HENRY SCHEIN INC
Form 10-Q
November 01, 2011

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

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

For the quarterly period ended September 24, 2011

or

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

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

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

Delaware	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 October 21, 2011, there were 90,360,895 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)

	September 24, 2011 (unaudited)	December 25, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$106,872	$150,348
Accounts receivable, net of reserves of $62,107 and $56,267	983,060	885,784
Inventories, net	923,687	870,206
Deferred income taxes	54,108	48,951
Prepaid expenses and other	249,405	214,013
Total current assets	2,317,132	2,169,302
Property and equipment, net	262,502	252,573
Goodwill	1,495,256	1,424,794
Other intangibles, net	426,061	405,468
Investments and other	297,345	295,334
Total assets	$4,798,296	$4,547,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$595,476	$590,029
Bank credit lines	40,015	41,508
Current maturities of long-term debt	20,076	4,487
Accrued expenses:		
Payroll and related	175,919	172,746
Taxes	127,337	91,581
Other	242,529	267,736
Total current liabilities	1,201,352	1,168,087
Long-term debt	371,864	395,309
Deferred income taxes	190,726	190,225
Other liabilities	76,732	76,753
Total liabilities	1,840,674	1,830,374
Redeemable noncontrolling interests	417,060	304,140
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized,		
none outstanding	-	-
Common stock, $.01 par value, 240,000,000 shares authorized,		

90,881,484 outstanding on September 24, 2011 and		
91,939,477 outstanding on December 25, 2010	909	919
Additional paid-in capital	538,029	601,014
Retained earnings	1,950,593	1,779,178
Accumulated other comprehensive income	49,623	30,514
Total Henry Schein, Inc. stockholders' equity	2,539,154	2,411,625
Noncontrolling interests	1,408	1,332
Total stockholders' equity	2,540,562	2,412,957
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$4,798,296	$4,547,471

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	September 24, 2011	September 25, 2010	September 24, 2011	September 25, 2010
Net sales	$2,111,693	$1,893,511	$6,190,094	$5,503,222
Cost of sales	1,524,273	1,356,055	4,424,628	3,907,089
Gross profit	587,420	537,456	1,765,466	1,596,133
Operating expenses:				
Selling, general and administrative	444,159	400,088	1,346,690	1,204,715
Restructuring costs	-	-	-	12,285
Operating income	143,261	137,368	418,776	379,133
Other income (expense):				
Interest income	3,830	3,422	11,955	10,318
Interest expense	(6,813)	(7,824)	(22,800)	(26,096)
Other, net	232	29	1,313	388
Income before taxes, equity in earnings of affiliates and noncontrolling interests	140,510	132,995	409,244	363,743
Income taxes	(44,261)	(42,226)	(130,754)	(115,885)
Equity in earnings of affiliates	4,559	3,721	10,345	7,047
Net income	100,808	94,490	288,835	254,905
Less: Net income attributable to noncontrolling interests	(8,847)	(6,597)	(25,904)	(22,111)
Net income attributable to Henry Schein, Inc.	$91,961	$87,893	$262,931	$232,794
Earnings per share attributable to Henry Schein, Inc.:				
Basic	$1.02	$0.97	$2.90	$2.59
Diluted	$0.99	$0.94	$2.82	$2.50
Weighted-average common shares outstanding:				
Basic	90,251	90,326	90,582	89,932
Diluted	92,869	93,270	93,195	93,098

See accompanying notes.

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

	Common Stock $.01 Par Value Shares	Common Stock $.01 Par Value Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Stockholders' Equity
Balance, December 25, 2010	91,939,477	$ 919	$ 601,014	$ 1,779,178	$ 30,514	$ 1,332	$ 2,412,957
Net income (excluding $25,558 attributable to Redeemable noncontrolling interests)	-	-	-	262,931	-	346	263,277
Foreign currency translation gain (excluding $249 attributable to Redeemable noncontrolling interests)	-	-	-	-	17,095	-	17,095
Unrealized gain from foreign currency hedging activities, net of tax of $485	-	-	-	-	1,639	-	1,639
Unrealized investment gain, net of tax of $137	-	-	-	-	271	-	271
Pension adjustment gain, net of tax of $105	-	-	-	-	104	-	104
Total comprehensive income							282,386
Dividends paid	-	-	-	-	-	(316)	(316)
Other adjustments	-	-	-	-	-	46	46
Change in fair value of redeemable securities	-	-	(85,932)	-	-	-	(85,932)
Initial noncontrolling interests and adjustments related							

to business acquisitions	-	-	(1,995)	-	-	-	(1,995)
Shares issued to 401(k)	93,204	1	5,797	-	-	-	5,798
Repurchase and retirement of common stock	(2,089,699)	(20)	(40,939)	(91,516)	-	-	(132,475)
Stock issued upon exercise of stock options,							
including tax benefit of $7,250	812,878	8	37,492	-	-	-	37,500
Stock-based compensation expense	236,009	2	26,043	-	-	-	26,045
Shares withheld for payroll taxes	(110,385)	(1)	(2,961)	-	-	-	(2,962)
Liability for cash settlement stock option awards	-	-	(490)	-	-	-	(490)
Balance, September 24, 2011	90,881,484	$ 909	$ 538,029	$ 1,950,593	$ 49,623	$ 1,408	$ 2,540,562

See accompanying notes.

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

	Nine Months Ended	
	September 24, 2011	September 25, 2010
Cash flows from operating activities:		
Net income	$288,835	$254,905
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86,040	75,510
Amortization of bond discount	-	4,007
Stock-based compensation expense	26,045	19,745
Provision for losses on trade and other accounts receivable	3,636	2,929
Benefit from deferred income taxes	(12,828)	(2,068)
Stock issued to 401(k) plan	5,798	5,721
Undistributed earnings of affiliates	(10,345)	(7,047)
Other	3,028	5,275
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(50,785)	(104,719)
Inventories	(14,657)	5,799
Other current assets	(18,537)	(37,526)
Accounts payable and accrued expenses	(39,589)	(45,706)
Net cash provided by operating activities	266,641	176,825
Cash flows from investing activities:		
Purchases of fixed assets	(32,547)	(26,926)
Payments for equity investments and business acquisitions, net of cash acquired	(143,636)	(306,328)
Distributions from equity investments	10,158	2,084
Purchases of available-for-sale securities	-	(26,984)
Proceeds from sales of available-for-sale securities	2,450	5,950
Proceeds from maturities of available-for-sale securities	-	26,984
Other	(1,827)	(1,765)
Net cash used in investing activities	(165,402)	(326,985)
Cash flows from financing activities:		
Proceeds from (repayments of) bank borrowings	(1,601)	200,195
Proceeds from issuance of long-term debt	3,101	100,000
Principal payments for long-term debt	(24,656)	(291,676)
Proceeds from issuance of stock upon exercise of stock options	30,250	25,350
Payments for repurchases of common stock	(132,475)	(4,819)
Excess tax benefits related to stock-based compensation	7,425	7,586

Distributions to noncontrolling shareholders	(7,878)	(9,739)
Acquisitions of noncontrolling interests in subsidiaries	(15,199)	(149,845)
Other	(90)	(269)
Net cash used in financing activities	(141,123)	(123,217)
Net change in cash and cash equivalents	(39,884)	(273,377)
Effect of exchange rate changes on cash and cash equivalents	(3,592)	5,953
Cash and cash equivalents, beginning of period	150,348	471,154
Cash and cash equivalents, end of period	$106,872	$203,730

See accompanying notes.

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

Note 1. Basis of Presentation

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

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

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

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the nine months ended September 24, 2011 are not necessarily indicative of the results to be expected for any other interim period or for the year ending December 31, 2011.

Note 2. Segment Data

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

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

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

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

Note 2. Segment Data (Continued)

The following tables present information about our reportable segments:

	Three Months Ended		Nine Months Ended	
	September 24, 2011	September 25, 2010	September 24, 2011	September 25, 2010
Net Sales:				
Healthcare distribution (1):				
Dental (2)	$ 682,427	$ 665,940	$ 2,054,548	$ 1,958,149
Medical (3)	402,157	391,863	1,039,215	962,743
Animal health (4)	246,452	225,210	737,324	666,590
International (5)	718,465	561,353	2,179,112	1,773,241
Total healthcare distribution	2,049,501	1,844,366	6,010,199	5,360,723
Technology (6)	62,192	49,145	179,895	142,499
Total	$ 2,111,693	$ 1,893,511	$ 6,190,094	$ 5,503,222

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

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

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

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

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

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

	Three Months Ended		Nine Months Ended	
	September 24, 2011	September 25, 2010	September 24, 2011	September 25, 2010
Operating Income:				
Healthcare distribution	$ 125,406	$ 121,012	$ 368,948	$ 330,984
Technology	17,855	16,356	49,828	48,149
Total	$ 143,261	$ 137,368	$ 418,776	$ 379,133

Note 3. Debt

On September 5, 2008, we entered into a $400 million revolving credit facility with a $100 million expansion feature. The $400 million credit line expires in September 2013. The interest rate, which was 0.70% during the nine months ended September 24, 2011, is based on USD LIBOR plus a spread based on our leverage ratio at the end of each financial reporting quarter. The agreement provides, among other things, that we maintain certain interest coverage and maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, liens, employee and shareholder loans, disposal of businesses and certain changes in ownership. In addition to the amounts outstanding under our shelf facilities, discussed below, we have outstanding borrowings of approximately $30.0 million under our $400 million credit facility. As of September 24, 2011, there were $8.8 million of letters of credit provided to third parties.

As of September 24, 2011, we had various other short-term bank credit lines available, of which approximately $10.0 million was outstanding. As of September 24, 2011, borrowings under all of our credit lines had a weighted average interest rate of 1.38%.

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

Note 3. Debt (Continued)

On August 10, 2010, we entered into $400 million private placement facilities with two insurance companies. These shelf facilities are available through August 2013 on an uncommitted basis. The facilities allow us to issue senior promissory notes to the lenders at a fixed rate based on an agreed upon spread over applicable treasury notes at the time of issuance. The term of each possible issuance will be selected by us and can range from five to 15 years (with an average life no longer than 12 years). The proceeds of any issuances under the facilities will be used for general corporate purposes, including working capital and capital expenditures, to refinance existing indebtedness and/or to fund potential acquisitions. The agreement provides, among other things, that we maintain certain maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, liens, employee and shareholder loans, disposal of businesses and certain changes in ownership. As of September 24, 2011, we have an outstanding balance under the facilities of $100.0 million at a fixed rate of 3.79%, which is due on September 2, 2020.

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

On May 27, 2011, BAHS refinanced the terms and amount of its debt. The refinanced debt consists of the following three components:

- Term loan A - $100.0 million repayable in 14 quarterly installments in payment amounts ranging from $1.25 million per quarter for the period September 30, 2011 through June 30, 2012, approximately $1.88 million per quarter for the period September 30, 2012 through June 30, 2013, $2.5 million per quarter for the period September 30, 2013 through June 30, 2014, approximately $3.13 million for the quarter ended September 30, 2014 and a final installment of approximately $74.4 million due on December 31, 2014. Interest on the $100.0 million term loan is charged at LIBOR plus a margin of 3%;

- Term loan B - $216.0 million ($55.0 million provided by Henry Schein, Inc.) repayable in 17 quarterly installments of $540 thousand from September 30, 2011 through September 30, 2015, and a final installment of approximately $206.8 million due on December 31, 2015. Interest on the $216.0 million term loan is charged at LIBOR plus a margin of 3.25% with a LIBOR floor of 1.25%; and

- Revolver of $50.0 million with interest charged at LIBOR plus a margin of 3%.

The outstanding balance of $259.9 million is reflected in our consolidated balance sheet as of September 24, 2011. Borrowings incurred as part of the acquisition of BAHS are collateralized by assets of BAHS with an aggregate net carrying value of $227.0 million.

Certain of our other subsidiaries maintain credit lines which are collateralized by assets of those subsidiaries with an aggregate net carrying value of $81.7 million.

Prior to the debt refinancing discussed above, the debt incurred as part of the acquisition of BAHS was repayable in 23 quarterly installments of $0.8 million through September 30, 2015, and a final installment of $301.6 million was due on December 31, 2015. Interest on the BAHS debt was charged at LIBOR plus a margin of 3.5% with a LIBOR floor of 2%.

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

Note 3. Debt (Continued)

The revised debt agreement continues to provide, among other things, that BAHS maintain certain interest coverage and maximum leverage ratios, and contains restrictions relating to subsidiary indebtedness, capital expenditures, liens, employee and shareholder loans, disposal of businesses and certain changes in ownership. In addition, the revised debt agreement continues to contain provisions which, under certain circumstances, require BAHS to make prepayments based on excess cash flows of BAHS as defined in the debt agreement. The revised debt agreement also contains provisions that require BAHS to hedge risks related to potential rising interest rates. As a result, BAHS entered into a series of interest rate caps, for which we have elected hedge accounting treatment, with a notional amount of $160.0 million, protecting against LIBOR interest rates rising above 3.0% through March 30, 2012.

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 nine months ended September 24, 2011 and the year ended December 25, 2010 are presented in the following table:

	September 24, 2011	December 25, 2010
Balance, beginning of period	$304,140	$178,570
Net increase in redeemable noncontrolling interests due to business acquisitions, net of redemptions		