FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Henry Schein third quarter conference call. [OPERATOR INSTRUCTIONS]. I would now like to introduce your host for today's call, Susan Vassallo, Henry Schein's Director of Corporate Communication. Please go ahead, Susan.

Susan Vassallo - *Henry Schein - Director, Corporate Communications*

Thank you, operator, and my thanks to each of you for joining us to discuss Henry Schein's third quarter results. If you have not received a copy of our earnings news release issued earlier this morning, please call (631) 843-5937 and a copy will be faxed to you immediately or, of course, you can obtain a copy on our website at henryschein.com. With us this morning are Stanley Bergman, Chairman and Chief Executive Officer of Henry Schein, and Steven Paladino, Executive Vice President and Chief Financial Officer.

Before we begin I would like to point out that as always certain comments made during this call will include information that is forward looking. As you know, risks and uncertainties involved in the Company's business may affect the matters referred to in forward looking statements. As a result, the Company's performance may differ from those expressed in or indicated by such forward looking statements. Further, these forward looking statements are qualified in their entirety by the cautionary statements contained in Henry Schein Securities and Exchange Commission filings. The content of this conference call contains time sensitive information that is accurate only as of the date of the live broadcast, today, November 2, 2006. The Company undertakes no obligation to revise or update any forward looking statements to reflect events or circumstances after the date of this call. Now I would like to turn the call over to Stanley Bergman.

Stanley Bergman - *Henry Schein - Chairman and CEO*

Thank you, Susan. And good morning, everyone, and thank you for joining us. Our third quarter financial results were reflective of another very solid quarter and reflect particular strength in our dental group with all the other groups doing well as well. Also, we are pleased to be introducing guidance for the year 2007, diluted earnings per share for the 2007 year expects and is reflective of growth rates of around 18 to 21% compared to the midpoint of our 2006 guidance. This is reflective of a similar growth rate for the growth rate we expect for the year 2006. And reflective of our growth model. In a moment I'll speak about our accomplishments during the quarter and update you on various initiatives that we are undergoing in the Company. Before I highlight these future initiatives and maybe provide further information on the quarter, let me ask Steve Paladino, our Chief Financial Officer, to provide more detailed financial information on the third quarter performance.

Steven Paladino - *Henry Schein - EVP and CFO*

Okay. Thank you, Stan. I would like to begin by saying I am pleased to report solid financial results for the third quarter. As we have done in prior quarter earnings news releases and conference calls, all current and prior year financial information has been restated to report the hospital supply business as a discontinued operation and to include -- to exclude that business from the detail of our income statement. This quarter there was no gain or loss on discontinued operations although the year to date and prior year results do include that impact. For purposes of comparability, I will discuss our results from continuing operations without the discontinued hospital supply business. Let me also point out that both our current quarter and prior year financial results reflect the impact of expensing stock based compensation in accordance with FAS 123R. We have elected to restate our results for prior periods to include this impact of expensing stock based compensation in order to provide more meaningful comparisons of our results.

Operator

[TECHNICAL DIFFICULTIES]

Steven Paladino - *Henry Schein - EVP and CFO*

Turning to our financial results for the quarter ended September 30, 2006, our net sales for the quarter were $1.27 billion reflecting a 13% growth over the third quarter of last year or 11.6% in local currency. 5% of this growth was internally generated, 6.6% was acquisition growth net of a divestiture, and that acquisition growth was primarily due to the Darby Companies that we acquired as well as NLS Animal Health in the U.S. and Provet in Switzerland. You can see the details of our reported sales growth in our earnings news release on exhibit A. Our operating margins from continuing operations for the third quarter of 2006 was 4.9% compared with 5.2% for the third quarter of 2005. Our operating margin for the quarter was impacted by certain non-recurring expenses as well as lower tetanus diphtheria vaccine sales compared to the third quarter of 2005. It is important to note that we still expect our operating margin for the full year to expand consistent with our internal objectives. Our effective tax rate from continuing operations for the third quarter was 35.1% compared to 36.6% for the third quarter of last year. We expect our tax rate during the remainder of 2006 to remain in this 35% range.

Our third quarter income from continuing operations was $39.3 million which is an improvement of 18% from the prior year's third quarter. And our earnings per diluted share also from continuing operations for the third quarter was $0.44 reflecting an increase of 18.9% over the third quarter of 2005. Let me take a moment to point out that during the quarter the Company elected to change its method of measuring the effectiveness of derivatives under FAS 133. This was done in order to better align our debt to our current business activity where today about 27% of our sales are outside of North America. This change has effectively converted certain U.S. debt into Euro denominated debt thereby better matching our sales and our financing of those businesses and resulted in a non-recurring foreign exchange gain of approximately $2.0 million on a pretax basis. This change is also expected to have a continuing positive impact on interest expense, as we expect Euro LIBOR rates to remain favorable to U.S. LIBOR rates. Let me provide some detail on our sales results for the quarter. Dental sales for the third quarter were $538 million representing a 16.4% growth in U.S. dollars or 15.6% in local currencies. 9.8% of this growth was internally generated, while 5.8% was due to acquisitions, primarily the Darby acquisition that I referred to earlier. Our consumerable merchandise sales were 14.2% ahead of prior year in local currencies, 8.1% of that growth internally generated and 6.1% again due to acquisitions. Our dental equipment sales and service revenues were 20.1% ahead of the prior year in local currencies, 15.4% of that growth was internally generated and 4.7% related to acquisitions. We are really very pleased with our equipment sales growth which again was fueled by sales of high-tech equipment, specialty digital x-ray.

Let me point out that this quarter there was really little contribution from new product offerings manufactured by Imaging Science, Scientists International or Biolase because these relationships had just begun toward the end of the third quarter. Our medical sales were $381 million in the third quarter, up 8.9%; it's about 0.6% decline in internal growth offset by 9.5% acquisition growth which again is related to primarily NLS Animal Health. Our internal growth for the medical group was impacted by lower sales of tetanus diphtheria, as I mentioned earlier, as well as lower sales of influenza vaccines compared with the prior year's third quarter. Excluding these two products are medical internal sales growth was above what we estimate the estimated growth of the market to be in the medical market. Important to note that the third quarter variance in influenza vaccines versus the prior year is a timing issue. GSK or GlaxoSmithKline FluLaval product was approved by the FDA after the close of the quarter on October 5th. During the third quarter of 2006 we sold only 1.7 million doses of our expected 13.5 million doses of flu vaccine that we expect to sell for the full year 2006. Also please note that our tetanus diphtheria vaccines for the third quarter were unusually higher than last year's third quarter primarily because of the Gulf Coast hurricanes. Moving to our international group -- international sales for the third quarter 2006 were $327 million, that's U.S. dollar growth -- that's U.S. dollars, a 12.3% growth in U.S. dollars and in local currencies that was 8.2% growth with 3.4% of that growth internally generated and 4.8% acquisition growth primarily due to Provet acquisition in Switzerland. Finally, at technology and value added service sales were $24.6 million, 17.3% ahead of Q3 last year including 16.9% growth in local currencies. Of that local currency growth 14.7% of it was internally generated and 2.2% was due to an acquisition. We continue to see during the quarter very strong electronic claim services revenues continuing to grow on a double digit basis and we also saw our software and financial services revenues posting very strong gains also during the third quarter. Let me now turn to our balance sheet and cash flow and highlight some items there. Our operating cash flow for the quarter was $64 million and that compares to $38.9 million in last year's third quarter. We continue to expect to achieve operating cash flow for the full year in excess of net income.

Our accounts receivable days sales outstanding for the quarter from continuing operations was 42.5 days and that's an improvement of 2.2 days versus last year's third quarter. Our inventory turns also from continuing operations for the quarter was 6.5 turns and that compares to 6.9 turns last year. Finally, our return on committed capital from continuing operations was approximately 25% and that compares to 27% in the third quarter of last year. Let me conclude my remarks with commenting on financial guidance for 2006 and for 2007. Diluted EPS for 2006 is expected to be in the range of $2.11 to $2.14 and let me remind you that that includes the impact of expensing stock based compensation. This 2006 EPS guidance includes our expectation that we will distribute approximately 13.5 million doses of flu vaccine this year. Note that during -- that this guidance is primarily due to the overall strength of our core business and the revised guidance is still within the range of our previous guidance and essentially at the same midpoint although we now expect to distribute fewer doses of flu vaccine compared to our previous expectation of 15 to 17 million doses that we talked about last quarter. Today we also introduced 2007 financial guidance. Our diluted EPS for 2007 is expected to be in the range of $2.51 to $2.57 and this represents a growth rate of 18 to 21% compared to the midpoint of our 2006 EPS guidance. 2007 guidance includes our expectation that we will sell more than 20 million doses of flu vaccine during 2007. Also note that all of our guidance for both 2006 and 2007 is for continuing operations and includes all completed or previously announced acquisitions but does not include any impact of potential future acquisitions. Le me turn it over to Stanley at this time.

Stanley Bergman - *Henry Schein - Chairman and CEO*

Thank you, Steven. On the dental group side during the third quarter we saw a continued trend among various dental manufacturers toward the value add distribution channel. As a leader in the industry, Henry Schein, we believe, is ideally positioned to benefit from this trend. We have signed exclusive distribution agreements for the Dexis digital radiography product line in the past and now the Imaging Sciences 3D imaging system was introduced towards the end of third quarter. Also, leading companies such as Colgate, Pentron, Pelton & Crane, KaVo, Gendex have recognized the benefits we bring in delivering solutions to the dental profession. Previously we established a similar arrangement with D4D Technologies for the introduction of what we believe will be the leading dental CAD/CAM system, E4D. Recently DENTSPLY, Procter & Gamble and Biolase have joined this trend. Before I discuss these companies let me provide you with an update on the E4D chair side dental restorative system. As is public knowledge we, Henry Schein, will be the exclusive distributor of the E4D system. Upon the launch of the system as we have discussed the E4D system has undergone user testing which is intended to identify any specific aspect of the product and system that is not performing to design specifications. User testing indicated the need for some software modifications to further improve product performance and the manufacturers completed those enhancements. E4D will now go in to further user testing for up to 8 weeks and assuming other modifications are no longer required that will be followed by university testing for up to 12 weeks. As we have stated before this is a technological advanced product, we believe more advanced than anything in the marketplace as of yet and that we believe we will offer a host of advantages to our customers and compared to the current systems available. It is our priority to ensure a successful launch and positive user experience as we stated before and we will not bring a product to market before it is ready but we are nearing the finish line in this respect.

We will keep you apprised of our development progress in future quarterly calls and we'll continue to keep you updated on the progress with respect to the launch. We have gained even further confidence in the long term prospects for this innovative product as more and more dentists actually utilize the product and test it in a clinical environment. Now turn to DENTSPLY an industry leading manufacturer of dental products. DENTSPLY recently announced a strategic partnership program to improve the company's ability to collaborate with and provide value to key North American distribution partners and of course that included Sullivan Schein, Henry Schein's U.S. dental distribution business. As part of this program DENTSPLY announced that it was significantly reducing the number of distribution partners. We are pleased with DENTSPLY's commitment to the distribution channel and the belief that with an improved focus on a limited number of distributors the results will be enhanced. Most importantly we believe the new agreement underscores DENTSPLY's confidence in the value of a dealership network over direct distribution and this is particularly gratifying. Also effective with the start of 2007, Proctor and Gamble will shift to uniform distribution strategy for its Crest and ROB product line. Under the new distribution format Proctor and Gamble will limit the Crest and ROB lines to 5 dental distributors including Sullivan-Schein, the Henry Schein U.S. distribution wing. While we previously had a relationship with P & G for their ROB products, we look forward to adding their Crest brand they are offering as well. At Henry Schein we are delighted to play an important role in helping our manufacturing partners maximize sales and bring our customers an ever increasing number of products and services including many on an exclusive or semi-exclusive basis. As has been noted in the past another manufacturer of dental products the high technology dental equipment company, Biolase Technology, also decided to expand its previous sole focus on direct sales to a model that includes an exclusive multi-year relationship with Henry Schein. As announced in early August we will collaborate with Biolase in the marketing, sales and service of all professional Biolase dental laser system products including the market leading wire water Laser MD. This is, of course, their primary product and is the industry's leading hard and soft tissue dental laser system. Since the first Biolase dental laser system was brought to market, the Biolase company has set a new standard for technical innovation and patient comfort.

We are delighted to be selling and servicing this important line of products on an exclusive basis here in North America and to offer our customers these leading edge solutions. During last quarter's conference call I also spoke about our exclusive distribution agreement for Imaging Sciences International's 3D diagnostic imaging technology. ISI is a market leader in this category and there is no question in my mind and the mind of senior management at Henry Schein, that digital imaging is a key element of the technology driven dental office in the future. We believe these exclusive products from Biolase and ISI are important additions to our offerings for our customers and we expect meaningful sales contributions in the fourth quarter and 2007 and not much in terms of sales, of course, in the third quarter. In discussing dental companies that are benefiting from the Henry Schein's leading position in the marketplace, I would like to mention the mutually beneficial relationship that we are enjoying with Serona, this is a relationship of about a year and change in the United States of course a much longer relationship with the [inaudible] team which is now Henry Schein dental depo Germany and we really look forward to continuing to help Serona increase the global market share. I believe we are Serona's only global distributor. To close my discussions on dental group, I'm pleased to report that during the third quarter we closed on the remaining segment of our Darby acquisitions which expand our reach into the U.S. dental and medical marketplace. The dental laboratory business acquisition closed on August 4 and the medical and corporate accounts businesses closed on September 1. We have now completed, 100% completed the full integration of Iron Dental, Darby Medical Specialty and Darby Dental Laboratory into Henry Schein. This was a huge undertaking and our team which is now extremely capable and efficient at integrated businesses literally completed the integration overnight. We are extremely proud of the outstanding performance of our integration team on this important project as the new businesses have been fully incorporated into the Henry Schein organization in 100% seamless manner with essentially no disruption to our customers. Let me now briefly turn to our medical group. As you know on October 5 the FDA approved the sale of GSK's influenza vaccine FluLaval which is the product GSK gained through the acquisition of ID Biomedical last year. While we will be distributing vaccines manufactured by sanofi pasteur novartis we have added of course the GSK ID Biomedical product to the distribution channel this quarter. The FluLaval product is the largest component of our expected approximately 13.5 million doses, this is, of course, the first year that FluLaval will be on the market in the U.S. As Steven mentioned, during the third quarter we shipped approximately 1.7 million doses of flu vaccine and as of the close of business that number stood at approximately 7 million doses at the close of business at the end of October. So we're more than 50% of the way through our expected doses. We have a strong order book and we are comfortable at this stage that we should ship the 13.5 million doses of flu vaccine. In closing we're comfortable that all of our business units are really performing well even the North America dental business, the physician and vet business in North America, our international business is make good progress on integrations on to one common platform and our practice management technology business also had a good quarter. Of course, the sale of digital x-ray which is largely driven by technology business reflected on our North America dental, U.S. and Canadian dental books and that was also very, very good this quarter. I think we are ready to take some questions at this point.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]. Your first question comes from Glen Santangelo with Credit Suisse

Glen Santangelo - *Credit Suisse - Analyst*

Hey Stan, hey Steve, I just a had a could of quick questions on your dental equipment. You sort of decided for the E4D if you allow for the additional the 20 weeks of testing that takes you until the March/April time frame have you kind of built anything into your 2007 expectations if you're expecting the product to kind of be live some point in mid 2007 if that's a reasonable way to think about it?

Steven Paladino - *Henry Schein - EVP and CFO*

With respect to E4D, we did not build any expectations for sale into our 07 guidance. And the reason for this is simply because we're really trying to pinpoint as we said in previous calls the timing of when the product will be launched. Really it is difficult so in order to be conservative we did not include any impact in our '07 guidance.

Stanley Bergman - *Henry Schein - Chairman and CEO*

Having said that Glen what is also important to realize. what we heard from the manufacture the product will be to market in earlier part of 2007, however there will be expenses with launching a new product. Whereas we're very excited, in fact the feedback we're getting from users that are actually using the product is really terrific. It's really terrific. But I think we need to be cautious as to the number of units we roll out in a particular point in time and more importantly from a financial point of view there will be expenses involved in launching the product.

Glen Santangelo - *Credit Suisse - Analyst*

Okay that's fair Stan and just one more question the equipment side, you had an impressive quarter here in terms of same store growth in terms of equipment and you highlighted some of the manufacturing relationships, how much of that growth is being driven by these preferred relationships you have and how much is kind of organic market growth? How should I be thinking about the growth rate in the equipment market now?

Stanley Bergman - *Henry Schein - Chairman and CEO*

I don't think you should attribute much at this point in any event to the introduction of Biolase or ISI. We had good sales for the combination of those two at the ADA meeting and we expect to have very good sales at the New York meeting but don't count for much in the third quarter. Having said that, I think we've mentioned that digital x-ray was strong, I think the category is doing well but I also think the [inaudible] and the proprietor system we have are plus two or three other manufactures all doing well. We're all doing well in ore core business, we have unnaturally low penetration in general dental distributors account for about 30% of the sale in equipment category, we are in the low 20% maybe 22 or 23% so we're closing that gap and doing more business with traditional equipment with our existing customer base.

Glen Santangelo - *Credit Suisse - Analyst*

And just a last question on flu vaccines then I will jump off, you said you distributed 1.7 million doses as of the end of the quarter, if I remember correctly I thought Novartis got approval and started shipping in August which would suggest that you are really not doing much business with Novartix/Kyron these days or even [inaudible] really most of that incremental volume we saw this quarter. Is that all coming from GSK?

Stanley Bergman - *Henry Schein - Chairman and CEO*

We are under a confidentiality agreement from each the manufactures as to how many doses we are shipping each but as we have said we have indicated in the past that a vast majority of the profits are expected to be generated from the ID biomedical contract which you may recall is in agreements on a very favorable term.

Glen Santangelo - *Credit Suisse - Analyst*

Thanks for comments. Stan.

Operator

Your next question comes from David Veal with Morgan Stanley.

David Veal - *Morgan Stanley - Analyst*

Steve walk me through the derivative think again, help me understand because it seems like at one point you were saying you didn't have a lot of foreign exchange risk and it sounds the change in this derivative accounting may increase your exposure there. Can you walk us through that?

Steven Paladino - *Henry Schein - EVP and CFO*

Sure , I will try to do it in lay terms because it is a very complex accounting issue. First as we highlighted in our press release there is a one time non recurring gain of $2 million pretax related to treasure initiative. We will not see any future gains or losses for foreign exchange because of this transition so that is just a one time item but basically the treasure initiative we implemented what it does is effectively converts a portion of our debt from U.S. denominated debt to Euro denominated debt does that synthetically to the foreign exchange contracts. Because the Euro rates are lower than the U.S. rates, one it gives us a future benefit going forward and two the most important reason why we did it is it matches our funding of our European operations so that in all of or debt being U.S. denominated, we now have Euro denominated in order to match our business which is about 27% sea of sales are international, so that is really our that's main reason. It should bring less volatility to our earnings reeled foreign exchange rates because we have a matching of our debt to our [inaudible] in Europe. I doin't know if you have a follow up question, I try not to ask too many questions on one topic but I know it is a very complicated area. Does that help you?

David Veal - *Morgan Stanley - Analyst*

Yeah, I think so. I guess my question would be if we why now and what would the point of impact of this been had you done it a year ago?

Steven Paladino - *Henry Schein - EVP and CFO*

I don't know what the one time gain or loses would have been a year ago. Quite honestly I would have to run some numbers to be able to see where the Euro was -- a year ago because of the the complex of our business we may have not done exactly what we're doing today because we have a larger footprint in Europe I don't know if I can answer the question without running numbers and making some assumptions.

David Veal - *Morgan Stanley - Analyst*

That's fair I'll circle back. Thanks.

Operator

[OPERATOR INSTRUCTIONS]. Your next question comes Lisa Gill with JPMorgan.

Lisa Gill - *JPMorgan - Analyst*

Good morning and thanks very much. I was wondering if you can talk about the dental consumable side much stronger than what we anticipated I was just wondering what are some of the drivers are there. Then secondly, Stanley you talked about the limited relationships with the manufacturers, do you see that a wave of the future how many manufacturers anticipate going to way and make you can talk about some you anticipate over the next year would be great?

Stanley Bergman - *Henry Schein - Chairman and CEO*

The consumable growth rate I think is reflective of our growth programs that have been the drivers of our consumer and equipment growth far long time plus the privileges program we have had additional FSC's, field sales consultants. Course some of the FSC's, the rookies, we brought on a year ago are now being more productive. I would say education is one of the biggest drives on our continuing education helping field sale consultants gear up to a more consulting sales approach verses an order taking approach and utilize tele sales to do the order taking and electronic ordering has been the driver. As far as equipment, essentially I think the major manufacturers are lined up at this point and we have a good relationship as you know with the world's leading equipment manufacturers at least number 1 and number 2. As the future there are not many large ones that don't have defined relationships. Having said that I think new technologies will be introduced more and more on this kind of exclusive type of arrangement and I don't we need more to have terrific equipment growth rate. In fact if all we do is work these relationships well, we will continue to have excellent equipment growth rate for the next period of time driven by digital x-ray and the laser and the cat cam, the ISI type system there will be additional systems introduced, Serona will be introducing a system shortly and we expect that to drive market growth for us as well and then of course E4D comes along. I think our equipment growth rates are quite promising for several years to come.

Lisa Gill - *JPMorgan - Analyst*

The 15% rate we saw internally generated,do you think that's a good number going forward?

Stanley Bergman - *Henry Schein - Chairman and CEO*

We have tried not give specific growth rates for categories of products, our model calls for internal growth of the market rate which is about 5% plus 200 to 300, 400 basis points somewhere between 7 to 9% internal growth for the company and the local currency and we feel for 2006 and again for 2007 we'll be well within those guidelines.

Lisa Gill - *JPMorgan - Analyst*

Great, thanks very much for the comments.

Operator

Your next question comes from Derek Leckow with Barrington Research.

Derek Leckow - *Barrington Research - Analyst*

Thank you, good morning. Just a question on the dental consumable growth rate. With the DENTSPLY agreement they have number 1 and number 2 brands in the categories which they compete in the consumable area, doesn't that artificially or temporarily inflate your consumable growth rate on the a same store for a periods of time and should we see a reverse of that a year from now in terms the 400 to 500 basis points in market growth here and I wonder if that is moderating?

Stanley Bergman - *Henry Schein - Chairman and CEO*

First of all there was nothing in this quarter, second of all it's material from a number of dealers but not a sale point of view I think the whole business, I think it's about $300 million business, 90% will continue through the existing channel that's $30 million I don't know pick a number or get 30 to 40% of that so it's a million dollars a month. It's not huge but I do think it sends a strong signal to so our sale force that one of the leading distributors in dentistry is committed to the distribution channel and don't think you should read a huge increase of sales into that change of distribution strategy.

Derek Leckow - *Barrington Research - Analyst*

Does your agreement with DENTSPLY preclude you from striking the same type of deal with other large dental consumable manufacturers?

Stanley Bergman - *Henry Schein - Chairman and CEO*

There is nothing in it that precludes us from entering into similar type arrangements that identical data format that is provided during specific periods is customized to DENTSPLY needs. But this should not impact our relationship with our leading manufacturers, all of whom know we are committed to them as well and DENTSPLY knows we are committed to them.

Derek Leckow - *Barrington Research - Analyst*

One small follow up to that, does it improve your ability to consolidate the U.S. distribution industry are there other opportunities now that you see coming your way in terms of acquisition pricing and so forth?

Stanley Bergman - *Henry Schein - Chairman and CEO*

I don't think this improving acquisition pricing. I do believe the smaller dealers will be challenged not because of this, this is a small contributing factor, but essentially the race is not about who provides product at the best price even full rates logistics I think we're better than anyone else but I don't think that is what the race is about, the race is about value added services and the quality of the sale force and the value added services side, the technology components specifically the practice management the chronic medical record the equipment that goes around that, I think those are all the important areas and I would think it would be hard for a small dealership to compete in that arena.

Derek Leckow - *Barrington Research - Analyst*

Thank you.

Operator

Your next question comes from Christopher McFadden with Goldman Sachs.

Chris McFadden - *Goldman Sachs - Analyst*

Thank you and good morning. Steve I was hoping for a little clarification vis-a-vis the 2006 guidance if I understand you trimmed the top end of the range back from a couple of cents, $2.14 from $2.16. I just wanted to confirm that principle reflects the reduction in terms of number of flu doses for the year?

Steven Paladino - *Henry Schein - EVP and CFO*

Yes Chris to go through the numbers we previously expected 15 to 17 million doses of flu vaccine to be sold this year, we're now expecting to sell 13.5 million and virtually the entire reason why we trimmed top end was baff that lower doses of flu vaccine.

Chris McFadden - *Goldman Sachs - Analyst*

The dose reduction, just to confirm, is that reflect a reduction in your ordering volume or is that also reflective or is there a supply element to the lower volume, [inaudible], volume has been reasonable good this year?

Steven Paladino - *Henry Schein - EVP and CFO*

Yeah, I am glad you asked that question. The reduction in what we expect to sale is exclusively because of the ability to only access 13.5 million doses in the market. Some of our sourcing has come out with lower yields in production and therefore that lower yield in production converts into lower supply for us. It has everything to do with our ability to sell more it has everything to do with our ability to access products during the flu season time frame.

Chris McFadden - *Goldman Sachs - Analyst*

Very good, thank you. Then finally, you gave nice color in terms of disposable medical sale on a year to year basis. I was wondering if you could give us color on disposable medical sale on a year over year basis and I'll stop thank you.

Steven Paladino - *Henry Schein - EVP and CFO*

I'll give you color because I would rather not go into specifics for competitive reasons. The color is that our disposable medical sales grew very nicely during quarter. We believe we picked up market share that was one of the strongest segments of our business remember the negative impact to the overall medical sale is related to farmer product categories specifically flu and tetanus so we are happy with the disposable medical surge product line performance in the third quarter.

Chris McFadden - *Goldman Sachs - Analyst*

Thank you.

Stanley Bergman - *Henry Schein - Chairman and CEO*

Chris to maybe highlight what Steven said. I think the tightening of the range is reflective of very strong core business and reflective really on the fact we had to reduce our expectations on receipt of flu vaccine but overall our businesses if you look at them at a bottom line sort of view, essentially they all are doing well.

Chris McFadden - *Goldman Sachs - Analyst*

And maybe on that point -- we talk about the 2007 guidance. Can you just highlight you're growing internationally you obviously continue to develop yourselves as and organization from an expense perspective what is the board and senior management identify the one or two areas where you have made important investments in 2007 that are obviously reflective with the guidance but still reflect areas where you are continuing to evolve the organization.

Stanley Bergman - *Henry Schein - Chairman and CEO*

When we talk about expenses the big opportunity is the reduction of expenses, increasing of productivity n our European business I think that is critical and one could expand that into our really all of our acquisitions and specifically Canada where we think once we make these businesses more efficient we naturally increase our operating margin. Having said that all, I think it is our expectation without getting anything specific we will expand operating margin for the full year of 2007 in accordance with our model and 2006 by the way.

Chris McFadden - *Goldman Sachs - Analyst*

Thank you.

Operator

Your next question comes from John Kreger with William Blair

John Kreger - *William Blair - Analyst*

Thanks guys. Sticking with the margin theme, Steve I think you mentioned non recurring expenses is one of the reasons why the operating margins was down year over year, coul you expand on that?

Steven Paladino - *Henry Schein - EVP and CFO*

Sure John, I tend not to like to get very specific on non recurring expenses because there is some non recurring expenses that a company has. On the other hand this quarter they were more significant than normal that's why we talked about it, they basically relate to two areas. One area is that we have some expenses in our Canadian business while I can't say they are directly related to integration activities from the recent Ash temple acquisition, I think I could say those expenses could be viewed as a by-product of those activities. The second area that we had non recurring expenses was in our technology business where we wrote off some capitalized software in the technology business. Again although not directly related to a small acquisition on the medical side that we didn't announce because of its size probably can be viewed as a by-product of that acquisition. Without getting into specific detail on amounts, we do believe that the non recurring expenses as well as if I add the lower tetanus probably had a $0.02 or $0.03 negative impact on the quarter.

John Kreger - *William Blair - Analyst*

Just to be clear the $0.02 to $0.03 that's from the non recurring and the lower tetanus?

Steven Paladino - *Henry Schein - EVP and CFO*

Yes.

John Kreger - *William Blair - Analyst*

And flu also or just tetanus?

Steven Paladino - *Henry Schein - EVP and CFO*

Flu really didn't have as significant impact on the bottom line because in both periods there were not a lot of flu vaccine sales. It did have a little bit more meaningful impact on the top line for medical but not on our bottom line.

John Kreger - *William Blair - Analyst*

Okay great, one other question unrelated, can give us an update on the vet business how do you stand with the NLS integration and then just in in general how is that flat platform performing? Are you looking to add further assets there or are you comfortable?

Steven Paladino - *Henry Schein - EVP and CFO*

The NLS animal health acquisition we're very pleased with. It's performing a little ahead of or acquisition model, it's continuing to get strong sales growth on a year over year basis. From an integration perspective we have not yet integrated the operations of NLS. We have elected to spent our efforts on integrating on the Darby companies, as Stanley reported that is complete, and now we are in the planning process for NLS and will be something we will look at in the first half of 2007 to be completed. As far as future growth strategy, although the veterinary market is the smallest market we participate in we would like to continue to do strategic acquisitions in the veterinary market both in the domestic and international side we think that's a good opportunity for us and if the right opportunity present themselves we will take advantage of it.

John Kreger - *William Blair - Analyst*

Great, thank you.

Operator

Your next question comes from Steven Postal with Lehman Brothers

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Steven Postal - *Lehman Brothers - Analyst*

Thanks a lot and good morning. Steve can you go through the field sales force numbers in the U.S. and the world.

Steven Paladino - *Henry Schein - EVP and CFO*

Sure thing, this is our field sales personal accounts. I will start with our world wide basis. at the end of the second quarter last quarter we had 2,311 field sales consultants world wide. At the end the third quarter we now have 2, 394 sales people so we are up about 80 some odd people over the second quarter. Specifically the bulk of that is about 70 people in the U.S. dental market and the balance is primarily in international market.

Steven Postal - *Lehman Brothers - Analyst*

Okay, just a question on the medical business. I wanted elaborate on some of the trends there is in the context of a competitive market, is the injectables in the vaccine business becoming more competitive there. Are you selling Gartesel, and if so can you talk about the impact on the business?

Steven Paladino - *Henry Schein - EVP and CFO*

I don't think we think the injectables and vaccine market has a significant change in the competitive landscape. It is still an important product category for our medical business unfortunately because of the timing our flu vaccine and tetanus while that product category obviously was not strong this quarter it's all timing related but I don't think there's any significant change in the competitive landscape. With respect to that new product quite honestly I'm not familiar with that product I would have to check with our medical team and get back with you if we are selling it or not.

Stanley Bergman - *Henry Schein - Chairman and CEO*

The Gartesel is a good product in terms of sales but on the vaccines in general in term the margin on branded injectables is never that high. It is not what we push for, it is the injectables that we go after and our market position with respect to injectables is doing well and the margins are growing nicely. Of course the flu vaccine is distributor by more distributors these day than in the past the but having said that the deal with the with ID medical/GSK is the most favorable in the marketplace focussed on the office based practitioner.

Steven Postal - *Lehman Brothers - Analyst*

One follow up question, when we saw you at the ADA meeting last month there was a lot of buzz in regards to the 3D technology catagory. Stanley I know you had some time on the ISI [inaudible], I was wondering if you could elaborate on how you feel about the market opportunity there.?

Stanley Bergman - *Henry Schein - Chairman and CEO*

Now that we have 1200 sale people talking about it, I think that category is getting more traction in the dental office and Serona will be introducing a product I think it's been shown already I think it's going to be launched in this country early next year. So maybe you'll have another 1500 sales people of our competitors talking about the category. I think overall the category is going to grow and it's going to do well, it may take a while to really get to its' potential but we're seeing a good traction from the ISI agreement the challenge of ISI is a relatively smallish company. We're going to create together with their relatively small sales force a lot of demand and we have to be very careful as to how many units we sell to make sure we obtain the right customer service but if you add them and Serona I think the buzz on the marketplace presents and a nice opportunity and as I mentioned early on this will full our equipment growth on the Dexis line and the Biolase and then the E4D.

Steven Postal - *Lehman Brothers - Analyst*

Thanks a lot.

Operator

Your next question comes from Robert Willoughby with Bank of America Securities.

Robert Willoughby - *Bank Of America - Analyst*

You may have mentioned it but can you comment on international profitability and what kind of conjuncture you are on with the [Dametus] deal?

Stanley Bergman - *Henry Schein - Chairman and CEO*

Our plan to to have a 6% operating income for the year 2008. Steven?

Steven Paladino - *Henry Schein - EVP and CFO*

Yes, 2008.

Stanley Bergman - *Henry Schein - Chairman and CEO*

We're on the way to getting there that's our focus. I can go through the all steps but I think we have discussed this with the [inaudible] before but essentially relates to closing down the distribution system in the Netherlands and the Benelux has been done. Austria the being done now and it's almost done already putting the old Henry Schein businesses on the same platform as the platform that Dametus, changing the name from Dametus to Henry Schein. Then on Depo Germany had putting all the Henry Schein what was then full service independent dealerships on that same platform and same marketing position and moving the Henry Schein German system Dexter Dametus into Spain, into France and Italy all of that the well on the way and we are moving our private brand to a private source, all of those things are going to drive up the operating margin that's going to be our next focus until the next period of 2008. Turning the book of business that we now have into the same profit capability and cash flow that we had from the old Henry Schein German business is our objective.

Robert Willoughby - *Bank Of America - Analyst*

Can we say the margin improvement in the quarter stem from the material improvements or is it too early to have that show up in the income statement now?

Stanley Bergman - *Henry Schein - Chairman and CEO*

Essentially the third quarter in Europe is never a material quarter and it conflicts our business over all and it's a very weak quarter generally, but the fourth quarter would be more important.

Steven Paladino - *Henry Schein - EVP and CFO*

To our overall resulted that really had minimal impact but we did see some marginal improvement on the third quarter in the international stand alone basis.

Robert Willoughby - *Bank Of America - Analyst*

Okay, thank you.

Stanley Bergman - *Henry Schein - Chairman and CEO*

The full year of course would have an impact.

Operator

We have time for one more question. Your next question comes from Jeff Johnson with Robert Baird.

Jeff Johnson - *Robert Baird - Analyst*

Good morning guys, thanks for taking the question. Steve if if I remember correctly the contract with ID biomedical GSK had a fixed variable component, if flu prices falls off at the end of the year, would there be any movement on our margins is that somewhat protected by that or analyzed type contractual term.

Steven Paladino - *Henry Schein - EVP and CFO*

No is GSK contract those provide for a flexible pricing for what we pay based on our average sales price for the year. So if average sales price is higher than our expectations, it's a profit sharing arrangement we would pay a little more but we would make more money and vise versa if average sale price is lower we pay a little bit less, maintain our margin but in absolutely dollars make a little bit less.

Jeff Johnson - *Robert Baird - Analyst*

One other follow up, from a previous question I know you gave worldwide sales force numbers did you comment on U.S. sale force did I miss that

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Steven Paladino - *Henry Schein - EVP and CFO*

Yeah, I did say U.S.sales force was up 70 people during the third quarter.

Jeff Johnson - *Robert Baird - Analyst*

Got it thank you.

Stanley Bergman - *Henry Schein - Chairman and CEO*

Okay ladies and gentlemen we want to try to keep the call to an hour and I think that is the last question. We thank you very much for participating in this call and if you have any further questions specific questions please feel free to give Steve a call at (631) 843-5915 and Susan Vassallo with 5562 being the last 4 digits of the number. As you can tell we are very confident about the business and we remain extremely enthusiastic the earning power of Henry Schein has never been greater. We think our ability to turn profits into cash remains very strong. We think the business is a terrific cash throw generate. We're moving towards a better utilization of the capital employed in the business and as I mentioned two or three times all of our businesses we believe are doing well in terms of improving on performance. Thank you very much and we look forward to speaking with you again in 90 days.

Operator

This concludes todays Henry Schein third quarter conference call. You may now disconnect.
