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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

OR

o **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)

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

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

Yes ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

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

Yes o No ☑

As of May 1, 2007, there were 88,835,010 shares of the registrant's common stock outstanding.

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

	March 31, 2007 (unaudited)	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 154,456	$ 248,647
Available-for-sale securities	47,499	47,999
Accounts receivable, net of reserves of $40,379 and $40,536	617,427	610,020
Inventories, net	583,236	584,103
Deferred income taxes	29,992	28,240
Prepaid expenses and other	119,169	125,839
Total current assets	1,551,779	1,644,848
Property and equipment, net	221,234	225,038
Goodwill	787,018	773,801
Other intangibles, net	157,874	161,542
Investments and other	97,487	75,917
Total assets	$ 2,815,392	$ 2,881,146
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 343,491	$ 414,062
Bank credit lines	2,359	2,528
Current maturities of long-term debt	37,495	41,036
Accrued expenses:		
Payroll and related	96,994	110,401
Taxes	52,720	59,007
Other	165,113	183,054
Total current liabilities	698,172	810,088
Long-term debt	457,318	455,806
Deferred income taxes	67,551	62,334
Other liabilities	61,291	60,209
Minority interest	21,926	21,746
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, 88,806,126 outstanding on March 31, 2007 and 88,499,321 outstanding on December 30, 2006	888	885
Additional paid-in capital	629,051	614,551
Retained earnings	833,376	808,164
Accumulated other comprehensive income	45,819	47,363
Total stockholders' equity	1,509,134	1,470,963
Total liabilities and stockholders' equity	$ 2,815,392	$ 2,881,146

See accompanying notes.

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Net sales	$ 1,334,143	$ 1,161,781
Cost of sales	941,170	824,179
Gross profit	392,973	337,602
Operating expenses:		
Selling, general and administrative	319,074	276,684
Operating income	73,899	60,918
Other income (expense):		
Interest income	4,138	4,556
Interest expense	(6,004)	(7,394)
Other, net	(117)	221
Income from continuing operations before taxes, minority interest and equity in earnings of affiliates	71,916	58,301
Income taxes	(25,530)	(21,222)
Minority interest in net income of subsidiaries	(2,915)	(1,560)
Equity in earnings of affiliates	23	108
Income from continuing operations	43,494	35,627
Discontinued operations:		
Loss from operations of discontinued components	—	(32,279)
Income tax benefit	—	12,911
Loss from discontinued operations	—	(19,368)
Net income	$ 43,494	$ 16,259
Earnings from continuing operations per share:		
Basic	$ 0.49	$ 0.41
Diluted	$ 0.48	$ 0.40
Loss from discontinued operations per share:		
Basic	$ —	$ (0.22)
Diluted	$ —	$ (0.22)
Earnings per share:		
Basic	$ 0.49	$ 0.19
Diluted	$ 0.48	$ 0.18
Weighted-average common shares outstanding:		
Basic	87,911	87,310
Diluted	89,984	89,242

See accompanying notes.

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

	Three Months Ended	
	March 31, 2007	April 1, 2006 (Adjusted - Note 8)
Cash flows from operating activities:		
Net income	$ 43,494	$ 16,259
Adjustments to reconcile net income to net cash used in operating activities:		
Loss on sale of discontinued operation, net of tax	—	19,363
Depreciation and amortization	17,557	14,352
Stock-based compensation expense	4,117	3,857
Provision for losses on trade and other accounts receivable	231	118
Deferred income taxes	(6,855)	4,978
Undistributed earnings of affiliates	(23)	(108)
Minority interest in net income of subsidiaries	2,915	1,560
Other	(721)	(1,113)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(3,947)	4,599
Inventories	3,936	(12,481)
Other current assets	11,882	3,143
Accounts payable and accrued expenses	(106,488)	(92,527)
Net cash used in operating activities	(33,902)	(38,000)
Cash flows from investing activities:		
Purchases of fixed assets	(8,933)	(11,168)
Payments for equity investment and business acquisitions, net of cash acquired	(27,432)	(72,712)
Purchases of available-for-sale securities	(17,500)	(84,421)
Proceeds from sales of available-for-sale securities	18,000	107,031
Proceeds from maturities of available-for-sale securities	—	80
Net payments for foreign exchange forward contract settlements	(3,921)	(1,161)
Other	(5,262)	191
Net cash used in investing activities	(45,048)	(62,160)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	428	—
Net proceeds from (repayments of) bank borrowings	(255)	1,223
Principal payments for long-term debt	(457)	(2,645)
Proceeds from issuance of stock upon exercise of stock options	10,691	17,108
Payments for repurchases of common stock	(30,689)	—
Excess tax benefits related to stock-based compensation	5,853	6,925
Other	(736)	(186)
Net cash provided by (used in) financing activities	(15,165)	22,425
Net change in cash and cash equivalents	(94,115)	(77,735)
Effect of exchange rate changes on cash and cash equivalents	(76)	5,797
Cash and cash equivalents, beginning of period	248,647	210,683
Cash and cash equivalents, end of period	$ 154,456	$ 138,745

See accompanying notes.

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

Note 1. Basis of Presentation

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

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

The consolidated financial statements reflect all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position for the interim periods presented. All such adjustments are of a normal recurring nature. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 30, 2006.

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected of any other interim period or for the year ending December 29, 2007.

Note 2. Segment Data

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

Our dental group serves office-based dental practitioners, schools and other institutions in the combined United States and Canadian dental market. Our medical group serves office-based medical practitioners, surgical centers, other alternate-care settings, animal health clinics and other institutions throughout the United States. Our international group serves 17 countries outside of North America and is what we believe to be a leading European healthcare supplier serving office-based practitioners.

Our technology group provides software, technology and other value-added services to healthcare practitioners, primarily in the United States and Canada. Our value-added practice solutions include practice-management software systems for dental and medical practitioners and animal health clinics. Our technology group offerings also include financial services and continuing education services for practitioners.

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

Note 2. Segment Data (Continued)

The following tables present information about our business segments:

	Three Months Ended	
	March 31, 2007	April 1, 2006
Net Sales:		
Healthcare distribution (1):		
Dental (2)	$ 562,601	$ 482,036
Medical (3)	372,302	334,631
International (4)	370,825	322,306
Total healthcare distribution	1,305,728	1,138,973
Technology (5)	28,415	22,808
Total	$1,334,143	$1,161,781

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

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

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

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

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Operating Income:		
Healthcare distribution	$ 63,062	$ 52,162
Technology	10,837	8,756
Total	$ 73,899	$ 60,918

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

Note 3. Stock-Based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards ("FAS") No. 123(R), "Share-Based Payment." We previously applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations and provided the required pro forma disclosures of FAS 123, "Accounting for Stock-Based Compensation" in our consolidated financial statements. We elected to adopt the modified retrospective application method provided by FAS 123(R).

Our accompanying unaudited consolidated statements of income reflect pre-tax share-based compensation expense of $4.1 million ($2.6 million after-tax) and $3.9 million ($2.5 million after-tax) for the three months ended March 31, 2007 and April 1, 2006.

Our accompanying unaudited consolidated statements of cash flows present our stock-based compensation expense as an adjustment to reconcile net income to net cash used in operating activities for all periods presented. Benefits of $5.9 million and $6.9 million associated with tax deductions in excess of recognized compensation expense are presented as a cash inflow from financing activities for the three months ended March 31, 2007 and April 1, 2006.

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 as compensation expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. Our stock-based compensation expense is reflected in selling, general and administrative expenses in our consolidated statements of income.

Stock-based awards are provided to certain employees and non-employee directors under the terms of our 1994 Stock Incentive Plan, as amended, and our 1996 Non-Employee Director Stock Incentive Plan, as amended (the "Plans"). The Plans are administered by the Compensation Committee of the Board of Directors. Awards under the Plans principally include a combination of at-the-money stock options and restricted stock (including restricted stock units). As of March 31, 2007, there were 20,159,270 shares authorized and 1,416,330 shares available to be granted under the 1994 Stock Incentive Plan and 800,000 shares authorized and 266,837 shares available to be granted under the 1996 Non-Employee Director Stock Incentive Plan.

Stock options are awards that allow the recipient to purchase shares of our common stock at a fixed price. Stock options are granted at an exercise price equal to our closing stock price on the date of grant. These awards, which generally vest 25% per year based on the recipient's continued service, are fully vested four years from the grant date and have a contractual term of ten years from the grant date. Additionally, recipients may not sell any shares that they acquire through exercising their options until the third anniversary of the date of grant of such options. We estimate the fair value of stock options using the Black-Scholes valuation model.

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

With respect to time-based restricted stock, we estimate the fair value on the date of grant based on our closing stock price. With respect to performance-based restricted stock, the number of shares that ultimately vest and are received by the recipient is based upon our earnings per share performance measured against specified targets over a three-year period. We estimate the fair value of performance-

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

Note 3. Stock-Based Compensation (Continued)

based restricted stock, based on our closing stock price, assuming that performance targets will be achieved. Over the performance period, the number of shares of common stock that will ultimately vest and be issued 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 expense will be based on our actual performance metrics.

Restricted stock units ("RSUs") are unit awards we grant to certain non-U.S. employees that entitle the recipient to shares of common stock upon vesting after four years for time-based awards or three years for performance-based awards. The fair value of RSUs is determined on the date of grant, based on our closing stock price.

We record deferred tax assets for awards that result in deductions on our income tax returns, based on the amount of compensation cost recognized and our statutory tax rate in the jurisdiction in which we will receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on our income tax return are recorded in additional paid-in capital (if the tax deduction exceeds the deferred tax asset) or in earnings (if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards).

Stock-based compensation expense for the three months ended March 31, 2007 and April 1, 2006 was generated through stock options, restricted stock and restricted unit grants. The weighted-average grant date fair value of stock-based awards granted was $21.58 and $23.32 per share during the three months ended March 31, 2007 and April 1, 2006. For the three months ended March 31, 2007, the fair value of stock-based awards issued was evenly divided between stock options and restricted stock (including RSUs).

Total unrecognized compensation cost related to non-vested awards as of March 31, 2007 was $60.1 million, which is expected to be recognized over a weighted-average period of approximately three years. There were no significant capitalized stock-based compensation costs as of March 31, 2007.

The following table summarizes stock option activity under the Plans during the three months ended March 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Outstanding at beginning of period	7,477,321	$ 30.54		
Granted	912,604	51.23		
Exercised	(753,473)	23.82		
Forfeited	(24,166)	36.76		
Outstanding at end of period	7,612,286	33.67	6.9	$163,413,679
Options exercisable at end of period	4,922,515	$ 27.77	5.9	$134,917,637

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

Note 3. Stock-Based Compensation (Continued)

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

	2007	2006
Expected dividend yield	0%	0%
Expected stock price volatility	20%	25%
Risk-free interest rate	4.75%	4.75%
Expected life of options (years)	4.5	5

We have not declared cash dividends on our stock in the past and we do not anticipate declaring cash dividends in the foreseeable future. The expected stock price volatility is based on the evaluation of implied volatilities from traded call options on our stock and from call options embedded in our existing convertible debt, historical volatility of our stock, and other factors. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant in conjunction with considering the expected life of options. The expected life of options represents the approximate period of time that granted options are expected to be outstanding and is based on historical data, including option exercises, forfeitures and cancellations. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by recipients of stock options, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us.

The total intrinsic value, the amount by which the fair value of the underlying stock exceeds the exercise price of the option, of stock options exercised was $21.6 million and $25.5 million for the three months ended March 31, 2007 and April 1, 2006. The total cash received as a result of stock option exercises for the three months ended March 31, 2007 and April 1, 2006 was approximately $10.7 million and $17.1 million. In connection with these exercises, the tax benefits that we realized for the three months ended March 31, 2007 and April 1, 2006 were $5.1 million and $6.9 million. We settle employee stock option exercises with newly issued common shares.

The total intrinsic value of restricted stock (including RSUs) that vested was $39 and $36 during the three months ended March 31, 2007 and April 1, 2006. The following table summarizes the status of our non-vested restricted shares/units for the three months ended March 31, 2007:

	Time-Based Restricted Stock/Units	
	Shares/Units	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	113,994	$ 5,042,725
Granted	99,394	5,097,507
Vested	(772)	(24,281)
Forfeited	(1,278)	(60,462)
Outstanding at end of period	211,338	$ 10,055,489

	Performance-Based Restricted Stock/Units	
	Shares/Units	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	225,543	$ 10,657,767
Granted	94,325	5,032,747
Forfeited	(1,278)	(60,462)
Outstanding at end of period	318,590	$ 15,630,052

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

Note 4. Business Acquisitions, Divestiture and Other Transactions

Acquisitions

We completed certain acquisitions during the three months ended March 31, 2007. The operating results of our acquisitions are reflected in our financial statements from their respective acquisition dates. Such acquisitions were immaterial to our financial statements individually and in the aggregate.

Divestiture

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

Net sales generated by our Hospital Supply Business were $37.9 million for the three months ended April 1, 2006. We have classified the operating results of the Hospital Supply Business as a discontinued operation in the accompanying consolidated statements of income for the three months ended April 1, 2006.

As part of the sale agreement, we remain obligated to make payments to the buyer, up to a maximum of $5.0 million, contingent upon the buyer's maintenance of a specified level of aggregate sales of the Hospital Supply Business during the two-year post-closing period. Any payments made in connection with these contingencies will be presented as part of our results from discontinued operations.

Loan and Investment Agreement

As of March 31, 2007, we loaned D4D Technologies, LLC ("D4D") $10.1 million and, if remaining operational milestones are achieved, an additional $5.7 million loan is expected to be made during 2007. The loans are repayable between December 2007 and July 2013.

We also agreed to make equity investments in D4D totalling $27.7 million ($6.7 million expected in 2007 and $21.0 million expected in 2008) contingent upon the achievement of specified D4D operational milestones. We have the option to fund a portion of our second equity investment in D4D by utilizing the loan amounts due to us from D4D. We expect to account for such investments under the equity method prospectively from the date of our first equity investment.

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

Note 5. Earnings Per Share

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

For the three months ended March 31, 2007, diluted earnings per share includes the effect of common shares issuable upon conversion of our convertible debt. During the period, the debt was convertible at a premium as a result of the conditions of the debt. As a result, the amount in excess of the principal is presumed to be settled in common shares and is reflected in our calculation of diluted earnings per share.

For the three months ended April 1, 2006, diluted earnings per share does not include the effect of common shares issuable upon conversion of our convertible debt, as the debt was not convertible at a premium during this period.

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Basic	87,910,641	87,309,609
Effect of assumed exercise of stock options	1,209,816	1,847,918
Effect of assumed vesting of restricted stock	377,179	84,102
Effect of assumed conversion of convertible debt	486,120	—
Diluted	89,983,756	89,241,629

Weighted-average options to purchase 270,773 shares of common stock at an exercise price of $51.23 per share and 263,593 shares of common stock at an exercise price of $47.31 per share that were outstanding during the three months ended March 31, 2007 and April 1, 2006 were excluded from the computation of diluted earnings per share. In each of these periods, such options' exercise prices exceeded the average market price of our common stock, thereby causing the effect of such options to be anti-dilutive.

Note 6. Comprehensive Income

Comprehensive income includes certain gains and losses that, under accounting principles generally accepted in the United States, 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 and foreign currency translation adjustments, but also includes unrealized gains and losses on hedging activity and pension adjustments. Comprehensive income totaled $42.0 million and $21.9 million for the three months ended March 31, 2007 and April 1, 2006.

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

Note 7. Income Taxes

In July 2006, the Financial Accounting Standards Board issued FAS Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognitions and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely, than not, to be sustained upon examination by the taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate audit settlement. The adoption of FIN 48, effective December 31, 2006, resulted in a decrease to stockholders' equity of approximately $300.

The total amount of unrecognized tax benefits as of the date of adoption was approximately $12.7 million, all of which would affect the effective tax rate if recognized. It is expected that the amount of unrecognized tax benefits will change in the next twelve months. However, we do not expect the change to have a material impact on our consolidated financial statements.

The total amount of interest and penalties, which are classified as a component of the provision for income taxes, were approximately $2.0 million and $0, respectively, as of the date of adoption. The total amount of interest and penalties classified as a component of income tax expense were insignificant.

The tax years subject to examination by major tax jurisdictions include the years 2002 and forward by the U.S. Internal Revenue Service, and the years 1996 and forward for certain states and the years 1997 and forward for certain foreign jurisdictions.

Note 8. Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Three Months Ended	
	March 31, 2007	April 1, 2006
Interest	$ 12,672	$ 12,629
Income taxes	20,093	25,428

As of March 31, 2007, we recorded a $7.3 million receivable for the net cash proceeds related to the exercise of stock options with a corresponding adjustment to stockholders' equity. Also, during the three months ended March 31, 2007 and April 1, 2006, we had a $0.8 million non-cash net unrealized gain and a $4.0 million non-cash net unrealized loss related to hedging activities. Further, in connection with our sale of our Hospital Supply Business, we received $34.5 million of the $36.5 million sales proceeds on April 3, 2006, with the balance received during the remainder of 2006.

During 2006, we began presenting our variable-rate demand notes as part of available-for-sale securities in our consolidated balance sheet. For comparative purposes, we have adjusted our consolidated statements of cash flows for the three months ended April 1, 2006 to reflect the effect this reclassification had on the purchasing ($23.5 million effect) and sales ($46.1 million effect) of such available-for-sale securities.

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 which, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. All forward-looking statements made by us are subject to risks and uncertainties and are not guarantees of future performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "forecast," "project," "anticipate" or other comparable terms.

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: competitive factors; changes in the healthcare industry; changes in government regulations that affect us; financial risks associated with our international operations; fluctuations in quarterly earnings; our dependence on third parties for the manufacture and supply of our products; transitional challenges associated with acquisitions; financial risks associated with acquisitions; regulatory and litigation risks; the dependence on our continued product development, technical support and successful marketing in the technology segment; our dependence upon sales personnel and key customers; our dependence on our senior management; possible increases in the cost of shipping our products or other service trouble with our third-party shippers; risks from rapid technological change; risks from potential increases in variable interest rates; possible volatility of the market price of our common stock; certain provisions in our governing documents that may discourage third-party acquisitions of us; and changes in tax legislation that affect us. The order in which these factors appear should not be construed to indicate their relative importance or priority.

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

Executive-Level Overview

We believe we are the largest distributor of healthcare products and services primarily to office-based healthcare practitioners in the combined North American and European markets. We serve more than 500,000 customers worldwide, including dental practitioners and laboratories, physician practices and animal health clinics, as well as government and other institutions. We believe that we have a strong brand identity due to our more than 75 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ more than 11,000 people and have operations in the United States, Canada, the United Kingdom, the Netherlands, Belgium, Germany, France, Austria, Portugal, Spain, the Czech Republic, Luxembourg, Italy, Ireland, Switzerland, Israel, Australia and New Zealand. We also have an affiliate in Iceland.

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

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

Our dental group serves office-based dental practitioners, schools and other institutions in the combined United States and Canadian dental market. Our medical group serves office-based medical practitioners, surgical centers, other alternate-care settings, animal health clinics and other institutions throughout the United States. Our international group serves 17 countries outside of North America and is what we believe to be a leading European healthcare supplier serving office-based practitioners.

Our technology group provides software, technology and other value-added services to healthcare practitioners, primarily in the United States and Canada. Our value-added practice solutions include practice-management software systems for dental and medical practitioners and animal health clinics. Our technology group offerings also include financial services and continuing education services for practitioners.

Industry Overview

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

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

Industry Consolidation

The healthcare products distribution industry, as it relates to office-based healthcare practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical and animal health markets, was estimated to produce revenues of approximately $22.0 billion in 2006 in the combined North American and European markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations ranging in size from a few practitioners to a large number of practitioners who have combined or otherwise associated their practices.

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

We believe that consolidation within the industry will continue to result in a number of distributors, particularly those with limited financial and marketing resources, seeking to combine with larger companies that can provide growth opportunities. This consolidation also may continue to result in

distributors seeking to acquire companies that can enhance their current product and service offerings or provide opportunities to serve a broader customer base.

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

As industry consolidation continues, we believe that we are positioned to capitalize on this trend, as we believe we have the ability to support increased sales through our existing infrastructure. In the U.S. dental market, we estimate that there are currently more than 300 smaller distributors holding approximately 25% of the market. In the U.S. medical market, we estimate that more than 500 smaller distributors hold approximately 50% of the market, and in the European dental market, we estimate that more than 200 smaller distributors hold approximately 80% of the market.

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

Aging Population and Other Market Influences

The healthcare products distribution industry continues to experience growth due to the aging population, increased healthcare awareness, the proliferation of medical technology and testing, new pharmacology treatments and expanded third-party insurance coverage. In addition, the physician market continues to benefit from the shift of procedures and diagnostic testing from hospitals to alternate-care sites, particularly physicians' offices. As the cosmetic surgery and elective procedure markets continue to grow, physicians are increasingly performing more of these procedures in their offices. The elder-care market continues to benefit from the increasing growth rate of the population of elderly Americans.

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

As a result of these market dynamics, the annual expenditures for healthcare services continue to increase in the United States. The Centers for Medicare and Medicaid Services (CMS) published "National Health Care Expenditures Projections: 2005 – 2015" indicating that total national healthcare spending reached $1.9 trillion in 2004, or 16.0% of the nation's gross domestic product, the benchmark measure for annual production of goods and services in the United States. Healthcare spending is projected to reach $4.0 trillion in 2015, an estimated 20.0% of the nation's gross domestic product.

Results of Operations

The following table summarizes the significant components of our operating results and cash flows for the three months ended March 31, 2007 and April 1, 2006 (in thousands):

	Three Months Ended	
	March 31, 2007	April 1, 2006
Operating Results:		
Net sales	$ 1,334,143	$ 1,161,781
Cost of sales	941,170	824,179
Gross profit	392,973	337,602
Operating expenses:		
Selling, general and administrative	319,074	276,684
Operating income	$ 73,899	$ 60,918
Other expense, net	$ (1,983)	$ (2,617)
Income from continuing operations	43,494	35,627
Cash Flows:		
Net cash used in operating activities	$ 33,902	$ 38,000
Net cash used in investing activities	45,048	62,160
Net cash provided by (used in) financing activities	(15,165)	22,425

Three Months Ended March 31, 2007 Compared to Three Months Ended April 1, 2006

Net Sales

Net sales for the three months ended March 31, 2007 and April 1, 2006 were as follows (in thousands):

	March 31, 2007	% of Total	April 1, 2006	% of Total
Healthcare distribution (1):				
Dental (2)	$ 562,601	42.2%	$ 482,036	41.5%
Medical (3)	372,302	27.9	334,631	28.8
International (4)	370,825	27.8	322,306	27.7
Total healthcare distribution	1,305,728	97.9	1,138,973	98.0
Technology (5)	28,415	2.1	22,808	2.0
Total	$ 1,334,143	100.0%	$ 1,161,781	100.0%

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

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

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

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

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

The $172.4 million, or 14.8%, increase in net sales for the three months ended March 31, 2007 includes increases of 12.4% local currency growth (4.2% internally generated primarily due to volume growth and 8.2% from acquisitions) and 2.4% related to foreign currency exchange.

The $80.6 million, or 16.7%, increase in dental net sales for the three months ended March 31, 2007 includes increases of 16.9% local currency growth (9.9% internally generated primarily due to increased volume and 7.0% from acquisitions) and a decline of 0.2% related to foreign currency exchange. The 16.9% local currency growth was due to dental consumable merchandise sales growth of 14.6% (6.2% internal growth and 8.4% from acquisitions) and dental equipment sales and service growth of 25.6% (23.5% internal growth and 2.1% from acquisitions).

The $37.7 million, or 11.3%, increase in medical net sales for the three months ended March 31, 2007 includes acquisition growth of 13.2%, partially offset by a decline of 1.9% in internal growth, net of a divestiture. This decline was due to lower sales of pharmaceutical products.

The $48.5 million, or 15.1%, increase in international net sales for the three months ended March 31, 2007 includes increases of 6.1% in local currencies (5.0% from acquisitions and 1.1% internally generated), and 9.0% related to foreign currency exchange.

The $5.6 million, or 24.6%, increase in technology net sales for the three months ended March 31, 2007 includes increases of 24.7% in local currency growth (17.7% internally generated and 7.0% from acquisitions), partially offset by a decline of 0.1% related to foreign currency exchange. The increase was driven by growth in electronic services, software and financial services revenue.

Gross Profit

Gross profit and gross margin percentages by segment and in total for the three months ended March 31, 2007 and April 1, 2006 were as follows (in thousands):

	March 31, 2007	Gross Margin %	April 1, 2006	Gross Margin %
Healthcare distribution	$ 371,263	28.4%	$ 320,115	28.1%
Technology	21,710	76.4	17,487	76.7
Total	$ 392,973	29.5	$ 337,602	29.1

For the three months ended March 31, 2007, gross profit increased $55.4 million, or 16.4%, from the comparable prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our healthcare distribution segment. These higher gross margins result from being both the developer and seller of software products combined with the nature of the software industry, in which developers typically realize higher gross margins to recover investments in research and development.

Healthcare distribution gross profit increased $51.2 million, or 16.0%, for the three months ended March 31, 2007 from the comparable prior year period. Healthcare distribution gross profit margin increased to 28.4% for the three months ended March 31, 2007 from 28.1% for the comparable prior year period, which reflects a favorable sales mix and improved margin management.

Technology gross profit increased $4.2 million, or 24.1%, for the three months ended March 31, 2007 from the comparable prior year period. Technology gross profit margin decreased to 76.4% for the three months ended March 31, 2007 from 76.7% for the comparable prior year period primarily due to increased personnel costs.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for the three months ended March 31, 2007 and April 1, 2006 were as follows (in thousands):

	March 31, 2007	% of Respective Net Sales	April 1, 2006	% of Respective Net Sales
Healthcare distribution	$ 308,201	23.6%	$ 267,953	23.5%
Technology	10,873	38.3	8,731	38.3
Total	$ 319,074	23.9	$ 276,684	23.8

Selling, general and administrative expenses increased $42.4 million, or 15.3%, to $319.1 million for the three months ended March 31, 2007 from the comparable prior year period. As a percentage of net sales, selling, general and administrative expenses increased to 23.9% from 23.8% for the comparable prior year period.

As a component of selling, general and administrative expenses, selling expenses increased $25.1 million, or 13.4%, to $212.5 million for the three months ended March 31, 2007 from the comparable prior year period. As a percentage of net sales, selling expenses decreased to 15.9% from 16.1% for the comparable prior year period.

As a component of selling, general and administrative expenses, general and administrative expenses increased $17.3 million, or 19.3%, to $106.6 million for the three months ended March 31, 2007 from the comparable prior year period. As a percentage of net sales, general and administrative expenses increased to 8.0% from 7.7% for the comparable prior year period.

Other Expense, Net

Other expense, net, for the three months ended March 31, 2007 and April 1, 2006 were as follows (in thousands):

	March 31, 2007	April 1, 2006
Interest income	$ 4,138	$ 4,556
Interest expense	(6,004)	(7,394)
Other, net	(117)	221
Other expense, net	$ (1,983)	$ (2,617)

Other expense, net, decreased $0.6 million for the three months ended March 31, 2007 from the comparable prior year period. This decrease was primarily due to lower interest expense resulting from the conversion of U.S. LIBOR based borrowings to Euro LIBOR based borrowings, partially offset by reduced interest income primarily due to lower cash and cash equivalent balances.

Income Taxes

For the three months ended March 31, 2007, our effective tax rate from continuing operations decreased to 35.5% from 36.4% for the comparable prior year period. The difference between our effective tax rates and the federal statutory tax rates for both periods related primarily to foreign and state income taxes.

Liquidity and Capital Resources

Our principal capital requirements include the funding of working capital needs, repurchases of common stock, acquisitions and capital expenditures. Working capital requirements generally result from increased sales, special inventory forward buy-in opportunities, and payment terms for receivables and payables. Since sales tend to be stronger during the third and fourth quarters and special inventory forward buy-in opportunities are most prevalent just before the end of the year, our working capital requirements have generally 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, debt placements and stock issuances. Our ability to generate sufficient cash flows from operations is dependent on the continued demand of our customers for, and provision by our suppliers of, our products and services. Given current operating, economic and industry conditions, we believe that demand for our products and services will remain consistent with recent trends in the foreseeable future.

Net cash flow used in operating activities was $33.9 million for the three months ended March 31, 2007, compared to $38.0 million for the comparable prior year period. This net change of $4.1 million was primarily due to cash outflows related to the timing of working capital cash receipts and payments, partially offset by increased income from continuing operations.

Net cash used in investing activities was $45.0 million for the three months ended March 31, 2007, compared to $62.2 million for the comparable prior year period. The net change of $17.2 million was primarily due to a reduction in payments for business acquisitions, partially offset by a reduction in net security sales. We expect to invest approximately $35.0 million to $40.0 million during the remainder of the fiscal year in capital projects to modernize and expand our facilities and computer systems infrastructure and to integrate certain operations into our core structure.

Net cash used in financing activities was $15.2 million for the three months ended March 31, 2007, compared to $22.4 million provided by financing activities for the comparable prior year period. The net change of $37.6 million was primarily due to increased repurchases of our common stock during the three months ended March 31, 2007, as well as the timing of cash proceeds received related to stock option exercises.

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

	March 31, 2007	December 30, 2006
Cash and cash equivalents	$ 154,456	$ 248,647
Available-for-sale securities	47,499	47,999
Working capital	853,607	834,760
Debt:		
Bank credit lines	$ 2,359	$ 2,528
Current maturities of long-term debt	37,495	41,036
Long-term debt	457,318	455,806
Total debt	$ 497,172	$ 499,370

Our cash and cash equivalents consist of bank balances and investments in money market funds representing overnight investments with a high degree of liquidity. At March 31, 2007 and December 30, 2006, our available-for-sale securities consisted of highly liquid tax-efficient securities, including primarily auction-rate securities and variable-rate demand notes.

Our business requires a substantial investment in working capital, which is susceptible to variations 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 as a result of continuing sales growth.

Our accounts receivable days sales outstanding from continuing operations improved to 42.0 days for the three months ended March 31, 2007 from 42.6 days for the comparable prior year period. Our inventory turnover from continuing operations for the three months ended March 31, 2007 was 6.5 turns compared to 6.6 turns for the three months ended April 1, 2006.

In 2004, we completed an issuance of $240.0 million of convertible debt. These notes are senior unsecured obligations bearing a fixed annual interest rate of 3.0% and are due to mature on August 15, 2034. Interest on the notes is payable on February 15 and August 15 of each year, which commenced on February 15, 2005. The notes are convertible into our common stock at a conversion ratio of 21.58 shares per one thousand dollars of principal amount of notes, which is the equivalent conversion price of $46.34 per share, under the following circumstances:

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

Upon conversion, we are required to satisfy our conversion obligation with respect to the principal amount of the notes to be converted, in cash, with any remaining amount to be satisfied in shares of our common stock. We currently have sufficient availability of funds through our $300.0 million revolving credit facility (discussed below) along with cash on hand to fully satisfy the cash portion of our conversion obligation. We also will pay contingent interest during any six-month interest period beginning August 20, 2010, if the average trading price of the notes is above specified levels. We may redeem some or all of the notes on or after August 20, 2010. The note holders may require us to purchase all or a portion of the notes on August 15, 2010, 2014, 2019, 2024 and 2029 or, subject to specified exceptions, upon a change of control event.

Our $130.0 million senior notes are due on June 30, 2009 and bear interest at a fixed rate of 6.9% per annum. On September 25, 2006, we made our first annual principal payment of $20.0 million on our $100.0 million senior notes, which bear interest at a fixed rate of 6.7% per annum. Remaining principal payments are due annually on September 25, 2007 through 2010. Interest on both notes is payable semi-annually.

In 2003, we entered into agreements relating to our $230.0 million senior notes to exchange their fixed interest rates for variable interest rates. The value of debt exchanged to a variable rate of interest reduces according to the repayment schedule of the senior notes. As of March 31, 2007, there was $210.0 million of principal remaining with a weighted-average variable interest rate of 8.5%. This weighted-average variable interest rate is comprised of LIBOR plus a spread and resets on the interest due dates for such senior notes.

On May 24, 2005, we entered into a $300.0 million revolving credit facility with a $100.0 million expansion feature. This facility expires in May 2010. As of March 31, 2007, there were $8.2 million of letters of credit provided to third parties and no borrowings outstanding under this revolving credit facility.

On June 21, 2004 and on October 31, 2005, we announced that our Board of Directors had authorized $100.0 million common stock repurchase programs. On March 28, 2007, our Board of Directors authorized an additional $100.0 million repurchase program of shares in our common stock. As of March 31, 2007, we had repurchased $159.5 million or 4,012,242 shares under these initiatives, with $140.5 million remaining for future common stock share repurchases.

Some minority shareholders in certain of our subsidiaries have the right, at certain times, to require us to acquire their ownership interest in those entities at fair value based on third-party valuations or at a price pursuant to a formula as defined in the agreements, which approximates fair value. Additionally, some prior owners of such acquired subsidiaries are eligible to receive additional purchase price cash consideration if certain profitability targets are met. We accrue liabilities that may arise from these transactions when we believe that the outcome of the contingency is determinable beyond a reasonable doubt.

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.

E-Commerce

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

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

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 30, 2006.

Recently Issued Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FAS Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FAS No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognitions and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely, than not, to be sustained upon examination by the taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate audit settlement. The adoption of FIN 48, effective December 31, 2006, resulted in a decrease to stockholders' equity of approximately $300.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements." FAS 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 applies under other previously issued accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of FAS 157 on our consolidated financial statements.

In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." FAS 158 requires an employer to recognize the over- or under-funded status of a defined benefit plan as an asset or liability in the statement of financial position and to recognize changes in that funded status, net of tax through comprehensive income, in the year in which the changes occur. FAS 158 also requires an employer to measure the funded status of a defined benefit plan as of the date of its year end statement of financial position. The provisions of FAS 158 are effective for our year ended December 30, 2006, with the exception of the requirement to measure the funded status of retirement benefit plans as of our fiscal year end, which is effective for our fiscal year ending December 27, 2008. During December 2006, we implemented the requirement to recognize the funded status of our defined benefit plans. Recognizing the funded status of our defined benefit plans did not have a material impact on our statement of financial position.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159), including an amendment to FASB No. 115. FAS 159 gives entities the irrevocable option to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election, called the fair value option, will enable entities to achieve an offset accounting effect for changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of a company's first fiscal year that begins after November 15, 2007. We are currently evaluating the impact of FAS 159 on our consolidated financial statements.

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 30, 2006.

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 March 31, 2007 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 March 31, 2007 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.

PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

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

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

As of March 31, 2007, we had accrued our best estimate of potential losses relating to product liability and other claims that were probable to result in a liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other external factors, including probable recoveries from third parties.

Product Liability Claims

As of March 31, 2007, we were a defendant in approximately 15 product liability cases. In many of these cases, the manufacturers have agreed to defend and indemnify us. The manufacturers have withheld defense and indemnification in some of these cases pending product identification. In our opinion, these cases are covered by insurance or will not otherwise have a material adverse effect on our financial condition or results of operations.

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

Purchases of equity securities by the issuer

Our current share repurchase program, announced on June 21, 2004, originally allowed us to repurchase up to $100.0 million in shares of our common stock, which represented approximately 3.5% of the shares outstanding at the commencement of the program. On October 31, 2005, our Board of Directors authorized an additional $100.0 million of shares in our common stock to be repurchased under this program. On March 28, 2007, our Board of Directors authorized an additional $100.0 million of shares in our common stock to be repurchased under this program. As of March 31, 2007, we had repurchased $159.5 million or 4,012,242 shares under this initiative, with $140.5 million remaining 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 March 31, 2007:

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)
12/31/06 through 02/03/07	612,500	$ 47.89	612,500	817,068
02/04/07 through 03/03/07	—	—	—	814,843
03/04/07 through 03/31/07	26,600	51.09	26,600	2,546,644
Total	639,100		639,100	

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

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

ITEM 6. EXHIBITS

Exhibits.

10.1	Henry Schein's Management Team 2007 Performance Incentive Plan Summary
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

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: May 9, 2007

Exhibit 10.1

Management Team

2007

Performance Incentive Plan Summary

1. *Introduction*

Congratulations on being designated a participant in the Performance Incentive Plan ("PIP," or the "Plan"), Henry Schein's incentive-based cash compensation program for its management team. Plan participants include the entire management team of directors and vice presidents. The Plan has been designed to align all participants in a concerted effort to drive our business toward achieving common objectives that benefit the Company as a whole, the management team and each participant. The Plan is specifically designed to:

- Provide each participating management team member ("Participant") with an annual cash bonus opportunity;
- Foster achievement of specific corporate, business unit and individual performance goals ("Goals");
- Recognize and reward Participants for individual and group team achievements.

The PIP cash bonus award, in conjunction with a Participant's base compensation, is intended to provide Participants with competitive total annual cash compensation for comparable positions at companies in our industry and at other organizations of our size.

This program was reviewed and approved by the Compensation Committee of the Board of Directors.

The Compensation Committee or the Chief Executive Officer (the "CEO") (solely with respect to Participants other than executive officers) has the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the PIP and to construe and interpret the terms and provisions of the PIP and any award issued under the PIP.

Any decision, interpretation or other action made or taken in good faith by or at the direction of the Compensation Committee or the CEO (solely with respect to Participants other than executive officers) will be final, binding and conclusive on Henry Schein and all Participants and their respective heirs, executors, administrators, successors and assigns.

The Compensation Committee may, in its sole discretion, delegate any of its responsibilities under the PIP with respect to the implementation of the Plan (including administrative tasks).

2. *Eligibility*

The CEO annually determines eligibility for participation in the Plan. Participation is intended to be ongoing. However, changes in assignments may result in a Participant's being ineligible to participate in the Plan. Team Schein Members will be notified at the beginning of each year regarding their eligibility to participate in the Plan.

3. *PIP Awards*

PIP awards are based on:

- The Company's annual profitability, specifically measured against earnings per share ("EPS"), net income or other predetermined profitability Goals;
- The participant's business unit or functional area's level of achievement in financial and other performance goals;
- The participant's achievement of his or her individual MBO goals .

4. Individual Performance Goals

A Participant's individual performance Goals are classified into three categories:

- Company financial performance
- Functional area financial performance
- MBO performance

The Company Financial Performance Goals are based on annual earnings per share (EPS) achievement. The Functional Financial Performance Goal and the MBO Performance Goal evaluation and analysis are conducted annually, unless otherwise specified. The PIP award payouts corresponding to levels of achievement of Company Financial Performance Goals are set forth on Exhibit A. The PIP award payouts for meeting or exceeding Functional Area Financial Goals and each Participant's individualized MBO Performance Goals are set forth on Exhibits B and C, respectively.

Each Participant's Goals will be determined at the start of each year by their Manager and then reviewed, as applicable, by the Executive Management Committee (EMC) Member, CEO or the Compensation Committee. There will be an ongoing review of these goals. Any changes during the year must be approved by the Manager and, if appropriate, by the CEO. Each Participant and his or her Manager are encouraged to have performance evaluations during the year to monitor progress and, if necessary, to modify Goals (with the approval of the CEO and/or the Compensation Committee, if appropriate) for the balance of the year.

The following table illustrates performance Goals for different types of management positions:

Performance Goals Based on Position and Role

	Range of Performance Goal Categories		
Management Segment	**Functional Financial Performance**	**Company Financial Performance**	**MBO Performance**
Corporate Management Participants (e.g. Finance, Supply Chain TSM's, etc)	10% — 40%	15% — 40%	30% — 50%
Major Business Unit Participants (e.g. Dental Group, Medical Group, Veterinary Group TSM's, etc.)	55% — 65%	15% — 35%	10% — 25%
Supporting Corporate Function Participants (e.g. Legal Department, Human Resources Department TSM's, etc.)	10% — 20%	15% — 35%	40% — 60%

Note: This schedule is intended to provide guidelines for development of a specific performance plan for each Participant. Final weighting of performance Goals for each Participant will be determined by the Participant's Manager and, if appropriate, approved by the CEO and/or the Compensation Committee.

5. Company Financial Performance Goals

The Company and EPS Goal's included on Exhibit A are determined by the Compensation Committee with input from the Executive Management team. The Compensation Committee will make adjustments to the 2007 EPS goal for acquisitions based on information provided to them by the Executive Management team. Changes to the goal will be provided to the participants.

See Exhibit A for PIP award payouts for achieving Company Financial Performance Goals.

6. Functional Area Financial Performance Goals

For Participants managing areas that impact a P&L, these Goals are based on the business unit's financial performance measured against annual financial budgets, in the following areas:

- Group/Divisional gross profit goals.
- Group/Divisional contribution dollars.
- Group/Divisional Pre-Tax income after "service charges."
- Group/Divisional net income Goals.
- Pre-Tax Income of operating subsidiaries — sales, gross profit and operating income Goals.

For Participants with infrastructure or supporting responsibilities, these Goals are based on expense performance relative to the budget.

See Exhibit B for PIP award payouts for achieving levels of the Functional Area Financial Goals.

7. MBO Performance Goals

Specific, measurable MBO Performance Goals will be developed for each Participant. These MBO Performance Goals should drive toward and support five enterprise-wide initiatives: Profitability; Process Excellence; Customer Satisfaction, Strategic Planning, and Organizational Development. To drive performance and to focus management energy, it is recommended that the number of MBO's be limited to five to nine critical objectives.

§ **Profitability** — e.g., reduce expenses as a percent of sales; increase gross profit percentage and gross profit dollars; increase business unit sales; reduce inventory.

§ **Process Excellence** — e.g., implement a new policy; reduce errors to customers; reduce DSO's; increase inventory turns.

§ **Customer Satisfaction** — e.g., increase frequency of salesperson to customer contacts; implement project to develop computer screens to aid in positive customer interactions; support internal customer by completing all recruits within a reasonable predetermined time period; develop customer feedback program, such as surveys and focus groups.

§ **Strategic Planning** — e.g., develop strategic plan based on individual responsibilities; benchmark Participant's unit against similar companies' functions.

§ **Organizational Development** — e.g. personal business development, succession planning, diversity goals, staff development, recruitment goals.

See Exhibit C for PIP award payouts for achieving and exceeding MBO Performance Goals.

8. Acquisitions, New Business Ventures and Other Adjustments

Functional Financial and MBO goals, if applicable, will be adjusted for acquisitions and new business ventures that were not initially considered when developing the original Company target. The Compensation Committee will adjust the Company Financial Performance Goal for unbudgeted acquisitions by an amount equal to a reasonable estimate of the expected accretion or dilution. In the event the Compensation Committee adjusts the Company Financial Performance Goal for unbudgeted acquisitions in accordance with the preceding sentence, the PIP award payouts set forth on Exhibit A will correspond to the levels of achievement of the adjusted Company Financial Goal.

Adjustments may also be made to the Company Financial Performance Goals in the discretion of the Compensation Committee for items resulting from, for example, unforeseeable events or other facts and circumstances beyond the control of the Company. Notwithstanding anything to the contrary, all items of gain, loss or expense as presented to the Compensation Committee for, or during, the applicable fiscal year, that are related to the following items will not be considered in the calculation of Company Financial Performance Goals:

(i) (a) the disposal of a business or discontinued operations; (b) capital transactions undertaken by the Company during the fiscal year; or (c) the Company's repurchase of any class of its securities during the fiscal year; or (d) unbudgeted changes in accounting principles or to changes in applicable law or regulations.

The acquisition budget will be used for adjusting Functional Financial and MBO Goals, if applicable.

9. Plan Awards

During the first fiscal quarter of each year, individual performance for the previous year is evaluated relative to Goals. PIP awards are determined for each performance category, as applicable. A Participant's total Plan award will equal the sum of the awards earned in each category for the previous year's performance.

Notwithstanding anything herein to the contrary, the Compensation Committee or the CEO (solely with respect to Participants other than executive officers) may, at any time, provide that all or a portion of a PIP award is payable: (i) upon the attainment of any goal (including the Goals), as determined by the Compensation Committee or the CEO, as applicable; or (ii) regardless of whether the applicable goals are attained, as determined by the Compensation Committee or the CEO (solely with respect to Participants other than executive officers) in their sole discretion.

In order to receive any PIP award, Participants must be actively employed on March 15 of the year the Plan award is to be paid out. A prorated Plan award may be available, at the discretion of the CEO, if a Participant in the Plan dies, becomes permanently disabled, retires at the normal retirement age during the Plan year, or in other special circumstances.

PIP awards, less applicable withholdings, will generally be made by the end of the first fiscal quarter of each year.

This Plan is not intended to, nor does it constitute, a contract or guarantee of continued employment. The Company reserves the right to change or terminate the Plan at any time without notice.

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stanley M. Bergman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2007

/s/ Stanley M. Bergman

Stanley M. Bergman
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven Paladino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Henry Schein, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2007

/s/ Steven Paladino

Steven Paladino
Executive Vice President and
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report on Form 10-Q of Henry Schein, Inc. (the "Company") for the period ending March 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley M. Bergman, the Chairman and Chief Executive Officer of the Company, and I, Steven Paladino, Executive Vice President and Chief Financial Officer of the Company, do hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stanley M. Bergman

Dated: May 9, 2007

Stanley M. Bergman
Chairman and Chief Executive Officer

Dated: May 9, 2007

/s/ Steven Paladino

Steven Paladino
Executive Vice President and
Chief Financial Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.