HENRY SCHEIN INC
Form 10-Q
August 06, 2013

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

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

For the quarterly period ended June 29, 2013

or

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

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

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

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

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

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

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

Yes X No __

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

Yes X No __

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

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

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

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

Yes __ No X

As of July 26, 2013, there were 86,491,195 shares of the registrant's common stock outstanding.

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

	June 29, 2013 (unaudited)	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 78,839	$ 122,080
Accounts receivable, net of reserves of $72,040 and $75,240	1,039,914	1,015,194
Inventories, net	1,099,012	1,203,507
Deferred income taxes	63,085	64,049
Prepaid expenses and other	292,416	299,547
Total current assets	2,573,266	2,704,377
Property and equipment, net	256,775	273,458
Goodwill	1,607,731	1,601,046
Other intangibles, net	435,412	462,182
Investments and other	291,322	292,934
Total assets	$ 5,164,506	$ 5,333,997
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 682,604	$ 787,658
Bank credit lines	15,588	27,166
Current maturities of long-term debt	5,894	17,992
Accrued expenses:		
Payroll and related	182,587	207,381
Taxes	139,605	132,774
Other	288,057	299,738
Total current liabilities	1,314,335	1,472,709
Long-term debt	446,709	488,121
Deferred income taxes	200,709	196,814
Other liabilities	119,291	125,314
Total liabilities	2,081,044	2,282,958
Redeemable noncontrolling interests	466,024	435,175
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,				
86,726,281 outstanding on June 29, 2013 and				
87,850,671 outstanding on December 29, 2012		867		879
Additional paid-in capital		337,731		375,946
Retained earnings		2,275,516		2,183,905
Accumulated other comprehensive income		1,265		52,855
Total Henry Schein, Inc. stockholders' equity		2,615,379		2,613,585
Noncontrolling interests		2,059		2,279
Total stockholders' equity		2,617,438		2,615,864
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$	5,164,506	$	5,333,997

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	$ 2,391,810	$ 2,201,452	$ 4,685,321	$ 4,300,471
Cost of sales	1,721,954	1,577,057	3,368,474	3,065,497
Gross profit	669,856	624,395	1,316,847	1,234,974
Operating expenses:				
Selling, general and administrative	493,791	466,333	987,153	931,785
Restructuring costs	-	3,360	-	15,192
Operating income	176,065	154,702	329,694	287,997
Other income (expense):				
Interest income	3,303	3,609	6,508	6,939
Interest expense	(4,890)	(7,711)	(17,617)	(15,351)
Other, net	(34)	830	(404)	1,355
Income before taxes and equity in earnings of affiliates	174,444	151,430	318,181	280,940
Income taxes	(54,775)	(47,201)	(100,627)	(89,041)
Equity in earnings of affiliates	1,766	3,073	2,567	4,464
Net income	121,435	107,302	220,121	196,363
Less: Net income attributable to noncontrolling interests	(13,005)	(9,216)	(20,213)	(17,525)
Net income attributable to Henry Schein, Inc.	$ 108,430	$ 98,086	$ 199,908	$ 178,838
Earnings per share attributable to Henry Schein, Inc.:				
Basic	$ 1.26	$ 1.11	$ 2.31	$ 2.03
Diluted	$ 1.23	$ 1.08	$ 2.27	$ 1.98
Weighted-average common shares outstanding:				
Basic	86,370	88,490	86,483	88,161
Diluted	87,968	90,553	88,205	90,431

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income	$ 121,435	$ 107,302	$ 220,121	$ 196,363
Other comprehensive loss, net of tax:				
Foreign currency translation loss	(15,261)	(42,004)	(55,702)	(10,343)
Unrealized gain (loss) from foreign currency hedging activities	793	(1,022)	634	(107)
Unrealized investment gain (loss)	(74)	55	(83)	88
Pension adjustment gain	269	481	1,007	46
Other comprehensive loss, net of tax	(14,273)	(42,490)	(54,144)	(10,316)
Comprehensive income	107,162	64,812	165,977	186,047
Comprehensive income attributable to noncontrolling interests:				
Net income	(13,005)	(9,216)	(20,213)	(17,525)
Foreign currency translation loss	1,076	1,626	2,554	612
Comprehensive income attributable to noncontrolling interests	(11,929)	(7,590)	(17,659)	(16,913)
Comprehensive income attributable to Henry Schein, Inc.	$ 95,233	$ 57,222	$ 148,318	$ 169,134

See accompanying notes.

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

	Common Stock $.01 Par Value		Additional Paid-in		Accumulated Other Comprehensive	Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Retained Earnings	Income	Interests	Equity
Balance, December 29, 2012	87,850,671	$ 879	$ 375,946	$ 2,183,905	$ 52,855	$ 2,279	$ 2,615,864
Net income (excluding $20,024 attributable to Redeemable noncontrolling interests)	-	-	-	199,908	-	189	200,097
Foreign currency translation loss (excluding $2,554 attributable to Redeemable noncontrolling interests)	-	-	-	-	(53,148)	-	(53,148)
Unrealized gain from foreign currency hedging activities, net of tax of $222	-	-	-	-	634	-	634
Unrealized investment loss, net of tax benefit of $55	-	-	-	-	(83)	-	(83)
Pension adjustment gain, net of tax of $256	-	-	-	-	1,007	-	1,007
Dividends paid	-	-	-	-	-	(200)	(200)
Initial noncontrolling interests and adjustments related to business acquisitions	-	-	(168)	-	-	(209)	(377)
Change in fair value of redeemable securities	-	-	(23,568)	-	-	-	(23,568)
	(1,678,885)	(17)	(43,197)	(108,297)	-	-	(151,511)

Repurchase and retirement of common stock							
Stock issued upon exercise of stock options, including tax benefit of $15,216	398,601	3	34,665	-	-	-	34,668
Stock-based compensation expense	403,748	4	16,728	-	-	-	16,732
Shares withheld for payroll taxes	(247,854)	(2)	(22,403)	-	-	-	(22,405)
Liability for cash settlement stock-based compensation awards	-	-	(272)	-	-	-	(272)
Balance, June 29, 2013	86,726,281	$ 867	$ 337,731	$ 2,275,516	$ 1,265	$ 2,059	$ 2,617,438

See accompanying notes.

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

	Six Months Ended	
	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Net income	$ 220,121	$ 196,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,236	61,389
Accelerated amortization of deferred financing costs	6,203	-
Stock-based compensation expense	16,732	20,049
Provision for losses on trade and other accounts receivable	2,154	2,637
Provision for (benefit from) deferred income taxes	15,550	(7,715)
Equity in earnings of affiliates	(2,567)	(4,464)
Distributions from equity affiliates	6,450	6,007
Other	5,367	3,859
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(45,155)	(59,329)
Inventories	82,037	(11,340)
Other current assets	(12,924)	(8,078)
Accounts payable and accrued expenses	(121,453)	(69,485)
Net cash provided by operating activities	236,751	129,893
Cash flows from investing activities:		
Purchases of fixed assets	(21,934)	(21,372)
Payments for equity investments and business acquisitions, net of cash acquired	(33,708)	(120,348)
Proceeds from sales of available-for-sale securities	-	4,025
Other	(5,071)	(4,385)
Net cash used in investing activities	(60,713)	(142,080)
Cash flows from financing activities:		
Proceeds from (repayments of) bank borrowings	(11,640)	26,384
Proceeds from issuance of long-term debt	483,781	100,050
Debt issuance costs	(1,319)	(213)
Principal payments for long-term debt	(538,000)	(35,375)
Proceeds from issuance of stock upon exercise of stock options	19,452	40,715
Payments for repurchases of common stock	(151,511)	(156,891)

Excess tax benefits related to stock-based compensation	5,328	10,051
Distributions to noncontrolling shareholders	(13,008)	(8,595)
Acquisitions of noncontrolling interests in subsidiaries	(5,754)	(20,013)
Net cash used in financing activities	(212,671)	(43,887)
Net change in cash and cash equivalents	(36,633)	(56,074)
Effect of exchange rate changes on cash and cash equivalents	(6,608)	(3,314)
Cash and cash equivalents, beginning of period	122,080	147,284
Cash and cash equivalents, end of period	$ 78,839	$ 87,896

See accompanying notes.

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

Note 1 – Basis of Presentation

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

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

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 29, 2012.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the six months ended June 29, 2013 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 28, 2013.

Note 2 – Segment Data

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 dental, medical and animal health groups serve practitioners in 24 countries worldwide.

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 and continuing education services for practitioners.

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

Note 2 – Segment Data – (Continued)

The following tables present information about our reportable and operating segments:

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net Sales:				
Health care distribution (1):				
Dental	$ 1,259,581	$ 1,185,919	$ 2,450,376	$ 2,341,585
Medical	387,887	361,122	776,749	715,948
Animal health	666,297	586,258	1,305,439	1,111,848
Total health care distribution	2,313,765	2,133,299	4,532,564	4,169,381
Technology and value-added services (2)	78,045	68,153	152,757	131,090
Total	$ 2,391,810	$ 2,201,452	$ 4,685,321	$ 4,300,471

(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.

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Operating Income:				
Health care distribution	$ 154,682	$ 136,047	$ 289,142	$ 253,268
Technology and value-added services	21,383	18,655	40,552	34,729
Total	$ 176,065	$ 154,702	$ 329,694	$ 287,997

Note 3 – Debt

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 June 29, 2013. The interest rate is based on 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 June 29, 2013, there were $9.2 million of letters of credit provided to third parties under the credit facility.

As of June 29, 2013, we had various other short-term bank credit lines available, of which $15.6 million was outstanding. At June 29, 2013, borrowings under all of our credit lines had a weighted average interest rate of 3.68%.

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

Note 3 – Debt – (Continued)

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 agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of June 29, 2013 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.

Henry Schein Animal Health

During the first quarter of 2013, we repaid the then outstanding debt related to the Henry Schein Animal Health ("HSAH"), formerly Butler Schein Animal Health, transaction using our existing Credit Agreement. As part of this transaction, we recorded a one-time interest expense charge of $6.2 million related to the accelerated amortization of deferred financing costs.

U.S. Trade Accounts Receivable Securitization

On April 17, 2013, we entered into a facility agreement of up to $300 million with a bank, as agent, based on the securitization of our U.S. trade accounts receivable. The new facility allowed us to replace public debt (approximately $220 million) at a higher interest rate at HSAH during February 2013 and will provide funding for working capital and general corporate purposes. The financing is structured as an asset-backed securitization program with pricing

committed for up to three years. The borrowings outstanding under this securitization facility were $155.0 million as of June 29, 2013. The interest rate on borrowings under this facility is based on the average asset-backed commercial paper rate plus 75 basis points.

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

Note 3 – Debt – (Continued)

We are required to pay a commitment fee of 30 basis points on the daily balance of the unused portion of the facility if usage is greater than or equal to 50% of the facility limit or a commitment fee of 35 basis points on the daily balance of the unused portion of the facility if usage is less than 50% of the facility limit.

Future borrowings under this facility will initially be presented as a component of Long-term debt within our consolidated balance sheet.

Note 4 – Redeemable Noncontrolling Interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value. Accounting Standards Codification ("ASC") Topic 480-10 is applicable for noncontrolling interests where we are or may be required to purchase all or a portion of the outstanding interest in a consolidated subsidiary from the noncontrolling interest holder under the terms of a put option contained in contractual agreements. The components of the change in the Redeemable noncontrolling interests for the six months ended June 29, 2013 and the year ended December 29, 2012 are presented in the following table:

	June 29, 2013	December 29, 2012
Balance, beginning of period	$ 435,175	$ 402,050
Decrease in redeemable noncontrolling interests due to redemptions	(5,124)	(23,637)
Increase in redeemable noncontrolling interests due to business acquisitions	7,720	30,935
Net income attributable to redeemable noncontrolling interests	20,024	34,803
Dividends declared	(12,785)	(21,013)
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	(2,554)	904
Change in fair value of redeemable securities	23,568	53,769
Other adjustment to redeemable noncontrolling interests	-	(42,636)
Balance, end of period	$ 466,024	$ 435,175

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.

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

Note 5 – Comprehensive Income

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

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

	June 29, 2013	December 29, 2012
Attributable to Redeemable noncontrolling interests:		
Foreign currency translation adjustment	$ (3,403)	$ (849)
Attributable to Henry Schein, Inc.:		
Foreign currency translation gain	$ 19,012	$ 72,160
Unrealized gain from foreign currency hedging activities	1,821	1,187
Unrealized investment loss	(498)	(415)
Pension adjustment loss	(19,070)	(20,077)
Accumulated other comprehensive income	$ 1,265	$ 52,855
Total Accumulated other comprehensive income (loss)	$ (2,138)	$ 52,006

The following table summarizes the components of comprehensive income, net of applicable taxes as follows:

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income	$ 121,435	$ 107,302	$ 220,121	$ 196,363
Foreign currency translation loss	(15,261)	(42,004)	(55,702)	(10,343)
Tax effect	-	-	-	-
Foreign currency translation loss	(15,261)	(42,004)	(55,702)	(10,343)
Unrealized gain (loss) from foreign currency hedging activities	932	(1,250)	856	(90)
Tax effect	(139)	228	(222)	(17)
Unrealized gain (loss) from foreign currency hedging activities	793	(1,022)	634	(107)
Unrealized investment gain (loss)	(123)	256	(138)	183
Tax effect	49	(201)	55	(95)
Unrealized investment gain (loss)	(74)	55	(83)	88
Pension adjustment gain	343	691	1,263	332

Tax effect	(74)	(210)	(256)	(286)
Pension adjustment gain	269	481	1,007	46
Comprehensive income	$ 107,162	$ 64,812	$ 165,977	$ 186,047

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

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Comprehensive income attributable to Henry Schein, Inc.	$ 95,233	$ 57,222	$ 148,318	$ 169,134
Comprehensive income attributable to noncontrolling interests	115	110	189	214
Comprehensive income attributable to Redeemable noncontrolling interests	11,814	7,480	17,470	16,699
Comprehensive income	$ 107,162	$ 64,812	$ 165,977	$ 186,047

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

Note 6 – Fair Value Measurements

ASC Topic 820 “Fair Value Measurements and Disclosures” (“ASC Topic 820”) provides a framework for measuring fair value in generally accepted accounting principles.

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

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

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

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

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

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

Investments and notes receivable

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

Debt

The fair value of our debt as of June 29, 2013 and December 29, 2012 was estimated at $468.2 million and $533.3 million, respectively. Factors that we considered when estimating the fair value of our debt include market conditions, prepayment and make-whole provisions, liquidity levels in the private placement market, variability in pricing from multiple lenders and term of debt.

Derivative contracts

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. We use derivative instruments to minimize our exposure to fluctuations in foreign currency exchange

rates. Our derivative instruments primarily include foreign currency forward agreements related to intercompany loans and certain forecasted inventory purchase commitments with suppliers.

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

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Note 6 – Fair Value Measurements – (Continued)

Redeemable noncontrolling interests

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value based on third-party valuations. The future value of redeemable noncontrolling interests is subject to expected earnings and, if such earnings are not achieved, the value of the redeemable noncontrolling interests might be impacted. The noncontrolling interests subject to put options are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to Additional paid-in capital. Future reductions in the carrying amounts are subject to a "floor" amount that is equal to the fair value of the redeemable noncontrolling interests at the time they were originally recorded. The recorded value of the redeemable noncontrolling interests cannot go below the floor level. These adjustments do not impact the calculation of earnings per share. The values for Redeemable noncontrolling interests are classified within Level 3 of the fair value hierarchy. The details of the changes in Redeemable noncontrolling interests are presented in Note 4.

The following table presents our assets and liabilities that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of June 29, 2013 and December 29, 2012:

	June 29, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts	$ -	$ 2,706	$ -	$ 2,706
Total assets	$ -	$ 2,706	$ -	$ 2,706
Liabilities:				
Derivative contracts	$ -	$ 1,079	$ -	$ 1,079
Total liabilities	$ -	$ 1,079	$ -	$ 1,079
Redeemable noncontrolling interests	$ -	$ -	$ 466,024	$ 466,024

	December 29, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities	$ -	$ -	$ 2,816	$ 2,816
Derivative contracts	-	710	-	710
Total assets	$ -	$ 710	$ 2,816	$ 3,526
Liabilities:				
Derivative contracts	$ -	$ 1,159	$ -	$ 1,159
Total liabilities	$ -	$ 1,159	$ -	$ 1,159
Redeemable noncontrolling interests	$ -	$ -	$ 435,175	$ 435,175

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Note 7 – Business Acquisitions

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

We completed certain acquisitions during the six months ended June 29, 2013. Such acquisitions were immaterial to our financial statements individually and in the aggregate.

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 acquisitions completed in subsequent periods, we have accrued liabilities for the estimated fair value of additional purchase price consideration at the time of the acquisition. Any adjustments to these accrual amounts are recorded in our consolidated statements of income. For the six months ended June 29, 2013 and June 30, 2012, there were no material adjustments recorded in our consolidated statement of income relating to changes in estimated contingent purchase price liabilities.

Note 8 – Plans of Restructuring

During the years ended December 29, 2012 and December 25, 2010, we incurred restructuring costs of $15.2 million ($10.5 million after taxes) and $12.3 million ($8.3 million after taxes), respectively. These costs consisted of employee severance pay and benefits related to the elimination of approximately 200 positions and 184 positions, respectively; facility closing costs, representing primarily lease terminations and property and equipment write-off costs; and outside professional and consulting fees directly related to the restructuring plan. These restructuring programs are complete and we do not expect any additional costs from these programs.

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

The following table shows the amounts expensed and paid for restructuring costs that were incurred during the six months ended June 29, 2013 and during our 2012, 2011 and 2010 fiscal years and the remaining accrued balance of restructuring costs as of June 29, 2013, which is included in Accrued expenses: Other and Other liabilities within our consolidated balance sheet:

	Severance Costs	Facility Closing Costs	Total
Balance, December 26, 2009	$ 2,267	$ 2,030	$ 4,297
Provision	8,930	3,355	12,285
Payments and other adjustments	(9,205)	(3,034)	(12,239)
Balance, December 25, 2010	$ 1,992	$ 2,351	$ 4,343
Provision	-	-	-
Payments and other adjustments	(1,423)	(1,800)	(3,223)
Balance, December 31, 2011	$ 569	$ 551	$ 1,120
Provision	12,841	2,351	15,192

Payments and other adjustments	(11,584)	(1,671)	(13,255)
Balance, December 29, 2012	$ 1,826	$ 1,231	$ 3,057
Provision	-	-	-
Payments and other adjustments	(1,173)	(621)	(1,794)
Balance, June 29, 2013	$ 653	$ 610	$ 1,263

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Note 8 – Plans of Restructuring – (Continued)

The following table shows, by reportable segment, the restructuring costs incurred during the six months ended June 29, 2013 and the fiscal years 2012, 2011 and 2010 and the remaining accrued balance of restructuring costs as of June 29, 2013:

	Health Care Distribution	Technology and Value-Added Services	Total
Balance, December 26, 2009	$ 4,225	$ 72	$ 4,297
Provision	12,063	222	12,285
Payments and other adjustments	(11,945)	(294)	(12,239)
Balance, December 25, 2010	$ 4,343	$ -	$ 4,343
Provision	-	-	-
Payments and other adjustments	(3,223)	-	(3,223)
Balance, December 31, 2011	$ 1,120	$ -	$ 1,120
Provision	14,981	211	15,192
Payments and other adjustments	(13,058)	(197)	(13,255)
Balance, December 29, 2012	$ 3,043	$ 14	$ 3,057
Provision	-	-	-
Payments and other adjustments	(1,780)	(14)	(1,794)
Balance, June 29, 2013	$ 1,263	$ -	$ 1,263

We expect that a majority of the liability balance at June 29, 2013 will be paid in 2013.

Note 9 – Earnings Per Share

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

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

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Basic	86,370	88,490	86,483	88,161
Effect of dilutive securities:				
Stock options, restricted stock and restricted stock units	1,598	2,063	1,722	2,270
Diluted	87,968	90,553	88,205	90,431

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Note 10 – Income Taxes

For the six months ended June 29, 2013, our effective tax rate was 31.6% compared to 31.7% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods related primarily to state and foreign income taxes and interest expense.

The total amount of unrecognized tax benefits as of June 29, 2013 was approximately $40.5 million, all of which would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, we do not expect the change to have a material impact on our consolidated financial statements.

The total amounts of interest and penalties, which are classified as a component of the provision for income taxes, were approximately $8.3 million and $0, respectively, for the six months ended June 29, 2013.

The tax years subject to examination by major tax jurisdictions include the years 2009 and forward by the U.S. Internal Revenue Service, the years 1997 and forward for certain states and the years 2005 and forward for certain foreign jurisdictions.

Note 11 – Derivatives and Hedging Activities

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.

Fluctuations in the value of certain foreign currencies as compared to the U.S. dollar may positively or negatively affect our revenues, gross margins, operating expenses and retained earnings, all of which are expressed in U.S. dollars. Where we deem it prudent, we engage in hedging programs using primarily foreign currency forward 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 our foreign suppliers. We do not hedge the translation of foreign currency profits into U.S. dollars, as we regard this as an accounting exposure, not an economic exposure. Our hedging activities have historically not had a material impact on our consolidated financial statements. Accordingly, additional disclosures related to derivatives and hedging activities required by ASC Topic 815 have been omitted.

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Note 12 – Stock-Based Compensation

Our accompanying unaudited consolidated statements of income reflect share-based pre-tax compensation expense of $11.4 million ($7.8 million after-tax) and $16.7 million ($11.4 million after-tax) for the three and six months ended June 29, 2013, respectively, and $11.2 million ($7.8 million after-tax) and $20.0 million ($13.7 million after-tax) for the three and six months ended June 30, 2012, respectively.

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

Stock-based awards are provided to certain employees and non-employee directors under the terms of our 2013 Stock Incentive Plan, as amended, and our 1996 Non-Employee Director Stock Incentive Plan, as amended (together, the "Plans"). The Plans are administered by the Compensation Committee of the Board of Directors. Prior to March 2009, awards under the Plans principally included a combination of at-the-money stock options and restricted stock (including restricted stock units). Since March 2009, equity-based awards have been granted solely in the form of restricted stock and restricted stock units, with the exception of stock options for certain pre-existing contractual obligations.

Grants of restricted stock are common stock awards granted to recipients with specified vesting provisions. We issue restricted stock that vests solely based on the recipient's continued service over time (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. Although there is no guarantee that performance targets will be achieved, we estimate the fair value of performance-based restricted stock based on our closing stock price at time of grant.

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

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

Total unrecognized compensation cost related to non-vested awards as of June 29, 2013 was $98.6 million, which is expected to be recognized over a weighted-average period of approximately 2.4 years.

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Note 12 – Stock-Based Compensation – (Continued)

The following table summarizes stock option activity under the Plans during the six months ended June 29, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	2,138	$ 48.61		
Granted	-	-		
Exercised	(469)	41.81		
Forfeited	-	-		
Outstanding at end of period	1,669	$ 50.52	3.3	$ 75,451
Options exercisable at end of period	1,669	$ 50.52	3.3	$ 75,451

The following tables summarize the activity of our non-vested restricted stock/units for the six months ended June 29, 2013:

	Time-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,018	$ 56.87	
Granted	210	86.17	
Vested	(277)	35.43	
Forfeited	(21)	68.64	
Outstanding at end of period	930	$ 69.62	$ 95.74

	Performance-Based Restricted Stock/Units		
	Shares/Units	Weighted Average Grant Date Fair Value Per Share	Intrinsic Value Per Share
Outstanding at beginning of period	1,315	$ 53.27	
Granted	269	83.28	
Vested	(362)	56.55	

Forfeited	(17)		73.26		
Outstanding at end of period	1,205	$	61.53	$	95.74

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Note 13 – Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Six Months Ended	
	June 29, 2013	June 30, 2012
Interest	$ 11,200	$ 10,844
Income taxes	65,246	87,953

During the six months ended June 29, 2013, we had a $0.9 million non-cash net unrealized gain related to hedging activities. During the six months ended June 30, 2012, we had a $0.1 million non-cash net unrealized loss related to hedging activities.

Note 14 – Subsequent Event

On July 10, 2013, we divested our investment in a dental wholesale distributor in the Middle East that had primarily served as an importer that distributed products largely to other distributors. The divestiture is expected to generate a one-time loss in the range of $11 million to $13 million, or $0.13 to $0.15 per diluted share, in the third quarter of 2013.

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

Cautionary Note Regarding Forward-Looking Statements

In accordance with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, we provide the following cautionary remarks regarding important factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. All forward-looking statements made by us are subject to risks and uncertainties and are not guarantees of future performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "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 81 years of experience distributing health care products.

We are headquartered in Melville, New York, employ nearly 16,000 people (of which more than 7,000 are based outside the United States) and have operations or affiliates in 24 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 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, as well as 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.

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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 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.

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, and there has been an emphasis on efforts to control medical costs, including laws and regulations lowering reimbursement rates for pharmaceuticals, medical devices, and/or medical treatments or services. Also, 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 a 2.3% excise tax on domestic sales of many 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. In addition, on July 2, 2013, the Department of Treasury announced that implementation of the "employer mandate" requiring that employers with 50 or more full time employees provide health insurance to those employees or pay a new employee fine, will be delayed from January 1, 2014 to January 1, 2015.

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 for group purchasing organizations, with regard to certain ownership interests held by physicians in the reporting entity. On February 1, 2013, the Centers for Medicare and Medicaid Services ("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. As required under the Physician Payment Sunshine Act, CMS will publish information from these reports on a publicly available Website, including amounts transferred and physician, dentist and teaching hospital identities, which according to CMS will be available to the public by September 30, 2014.

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. CMS commentary on the final rule and more recent CMS communications indicate that wholesale drug and device distributors which take title to such products are to be treated as "applicable manufacturers" subject to full reporting requirements. In addition, certain of our subsidiaries manufacture drugs and devices. Accordingly, we will 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 impose 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 Health Care Reform Law, discussed in more detail under "Health Care Reform" above, by September 30, 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 to changes in applicable law, 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. On July 14, 2011, the United States Food and Drug Administration, or FDA, published a proposed rulemaking that would remove the requirement that a pedigree track back to the manufacturer and that certain information be identified on the pedigree. Currently, the FDA, 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 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 this year (one is pending in the House of Representatives and one in the Senate) that would impose similar requirements at the federal level, but Congress has not enacted such legislation at this time.

The federal Controlled Substances Act also regulates wholesale distribution of controlled substances and certain chemicals. 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 and other types of software 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 has indicated that it will delay rulemaking on more rigorous "stage three" criteria until 2014. 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 table summarizes the significant components of our operating results for the three and six months ended June 29, 2013 and June 30, 2012 and cash flows for the six months ended June 29, 2013 and June 30, 2012 (in thousands):

	Three Months Ended		Six Months Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Operating results:				
Net sales	$ 2,391,810	$ 2,201,452	$ 4,685,321	$ 4,300,471
Cost of sales	1,721,954	1,577,057	3,368,474	3,065,497
Gross profit	669,856	624,395	1,316,847	1,234,974
Operating expenses:				
Selling, general and administrative	493,791	466,333	987,153	931,785
Restructuring costs	-	3,360	-	15,192
Operating income	$ 176,065	$ 154,702	$ 329,694	$ 287,997
Other expense, net	$ (1,621)	$ (3,272)	$ (11,513)	$ (7,057)
Net income	121,435	107,302	220,121	196,363
Net income attributable to Henry Schein, Inc.	108,430	98,086	199,908	178,838
Cash flows:				
Net cash provided by operating activities			$ 236,751	$ 129,893
Net cash used in investing activities			(60,713)	(142,080)
Net cash used in financing activities			(212,671)	(43,887)

Plan of Restructuring

During the three and six months ended June 30, 2012, we incurred restructuring costs of $3.4 million ($2.2 million after taxes) and $15.2 million ($10.5 million after taxes), respectively, 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 a majority of the liability balance at June 29, 2013 will be paid in 2013.

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Three Months Ended June 29, 2013 Compared to Three Months Ended June 30, 2012

Net Sales

Net sales for the three months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

	June 29, 2013	% of Total	June 30, 2012	% of Total	Increase $	Increase %
Health care distribution (1):						
Dental	$ 1,259,581	52.7 %	$ 1,185,919	53.9 %	$ 73,662	6.2 %
Medical	387,887	16.2	361,122	16.4	26,765	7.4
Animal health	666,297	27.8	586,258	26.6	80,039	13.7
Total health care distribution	2,313,765	96.7	2,133,299	96.9	180,466	8.5
Technology and value-added services (2)	78,045	3.3	68,153	3.1	9,892	14.5
Total	$ 2,391,810	100.0%	$ 2,201,452	100.0%	$ 190,358	8.6

(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 $190.4 million, or 8.6%, increase in net sales for the three months ended June 29, 2013 includes an increase of 8.7% in local currency growth (4.0% increase in internally generated revenue and 4.7% growth from acquisitions) partially offset by a decrease of 0.1% related to foreign currency exchange.

The $73.7 million, or 6.2%, increase in dental net sales for the three months ended June 29, 2013 includes an increase of 6.0% in local currency growth (3.0% increase in internally generated revenue and 3.0% growth from acquisitions) as well as an increase of 0.2% related to foreign currency exchange. The 6.0% increase in local currency sales was due to dental consumable merchandise sales growth of 6.0% (2.2% increase in internally generated revenue and 3.8% growth from acquisitions), as well as an increase in dental equipment sales and service revenues of 6.2% (5.4% increase in internally generated revenue and 0.8% growth from acquisitions).

The $26.8 million, or 7.4%, increase in medical net sales for the three months ended June 29, 2013 includes an increase of 7.4% in local currency growth (6.2% increase in internally generated revenue and 1.2% growth from acquisitions).

The $80.0 million, or 13.7%, increase in animal health net sales for the three months ended June 29, 2013 includes an increase of 14.1% in local currency growth (4.2% increase in internally generated revenue and 9.9% growth from acquisitions) partially offset by a decrease of 0.4% related to foreign currency exchange.

The $9.9 million, or 14.5%, increase in technology and value-added services net sales for the three months ended June 29, 2013 includes an increase of 14.9% in local currency growth (9.6% increase in internally generated revenue and

5.3% growth from acquisitions) partially offset by a decrease of 0.4% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

	June 29, 2013	Gross Margin %	June 30, 2012	Gross Margin %	Increase $	Increase %
Health care distribution	$ 619,522	26.8 %	$ 580,079	27.2 %	$ 39,443	6.8 %
Technology and value-added services	50,334	64.5	44,316	65.0	6,018	13.6
Total	$ 669,856	28.0	$ 624,395	28.4	$ 45,461	7.3

For the three months ended June 29, 2013, gross profit increased $45.5 million, or 7.3%, from the comparable prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our 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 $39.4 million, or 6.8%, for the three months ended June 29, 2013 compared to the prior year period. Health care distribution gross profit margin decreased to 26.8% for the three months ended June 29, 2013 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 $6.0 million, or 13.6%, for the three months ended June 29, 2013 compared to the prior year period. Technology gross profit margin decreased to 64.5% for the three months ended June 29, 2013 from 65.0% 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.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the three months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

	June 29, 2013	% of Respective Net Sales	June 30, 2012	% of Respective Net Sales	Increase $	Increase %
Health care distribution	$ 464,840	20.1 %	$ 440,826	20.7 %	$ 24,014	5.4 %
Technology and value-added services	28,951	37.1	25,507	37.4	3,444	13.5

Total	$ 493,791	20.6	$ 466,333	21.2	$ 27,458	5.9

Selling, general and administrative expenses increased $27.5 million, or 5.9%, to $493.8 million for the three months ended June 29, 2013 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 20.6% from 21.2% for the comparable prior year period.

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As a component of selling, general and administrative expenses, selling expenses increased $19.8 million, or 6.6%, to $317.6 million for the three months ended June 29, 2013 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.3% from 13.5% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased $7.7 million, or 4.6%, to $176.2 million for the three months ended June 29, 2013 from the comparable prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.4% from 7.7% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the three months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

	June 29, 2013	June 30, 2012	Variance $	Variance %
Interest income	$ 3,303	$ 3,609	$ (306)	(8.5)%
Interest expense	(4,890)	(7,711)	2,821	36.6
Other, net	(34)	830	(864)	(104.1)
Other expense, net	$ (1,621)	$ (3,272)	$ 1,651	50.5

Other expense, net decreased by $1.7 million for the three months ended June 29, 2013 compared to the prior year period. Interest income decreased $0.3 million primarily due to lower investment income and a decrease in late fee income. Interest expense decreased $2.8 million primarily due to the early debt repayment by Henry Schein Animal Health (“HSAH”), formerly Butler Schein Animal Health, during February 2013. Other, net decreased by $0.9 million due primarily to net proceeds received from litigation settlements during the second quarter of 2012.

Income Taxes

For the three months ended June 29, 2013, our effective tax rate was 31.4% compared to 31.2% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods related primarily to state and foreign income taxes and interest expense.

Net Income

Net income increased $14.1 million, or 13.2%, for the three months ended June 29, 2013, compared to the prior year period due to the factors noted above.

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Six Months Ended June 29, 2013 Compared to Six Months Ended June 30, 2012

Net Sales

Net sales for the six months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

Health care distribution (1):		
Dental		
Medical		
Animal health		
Total health care distribution		
Technology and value-added services (2)		
Total		

(1) Consists of consumable products, small equipment, laboratory products, large equipment, equipment repair services, brand 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 pr and financial and other services, including e-services and continuing education services for practitioners.

The $384.9 million, or 8.9%, increase in net sales for the six months ended June 29, 2013 includes an increase of 8.9% in local currency growth (3.7% increase in internally generated revenue and 5.2% growth from acquisitions).

The $108.8 million, or 4.6%, increase in dental net sales for the six months ended June 29, 2013 includes an increase of 4.5% in local currency growth (1.4% increase in internally generated revenue and 3.1% growth from acquisitions) as well as an increase of 0.1% related to foreign currency exchange. The 4.5% increase in local currency sales was due to an increase in dental equipment sales and service revenues of 3.5% (2.4% increase in internally generated revenue and 1.1% growth from acquisitions) and dental consumable merchandise sales growth of 4.8% (1.1% increase in internally generated revenue and 3.7% growth from acquisitions).

The $60.8 million, or 8.5%, increase in medical net sales for the six months ended June 29, 2013 includes an increase of 8.4% in local currency growth (7.2% internally generated growth and 1.2% growth from acquisitions) as well as an increase of 0.1% related to foreign currency exchange.

The $193.6 million, or 17.4%, increase in animal health net sales for the six months ended June 29, 2013 includes an increase of 17.7% in local currency growth (5.6% internally generated growth and 12.1% growth from acquisitions) partially offset by a decrease of 0.3% related to foreign currency exchange.

The $21.7 million, or 16.5%, increase in technology and value-added services net sales for the six months ended June 29, 2013 includes an increase of 16.8% in local currency growth (10.6% internally generated growth and 6.2% growth from acquisitions) partially offset by a decrease of 0.3% related to foreign currency exchange.

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Gross Profit

Gross profit and gross margin percentages by segment and in total for the six months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

	June 29, 2013	Gross Margin %	June 30, 2012	Gross Margin %	Increase $	Increase %
Health care distribution	$ 1,218,713	26.9 %	$ 1,149,621	27.6 %	$ 69,092	6.0 %
Technology and value-added services	98,134	64.2	85,353	65.1	12,781	15.0
Total	$ 1,316,847	28.1	$ 1,234,974	28.7	$ 81,873	6.6

For the six months ended June 29, 2013, gross profit increased $81.9 million, or 6.6%, from the comparable prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our 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 $69.1 million, or 6.0%, for the six months ended June 29, 2013 compared to the prior year period. Health care distribution gross profit margin decreased to 26.9% for the six months ended June 29, 2013 from 27.6% 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 $12.8 million, or 15.0%, for the six months ended June 29, 2013 compared to the prior year period. Technology gross profit margin decreased to 64.2% for the six months ended June 29, 2013 from 65.1% 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.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the six months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

	June 29, 2013	% of Respective Net Sales	June 30, 2012	% of Respective Net Sales	Increase $	Increase %
Health care distribution	$ 929,571	20.5 %	$ 881,372	21.1 %	$ 48,199	5.5 %
Technology and value-added services	57,582	37.7	50,413	38.5	7,169	14.2

Total	$ 987,153	21.1	$ 931,785	21.7	$ 55,368	5.9

Selling, general and administrative expenses increased $55.4 million, or 5.9%, to $987.2 million for the six months ended June 29, 2013 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses decreased to 21.1% from 21.7% for the comparable prior year period.

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As a component of selling, general and administrative expenses, selling expenses increased $40.9 million, or 6.8%, to $638.0 million for the six months ended June 29, 2013 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 13.6% from 13.9% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased $14.5 million, or 4.3%, to $349.2 million for the six months ended June 29, 2013 from the comparable prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.5% from 7.8% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the six months ended June 29, 2013 and June 30, 2012 were as follows (in thousands):

	June 29, 2013	June 30, 2012	Variance $	Variance %
Interest income	$ 6,508	$ 6,939	$ (431)	(6.2)%
Interest expense	(17,617)	(15,351)	(2,266)	(14.8)
Other, net	(404)	1,355	(1,759)	(129.8)
Other expense, net	$ (11,513)	$ (7,057)	$ (4,456)	(63.1)

Other expense, net increased by $4.5 million for the six months ended June 29, 2013 compared to the prior year period. Interest income decreased $0.4 million primarily due to lower investment income and a decrease in late fee income. Interest expense increased $2.3 million primarily due to $6.2 million accelerated amortization of deferred financing costs resulting from the early repayment of our HSAH debt during February 2013, partially offset by interest savings as a result of refinancing the HSAH debt. Other, net decreased by $1.8 million due primarily to net proceeds received from litigation settlements during the second quarter of 2012 and a reserve recorded during the first quarter of 2013 related to a loan to an equity affiliate.

Income Taxes

For the six months ended June 29, 2013, our effective tax rate was 31.6% compared to 31.7% for the prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods primarily relates to state and foreign income taxes and interest expense.

Net Income

Net income increased $23.8 million, or 12.1%, for the six months ended June 29, 2013, 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, and have caused our working capital requirements to have been higher from the end of the third quarter to the end of the first quarter of the following year.

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

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

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

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

Net cash flow provided by operating activities was $236.8 million for the six months ended June 29, 2013, compared to $129.9 million for the comparable prior year period. The net change of $106.9 million was primarily attributable to net income improvements and changes in net working capital.

Net cash used in investing activities was $60.7 million for the six months ended June 29, 2013, compared to $142.1 million for the comparable prior year period. The net change of $81.4 million was primarily due to decreases in payments for equity investments and business acquisitions. We expect to invest approximately $35 million to $45 million during the remainder of the fiscal year in capital projects to modernize and expand our facilities and computer systems and to integrate certain operations into our existing structure.

Net cash used in financing activities was $212.7 million for the six months ended June 29, 2013, compared to $43.9 million for the comparable prior year period. The net change of $168.8 million was primarily due to increased net principal payments of debt as well as lower proceeds from issuance of stock upon exercise of stock options, partially offset by a reduction in acquisitions of noncontrolling interests in subsidiaries.

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

	June 29, 2013	December 29, 2012
Cash and cash equivalents	$ 78,839	$ 122,080
Working capital	1,258,931	1,231,668

Debt:				
Bank credit lines	$	15,588	$	27,166
Current maturities of long-term debt		5,894		17,992
Long-term debt		446,709		488,121
Total debt	$	468,191	$	533,279

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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Accounts receivable days sales outstanding and inventory turns

Our accounts receivable days sales outstanding from operations increased to 40.0 days as of June 29, 2013 from 39.9 days as of June 30, 2012. During the six months ended June 29, 2013, we wrote off approximately $4.9 million of fully reserved accounts receivable against our trade receivable reserve. Our inventory turns from operations decreased to 5.9 as of June 29, 2013 from 6.3 as of June 30, 2012. Our working capital accounts may be impacted by current and future economic conditions.

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 June 29, 2013. The interest rate is based on 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 June 29, 2013, there were $9.2 million of letters of credit provided to third parties under the credit facility.

As of June 29, 2013, we had various other short-term bank credit lines available, of which approximately $15.6 million was outstanding. During the six months ended June 29, 2013, borrowings under all of our credit lines had a weighted average interest rate of 3.68%.

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 agreements provide, among other things, that we maintain certain maximum leverage ratios, and contain restrictions relating to subsidiary indebtedness, liens, affiliate transactions, disposal of assets and certain changes in ownership. These facilities contain make-whole provisions in the event that we pay off the facilities prior to the applicable due dates.

The components of our private placement facility borrowings as of June 29, 2013 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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Henry Schein Animal Health

During the first quarter of 2013, we repaid the then outstanding debt related to the HSAH transaction using our existing Credit Agreement. As part of this transaction, we recorded a one-time interest expense charge of $6.2 million related to the accelerated amortization of deferred financing costs.

U.S. Trade Accounts Receivable Securitization

On April 17, 2013, we entered into a facility agreement of up to $300 million with a bank, as agent, based on the securitization of our U.S. trade accounts receivable. The new facility allowed us to replace public debt (approximately $220 million) at a higher interest rate at HSAH during February 2013 and will provide funding for working capital and general corporate purposes. The financing is structured as an asset-backed securitization program with pricing committed for up to three years. The borrowings outstanding under this securitization facility were $155.0 million as of June 29, 2013. The interest rate on borrowings under this facility is based on the average asset-backed commercial paper rate plus 75 basis points.

We are required to pay a commitment fee of 30 basis points on the daily balance of the unused portion of the facility if usage is greater than or equal to 50% of the facility limit or a commitment fee of 35 basis points on the daily balance of the unused portion of the facility if usage is less than 50% of the facility limit.

Future borrowings under this facility will initially be presented as a component of Long-term debt within our consolidated balance sheet.

Divestiture of Equity in Affiliate

On July 10, 2013, we divested our investment in a dental wholesale distributor in the Middle East that had primarily served as an importer that distributed products largely to other distributors. The divestiture is expected to generate a one-time loss in the range of $11 million to $13 million, or $0.13 to $0.15 per diluted share, in the third quarter of 2013.

Stock Repurchases

From June 21, 2004 through June 29, 2013, we repurchased $951.4 million, or 15,434,948 shares, under our common stock repurchase programs, with $148.6 million available 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 six months ended June 29, 2013 and the year ended December 29, 2012 are presented in the following table:

	June 29, 2013	December 29, 2012
Balance, beginning of period	$ 435,175	$ 402,050
Decrease in redeemable noncontrolling interests due to redemptions	(5,124)	(23,637)
Increase in redeemable noncontrolling interests due to business acquisitions	7,720	30,935
Net income attributable to redeemable noncontrolling interests	20,024	34,803
Dividends declared	(12,785)	(21,013)
Effect of foreign currency translation gain (loss) attributable to redeemable noncontrolling interests	(2,554)	904
Change in fair value of redeemable securities	23,568	53,769
Other adjustment to redeemable noncontrolling interests	-	(42,636)
Balance, end of period	$ 466,024	$ 435,175

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.

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Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies and estimates from those disclosed in Item 7 of our Annual Report on Form 10-K for the year ended December 29, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our exposure to market risk from that disclosed in Item 7A of our Annual Report on Form 10-K for the year ended December 29, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of June 29, 2013 to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to them as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported as specified in the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 29, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of the Effectiveness of Internal Control

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become a party to legal proceedings, including, without limitation, product liability claims, employment matters, commercial disputes, 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 June 29, 2013, we had accrued our best estimate of potential losses relating to claims that were probable to result in a liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other external factors, including probable recoveries from third parties.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in Part 1, Item 1A, of our Annual Report on Form 10-K for the year ended December 29, 2012.

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

Purchases of equity securities by the issuer

Our current share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to $100 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 June 29, 2013, we had repurchased $951.4 million of common stock (15,434,948 shares) under these initiatives, with $148.6 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 June 29, 2013:

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)
03/31/13 through 04/27/13	275,267	$ 90.94	275,267	2,246,612
04/28/13 through 06/01/13	345,989	92.90	345,989	1,760,213
06/02/13 through 06/29/13	218,179	95.73	218,179	1,552,162
	839,435		839,435	

(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 end fiscal period based on the closing price of our common stock at that time.

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ITEM 6. EXHIBITS

Exhibits.

10.1	Amendment Number Four to the Henry Schein, Inc. Section 162(m) Cash Bonus Plan, dated May 14, 2013. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 16, 2013.)
10.2	Henry Schein, Inc. 2013 Stock Incentive Plan, as amended and restated effective as of May 14, 2013. (Incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on May 16, 2013.)
10.3	Receivables Purchase Agreement, dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent, and the various purchaser groups from time to time party thereto. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 19, 2013.)
10.4	Receivables Sale Agreement, dated as of April 17, 2013, by and among certain of our wholly owned subsidiaries and HSFR, Inc., as buyer. (Incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 19, 2013.)
10.5	Omnibus Amendment No. 1, dated July 22, 2013, to Receivables Purchase Agreement dated as of April 17, 2013, by and among us, as servicer, HSFR, Inc., as seller, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as agent, and the various purchaser groups from time to time party thereto and Receivables Sales Agreement, dated as of April 17, 2013, by and among us, certain of our wholly owned subsidiaries and HSFR, Inc., as buyer.+
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.+
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
101.INS	XBRL Instance Document+
101.SCH	XBRL Taxonomy Extension Schema Document+
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document+
101.DEF	XBRL Taxonomy Definition Linkbase Document+
101.LAB	XBRL Taxonomy Extension Label Linkbase Document+
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document+

+ Filed herewith

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SIGNATURE

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

Henry Schein, Inc.
(Registrant)

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

Dated: August 6, 2013