit Agreement") with a $200 million expansion feature, which expires on September 12, 2017. This credit facility replaced our then existing $400 million revolving credit facility with a $100 million expansion feature, which would have expired on September 5, 2013. There were no borrowings outstanding under this revolving credit facility as of December 29, 2012. The interest rate, which was 0.82% during the year ended December 29, 2012, is based on the USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. The Credit Agreement provides, among other things, that we are required to maintain certain interest coverage and maximum leverage ratios, and contains customary representations, warranties and affirmative covenants. The Credit Agreement also contains customary negative covenants, subject to negotiated exceptions on liens, indebtedness, significant corporate changes (including mergers), dispositions and certain restrictive agreements.

As of December 29, 2012, we had various other short-term bank credit lines available, of which approximately $27.2 million was outstanding. At December 29, 2012, borrowings under all of our credit lines had a weighted average interest rate of 2.22%. As of December 29, 2012, there were $9.3 million of letters of credit provided to third parties under the credit facility.

Private Placement Facilities

On August 10, 2010, we entered into $400 million private placement facilities with two insurance companies. On April 30, 2012, we increased our available credit facilities by $375 million by entering into a new agreement with one insurance company and amending our existing agreements with two insurance companies. These facilities are available on an uncommitted basis at fixed rate economic terms to be agreed upon at the time of issuance, from time to time during a three year issuance period, through April 26, 2015. 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, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain a make-whole provision in the event that we pay off the facility prior to the due date.

The components of our private placement facility borrowings as of December 29, 2012 are presented in the following table:

Date of Borrowing	Amount of Borrowing Outstanding	Borrowing Rate	Due Date
September 2, 2010	$ 100,000	3.79 %	September 2, 2020
January 20, 2012	50,000	3.45	January 20, 2024
January 20, 2012 (1)	50,000	3.09	January 20, 2022
December 24, 2012	50,000	3.00	December 24, 2024
	$ 250,000		

(1) Annual repayments of approximately $7.1 million for this borrowing will commence on January 20, 2016.

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Butler Animal Health Supply

Effective December 31, 2009, BAHS, a majority-owned subsidiary whose financial information is consolidated with ours, had incurred approximately $320.0 million of debt (of which $37.5 million, which is eliminated in our consolidated financial statements, was provided by Henry Schein, Inc.) in connection with our acquisition of a majority interest in BAHS.

On May 27, 2011, BAHS refinanced the terms and amount of its debt in an aggregate principal amount of $366.0 million (of which $55.0 million, which is eliminated in our consolidated financial statements, was provided by Henry Schein, Inc.). The refinanced debt consists of the following three components:

	Term Loan A	Term Loan B	Revolver
Original amount of debt (includes $55.0 million of debt provided by Henry Schein, Inc.)	$ 100,000	$ 216,000	$ 50,000
Number of remaining quarterly installments	8	12	
Quarterly payments from:			
December 31, 2012 through June 30, 2013	$ 4,931		
September 30, 2013 through June 30, 2014	8,766		
July 1, 2014 through September 30, 2014	2,739		
December 31, 2012 through September 30, 2015		$ 4,239	
Final installment due on December 31, 2014	65,196		
Final installment due on December 31, 2015		135,287	
Balance outstanding as of December 29, 2012	81,632	138,807	-
Interest rate on debt	LIBOR plus a margin of 2.50%	LIBOR plus a margin of 3.25%	LIBOR plus a margin of 2.50%
Interest rate on debt - LIBOR floor		1.25 %	

During 2011 and 2012, BAHS made prepayments on Term Loans A and B, which resulted in a reduction to the future quarterly and final installment amounts due. Future prepayments by BAHS, if any, will result in reductions to remaining quarterly and final installment amounts due.

The outstanding balance of $220.4 million (net of unamortized debt discount and excluding amounts owed to Henry Schein, Inc.) is reflected in our consolidated balance sheet as of December 29, 2012.

The debt agreement provides, among other things, that BAHS maintain certain interest coverage and maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, capital expenditures, liens, affiliate transactions, disposal of assets 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.

During 2013, we intend to refinance the debt of approximately $220 million related to the Butler Schein Animal Health transaction. The refinancing is expected to reduce interest expense and to be accretive to earnings per share by $0.02 to $0.03 on an annualized basis. We expect the refinancing to occur at the end of the first quarter of 2013. As part of that refinancing, we expect to incur a one-time, non-cash charge of approximately $0.04 to $0.05 per diluted share.

Stock repurchases

From June 21, 2004 through December 29, 2012, we repurchased $799.9 million, or 13,756,063 shares, under our common stock repurchase programs. On April 18, 2012 and November 12, 2012, our Board of Directors authorized an additional $200.0 million and $300.0 million, respectively, for additional repurchases of our common stock, $300.1 million of which is available as of December 29, 2012 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 at fair value. ASC Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the years ended December 29, 2012, December 31, 2011 and December 25, 2010 are presented in the following table:

	December 29, 2012	December 31, 2011	December 25, 2010
Balance, beginning of period	$402,050	$304,140	$178,570
Decrease in redeemable noncontrolling interests due to redemptions	(23,637)	(160,254)	(141,415)
Increase in redeemable noncontrolling interests due to business acquisitions	30,935	13,618	203,729
Net income attributable to redeemable noncontrolling interests	34,803	36,514	26,054
Dividends declared	(21,013)	(15,212)	(12,360)
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	904	(889)	(2,281)
Change in fair value of redeemable securities	53,769	224,133	51,843
Other adjustment to redeemable noncontrolling interests	(42,636)	-	-
Balance, end of period	$435,175	$402,050	$304,140

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

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

On December 30, 2011, we acquired all of Oak Hill Capital Partners’ (“OHCP”) remaining direct and indirect interests in BAHS (including its interest in W.A. Butler Company) for $155 million in cash. As a result of this transaction, our ownership in BAHS increased to approximately 71.7% at December 31, 2011. The amount paid to OHCP for their remaining interests in BAHS was in excess of the previously agreed upon annual limits (see Note 9. “Business Acquisitions and Other Transaction” within our notes to our consolidated financial statements), but such limits were waived by all parties involved. At December 29, 2012, our ownership in BAHS is approximately 73.7%.

Unrecognized tax benefits

As more fully disclosed in Note 12 of “Notes to Consolidated Financial Statements,” we cannot reasonably estimate the timing of future cash flows related to the unrecognized tax benefits, including accrued interest, of $40.7 million as of

December 29, 2012.

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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 multiple element arrangements, and the related deferral of such revenue (which is insignificant to our financial statements), is recognized as follows. When we sell software products together with related services (i.e., training and technical support) we allocate revenue to the delivered elements using the residual method, based upon vendor-specific objective evidence (“VSOE”) of the fair value of the undelivered elements, or defer it until such time as vendor-specific evidence of fair value is obtained. Multiple element arrangements that include elements that are not considered software consist primarily of equipment and the related installation service. Effective December 26, 2010 we allocate revenue for such arrangements based on the relative selling prices of the elements applying the following hierarchy: first VSOE, then third-party evidence (“TPE”) of selling price if VSOE is not available, and finally our estimate of the selling price if neither VSOE nor TPE is available. VSOE exists when we sell the deliverables separately and represents the actual price charged by us for each deliverable. Estimated selling price reflects our best estimate of what the selling prices of each deliverable would be if it were sold regularly on a standalone basis taking into consideration the cost structure of our business, technical skill required, customer location and other market conditions. Each element that has standalone value is accounted for as a separate unit of accounting. Revenue

allocated to each unit of accounting is recognized when the service is provided or the product is delivered.

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.

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Accounts Receivable and Reserves

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. The reserve for accounts receivable is comprised of allowance for doubtful accounts and sales returns. 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 collectability. 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.

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 the value of inventory. 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 a comparison of the fair value to the carrying value of reporting units. We regard our reporting units to be our operating segments: health care distribution (global dental, medical and animal health) and technology and value-added services.

During the fiscal year ended December 31, 2011, we adopted the provisions of Accounting Standards Update 2011-08, “Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment” (“ASU 2011-08”), which allows us to use qualitative factors to determine whether it is more likely than not that the fair values of our reporting units are less than their carrying values. The factors that we consider in developing our qualitative assessment included:

- Macroeconomic conditions consisting of the overall sales growth of our business and the overall sales growth of each of our operating segments. We also consider our growth in market share in the markets in which we compete;
- Credit markets and our ability to access debt facilities at favorable terms;
- Key personnel and management expertise, as well as our growth strategies for the next several years; and
- Our expectations of selling or disposing all, or a portion, of a reporting unit.

Prior to the adoption of ASU 2011-08, measuring fair value of a reporting unit was generally based on valuation techniques using multiples of sales or earnings. 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 comparison of the fair value to the carrying value of the assets. This

comparison is made based on 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. For certain indefinite-lived intangible assets, a present value technique, such as estimates of future cash flows, is utilized. We assessed the potential impairment of goodwill and other indefinite-lived intangible assets annually (at the beginning of our fourth quarter) and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. There were no events or circumstances from the date of that assessment through December 29, 2012 that impacted our analysis.

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Some factors we consider important that 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 record an impairment charge in our consolidated statements of income.

Beginning with the first quarter of 2012, we changed our reporting units from dental, medical, animal health, international and technology to global dental, global medical, global animal health and global technology and value-added services.

These groups have been formed to provide distinct organizational focus for reaching and serving each practitioner segment with the benefits of a global perspective, as well as global product and service offerings and best practices.

In connection with this change in business groups, goodwill was reallocated to the new reporting units. Based upon this change, we felt it was necessary to perform a quantitative assessment, in addition to a qualitative assessment, of goodwill impairment as of the first day of the fourth quarter for the year ended December 29, 2012 in order to establish a new baseline calculation.

For the years ended December 29, 2012, December 31, 2011 and December 25, 2010, the results of our goodwill impairment analysis 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.

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

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.

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We issue restricted stock that vests solely based on the recipient's continued service over time (primarily four-year cliff vesting) and restricted stock that vests based on our achieving specified performance measurements and the recipient's continued service over time (primarily 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.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks 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 foreign currency forward contracts and by maintaining counter-party credit limits. These hedging activities provide only limited protection against currency exchange and credit risks. Factors that could influence the effectiveness of our hedging programs include currency markets and availability of hedging instruments and liquidity of the credit markets. All 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 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.

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., 18 months or less) foreign currency forward contracts to protect against currency exchange risks associated with intercompany loans due from our international subsidiaries and the payment of merchandise purchases to 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 29, 2012, the net fair value of our foreign currency exchange agreements, which expire through June 26, 2013, was $0.4 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 $(0.6) 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.

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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 29, 2012 and December 31, 2011 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 29, 2012. These financial statements and schedule 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 29, 2012 and December 31, 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2012, 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 29, 2012, 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 13, 2013 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

New York, New York
February 13, 2013

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

	December 29, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$122,080	$147,284
Accounts receivable, net of reserves of $75,240 and $65,853	1,015,194	888,248
Inventories, net	1,203,507	947,849
Deferred income taxes	64,049	54,970
Prepaid expenses and other	299,547	234,157
Total current assets	2,704,377	2,272,508
Property and equipment, net	273,458	262,088
Goodwill	1,601,046	1,497,108
Other intangibles, net	462,182	409,612
Investments and other	292,934	298,828
Total assets	$5,333,997	$4,740,144
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$787,658	$621,468
Bank credit lines	27,166	55,014
Current maturities of long-term debt	17,992	22,819
Accrued expenses:		
Payroll and related	207,381	191,173
Taxes	132,774	121,234
Other	299,738	259,932
Total current liabilities	1,472,709	1,271,640
Long-term debt	488,121	363,524
Deferred income taxes	196,814	188,739
Other liabilities	125,314	80,568
Total liabilities	2,282,958	1,904,471
Redeemable noncontrolling interests	435,175	402,050
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, 87,850,671 outstanding on December 29, 2012 and 89,928,082 outstanding on December 31, 2011	879	899

Additional paid-in capital	375,946	401,262
Retained earnings	2,183,905	2,007,477
Accumulated other comprehensive income	52,855	22,584
Total Henry Schein, Inc. stockholders' equity	2,613,585	2,432,222
Noncontrolling interests	2,279	1,401
Total stockholders' equity	2,615,864	2,433,623
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$5,333,997	$4,740,144

See accompanying notes.

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

	Years Ended		
	December 29, 2012	December 31, 2011	December 25, 2010
Net sales	$8,939,967	$8,530,242	$7,526,790
Cost of sales	6,432,454	6,112,187	5,355,914
Gross profit	2,507,513	2,418,055	2,170,876
Operating expenses:			
Selling, general and administrative	1,873,360	1,835,906	1,637,460
Restructuring costs	15,192	-	12,285
Operating income	618,961	582,149	521,131
Other income (expense):			
Interest income	13,394	15,593	14,098
Interest expense	(30,902)	(30,377)	(33,641)
Other, net	2,735	1,942	447
Income before taxes and equity in earnings of affiliates	604,188	569,307	502,035
Income taxes	(187,858)	(180,212)	(160,069)
Equity in earnings of affiliates	7,058	15,561	10,165
Net income	423,388	404,656	352,131
Less: Net income attributable to noncontrolling interests	(35,312)	(36,995)	(26,342)
Net income attributable to Henry Schein, Inc.	$388,076	$367,661	$325,789
Earnings per share attributable to Henry Schein, Inc.:			
Basic	$4.44	$4.08	$3.62
Diluted	$4.32	$3.97	$3.49
Weighted-average common shares outstanding:			
Basic	87,499	90,120	90,097
Diluted	89,823	92,620	93,268

See accompanying notes.

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HENRY SCHEIN, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	December 29, 2012	December 31, 2011	December 25, 2010
Net income	$423,388	$404,656	$352,131
Other comprehensive income, net of tax:			
Foreign currency translation gain (loss)	33,347	(2,310)	(30,584)
Unrealized gain (loss) from foreign currency hedging activities	2,865	(618)	(885)
Unrealized investment gain	414	347	145
Pension adjustment loss	(5,451)	(6,238)	(4,637)
Other comprehensive income (loss), net of tax			