

REGISTRATION NO. 333-5157

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

| | | |
|--|---|--|
| DELAWARE (State or other jurisdiction of incorporation or organization) | 5047 (Primary Standard Industrial Classification Code Number) | 11-3136595 (I.R.S. Employer Identification Number) |
|--|---|--|

135 DURYEA ROAD
MELVILLE, NEW YORK 11747
(516) 843-5500
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

STANLEY M. BERGMAN
CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT
HENRY SCHEIN, INC.
135 DURYEA ROAD
MELVILLE, NEW YORK 11747
(516) 843-5500
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

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CHICAGO, ILLINOIS 60603
(312) 853-7000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF SECURITIES TO THE PUBLIC: As soon as possible after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED(1) | PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2) | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2) | AMOUNT OF REGISTRATION FEE |
|--|----------------------------|--|--|----------------------------|
| Common Stock, par value \$.01 per share..... | 6,555,000 | \$36.625 | \$240,076,875 | \$82,785.13 |

(1) Includes 855,000 shares subject to an over-allotment option granted to the

Underwriters.

- (2) Estimated pursuant to Rule 457 solely for the purpose of calculating the registration fee, based on the average of the high and low sale prices of the Registrant's Common Stock on the Nasdaq National Market on May 29, 1996.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

HENRY SCHEIN, INC.
CROSS REFERENCE SHEET SHOWING LOCATION IN PROSPECTUS OF
INFORMATION REQUIRED BY ITEMS OF PART I OF FORM S-1

| REGISTRATION STATEMENT ITEM AND HEADING | LOCATION IN PROSPECTUS |
|--|--|
| 1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus..... | Outside Front Cover Page of Prospectus |
| 2. Inside Front and Outside Back Cover Pages of Prospectus..... | Inside Front and Outside Back Cover Pages of Prospectus |
| 3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges..... | Prospectus Summary; Risk Factors |
| 4. Use of Proceeds..... | Use of Proceeds |
| 5. Determination of Offering Price..... | Inapplicable |
| 6. Dilution..... | Inapplicable |
| 7. Selling Security Holders..... | Principal and Selling Stockholders |
| 8. Plan of Distribution..... | Underwriting |
| 9. Description of Securities to be Registered.... | Description of Capital Stock |
| 10. Interests of Named Experts and Counsel..... | Legal Matters |
| 11. Information with Respect to the Registrant: | |
| (a) Description of Business..... | Business |
| (b) Description of Property..... | Business |
| (c) Legal Proceedings..... | Business |
| (d) Market Price of and Dividends on the Registrant's Common Equity and related Stockholder matters..... | Dividends; Price Range of Common Stock |
| (e) Financial Statements..... | Financial Statements |
| (f) Selected Financial Data..... | Selected Consolidated Financial Information and Operating Data |
| (g) Supplementary Financial Information..... | Pro Forma Condensed Consolidated Financial Information |
| (h) Management's Discussion and Analysis of Financial Condition and Results of Operations..... | Management's Discussion and Analysis of Financial Condition and Results of Operation |
| (i) Changes in and Disagreements with Accountants..... | Inapplicable |
| (j) Directors and Executive Officers..... | Management |
| (k) Executive Compensation..... | Management |
| (l) Security Ownership of Certain Beneficial Owners and Management..... | Principal and Selling Stockholders |
| (m) Certain Relationships and Related Transactions..... | Management; Certain Transactions |
| 12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities..... | Inapplicable |

PROSPECTUS

5,700,000 Shares

[LOGO] HENRY SCHEIN(R)

Common Stock

Of the 5,700,000 shares of Common Stock offered hereby, 2,880,500 shares are being sold by Henry Schein, Inc. (the "Company") and 2,819,500 shares are being sold by the Selling Stockholders. See "Principal and Selling Stockholders." The Company will not receive any proceeds from the sale of shares by the Selling Stockholders.

The Common Stock offered hereby is quoted on the Nasdaq National Market under the symbol "HSIC." On May 31, 1996, the last reported sale price of the Common Stock was \$37.00 per share. See "Price Range of Common Stock."

SEE "RISK FACTORS" BEGINNING ON PAGE 7 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SHARES OF COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[CAPTION]

| | PRICE TO PUBLIC | UNDERWRITING DISCOUNT(1) | PROCEEDS TO COMPANY(2) | PROCEEDS TO SELLING STOCKHOLDERS |
|----------------|-----------------|-----------------------------|---------------------------|--|
| Per Share..... | \$ | \$ | \$ | \$ |
| Total(3)..... | \$ | \$ | \$ | \$ |

(1) The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting estimated expenses of \$1,000,000 payable by the Company.

(3) The Company has granted to the Underwriters a 30-day option to purchase up to an additional 855,000 shares of Common Stock, solely to cover over-allotments, if any. See "Underwriting." If all such shares are purchased, the total Price to Public, Underwriting Discount, Proceeds to Company and Proceeds to Selling Stockholders will be \$, \$, \$ and \$, respectively.

The shares of Common Stock are offered by the several Underwriters when, as and if delivered to and accepted by them and subject to their right to reject orders in whole or in part. It is expected that delivery of the certificates for the shares of Common Stock will be made on or about , 1996.

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The date of this Prospectus is , 1996

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

[Pictures]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS AND SELLING GROUP MEMBERS (IF ANY) MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK ON THE NASDAQ NATIONAL MARKET IN ACCORDANCE WITH RULE 10B-6A UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SEE "UNDERWRITING."

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. The Company operates on a 52-53 week fiscal year that ends on the last Saturday in December; all references to the Company's operations for a particular year refer to the year ending on the last Saturday in December. Unless otherwise indicated, all information in this Prospectus assumes the Underwriters' over-allotment option is not exercised. See "Underwriting."

THE COMPANY

The Company is the largest direct marketer of healthcare products and services to office-based healthcare practitioners in the combined North American and European markets. The Company sells products and services to approximately 230,000 customers in markets that the Company estimates exceeded \$9.0 billion in sales in 1995. The Company's customers are primarily dental practices and dental laboratories, as well as physician practices, veterinary clinics and institutions. In 1995, the Company sold products to over 65% of the estimated 100,000 dental practices in the United States. The Company believes that there is strong awareness of the "Henry Schein" name among office-based healthcare practitioners due to its more than 60 years of experience in distributing healthcare products. Through its comprehensive catalogs and other direct sales and marketing programs, the Company offers its customers a broad product selection of both branded and private brand products which include approximately 50,000 stock keeping units ("SKUs") in North America and approximately 35,000 SKUs in Europe at published prices that the Company believes are below those of many of its competitors. The Company also offers various value-added products and services, such as practice management software. As of March 30, 1996, the Company had sold over 16,000 dental practice management software systems, more than any of its competitors. The Company's activities are conducted by the Company; by its subsidiaries, including Henry Schein UK Holdings Limited in the United Kingdom, Schein Dental Equipment Corp. ("Schein Dental Equipment") and S&S Dental Supply, Inc., each of which distributes dental products, and Zahn Holdings, Inc., which distributes dental laboratory products, as well as their respective subsidiaries; and by 50%-or-less owned entities, including HS Pharmaceutical, Inc. ("HS Pharmaceutical") and its subsidiaries, which are engaged in the manufacture and distribution of certain generic pharmaceutical products.

During 1995, the Company distributed over 8.5 million pieces of direct marketing materials (such as catalogs, flyers and order stuffers) to approximately 600,000 office-based healthcare practitioners. The Company supports its direct marketing efforts with approximately 400 telesales representatives who facilitate order processing and generate sales through direct and frequent contact with customers and with approximately 250 field sales consultants. The Company utilizes database segmentation techniques to more effectively market its products and services to customers. In recent years, the Company has continued to expand its management information systems and has established strategically located distribution centers in the United States and Europe to enable it to better serve its customers and increase its operating efficiency. The Company believes that these investments, coupled with its broad product offerings, enable the Company to provide its customers with a single source of supply for substantially all their healthcare product needs and provide them with convenient ordering and rapid, accurate and complete order fulfillment. The Company estimates that approximately 99% of all items ordered in the United States and Canada are shipped without back ordering, and that approximately 99% of all orders in the United States and Canada received before 6:00 p.m. are shipped on the same day the order is received. In addition, the Company estimates that over 90% of orders are received by its customers within two days of placing the order.

The Company intends to increase its sales to existing dental customers by intensifying its direct marketing efforts, by offering additional products and services, and by augmenting its direct marketing and telesales efforts with additional field sales consultants. The Company, which had traditionally focused primarily on the dental market, is currently utilizing these strategies and its cost-effective infrastructure to further expand into the medical and veterinary markets. Net sales to these markets

increased from \$59.9 million in 1991 to \$164.7 million in 1995, which represented 26.7% of the Company's net sales in 1995. In 1990, the Company established marketing and distribution capabilities in Europe. Net sales in international markets have increased from \$23.6 million in 1991 to \$107.7 million in 1995, which represented 17.5% of the Company's net sales in 1995.

The Company believes that there has been consolidation among healthcare products distributors serving office-based healthcare practitioners and that this consolidation will continue to create opportunities for the Company to expand through acquisitions and joint ventures. In recent years, the Company has acquired or entered into joint ventures with a number of companies engaged in businesses that are complementary to those of the Company.

In November 1995, the Company completed an initial public offering of 7,089,750 shares of its Common Stock. In the offering, the Company sold 5,090,000 shares of Common Stock at an initial public offering price of \$16.00 per share, and used the net proceeds primarily to repay amounts outstanding under the Company's revolving credit agreement. Since the initial public offering, the Company has completed five acquisitions and has entered into agreements to acquire an additional five companies. Together, these companies generated approximately \$80 million in sales in 1995, and collectively serve office-based healthcare practitioners in the dental, dental laboratory and medical markets. These acquisitions further the Company's acquisition growth strategies of leveraging its existing infrastructure, acquiring regional distributors with networks of field sales consultants and expanding the Company's network of equipment sales and service centers. As a result of the acquisitions that have been completed as well as additional hirings, the Company has increased its domestic field sales consultants from approximately 200 at the time of the initial public offering to approximately 250 at May 31, 1996. In addition, in December 1995, the Company introduced a new Windows(R) version of its dental practice management software and has sold over 2,700 such units through the first quarter of 1996. The Company has also recently introduced ArubA(R), an enhanced Windows(R) version of its computerized order entry system, which also contains an electronic catalog.

Prior to December 1992, the Company's business was conducted by Schein Holdings, Inc. ("Holdings"), whose subsidiary, Schein Pharmaceutical, Inc. ("Schein Pharmaceutical"), was engaged in the manufacture and distribution of multi-source pharmaceuticals. In December 1992, the Company was incorporated in Delaware and Holdings transferred to the Company all the assets and liabilities of its healthcare distribution business. Holdings retained Schein Pharmaceutical's business of manufacturing and distributing generic pharmaceuticals, and the Company did not assume any other liabilities of Holdings, including the liabilities associated with Schein Pharmaceutical's business. At the time of the transfer, the Company's and Schein Pharmaceutical's businesses were being conducted on a stand-alone basis. As part of the transfer of assets from Holdings to the Company, the Company received Holdings' 50% interest in HS Pharmaceutical. HS Pharmaceutical's business is conducted independently from that of Schein Pharmaceutical and was transferred to the Company because of its historical connection to the Company. Other than certain common stockholders, there is no affiliation between the Company and Schein Pharmaceutical, and all transactions between the Company and Schein Pharmaceutical are on an arms-length basis.

THE OFFERING

| | |
|---|--|
| Shares Offered by the Company..... | 2,880,500 |
| Shares Offered by the Selling Stockholders..... | 2,819,500 |
| Shares Outstanding Immediately After the Offering.... | 21,187,494(1) |
| Use of Proceeds to the Company..... | Repayment of indebtedness and general corporate purposes, including financing possible acquisitions. See "Use of Proceeds." |
| Nasdaq National Market Symbol..... | HSIC |

(1) Excludes an aggregate of 678,797 shares reserved for issuance upon the exercise of outstanding options granted under the Company's 1994 Stock Option Plan and 1996 Non-Employee Director Stock Option Plan and 49,838 shares reserved for issuance under the plans for options not yet granted. See "Management--Stock Option Plan" and "--Directors Stock Option Plan."

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA
(IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)

| | YEARS ENDED, | | | | | THREE MONTHS ENDED, | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|---|------------------|----------------------|---|
| | DECEMBER 28, 1991 | DECEMBER 26, 1992 | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | PRO FORMA, AS ADJUSTED(1) DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 | PRO FORMA, AS ADJUSTED(1) MARCH 30, 1996 |
| STATEMENT OF OPERATIONS DATA: | | | | | | | | | |
| Net sales..... | \$282,110 | \$ 362,925 | \$ 415,710 | \$ 486,610 | \$ 616,209 | \$671,448 | \$136,040 | \$185,359 | \$194,101 |
| Gross profit... | 82,273 | 105,699 | 121,017 | 142,688 | 190,584 | 205,289 | 40,315 | 54,949 | 57,315 |
| Selling, general & admin. expenses..... | 79,775 | 96,287 | 109,574 | 128,560 | 170,823 | 184,509 | 37,329 | 50,245 | 52,311 |
| Special charges(2)..... | 613 | 7,510 | 6,057 | 23,603 | 20,797 | -- | -- | -- | -- |
| Operating income (loss)..... | 1,885 | 1,902 | 5,386 | (9,475) | (1,036) | 20,780 | 2,986 | 4,704 | 5,004 |
| Net income (loss)..... | \$ 986 | \$ 555 | \$ 3,910 | \$ (10,876) | \$ (10,216) | \$ 11,323 | \$ 936 | \$ 2,464 | \$ 2,782 |
| Net income per common share... | | | | | | \$.63 | \$.08 | \$.13 | \$.14 |
| Average shares outstanding.... | | | | | | 17,952 | 12,184 | 18,670 | 19,728 |
| PRO FORMA INCOME DATA(3): | | | | | | | | | |
| Pro forma operating income..... | | | | \$ 14,128 | \$ 19,761 | | | | |
| Pro forma net income..... | | | | \$ 6,978 | \$ 9,407 | | | | |
| Pro forma net income per common share... | | | | \$.58 | \$.70 | | | | |
| Pro forma average shares outstanding.... | | | | 12,127 | 13,447 | | | | |
| SELECTED OPERATING DATA: | | | | | | | | | |
| Number of orders shipped..... | | 1,824,000 | 2,044,000 | 2,274,000 | 2,629,000 | | 627,932 | 749,724 | |
| Average order size..... | | \$ 199 | \$ 203 | \$ 214 | \$ 234 | | \$ 216 | \$ 247 | |

| | MARCH 30, 1996 | |
|----------------------------|----------------|---------------------------------|
| | ACTUAL | PRO FORMA, AS ADJUSTED(1) |
| BALANCE SHEET DATA: | | |
| Working capital..... | \$124,055 | \$188,471 |
| Total assets..... | 303,733 | 379,213 |
| Total debt..... | 63,647 | 35,265 |
| Minority interest..... | 4,361 | 4,361 |
| Stockholders' equity..... | 144,940 | 247,294 |

(1) Gives effect to (a) the Acquisitions that are described in Pro Forma Condensed Consolidated Financial Information and the borrowings under the Company's revolving credit facility to finance the Acquisitions, as if these transactions had occurred on January 1, 1995 for the purpose of the Statement of Operations Data and as if those transactions pending at March 30, 1996 had occurred at that date with respect to the Balance Sheet Data, (b) the sale of 5,090 shares of Common Stock at \$16.00 per share in connection with the Company's 1995 initial public offering and the application of the net proceeds therefrom to repay debt (including debt to finance the Acquisitions) as if the initial public offering had occurred on January 1, 1995 with respect to the Statement of Operations Data, and (c) the sale of a sufficient number of shares of Common Stock by the Company in this Offering at an estimated offering price of \$37.00 per share to repay debt (including debt to finance the Acquisitions) as if this Offering had occurred on November 3, 1995 for the purpose of the Statement of Operations Data and on March 30, 1996 with respect to the Balance Sheet Data. See "Pro Forma Condensed Consolidated Financial Information" and Notes 1 and 2 to the Company's Consolidated Financial Statements.

(2) Includes: (a) for 1991, special professional fees of \$0.6 million; (b) for 1992, cash payments of \$5.3 million for income taxes resulting from stock grants made to an executive officer of the Company and special professional fees of \$2.2 million; (c) for 1993, non-cash special management compensation charges of \$0.6 million in amortization of deferred compensation arising from

(Footnotes continued on following page)

(Footnotes continued from preceding page)

the 1992 stock grants, special professional fees of \$2.3 million, \$0.7 million paid in connection with an acquisition and \$2.5 million resulting from the buyout of employees' rights to future income contained in their employment agreements; (d) for 1994, non-cash special management compensation arising from accelerated amortization of deferred compensation arising from the 1992 stock grants to an executive officer of the Company of \$17.3 million, which included a 1994 mark-to-market adjustment (because of certain repurchase features) of \$9.1 million, due to the resolution, with the closing of the Reorganization, of certain contingencies surrounding the issuance of the stock grants, non-cash special management compensation charges of \$1.6 million (net of prior accruals of approximately \$1.9 million under an executive incentive plan) arising from stock issuances to certain other senior management of the Company, valued at \$3.5 million, cash payments for income taxes of approximately \$2.4 million resulting from these stock issuances, \$0.3 million for additional income taxes resulting from the 1992 stock grants and special professional fees of \$2.0 million; and (e) for 1995, non-cash special management compensation charges of \$17.5 million arising from final mark-to-market adjustments (reflecting an increase in estimated market value from 1994 to the initial public offering price of \$16.00 per share) for stock grants made to an executive officer of the Company in 1992 and other stock issuances made to certain other senior management of the Company (because of certain repurchase features which expired with the initial public offering), an approximate \$2.8 million non-cash special management compensation charge (also based on the initial public offering price of \$16.00 per share) relating to compensatory options granted in 1995 and a cash payment of \$0.5 million for additional income taxes resulting from stock issuances. Special charges have been eliminated in the pro forma, as adjusted columns. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Reorganization" and "Management--Stock Option Plan."

(3) Reflects the pro forma elimination of special charges incurred in 1994 and 1995 for special management compensation of \$21.6 million and \$20.8 million, respectively, and special professional fees incurred in 1994 of \$2.0 million arising from the Reorganization, and the related tax effects of \$5.8 million and \$1.2 million for 1994 and 1995, respectively. See "Reorganization."

The Company's principal executive offices are located at 135 Duryea Road, Melville, New York 11747, and its telephone number is 516-843-5500.

As used in this Prospectus, the term the "Company" refers to Henry Schein, Inc., a Delaware corporation, and its subsidiaries, 50% owned companies and predecessor, unless otherwise stated.

RISK FACTORS

In addition to the other information in this Prospectus, the following factors should be considered carefully in evaluating an investment in the shares of Common Stock offered hereby.

Control by Insiders. After the completion of this Offering, Stanley M. Bergman, Chairman of the Board, Chief Executive Officer and President of the Company, will own approximately, directly or indirectly, 6.8% of the outstanding Common Stock and by virtue of a Voting Trust Agreement (which expires December 31, 1998 unless terminated earlier) with certain of the Company's current principal stockholders, will have the right to vote up to an aggregate of approximately 39.7% of the outstanding shares of Common Stock. In addition, until December 31, 1998, under certain circumstances, Mr. Bergman has the right to direct the nomination of a majority of the nominees to the Company's Board of Directors and, from January 1, 1999 until December 31, 2003, Mr. Bergman has the right to direct the nomination of all, or, under certain circumstances, four (out of nine), of the nominees to the Company's Board of Directors, and in all such events certain of the current principal stockholders are required to vote for such nominees. Because of these voting arrangements, Mr. Bergman has significant influence over matters requiring the approval of the Board of Directors or stockholders of the Company. Under certain circumstances, these voting arrangements may terminate prior to December 31, 1998. In that event, certain of the Company's current principal stockholders may be able to significantly influence all matters requiring stockholder approval, including the election of directors. The foregoing, together with certain provisions in the Company's Amended and Restated Certificate of Incorporation, including a provision thereof requiring the approval of holders of 60% of the outstanding stock of the Company entitled to vote prior to consummation of a merger or sale of substantially all the assets of the Company, may make it more difficult for a third party to acquire, or may discourage acquisition bids for the Company and could limit the price that certain investors might be willing to pay in the future for shares of Common Stock. See "Reorganization," "Principal and Selling Stockholders" and "Description of Capital Stock."

Competition. The distribution of healthcare products to office-based healthcare practitioners is intensely competitive. The Company competes with numerous other companies, including several major manufacturers and distributors. Some of the Company's competitors have greater financial and other resources than the Company. Most of the Company's products are available from several sources, and the Company's customers tend to have relationships with several distributors. In addition, competitors of the Company could obtain rights to market particular products to the exclusion of the Company. Manufacturers also could increase their efforts to sell directly to end-users, thereby by-passing distributors such as the Company. Consolidation among healthcare products distributors serving office-based healthcare practitioners could result in existing competitors increasing their market position through acquisitions or joint ventures, which may materially adversely affect operating results. In addition, new competitors may emerge which could materially adversely affect the Company's operating results. There can be no assurance the Company will not face increased competition in the future. See "Business--Competition."

Expansion through Acquisitions and Joint Ventures. The Company intends to expand in its domestic and international markets, in part, through acquisitions and joint ventures. However, the Company's ability to successfully expand through acquisitions and joint ventures will depend upon the availability of suitable acquisition or joint venture candidates at prices acceptable to the Company, the Company's ability to consummate such transactions and the availability of financing on terms acceptable to the Company. There can be no assurance that the Company will be effective in making acquisitions or joint ventures. Such transactions involve numerous risks, including possible adverse short-term effects on the Company's operating results or the market price of the Company's Common Stock. Certain of the Company's acquisitions and future acquisitions may also give rise to an obligation by the Company to make contingent payments or to satisfy certain repurchase obligations, which payments could have an adverse financial effect on the Company. In addition, integrating acquired

businesses and joint ventures may result in a loss of customers or product lines of the acquired businesses or joint ventures, and also requires significant management attention and may place significant demands on the Company's operations, information systems and financial resources. In 1996, the Company completed five acquisitions and entered into agreements to acquire five other companies. Five of these completed or pending acquisitions are reflected in the Pro Forma Condensed Consolidated Statements of Operations and account for 4.5% and 6.0% of pro forma net sales and operating income, respectively, for the three months ended March 30, 1996. The failure to effectively integrate acquired businesses and joint ventures with the Company's operations could adversely affect the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business--Growth Strategy," "--Sales and Marketing" and "--Employees."

Fluctuations in Quarterly Earnings. The Company's business has been subject to seasonal and other quarterly influences. Net sales and operating profits have been generally higher in the fourth quarter due to the timing of sales of software, year-end promotions, and purchasing patterns of office-based healthcare practitioners and have been generally lower in the first quarter due primarily to increased purchases in the prior quarter. Quarterly results may also be adversely affected by a variety of other factors, including the timing of acquisitions and related costs, the release of software enhancements, promotions, adverse weather, and fluctuations in exchange rates associated with international operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Practice Management Software. During 1995, approximately \$17.2 million, or 2.8%, and \$15.7 million, or 8.3%, of the Company's net sales and gross profit, respectively, were derived from sales of the Company's Easy Dental(R) Plus and AVImark(R) practice management software to United States dental and veterinary office-based healthcare practitioners, respectively. Competition among companies supplying practice management software is intense and increasing. The Company's future sales of practice management software will depend, among other factors, upon the effectiveness of the Company's sales and marketing programs, the Company's ability to enhance its products and the ability to provide ongoing technical support. There can be no assurance that the Company will be successful in introducing and marketing software enhancements or new software, or that such software will be released on time or accepted by the market. The Company's software products, like software products generally, may contain undetected errors or bugs when introduced or as new versions are released. While the Company's current products have not experienced significant post-release software errors or bugs to date, there can be no assurance that problems will not occur in the future. Any such defective software may result in increased expenses related to the software and could adversely affect the Company's relationship with the customers using such software. The Company does not have any patents on its software and relies upon copyright, trademark and trade secret laws; there can be no assurance that such legal protections will be available or enforceable to protect its software products. The Company's software products are generally distributed under "shrink-wrap" licenses that are not signed by the customer and therefore may be unenforceable in certain jurisdictions. See "Business-- Growth Strategy" and "--Products."

Foreign Operations. During 1995, approximately 17.5% and 17.3% of the Company's net sales and gross profit, respectively, were derived from sales to customers located outside the United States and Canada. The Company's international businesses are subject to a number of inherent risks, including difficulties in opening and managing foreign offices and distribution centers; establishing channels of distribution; fluctuations in the value of foreign currencies; import/export duties and quotas; and unexpected regulatory, economic and political changes in foreign markets. There can be no assurance that these factors will not adversely affect the Company's operating results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business--Growth Strategy" and "--Distribution."

Dependence on Senior Management. The Company's future performance will depend, in part, upon the efforts and abilities of certain members of senior management, particularly Stanley M. Bergman, Chairman, Chief Executive Officer and President, James P. Breslawski, Executive Vice President, and Steven Paladino, Senior Vice President and Chief Financial Officer. The loss of service of one or more of these persons could have an adverse effect on the Company's business. As of January 1992, the Company entered into an employment agreement with Mr. Bergman for a term of eight years. The success of certain acquisitions and joint ventures effected by the Company may depend, in part, on the Company's ability to retain key management of the acquired business or joint venture. See "Management--Employment and Other Agreements."

Changes in Healthcare Industry. In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs, including potential national healthcare reform, trends toward managed care, cuts in Medicare, consolidation of healthcare distribution companies and collective purchasing arrangements by office-based healthcare practitioners. The Company's inability to react effectively to these and other changes in the healthcare industry could adversely affect its operating results. The Company cannot predict whether any healthcare reform efforts will be enacted and what effect any such reforms may have on the Company or its customers and suppliers. See "Business--Industry."

Government Regulation. The Company and its customers and suppliers are subject to extensive Federal and state regulation in the United States, as well as regulation by foreign governments, and the Company cannot predict the extent to which future legislative and regulatory developments concerning their practices and products or the healthcare industry may affect the Company. In addition, the Company, as a marketer, distributor and manufacturer of healthcare products (including its 50%-owned company, HS Pharmaceutical, which distributes and manufactures generic pharmaceuticals), is required to obtain the approval of Federal and foreign governmental agencies, including the Food and Drug Administration, prior to marketing, distributing and manufacturing certain of those products, and it is possible that the Company may be prevented from selling new manufactured products should a competitor receive prior approval. Further, the Company's plants and operations are subject to review and inspection by local, state, Federal and foreign governmental entities. The Company's suppliers are also subject to similar governmental requirements. See "Business--Government Regulation."

Risk of Product Liability Claims and Insurance. The sale, manufacture and distribution of healthcare products involves a risk of product liability claims and adverse publicity. Although the Company has not been subject to a significant number of such claims or incurred significant liabilities due to such claims, there can be no assurance that this will continue to be the case. In addition, the Company maintains product liability insurance coverage and has certain rights to indemnification from third parties, but there can be no assurance that claims outside of or exceeding such coverage will not be made, that the Company will be able to continue to obtain insurance coverage or that the Company will be successful in obtaining indemnification from such third parties. The Company also may not be able to maintain existing coverage or obtain, if it determined to do so, insurance providing additional coverage at reasonable rates. As of May 31, 1996, the Company was named a defendant in 12 product liability cases. The Company believes that none of the currently pending cases will have a material adverse effect on the Company. See "Business--Legal Matters."

Cost of Shipping. Shipping is a significant expense in the operation of the Company's business. The Company ships its products to customers generally by United Parcel Service and other delivery services, and typically bears the cost of shipment. Accordingly, any significant increase in shipping rates could have an adverse effect on the Company's operating results. Similarly, strikes or other service interruptions by such shippers could adversely affect the Company's ability to deliver products on a timely basis. See "Business--Distribution."

Reliance on Telephone and Computer Systems. Because the Company believes that its success depends, in part, upon its telesales and direct marketing efforts and its ability to provide prompt, accurate and complete service to its customers on a price-competitive basis, any continuing disruption in either its computer system or its telephone system could adversely affect its ability to receive and process customer orders and ship products on a timely basis, and could adversely affect the Company's relations with its customers. See "Business--Customer Service."

State Sales Tax Collection. As of May 31, 1996, the Company collected sales tax or other similar tax only on sales of products to residents of 15 states. Various other states have sought to impose on direct marketers the burden of collecting state sales taxes on the sale of products shipped to those states' residents. A successful assertion by a state or states that the Company should have collected or be collecting state sales taxes on the sale of products shipped to that state's residents could have an adverse effect on the Company. See "Business--Distribution."

Potential Volatility of Stock Price. The market price of the Company's Common Stock may be subject to fluctuations in response to quarter-to-quarter variations in operating results, changes in earnings estimates by investment analysts or changes in business or regulatory conditions affecting the Company, its customers, its suppliers or its competitors. The stock market historically has experienced volatility which has particularly affected the market prices of securities of many companies in the healthcare industry and which sometimes has been unrelated to the operating performances of such companies. These market fluctuations may adversely affect the market price of the Common Stock.

Anti-takeover Provisions; Possible Issuance of Preferred Stock. Certain provisions of the Company's Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws may make it more difficult for a third party to acquire, or may discourage acquisition bids for, the Company and could limit the price that certain investors might be willing to pay in the future for shares of the Company's Common Stock. These provisions, among other things, (i) require the affirmative vote of the holders of at least 60% of the shares entitled to vote to approve a sale, lease, transfer or exchange of all or substantially all of the assets of the Company, (ii) require the affirmative vote of the holders of at least 66 2/3% of the shares entitled to vote to remove a director or to fill a vacancy on the Board of Directors, (iii) require the affirmative vote of the holders of at least 80% of the shares entitled to vote to amend or repeal certain provisions of the Amended and Restated Certificate of Incorporation and (iv) require the affirmative vote of at least 66 2/3% of the Board of Directors to amend or repeal the Amended and Restated By-Laws of the Company. In addition, the rights of holders of Common Stock will be subject to, and may be adversely affected by, the rights of any holders of Preferred Stock that may be issued in the future and that may be senior to the rights of the holders of Common Stock. Under certain conditions, Section 203 of the Delaware General Corporation Law would prohibit the Company from engaging in a "business combination" with an "interested stockholder" (in general, a stockholder owning 15% or more of the Company's outstanding voting stock) for a period of three years. In addition, the Company's 1994 Stock Option Plan and 1996 Non-Employee Director Stock Option Plan provide for accelerated vesting of stock options upon a change in control of the Company, and in certain instances, agreements between the Company and its executive officers provide for increased severance payments if such executive officers are terminated without cause within two years after a change in control of the Company. See "Description of Capital Stock," "Management--Employment and Other Agreements," "--Stock Option Plan" and "--Directors Stock Option Plan."

Shares Eligible for Future Sale. Future sales of substantial amounts of Common Stock (including shares issued upon the exercise of stock options) by the Company's current stockholders (including certain executive officers, employees and affiliates of the Company) after this Offering, or the perception that such sales could occur, could adversely affect the market price for the Common Stock. The Company and its directors, executive officers and certain stockholders have agreed, subject to certain exceptions described in "Underwriting," not to offer, sell or otherwise dispose of any shares of Common Stock or any securities convertible into Common Stock or register for sale under the Securities Act of

1933, as amended (the "Securities Act"), any Common Stock for a period of 120 days after the date of this Prospectus (the "Lock-Up Period"), without the prior written consent of the Representatives of the Underwriters. After the termination of the Lock-Up Period, 8,003,679 shares of Common Stock that will be owned by certain of the Company's current stockholders, constituting approximately 37.8% of the Company's then outstanding shares of Common Stock, may be eligible for immediate resale in the public market pursuant to Rule 144 under the Securities Act. In connection with the Reorganization, the Company entered into a Registration Rights Agreement with certain of the current stockholders. The Company has granted certain registration rights in connection with one of the Acquisitions, and may grant additional registration rights in connection with future acquisitions. See "Reorganization," "Principal and Selling Stockholders" and "Underwriting."

Reorganization. In connection with the reorganization of the Company's ownership and the various agreements entered into in connection therewith between 1992 and 1994, certain stockholders of the Company made customary representations, warranties and covenants and provided for indemnification with respect to the structure of the transaction and for breaches of such representations, warranties and covenants. No claims for such indemnification have arisen to date. Applicable accounting rules provide that certain amounts paid or assumed by such stockholders on behalf of the Company in satisfaction of indemnity obligations may be required to be recorded by the Company for financial reporting purposes as an expense. Accordingly, although any such payment or assumption may not materially impact the Company's cash flow, the Company's results of operations would be negatively impacted in the period incurred. In addition, there can be no assurance that such stockholders will have the resources in the future to meet their respective indemnification obligations, if any, under such agreements. Also, in connection with the Reorganization, the Company, Holdings and Marvin H. Schein, a director and principal stockholder of the Company, agreed to terminate a lifetime consulting agreement entered into in 1982 between the Company's predecessor and Mr. Schein, and the Company and Mr. Schein agreed to continue the consulting arrangement on the terms set forth in a new lifetime consulting agreement (the "Consulting Agreement"). The current Consulting Agreement modified certain of the terms of the 1982 agreement, including the elimination of a provision limiting Mr. Schein's compensation to \$100,000 per annum if the Company's pre-tax income were less than \$3.5 million for two consecutive years. The Consulting Agreement currently provides for initial compensation of \$258,000 per year, increasing \$25,000 every fifth year beginning in 1997. The Consulting Agreement also provides that Mr. Schein will participate in all benefit, compensation, welfare and perquisite plans, policies and programs generally available to either the Company's employees or the Company's senior executive officers, excluding the Company's Stock Option Plan, that Mr. Schein's spouse, and his children until they attain the age of 21, will be covered by the Company's health plan, and that the Company will provide Mr. Schein with the use of an automobile and expenses related thereto. The Consulting Agreement was originally entered into as part of a recapitalization of the Company's predecessor in 1982 among Mr. Schein and its other stockholders, and to secure for the Company the consulting services of Mr. Schein, who had served the Company in various executive capacities for more than the prior twenty years. See "Reorganization."

Forward-Looking Statements. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This prospectus contains forward-looking statements based on current expectations that could be affected by the risks and uncertainties involved in the Company's business, including the risks and uncertainties set forth above. Subsequent written or oral statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this prospectus and those in the Company's reports filed with the Securities and Exchange Commission (the "Commission").

USE OF PROCEEDS

The net proceeds to be received by the Company from this Offering, after deducting the estimated underwriting discount and expenses of the Offering payable by the Company, are estimated to be \$101.0 million assuming a public offering price of \$37.00 per share. The Company intends to use the net proceeds of the Offering (i) to repay a portion of the amount outstanding under the Company's revolving credit agreement (under which approximately \$53.2 million principal amount was outstanding as of May 31, 1996), (ii) to repay a \$2.4 million note payable, incurred in connection with a 1995 acquisition (with interest at prime minus 1%, maturing October 2000), and (iii) for general corporate purposes, including financing possible acquisitions. In addition, depending upon their respective closing dates, certain of the proceeds may be used to fund one or more of the Company's pending acquisitions. The Company's revolving credit agreement, which terminates July 1, 1999, provides for interest to be paid at varying rates, depending on certain financial covenants, ranging from LIBOR plus 0.63% to prime plus 1.0% per annum. See "Pro Forma Condensed Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company will not receive any proceeds from the sale of Common Stock by the Selling Stockholders.

DIVIDEND POLICY

Except for a dividend paid in 1992 at the time of the separation of the Company from Holdings, the Company has never paid a cash dividend on its Common Stock. The Company does not anticipate paying any cash dividends on its Common Stock in the foreseeable future; it intends to retain its earnings to finance the expansion of its business and for general corporate purposes. Any payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon the earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends and other factors. The revolving credit agreement and the note issued in connection with the acquisition of Beheermaatschappij Van den Braak en De Vos B.V. ("Van den Braak") limit the distribution of dividends without the prior written consent of the lenders. See "Reorganization."

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is quoted on the Nasdaq National Market under the symbol "HSIC." The following table sets forth, for the fiscal periods indicated, the high and low sale prices of the Common Stock as reported by Nasdaq.

| | HIGH | LOW |
|---|----------|----------|
| | ----- | ----- |
| 1995 | | |
| Fourth Quarter (from November 3, 1995)..... | \$29 1/2 | \$20 3/8 |
| 1996 | | |
| First Quarter..... | \$30 3/4 | \$23 1/2 |
| Second Quarter (through May 31, 1996)..... | \$39 1/4 | \$27 1/2 |

On May 31, 1996, there were approximately 127 holders of record of the Company's Common Stock. The last reported sale price per share of the Common Stock on May 31, 1996 on the Nasdaq National Market was \$37.00.

CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company at March 30, 1996, on (i) a historical basis and (ii) a pro forma basis, as adjusted, as if the Other Recent and Pending Acquisitions had occurred on March 30, 1996 with adjustment to give effect to (a) the issuance of 45,900 shares of Common Stock in connection with one of the Acquisitions, (b) the borrowings to fund certain of the Acquisitions and (c) the sale by the Company of shares of Common Stock offered hereby at \$37.00 per share and the application of a portion of the estimated net proceeds of such sale to repay debt (including debt incurred to finance certain of the Acquisitions). This table should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Prospectus. See "Use of Proceeds" and "Pro Forma Condensed Consolidated Financial Information."

| | MARCH 30, 1996 | |
|---|----------------|---------------------------|
| | ACTUAL | PRO FORMA, AS ADJUSTED |
| | (IN THOUSANDS) | |
| Short-term debt: | | |
| Bank credit lines..... | \$ 8,085 | \$ 8,085 |
| Current maturities of long-term debt..... | 3,861 | 3,879 |
| Total short-term debt..... | \$ 11,946 | \$ 11,964 |
| Long-term debt, less current maturities: | | |
| Revolving credit agreement..... | \$ 39,000 | \$ 13,000 |
| Other..... | 12,701 | 10,301 |
| Total long-term debt..... | 51,701 | 23,301 |
| Minority interest..... | 4,361 | 4,361 |
| Stockholders' equity: | | |
| Common stock, \$.01 par value; 60,000,000 shares authorized; 18,358,673 shares issued, actual; 21,285,073 shares issued, pro forma, as adjusted(1)..... | 183 | 213 |
| Additional paid-in capital..... | 123,866 | 226,190 |
| Retained earnings..... | 22,210 | 22,210 |
| Treasury stock, at cost, 51,679 shares..... | (769) | (769) |
| Foreign currency translation adjustment..... | (550) | (550) |
| Total stockholders' equity..... | 144,940 | 247,294 |
| Total capitalization..... | \$201,002 | \$ 274,956 |

(1) Excludes (a) 221,397 shares of Common Stock reserved for issuance upon the exercise of outstanding options at an exercise price of \$4.21 per share, 402,400 shares reserved for issuance at an exercise price of \$16.00 per share, 35,000 shares reserved for issuance at an exercise price of \$29.00 per share and 10,000 shares reserved for issuance at an exercise price of \$31.00 per share granted under the Company's 1994 Stock Option Plan, and an additional 9,838 shares reserved for issuance under such Plan as of May 31, 1996, which additional shares may be issued at an exercise price equal to not less than the fair market value at the time of grant; and (b) 10,000 shares of Common Stock reserved for issuance upon the exercise of outstanding options at an exercise price of \$29.00 per share (the fair market value of the Common Stock on the date of grant) granted under the 1996 Non-Employee Directors Stock Option Plan, and an additional 40,000 shares reserved for issuance under such Plan as of May 31, 1996, which additional shares may be issued at an exercise price equal to not less than the fair market value at the time of grant. See "Management--Stock Option Plan" and "--Directors Stock Option Plan."

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following selected consolidated financial information with respect to the Company's financial position as of December 31, 1994 and December 30, 1995, and its results of operations for the years ended December 25, 1993, December 31, 1994 and December 30, 1995, has been derived from the audited consolidated financial statements of the Company appearing elsewhere in this Prospectus. The selected consolidated financial information with respect to the Company's results of operations for the years ended December 28, 1991 and December 26, 1992 and with respect to the Company's financial position as of December 28, 1991, December 26, 1992 and December 25, 1993 has been derived from audited financial statements of the Company that are not included in this Prospectus. The selected consolidated financial information for the three months ended April 1, 1995 and March 30, 1996 has been derived from the unaudited consolidated financial statements of the Company, which, in the opinion of management, include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the information set forth therein. The results for the three months ended March 30, 1996 are not necessarily indicative of the results that may be expected for the full year. The selected financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Prospectus. The Selected Operating Data, Net Sales by Market Data and Balance Sheet Data presented below have not been audited.

| | YEARS ENDED, | | | | | THREE MONTHS ENDED, | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|---|------------------|-------------------|
| | DECEMBER 28, 1991 | DECEMBER 26, 1992 | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | PRO FORMA, AS ADJUSTED(1) DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| (IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA) | | | | | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | | |
| Net sales..... | \$282,110 | \$ 362,925 | \$ 415,710 | \$ 486,610 | \$ 616,209 | \$671,448 | \$136,040 | \$ 185,359 |
| Cost of sales..... | 199,837 | 257,226 | 294,693 | 343,922 | 425,625 | 466,159 | 95,725 | 130,410 |
| Gross profit..... | 82,273 | 105,699 | 121,017 | 142,688 | 190,584 | 205,289 | 40,315 | 54,949 |
| Selling, general and administrative expenses..... | 79,775 | 96,287 | 109,574 | 128,560 | 170,823 | 184,509 | 37,329 | 50,245 |
| Special management compensation(2)..... | -- | 5,283 | 617 | 21,596 | 20,797 | -- | -- | -- |
| Special contingent consideration(3)..... | -- | -- | 3,216 | -- | -- | -- | -- | -- |
| Special professional fees(4)..... | 613 | 2,227 | 2,224 | 2,007 | -- | -- | -- | -- |
| Operating income(loss)..... | 1,885 | 1,902 | 5,386 | (9,475) | (1,036) | 20,780 | 2,986 | 4,704 |
| Interest income..... | 1,374 | 1,210 | 856 | 251 | 475 | 475 | 69 | 395 |
| Interest expense..... | (2,196) | (2,953) | (3,216) | (3,756) | (5,833) | (3,344) | (1,288) | (961) |
| Other income (expense)--net..... | 312 | 255 | (634) | 541 | 276 | 321 | 97 | (97) |
| Income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates..... | 1,375 | 414 | 2,392 | (12,439) | (6,118) | 18,232 | 1,864 | 4,041 |
| Taxes on income..... | 827 | 622 | 1,351 | (1,630) | 5,126 | 7,810 | 781 | 1,783 |
| Minority interest in net income (loss) of subsidiaries..... | (325) | (249) | 318 | 561 | 509 | 524 | 172 | (70) |
| Equity in earnings of affiliates..... | 113 | 514 | 1,296 | 494 | 1,537 | 1,425 | 25 | 136 |
| Income (loss) before cumulative effect of accounting change..... | 986 | 555 | 2,019 | (10,876) | (10,216) | 11,323 | 936 | 2,464 |
| Cumulative effect of accounting change..... | -- | -- | 1,891 | -- | -- | -- | -- | -- |
| Net income (loss)..... | \$ 986 | \$ 555 | \$ 3,910 | (\$ 10,876) | (\$ 10,216) | \$ 11,323 | \$ 936 | \$ 2,464 |
| Net income per common share..... | | | | | | \$.63 | \$.08 | \$.13 |
| Average shares outstanding..... | | | | | | 17,952 | 12,184 | 18,670 |
| PRO FORMA INCOME DATA(5): | | | | | | | | |
| Pro forma operating income..... | | | | \$ 14,128 | \$ 19,761 | | | |
| Pro forma net income.... | | | | \$ 6,978 | \$ 9,407 | | | |
| Pro forma net income per common share..... | | | | \$.58 | \$.70 | | | |
| Pro forma average shares outstanding..... | | | | 12,127 | 13,447 | | | |

PRO FORMA,
AS
ADJUSTED(1)

MARCH 30,
1996

STATEMENT OF OPERATIONS

| | |
|---|------------|
| DATA: | |
| Net sales..... | \$ 194,101 |
| Cost of sales..... | 136,786 |
| ----- | |
| Gross profit..... | 57,315 |
| Selling, general and administrative expenses..... | 52,311 |
| Special management compensation(2)..... | -- |
| Special contingent consideration(3)..... | -- |
| Special professional fees(4)..... | -- |
| ----- | |
| Operating income(loss)..... | 5,004 |
| Interest income..... | 395 |
| Interest expense..... | (682) |
| Other income (expense)--net..... | (64) |
| ----- | |
| Income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates..... | 4,653 |
| Taxes on income..... | 2,044 |
| Minority interest in net income (loss) of subsidiaries..... | (37) |
| Equity in earnings of affiliates..... | 136 |
| ----- | |
| Income (loss) before cumulative effect of accounting change..... | 2,782 |
| Cumulative effect of accounting change..... | -- |
| ----- | |
| Net income (loss)..... | \$ 2,782 |
| ----- | |
| ----- | |
| Net income per common share..... | \$.14 |
| Average shares outstanding..... | 19,728 |
| ----- | |
| PRO FORMA INCOME | |
| DATA(5): | |
| Pro forma operating income..... | |
| Pro forma net income.... | |
| Pro forma net income per common share..... | |
| Pro forma average shares outstanding..... | |

| | YEARS ENDED, | | | | | THREE MONTHS ENDED, | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|---|------------------|
| | DECEMBER 28, 1991 | DECEMBER 26, 1992 | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | PRO FORMA, AS ADJUSTED(1) DECEMBER 30, 1995 | APRIL 1, 1995 |

(IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)

SELECTED OPERATING DATA:

| | | | | | | | | |
|-------------------------------|--|-----------|-----------|-----------|-----------|--|---------|---------|
| Number of orders shipped..... | | 1,824,000 | 2,044,000 | 2,274,000 | 2,629,000 | | 627,932 | 749,724 |
| Average order size..... | | \$ 199 | \$ 203 | \$ 214 | \$ 234 | | \$ 216 | \$ 247 |

NET SALES BY MARKET

| DATA: | | | | | | | | |
|-----------------------|-----------|------------|------------|------------|------------|--|-----------|------------|
| Dental(6)..... | \$195,047 | \$ 228,264 | \$ 245,616 | \$ 266,212 | \$ 317,933 | | \$ 71,828 | \$ 94,536 |
| Medical..... | 43,975 | 58,314 | 78,628 | 97,914 | 134,979 | | 26,962 | 40,127 |
| Veterinary..... | 15,974 | 19,481 | 24,312 | 27,872 | 29,680 | | 6,650 | 8,458 |
| Technology(7)..... | 3,470 | 5,825 | 7,738 | 10,685 | 25,914 | | 5,631 | 5,965 |
| International(8)..... | 23,644 | 51,041 | 59,416 | 83,927 | 107,703 | | 24,969 | \$ 36,273 |
| | \$282,110 | \$ 362,925 | \$ 415,710 | \$ 486,610 | \$ 616,209 | | \$136,040 | \$ 185,359 |

BALANCE SHEET DATA (AT

| PERIOD END): | | | | | | | | |
|--------------------------|-----------|-----------|-----------|-----------|------------|--|-----------|------------|
| Working capital..... | \$ 28,999 | \$ 28,276 | \$ 74,125 | \$ 76,392 | \$ 103,899 | | \$ 82,341 | \$ 124,055 |
| Total assets..... | 114,453 | 137,957 | 160,793 | 190,020 | 296,867 | | 193,496 | 303,733 |
| Total debt..... | 24,835 | 41,373 | 56,567 | 61,138 | 43,049 | | 66,959 | 63,647 |
| Minority interest..... | 338 | 411 | 1,051 | 1,823 | 4,547 | | 2,097 | 4,361 |
| Stockholders' equity.... | 39,143 | 40,117 | 43,897 | 39,567 | 142,851 | | 41,818 | 144,940 |

PRO FORMA,
AS
ADJUSTED(1)

MARCH 30,
1996

SELECTED OPERATING DATA:

| | |
|-------------------------------|--|
| Number of orders shipped..... | |
| Average order size..... | |

NET SALES BY MARKET

| DATA: |
|-----------------------|
| Dental(6)..... |
| Medical..... |
| Veterinary..... |
| Technology(7)..... |
| International(8)..... |

BALANCE SHEET DATA (AT

| PERIOD END): | |
|--------------------------|------------|
| Working capital..... | \$ 188,471 |
| Total assets..... | 379,213 |
| Total debt..... | 35,265 |
| Minority interest..... | 4,361 |
| Stockholders' equity.... | 247,294 |

(1) Gives effect to (a) the Acquisitions that are described in Pro Forma Condensed Consolidated Financial Information and the borrowings under the Company's revolving credit facility to finance the Acquisitions, as if these transactions had occurred on January 1, 1995 for the purpose of the Statement of Operations Data and as if those transactions pending at March 30, 1996 had occurred at that date with respect to the Balance Sheet Data, (b) the sale of 5,090 shares of Common Stock at \$16.00 per share in connection with the Company's 1995 initial public offering and the application of the net proceeds therefrom to repay debt (including debt to finance the Acquisitions) as if the initial public offering had occurred on January 1, 1995 with respect to the Statement of Operations Data, and (c) the sale of a sufficient number of shares of Common Stock by the Company in this Offering at an estimated offering price of \$37.00 per share to repay debt (including debt to finance the Acquisitions) as if this Offering had occurred on November 3, 1995 for the purpose of the Statement of Operations Data and on March 30, 1996 with respect to the Balance Sheet Data. See "Pro Forma Condensed Consolidated Financial Information" and Notes 1 and 2 to the Company's Consolidated Financial Statements.

(2) Includes: (a) for 1992, cash payments of \$5.3 million for income taxes resulting from stock grants made to an executive officer of the Company; (b) for 1993, non-cash special management compensation charges of \$0.6 million in amortization of deferred compensation arising from the 1992 stock grants; (c) for 1994, non-cash special management compensation arising from accelerated amortization of deferred compensation arising from the 1992 stock grants to an executive officer of the Company of \$17.3 million, which

included a 1994 mark-to-market adjustment (because of certain repurchase features) of \$9.1 million, due to the resolution, with the closing of the Reorganization, of certain contingencies surrounding the issuance of the stock grants, non-cash special management compensation charges of \$1.6 million (net of prior accruals of approximately \$1.9 million under an executive incentive plan) arising from stock issuances to certain other senior management of the Company, valued at \$3.5 million, cash payments for income taxes of approximately \$2.4 million resulting from these stock issuances and \$0.3 million for additional income taxes resulting from the 1992 stock grants; and (d) for 1995, non-cash special management compensation charges of \$17.5 million arising from final mark-to-market adjustments (reflecting an increase in estimated market value from 1994 to the initial public offering price of \$16.00 per share) for stock grants made to an executive officer of the Company in 1992 and other stock issuances made to certain other senior management of the Company (because of certain repurchase features which expired with the initial public offering), an approximate \$2.8 million non-cash special management compensation charge (also based on the initial public offering price of \$16.00 per share) relating to compensatory options granted in 1995 and a cash payment of \$0.5 million for additional income taxes resulting from such stock issuances. Special management compensation has been eliminated in the pro forma, as adjusted columns. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Reorganization" and "Management--Stock Option Plan."

- (3) Includes \$0.7 million paid in connection with an acquisition and \$2.5 million resulting from the buyout of employees' rights to future income contained in their employment agreements. Special contingent consideration has been eliminated in the pro forma, as adjusted columns. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (4) Includes special professional fees incurred by the Company in connection with the Reorganization. Special professional fees have been eliminated in the pro forma, as adjusted columns. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Reorganization."
- (5) Reflects the pro forma elimination of special charges incurred in 1994 and 1995 for special management compensation of \$21.6 million and \$20.8 million, respectively, and special professional fees incurred in 1994 of \$2.0 million arising from the Reorganization, and the related tax effect of \$5.8 million and \$1.2 million for 1994 and 1995, respectively. See "Reorganization."
- (6) Dental consists of the Company's dental sales in the United States and Canada.
- (7) Technology consists of the Company's practice management software sales and sales of certain other value-added products and services.
- (8) International consists of sales (substantially all dental) to customers outside the United States and Canada, primarily in Europe.

PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)

The Pro Forma Condensed Consolidated Financial Information reflects (1) financial information with respect to (i) the Company's 1995 acquisition of Veratex (for the period set forth below), (ii) the Company's acquisition of, or agreement to acquire, five other businesses in 1996 consisting of a 100% interest in three companies which had net sales of approximately \$31.4 million in 1995 and an 80% interest in one company which had net sales of \$4.0 million in 1995 and (iii) the acquisition by one of the Company's 50% owned companies of a 100% interest in a company which had net sales of approximately \$2.9 million in 1995 (collectively, the acquisitions in (ii) and (iii) are referred to as the "Other Recent and Pending Acquisitions" and together with Veratex, such acquisitions are referred to as the "Acquisitions"), and (2) the sale of 5,090,000 shares of Common Stock at \$16.00 per share in the Company's 1995 initial public offering and the application of the net proceeds therefrom to reduce debt, including debt to finance the Acquisitions (for the period set forth below). Two of the companies included in the Other Recent and Pending Acquisitions distribute dental supplies and equipment, one distributes dental laboratory equipment and supplies, one manufactures and distributes dental products and one distributes medical supplies. Since December 30, 1995, the Company also acquired or entered into agreements to acquire five other companies, the financial information for which is not reflected in the Pro Forma Condensed Consolidated Financial Information and is not material either individually or in the aggregate. The aggregate cash purchase price for the Acquisitions is expected to be approximately \$30.9 million, payable \$22.8 million in cash and \$8.1 million in notes. In addition, the Company will issue approximately 45,900 shares of Common Stock in connection with one of the Acquisitions. The Acquisitions will be accounted for under the purchase method of accounting, except for the acquisition by one of the Company's 50% owned companies, which will be accounted for under the equity method. There can be no assurance that any of the pending acquisitions will be consummated.

The Pro Forma Condensed Consolidated Financial Information gives effect to the adjustments described in the notes attached thereto. The financial information of Veratex at March 30, 1996 and for the three months then ended and for the period from July 7, 1995 to December 31, 1995 are included in the consolidated financial information of the Company for such periods. The accompanying pro forma condensed consolidated balance sheet combines the historical consolidated balance sheet of the Company and the balance sheets of the Other Recent and Pending Acquisitions as if such acquisitions had occurred on March 30, 1996. The accompanying pro forma condensed consolidated statement of operations for the year ended December 30, 1995 (1) combines the historical consolidated statements of operations of the Company and the Acquisitions and (2) reflects the sale of shares in the Company's 1995 initial public offering and the application of the net proceeds therefrom to reduce debt, as if all the Acquisitions and the initial public offering had occurred at January 1, 1995. The accompanying pro forma condensed consolidated statement of operations for the three months ended March 30, 1996 combines the historical consolidated financial statements of operations of the Company (which includes Veratex) and the Other Recent and Pending Acquisitions as if all such acquisitions had occurred at December 31, 1995. The Pro Forma Condensed Consolidated Financial Information, as adjusted, also gives effect to the completion of this Offering and the use of a portion of the proceeds therefrom to reduce debt. See "Use of Proceeds."

The Pro Forma Condensed Consolidated Financial Information is based on an allocation of the expected purchase prices for the Other Recent and Pending Acquisitions. Furthermore, such information does not purport to represent what the Company's actual results of operations would have been had the Acquisitions, the initial public offering or the Offering occurred on the dates indicated or for any future period or date. The pro forma adjustments give effect to available information and assumptions that the Company believes are reasonable. The Pro Forma Condensed Consolidated Financial Information should be read in conjunction with the Company's historical consolidated financial statements and the notes thereto and the financial statements of Veratex and the notes thereto appearing elsewhere in this Prospectus. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

HENRY SCHEIN, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 30, 1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

| | HENRY SCHEIN, INC. | OTHER RECENT AND PENDING ACQUISITIONS | PRO FORMA ADJUSTMENTS | PRO FORMA COMBINED(1) | PRO FORMA AS ADJUSTED(2) |
|--|--------------------------|--|--------------------------|--------------------------|-----------------------------|
| Net sales..... | \$185,359 | \$ 8,742 | \$-- | \$ 194,101 | \$194,101 |
| Cost of sales..... | 130,410 | 6,376 | -- | 136,786 | 136,786 |
| Gross profit..... | 54,949 | 2,366 | -- | 57,315 | 57,315 |
| Selling, general and administrative expenses..... | 50,245 | 2,036 | 30(3) | 52,311 | 52,311 |
| Operating income..... | 4,704 | 330 | (30) | 5,004 | 5,004 |
| Interest income (expense)--net..... | (566) | (41) | (257)(4) | (864) | (287) |
| Other--net..... | (97) | 33 | -- | (64) | (64) |
| Income before taxes on income, minority interest and equity in earnings of affiliates..... | 4,041 | 322 | (287) | 4,076 | 4,653 |
| Taxes on income..... | 1,783 | 51 | (19)(5) | 1,815 | 2,044 |
| Minority interest in net loss of subsidiaries..... | (70) | -- | 33(6) | (37) | (37) |
| Equity in earnings of affiliates..... | 136 | -- | -- | 136 | 136 |
| Net income..... | \$ 2,464 | \$ 271 | \$ (301) | \$ 2,434 | \$ 2,782 |
| Pro forma net income per common share..... | | | | \$ 0.13 | \$ 0.14 |
| Pro forma weighted average common and common equivalent shares outstanding..... | | | | 18,716 | 19,728 |

- (1) Gives effect to the Other Recent and Pending Acquisitions and 45.9 shares of Common Stock to be issued in connection therewith.
- (2) Adjusted to give effect to (i) the interest savings, net of taxes, from the application of the net proceeds from this Offering to repay debt and (ii) the sale of sufficient shares of Common Stock at the estimated price of \$37.00 per share to fund such repayment.
- (3) To adjust selling, general and administrative expenses for amortization of goodwill and non-compete agreements of \$105 arising from the Other Recent and Pending Acquisitions and to eliminate non-recurring shareholder compensation of approximately \$75 in connection with one of the Other Recent and Pending Acquisitions. Goodwill is amortized on a straight-line basis over 30 years based on the expected benefit period. The non-compete agreements are amortized on a straight-line basis over lives ranging from 5 to 7 years.
- (4) To reflect an increase in interest expense due to additional borrowings under the Company's revolving credit facility and other debt incurred to finance the Other Recent and Pending Acquisitions calculated based on an average interest rate of 6.4% which approximates the incremental borrowing rate in effect for the respective period. If interest rates were to vary 1/4% from the assumed rates, the effect on pro forma net income would be \$22, and there would not be any effect on pro forma net income per common share.
- (5) To eliminate the income tax effect of the pro forma adjustments in (3) and (4) above and the adjustment of income taxes on certain of the Acquisitions to an estimated combined rate of 40%.
- (6) To record the minority interests in the income of one of the Other Recent and Pending Acquisitions.

HENRY SCHEIN, INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 30, 1995
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

| | HENRY SCHEIN, INC. | VERATEX | OTHER RECENT AND PENDING ACQUISITIONS | PRO FORMA ADJUSTMENTS | PRO FORMA COMBINED (1) | PRO FORMA, AS ADJUSTED (2) |
|---|--------------------|----------|---------------------------------------|-----------------------|------------------------|----------------------------|
| Net sales..... | \$616,209 | \$19,853 | \$ 35,386 | \$ -- | \$671,448 | \$ 671,448 |
| Cost of sales..... | 425,625 | 14,079 | 26,455 | -- | 466,159 | 466,159 |
| Gross profit..... | 190,584 | 5,774 | 8,931 | -- | 205,289 | 205,289 |
| Selling, general and administrative expenses..... | 170,823 | 5,015 | 8,159 | 512(3) | 184,509 | 184,509 |
| Special charges..... | 20,797 | -- | -- | (20,797)(4) | -- | -- |
| Operating income (loss)..... | (1,036) | 759 | 772 | 20,285 | 20,780 | 20,780 |
| Interest income (expense) - net... | (5,358) | -- | (181) | 1,986(5) | (3,553) | (2,869) |
| Other - net..... | 276 | -- | 45 | -- | 321 | 321 |
| Income (loss) before taxes on income, minority interest and equity in earnings of affiliates..... | (6,118) | 759 | 636 | 22,271 | 17,548 | 18,232 |
| Taxes on income..... | 5,126 | 296 | 166 | 1,951(6) | 7,539 | 7,810 |
| Minority interest in net income of subsidiaries..... | 509 | -- | -- | 15(7) | 524 | 524 |
| Equity in earnings of affiliates..... | 1,537 | -- | -- | (112)(8) | 1,425 | 1,425 |
| Net income (loss)..... | \$(10,216) | \$ 463 | \$ 470 | \$ 20,193 | \$ 10,910 | \$ 11,323 |
| Pro forma net income per common share..... | | | | | \$ 0.61 | \$ 0.63 |
| Pro forma weighted average common and common stock equivalent shares outstanding..... | | | | | 17,772 | 17,952 |

- (1) Gives effect to (i) the Acquisitions and 45.9 shares of Common Stock to be issued in connection therewith and (ii) the sale of 5,090 shares in the Company's initial public offering and the application of the net proceeds therefrom to reduce debt.
- (2) Adjusted to give effect to the interest savings, net of taxes, from the application of net proceeds from this Offering to repay debt and issuance of shares of Common Stock at the estimated price of \$37.00 per share sufficient to fund such repayment.
- (3) To adjust selling, general and administrative expenses for (i) \$375 of increased general and administrative expenses incurred by the Company in connection with one of the Acquisitions, (ii) amortization of goodwill and non-compete agreements of \$637 arising from the Acquisitions, and (iii) the elimination of non-recurring shareholder compensation incurred in connection with one of the Acquisitions of \$500. Goodwill is amortized on a straight-line basis over 30 years based on the expected benefit period. The non-compete agreements are amortized on a straight-line basis over lives ranging from 5 to 7 years.
- (4) To eliminate non-recurring special management compensation.
- (5) To reflect (i) an increase of \$2,117 in interest expense due to additional borrowings under the Company's revolving credit facility and other debt incurred to finance the Acquisitions, calculated based on an average interest rate of 8.3% which approximates the incremental borrowing rate in effect for the respective periods, and (ii) reflect a reduction in interest expense resulting from assumed repayment of debt from proceeds of the initial public offering. If interest rates were to vary +/- 4% from the assumed rates, the effect on pro forma net income would be approximately \$11, and there would not be any effect on pro forma net income per common share.
- (6) To eliminate the income tax effect of the pro forma adjustments in (3) through (5) above and the adjustment of income taxes on certain of the Acquisitions to an estimated combined rate of 40%.
- (7) To record the minority interests in the income of certain of the Acquisitions.
- (8) To record equity in net income of one of the Acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company's consolidated financial condition and consolidated results of operations should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere in this Prospectus.

OVERVIEW

The Company's results of operations in recent years have been significantly impacted by strategies and transactions undertaken by the Company to expand its business, both domestically and internationally, in part to address significant changes in the healthcare industry, including potential national healthcare reform, trends toward managed care, cuts in Medicare, consolidation of healthcare distribution companies and collective purchasing arrangements. The Company's results of operations in recent years have also been impacted by the Reorganization. See "Reorganization."

The Company's net sales have grown at a compounded annual rate of approximately 21.6%, from \$282.1 million in 1991 to \$616.2 million in 1995. This growth reflects increased direct marketing activities by the Company in serving its dental customers and the utilization by the Company of its sales and marketing strategies and cost effective infrastructure to expand the Company's presence in the medical and veterinary markets. During this same period, the Company established distribution capabilities in Europe, introduced practice management software products and consummated 29 acquisitions and joint ventures.

Since 1991, the Company has expanded its field sales force to include approximately 50 field sales consultants who focus exclusively on the medical market. The Company has also expanded the number of SKUs offered to each of the medical and veterinary markets to over 15,000 at March 30, 1996. In addition, the Company has increased the number of direct mailings to physicians and veterinarians and its outbound telesales contacts to these professionals. During this period of increased focus on the medical and veterinary markets, the Company's net sales to these markets increased from \$59.9 million in 1991 to \$164.7 million in 1995, representing a compounded annual growth rate of approximately 28.6%. For the three months ended March 30, 1996, net sales to the medical and veterinary markets represented 26.2% of the Company's total net sales.

Commencing in 1990, the Company began to pursue opportunities in international markets. The Company established local distribution centers, hired telesales personnel and field sales consultants, entered into joint ventures with companies serving international customers and acquired local distributors. The Company's net sales to such markets increased from \$23.6 million in 1991 to \$107.7 million in 1995. At March 30, 1996, the Company operated subsidiaries or joint ventures in the United Kingdom, The Netherlands, Belgium, Germany, France, Spain and Ireland which generated approximately 19.6% of the Company's net sales for the three months ended March 30, 1996.

From 1993 through 1995, the Company entered into joint ventures with or acquired three medical distributors and 21 dental distributors, the most significant of which were Van den Braak and Veratex, which were acquired in November 1993 and July 1995, respectively. Van den Braak had net sales of approximately \$10.6 million in the fiscal year ended December 25, 1993, while Veratex had net sales of approximately \$39.5 million in the fiscal year ended December 31, 1994. Since December 31, 1995, the Company has acquired or entered into acquisition agreements with ten additional businesses.

From 1992 through 1994, the Company was a party to a series of transactions leading to the Reorganization that resulted in, among other things, the Company being separated from Holdings and the distribution of shares of the Common Stock of the Company to its then current stockholders. In December 1992, an executive officer of the Company received certain stock grants in the Company and Schein Pharmaceutical valued at approximately \$6.2 million and \$2.6 million, respectively, and cash of approximately \$5.3 million to pay income taxes on the stock grants received. These stock grants were

subject to the occurrence of certain future events, including the fulfillment of the employment term by the executive officer. Accordingly, these stock grants, totaling \$8.8 million, were treated as deferred compensation while the cash payments were charged to earnings as special management compensation in the year ended December 26, 1992. During 1993, the Company amortized the deferred compensation relating to stock grants by the Company to the executive officer resulting in a charge to earnings of \$0.6 million. In 1994, the contingencies relating to the stock granted to the executive officer were eliminated, such that these shares became fully vested. Accordingly, deferred compensation of \$8.8 million, less the 1993 amortization of \$0.6 million, plus a mark-to-market adjustment (because of certain repurchase features) of approximately \$9.1 million, along with a \$0.3 million cash payment for income taxes relating to the 1992 stock grants, was expensed in 1994 as special management compensation.

In addition, in connection with the Reorganization, certain senior management of the Company were issued shares of Common Stock of the Company in 1994 and 1995 to extinguish an obligation under a pre-existing long-term incentive plan and to provide them with an ownership interest in the Company. In connection with the issuance of the shares, a cash payment for income taxes relating to such stock issuances of approximately \$2.4 million was paid. This cash bonus, plus \$3.5 million, the fair value of the related stock issued, net of amounts accrued under the long-term incentive plan of approximately \$1.9 million, resulted in an additional special management compensation charge to the Company of approximately \$4.0 million in 1994. Charges to earnings for the year ended 1995 related to a mark-to-market adjustment (because of certain repurchase features) for stock grants made to an executive officer of the Company and the stock issuances of the other senior management of approximately \$15.5 million and cash payments of \$0.5 million for income taxes related to the stock issuances. Due to the elimination of repurchase features on the stock issued to the executive officers of the Company and other senior management upon closing of the initial public offering in the fourth quarter of 1995, the Company incurred special management compensation charges of approximately \$2.0 million for an additional mark-to-market adjustment to reflect the difference between the actual initial public offering price of \$16.00 per share and the prior estimated initial public offering price of \$15.00 per share.

Additionally, the Company has granted certain employees options for shares of the Company's Common Stock which became exercisable upon the Company's initial public offering on November 3, 1995, at which time substantially all such options vested. Non-recurring special compensation charges for the options issued to employees recorded in the fourth quarter of 1995 amounted to approximately \$2.8 million. In addition, the Company recorded an approximate \$1.1 million related tax benefit.

Special charges for special management compensation and special professional fees incurred in connection with the Reorganization aggregated \$0.6 million, \$7.5 million, \$2.8 million, \$23.6 million and \$20.8 million for 1991, 1992, 1993, 1994 and 1995, respectively. There were no special management compensation charges incurred in each of the three month periods ended April 1, 1995 and March 30, 1996.

In addition, in 1993 the Company incurred special contingent consideration charges of \$0.7 million and \$2.5 million in connection with an acquisition and the buyout of employees' rights to future income contained in their employment agreements, respectively.

In November 1995, the Company completed an initial public offering of 7,089,750 shares of its Common Stock. In the offering, the Company sold 5,090,000 shares of Common Stock at an initial public offering price of \$16.00 per share, and used the net proceeds primarily to repay amounts outstanding under the Company's revolving credit agreement. Since the initial public offering, the Company has completed five acquisitions and has entered into agreements to acquire an additional five companies. Together, these companies generated approximately \$80 million in sales in 1995, and collectively serve office-based healthcare practitioners in the dental, dental laboratory and medical markets. These acquisitions further the Company's acquisition growth strategies of leveraging its existing infrastructure, acquiring regional distributors with networks of field sales consultants and

expanding the Company's network of equipment sales and service centers. Through the acquisitions that have been completed as well as additional hirings, the Company has increased its domestic field sales consultants from approximately 200 at the time of the initial public offering to approximately 250 at May 31, 1996. In addition, in December 1995, the Company introduced a new Windows(R) version of its dental practice management software and has sold over 2,700 such units through the first quarter of 1996. The Company has also recently introduced Aruba(R), an enhanced Windows(R) version of its computerized order entry system, which also contains an electronic catalog.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the net sales by market of the Company and the percentage change in such items for the years ended 1993, 1994 and 1995 and for the three months ended April 1, 1995 compared to the three months ended March 30, 1996.

| | PERCENTAGE OF NET SALES | | | | | PERCENTAGE INCREASE | | |
|-------------------------|-------------------------|----------------------|----------------------|---------------------|-------------------|---------------------|-----------------|--|
| | YEARS ENDED, | | | THREE MONTHS ENDED, | | 1993 TO 1994 | 1994 TO 1995 | THREE MONTHS ENDED APRIL 1, 1995 TO THREE MONTHS ENDED MARCH 30, 1996 |
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 | | | |
| NET SALES BY MARKET: | | | | | | | | |
| Dental(1)..... | 59.1% | 54.7% | 51.6% | 52.8% | 51.0% | 8.4% | 19.4% | 31.6% |
| Medical..... | 18.9 | 20.1 | 21.9 | 19.8 | 21.6 | 24.5 | 37.9 | 49.1 |
| Veterinary..... | 5.8 | 5.7 | 4.8 | 4.9 | 4.6 | 14.6 | 6.5 | 26.9 |
| Technology(2)..... | 1.9 | 2.2 | 4.2 | 4.1 | 3.2 | 38.1 | 142.1 | 5.9 |
| International(3)... | 14.3 | 17.3 | 17.5 | 18.4 | 19.6 | 41.2 | 28.4 | 45.2 |
| | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 17.1 | 26.6 | 36.3 |

(1) Dental consists of the Company's dental sales in the United States and Canada.

(2) Technology consists of the Company's practice management software sales and sales of certain other value-added products and services.

(3) International consists of sales (substantially all dental) to customers outside the United States and Canada, primarily in Europe.

Three Months Ended March 30, 1996 Compared to Three Months Ended April 1, 1995

Net sales increased \$49.4 million, or 36.3%, to \$185.4 million for the three months ended March 30, 1996 from \$136.0 million for the three months ended April 1, 1995. Of the \$49.4 million increase, approximately \$22.7 million represented a 31.6% increase in the Company's dental business, \$13.2 million represented a 49.1% increase in its medical business, \$11.3 million represented a 45.2% increase in its international business, \$1.8 million represented a 26.9% increase in its veterinary business and \$0.4 million represented a 5.9% increase in the Company's technology business. The dental net sales increase was primarily the result of the Company's increased emphasis on its integrated sales and marketing approach (which coordinates the efforts of its field sales consultants with its direct marketing and telesales personnel), entering the U.S. market for large dental equipment and acquisitions. Of the approximately \$13.2 million increase in medical net sales, approximately \$6.1 million, or 46.2%, represented increased net sales to renal dialysis centers, with the effects of acquisitions and increased outbound telesales activity primarily accounting for the balance of the increase in net sales. In the international market, the increase in net sales was primarily due to acquisitions and increased unit volume growth. In the veterinary market, the increase in net sales was primarily due to increased account penetration.

Gross profit increased by \$14.6 million, or 36.2%, to \$54.9 million for the three months ended March 30, 1996, from \$40.3 million for the three months ended April 1, 1995, while gross profit margin remained consistent at 29.6% for the same period. The \$14.6 million increase in gross profit was primarily due to increased account penetration and the effects of acquisitions.

Selling, general and administrative expenses increased by \$12.9 million, or 34.6%, to \$50.2 million for the three months ended March 30, 1996 from \$37.3 million for the three months ended April 1, 1995. Selling and shipping expenses increased by \$10.5 million, or 44.3%, to \$34.2 million for the three months ended March 30, 1996 from \$23.7 million for the three months ended April 1, 1995. As a percentage of net sales, selling and shipping expenses increased 1.0% to 18.4% for the three months ended March 30, 1996 from 17.4% for the three months ended April 1, 1995. The increase in selling and shipping expenses as a percentage of net sales was primarily due to an increase in the number of field sales consultants. General and administrative expenses increased \$2.4 million, or 17.6%, to \$16.0 million for the three months ended March 30, 1996 from \$13.6 million for the three months ended April 1, 1995, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses decreased 1.4% to 8.6% for the three months ended March 30, 1996 from 10.0% for the three months ended April 1, 1995 due primarily to the relatively fixed nature of general and administrative expenses when compared to the 36.3% increase in sales volume for the same period.

Interest expense--net decreased \$0.6 million, or 50.0%, to \$0.6 million for the three months ended March 30, 1996 from \$1.2 million for the three months ended April 1, 1995. This decrease was primarily due to a reduction in interest expense which resulted from a decline in average interest rates to 7.2% for the three months ended March 30, 1996 from 8.0% for the three months ended April 1, 1995 and a \$10.7 million decrease in the Company's average borrowings which primarily resulted from the availability of additional equity capital from the Company's initial public offering in November 1995, reduced by cash used for acquisitions.

Equity in earnings of affiliates increased by \$0.1 million to \$0.1 million for the three months ended March 30, 1996. This increase in equity in earnings of affiliates was primarily due to the acquisition of an unconsolidated affiliate during the fourth quarter of 1995.

For the three months ended March 30, 1996, the Company's provision for taxes was \$1.8 million, while pre-tax income was \$4.0 million, resulting in an effective tax rate of 44.1%. The difference between the effective tax rate and the Federal statutory rate relates primarily to state income taxes and currently non-deductible net operating losses of certain foreign subsidiaries in France, which are not included in the Company's consolidated tax return. For the three months ended April 1, 1995, the Company's provision for taxes was \$0.8 million, while pre-tax income was \$1.9 million. The effective tax rate of 41.9% for the three months ended April 1, 1995 differed from the Federal statutory rate, primarily due to state income taxes.

1995 Compared to 1994

Net sales increased \$129.6 million, or 26.6%, to \$616.2 million in 1995 from \$486.6 million in 1994. Of the \$129.6 million increase, approximately \$51.7 million represented a 19.4% increase in the Company's dental business, \$37.1 million represented a 37.9% increase in its medical business, \$23.8 million represented a 28.4% increase in its international business, \$15.2 million represented a 142.1% increase in its technology business and \$1.8 million represented a 6.5% increase in the Company's veterinary business. The dental net sales increase, after taking into consideration acquisitions, was primarily due to the Company's increase in field sales consultants and telesales personnel, database marketing programs and promotional activities. Of the approximately \$37.1 million increase in medical net sales, approximately \$17.0 million, or 45.8%, represents incremental net sales to renal dialysis centers, with the effects of acquisitions and increased telesales personnel accounting for the other major increase in net sales. In the international market, the increase in net sales was due to the full year benefit of an acquisition made in France in July 1994, acquisitions made in 1995, increased unit volume growth

and favorable exchange rate translation adjustments. The increase in net sales for the Company's technology market was primarily the result of an increase in unit sales due to the release of the new Windows(R) version of Easy Dental(R) Plus software in December 1995 and substantial price increases. The increased pricing on the Easy Dental(R) Plus software product was accompanied by substantial sales promotions and related expense. In the veterinary market, the Company now earns a commission on certain products which the manufacturer now sells direct. Including those sales on a basis similar to 1994, sales to the veterinary market would have increased by approximately 20.0%.

Gross profit increased by \$47.9 million, or 33.6%, to \$190.6 million in 1995, from \$142.7 million in 1994, while gross profit margin increased by 1.6% to 30.9% from 29.3% for the same period. Of the 1.6% increase in gross profit margin, approximately 87.5%, or 1.4%, was primarily attributed to increased sales volume of the Company's Easy Dental(R) Plus software, which carried a higher gross profit margin than other products sold by the Company. The higher net sales volume for the Company's technology business, up 142.1% to \$25.9 million from \$10.7 million for the same period last year, was primarily due to the release of the new Windows(R) version of Easy Dental(R) Plus software, which increased unit sales, coupled with substantial price increases. The increased pricing on the Easy Dental(R) Plus software product was accompanied with substantial sales promotions. The balance of the change in gross profit margin was due to changes in product mix.

Selling, general and administrative expenses increased by \$42.2 million, or 32.8%, to \$170.8 million in 1995 from \$128.6 million in 1994. Selling and shipping expenses increased by \$34.8 million, or 44.8%, to \$112.5 million in 1995 from \$77.7 million in 1994. As a percentage of net sales, selling and shipping expenses increased 2.4% to 18.3% in 1995 from 15.9% in 1994. The increase in selling and shipping expenses as a percentage of net sales was primarily due to substantial sales promotions offered by the Company's technology group in conjunction with the promotion of Easy Dental(R) Plus software and the new Windows(R) version released in December 1995, which accounted for approximately 0.9% of the 2.4% increase in selling and shipping expenses as a percentage of net sales. The balance of the increase was due primarily to various promotional programs and incremental field sales and marketing personnel. General and administrative expenses increased \$7.4 million, or 14.5%, to \$58.3 million in 1995 from \$50.9 million in 1994, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses decreased 1.0% to 9.5% in 1995 from 10.5% in 1994 due primarily to the relatively fixed nature of general and administrative expenses when compared to the 26.6% increase in sales volume for the same period.

Special charges decreased by \$2.8 million to \$20.8 million for 1995, from \$23.6 million for 1994. Special charges for 1995 included final, non-cash mark-to-market adjustments of approximately \$17.5 million for stock grants made to an executive officer of the Company and stock issuances to other senior management and approximately \$2.8 million for options granted to certain employees of the Company to acquire shares of the Company's Common Stock, and cash payments of approximately \$0.5 million for income taxes related to the stock issuances to other senior management. In addition, the Company recorded an approximate \$1.1 million related tax benefit.

Interest expense--net increased \$1.9 million, or 54.3%, to \$5.4 million in 1995 from \$3.5 million in 1994. This increase was due to two factors: average interest rates rose to 8.3% in 1995 from 6.4% in 1994, and the Company's average borrowings increased by \$11.3 million in 1995 as compared to 1994 as a result of higher working capital requirements and financing of acquisitions.

Equity in earnings of affiliates increased by \$1.0 million, or 200.0%, to \$1.5 million in 1995 from \$0.5 million in 1994. This increase in equity in earnings of affiliates was primarily due to an increase in earnings of one unconsolidated affiliate which was the result of increased sales volume and the acquisition of another unconsolidated affiliate during the fourth quarter of 1995.

In 1995, the Company's provision for taxes was \$5.1 million, while the pre-tax loss was \$6.1 million. The difference between the tax provision and the amount that would have been recoverable by applying the statutory rate to pre-tax loss was attributable substantially to the non-deductibility for

income tax purposes of the \$17.5 million appreciation in the value of the stock issued to an executive officer and other senior management of the Company. On a pro forma basis, to give effect to special charges, taxes on income for 1995 were \$6.3 million, resulting in an effective tax rate of 42.9%. The difference between the pro forma effective tax rate and the Federal statutory rate relates primarily to state income taxes and currently non-deductible net operating losses of certain foreign subsidiaries, primarily in France, which are not included in the Company's consolidated tax return. In 1994, the income tax recovery was \$1.6 million, while the pre-tax loss was \$12.4 million. The effective tax rate of the Company for 1994 differed from the Federal statutory rate, primarily due to non-deductible special charges of approximately \$9.1 million arising from the appreciation in the value of stock issued to an executive officer of the Company and currently non-deductible net operating losses of certain foreign subsidiaries.

1994 Compared to 1993

Net sales increased \$70.9 million, or 17.1%, to \$486.6 million in 1994 from \$415.7 million in 1993. Of the \$70.9 million increase, \$24.5 million represented a 41.2% increase in the Company's international business, \$20.6 million and \$19.3 million represented an 8.4% and 24.5% increase in the Company's dental and medical businesses, respectively, and \$3.0 million represented a 38.1% increase in net sales of the Company's technology products. The net sales increase for the Company's international business was the result of the full year benefit of certain acquisitions in the United Kingdom and the Netherlands, which took place in July and October, respectively, of 1993 and comprised \$12.1 million and \$5.1 million, respectively, of the 1994 international net sales increase. Dental net sales increases were primarily due to the Company's increase in telesales personnel and field sales consultants, database marketing programs and promotional activities. Medical net sales of products to renal dialysis centers increased \$9.9 million over 1993, while net sales to podiatrists increased \$4.5 million as the result of an acquisition of a medical supply company in August 1994. Additionally, net sales of a medical supply company acquired in November 1992 increased 66.2% over 1993. Net sales of technology products increased primarily due to increased unit net sales and price increases on the Company's Easy Dental(R) Plus software product, which accounted for the 1994 increase.

The Company's gross profit increased by \$21.7 million, or 17.9%, to \$142.7 million in 1994 from \$121.0 million in 1993. Of the \$21.7 million increase, approximately \$8.9 million, or 41.0%, was attributable to the Company's international business, and \$9.0 million, or 41.5%, was attributable to the Company's dental business. The gross profit increase for the Company's international business reflects the full year benefit of certain acquisitions in the United Kingdom and the Netherlands, which took place in July and October, respectively, of 1993 and comprised \$4.4 million and \$2.8 million, respectively, of the 1994 increase. The Company's dental gross profit increase was primarily due to higher unit sales and increased sales of Henry Schein brand products. The overall increase in gross profit margin to 29.3% from 29.1% was primarily due to increased sales of higher margin products and higher margins realized on the Company's Easy Dental(R) Plus products, offset in part by lower gross profit margins on the Company's medical business, which decreased from 26.0% in 1993 to 21.7% in 1994 as a result of increased price competition and increased sales of lower margin products to renal dialysis centers.

Selling, general and administrative expenses increased by \$19.0 million, or 17.3%, to \$128.6 million in 1994 from \$109.6 million in 1993. Selling and shipping expenses increased by \$14.9 million, or 23.7%, to \$77.7 million in 1994 from \$62.8 million in 1993. The increase in selling and shipping expenses was due to increased sales volume, the full year impact of certain acquisitions in the United Kingdom and The Netherlands, an increase in promotional activities relating to the sale of Easy Dental(R) Plus software and the impact of an acquisition. As a percentage of net sales, selling and shipping expenses increased 0.8% to 15.9% in 1994 from 15.1% in 1993. This increase was due to the full year impact of certain acquisitions in The Netherlands and the United Kingdom, and the acquisition of a medical supply company in 1994. General and administrative expenses increased \$4.1

million, or 8.8%, to \$50.9 million in 1994 from \$46.8 million in 1993. As a percentage of net sales, general and administrative expenses decreased 0.8% to 10.5% in 1994 from 11.3% in 1993.

Special charges increased by \$17.5 million to \$23.6 million from \$6.1 million for 1993. Special charges included approximately \$21.3 million in special management compensation expense, an additional cash payment of \$0.3 million for additional income taxes resulting from 1992 stock grants, and approximately \$2.0 million in special professional fees. The significant increase in special management compensation expense was the result of the completion of the Reorganization which caused certain stock grants awarded an executive officer of the Company valued at \$17.3 million to become fully vested, and the issuance of stock valued at \$3.5 million to certain senior management of the Company along with cash payments for income taxes of approximately \$2.4 million, net of prior executive incentive plan accruals of \$1.9 million. Charges to earnings in connection with the stock grants and issuances ceased upon the closing of the initial public offering when the contingent buy-back features relating to these stock grants and issuances terminated.

Interest expense--net increased \$1.1 million, or 48.5%, to \$3.5 million in 1994 from \$2.4 million in 1993. The increase was primarily due to an increase in average debt of \$9.9 million in 1994 offset in part by decreased average interest rates of 6.4% in 1994 from 6.6% in 1993.

Other income (expense)--net increased \$1.1 million to income of \$0.5 million in 1994 from an expense of \$0.6 million in 1993. This increase was primarily attributable to a foreign exchange gain of approximately \$0.5 million.

Equity in earnings of affiliates decreased by \$0.8 million, or 61.9%, to \$0.5 million in 1994 from \$1.3 million in 1993. This decrease in equity in earnings of affiliates was primarily due to decreased sales volume as a result of increased competition for the products sold by an unconsolidated 50%-owned company.

Taxes on income (recovery) decreased \$3.0 million, to a recovery of \$1.6 million in 1994 from an expense of \$1.4 million in 1993 due primarily to the recognition in 1994 of certain Reorganization expenses amounting to \$14.5 million. The effective tax recovery rate for 1994 was lower than the statutory rate due primarily to non-deductible special management compensation charges of approximately \$9.1 million and currently non-deductible net operating losses of certain foreign subsidiaries.

Inflation

Management does not believe inflation had a material adverse effect on the financial statements for the periods presented.

Effect of Recently Issued Accounting Standards

Recently issued accounting standards applicable to the Company include Statement of Financial Accounting Standards No. 121 ("SFAS No. 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which establishes accounting standards for, among other things, the impairment of long-lived assets, and certain identifiable intangibles and goodwill. SFAS No. 121 is effective for financial statements for fiscal years beginning after December 15, 1995 and has not had any effect on the Company's consolidated financial statements. In addition, the Company does not intend to adopt the fair value method of accounting for stock options as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

QUARTERLY RESULTS

The following table sets forth summary quarterly unaudited financial information for 1994 and 1995, and the first quarter of 1996, excluding non-recurring special charges and the related tax effects. In the opinion of management, this quarterly information has been prepared on a basis consistent with the Company's audited consolidated financial statements appearing elsewhere in this Prospectus and reflects all necessary adjustments (consisting only of normal, recurring adjustments) for a fair presentation of such unaudited quarterly results when read in conjunction with the audited financial statements and the notes thereto. The operating results for any quarter are not necessarily indicative of results for any future period and there can be no assurance that any trends reflected in such results will continue in the future.

| | 1994 QUARTERS ENDED | | | | 1995 QUARTERS ENDED | | | | 1996 QUARTER ENDED |
|----------------------------|---------------------------------------|------------------|-------------------|------------------|---------------------|-----------------|-------------------|------------------|--------------------------|
| | MARCH 26, 1994 | JUNE 25, 1994 | SEPT. 24, 1994 | DEC. 31, 1994 | APRIL 1, 1995 | JULY 1, 1995 | SEPT. 30, 1995 | DEC. 30, 1995 | MARCH 30, 1996 |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | | | |
| Net sales..... | \$ 108,356 | \$115,793 | \$ 122,695 | \$139,766 | \$136,040 | \$139,753 | \$ 156,667 | \$183,749 | \$ 185,359 |
| Gross profit..... | 31,695 | 33,708 | 34,998 | 42,287 | 40,315 | 42,107 | 48,090 | 60,072 | 54,949 |
| Operating income..... | 1,876 | 3,347 | 4,516 | 4,389 | 2,986 | 4,689 | 5,188 | 6,898 | 4,704 |
| Net income..... | 881 | 1,520 | 1,577 | 3,000 | 936 | 2,066 | 2,093 | 4,312 | 2,464 |
| Earnings per share..... | .07 | .13 | .13 | .25 | .08 | .17 | .17 | .26 | .13 |

The Company's business has been subject to seasonal and other quarterly influences. Net sales and operating profits have been generally higher in the fourth quarter due to the timing of sales of software, year-end promotions and purchasing patterns of office-based healthcare practitioners and have been generally lower in the first quarter due primarily to the increased purchases in the prior quarter. Quarterly results also may be materially affected by a variety of other factors, including the timing of acquisitions and related costs, the release of software enhancements, timing of purchases, special promotional campaigns, fluctuations in exchange rates associated with international operations and adverse weather conditions.

RISK MANAGEMENT

The Company has operations in the United States, Canada, the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland and Spain. Each of the Company's operations endeavors to protect its margins by using foreign currency forward contracts to hedge the estimated foreign currency payments to foreign vendors. The total U.S. dollar equivalent of all foreign currency forward contracts hedging vendor payments was \$4.8 million as of the end of the first quarter in 1996. The gain (or loss) on the income statement due to foreign currency fluctuations, net of a one-time gain of approximately \$0.5 million in 1994 resulting from hedging the Van den Braak acquisition loan described below, was \$0.2 for 1995 and \$0.6 million for the three months ended March 30, 1996.

The Company considers its investment in foreign operations to be both long term and strategic. As a result, the Company does not hedge the long term translation exposure to its balance sheet. The Company experienced a positive translation adjustment of \$0.3 million in 1995, and a negative translation adjustment of \$0.4 million for the three months ended March 30, 1996, which were reflected in the balance sheet as an adjustment to stockholders' equity. The cumulative translation adjustment at the end of the first quarter of 1996 showed a net negative translation adjustment of \$0.6 million.

The Company issues a Canadian catalog once a year with prices stated in Canadian dollars; however, orders are shipped from the Company's United States warehouses resulting in U.S. dollar costs for Canadian dollar sales. To minimize the exposure to fluctuations in foreign currency exchange rates, the Company enters into foreign currency forward contracts with major international banks and

an unconsolidated 50%-owned company to convert estimated monthly Canadian dollar receipts into U.S. dollars. The Company usually enters into these forward contracts prior to the issuance of its Canadian catalog and for the expected life of the catalog. As of March 30, 1996, the Company had 19 forward contracts outstanding for the forward sale of 5.7 million Canadian dollars. The last of the contracts expire on December 27, 1996; however, the Company anticipates entering into new contracts in the normal course of its business.

The Company borrowed money in U.S. dollars under a term loan related to the Van den Braak acquisition. The Company loaned the proceeds to Henry Schein B.V. in Netherland Guilders ("NLG") with principal and interest payable in NLGs. To minimize the resultant exposure to fluctuations in foreign currency exchange rates, the Company entered into a series of foreign currency forward contracts to sell NLGs for U.S. dollars. As of March 30, 1996, the Company had 10 contracts outstanding for the forward sale of NLG 8.2 million. The last contract expires on October 31, 1997.

The Company entered into two interest rate swaps with major financial institutions to exchange variable rate interest for fixed rate interest. The net result was to substitute a weighted average fixed interest rate of 7.81% for the variable LIBOR rate on \$13.0 million of the Company's debt. The interest rate swaps expire in October and November of 2001.

The Company from time to time makes loans to its international subsidiaries. These loans are generally in the local currency of the subsidiary. The Company generally uses forward contracts to fully hedge the foreign currency exposure on these loans. As of March 30, 1996, the United States dollar value equivalent of the Company's three foreign currency forward contracts was \$0.8 million.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal capital requirements have been to fund (a) working capital needs resulting from increased sales, extended payment terms on various products and special inventory buying opportunities, (b) capital expenditures and (c) acquisitions. Since sales have been strongest during the fourth quarter and special inventory buying opportunities are most prevalent just before the end of the year, the Company's working capital requirements have been generally higher from the end of the third quarter to the end of the first quarter of the following year. The Company currently finances its business primarily through a revolving credit facility.

Net cash provided by (used in) operating activities for 1993, 1994, 1995, the three months ended April 1, 1995 and the three months ended March 30, 1996, was (\$3.3 million), \$6.3 million, (\$10.8 million), (\$2.6 million) and (\$16.0 million), respectively. Cash used in operating activities decreased from 1992 to 1993 primarily due to higher net income, as well as greater net cash due to the net effects of certain non-cash charges in excess of non-cash benefits and a reduction in current assets, were in part offset by reductions in trade payables and accrued expenses. The increase in cash provided by operating activities from 1993 to 1994 was primarily due to increases in trade payables and the net effects of certain non-cash charges in excess of non-cash benefits were in part offset by increases in trade receivables and a net loss. The increase in cash used in operating activities from 1994 to 1995 was primarily due to a net loss, as well as increases in trade receivables and the net effects of certain non-cash charges in excess of non-cash benefits, were in part offset by increases in trade payables. The increase in cash used in operating activities for the three months ended April 1, 1995 and the three months ended March 30, 1996 was primarily due to increases in trade receivables and decreases in trade payables, were in part offset by decreases in inventories and net income.

Net cash used in investing activities increased \$1.6 million in 1993 to \$4.9 million; \$3.0 million in 1994 to \$7.9 million; \$21.6 million to \$29.5 million in 1995 and \$1.3 million for the three months ended March 30, 1996 to \$3.7 million from \$2.4 million for the three months ended April 1, 1995. Cash used in investing activities has primarily been attributable to business acquisitions in 1995 and capital

expenditures with respect to the opening of a distribution facility in 1993, a new corporate headquarters in 1994 and the opening of new facilities in Europe and the United States in 1995.

Net cash provided by financing activities was \$6.2 million, \$3.7 million, \$43.4 million, \$6.7 million and \$19.7 million for 1993, 1994, 1995, the three months ended April 1, 1995 and the three months ended March 30, 1996, respectively. Net cash provided by financing activities decreased in 1994 as cash flow from operating activities increased by \$9.6 million. Net cash provided by financing activities increased in 1995 due primarily to proceeds from the Company's initial public offering, which financed, among other things, capital expenditures, additional working capital requirements and business acquisitions. Net cash provided by financing activities increased in the three months ended March 30, 1996 due primarily to additional long-term borrowings to finance additional working capital requirements and business acquisitions.

The Company entered into a \$45.0 million revolving credit facility on September 30, 1993 that was amended and restated on July 5, 1995 to increase the facility to \$65.0 million. Borrowings under the facility were \$35.8 million, \$17.0 million and \$39.0 million at the end of 1994, at the end of 1995 and at March 30, 1996, respectively. At March 30, 1996, the Company's main revolving credit facility was unsecured. In addition, the Company's subsidiaries have revolving credit facilities that total approximately \$13.9 million.

On May 5, 1995 the Company entered into a 12-year straight amortization term loan for \$1.2 million. In addition, the Company has borrowed funds in connection with its operations in Europe. See "Risk Management."

The aggregate purchase price for the acquisitions completed during fiscal 1995 and through May 31, 1996 was approximately \$26.0 million and \$8.0 million, respectively, payable \$16.4 million and \$8.0 million in cash and \$9.6 million and \$0 million in notes, respectively. The cash portion of the purchase price was primarily funded by the Company's revolving credit facility. The use of proceeds from the initial public offering, completed in November 1995, included a pay-down of the Company's revolving credit facility and the pay-off of certain 1995 acquisition notes, as well as other existing debt. Certain of the acquisitions call for contingent payments if certain financial targets are met. In addition, with respect to certain acquisitions and ventures, minority shareholders have the right at certain times to require the Company to acquire their shares at either fair market value or a formula price based on earnings of the entity.

The Company believes that its anticipated cash flow from operations, as well as the availability of funds under its existing credit agreements and the net proceeds of this offering, will provide it with liquidity sufficient to meet its currently foreseeable capital needs.

GENERAL

The Company is the largest direct marketer of healthcare products and services to office-based healthcare practitioners in the combined North American and European markets. The Company sells products and services to approximately 230,000 customers in markets the Company estimates exceeded \$9.0 billion in sales in 1995. The Company's customers are primarily dental practices and dental laboratories, as well as physician practices, veterinary clinics and institutions. In 1995, the Company sold products to over 65% of the estimated 100,000 dental practices in the United States. The Company believes that there is strong awareness of the "Henry Schein" name among office-based healthcare practitioners due to its more than 60 years of experience in distributing healthcare products. Through its comprehensive catalogs and other direct sales and marketing programs, the Company offers its customers a broad product selection of both branded and private brand products which include approximately 50,000 SKUs in North America and approximately 35,000 SKUs in Europe at published prices that the Company believes are below those of many of its competitors. The Company also offers various value-added products and services, such as practice management software. As of March 30, 1996, the Company had sold over 16,000 dental practice management software systems, more than any of its competitors. The Company's activities are conducted by the Company; by its subsidiaries, including Henry Schein UK Holdings Limited in the United Kingdom Schein Dental Equipment and S&S Dental Supply, Inc., each of which distributes dental products, and Zahn Holdings, Inc., which distributes dental laboratory products, as well as their respective subsidiaries; and by 50%-or-less owned entities, including HS Pharmaceutical and its subsidiaries, which are engaged in the manufacture and distribution of certain generic pharmaceutical products.

The Company intends to increase its sales to existing dental customers by intensifying its direct marketing efforts, by offering additional products and services, and by augmenting its direct marketing and telesales efforts with additional field sales consultants. The Company, which had traditionally focused primarily on the dental market, is currently utilizing these strategies and its cost-effective infrastructure to further expand into the medical and veterinary markets. Net sales to these markets increased from \$59.9 million in 1991 to \$164.7 million in 1995, which represented 26.7% of the Company's net sales in 1995. In 1990, the Company established marketing and distribution capabilities in Europe. Net sales in international markets have increased from \$23.6 million in 1991 to \$107.7 million in 1995, which represented 17.5% of the Company's net sales in 1995.

The Company was formed on December 23, 1992 as a wholly-owned subsidiary of Holdings. At that time, Holdings conducted the business in which the Company is now engaged and, in addition, owned 100% of the outstanding capital stock of Schein Pharmaceutical, a company engaged in the manufacture and distribution of multi-source pharmaceutical products. In December 1992, Holdings separated the Company's business from Schein Pharmaceutical by transferring to the Company all of the assets (including Holdings' 50% interest in HS Pharmaceutical) and liabilities of the healthcare distribution business now conducted by the Company. The Company did not assume any other liabilities of Holdings, including the liabilities associated with Schein Pharmaceutical's business. In February 1994, the Company, Holdings and their stockholders entered into a number of reorganization agreements, and in September 1994, pursuant to such agreements, all of the Common Stock held by Holdings was distributed to certain of the current stockholders of the Company. For a more complete description of these transactions, see "Reorganization."

INDUSTRY OVERVIEW

The Company distributes its products, supplies and equipment primarily to office-based healthcare practitioners in the dental, medical and veterinary markets.

Dental. According to industry estimates, United States sales of dental supplies and equipment have increased from \$1.9 billion in 1992 to more than \$2.2 billion in 1995. In addition, according to industry estimates, in 1995 there were approximately 130,000 active dentists serving the United States marketplace in about 100,000 dental practices. Based upon such information, the Company believes that the average annual purchase of dental supplies and equipment in 1995 was approximately \$17,000 per dentist. The Company estimates that the European market for dental supplies and equipment was more than \$2.3 billion in 1995.

Medical. According to industry estimates, United States sales of medical supplies and equipment to office-based physicians were more than \$4.0 billion in 1995. In addition, according to industry estimates, in 1995 there were approximately 390,000 office-based physicians serving the United States marketplace, and based upon such information, the Company believes that the average annual purchase of medical supplies and equipment in 1995 was approximately \$10,000 per office-based physician.

Veterinary. According to industry estimates, United States sales of supplies and equipment to veterinarians whose practices are directed primarily to small animals were approximately \$500 million in 1995 (excluding sales of food products, which the Company does not distribute). In addition, according to industry estimates, in 1995 there were approximately 35,000 veterinarians whose practices were directed primarily to small animals, practicing in approximately 21,000 small animal veterinary clinics in the United States. Based upon such information, the Company believes that the average annual purchase of supplies and equipment in 1995 was approximately \$14,000 per veterinarian.

The office-based healthcare practitioner industry in the United States is highly fragmented and geographically diverse. The industry ranges from sole practitioners working out of relatively small offices to group practices or service corporations comprised of a few to a large number of practitioners who have combined or otherwise associated their practices. Due in part to the inability of office-based practitioners to store and manage large quantities of supplies in their offices, the distribution of healthcare supplies and small equipment to office-based practitioners has traditionally been characterized by frequent, small quantity orders, and a need for rapid, reliable and substantially complete order fulfillment. The purchasing decision within an office-based healthcare practice is typically made by the practitioner or by an administrative assistant, and supplies and small equipment are generally purchased from more than one healthcare product distributor. As a result, distributors serving office-based healthcare practitioners generally offer a wide selection of products at competitive prices. Most of the Company's large competitors rely on an extensive field sales force to generate sales leads and to take and service orders. Other distributors utilize a direct response marketing approach, relying primarily on the use of direct mail catalogs and related marketing materials and in-house telesales representatives to generate orders. Certain direct marketers, including the Company, also utilize field sales personnel to enhance their relationships with their direct mail customers and to service and support the distribution of certain products and equipment that generally require a greater level of customer support.

In recent years, the healthcare industry has increasingly focused on cost containment. This trend has benefitted distributors capable of providing a broad array of products and services at low prices. This trend has also accelerated the growth of HMOs, group practices, other managed care accounts and collective buying groups who, in addition to their emphasis on obtaining products at low prices, tend to favor distributors capable of producing specialized management information support. The Company believes that the trend towards cost containment has the potential to favorably impact demand for practice management systems and software that can enhance the efficiency and facilitate the management of the practitioner's specific practice.

The supply industry serving office-based healthcare practitioners is highly fragmented, with numerous national distributors and approximately 900 regional distributors in North America and Europe serving the office-based practitioner market. The Company believes that consolidation within the supply industry serving office-based healthcare practitioners will result in a number of distributors,

particularly companies with limited financial and marketing resources, seeking to combine with larger companies that can provide expansion opportunities. This consolidation may also result in distributors seeking to acquire companies that can enhance their current product offerings, expand the services they can offer or provide opportunities for the distributor to serve a broader customer base.

BUSINESS STRENGTHS

The Company believes the following factors have been of principal importance in its ability to achieve its present position in the dental, medical and veterinary markets.

Direct Sales and Marketing Expertise. The Company believes that its more than 60 years of experience in distributing products to healthcare practitioners and more than 30 years of direct marketing experience has resulted in strong awareness of the "Henry Schein" name among healthcare practitioners. The Company supports its direct marketing effort with approximately 400 telesales representatives who facilitate order processing and generate sales through direct and frequent contact with its customers. The Company maintains an in-house advertising department that produced more than 8.5 million pieces of direct marketing material during 1995, such as general and specialty catalogs, flyers and order stuffers, customized by market and country. The Company's database of approximately 600,000 office-based healthcare practitioners allows it to utilize customer segmentation techniques to more effectively market its products and services.

Broad Product Offerings at Low Prices. The Company believes that it has one of the most extensive product offerings in each of the markets it serves. The Company presently offers approximately 50,000 SKUs to its North American customers and approximately 35,000 SKUs to its European customers. Over 80% of the Company's products in dollar volume are offered under national name brands, and the remainder are offered under the "Henry Schein" private brand. The Company believes its cost effective infrastructure enables it to offer products at prices below those of many of its competitors. In addition, the Company's pricing policy in the United States and Canada is to match its competitors' lowest advertised price. See "Competition." Through the breadth of its product offerings and its competitive prices, the Company strives to be a single source of supply to a wide variety of healthcare practitioners.

Commitment to Superior Customer Service. As part of the Company's commitment to providing superior customer service, the Company offers its customers ease of order placement and rapid, accurate and complete order fulfillment, and the ability to order products 24-hours a day. Products can be ordered by mail, fax, telephone (either automated or by speaking to a telesales representative), or via a computerized order entry system. The Company estimates that approximately 99% of all items ordered in the United States and Canada are shipped without back ordering, and that approximately 99% of all orders in the United States and Canada received before 6:00 p.m. are shipped on the same day the order is received. In addition, the Company estimates that over 90% of orders are received by its customers within two days of placing the order.

Cost-Effective Infrastructure. The Company's capital expenditures of approximately \$18.0 million over the last three fiscal years have enabled it to operate more cost-effectively and achieve greater service efficiency at higher sales volumes. The Company believes that these enhancements, as well as its strategically located distribution centers in the United States and Europe, enable it to provide its customers with broad geographic coverage on a cost-effective basis. In addition, the Company believes that this infrastructure provides opportunities for the Company to service and support increased net sales without the need for commensurate increases in expenses.

GROWTH STRATEGY

The Company believes that the continuing application of its business strengths, coupled with a focus on the following growth strategies, will enhance its ability to increase sales to existing dental customers, increase its medical customer base and increase sales to its veterinary customers.

Increased Penetration of Existing Dental Customer Base. Over 65% of the estimated 100,000 dental practices in the United States are customers of the Company. The Company estimates that it had sales in 1995 of more than \$10,000 to less than 10% of its dental customers in the United States, and therefore believes that it has an opportunity to increase its sales to a substantial number of its existing dental customers. The Company intends to accomplish this objective by (i) utilizing its current customer database to better focus its marketing efforts, (ii) increasing the number of field sales consultants, (iii) expanding its dental product and service offerings and (iv) increasing its focus on large corporate accounts.

Increased Penetration of Medical Market. In 1985, the Company began to increase its focus on the medical market. The Company believes this market possesses many of the same characteristics as the dental market, and therefore, opportunities exist to increase its customer base by utilizing its core infrastructure and strength in direct marketing. The Company's net sales of medical products have grown from \$44.0 million in 1991 to \$135.0 million in 1995. The Company has approximately 50 field sales consultants exclusively dedicated to the medical market. The Company intends to expand its medical customer base by increasing the number of field sales consultants in selected markets, expanding its product offerings and increasing its focus on large corporate accounts.

Increased Penetration of Existing Veterinary Customer Base. In 1985, the Company began to increase its focus on the veterinary market. The Company's net sales of veterinary products have grown from \$16.0 million in 1991 to \$29.7 million in 1995. In 1995, the Company sold products to more than 65% of the estimated 21,000 veterinary clinics in the United States. The Company estimates that it is the primary supplier of veterinary supplies to less than 5% of its veterinary customers in the United States, and therefore believes that it has an opportunity to increase its sales to a substantial number of its existing veterinary customers. The Company intends to increase its sales to its existing customers by utilizing its current customer database to better focus its marketing efforts.

Acquisitions and Joint Ventures. The Company believes that consolidation within the supply industry serving office-based healthcare practitioners is continuing to create opportunities for the Company to acquire businesses or enter into joint ventures that can complement the Company's current business. During 1993 through 1995, the Company entered into joint ventures with, or acquired, an additional 21 businesses. From January 1, 1996 to May 31, 1996, the Company completed five acquisitions and has entered into agreements to acquire five other companies. The Other Recent and Pending Acquisitions which were reflected in the Pro Forma Condensed Consolidated Statement of Operations accounted for 4.5% and 6.0% of the Company's pro forma net sales and operating income, respectively, for the three months ended March 30, 1996. See "Risk Factors."

Value-Added Products and Services. The Company offers its customers practice management software, assistance with arranging electronic claims processing and financing sources for patient billings and equipment, and large equipment installation and repair services. The Company intends to continue to market and expand these products and services. The Company believes that offering these products and services enhances its relationships with its customers, promotes customer loyalty and should increase sales of consumable supply products.

International Expansion. Sales by the Company to customers located outside the United States and Canada have increased from approximately \$23.6 million in 1991 to \$107.7 million in 1995. Since 1990, the Company has established operating subsidiaries and joint ventures in the United Kingdom, The Netherlands, Belgium, Germany, France, Republic of Ireland and Spain. The Company believes it is a leading distributor of healthcare products to dental practitioners in the United Kingdom and The

Netherlands. The Company intends to facilitate its expansion into new territories principally by entering into joint ventures and acquisitions with established local distributors.

CUSTOMERS

The Company serves approximately 230,000 customers worldwide in the dental, medical and veterinary markets. The Company's dental customers include office-based dental practices, dental laboratories, universities, institutions, governmental agencies and large group and corporate accounts; medical customers include office-based physician practices, podiatrists, renal dialysis centers, surgery centers, institutions and governmental agencies; and the Company's veterinary products are sold primarily to office-based veterinarians serving primarily small animals.

Approximately 105,000, or 44.1%, of the Company's customers in 1995 were dental practices and laboratories in the United States and Canada. The Company's average annual sales to these customers was approximately \$3,000 per customer in 1995. Medical and veterinary customers accounted for approximately 75,000 and 16,000, respectively, of the Company's total customers in 1995, or 31.5% and 6.7%, respectively. The average annual sales to its medical and veterinary customers in 1995 was approximately \$1,800 and \$1,900 per customer, respectively. International customers, which are predominantly dental practices and laboratories in Europe, totalled approximately 42,000, and accounted for 17.7% of the Company's total customers in 1995. The Company's average annual sales to these customers were approximately \$2,600 per customer in 1995.

The Company believes that its customers generally order from two or more suppliers for their healthcare product needs, and often use one supplier as their primary resource. The Company believes that its customers generally have larger order sizes and order more frequently from their primary suppliers. The Company estimates that it serves as a primary supplier to less than 10% of its total customer base, and believes it has an opportunity to increase sales by increasing its level of business with those customers for which it serves as a secondary supplier.

Over the past several years the Company has expanded its customer base to include larger purchasing organizations, including certain dental laboratories, institutions, government agencies, renal dialysis centers and surgery centers. More recently, as cost-containment pressures have resulted in increased demand for low-cost products and value-added services, the Company has targeted specific groups of practices under common ownership, institutions and professional groups. For example, the Company has an exclusive direct marketing agreement with an American Medical Association ("AMA") sponsored service and a veterinarian-sponsored service, pursuant to which member practitioners have access to the services' lower priced products. In 1995, the AMA-sponsored service and the veterinarian-sponsored purchasing service accounted for net sales of over \$16.7 million. These services, government institutions and agencies, and other large or collective purchasers, require low-cost pricing and detailed product and usage information and reporting. The Company believes it is well situated to meet the needs of these customers, given its broad, low-cost product offerings, and its management information systems. No single customer accounted for more than 4.0% of net sales in 1995.

SALES AND MARKETING

The Company's sales and marketing efforts, which are designed to establish and solidify customer relationships through frequent direct marketing contact, emphasize the Company's broad product lines, competitive prices and ease of order placement. In addition, the Company's marketing efforts involve personal interaction with field sales consultants in certain locations. The key elements of the Company's program in the United States are:

. Direct Marketing. During 1995, the Company distributed over 8.5 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to approximately 600,000 office-based healthcare practitioners. The Company's principal U.S. dental catalog, which is issued semi-annually, contains an average of over 300 pages and includes

approximately 18,000 SKUs. The number of catalogs and other material received by each customer depends upon the market they serve as well as their purchasing history. The Company's catalogs include detailed descriptions and specifications of both branded and private brand products and are utilized by healthcare practitioners as a reference source. By evaluating its customers' purchasing patterns, area of specialty, past product selections and other criteria, the Company identifies customers who may respond better to specific promotions or products. To facilitate its direct marketing activities, the Company maintains an in-house advertising department which performs many creative services, which the Company believes streamlines the production process, provides greater flexibility and creativity in catalog production, and results in cost savings.

. Telesales. The Company supports its direct marketing with approximately 400 inbound and outbound telesales representatives who facilitate order processing and generate new sales through direct and frequent contact with customers. Inbound telesales representatives are responsible for assisting customers in purchasing decisions as well as answering product pricing and availability questions. In addition to assisting customers, inbound telesales representatives also market complementary or promotional products. The Company's telesales representatives utilize on-line computer terminals to enter customer orders and to access information about products, product availability, pricing, promotions and customer buying history.

The Company utilizes outbound telesales representatives and programs to better market its services to those customer accounts identified by the Company as either being high volume or high order frequency accounts. The Company's U.S. dental outbound telesales representatives, accounted for \$78.6 million of the Company's net sales in 1995. The Company has approximately 85 medical and veterinary telesales representatives who make outbound calls in addition to handling inbound telesales. Outbound telesales representatives strive to manage long-term relationships with these customers through frequent and/or regularly scheduled phone contact and personalized service.

The Company's telesales representatives generally participate in an initial two-week training course designed to familiarize the sales representatives with the Company's products, services and systems. In addition, generally all telesales representatives attend periodic training sessions and special sales programs and receive incentives, including monthly commissions.

. Field Sales Consultants. In 1992, the Company initiated its field sales consultant program and now has approximately 250 field sales consultants covering certain of its major North American and European markets. The field sales consultants concentrate on attracting new customers and increasing sales to customers who do not currently order a high percentage of their total product needs from the Company. This strategy is designed to complement the Company's direct marketing and telesales strategies and to enable the Company to better market, service and support the sale of more sophisticated products and equipment. Once a field sales consultant has established a relationship with a customer, the representative encourages the customer to use the Company's automated ordering process or its telesales representatives for its day-to-day needs. This simplifies the ordering process for the customer and increases the effectiveness of the field sales consultant.

CUSTOMER SERVICE

A principal element of the Company's customer service approach is to offer an order entry process that is convenient, easy and flexible. Customers typically place orders with one of the Company's experienced telesales representatives. Orders may also be placed 24-hours a day by fax, mail, PROTONE(R) (the Company's 24-hour automated phone service) or its computerized order entry system. The Company has developed an enhanced Windows(R)-based version of its computerized order entry system, known as Aruba(R), which was introduced at the end of 1995.

The Company focuses on providing rapid and accurate order fulfillment and high fill rates. The Company estimates that approximately 99% of all items ordered in the United States and Canada are shipped without back ordering, and that approximately 99% of all orders in the United States and Canada received before 6:00 p.m. are shipped on the same day the order is received. In addition, because the Company seeks to service a customer's entire order from the distribution center nearest the customer's facility, the Company estimates that over 90% of orders are received by its customers within two days of placing the order. The Company continually monitors its customer service through customer surveys, focus groups and daily statistical reports. The Company maintains a liberal return policy to better assure customer satisfaction with its products.

PRODUCTS

The following chart sets forth the principal categories of products offered by the Company (and in the case of the dental laboratory products, its wholly-owned subsidiary, Zahn Holdings, Inc., and its subsidiaries) and certain top selling types of products in each category, with the percentage of 1995 net sales in parenthesis:

| DENTAL PRODUCTS (67.3%) | | |
|---|---|---|
| CONSUMABLE DENTAL PRODUCTS AND SMALL EQUIPMENT (59.3%) | DENTAL LABORATORY PRODUCTS (5.8%) | LARGE DENTAL EQUIPMENT (2.2%) |
| X-Ray Products; Infection Control; Handpieces; Preventatives; Impression Materials; Composites; and Anesthetics | Teeth; Composites; Gypsum; Acrylics; Articulators; and Abrasives | Dental Chairs, Units and Lights; X-Rays; and Equipment Repair |
| MEDICAL PRODUCTS (23.5%) | VETERINARY PRODUCTS (4.9%) | VALUE-ADDED PRODUCTS AND SERVICES (4.3%) |
| Branded and Generic Pharmaceuticals; Surgical Products; Diagnostic Tests; Infection Control; and Vitamins | Branded and Generic Pharmaceuticals; Surgical Products; and Dental Products | Software and Related Products; and Financial Products |

The percentages of 1993 and 1994 net sales were as follows: consumable dental products and small equipment, 63.3% and 61.8%, respectively; dental laboratory products, 6.1% and 6.6%, respectively; large dental equipment, 4.2% and 3.6%, respectively; medical products, 18.6% and 20.1%, respectively; veterinary products, 5.9% and 5.7%, respectively; and value-added products and services, 1.9% and 2.2%, respectively.

Consumable Supplies and Equipment

The Company offers approximately 50,000 SKUs to its customers in North America, of which approximately 40,000 SKUs are offered to its dental customers, approximately 11,000 are offered to its medical customers and approximately 15,000 are offered to its veterinary customers. Over 20% of the Company's products are offered to all three types of the Company's customers in North America. The Company offers approximately 35,000 SKUs to its customers in Europe. Approximately 4,000 of the Company's SKUs accounted for 80% of the Company's sales in the United States in 1995. Approximately 17% of the Company's net sales in 1995 were from sales of products offered under the Henry Schein private brand (i.e., products manufactured by various third parties and HS Pharmaceutical for distribution by the Company under the Henry Schein(R) brand). The Company believes that the Henry Schein private brand line of over 5,000 SKUs offered in the United States and Canada is one of the most extensive in the industry. The Company also distributes certain generic pharmaceuticals manufactured by HS Pharmaceutical, a 50%-owned company, and has recently begun to manufacture and distribute certain large dental equipment as a result of its acquisition of Schein Dental Equipment, a

distributor and manufacturer of large dental equipment which, prior to its acquisition, was owned 73.7% by Marvin H. Schein, a director and principal stockholder of the Company. The Company updates its product offerings regularly to meet its customers' changing needs.

Value-Added Products and Services

In an effort to promote customer loyalty, the Company offers certain value-added products and services. These products and services include the following:

. Practice Management Software. The Company sells practice management software systems to its dental and veterinary customers. The Company has sold over 16,000 of its Easy Dental(R) Plus software systems as of the end of fiscal 1995, and over 2,000 of its AVImark(R) veterinary software systems. In December 1995, the Company released its new Windows(R) version of Easy Dental(R) Plus and sold over 2,700 such units through the first quarter of 1996. The Company's practice management software provides practitioners with patient treatment history, billing and accounts receivable analysis and management, an appointment calendar, electronic claims processing and word processing programs, and the Company provides technical support and conversion services from other software. In addition, the Easy Dental(R) Plus software will allow the customer to connect with the Company's order entry management systems.

. Financial Services. The Company has begun to offer its customers assistance in managing their practices by providing access to a number of financial services and products at rates which the Company believes are lower than what they would be able to secure independently. The patient financing program provides the Company's customers a method for reducing receivables and improving cash flow by providing patients access to financing. The Company facilitates the processing of credit applications, payments to its customers and electronic bankcard processing through a third-party provider for a transaction fee. The Company does not assume any financial obligation to its customers or their patients in these programs.

. Equipment Repair and Installation. The Company offers a repair service, ProRepair(R), which provides one-to-two-day turnaround for handpieces and certain small equipment. The Company also provides in-office installation and repair services for large equipment in certain markets in North America and Europe. The Company intends to expand its repair service business and sales of large dental equipment in connection with its acquisition of Schein Dental Equipment and the opening of equipment sales and service centers. The Company opened two new dental equipment sales and service centers in North America in 1996, and as of May 31, 1996 had a total of 18 centers in North America and Europe. See "Certain Transactions."

INFORMATION SYSTEMS

The Company's management information systems generally allow for centralized management of key functions, including inventory and accounts receivable management, purchasing, sales and distribution. A key attribute of the Company's management information systems is the daily operating control reports which allow managers throughout the Company to share information and monitor daily progress relating to sales activity, gross profit, credits and returns, inventory levels, stock balancing, unshipped orders, order fulfillment and other operational statistics. The Company is in the process of expanding and upgrading its order processing and accounts receivable information system in the United States.

DISTRIBUTION

The Company distributes its products in the United States and Canada primarily from its strategically located distribution centers in the Eastern, Central and Western United States. The Company maintains significant inventory levels of certain products in order to satisfy customer demand for prompt delivery and complete order fulfillment of their product needs. These inventory levels are managed on a daily basis with the aid of the Company's sophisticated purchasing and stock status

management information systems. The Company's European distribution centers include locations in the United Kingdom, France, The Netherlands, Germany and Spain. Once a customer's order is entered, it is electronically transmitted to the distribution center nearest the customer's location and a packing slip for the entire order is printed for order fulfillment. The Company's automated freight manifesting and laser bar code scanning facilitates the speed of the order fulfillment. The Company currently ships most of its orders in the United States by United Parcel Service. In certain areas of the United States, the Company delivers its orders via contract carriers.

PURCHASING

The Company believes that effective purchasing is a key element to maintaining and enhancing its position as a low-cost provider of healthcare products. The Company frequently evaluates its purchase requirements and suppliers' offerings and prices in order to obtain products at the best possible cost. The Company believes that its ability to make high volume purchases has enabled it to obtain favorable pricing and terms from its suppliers. The Company obtains its products for its North American distribution centers from over 1,200 suppliers of name brand products; in addition, the Company has established relationships with numerous local vendors to obtain products for its European distribution centers. In 1995, the Company's top 10 vendors and the Company's single largest vendor, accounted for approximately 28.5% and 10.4%, respectively, of the Company's aggregate purchases.

COMPETITION

The distribution and manufacture of healthcare supplies and equipment is intensely competitive. Many of the products the Company sells are available to the Company's customers from a number of suppliers. In addition, competitors of the Company could obtain exclusive rights from manufacturers to market particular products. Manufacturers could also seek to sell directly to end-users, and thereby eliminate the role of distributors, such as the Company. Significant price reductions by the Company's competitors could result in a similar reduction in the Company's prices as a consequence of its policy of matching its competitors' lowest advertised prices. Any of these competitive pressures may materially adversely affect operating results.

In the United States, the Company competes with other distributors, as well as several major manufacturers of dental, medical and veterinary products, primarily on the basis of price, breadth of product line, customer service and value-added services and products. In the sale of its dental products, the Company's two principal national competitors are Patterson Dental Co. and Sullivan Dental Products, Inc. In addition, the Company competes against a large number of other distributors that operate on a national, regional and local level. The Company's largest competitors in the sale of medical products are General Medical and Physician's Sales and Service, Inc., which are national distributors. In the veterinary product market, the Company's two principal national competitors include The Butler Company and Burns Veterinary Supply. The Company also competes against a large number of small local and regional veterinary distributors, as well as a number of manufacturers that sell direct to veterinarians whose practices are directed primarily to small animals. With regard to the Company's practice management software, the Company competes against a fragmented group of competitors, none of which currently have a significant share of the market. The Company believes that it competes in Canada substantially on the same basis as in the United States.

The Company also faces intense competition in its international markets, where the Company competes on the basis of price and customer service against a large number of dental product distributors and manufacturers in the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland and Spain. The Company has several large competitors in these markets, including ORBIS and the GACD Group.

GOVERNMENTAL REGULATION

The Company's business is subject to requirements under various local, state, Federal and foreign governmental laws and regulations applicable to the manufacture and distribution of pharmaceuticals and medical devices. Among the Federal laws with which the Company must comply are the Federal Food, Drug, and Cosmetic Act, the Prescription Drug Marketing Act of 1987, and the Controlled Substances Act. It is possible that the Company may be prevented from selling manufactured products if the Company (including its 50%-owned company, HS Pharmaceutical, which distributes and manufactures generic pharmaceuticals) were to receive an adverse report following an inspection by the Food and Drug Administration (the "FDA") or the Drug Enforcement Administration, or if a competitor were to receive prior approval of new products from the FDA. A violation of a law by HS Pharmaceutical could cause its operations to be suspended. A suspension could have an adverse effect on the Company's equity in earnings of affiliates and could cause the Company to seek alternative sources of products manufactured by HS Pharmaceutical, possibly at higher prices than currently paid by the Company.

The Federal Food, Drug, and Cosmetic Act generally regulates the introduction, manufacture, advertising, labeling, packaging, storage, handling, marketing and distribution of, and recordkeeping for, pharmaceuticals and medical devices shipped in interstate commerce. The Prescription Drug Marketing Act of 1987, which amended the Federal Food, Drug and Cosmetic Act, establishes certain requirements applicable to the wholesale distribution of prescription drugs, including the requirement that wholesale drug distributors be registered with the Secretary of Health and Human Services or licensed by each state in which they conduct business in accordance with federally established guidelines on storage, handling and record maintenance. Under the Controlled Substances Act, the Company, as a distributor of controlled substances, is required to obtain annually a registration from the Attorney General in accordance with specified rules and regulations and is subject to inspection by the Drug Enforcement Administration acting on behalf of the Attorney General. The Company is required to maintain licenses and permits for the distribution of pharmaceutical products and medical devices under the laws of the states in which it operates. In addition, the Company's dentist and physician customers are subject to significant governmental regulation. There can be no assurance that regulations that impact dentists' or physicians' practices will not have a material adverse impact on the Company's business.

The Company believes that it is in substantial compliance with all of the foregoing laws and the regulations promulgated thereunder and possesses all material permits and licenses required for the conduct of its business.

PROPRIETARY RIGHTS

The Company holds trademarks relating to the "Henry Schein" name and logo, as well as certain other trademarks. Pursuant to certain agreements executed in connection with the reorganization of the Company, both the Company and Schein Pharmaceutical are entitled to use the "Schein" name in connection with their respective businesses, but Schein Pharmaceutical is not entitled to use the name "Henry Schein." The Company intends to protect its trademarks to the fullest extent practicable. See "Reorganization."

EMPLOYEES

As of April 30, 1996, the Company had more than 2,700 full-time employees in the United States and Europe, including approximately 400 telesales representatives, 250 field sales consultants, 900 warehouse employees, 70 computer programmers and technicians, 250 management employees and 800 office, clerical and administrative employees. None of the Company's employees are represented by a collective bargaining agreement. The Company believes that its relations with its employees are excellent.

FACILITIES

The Company owns or leases the following properties:

| PROPERTY | LOCATION | OWN OR LEASE | APPROXIMATE SQUARE FOOTAGE | LEASE EXPIRATION DATE |
|-----------------------------|-----------------------|--------------|----------------------------|-----------------------|
| Distribution Center..... | Eastern United States | Own | 173,000 | N/A |
| Distribution Center..... | Central United States | Lease | 225,000 | December 1999 |
| Distribution Center..... | Western United States | Lease | 71,500 | June 2002 |
| Distribution Center..... | United Kingdom | Lease | 85,000 | December 2004 |
| Corporate Headquarters..... | Eastern United States | Lease | 100,000 | December 2005 |
| Other Facilities..... | Western United States | Own | 75,000 | N/A |

The Company also leases space in other locations in the United States, Canada, France, Germany, the Republic of Ireland, The Netherlands, Spain, and the United Kingdom. Two 50% owned companies also lease space in the United States and Canada.

The Company believes that its properties are generally in good condition, are well maintained, and are generally suitable and adequate to carry on the Company's business.

The Company has additional operating capacity at its listed facilities.

LEGAL MATTERS

The manufacture or distribution of certain products by the Company involves a risk of product liability claims, and from time to time the Company is named as a defendant in products liability cases as a result of its distribution of pharmaceutical and other healthcare products. As of May 31, 1996, the Company was named a defendant in 12 such cases. The Company believes it is adequately covered by insurance in all these cases, subject to certain self retention limits, and that none of the currently pending cases will have a material adverse effect on the Company. In addition, the Company was a defendant in several cases involving the distribution of the drug L-Tryptophan, all of which have been resolved at no cost to the Company. With respect to possible future claims, if any, the manufacturer of L-Tryptophan has agreed to defend and indemnify the Company for the period in which the Company served as a distributor of this product. The Company believes that this agreement provides adequate protection for future claims.

The Company has various insurance policies, including product liability insurance covering risks and in amounts it considers adequate. In many cases the Company is covered by indemnification from the manufacturer of the product. There can be no assurance that the coverage maintained by the Company is sufficient to cover all future claims or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide adequate protection for the Company.

As part of the Company's effort to expand its field sales force, the Company frequently hires field sales consultants with experience in the office-based healthcare practitioner industry. The Company's hiring practices have from time to time resulted in litigation instituted by former employers of the field sales consultants hired by the Company. On October 19, 1995, an action was filed against the Company by H. Meer Dental Supply Co., Inc. ("Meer"), in the United States District Court for the Eastern District of Michigan, Southern Division. The complaint alleges unfair competition, predatory pricing or anti-competitive conduct and, through the hiring of Meer sales representatives, improper interference with Meer's relationships with its employees and customers and misappropriation of trade secrets. There are two additional litigations that similarly allege improper interference with employee and customer relationships. The plaintiffs in these actions seek unspecified damages, and Meer and one of the other plaintiffs also seek an injunction against the Company. Meer had sought a temporary restraining order in a similar action brought in September 1995 in the United States District Court, Southern District of Ohio, Eastern Division, which order was denied on the basis of the court concluding that it could not make a finding at that time that there was a likelihood that Meer would prevail on the merits. The Company intends to vigorously defend these litigations. The Company believes that none of these three actions will have a material adverse effect on the Company.

REORGANIZATION

GENERAL

The Company was formed on December 23, 1992 as a wholly-owned subsidiary of Holdings. At that time, Holdings conducted the business in which the Company is now engaged and, in addition, owned 100% of the outstanding capital stock of Schein Pharmaceutical, a company engaged in the manufacture and distribution of multi-source pharmaceutical products.

In December 1992, Holdings separated the Company's business from Schein Pharmaceutical by transferring to the Company all of the assets and liabilities of the healthcare distribution business now conducted by the Company, which assets included Holdings' 50% interest in HS Pharmaceutical. No other assets or liabilities, including the assets and liabilities associated with Schein Pharmaceutical's business, were transferred to the Company. In connection with that transaction, the Company agreed to indemnify Holdings for all of the liabilities assumed by the Company, and Holdings agreed to indemnify the Company for the liabilities associated with Schein Pharmaceutical's business of manufacturing and distributing generic pharmaceuticals. Other than certain common stockholders, there is no affiliation between the Company and Schein Pharmaceutical, and all transactions between the Company and Schein Pharmaceutical are on an arms-length basis.

In February 1994 the Company, Holdings, Stanley M. Bergman, Marvin H. Schein, Pamela Joseph, Pamela Schein, Steven Paladino, James P. Breslawski, Martin Sperber (the Chief Executive Officer of Schein Pharmaceutical) and certain other parties entered into a number of reorganization agreements. In September 1994, pursuant to the reorganization agreements, all of the Common Stock held by Holdings was distributed to certain of the current stockholders of the Company. Marvin H. Schein, Pamela Schein and Pamela Joseph have agreed to severally indemnify the Company against certain potential costs and claims, if any, which might be incurred by the Company in the future from the transactions related to the Reorganization. The Company and Schein Pharmaceutical also agreed that after September 1994 the Company would be entitled to use the "Henry Schein" name in activities involving non-pharmaceutical products and pharmaceuticals for dental and veterinary purposes, which activities may include marketing, distributing, labelling, packaging, manufacturing (such as HS Pharmaceutical's manufacturing of generic pharmaceuticals and Schein Dental Equipment's manufacturing of large dental equipment, which are the principal manufacturing activities currently conducted by the Company, its subsidiaries and 50%-or-less owned entities--see "Certain Transactions--Acquisition of The Schein Dental Equipment Corp.") and selling such products. The Company and Schein Pharmaceutical also agreed that after September 1994, Schein Pharmaceutical would be entitled to use the "Schein Pharmaceutical" name in similar activities involving pharmaceuticals for non-dental human treatment. Schein Pharmaceutical is not permitted to use the name "Henry Schein."

REORGANIZATION AGREEMENTS

Agreements Relating to Control of the Company

One of the Reorganization agreements, a Voting Trust Agreement (the "Voting Trust"), gives Stanley M. Bergman (or his successor trustee) the right to vote all of the shares of Common Stock owned by certain stockholders of the Company, which will be approximately 39.7% of the outstanding shares of Common Stock immediately after the completion of this Offering. Another of the Reorganization agreements, the Amended and Restated HSI Agreement (the "Global Agreement"), provides that the Board of Directors of the Company may consist of up to 11 members, and that until the earlier of January 1, 1999 or the termination of the Voting Trust, Mr. Bergman (or his successor trustee) has the right to nominate all but three of the nominees to the Board of Directors. Marvin H. Schein, Pamela Joseph and Pamela Schein have the right to serve as or nominate the remaining three directors. In general, from the earlier of January 1, 1999 or the termination of the Voting Trust until the earlier of January 1, 2004 or the first date on which Marvin H. Schein and his family group no longer beneficially

own at least 25% of the outstanding Common Stock that they owned immediately after the Reorganization, or the date of certain changes in the Company's management, Mr. Bergman (or his successor trustee) has the right to nominate all of the nominees to the Board of Directors, provided, that if Marvin H. Schein does not approve such nominations, Mr. Bergman (or his successor trustee) and Mr. Schein will each nominate four nominees (of which one will be an independent nominee) and the ninth nominee will be selected by the two independent nominees. As a result of the foregoing, until December 31, 1998, Mr. Bergman, as a practical matter, will be able to significantly influence all matters requiring stockholder approval, including the election of directors, and until January 1, 2004, Mr. Bergman will have the ability to significantly influence the election of all or a substantial number of the directors of the Company.

The Global Agreement also requires the parties to the Voting Trust and Marvin H. Schein to vote in favor of the individuals so nominated until the earlier of January 1, 1999 or the termination of the Voting Trust, and to vote their shares in favor of the nominees of Stanley M. Bergman until January 1, 2004. The Voting Trust terminates on December 31, 1998, but is subject to earlier termination if, among other things, Stanley M. Bergman ceases to be employed by or serve as a director of the Company (unless certain other members of current management are serving as senior executives of the Company) or the Company consummates a business combination which results in Marvin H. Schein (including his family members) owning less than 5% of the voting securities of the surviving corporation.

The Global Agreement affords Marvin H. Schein or his designee the right to serve on each committee of the Board of Directors to which the Board of Directors has delegated decision-making authority and the right to call a special meeting of the Board of Directors. The Global Agreement also limits the Company's ability to adopt a shareholder rights plan or "fair price amendment," if such plan or amendment would affect Marvin H. Schein or Pamela Schein (including their respective family members), as long as Marvin H. Schein or Pamela Schein own certain specified percentages of the outstanding Common Stock. The Global Agreement also limits the ability of Marvin H. Schein, Pamela Schein and Pamela Joseph to participate in any solicitation of proxies or any election contest.

Restrictions on Transfers

The Global Agreement places certain restrictions on the ability of the parties thereto to transfer any of the shares of Common Stock owned by them and further provides that the Company may not, prior to the earlier of December 31, 2003 or the first date on which neither Marvin H. Schein nor Pamela Schein (including their respective family members) own at least 5% of the outstanding shares of Common Stock, (i) issue in one or more private transactions securities having more than 20% of the total votes that can be cast in any election of directors of the Company without first offering Marvin H. Schein and Pamela Schein (including their respective family members) the right to purchase such securities; (ii) issue securities in connection with a business combination having more than 20%, or resulting in a person owning more than 20%, of the total votes that can be cast in any election of directors without the consent of Marvin H. Schein; or (iii) issue preferred stock having the right to cast more than 20% of the total votes that can be cast in any election of directors of the Company. In addition, certain members of management have agreed not to transfer their shares until November 3, 1998, subject to acceleration in Mr. Bergman's discretion. Restrictions on the ability of stockholders to transfer their stock may make it more difficult for a third party to acquire, or may discourage acquisition bids for, the Company, and could limit the price that certain investors might be willing to pay in the future for shares of Common Stock.

The Global Agreement provides that the Company will indemnify each of the other parties to the Reorganization agreements, and their family groups, from damages resulting from (i) claims asserted by third parties relating to the Reorganization agreements and (ii) any material breach of a representation, warranty or covenant made by the Company in any of the Reorganization agreements. Marvin H. Schein has agreed to consult with Pamela Schein prior to the exercise of certain of his rights of approval and consent under the Reorganization agreements.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding the directors and executive officers of the Company.

| NAME ---- | AGE --- | POSITION ----- |
|---------------------------|------------|---|
| CORPORATE | | |
| Stanley M. Bergman..... | 46 | Chairman, Chief Executive Officer, President and Director |
| James P. Breslawski..... | 42 | Executive Vice President and Director |
| Gerald A. Benjamin..... | 44 | Senior Vice President--Administration and Customer Satisfaction and Director |
| Leonard A. David..... | 48 | Vice President--Human Resources, Special Counsel and Director |
| Diane Forrest..... | 48 | Senior Vice President--Information Services and Chief Information Officer |
| Stephen R. LaHood..... | 48 | Senior Vice President--Distribution Services |
| Mark E. Mlotek..... | 40 | Vice President, General Counsel, Secretary and Director |
| Steven Paladino..... | 39 | Senior Vice President, Chief Financial Officer and Director |
| BUSINESS UNITS | | |
| Jeffrey P. Gasparini..... | 40 | Senior Vice President, Medical Group |
| Ian G. Rosmarin..... | 45 | President--Professional Services Group |
| James W. Stahly..... | 47 | President--North American Dental Group |
| Michael Zack..... | 43 | Senior Vice President--International Group |
| OTHER DIRECTORS | | |
| Barry J. Alperin..... | 55 | Director |
| Pamela Joseph..... | 53 | Director |
| Donald J. Kabat..... | 60 | Director |
| Marvin H. Schein..... | 54 | President, Schein Dental Equipment, and Director |
| Irving Shafran..... | 52 | Director |

BACKGROUND OF DIRECTORS AND EXECUTIVE OFFICERS

STANLEY M. BERGMAN has been Chairman, Chief Executive Officer and President since 1989, and a director of the Company since 1982. Mr. Bergman held the position of Executive Vice President of the Company and Schein Pharmaceutical from 1985 to 1989 and Vice President of Finance and Administration of the Company from 1980 to 1985. Mr. Bergman is a certified public accountant.

JAMES P. BRESLAWSKI has been Executive Vice President of the Company since 1990, with primary responsibility for the North American Dental Group, the Veterinary Group and corporate creative services, and a director of the Company since 1990. Between 1980 and 1990, Mr. Breslawski held various positions with the Company, including Chief Financial Officer, Vice President of Finance and Administration and Controller. Mr. Breslawski is a certified public accountant.

GERALD A. BENJAMIN has been Senior Vice President of Administration and Customer Satisfaction since 1993, including responsibility for the worldwide human resource function, and has been a director of the Company since September 1994. Prior to holding his current position, Mr. Benjamin was Vice President of Distribution Operations of the Company from 1990 to 1992 and Director of Materials Management of the Company from 1988 to 1990. Before joining the Company, Mr. Benjamin was

employed for 13 years in various management positions at Estee Lauder, where his last position was Director of Materials Planning and Control.

LEONARD A. DAVID has been Vice President of Human Resources and Special Counsel since January 1995. Mr. David held the office of Vice President, General Counsel and Secretary from 1990 to 1995 and practiced corporate and business law for eight years prior to joining the Company. Mr. David has been a director of the Company since September 1994.

DIANE FORREST joined the Company in 1994 as Senior Vice President of Information Services and Chief Information Officer. Prior to joining the Company, Ms. Forrest was employed by Tambrands Inc. as Vice President of Information Services from 1987 to 1994, KPMG Peat Marwick as Senior Manager in the management consulting division from 1982 to 1987 and Nabisco Brands, Inc. as Corporate Manager of Manufacturing Systems from 1978 to 1982.

STEPHEN R. LAHOOD joined the Company in 1992 as Senior Vice President of Distribution Services. Prior to joining the Company, Mr. LaHood was employed by Lex/Schweber Electronics Inc. as Vice President of Operations and Quality from 1988 to 1991. Mr. LaHood also spent ten years at Johnson & Johnson Products, Inc., where his last position was Manager of Corporate Business Planning and thereafter, seven years at Schering-Plough Corporation where his last position was Senior Director of Manufacturing Operations.

MARK E. MLOTEK joined the Company in December 1994 as Vice President, General Counsel and Secretary, and became a director of the Company in September 1995. Prior to joining the Company, Mr. Mlotek was a partner in the law firm of Proskauer Rose Goetz & Mendelsohn LLP, counsel to the Company, specializing in mergers and acquisitions, corporate reorganizations and tax law from 1989 to 1994.

STEVEN PALADINO has been Senior Vice President and Chief Financial Officer of the Company since 1993, and has been a director of the Company since 1992. From 1990 to 1992, Mr. Paladino served as Vice President and Treasurer and from 1987 to 1990 served as Corporate Controller of the Company. Before joining the Company, Mr. Paladino was employed as a public accountant for seven years and most recently was with the international accounting firm of BDO Seidman, LLP. Mr. Paladino is a certified public accountant.

JEFFREY P. GASPARINI joined the Company in February 1996 as Senior Vice President of the Medical Group. Prior to joining the Company, Mr. Gasparini was employed by General Medical Corp. since 1982, where his last position was Corporate Vice President of Operations and member of the Executive Board.

IAN G. ROSMARIN joined the Company in 1992 as General Manager of the Canadian Division and in 1993 was named to his current position of President of the Professional Service Group of the Company. Prior to joining the Company, Mr. Rosmarin was President of Rosmarin Management and Investment Corporation for 13 years. Mr. Rosmarin is a Canadian Chartered Accountant.

JAMES W. STAHLY joined the Company in 1994 as President of the North American Dental Group of the Company. Before joining the Company, Mr. Stahly was employed by Fox Meyer Corporation for seven years, where his last position was Senior Vice President--Hospital and Alternate Care Sales. Prior to his employment with Fox Meyer, Mr. Stahly spent 16 years at McKesson Drug Company.

MICHAEL ZACK has been responsible for the International Group of the Company since 1989. Mr. Zack was employed by Polymer Technology (a subsidiary of Bausch & Lomb) as Vice President of International Operations from 1984 to 1989 and by Gruenthal Inc. as Manager of International Subsidiaries from 1975 to 1984.

BARRY J. ALPERIN has been a director of the Company since May 1996. Mr. Alperin has also been a private consultant since August 1995. Mr. Alperin served as a director of Hasbro, Inc. from 1986 through May 1996 and as Vice Chairman of Hasbro, Inc. from 1990 through July 1995. Mr. Alperin served as Co-Chief Operating Officer of Hasbro, Inc. from 1989 through 1990 and as its Senior Vice President and Executive Vice President from 1985 through 1989. Mr. Alperin recently served as Chairman of the Board for Toy Manufacturers of America, an industry trade association. Mr. Alperin currently serves as a director for Seaman Furniture Co., Inc. and K'nex Industries, Inc.

PAMELA JOSEPH has been a director of the Company since September 1994. For the past five years Ms. Joseph has been a self-employed artist, and is president of MA Nose Studios, Inc. Ms. Joseph is also a trustee of Alfred University.

DONALD J. KABAT has been a director of the Company since May 1996. From 1992 until the present, Mr. Kabat has served as President of D.K. Consulting Services, Inc. and Chief Financial Officer of Central Park Skaters, Inc. From 1970 to 1992, Mr. Kabat was a partner in Andersen Consulting, an affiliate of Arthur Andersen, LLP.

MARVIN H. SCHEIN has been a director of the Company since September 1994 and has provided consulting services to the Company since 1982. Mr. Schein founded Schein Dental Equipment and had been its President for more than 15 years. Prior to founding Schein Dental Equipment, Mr. Schein held various management and executive positions with the Company.

IRVING SHAFRAN has been a director of the Company since September 1994 and was nominated by Pamela Schein as her designee for director of the Company. Mr. Shafran has been an attorney in private practice for more than twenty-five years. From 1991 through mid-1995, Mr. Shafran was a partner in the law firm of Anderson Kill Olick and Oshinsky, PC.

The Company's Board of Directors is currently composed of eleven directors, six of whom are employees of the Company. Directors serve until the next annual stockholders' meeting or until their successors have been duly elected and qualified.

COMMITTEES OF THE BOARD OF DIRECTORS

During fiscal 1995, the Board of Directors held six meetings.

The Board of Directors established an Audit Committee of independent directors in January 1996. The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its responsibility, since January 1996, the Audit Committee recommended to the Board of Directors, subject to stockholder approval, the selection of the Company's independent public accountants. The Audit Committee also discussed the Company's consolidated financial statements and the adequacy of the Company's internal controls. The Audit Committee met with the independent public accountants to discuss the results of their audit of the Company, their evaluation of the Company's internal controls and the overall quality of the Company's financial reporting. In May 1996, Messrs. Alperin and Kabat became the members of the Audit Committee.

The Board of Directors established a Compensation Committee in January 1996 which is currently comprised of Messrs. Bergman, Alperin and Kabat. The Compensation Committee will make recommendations regarding the compensation and benefit policies and procedures of the Company.

The Board of Directors has a Stock Option Committee which currently consists of Messrs. Bergman, Breslawski and Schein. The Stock Option Committee determines grants under the Company's 1994 Stock Option Plan. The Stock Option Committee held no meetings during fiscal 1995.

LIMITATIONS ON LIABILITY

The Company's Amended and Restated Certificate of Incorporation provides that no director of the Company shall be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty by such director as a director, except for liability: (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions of the director not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) in respect of certain unlawful dividend payments or stock redemptions or purchases, or (iv) for any transaction from which the director derived an improper personal benefit. The effect of these provisions is to eliminate the rights of the Company and its stockholders (through stockholders' derivative suits on behalf of the Company) to recover monetary damages against a director for breach of fiduciary duty as a director (including breaches resulting from grossly negligent behavior), except in the situations described above. These provisions will not limit the liability of directors under federal securities laws and will not affect the availability of equitable remedies such as an injunction or rescission based upon a director's breach of his or her duty of care. In addition, the Company intends to enter into agreements with each of its directors and certain of its officers providing for indemnification of those individuals under certain circumstances. The Company has obtained director and officer liability insurance that insures the Company's directors and officers against certain liabilities.

COMPENSATION OF DIRECTORS

No directors received compensation in fiscal 1995, other than reimbursement of expenses, for their services as directors. Messrs. Alperin and Kabat each receive a \$20,000 annual retainer. Messrs. Alperin and Kabat also receive \$500 per board meeting and \$250 per committee meeting attended. Each director will be reimbursed for their out-of-pocket expenses in attending board and committee meetings. In addition, Messrs. Alperin and Kabat have been granted options to purchase 5,000 shares of the Company's Common Stock under the Company's 1996 Non-Employee Director Stock Option Plan.

See "Certain Transactions" for a description of Marvin H. Schein's Consulting Agreement, including amounts paid in compensation to Mr. Schein.

EXECUTIVE COMPENSATION

The following table sets forth information concerning compensation of the Company's Chief Executive Officer and the four most highly paid executive officers (collectively, the "Named Executive Officers") of the Company whose salary and bonus exceeded \$100,000 for the fiscal years ended December 31, 1994 and December 30, 1995.

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | YEAR | ANNUAL COMPENSATION | | | LONG TERM COMPENSATION | | | OTHER COMPENSATION (\$)(4) |
|---|------|---------------------|------------|-----------------------------------|--------------------------------|---------------|---------------------|----------------------------|
| | | SALARY (\$) | BONUS (\$) | OTHER ANNUAL COMPENSATION (\$)(1) | RESTRICTED STOCK AWARDS(\$)(2) | STOCK OPTIONS | LTIP PAYOUTS(\$)(3) | |
| Stanley M. Bergman..... | 1995 | 479,050 | 307,034 | 19,343 | -- | -- | -- | 36,144 |
| Chairman, Chief Executive Officer and President | 1994 | 469,050 | 260,496 | 258,259 | -- | -- | 17,303,475 | 24,988 |
| James P. Breslawski..... | 1995 | 270,782 | 66,000 | 13,500 | -- | -- | -- | 21,458 |
| Executive Vice President | 1994 | 257,782 | 60,000 | 1,000,364 | 1,171,788 | -- | 382,618 | 19,184 |
| Gerald A. Benjamin..... | 1995 | 205,000 | 52,500 | 13,500 | -- | 47,200 | -- | 15,064 |
| Senior Vice President of Administration and Customer Satisfaction | 1994 | 185,000 | 42,500 | 189,174 | 220,761 | -- | 243,825 | 13,722 |
| Steven Paladino..... | 1995 | 205,000 | 52,500 | 13,500 | -- | 54,700 | -- | 14,812 |
| Senior Vice President and Chief Financial Officer | 1994 | 185,000 | 42,500 | 189,174 | 220,761 | -- | 243,825 | 13,496 |
| Randolph W. Jones(5)..... | 1995 | 283,445 | -- | 13,500 | -- | -- | -- | 21,640 |
| President of the Diversified Healthcare Group | 1994 | 275,945 | 35,000 | 100,697 | 98,117 | 24,800 | 264,732 | 21,266 |

(1) The 1994 amounts shown in this column include amounts recorded for each of Messrs. Breslawski, Benjamin, Paladino and Jones of \$986,864, \$175,674, \$175,674 and \$87,197, respectively, to pay income taxes attributable to the stock issuances made to each of them in 1994 and auto allowances of \$13,500 for each executive, excluding Mr. Bergman. Mr. Bergman was given a cash bonus of \$258,259 in 1994 to pay certain additional income taxes attributable to the stock issuances described below in footnote 3. The 1995 amounts include auto allowances of \$13,500 for each executive, excluding Mr. Bergman, and \$19,343 of compensation to Mr. Bergman for the use of a car and related expenses.

(2) Mr. Breslawski was issued 165,528 shares of Common Stock with an aggregate value of approximately \$1.2 million on December 31, 1994. Messrs. Benjamin and Paladino were each issued 31,185 shares of Common Stock with an aggregate value of approximately \$220,761 on December 31, 1994. Mr. Jones was issued 13,860 shares of Common Stock with an aggregate value of \$98,117 on December 31, 1994.

(3) Mr. Bergman was issued 1,466,685 shares of Common Stock and was issued shares of common stock of Schein Pharmaceutical on December 24, 1992. The value of these shares on September 30, 1994 was \$17.3 million in the aggregate. These shares when issued had a value of \$6.2 million and \$2.6 million, respectively, the entire amount of which was charged as deferred compensation. The issuances to Mr. Bergman are being included herein at their fair market value on September 30, 1994 because, on that date, certain contingencies relating to the stock were eliminated and the shares became fully vested. Accordingly, the deferred compensation which was charged in 1992 and a mark-to-market adjustment to fair market value on such date was recorded in 1994. Mr. Breslawski received \$382,618 in 1994 in satisfaction of his Executive Incentive Plan balance, payable with 30,294 shares of Common Stock with an aggregate value of \$214,454 on December 31, 1994 and a \$168,164 cash payment. Each of Messrs. Benjamin and Paladino received \$243,825 in 1994 in satisfaction of their Executive Incentive Plan balance, payable with 19,305 shares of Common Stock with an aggregate value of \$136,662 on December 31, 1994 and \$107,163 in cash. Mr. Jones received \$264,732 in 1994 in satisfaction of his Executive Incentive Plan balance, payable with 19,800 shares of Common Stock with an aggregate value of \$140,166 on December 31, 1994 and \$124,566 in cash.

(4) The 1994 amounts shown in this column represent (i) profit sharing contributions made by the Company on behalf of Mr. Bergman, Mr. Breslawski and Mr. Jones of \$9,434, on behalf of Mr. Benjamin of \$7,519 and on behalf of Mr. Paladino of \$7,524, (ii) contributions under the Company's Employee Stock Ownership Plan ("ESOP") made by the Company on each executives' behalf of \$4,500 and (iii) excess life insurance and Supplemental Executive Retirement Plan ("SERP") contributions of \$1,186 and \$9,868 for Mr. Bergman, \$950 and \$4,300 for Mr. Breslawski, \$653 and \$1,050 for Mr. Benjamin, \$422 and \$1,050 for Mr. Paladino, and \$1,747 and \$5,585 for Mr. Jones, respectively. The 1995 amounts shown in this column represent (i) profit sharing contributions made by the Company on behalf of each executive of \$6,000, (ii) ESOP contributions made by the Company on each executives' behalf of \$4,500, (iii) excess life insurance and SERP contributions of \$2,610 and \$23,034 for Mr. Bergman, \$1,003 and \$8,455 for Mr. Breslawski, \$714 and \$3,850 for Mr. Benjamin, \$462 and \$3,850 for Mr. Paladino, and \$1,799 and \$9,341 for Mr. Jones, respectively, and (iv) an anniversary bonus to Mr. Breslawski of \$1,500.

(5) As of February 9, 1996, Mr. Jones was no longer an executive officer of the Company.

The following table summarizes the number of shares and the terms and conditions of stock options granted to the Named Executive Officers in fiscal 1995.

OPTION GRANTS IN FISCAL 1995

| NAME | NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED | PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1995(1) | EXERCISE PRICE PER SHARE (\$/SH) | MARKET PRICE PER SHARE ON DATE OF GRANT (\$/SH) | EXPIRATION DATE | POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM | | |
|--------------------------|---|---|----------------------------------|---|-----------------|--|---------|----------|
| | | | | | | 0% (\$) | 5% (\$) | 10% (\$) |
| Stanley M. Bergman..... | -- | -- | -- | -- | -- | -- | -- | -- |
| James P. Breslawski..... | -- | -- | -- | -- | -- | -- | -- | -- |
| Gerald A. Benjamin..... | 17,500(2) | 2.7% | 16.00 | 16.00 | 11/3/2005 | 0 | 176,050 | 446,250 |
| | 29,700(3) | 4.6% | 4.21 | 7.08 | 5/1/2005 | 85,239 | 217,480 | 420,365 |
| Steven Paladino..... | 25,000(2) | 3.8% | 16.00 | 16.00 | 11/3/2005 | 0 | 251,500 | 637,500 |
| | 29,700(3) | 4.6% | 4.21 | 7.08 | 5/1/2005 | 85,239 | 217,480 | 420,365 |
| Randolph W. Jones..... | 5,000(2) | 0.8% | 16.00 | 16.00 | 11/3/2005 | 0 | 50,300 | 127,500 |
| | 19,800(4) | 3.0% | 4.21 | 7.08 | 5/1/2005 | 56,826 | 144,936 | 280,243 |

(1) In fiscal 1995, the Company granted options to purchase 651,297 shares of Common Stock, consisting of 237,897 Class A options and 413,400 Class B options.

(2) Options are exercisable in three annual installments. The first installment was exercisable on November 3, 1995. As of March 1996, Mr. Jones' options were cancelled.

(3) Options are currently exercisable.

(4) Options are exercisable in six annual installments. The first installment was exercisable on December 31, 1995. As of March 1996, 16,500 of Mr. Jones' options were cancelled.

The following table summarizes the number of all unexercised options held by the Named Executive Officers at the end of fiscal 1995, and their value at that date if they were in-the-money. No stock options were exercised in fiscal 1995.

AGGREGATE FISCAL 1995 YEAR-END OPTION VALUES

| NAME | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/31/95 | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/95 | | | |
|---------------------------|---|-------------------|---|----------|---------------|----------|
| | EXERCISABLE (#) | UNEXERCISABLE (#) | EXERCISABLE | | UNEXERCISABLE | |
| | | | SHARES (#) | TOTAL \$ | SHARES (#) | TOTAL \$ |
| Stanley M. Bergman..... | -- | -- | -- | -- | -- | -- |
| James P. Breslawski..... | -- | -- | -- | -- | -- | -- |
| Gerald A. Benjamin..... | 29,700 | 17,500 | 29,700 | 751,113 | 17,500 | 236,250 |
| Steven Paladino..... | 29,700 | 25,000 | 29,700 | 751,113 | 25,000 | 337,500 |
| Randolph W. Jones(1)..... | 3,300 | 21,500 | 3,300 | 83,457 | 21,500 | 484,785 |

(1) As of March 1996, Mr. Jones' unexercisable options were cancelled.

EMPLOYMENT AND OTHER AGREEMENTS

The Company and Mr. Stanley M. Bergman entered into an employment agreement dated as of January 1, 1992, providing for his continued employment as Chairman of the Board, President and Chief Executive Officer until December 31, 1999. The employment agreement provides Mr. Bergman with a base salary of \$504,050 for 1996, \$519,050 for 1997, \$544,050 for 1998, and \$559,050 for 1999. In addition, the employment agreement provides for incentive compensation to be determined by the Compensation Committee of the Board of Directors (or, if there is no Compensation Committee, the

Board of Directors). Based on the range of incentive compensation provided for in the employment agreement, it is anticipated that incentive compensation for 1996 will be in the range of \$70,000 to \$425,000. The range of incentive compensation increases to \$75,000 to \$445,000 in 1997, \$80,000 to \$465,000 in 1998, and \$85,000 to \$485,000 in 1999. The employment agreement also provides that Mr. Bergman will continue to participate in all benefit, welfare and perquisite plans, policies and programs generally available to either the Company's employees or the Company's senior executive officers. The Company provides Mr. Bergman with the use of an automobile and expenses related thereto, and other miscellaneous benefits. If Mr. Bergman's employment with the Company is terminated without cause or terminated by Mr. Bergman following a material breach by the Company of the employment agreement which is not cured during the requisite period for cure of such breach, Mr. Bergman will receive all amounts then owed to him as salary and deferred compensation and any benefits accrued and owed to him or his beneficiaries under the then applicable benefit plans, programs and policies of the Company. In addition, Mr. Bergman will receive as severance pay, 100% of his then annual base salary and a payment equal to the account balance or accrued benefit Mr. Bergman would have been credited with under each pension plan maintained by the Company, assuming the Company would have continued contributions until the natural expiration of the employment agreement, less Mr. Bergman's vested account balance or accrued benefits under each pension plan. Unless the employment agreement is terminated for cause or pursuant to Mr. Bergman's voluntary resignation, the Company will continue the participation of Mr. Bergman and his family in the health and medical plans, policies and programs in effect with respect to senior executive officers of the Company and their families. Coverage for Mr. Bergman and his spouse will continue from the end of Mr. Bergman's employment until their respective deaths, and coverage for his children will continue until their attainment of the age of twenty-one.

The Company has entered into agreements with the Named Executive Officers and certain other senior managers to provide that if an executive's employment is terminated by the executive or by the Company without cause or for good reason and not within two years after a change in control of the Company, the Company will pay to the executive severance pay equal to one month's base salary for each month the executive has been employed by the Company, with a minimum of six months and a maximum of twelve months, subject to offset for remuneration for subsequent employment. If the executive is terminated within two years following a change in control of the Company which has not been approved by a supermajority of the Board of Directors, the executive's severance pay will equal three times the severance pay the executive would have received had no change of control occurred, plus three times the amount of executive's incentive bonus for the year preceding the year of termination.

See "Certain Transactions" for a description of Marvin H. Schein's Consulting Agreement.

STOCK OPTION PLAN

The Company maintains the Henry Schein, Inc. 1994 Stock Option Plan ("Stock Option Plan") for the benefit of certain employees of the Company and its designated subsidiaries. The purpose of the Stock Option Plan is to enable the Company and its designated subsidiaries to attract, retain and motivate key employees who are important to the success and growth of the Company and to create a mutuality of interest between the key employees and the stockholders of the Company by granting the key employees options to purchase Common Stock. Under the Stock Option Plan, 678,635 shares of Common Stock may be issued. The Stock Option Plan provides for two classes of options: Class A Options, which shall have an exercise price of \$4.21 per share, and Class B Options, which have an exercise price of not less than the fair market value of the Common Stock at the time of grant. Class A Options to purchase an aggregate of 221,397 shares of Common Stock are presently outstanding, and Class B Options to purchase an aggregate of 447,400 shares of Common Stock are presently outstanding. The maximum number of Class A Options have been issued. If options are canceled, expire or terminate unexercised, the shares of Common Stock shall again be available for the grant of options, provided that the number of shares covered by Class A Options shall be reduced by the number of Class

A Options that are canceled, expire or are terminated. Both incentive stock options and non-qualified stock options may be issued under the Stock Option Plan.

The maximum number of shares of Common Stock with respect to which options may be granted under the Stock Option Plan to each participant could not exceed 100,000 shares in 1995, and shall not exceed 50,000 in each year thereafter. To the extent that shares for which options are permitted to be granted to a participant during a year are not covered by a grant of an option in such year, such shares shall automatically increase the number of shares of Common Stock available for grant of options to the participant in the subsequent year.

The Stock Option Plan is administered by a committee appointed by the Company's Board of Directors, consisting of two or more directors, each of whom qualifies as a disinterested person (within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). The committee has the full authority and discretion, subject to the terms of the Stock Option Plan, to determine those individuals who are eligible to be granted options and the amount and type of options. Terms and conditions of options are set forth in written option agreements, consistent with the terms of the Stock Option Plan. No option shall be granted under the Stock Option Plan on or after the tenth anniversary of September 30, 1994 (the effective date of the Stock Option Plan), but options granted prior to such date may extend beyond that date.

The Stock Option Plan provides that it may be amended by the Company's Board of Directors or the committee, except that no amendment may, without the approval of stockholders of the Company, (i) increase the total number of shares of Common Stock which may be acquired upon exercise of options granted under the Stock Option Plan, (ii) change the types of employees eligible to participate in the Stock Option Plan, (iii) effect any change that would require stockholder approval under securities laws, (iv) effect any change that would require stockholder approval under Section 162(m) of the Code or (v) reduce the purchase price of an outstanding option below the fair market value of a share of Common Stock on the date of such amendment. The Company's Board of Directors or the stockholders may, however, make or authorize any appropriate adjustments to the number of shares of Common Stock available, and the terms of outstanding options, under the Stock Option Plan to reflect a recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation, any issue of bonds, debentures, preferred or preference stocks, the dissolution or liquidation of the Company or any of its subsidiaries, or any sale or transfer of the assets of the Company's business or any other corporate event.

The options entitle the holder to purchase a specified number of shares of Common Stock, subject to vesting provisions, at a price set by the committee at the time of grant, subject to certain limitations. The term of each option will be specified by the committee upon grant, but may not exceed ten years from the date of grant (five years in the case of owners of 10% or more of the Company's outstanding voting stock). The committee will determine the time or times at which each option may be exercised. Options may be exercisable in installments, and the exercisability of options may be accelerated in some cases, including upon a change of control of the Company (as defined in the Stock Option Plan).

Under the Stock Option Plan, the committee may grant incentive stock options that qualify under Section 422 of the Code or non-qualified stock options. The incentive stock options are subject to additional requirements under the Stock Option Plan, as well as under the Code.

A participant may elect to exercise one or more of his options by giving written notice to the committee of such election at any time after the closing of this Offering. The participant shall specify the number of options to be exercised and provide payment in full of the aggregate purchase price for the shares of Common Stock for which options are being exercised. Payment may be made (i) in cash or by check, bank draft or money order, (ii) if so permitted by the committee, through delivery of unencumbered shares of Common Stock, a promissory note or a combination of cash and either of the foregoing, or (iii) on such other terms and conditions as may be acceptable to the committee.

There were no options granted to the Named Executive Officers under the Stock Option Plan in 1994 or prior to 1994. In 1995, Class A Options to acquire 237,897 common shares were issued to certain executive management, including Class A Options exercisable into 29,700 shares of Common Stock to Messrs. Benjamin and Paladino and 19,800 shares of Common Stock to Mr. Jones, all of which are outstanding (except for 16,500 Class A Options granted to Mr. Jones which were cancelled in March 1996), at an exercise price of \$4.21 per share, substantially all of which became exercisable upon the closing of the initial public offering, at which time the \$2,805,000 excess of the initial public offering price of \$16.00 over the exercise price was charged to special management compensation expense.

On November 3, 1995, the Company issued Class B Options to acquire 413,400 shares of common stock to certain employees, including Class B Options to acquire 17,500, 25,000 and 5,000 shares of Common Stock to Messrs. Benjamin, Paladino and Jones, respectively, substantially all of which are outstanding, at an exercise price of \$16.00 per share, substantially all of which become exercisable ratably over three years from the date of issuance.

The Class A Options and Class B Options granted to the Named Executive Officers are exercisable up to the tenth anniversary of the date of issuance, subject to acceleration upon termination of employment. As of December 30, 1995, none of such options were exercised.

DIRECTORS STOCK OPTION PLAN

The Company maintains The Henry Schein, Inc. 1996 Non-Employee Director Stock Option Plan (the "Director Plan"). The purposes of the Director Plan are to enable the Company to attract, retain and motivate directors of the Company who are not employees of the Company or its subsidiaries and who are important to the success of the Company and to create a mutuality of interest between the non-employee directors and the stockholders of the Company by granting such directors options to purchase Common Stock of the Company. Under the Director Plan, each director who is not also an officer or employee of the Company is eligible to receive options to purchase shares of the Company's Common Stock. An aggregate of 50,000 shares are available for purchase pursuant to the exercise of options granted under the Director Plan. If options are cancelled, expire or terminate unexercised, the shares of Common Stock shall again be available for the grant of options under the Director Plan.

The Director Plan is administered by a committee comprised of two or more directors appointed by the Board of Directors, each of whom qualifies as a "disinterested person" within the meaning of Rule 16b-3 promulgated under the Exchange Act. The committee has the full authority and discretion to determine those individuals who are to be granted options and the amount of options. Terms and conditions of options will be set forth in written option agreements consistent with the terms of the Director Plan. No options shall be granted under the Director Plan on or after March 22, 2006, but options granted prior to such date may extend beyond that date.

The Director Plan may be terminated at any time by the Board of Directors or the committee (subject to the continued effectiveness of outstanding options). The Board of Directors or the committee may also amend the Director Plan, except that no amendment may, without the approval of stockholders of the Company, (i) increase the total number of shares of Common Stock which may be acquired upon exercise of options granted under the Director Plan, (ii) change the requirements for eligibility for participation in the Director Plan or (iii) effect any change that would require stockholder approval under Rule 16b-3 (or any successor provision) promulgated under the Exchange Act.

The term of each option will be specified by the committee upon grant, but may not exceed ten years from the date of grant. The exercise price of each option granted under the Director Plan and the terms upon which each option granted under the Director Plan will be exercisable will be determined by the committee. Under the Director Plan, the exercisability of options may be accelerated in certain events, including upon a change of control (as defined in the Director Plan). Subject to certain rights to exercise after the death, disability, retirement or termination of services (other than for cause) of the

optionee or after a change of control, options granted under the Director Plan may be exercised only if the optionee is eligible to participate in the Director Plan on the date of exercise.

Upon the exercise of an option, the option holder must make payment of the full exercise price, either in cash or, if permitted by the committee, in shares of the Company's Common Stock, by delivery of the optionee's promissory note, in a combination of cash, shares of the Company's Common Stock or the optionee's promissory note, or on such other terms and conditions as may be acceptable to the committee.

On March 22, 1996, each of Messrs. Alperin and Kabat were granted options to purchase 5,000 shares of the Company's Common Stock at an exercise price of \$29.00 per share (which was the fair market value on the date of grant).

EMPLOYEE STOCK OWNERSHIP PLAN

The Company adopted the Henry Schein, Inc. Employee Stock Ownership Plan effective as of January 1, 1994 to enable participants to have an interest in the Common Stock of the Company and to provide participants an opportunity to share in the growth and prosperity of the Company. The ESOP is intended to be a tax-qualified plan under Section 401(a) of the Code and is intended to qualify as an employee stock ownership plan under Section 4975(e)(7) of the Code.

Employees of the Company are eligible to participate in the ESOP after six months of service for the Company or a participating affiliate, and receive participation credit if they complete 1,000 hours of service in a twelve consecutive month period.

With respect to each plan year, the Company and its participating affiliates intend to make discretionary contributions, in cash or in Common Stock, to the ESOP. Subject to legal limitations, contributions to the ESOP will only be allocated to the accounts of participants who either (i) are employed by the Company or a participating affiliate on the last day of the plan year and completed 1,000 hours of service in such plan year, or (ii) retired after attaining age 65, died or incurred a disability during the plan year. Contributions are allocated based on a participant's compensation. The Company and its participating affiliates made contributions of 128,257 shares of Common Stock to the ESOP for the 1994 plan year equal to approximately \$900,000 in the aggregate, and intend to make contributions of shares of Common Stock having a value equal to 3% of participants' aggregate compensation for the 1995 plan year equal to approximately \$1.0 million in the aggregate.

The ESOP may borrow money and purchase Common Stock by means of an acquisition loan. Any Common Stock which is acquired with the proceeds of an acquisition loan will be held in a suspense account and will not be allocated or released until a contribution is made to the ESOP (which is used to repay the acquisition loan).

Participants in the ESOP become vested in their accounts based on a graded seven year vesting schedule (or upon a participant's retirement after attaining age 65, death or disability, if earlier). In general, participants are entitled to receive the vested amounts in their accounts in the ESOP on death, disability, retirement or five years after termination of employment in either (i) a single lump-sum payment, or (ii) installment payments over a period not to exceed five years (subject to extension in certain cases).

PROFIT SHARING/401(K) PLAN

The Company maintains the Henry Schein, Inc. Profit Sharing/401(k) Savings Plan (the "Profit Sharing/401(k) Plan") to provide retirement and other benefits to employees of the Company and certain participating affiliates and to permit employees a means to save for their retirement. Certain plans previously maintained by the Company or its affiliates ("Prior Plans") were merged into this

Profit Sharing/401(k) Plan. The Profit Sharing/401(k) Plan is intended to be a tax-qualified plan under Section 401(a) of the Code, and contains a Code Section 401(k) feature.

Eligible employees of the Company and its participating affiliates who work for a specified period (as described below) are eligible to participate in the Profit Sharing/401(k) Plan. Part-time employees are eligible to make profit sharing contributions as of the January 1 of the twelve consecutive month period during which they are first credited with 1,000 hours of service. Full-time employees become eligible to have profit sharing contributions made on their behalf after they work for six consecutive months during which they complete at least 1,000 hours of service. All employees are eligible to make 401(k) contributions (in accordance with administrative practices) following completion of three consecutive months during which they complete at least 250 hours of service.

Subject to legal limitations, participants may elect, by salary reduction, to have 401(k) contributions of 1% to 10% of their compensation made to their accounts under the Profit Sharing/401(k) Plan. Under the Profit Sharing/401(k) Plan, the Company and its participating affiliates may make discretionary profit sharing contributions on behalf of participants who have completed 1,000 hours of service during the plan year and are employed on the last day of the plan year (or have retired after attaining age 65, died or incurred a disability in a plan year), based on compensation. The Company and its participating affiliates intend to make profit sharing contributions for the 1995 plan year equal to 4% (or, in the case of certain divisions or subsidiaries, 3.5%) of eligible compensation or approximately \$1.3 million in the aggregate.

Participants in the Profit Sharing/401(k) Plan always have a 100% vested and nonforfeitable interest in the value of their 401(k) contributions. Participants become vested in the Company's or participating affiliate's profit sharing contributions based on a graded seven year vesting schedule (or upon a participant's retirement after attaining age 65, death or disability, if earlier). Participants are entitled to receive the vested amounts in their accounts in a single lump-sum payment on death, disability, retirement or termination of employment. The portion of a participant's account attributable to a Prior Plan may be eligible for payment in a different form based on the provisions of the Prior Plan. In certain circumstances, participants may receive loans and hardship withdrawals from their accounts in the Profit Sharing/401(k) Plan.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Company established the Henry Schein, Inc. Supplemental Executive Retirement Plan effective as of January 1, 1994 in order to provide deferred compensation to a select group of management and highly compensated employees of the Company and its affiliates. The SERP is a non-qualified, unfunded deferred compensation plan. The benefits under the SERP are intended to supplement the benefits payable under the Profit Sharing/401(k) Plan and the ESOP by providing benefits in excess of the limitation imposed by Section 401(a)(17) of the Code. Code Section 401(a)(17) limits the amount of compensation that may be taken into consideration under a tax-qualified benefit plan to \$150,000, as adjusted for cost of living increase set by the Secretary of Treasury.

An employee of the Company (or one of its affiliates which participate in either the Profit Sharing/401(k) Plan or the ESOP) must be designated by the administrative committee of the SERP in order to participate in the SERP.

A participant's benefits under the SERP becomes vested based on a graded seven year vesting schedule. However, if a participant retires after attaining age 65, dies or incurs a disability, or if there is a change in control of the Company (as defined in the SERP), the participant will become fully vested in his account under the SERP. Participants are entitled to receive their vested benefits upon the occurrence of a change of control of the Company or upon termination of employment for any reason including death, disability or retirement in a single lump-sum payment.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Stanley M. Bergman, James P. Breslawski, Gerald A. Benjamin, Leonard A. David, Mark E. Mlotek and Steven Paladino are executive officers of the Company and members of the Board of Directors which approved incentive compensation for the Named Executive Officers for fiscal 1995 based upon the recommendations of the Compensation Committee. Mr. Bergman is also a member of the Compensation Committee. Mr. Bergman did not participate in any deliberations of the Compensation Committee or the Board of Directors with respect to his own compensation for fiscal 1995, and none of the Named Executive Officers participated in any deliberations of the Board of Directors with respect to their own compensation for fiscal 1995.

CERTAIN TRANSACTIONS

REORGANIZATION

Certain of the directors, officers and stockholders of the Company entered into a series of transactions with the Company, as described under "Reorganization." The Company paid (i) certain of the legal and other professional fees incurred by the executors of the Estate of Jacob M. Schein, including Stanley M. Bergman and Pamela Joseph, in connection with such transactions, in the amounts of approximately \$552,000, \$295,000 and \$216,000 during 1994, 1993 and 1992, respectively, and (ii) the income taxes of \$5.6 million incurred by Mr. Bergman in connection with the Company's issuance to him of shares of Common Stock, and shares of common stock of Schein Pharmaceutical. The Company also paid legal fees incurred by Marvin H. Schein in connection with such transactions, in the amount of \$75,000. The Company also paid a dividend in 1993 on behalf of the Estate of Esther Schein in the amount of \$275,000. See "Reorganization" and "Management--Executive Compensation."

In December 1992, Mr. Bergman was issued shares of Schein Pharmaceutical, and on September 30, 1994, Mr. Bergman's shares in Schein Pharmaceutical and its subsidiaries were exchanged for shares of common stock of Holdings, some of which were sold by Mr. Bergman.

From time to time the Company has made loans to Stanley M. Bergman (for income taxes payable by him in connection with Common Stock issued to Mr. Bergman as part of the Reorganization), Pamela Joseph and Pamela Schein for personal expenses. Interest on such loans accrued at the prime rate. The largest aggregate principal amount of loans outstanding during 1994, 1993 and 1992 was approximately \$151,000, \$143,000 and \$0, respectively, for Stanley M. Bergman; approximately \$1.1 million, \$929,000 and \$668,000, respectively, for Pamela Joseph; and approximately \$187,000, \$365,000 and \$310,000, respectively, for Pamela Schein. Mr. Bergman's, Ms. Joseph's and Ms. Schein's loans and all interest accrued thereon were repaid on September 30, 1994. No loans have been made to any of Mr. Bergman, Ms. Joseph or Ms. Schein since that date.

In connection with the Reorganization, the Company, Holdings and Marvin H. Schein, a director and principal stockholder of the Company, agreed to terminate a lifetime consulting agreement entered into in 1982 between the Company's predecessor and Mr. Schein, and the Company and Mr. Schein agreed to continue the consulting arrangement on the terms set forth in a new lifetime consulting agreement (the "Consulting Agreement"). The current Consulting Agreement modified certain of the terms of the 1982 agreement, including the elimination of a provision limiting Mr. Schein's compensation to \$100,000 per annum if the Company's pre-tax income were less than \$3.5 million for two consecutive years. The 1982 agreement provided, and the current Consulting Agreement provides for Mr. Schein's consulting services to the Company with respect to the marketing of dental supplies and equipment, from time to time. The Consulting Agreement currently provides for initial compensation of \$258,000 per year, increasing \$25,000 every fifth year beginning in 1997. The Consulting Agreement also provides that Mr. Schein will participate in all benefit, compensation, welfare and perquisite plans, policies and programs generally available to either the Company's employees or the Company's senior

executive officers, excluding the Company's Stock Option Plan, that Mr. Schein's spouse, and his children until they attain the age of 21, will be covered by the Company's health plan, and that the Company will provide Mr. Schein with the use of an automobile and expenses related thereto. The Consulting Agreement was originally entered into as part of a recapitalization of the Company's predecessor in 1982 among Mr. Schein and its other shareholders, and to secure for the Company the consulting services of Mr. Schein, who had served the Company in various executive capacities for more than the prior twenty years. From time to time Mr. Schein and his affiliates have purchased products from the Company, in an aggregate amount of approximately \$100,000 during 1993, 1994 and 1995.

ACQUISITION OF THE SCHEIN DENTAL EQUIPMENT CORP.

On September 1, 1995, the Company acquired Schein Dental Equipment, a distributor and manufacturer of large dental equipment, which was owned 73.7% by Marvin H. Schein. The purchase price for the acquisition as approved by the Board of Directors of the Company (other than Marvin H. Schein), was paid primarily by the issuance of 1,260,416 shares of Common Stock, including 928,727 shares of Common Stock issued to Marvin H. Schein, and the balance in cash. In addition, Schein Dental Equipment repaid approximately \$1.7 million in loans to Marvin H. Schein with funds provided by the Company. Marvin H. Schein acquired 24.6% of Schein Dental Equipment in January 1995 for \$1.5 million. During 1993, 1994 and 1995, the Company sold products to Schein Dental Equipment, in the amount of approximately \$34,000, \$33,000 and \$30,000, respectively, and the Company purchased products from Schein Dental Equipment, in the amounts of approximately \$1.2 million, \$1.7 million and \$1.8 million, respectively.

TRANSACTIONS WITH DIRECTORS, OFFICERS AND STOCKHOLDERS

During fiscal 1995, in accordance with the Global Agreement, the Company paid legal and advisory fees for certain of its stockholders in connection with the initial public offering aggregating approximately \$310,000.

During 1994 and 1993, the Company paid Pamela Joseph approximately \$82,000 and \$14,000, respectively, for design and artistic services rendered to the Company.

Prior to September 30, 1994, the Company paid for certain benefits for Marvin H. Schein, Pamela Joseph and Pamela Schein, such as health insurance and lease payments for automobiles, including automobile allowances. For 1994, 1993 and 1992, such amounts were approximately \$19,000, \$19,000 and \$18,000, respectively, for Marvin H. Schein; approximately \$6,000, \$11,000 and \$10,000, respectively, for Pamela Joseph; and approximately \$2,000, \$3,000 and \$3,000, respectively, for Pamela Schein. The Company continues to pay for certain benefits for Marvin H. Schein, his spouse and his children pursuant to the Consulting Agreement.

TRANSACTIONS WITH THIRD PARTIES

In the ordinary course of its business the Company buys products from and sells products to Schein Pharmaceutical in arms' length transactions. Certain of the Company's stockholders and directors, including Stanley M. Bergman, Marvin H. Schein, Pamela Schein and Pamela Joseph, and persons related thereto, own approximately 70% of the outstanding shares of Schein Pharmaceutical. In 1995, 1994 and 1993, the Company's purchases from Schein Pharmaceutical amounted to \$4.5 million, \$5.9 million and \$6.2 million, respectively.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table presents certain information regarding beneficial ownership of the Company's Common Stock as of May 1, 1996, by (i) each person known to the Company to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, (ii) each director of the Company, (iii) each executive officer named in the Summary Compensation Table, (iv) all directors and executive officers as a group, and (v) each selling Stockholder. Unless otherwise indicated, each person in the table has sole voting and investment power as to the shares shown.

| NAME AND ADDRESS (1) | SHARES BENEFICIALLY OWNED PRIOR TO OFFERING (2) | | SHARES OF COMMON STOCK TO BE OFFERED | SHARES BENEFICIALLY OWNED AFTER THE OFFERING | |
|---|---|---------|---|--|---------|
| | NUMBER | PERCENT | | NUMBER | PERCENT |
| Stanley M. Bergman (3)..... | 11,263,972 | 60.9% | 2,792,000 | 8,471,972 | 39.7% |
| Marvin H. Schein, Individually and as Trustee (4)..... | 5,817,006 | 31.5% | 1,900,000 | 3,917,006 | 18.3% |
| Leslie J. Levine, as Trustee (5)..... | 3,680,647 | 19.9% | 712,300 | 2,968,347 | 13.9% |
| Pamela Schein (6)..... | 2,357,504 | 12.8% | 715,000 | 1,642,504 | 7.8% |
| Irving Shafran and Judith Shafran, as Trustees (7)..... | 2,357,504 | 12.8% | 715,000 | 1,642,504 | 7.8% |
| Marion Bergman and Leslie Bergman, as Trustees (8)..... | 1,274,707 | 6.9% | -- | 1,274,707 | 6.0% |
| Barry J. Alperin..... | 1,000 | * | -- | 1,000 | * |
| Gerald A. Benjamin (9)..... | 81,190 | * | -- | 81,190 | * |
| James P. Breslawski (10)..... | 195,822 | 1.1% | -- | 195,822 | * |
| Leonard A. David (11)..... | 30,913 | * | -- | 30,913 | * |
| Pamela Joseph, as Trustee (12)..... | 531,020 | 2.9% | 140,000 | 391,020 | 1.8% |
| Donald J. Kabat..... | 200 | * | -- | 200 | * |
| Mark E. Mlotek (13)..... | 41,450 | * | -- | 41,450 | * |
| Steven Paladino (14)..... | 83,690 | * | -- | 83,690 | * |
| Ellen Sperber, as Trustee (15)..... | 147,312 | * | 37,000 | 110,312 | * |
| Randy Jones (16)..... | 37,360 | * | -- | 37,360 | * |
| Community Funds Inc. (17)..... | 27,500 | * | 27,500 | -- | -- |
| Directors and Executive Officers as a Group (17 persons) (18)..... | 11,279,468 | 61.0 | 2,792,000 | 8,487,468 | 39.7% |

* Represents less than 1%.

(1) Unless otherwise indicated, the address for each person is c/o Henry Schein, Inc., 135 Duryea Road, Melville, New York 11747.

(2) The 18,483,115 shares of Common Stock deemed outstanding prior to this offering includes 18,306,994 shares of Common Stock outstanding on May 1, 1995 and 176,121 shares of Common Stock issuable pursuant to options held by management which may be exercised within 60 days after the date of the offering. The number of shares of Common Stock deemed outstanding after this offering include an additional 2,880,500 shares of Common Stock being offered for sale by the Company in this offering.

(3) Prior to this offering, includes (a) 164,758 shares which Mr. Bergman owns directly and which he has the power to vote and the power to dispose of in accordance with the Global Agreement, (b) 3,828,160 shares which Mr. Bergman shares the power to vote pursuant to voting trust agreements, (c) options to purchase 176,121 shares of Common Stock exercisable within 60 days by certain executives which will be subject to the Voting Trust upon exercise and which Mr. Bergman will share the power to vote and (d) an additional 7,094,933 shares held by certain stockholders of the Company which must be voted for the eight nominees for director selected by Mr. Bergman in

(Footnotes continued on following page)

accordance with the Global Agreement. Excludes 27,500 shares transferred by Mr. Bergman to Community Funds Inc., a public charity, in June 1996. The shares described in (a) through (c) must also be voted for the nominees for director selected in accordance with the Global Agreement. After the offering, reflects the sale of 2,792,000 shares to be sold by the selling stockholders pursuant to this offering. See "Reorganization--Reorganization Agreements."

- (4) Includes (a) 2,136,359 shares which Mr. Schein owns directly and (b) 3,680,647 shares owned in trusts for the benefit of Mr. Schein and his family members and/or trusts for charities of which Mr. Schein and Leslie J. Levine are co-trustees, all of which shares Mr. Schein has the power to vote and the power to dispose of in accordance with the Global Agreement. Mr. Schein has the right to nominate one director to the Board of Directors in accordance with the Global Agreement. Certain stockholders of the Company (including Mr. Schein) are required to vote for the nominees for director selected in accordance with the Global Agreement. Shares of Common Stock to be offered include 1,187,700 shares owned directly by Mr. Schein, 670,800 shares owned in trust for the benefit of Mr. Schein and his family members and 41,500 shares owned in a trust for the benefit of charities. See "Reorganization--Reorganization Agreements."
- (5) Mr. Levine holds such shares as co-trustee of trusts for the benefit of Marvin H. Schein and his family members and/or trusts for charities. All of such shares must be voted for the nominees for directors selected in accordance with the Global Agreement. Mr. Levine has the power to dispose of such shares in accordance with the Global Agreement. Shares of Common Stock to be offered include 670,800 shares owned in trust for the benefit of Marvin H. Schein and his family members and 41,500 shares owned in a trust for the benefit of charities. See "Reorganization--Reorganization Agreements."
- (6) The shares are owned by a revocable trust established by Ms. Schein of which Irving and Judith Shafran are trustees. Ms. Schein has the power to dispose of such shares if she revokes the trust, subject to the Global Agreement. All of such shares are subject to the Voting Trust. Ms. Schein has the right to nominate one director to the Board of Directors in accordance with the Global Agreement. Certain stockholders of the Company (including the trustees of the revocable trust) are required to vote for the nominees for director selected in accordance with the Global Agreement. See "Reorganization--Reorganization Agreements."
- (7) Mr. Shafran and Ms. Shafran hold such shares as trustees of a revocable trust established by Pamela Schein. Mr. Shafran and Ms. Shafran share the power to dispose of such shares in accordance with the Global Agreement. All of such shares are subject to the Voting Trust and must be voted for the nominees for director selected in accordance with the Global Agreement. See "Reorganization--Reorganization Agreements."
- (8) Leslie Bergman and Marion Bergman hold such shares as co-trustees of trusts established by Stanley M. Bergman for the benefit of Stanley M. Bergman and his family members. Leslie Bergman and Marion Bergman share the power to vote such shares and the power to dispose of such shares in accordance with the Global Agreement; provided that the shares must be voted for the nominees for director selected in accordance with the Global Agreement. See "Reorganization--Reorganization Agreements."
- (9) Includes (a) 1,000 shares owned directly, (b) 50,490 shares subject to the Voting Trust and (c) options to purchase 29,700 shares of Common Stock exercisable within 60 days which will be subject to the Voting Trust upon exercise. See "Reorganization--Reorganization Agreements."
- (10) Mr. Breslawski has the power to dispose of such shares in accordance with the Global Agreement. The shares are subject to the Voting Trust and must be voted for the nominees for the director selected in accordance with the Global Agreement. See "Reorganization--Reorganization Agreements."
- (11) Includes (a) 2,500 shares owned directly, (b) 14,850 shares subject to the Voting Trust and (c) options to purchase 13,563 shares of Common Stock exercisable within 60 days which will be subject to the Voting Trust upon exercise. See "Reorganization--Reorganization Agreements."

- (12) Ms. Joseph holds such shares as co-trustee of a trust established by Ms. Joseph. Prior to the offering, it is anticipated that the trust will distribute all its holdings of Common Stock to Ms. Joseph individually and will be terminated. The shares to be offered would then be offered by Ms. Joseph individually. Ms. Joseph shares the power to dispose of such shares in accordance with the Global Agreement. All of such shares are subject to the Voting Trust. Ms. Joseph has the right to nominate one director to the Board of Directors. Certain stockholders of the Company (including Ms. Joseph) are required to vote for the nominees for director selected in accordance with the Global Agreement. See "Reorganization--Reorganization Agreements."
- (13) Includes (a) 2,000 shares owned directly, (b) 14,850 shares subject to the Voting Trust, (c) options to purchase 19,800 shares of Common Stock exercisable within 60 days which will be subject to the Voting Trust upon exercise and (d) 4,800 shares which Mr. Mlotek has the power to vote as trustee of trusts for certain third parties. See "Reorganization--Reorganization Agreements."
- (14) Includes (a) 3,500 shares owned directly, (b) 50,490 shares subject to the Voting Trust and (c) options to purchase 29,700 shares of Common Stock exercisable within 60 days which will be subject to the Voting Trust upon exercise. All 83,690 shares must be voted for the nominees for director selected in accordance with the Global Agreement. Mr. Paladino has the power to dispose of such shares in accordance with the Global Agreement. See "Reorganization--Reorganization Agreements."
- (15) Ms. Sperber holds such shares as trustee of a trust for the benefit of Mr. Sperber and his family group members. All of such shares must be voted for the nominees for director selected in accordance with the Global Agreement. Ms. Sperber has the power to dispose of such shares in accordance with the Global Agreement. See "Reorganization--Reorganization Agreements."
- (16) Includes (a) 400 shares owned directly, (b) 33,660 shares subject to the Voting Trust and (c) options to purchase 3,300 shares of Common Stock exercisable within 60 days which will be subject to the Voting Trust upon exercise. See "Reorganization--Reorganization Agreements."
- (17) These shares were transferred by Stanley M. Bergman to Community Funds Inc., a public charity, in June 1996.
- (18) Includes (a) all shares described in the preceding notes (2) through (15), 16(b) and 16(c), and (b) 4,000 shares held by other executive officers which are not subject to the Voting Trust and 1,200 shares held by other directors. See "Reorganization--Reorganization Agreements."

DESCRIPTION OF CAPITAL STOCK

The following summary does not purport to be complete and is subject to, and qualified in its entirety by, the Amended and Restated Certificate of Incorporation (the "Restated Charter") and Amended and Restated Bylaws (the "Restated By-laws") of the Company which are included as exhibits to the registration statement, and by the provisions of applicable law.

The authorized capital stock of the Company consists of 60,000,000 shares of Common Stock having a par value of \$.01 per share and 1,000,000 shares of Preferred Stock having a par value of \$.01 per share.

COMMON STOCK

As of March 30, 1996, there were 18,306,994 shares of Common Stock outstanding, held by stockholders of record (including various trusts) and 51,679 shares of Common Stock held by the Company in treasury. An aggregate of 728,635 shares of Common Stock are reserved for issuance under the Company's 1994 Stock Option Plan and 1996 Non-Employee Director Stock Option Plan.

All outstanding shares of Common Stock are, and the shares offered hereby will be, fully paid and nonassessable. The holders of Common Stock are entitled to one vote for each share held of record on all matters voted upon by stockholders and may not cumulate votes. Thus, the owners of a majority of the Common Stock outstanding may elect all of the directors if they choose to do so, and the owners of the balance of such shares would not be able to elect any directors. Subject to the rights of holders of any future series of undesignated Preferred Stock which may be designated, each share of outstanding Common Stock is entitled to participate equally in any distribution of net assets made to the stockholders in liquidation, dissolution or winding up of the Company and is entitled to participate equally in dividends as and when declared by the Board of Directors. There are no redemption, sinking fund, conversion or preemptive rights with respect to the shares of Common Stock. All shares of Common Stock have equal rights and preferences.

PREFERRED STOCK

The Board of Directors is authorized, subject to certain limitations prescribed by law, without further stockholder approval, to issue from time to time up to an aggregate of 1,000,000 shares of Preferred Stock in one or more series with such designations and such powers, preferences and rights, and such qualifications, limitations or restrictions (which may differ with respect to each series) as the Board may fix by resolution. Unless otherwise provided by board resolution, the consent of the holders of any class or series of Preferred Stock shall not be required for the issuance by the Board of Directors of any other series of Preferred Stock. No dividend may be declared on any series of Preferred Stock unless a dividend is declared on all shares of Preferred Stock of each other series entitled to cumulative dividends, then outstanding, which rank senior to or equally as to dividends with the series in question.

The rights, preferences and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock which the Company may designate and issue in the future. The Company has no present plans to issue any shares of Preferred Stock.

At present, no shares of Preferred Stock are issued or have been authorized by the Board of Directors for issuance. Under the Restated Charter, no action by the Company's stockholders is necessary, and only action of the Board of Directors is required, to authorize the issuance of any of the shares of additional authorized Preferred Stock. The Board of Directors is empowered to establish, and to designate the name of, each class or series of the shares of Preferred Stock and to set the terms of

such shares (including terms with respect to redemption, sinking fund, dividend, liquidation, preemptive, conversion and voting rights and preferences). Accordingly, the Board of Directors, without stockholder approval, may issue shares of Preferred Stock with terms (including terms with respect to redemption, sinking fund, dividend, liquidation, preemptive, conversion and voting rights and preferences) that could adversely affect the voting power and other rights of holders of the Common Stock.

The undesignated Preferred Stock may have the effect of discouraging an attempt, through the acquisition of a substantial number of shares of Common Stock, to acquire control of the Company with a view to effecting a merger, sale or exchange of assets or a similar transaction. For example, the Board of Directors could issue such shares as a dividend to holders of Common Stock or place such shares privately with purchasers who may side with the Board of Directors in opposing a takeover bid. The anti-takeover effects of the undesignated Preferred Stock may deny stockholders the receipt of a premium on their Common Stock and may also have a depressive effect on the market price of the Common Stock.

CERTAIN PROVISIONS OF DELAWARE LAW

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law (the "DGCL"). Subject to certain exceptions, Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the interested stockholder attained such status with the approval of the Board of Directors or unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation's voting stock.

ANTI-TAKEOVER EFFECT OF PROVISIONS OF THE RESTATED CHARTER AND RESTATED BY-LAWS

Certain provisions of the Restated Charter and Restated By-Laws could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors and in the policies formulated by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of the Company, such as an unsolicited acquisition proposal. Because these provisions could have the effect of discouraging a third party from acquiring control of the Company, they may inhibit fluctuations in the market price of shares of Common Stock that could otherwise result from actual or rumored takeover attempts and, therefore could deprive stockholders of an opportunity to realize a takeover premium. These provisions also may have the effect of limiting the price that certain investors might be willing to pay in the future for shares of the Company's Common Stock and of preventing changes in the management of the Company.

The Company's Restated Charter provides that if stockholder approval is required for the adoption of any agreement for the merger or consolidation of the Company with another corporation or for the sale, lease, transfer or exchange of all or substantially all of the assets of the Company, then the affirmative vote of holders of 60% of the outstanding stock entitled to vote shall be required to approve such action.

The Restated Charter and Restated By-Laws provide that the number of directors will be fixed from time to time at no less than five and no more than eleven through December 31, 1998. Thereafter, the number of directors shall be nine. Any director may be removed with or without cause at any time by the affirmative vote of at least 66 2/3% of the shares entitled to vote at a special meeting of the stockholders called for that purpose and the vacancies thus created may be filled at that same meeting

by the affirmative vote of at least 66 2/3% of the shares entitled to vote at such meeting. Ordinary vacancies in the Board of Directors shall also be filled by the affirmative vote of stockholders holding at least 66 2/3% of the outstanding share entitled to vote.

The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or by-laws, unless a corporation's certificate of incorporation or by-laws, as the case may be, requires a greater percentage. The Company's Restated Charter requires the affirmative vote of at least 80% of the outstanding stock to amend or repeal certain of its provisions. A two-thirds vote is required to amend or repeal the Company's Restated By-Laws. The Restated By-Laws may also be amended or repealed by a two-thirds vote of the Board of Directors. Such stockholder vote would be in addition to any separate class vote that might in the future be required pursuant to the terms of any Preferred Stock that might be outstanding at the time any such amendments are submitted to stockholders.

AGREEMENTS RELATING TO CONTROL OF THE COMPANY

The Voting Trust gives Stanley M. Bergman (or his successor trustee) the right to vote all of the shares of Common Stock owned by certain stockholders of the Company. In addition, the Global Agreement provides that the Board of Directors of the Company may consist of up to 11 members, and that until the earlier of January 1, 1999 or the termination of the Voting Trust, Mr. Bergman (or his successor trustee) has the right to nominate all but three of the nominees to the Board of Directors. Marvin H. Schein, Pamela Joseph and Pamela Schein have the right to serve as or nominate the remaining three directors. In general, from the earlier of January 1, 1999 or the termination of the Voting Trust until the earlier of January 1, 2004 or the first date on which Marvin H. Schein and his family group no longer beneficially own at least 25% of the outstanding Common Stock that they owned immediately after the Reorganization, or the date of certain changes in the Company's management, Mr. Bergman (or his successor trustee) has the right to nominate all of the nominees to the Board of Directors, provided, that if Marvin H. Schein does not approve such nominations, Mr. Bergman (or his successor trustee) and Mr. Schein will each nominate four nominees (of which one will be an independent nominee) and the ninth nominee will be selected by the two independent nominees. The Global Agreement also requires the parties to the Voting Trust and Marvin H. Schein to vote in favor of the individuals so nominated until the earlier of January 1, 1999 or the termination of the Voting Trust, and to vote their shares in favor of the nominees of Stanley M. Bergman until January 1, 2004. As a result of the foregoing, until December 31, 1998, Mr. Bergman, as a practical matter, will be able to significantly influence all matters requiring stockholder approval, including the election of directors, and until January 1, 2004, Mr. Bergman will have the ability to significantly influence the election of all or a substantial number of the directors of the Company.

The Global Agreement also affords Marvin H. Schein or his designee the right to serve on each committee of the Board of Directors to which the Board of Directors has delegated decision-making authority and the right to call a special meeting of the Board of Directors. The Global Agreement also limits the Company's ability to adopt a shareholder rights plan or "fair price amendment," if such plan or amendment would affect Marvin H. Schein or Pamela Schein (including their respective family members), as long as Marvin H. Schein or Pamela Schein own certain specified percentages of the outstanding Common Stock. See "Reorganization."

RESTRICTIONS ON TRANSFERS

The Global Agreement places certain restrictions on the ability of the parties thereto to transfer any of the shares of Common Stock owned by them and further provides that the Company may not, prior to the earlier of December 31, 2003 or the first date on which neither Marvin H. Schein nor Pamela Schein (including their respective family members) own at least 5% of the outstanding shares of Common Stock, (i) issue in one or more private transactions securities having more than 20% of the

total votes that can be cast in any election of directors of the Company without first offering Marvin H. Schein and Pamela Schein (including their respective family members) the right to purchase such securities; (ii) issue securities in connection with a business combination having more than 20%, or resulting in a person owning more than 20%, of the total votes that can be cast in any election of directors without the consent of Marvin H. Schein; or (iii) issue preferred stock having the right to cast more than 20% of the total votes that can be cast in any election of directors of the Company. In addition, certain members of management have agreed not to transfer their shares until November 3, 1998, subject to acceleration in Mr. Bergman's discretion. Restrictions on the ability of stockholders to transfer their stock may make it more difficult for a third party to acquire, or may discourage acquisition bids for, the Company, and could limit the price that certain investors might be willing to pay in the future for shares of Common Stock. See "Reorganization."

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is the Trust Company of New Jersey, Jersey City, New Jersey.

UNDERWRITING

The Underwriters named below (the "Underwriters"), for which William Blair & Company, L.L.C., Alex. Brown & Sons Incorporated, Montgomery Securities and Smith Barney Inc. are acting as representatives (the "Representatives") have severally agreed, subject to the terms and conditions set forth in the Underwriting Agreement by and among the Company, the Selling Stockholders and the Underwriters, to purchase from the Company and the Selling Stockholders, and the Company and the Selling Stockholders have agreed to sell to the Underwriters, the respective number of shares of Common Stock set forth opposite each Underwriter's name below:

| UNDERWRITERS ----- | NUMBER OF SHARES ----- |
|--------------------------------------|--------------------------------------|
| William Blair & Company, L.L.C..... | |
| Alex. Brown & Sons Incorporated..... | |
| Montgomery Securities..... | |
| Smith Barney Inc..... | |
| | |
| Total..... | 5,700,000 ----- ----- ----- |

The nature of the Underwriters' obligations under the Underwriting Agreement is such that all shares of the Common Stock offered hereby, excluding shares covered by the over-allotment option granted to the Underwriters, must be purchased if any are purchased.

The Representatives have advised the Company and the Selling Stockholders that the Underwriters propose to offer the Common Stock to the public initially at the public offering price set forth on the cover page of this Prospectus and to select dealers at such price less a concession of not more than \$ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of \$ per share to certain other dealers. The Underwriters may also offer shares to employees of the Company at the public offering price set forth on the cover page of this Prospectus. After the public offering contemplated hereby, the public offering and other selling terms may be changed by the Representatives.

The Company has granted to the Underwriters an option exercisable within 30 days after the date of this Prospectus, to purchase up to an additional 855,000 shares of Common Stock to cover over-allotments, at the same price per share to be paid by the Underwriters for the other shares offered

hereby. If the Underwriters purchase any such additional shares pursuant to this option, each Underwriter will be committed to purchase such additional shares in approximately the same proportion as set forth in the table above. The Underwriters may exercise the option only for the purpose of covering over-allotments, if any, made in connection with the distribution of shares of Common Stock offered hereby.

The Company and its directors, executive officers and certain stockholders have agreed not to offer, sell or otherwise dispose of any Common Stock or any securities convertible into Common Stock or register for sale under the Securities Act any Common Stock for a period of 120 days after the date of this Prospectus without the prior written consent of the Representatives.

The rules of the Commission generally prohibit the Underwriters and other members of the selling group, if any, from making a market in the Common Stock during a "cooling-off" period immediately preceding the commencement of sales in the offering. The Commission has, however, adopted exemptions from these rules that permit passive market making under certain conditions. These rules permit an Underwriter or other members of the selling group, if any, to continue to make a market in the Common Stock subject to the condition, among others, that its bid not exceed the highest bid by a market maker not connected with the offering and that its net purchases on any one trading day not exceed prescribed limits. Pursuant to these exemptions, certain Underwriters and other members of the selling group, if any, may engage in passive market making in the Common Stock during the cooling-off period.

The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Underwriters may be required to make in respect thereof.

LEGAL MATTERS

The validity of the shares of Common Stock being offered hereby will be passed upon for the Company and the Selling Stockholders by Proskauer Rose Goetz & Mendelsohn LLP, New York, New York. Certain legal matters in connection with this Offering will be passed upon for the Underwriters by Sidley & Austin, Chicago, Illinois.

EXPERTS

The consolidated financial statements and schedule of Henry Schein, Inc. and Subsidiaries, the financial statements of Veratex (a division of The Veratex Corporation) and the consolidated financial statements of HS Pharmaceutical, Inc. and Subsidiaries included in this Prospectus and in the Registration Statement have been audited by BDO Seidman, LLP, independent certified public accountants, to the extent and for the periods set forth in their reports appearing elsewhere in this Prospectus and in the Registration Statement, and are included in reliance upon such reports given upon the authority of such firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

The Company has filed with the Commission a Registration Statement under the Securities Act with respect to the Common Stock offered by this Prospectus. This Prospectus does not contain all the information set forth in the Registration Statement. For further information with respect to the Company and the Common Stock, reference is made to the Registration Statement and the exhibits and schedules filed therewith. Statements contained in this Prospectus regarding the contents of any agreement or other document filed as an exhibit to the Registration Statement are not necessarily

complete, and in each instance reference is made to the copy of such agreement filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. In addition, the Company is subject to the informational requirements of the Exchange Act, and in accordance therewith files reports and other information with the Commission. The Registration Statement, including the exhibits and schedules thereto, as well as the Company's periodic reports, proxy statements and other information, may be inspected at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W. Washington, D.C. 20549; Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60621; and Seven World Trade Center, New York, New York 10048; and copies of all or any part thereof may be obtained from such office upon payment of the prescribed fees. The Company's Common Stock is traded on the Nasdaq National Market and such reports, proxy statements and other information may be inspected at the offices of Nasdaq Operations, 1735 K Street, N.W., Washington, D.C. 20006

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Henry Schein, Inc.
Melville, New York

We have audited the accompanying consolidated balance sheets of Henry Schein, Inc. and Subsidiaries as of December 31, 1994 and December 30, 1995 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Henry Schein, Inc. and Subsidiaries at December 31, 1994 and December 30, 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 30, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1993.

BDO SEIDMAN, LLP

New York, New York
February 23, 1996

HENRY SCHEIN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 | MARCH 30, 1996 |
|---|----------------------|----------------------|-------------------|
| | ----- | ----- | ----- |
| | | | (UNAUDITED) |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | \$ 4,450 | \$ 7,603 | \$ 7,500 |
| Accounts receivable, less reserves of \$4,319, \$6,335 and \$5,891, respectively..... | 57,464 | 91,248 | 104,859 |
| Inventories..... | 76,933 | 96,515 | 87,897 |
| Deferred income taxes..... | 5,232 | 6,896 | 6,715 |
| Other..... | 14,077 | 19,492 | 18,579 |
| | ----- | ----- | ----- |
| Total current assets..... | 158,156 | 221,754 | 225,550 |
| Property and equipment, net..... | 19,908 | 29,713 | 30,816 |
| Goodwill and other intangibles, net..... | 5,044 | 24,389 | 26,186 |
| Investments and other..... | 6,912 | 21,011 | 21,181 |
| | ----- | ----- | ----- |
| | \$190,020 | \$296,867 | \$ 303,733 |
| | ----- | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable..... | \$ 45,158 | \$ 65,105 | \$ 56,184 |
| Bank credit lines..... | 6,646 | 9,325 | 8,085 |
| Accruals: | | | |
| Salaries and related expenses..... | 5,002 | 9,074 | 9,999 |
| Premium coupon redemptions..... | 3,992 | 4,474 | 4,354 |
| Other..... | 17,995 | 26,534 | 19,012 |
| Current maturities of long-term debt..... | 2,971 | 3,343 | 3,861 |
| | ----- | ----- | ----- |
| Total current liabilities..... | 81,764 | 117,855 | 101,495 |
| Long-term debt..... | 51,521 | 30,381 | 51,701 |
| Other liabilities..... | 600 | 1,233 | 1,236 |
| | ----- | ----- | ----- |
| Total liabilities..... | 133,885 | 149,469 | 154,432 |
| | ----- | ----- | ----- |
| Redeemable stock, 2,084,398 shares..... | 14,745 | -- | -- |
| | ----- | ----- | ----- |
| Minority interest..... | 1,823 | 4,547 | 4,361 |
| | ----- | ----- | ----- |
| Commitments and contingencies | | | |
| Stockholders' equity: | | | |
| Common stock, \$.01 par value, authorized 60,000,000; issued: 9,923,859, 18,358,673 and 18,358,673, respectively..... | 99 | 183 | 183 |
| Additional paid-in capital..... | 9,964 | 123,866 | 123,866 |
| Retained earnings..... | 29,962 | 19,746 | 22,210 |
| Treasury stock, at cost, 51,679 shares in 1995 and 1996..... | -- | (769) | (769) |
| Foreign currency translation adjustment..... | (458) | (175) | (550) |
| | ----- | ----- | ----- |
| Total stockholders' equity..... | 39,567 | 142,851 | 144,940 |
| | ----- | ----- | ----- |
| | \$190,020 | \$296,867 | \$ 303,733 |
| | ----- | ----- | ----- |

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|--|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| | (UNAUDITED) | | | | |
| Net sales..... | \$415,710 | \$486,610 | \$616,209 | \$136,040 | \$ 185,359 |
| Cost of sales..... | 294,693 | 343,922 | 425,625 | 95,725 | 130,410 |
| Gross profit..... | 121,017 | 142,688 | 190,584 | 40,315 | 54,949 |
| Operating expenses: | | | | | |
| Selling, general and administrative..... | 109,574 | 128,560 | 170,823 | 37,329 | 50,245 |
| Special management compensation..... | 617 | 21,596 | 20,797 | -- | -- |
| Special contingent consideration..... | 3,216 | -- | -- | -- | -- |
| Special professional fees..... | 2,224 | 2,007 | -- | -- | -- |
| Operating income (loss)..... | 5,386 | (9,475) | (1,036) | 2,986 | 4,704 |
| Other income (expense): | | | | | |
| Interest income..... | 856 | 251 | 475 | 69 | 395 |
| Interest expense..... | (3,216) | (3,756) | (5,833) | (1,288) | (961) |
| Other-net..... | (634) | 541 | 276 | 97 | (97) |
| Income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates..... | 2,392 | (12,439) | (6,118) | 1,864 | 4,041 |
| Taxes on income (recovery)..... | 1,351 | (1,630) | 5,126 | 781 | 1,783 |
| Minority interest in net income (loss) of subsidiaries..... | 318 | 561 | 509 | 172 | (70) |
| Equity in earnings of affiliates..... | 1,296 | 494 | 1,537 | 25 | 136 |
| Income (loss) before cumulative effect of accounting change..... | 2,019 | (10,876) | (10,216) | 936 | 2,464 |
| Cumulative effect of accounting change..... | 1,891 | -- | -- | -- | -- |
| Net income (loss)..... | \$ 3,910 | \$(10,876) | \$(10,216) | \$ 936 | \$ 2,464 |
| Net income per common share..... | | | | \$.08 | \$.13 |
| Weighted average common and common equivalent shares outstanding..... | | | | 12,184 | 18,670 |
| Pro forma: | | | | | |
| Historical net loss..... | | \$(10,876) | \$(10,216) | | |
| Pro forma adjustments: | | | | | |
| Special management compensation and professional fees..... | | 23,603 | 20,797 | | |
| Tax effect of above..... | | (5,749) | (1,174) | | |
| Pro forma net income..... | | \$ 6,978 | \$ 9,407 | | |
| Pro forma net income per common share.... | | \$.58 | \$.70 | | |
| Pro forma weighted average common and common equivalent shares outstanding..... | | 12,127 | 13,447 | | |

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

| | COMMON STOCK \$.01 PAR VALUE | | ADDITIONAL | RETAINED | TREASURY | FOREIGN CURRENCY | DEFERRED | TOTAL |
|---|---------------------------------|--------|--------------------|-----------|----------|---------------------------|--------------|-------------------------|
| | SHARES | AMOUNT | PAID-IN CAPITAL | EARNINGS | STOCK | TRANSLATION ADJUSTMENT | COMPENSATION | STOCKHOLDERS' EQUITY |
| BALANCE, DECEMBER 26, 1992..... | 11,390,544 | \$114 | \$ 11,225 | \$ 38,050 | \$-- | \$(458) | \$ (8,814) | \$ 40,117 |
| Net income..... | -- | -- | -- | 3,910 | -- | -- | -- | 3,910 |
| Deemed dividend..... | -- | -- | -- | (570) | -- | -- | -- | (570) |
| Amortization of deferred compensation..... | -- | -- | -- | -- | -- | -- | 617 | 617 |
| Foreign currency translation adjustment.... | -- | -- | -- | -- | -- | (177) | -- | (177) |
| BALANCE, DECEMBER 25, 1993..... | 11,390,544 | 114 | 11,225 | 41,390 | -- | (635) | (8,197) | 43,897 |
| Net loss..... | -- | -- | -- | (10,876) | -- | -- | -- | (10,876) |
| Deemed dividend..... | -- | -- | -- | (552) | -- | -- | -- | (552) |
| Adjustment resulting from revaluation of stock issued for special compensation (including \$4,897 attributable to stock of former parent)... | -- | -- | 9,104 | -- | -- | -- | (9,104) | -- |
| Stock issued and issuable, in part, to settle accrued liability under long-term executive incentive compensation plan..... | 489,456 | 5 | 3,460 | -- | -- | -- | -- | 3,465 |
| Recognition of deferred compensation..... | -- | -- | -- | -- | -- | -- | 17,301 | 17,301 |
| Stock issued to ESOP trust..... | 128,257 | 1 | 899 | -- | -- | -- | -- | 900 |
| Reclassification of redeemable stock issued as special compensation and to ESOP trust..... | (2,084,398) | (21) | (14,724) | -- | -- | -- | -- | (14,745) |
| Foreign currency translation adjustment.... | -- | -- | -- | -- | -- | 177 | -- | 177 |
| BALANCE, DECEMBER 31, 1994..... | 9,923,859 | 99 | 9,964 | 29,962 | -- | (458) | -- | 39,567 |
| Net loss..... | -- | -- | -- | (10,216) | -- | -- | -- | (10,216) |
| Shares issued for acquisition..... | 1,260,416 | 13 | 6,500 | -- | -- | -- | -- | 6,513 |
| Stock issued in initial public offering..... | 5,090,000 | 51 | 72,417 | -- | -- | -- | -- | 72,468 |
| Reclassification of redeemable stock issued as special compensation and to ESOP trust upon closing of initial public offering..... | 2,084,398 | 20 | 32,180 | -- | -- | -- | -- | 32,200 |
| Issuance of compensatory stock options..... | -- | -- | 2,805 | -- | -- | -- | -- | 2,805 |
| Purchase of treasury stock (51,679 shares)..... | -- | -- | -- | -- | (769) | -- | -- | (769) |
| Foreign currency translation adjustment.... | -- | -- | -- | -- | -- | 283 | -- | 283 |
| BALANCE, DECEMBER 30, 1995..... | 18,358,673 | 183 | 123,866 | 19,746 | (769) | (175) | -- | 142,851 |
| Net income (unaudited).... | -- | -- | -- | 2,464 | -- | -- | -- | 2,464 |
| Foreign currency translation adjustment (unaudited)..... | -- | -- | -- | -- | -- | (375) | -- | (375) |
| BALANCE, MARCH 30, 1996 (UNAUDITED)..... | 18,358,673 | \$183 | \$ 123,866 | \$ 22,210 | \$ (769) | \$(550) | -- | \$ 144,940 |

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|--|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| | (UNAUDITED) | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | |
| Net income (loss)..... | \$ 3,910 | \$(10,876) | \$(10,216) | \$ 936 | \$ 2,464 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization..... | 3,981 | 3,811 | 6,037 | 914 | 1,716 |
| Provision for losses and allowances on accounts receivable..... | 316 | 1,061 | 2,016 | 154 | (360) |
| Stock issued to ESOP trust..... | -- | 900 | -- | -- | -- |
| Provision (benefit) for deferred income taxes..... | (1,551) | (3,553) | (1,091) | (787) | 168 |
| Special management compensation..... | 617 | 18,866 | 20,289 | -- | -- |
| Special contingent consideration..... | 3,216 | -- | -- | -- | -- |
| Cumulative effect of accounting change..... | (1,891) | -- | -- | -- | -- |
| Undistributed earnings of affiliates..... | (1,296) | (494) | (1,537) | (25) | (136) |
| Minority interest in net income (loss) of subsidiaries..... | 318 | 561 | 509 | 172 | (70) |
| Other..... | 198 | (965) | (558) | 62 | 24 |
| Changes in assets and liabilities: | | | | | |
| Increase in accounts receivable..... | (6,852) | (12,809) | (35,055) | (6,692) | (11,898) |
| (Increase) decrease in inventories..... | (8,424) | (5,412) | (7,342) | 5,378 | 10,037 |
| (Increase) decrease in other current assets..... | 4,630 | (3,571) | (4,411) | 2,168 | 1,454 |
| Increase (decrease) in accounts payable and accruals..... | (491) | 18,759 | 20,562 | (4,901) | (19,435) |
| Net cash provided by (used in) operating activities..... | (3,319) | 6,278 | (10,797) | (2,621) | (16,036) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures..... | (2,903) | (5,919) | (9,219) | (1,652) | (1,956) |
| Business acquisitions, net of cash acquired..... | (1,114) | -- | (16,377) | (280) | (1,925) |
| Other..... | (905) | (1,972) | (3,893) | (488) | 149 |
| Net cash used in investing activities..... | (4,922) | (7,891) | (29,489) | (2,420) | (3,732) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Proceeds from issuance of long-term debt.... | 1,489 | 5,391 | 3,698 | 269 | 662 |
| Principal payments on long-term debt..... | (1,590) | (1,150) | (15,289) | (459) | (924) |
| Proceeds from issuance of stock..... | -- | -- | 72,468 | -- | -- |
| Proceeds from borrowings from banks..... | 13,600 | 3,764 | 2,446 | 6,254 | 23,960 |
| Purchase of treasury stock..... | -- | -- | (769) | -- | -- |
| Payments on borrowings from banks..... | (6,746) | (4,200) | (20,826) | (293) | (3,559) |
| Deemed dividend..... | (295) | (552) | -- | -- | -- |
| Other..... | (227) | 445 | 1,711 | 906 | (474) |
| Net cash provided by financing activities..... | 6,231 | 3,698 | 43,439 | 6,677 | 19,665 |
| Net increase (decrease) in cash and cash equivalents..... | (2,010) | 2,085 | 3,153 | 1,636 | (103) |
| Cash and cash equivalents, beginning of period..... | 4,375 | 2,365 | 4,450 | 4,450 | 7,603 |
| Cash and cash equivalents, end of period..... | \$ 2,365 | \$ 4,450 | \$ 7,603 | \$ 6,086 | \$ 7,500 |

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (INFORMATION RELATED TO THE THREE MONTHS ENDED
 APRIL 1, 1995 AND SUBSEQUENT TO DECEMBER 30, 1995 IS UNAUDITED)
 (IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Henry Schein, Inc. and all of its wholly-owned and majority-owned subsidiaries (the "Company"). Investments in unconsolidated affiliates which are 50% or less owned are accounted for under the equity method. All material intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

Fiscal Year

The Company reports its operations on a 52-53 week basis ending on the last Saturday of December. Accordingly, fiscal years ended December 25, 1993 and December 30, 1995 consisted of 52 weeks and the fiscal year ended December 31, 1994 consisted of 53 weeks.

Revenue Recognition

Sales are recorded when products are shipped or services are rendered, except for the portion of revenues from sales of practice management software which is attributable to noncontractual postcontract customer support, which is deferred and recognized ratably over the period in which the support is expected to be provided.

Inventories

Inventories consist substantially of finished goods and are valued at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method.

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost. Depreciation is computed primarily under the straight-line method over the following estimated useful lives:

| | YEARS |
|--|-------|
| | ----- |
| Buildings and improvements..... | 40 |
| Machinery and warehouse equipment..... | 5-10 |
| Furniture, fixtures and other..... | 3-10 |
| Computer equipment..... | 5 |

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NOTE 1--SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

Amortization of leasehold improvements is computed using the straight-line method over the lesser of the useful life of the assets or the lease term.

Taxes on Income

The Company filed a consolidated Federal income tax return with Schein Holdings, Inc. for the period ended September 30, 1994 (see Note 2). For the balance of 1994 the Company filed a consolidated Federal income tax return with its 80% or greater owned subsidiaries and expects to continue to do so thereafter. Income taxes for financial statement presentation were calculated through the period ending September 30, 1994 as if the Company filed a separate tax return.

Effective for 1993, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes." SFAS No. 109 provides that deferred income taxes are recognized for the tax consequences of temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities.

Premium Coupon Program

The Company issues premium coupons to certain customers in conjunction with sales of its products which are redeemable for gifts. Premium coupon redemptions are accrued as issued based upon expected redemption rates.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash equivalents. The Company has determined that the effect of foreign exchange rate changes on cash flows is not material.

Foreign Currency Translation and Transactions

The financial position and results of operations of the Company's foreign subsidiaries are determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation adjustment account in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings, except for certain hedging transactions (see below).

Financial Instruments

The Company uses forward exchange contracts to hedge certain firm commitments denominated in foreign currencies. Gains and losses on these positions are deferred and included in the basis of the transaction when it is completed. In order to manage interest rate exposure, the Company has entered into interest rate swap agreements to exchange variable rate debt based on LIBOR into fixed rate debt

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NOTE 1--SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

without the exchange of the underlying principal amounts. Net payments or receipts under the agreements are recorded as adjustments to interest expense.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount reported for long-term debt approximates fair value because the underlying instruments are at variable rates which are repriced frequently.

Acquisitions

The net assets of businesses purchased are recorded at their fair value at the acquisition date and the consolidated financial statements include their operations from that date. Any excess of acquisition costs over the fair value of identifiable net assets acquired is included in goodwill and is amortized on a straight-line basis over periods not exceeding 30 years.

Deferred Catalog Costs

Effective for 1993, the Company adopted AICPA Statement of Position 93-7 ("SOP 93-7"), "Reporting on Advertising Costs." SOP 93-7 establishes accounting standards for reporting the costs of advertising and direct response advertising. The cumulative effect of this change was not material. In accordance with this statement the net costs of direct mail catalogs used to order merchandise are deferred and amortized ratably over the expected benefit period of the specific catalog, which ranges from six to twelve months, and are not material.

Long-Lived Assets

Long-lived assets, such as goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. This policy is in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which is effective for fiscal years beginning after December 15, 1995. No impairment losses have been necessary through March 31, 1996.

Unaudited Interim Consolidated Financial Statements

In the opinion of the Company's management, the consolidated balance sheet as of March 30, 1996, the consolidated statements of operations and cash flows for the three months ended April 1, 1995 and March 30, 1996, and the consolidated statement of stockholders' equity for the three months ended March 30, 1996 contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the information set forth therein. The results of operations for the three months ended March 30, 1996 are not necessarily indicative of the results for any other period.

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NOTE 1--SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)
Stock-Based Compensation

The Company does not presently intend to adopt the fair value method of accounting for stock options as permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation".

Earnings Per Share

(a) Historical Net Income Per Share

Historical net income per share for the three months ended April 1, 1995 and March 30, 1996 is computed using the weighted average number of common and common equivalent shares outstanding, after reflecting a 99-for-1 stock split effected immediately prior to the initial public offering.

The common equivalent shares relating to the stock options issued to executive management in 1995 have been treated as if they were outstanding since the beginning of 1995 and are calculated using the treasury stock method, using the initial public offering price of \$16.00 per share for assumed repurchase for the three months ended April 1, 1995 and the average share price for the three months ended March 30, 1996.

(b) Pro Forma Net Income Per Share

Historical per share information for the years ended December 31, 1994 and December 30, 1995 is not considered relevant as it would differ materially from pro forma per share data, given the significance of the pro forma adjustments. Pro forma net income per share is computed using pro forma net income and the pro forma weighted average number of common and common equivalent shares outstanding, after reflecting a 99-for-1 stock split effected immediately prior to the initial public offering.

The common equivalent shares relating to the stock options issued to executive management in 1995, the shares issued to senior management in 1994 to extinguish a previously accrued liability, and the shares contributed to the ESOP trust in 1994 have been treated as if they were outstanding since the beginning of 1994. Such ESOP shares and common equivalent shares relating to the stock options are calculated using the treasury stock method, using the initial public offering price of \$16.00 per share for assumed repurchase for the period prior to the initial public offering. For the period subsequent to the initial public offering, application of the treasury stock method to the stock options reflects the average share price.

(c) Supplemental Earnings Per Share

As required by APB Opinion No. 15, supplementary pro forma income per share for the year ended December 30, 1995 was \$.67. For this calculation, the weighted average number of common shares includes the shares assumed to provide the proceeds, at the initial public offering price, needed to retire average revolving credit borrowings and debt for the period from the beginning of the year (or the date the debt was incurred) to the respective retirement date, and the pro forma net income was adjusted to exclude the related financing and interest expenses of the debt.

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NOTE 2--REORGANIZATION

On December 26, 1992, Henry Schein, Inc., a New York corporation ("Old HSI"), reorganized its corporate structure to split into separate healthcare distribution and pharmaceutical companies (the "Split"). The Split was accomplished by transferring substantially all of Old HSI's assets and liabilities relating to the distribution business to Henry Schein USA, Inc., a newly formed corporation ("New HSI"). Subsequent to the Split, the name of Old HSI was changed to Schein Holdings, Inc. and the name of New HSI was changed to Henry Schein, Inc. ("HSI"). As a result of the Split, Schein Holdings, Inc. ("Holdings") became the parent of the Company and Schein Pharmaceutical, Inc. (the pharmaceutical company, "SPINC").

The accompanying financial statements give retroactive effect to the Split as described above, and reflect the historical cost bases of the assets and liabilities of the distribution business.

On February 16, 1994, the shareholders of Holdings and HSI and certain HSI management entered into an agreement (the "HSI Agreement") whereby certain voting and non-voting shares of HSI stock were exchanged for new voting stock of HSI, a 100-for-1 stock split was effectuated, and certain additional agreements were entered into between HSI, the shareholders and management. The effect of the stock exchanges was that Holdings distributed all of its shares in HSI to certain shareholders of Holdings in exchange for its stock.

The HSI Agreement was subject to approval by the Westchester County Surrogate Court, which approval was obtained on September 20, 1994. The HSI Agreement was also subject to the closing of a transaction between the shareholders of Holdings and Miles, Inc. ("Miles", an unrelated third party) involving the sale by shareholders of Holdings of 28% of their shares to Miles.

In connection with the reorganization, during 1992 HSI issued 1,466,685 shares of common stock (valued at \$6,173) to one of its executive officers and 147,312 shares of common stock (valued at \$620) to an executive officer of SPINC. In addition, SPINC issued shares to one of its executive officers and an executive officer of HSI. Each company made cash payments to its respective executive officer to cover the income taxes relating to the stock issuances. The HSI shares issued to its executive officer originally were to vest after 10 years of employment. The other stock issuances were forfeitable if certain events did not occur.

The stock issuances to HSI's executive officer were accounted for based on the estimated fair value at the date of issuance, as deferred compensation, which was classified as a reduction of stockholders' equity in the financial statements of the applicable company whose executive officer received the shares. Accordingly, the fair value of the shares of HSI issued to the executive officer of SPINC was recorded as a distribution to Holdings. Conversely, the fair value of the shares issued to HSI's executive officer by SPINC in the amount of \$2,641 was treated as a contribution to HSI's capital. The cash payment to HSI's executive officer in the amount of \$5,283 was charged to operations in 1992 as a special management compensation charge. In 1994, an additional cash payment of \$258 was paid to HSI's executive officer to pay certain additional income taxes attributable to the 1992 stock issuance and was recorded as a special management compensation charge.

As part of the HSI Agreement, the vesting and events of forfeiture were removed and the stock issued in 1992 became fully vested. Accordingly, the estimated fair value of the stock issuances to HSI's executive officer were revalued to reflect the fair values of HSI and SPINC at the time of vesting and

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NOTE 2--REORGANIZATION--(CONTINUED)

the related deferred compensation, net of amortization, of \$17,301 was charged to earnings as special management compensation in 1994.

Additionally, pursuant to previous commitments, certain senior management of HSI were issued 489,456 shares including 91,377 shares issued subsequent to December 31, 1994 and 83,259 shares issued prior to the closing of the initial public offering in part to extinguish a previously accrued liability under a pre-existing long-term incentive plan. In connection with the issuance of these shares, a cash payment of approximately \$2,472 was paid to cover the income taxes relating to this stock issuance and was charged, along with the estimated fair value of the related stock issued of \$3,465, less the related obligations extinguished of approximately \$1,900, as special compensation and is included in special compensation in 1994.

The shares issued to the executive officer and the senior management of HSI were subject to repurchase by HSI at fair market value in the event employment was terminated for any reason or an initial public offering of HSI's stock did not occur by December 31, 1999. The repurchase feature was eliminated upon the closing of the initial public offering. Special management compensation for the year ended December 30, 1995 includes a \$17,484 charge to operations to reflect the appreciation in the fair market value of stock grants and issuances based on the initial public offering price of \$16.00 and a cash payment of approximately \$508 to cover income taxes related to those stock grants and issuances.

In addition, special management compensation for the year ended December 30, 1995 includes a charge of \$2,805 to reflect the excess of the initial public offering price over the exercise price of Class A options issued to certain executive management in May 1995 (see Note 14(a)).

Special charges incurred in connection with this reorganization consist of special management compensation expense of \$617, \$21,596, \$20,797, and special professional fees of \$2,224, \$2,007, \$0, for the years ended 1993, 1994 and 1995, respectively.

During the years ended 1993, 1994 and 1995, the Company incurred special professional fees related to the reorganization in the amounts of \$570, \$552 and \$0, respectively, on behalf of its stockholders. These amounts were deemed to be dividends and deducted from retained earnings.

NOTE 3--OTHER CURRENT ASSETS

Other current assets consist of the following:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 | MARCH 30, 1996 |
|----------------------------------|----------------------|----------------------|-------------------|
| | ----- | ----- | ----- |
| Prepaid expenses..... | \$ 5,246 | \$ 3,941 | \$ 4,564 |
| Vendor rebates receivable..... | 3,052 | 5,744 | 5,948 |
| Amounts due from affiliates..... | 1,863 | 2,084 | 2,267 |
| Refundable income taxes..... | 551 | 2,645 | 897 |
| Other..... | 3,365 | 5,078 | 4,903 |
| | ----- | ----- | ----- |
| | \$ 14,077 | \$ 19,492 | \$18,579 |
| | ----- | ----- | ----- |

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NOTE 4--PROPERTY AND EQUIPMENT--NET

Major classes of property and equipment consist of the following:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 | MARCH 30, 1996 |
|--|----------------------|----------------------|-------------------|
| Land..... | \$ 1,189 | \$ 1,718 | \$ 1,699 |
| Buildings and leasehold improvements.... | 18,228 | 23,288 | 23,486 |
| Machinery and warehouse equipment..... | 5,921 | 10,509 | 10,142 |
| Furniture, fixtures and other..... | 10,421 | 12,165 | 13,379 |
| Computer equipment..... | 12,098 | 15,937 | 17,230 |
| | 47,857 | 63,617 | 65,936 |
| Less accumulated depreciation and amortization..... | 27,949 | 33,904 | 35,120 |
| Net property and equipment..... | \$ 19,908 | \$ 29,713 | \$30,816 |

NOTE 5--GOODWILL AND OTHER INTANGIBLES--NET

Goodwill and other intangibles consist of the following:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 | MARCH 30, 1996 |
|------------------------------------|----------------------|----------------------|-------------------|
| Goodwill..... | \$4,799 | \$ 22,267 | \$24,861 |
| Other..... | 1,333 | 3,917 | 3,469 |
| | 6,132 | 26,184 | 28,330 |
| Less accumulated amortization..... | 1,088 | 1,795 | 2,144 |
| | \$5,044 | \$ 24,389 | \$26,186 |

Goodwill represents the excess of the purchase price of acquisitions over the fair value of net assets acquired. During 1995, three acquisitions (the distribution business of The Veratex Corporation, Schein Dental Equipment Corp. and PRN Medical, Inc.) accounted for \$15,282 of the \$17,468 increase in goodwill. Other intangibles include covenants not to compete, customer lists and deferred acquisition costs. Goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding 30 years.

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NOTE 6--INVESTMENTS AND OTHER

Investments and other consist of:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 | MARCH 30, 1996 |
|--|----------------------|----------------------|-------------------|
| Investments in unconsolidated affiliates..... | \$5,093 | \$ 9,865 | \$ 9,471 |
| Long-term receivables (see Note 11(b))..... | 761 | 8,399 | 7,933 |
| Deferred borrowing costs and other, net of accumulated amortization of \$254, \$1,664 and \$1,879, respectively.... | 1,058 | 2,747 | 3,277 |
| | \$6,912 | \$ 21,011 | \$21,181 |

The Company's investments are predominately 50% owned unconsolidated affiliates consisting of various companies involved in the healthcare distribution business and HS Pharmaceutical, Inc., which manufactures generic pharmaceuticals. As of December 30, 1995, the Company's investments in unconsolidated affiliates were \$3,507 more than the Company's proportionate share of the underlying equity of these affiliates. This amount, which has been treated as goodwill, is being amortized over 30 years and charged to equity in the operating results of these companies. Combined unaudited financial data for these companies for periods subsequent to their acquisition follows:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
|---------------------------|----------------------|----------------------|
| Current assets..... | \$ 15,338 | \$ 28,904 |
| Total assets..... | 20,170 | 35,220 |
| Liabilities..... | 13,463 | 22,995 |
| Stockholders' equity..... | 6,707 | 12,225 |

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|-----------------------|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| Net sales..... | \$ 41,623 | \$ 34,003 | \$ 55,090 | \$ 6,590 | \$20,303 |
| Operating income..... | 3,997 | 3,183 | 5,147 | 254 | 832 |
| Net income..... | 1,670 | 1,428 | 2,920 | 30 | 415 |

NOTE 7--BUSINESS ACQUISITIONS

The Company acquired 24 healthcare distribution businesses between 1993 and March 30, 1996, including, on July 7, 1995, the distribution business of The Veratex Corporation ("Veratex"), a national direct marketer of medical, dental and veterinary products. The total amount of cash paid and promissory notes issued for these acquisitions was approximately \$6,910, \$2,660 and \$22,710 for 1993, 1994 and 1995, respectively. The Company also issued 1,260,416 shares of common stock in connection with the acquisition of Schein Dental Equipment Corp., of which approximately 928,700 shares were issued to a stockholder of the Company. In addition, the Veratex acquisition agreement also provides for contingent payments of up to \$2,000 if certain financial targets are met. Acquisitions completed during

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NOTE 7--BUSINESS ACQUISITIONS--(CONTINUED)

the three months ended March 30, 1996 were not material. These acquisitions have been accounted for under the purchase method, except for the shares issued to a stockholder as noted above which involves carryover of predecessor basis with respect to the affiliate's proportionate share of net assets. Operations of these businesses have been included in the consolidated financial statements from their acquisition dates.

The summarized unaudited pro forma results of operations set forth below for 1994 and 1995 assume the acquisitions in 1994 and 1995 occurred as of the beginning of each of these periods.

| | YEAR ENDED | |
|--|----------------------|----------------------|
| | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
| Net sales..... | \$493,171 | \$669,016 |
| Net loss..... | (11,030) | (11,107) |
| Pro forma net income, reflecting adjustment for special management compensation and professional fees..... | 6,824 | 8,516 |
| Pro forma net income per common share..... | .56 | .60 |

Pro forma net income per common share, including acquisitions, may not be indicative of actual results, primarily because the pro forma earnings include historical results of operations of acquired entities and do not reflect any cost savings that may result from the Company's integration efforts.

During 1993, the Company incurred a charge of \$2,528 resulting from the buyout of an employee's rights to future income contained in his employment agreement and paid contingent consideration of \$688 to the prior owners of another company acquired in 1993. These payments were charged to operating expenses in 1993.

NOTE 8--BANK CREDIT LINES

At March 30, 1996, certain subsidiaries of the Company had available various bank credit lines totaling approximately \$13,876, expiring through March 1997. Borrowings of \$8,085 under these credit lines at interest rates ranging from 4.0% to 9.5% were collateralized by accounts receivable, inventory and property and equipment of the subsidiaries with an aggregate net book value of \$20,715 at March 30, 1996.

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NOTE 9--LONG-TERM DEBT

Long-term debt consists of:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 | MARCH 30, 1996 |
|---|----------------------|----------------------|-------------------|
| | ----- | ----- | ----- |
| Borrowings under Revolving Credit Agreement (a)..... | \$ 35,800 | \$ 17,000 | \$39,000 |
| Note payable for business acquisition (b)..... | 4,836 | 4,383 | 4,383 |
| Note payable for business acquisition (c)..... | -- | 2,400 | 2,400 |
| Notes payable to banks, interest variable (8% at March 30, 1996), payable in quarterly installments ranging from \$15 to \$31 through 2003, secured by inventory and accounts receivable of \$12,089 for 1994, \$15,727 for 1995 and \$16,003 for 1996..... | 2,191 | 2,020 | 1,921 |
| Note payable in monthly installments of \$8 through July 2007, uncollateralized, interest increases 1% annually to 5% in 2000, 6% from 2001 to 2007..... | -- | 1,150 | 1,125 |
| Mortgage payable to bank in quarterly installments of \$14, interest at 7.4% through November 2013, collateralized by a building with a net book value of \$1,697..... | 1,103 | 1,137 | 1,083 |
| Note payable in semi-annual installments of \$225 through September 1998, uncollateralized, imputed interest at 8%..... | 1,422 | 972 | 747 |
| Note payable in annual installments of \$136 through March 2001, uncollateralized, interest at prime which approximated 8% at March 30, 1996..... | 953 | 817 | 681 |
| Term loan payable to bank in quarterly installments of \$63 with a balloon payment of \$2,500 at maturity, interest variable through December 2004, collateralized by a building with a carrying value of \$7,092--repaid in November 1995..... | 5,000 | -- | -- |
| Various notes and loans payable with interest, in varying installments through 1998, uncollateralized..... | 3,187 | 3,845 | 4,222 |
| | ----- | ----- | ----- |
| Total..... | 54,492 | 33,724 | 55,562 |
| Less current maturities..... | 2,971 | 3,343 | 3,861 |
| | ----- | ----- | ----- |
| Total long-term debt..... | \$ 51,521 | \$ 30,381 | \$51,701 |
| | ----- | ----- | ----- |

(a) Revolving Credit Agreement

The Company's revolving credit agreement, as amended, provides for maximum borrowings of \$65 million through July 1999. The interest rate on any borrowings under the agreement is based on prime or LIBOR as defined in the agreement, which were 8.25% and 5.31%, respectively, at March 30, 1996. The borrowings outstanding at March 30, 1996 were at interest rates ranging from 5.94% to 8.25%. The agreement provides for a 0.19% fee on any unused portion of the commitment. The agreement also

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NOTE 9--LONG-TERM DEBT--(CONTINUED)

provides, among other things, that HSI will maintain, on a consolidated basis, as defined, a minimum tangible net worth, current, cash flow, and interest coverage ratios, a maximum leverage ratio, and contains restrictions relating to annual dividends in excess of \$500, guarantees of subsidiary debt, investments in subsidiaries, mergers and acquisitions, liens, capital expenditures, certain changes in ownership and employee and shareholder loans. As of March 30, 1996, approximately \$5,173 of the Company's retained earnings represented undistributed earnings of affiliates.

(b) Note Payable for Business Acquisition

In November 1993, a subsidiary of the Company entered into a term loan agreement for \$5,290 with a bank. The proceeds of this loan were used to acquire a dental supply distribution company. Principal is payable in semi-annual installments of \$227 through October 1997, with a final balloon payment of \$3,474 on October 31, 1997. Interest is payable quarterly at a rate of 6.7% per year. The agreement also provides for the same financial covenants and restrictions as the revolving credit agreement.

(c) Note Payable for Business Acquisition

In October 1995, the Company entered into a term loan agreement for \$2,400 with a third party. The proceeds of this loan were used to acquire a medical distribution company. Principal is payable in quarterly installments of \$120 through October 2000. Interest is payable quarterly at the prime rate less 1.0% per year.

As of December 30, 1995, the aggregate amounts of long-term debt maturing in each of the next five years are as follows: 1996--\$3,343; 1997--\$5,789; 1998--\$1,750; 1999--\$18,850; 2000--\$1,105.

NOTE 10--TAXES ON INCOME (RECOVERY)

The Company adopted SFAS No. 109 as of the beginning of 1993. The cumulative effect on prior years of this change in accounting principle increased 1993 net income by \$1,891. The difference between calculating the 1993 income tax provision under SFAS No. 109 and APB No. 11 was not material.

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NOTE 10--TAXES ON INCOME (RECOVERY)--(CONTINUED)

Taxes on income (recovery) are based on income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates as follows:

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|--|----------------------|----------------------|----------------------|--------------------|------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 1, 1996 |
| Domestic..... | \$1,304 | \$(13,978) | \$ (7,435) | \$ 1,417 | \$3,710 |
| Foreign..... | 1,088 | 1,539 | 1,317 | 447 | 331 |
| Total income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates..... | \$2,392 | \$(12,439) | \$ (6,118) | \$ 1,864 | \$4,041 |

The provision for (recovery of) income taxes on income (loss) before the 1993 cumulative effect of accounting change was as follows:

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|---------------------------------|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| Current tax expense (recovery): | | | | | |
| U.S. Federal..... | \$2,304 | \$ 1,528 | \$ 4,677 | \$ 1,148 | \$ 1,072 |
| State and local..... | 373 | 459 | 924 | 218 | 345 |
| Foreign..... | 225 | (64) | 616 | 202 | 198 |
| Total current..... | 2,902 | 1,923 | 6,217 | 1,568 | 1,615 |
| Deferred tax expense (benefit): | | | | | |
| U.S. Federal..... | (1,521) | (3,563) | (836) | (591) | 150 |
| State and local..... | (30) | (155) | (285) | (196) | 28 |
| Foreign..... | -- | 165 | 30 | -- | (10) |
| Total deferred..... | (1,551) | (3,553) | (1,091) | (787) | 168 |
| Total provision (recovery)..... | \$1,351 | \$ (1,630) | \$ 5,126 | \$ 781 | \$ 1,783 |

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NOTE 10--TAXES ON INCOME (RECOVERY)--(CONTINUED)

The tax effects of temporary differences that give rise to the Company's deferred tax asset (liability) are as follows:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 | MARCH 30, 1996 |
|---|----------------------|----------------------|-------------------|
| | ----- | ----- | ----- |
| Current deferred tax assets: | | | |
| Inventory, premium coupon redemptions and accounts receivable valuation allowances..... | \$2,914 | \$3,592 | \$ 3,534 |
| Uniform capitalization adjustments to inventories..... | 1,156 | 1,472 | 1,407 |
| Accrued special professional fees and other accrued liabilities..... | 1,162 | 1,832 | 1,774 |
| | ----- | ----- | ----- |
| Total current deferred tax asset..... | 5,232 | 6,896 | 6,715 |
| | ----- | ----- | ----- |
| Non-current deferred tax assets (liabilities): | | | |
| Property and equipment..... | (373) | (428) | (425) |
| Provision for long-term executive incentive compensation and other accrued liabilities..... | 348 | (110) | (97) |
| Net operating losses of foreign subsidiaries..... | 140 | 2,403 | 2,011 |
| | ----- | ----- | ----- |
| Total non-current deferred tax asset.... | 115 | 1,865 | 1,489 |
| Valuation allowance for non-current deferred tax assets..... | (140) | (2,403) | (2,011) |
| | ----- | ----- | ----- |
| Net non-current deferred tax liabilities..... | (25) | (538) | (522) |
| | ----- | ----- | ----- |
| Net deferred tax asset..... | \$5,207 | \$6,358 | \$ 6,193 |
| | ----- | ----- | ----- |

The net deferred tax asset is realizable as the Company has sufficient taxable income in prior carryback years to realize the tax benefit for deductible temporary differences. The non-current deferred liability is included in Other liabilities on the Consolidated Balance Sheets.

HENRY SCHEIN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
(INFORMATION RELATED TO THE THREE MONTHS ENDED
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(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 10--TAXES ON INCOME (RECOVERY)--(CONTINUED)

The tax provisions (recovery) differ from the amount computed using the Federal statutory income tax rate as follows:

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|---|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| Provision (recovery) at Federal statutory rate..... | \$ 837 | \$ (4,354) | \$ (2,141) | \$ 652 | \$ 1,414 |
| State income taxes, net of Federal income tax effect..... | 501 | 53 | 582 | 145 | 176 |
| Net foreign and domestic losses for which no tax benefits are available..... | 186 | 23 | 574 | 125 | 242 |
| Foreign income taxed at other than the Federal statutory rate..... | 221 | (214) | (25) | 10 | 2 |
| Non-deductible appreciation in stock issued as special management compensation..... | -- | 3,318 | 6,109 | -- | -- |
| Deduction for charitable contributions..... | -- | (180) | -- | -- | -- |
| Write-off of related party debt deducted for tax purposes only..... | (320) | -- | -- | -- | -- |
| Other..... | (74) | (276) | 27 | (151) | (51) |
| Income tax provision (recovery)..... | \$1,351 | \$ (1,630) | \$ 5,126 | \$ 781 | \$ 1,783 |

Provision has not been made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries. Those earnings have been and will continue to be reinvested. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were loaned to the Company or a U.S. affiliate, or if the Company should sell its stock in the foreign subsidiaries. It is not practicable to determine the amount of additional tax, if any, that might be payable on the foreign earnings; however, the Company believes that foreign tax credits would substantially offset any U.S. tax. At December 30, 1995, the cumulative amount of reinvested earnings was approximately \$1,560.

NOTE 11--FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATIONS

(a) Financial Instruments

To reduce its exposure to fluctuations in foreign currencies and interest rates, the Company is party to foreign currency forward contracts and interest rate swaps with major financial institutions.

While the Company is exposed to credit loss in the event of nonperformance by the counterparties of these contracts, the Company does not anticipate nonperformance by the counterparties. The Company does not require collateral or other security to support these financial instruments.

HENRY SCHEIN, INC. AND SUBSIDIARIES
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NOTE 11-- FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATIONS-- (CONTINUED)

As of March 30, 1996, the Company has outstanding foreign currency forward contracts aggregating \$13,768 related to debt and the purchase and sale of merchandise. The contracts hedge against currency fluctuations of the Canadian dollar (\$4,195), British Pound (\$756), Swiss Franc (\$554), the Netherlands Guilder (\$6,815), Deutsche Mark (\$648), and the Spanish Peseta (\$800). The contracts expire at various dates through October 1997. At March 30, 1996, the Company had net deferred gains from foreign currency forward contracts of \$15.

As of March 30, 1996, interest rate swaps totaling \$13,000 were outstanding. The swaps are used to convert floating rate debt to fixed rate debt to reduce the Company's exposure to interest rate fluctuations. The net result was to substitute a weighted average fixed interest rate of 7.81% for the variable LIBOR rate on \$13,000 of the Company's debt. The swaps expire in October and November 2001. Under the interest rate environment during the three months ended March 30, 1996, the net fair value of the Company's interest rate swap agreements resulted in a realized loss of \$7.

In October 1994, a subsidiary of the Company recorded a \$509 foreign currency gain relating to an intercompany loan intended to be repaid. This gain is reflected in the Other-net section of the Consolidated Statements of Operations.

(b) Concentrations of Credit Risk

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables and short-term cash investments.

The Company places its short-term cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to a large customer base and its dispersion across different types of healthcare professionals and geographic areas. The Company maintains an allowance for losses based on the expected collectability of all receivables. Included in Accounts Receivable and Long-Term Receivables (see Note 6) at March 30, 1996 is \$16,096 and \$7,604, respectively, related to Easy Dental(R) Plus software sales with non-interest bearing extended payment terms. Total unamortized discounts at March 30, 1996 amounted to \$1,326 based on an imputed interest rate of 8.5%.

NOTE 12--RELATED PARTY TRANSACTIONS

(a) In the ordinary course of business, the Company purchases pharmaceutical products from certain unconsolidated affiliates. Net purchases from these affiliates amounted to \$9,645, \$12,055 and \$8,730 in 1993, 1994 and 1995, respectively, and \$909 and \$3,179 for the three months ended April 1, 1995 and March 30, 1996, respectively. Included in Accounts Payable at December 31, 1994 and December 30, 1995 were \$2,075 and \$1,591, respectively, and \$488 at March 31, 1996, for amounts due to these affiliates for purchases made from them.

HENRY SCHEIN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
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NOTE 12--RELATED PARTY TRANSACTIONS--(CONTINUED)

(b) The Company also shares certain services with these and other unconsolidated affiliates which are charged to the affiliates at cost. The Company charged these affiliates \$4,089, \$1,691 and \$891 during 1993, 1994 and 1995, respectively, for these services and \$201 and \$193 during the three months ended April 1, 1995 and March 30, 1996, respectively. In addition, sales (at cost) to unconsolidated affiliates were \$3,043, \$3,160 and \$3,784 in 1993, 1994 and 1995, respectively, and \$911 and \$44 for the three months ended April 1, 1995 and March 30, 1996, respectively.

(c) The Company recorded interest income of \$616, \$87, \$88, \$23 and \$30, and interest expense of \$610, \$13, \$26, \$10 and \$24, in 1993, 1994, 1995 and the three months ended April 1, 1995 and March 30, 1996, respectively, attributable to transactions with unconsolidated affiliates. Included in Other Current Assets are amounts due from unconsolidated affiliates of \$1,863, \$2,051 and \$2,267 at December 31, 1994, December 30, 1995 and March 30, 1996, respectively.

(d) A subsidiary of the Company leases its primary operating facility from an officer of the subsidiary. Rent expense attributed to this facility amounted to \$86, \$209 and \$52 for 1994, 1995 and the three months ended March 30, 1996, respectively.

(e) During 1994, a subsidiary of the Company entered into a sales service agreement with an entity ("Salesco") owned by an officer of the subsidiary. Under the terms of this agreement the subsidiary is required to reimburse Salesco for all reasonable expenses incurred in connection with the services it provides to the subsidiary and pay a fee to Salesco based upon a formula applied to its pre-tax profit. Amounts paid during 1994, 1995 and 1996 under this agreement were not material.

(f) The Company purchases products from Schein Dental Equipment Corp. ("SDEC"), formerly owned by a stockholder. In September 1995, the Company acquired SDEC. Net purchases from SDEC prior to the acquisition amounted to \$1,183, \$1,738 and \$1,803, in 1993, 1994 and 1995, respectively, and \$490 for the three months ended April 1, 1995.

NOTE 13--SEGMENT AND GEOGRAPHIC DATA

The Company is engaged principally in one line of business, the distribution of healthcare products to healthcare practitioners and professionals. The following table presents information about the

HENRY SCHEIN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
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NOTE 13--SEGMENT AND GEOGRAPHIC DATA--(CONTINUED)

Company by geographic area. There were no material amounts of sales or transfers among geographic areas and there were no material amounts of United States export sales.

| 1993 ----- | UNITED STATES ----- | EUROPE ----- | CONSOLIDATED ----- |
|------------------------------------|------------------------|-----------------|-----------------------|
| Net sales..... | \$ 361,199 | \$54,511 | \$415,710 |
| Operating income..... | 3,580* | 1,806 | 5,386 |
| Pre-tax income..... | 1,304* | 1,088 | 2,392 |
| Identifiable assets..... | 130,355 | 30,438 | 160,793 |
| Depreciation and amortization..... | 2,592 | 1,389 | 3,981 |
| Capital expenditures..... | 2,122 | 781 | 2,903 |
| | | | |
| 1994 ----- | | | |
| Net sales..... | \$ 408,463 | \$78,147 | \$486,610 |
| Operating income (loss)..... | (11,649)* | 2,174 | (9,475) |
| Pre-tax income (loss)..... | (13,978)* | 1,539 | (12,439) |
| Identifiable assets..... | 155,772 | 34,248 | 190,020 |
| Depreciation and amortization..... | 2,524 | 1,287 | 3,811 |
| Capital expenditures..... | 4,425 | 1,494 | 5,919 |
| | | | |
| 1995 ----- | | | |
| Net sales..... | \$ 516,794 | \$99,415 | \$616,209 |
| Operating income (loss)..... | (3,626)* | 2,590 | (1,036) |
| Pre-tax income (loss)..... | (7,435)* | 1,317 | (6,118) |
| Identifiable assets..... | 243,677 | 53,190 | 296,867 |
| Depreciation and amortization..... | 4,704 | 1,333 | 6,037 |
| Capital expenditures..... | 5,523 | 3,696 | 9,219 |

* Includes special management compensation, special professional fees and special contingent consideration expense of \$6,057, \$23,603 and \$20,797, for 1993, 1994 and 1995, respectively.

NOTE 14--EMPLOYEE BENEFIT PLANS

(a) Stock Options

The Company maintains a 1994 Stock Option Plan for the benefit of certain employees under which 679,635 shares of common stock may be issued. The Plan provides for two classes of options: Class A options and Class B options. A maximum of 237,897 shares of common stock may be covered by Class A options. Both incentive and nonqualified stock options may be issued under the Plan.

In 1995, Class A options to acquire 237,897 common shares were issued to certain executive management at an exercise price of \$4.21 per share, substantially all of which became exercisable upon the closing of the initial public offering, at which time the \$2,805 excess of the initial public offering price of \$16.00 over the exercise price was charged to special management compensation expense.

HENRY SCHEIN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
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NOTE 14--EMPLOYEE BENEFIT PLANS--(CONTINUED)

On November 3, 1995, the Company issued Class B options to acquire 413,400 shares of common stock to certain employees at an exercise price of \$16.00 per share, substantially all of which become exercisable ratably over three years from the date of issuance. The Class A and Class B options are exercisable up to the tenth anniversary of the date of issuance, subject to acceleration upon termination of employment. As of March 30, 1996, no options were exercised.

(b) Profit Sharing Plans

The Company has qualified noncontributory profit sharing plans for eligible employees. Contributions to the plans as determined by the Board of Directors and charged to operations during 1993, 1994, 1995 and the three months ended April 1, 1995 and March 30, 1996 amounted to \$1,936, \$1,719, \$2,178, \$620 and \$803, respectively.

(c) Employee Stock Ownership Plan (ESOP)

In 1994, the Company established an ESOP and a related trust as a benefit for substantially all of its domestic employees. This plan supplements the Company's Profit Sharing Plan. Under this plan, the Company issued 128,257 shares of HSI common stock to the trust in 1994 at an estimated fair value of \$900, which was charged to operations. For 1995, the Company will contribute 3% of eligible compensation with shares of the Company's common stock.

(d) Supplemental Executive Retirement Plan

In 1994, the Company instituted a nonqualified supplemental executive retirement plan for eligible employees. Contributions, as determined by the Board of Directors and charged to operations, were \$27 and \$68 for 1994 and 1995, respectively, and \$17 and \$22 for the three months ended April 1, 1995 and March 30, 1996.

NOTE 15--COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Company leases facilities and equipment under noncancelable operating leases expiring through 2009. Management expects that in the normal course of business, leases will be renewed or replaced by other leases.

HENRY SCHEIN, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
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 (IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 15--COMMITMENTS AND CONTINGENCIES--(CONTINUED)

Future minimum annual rental payments under the noncancelable leases at December 30, 1995 are as follows:

| | |
|-----------------------------------|----------|
| 1996..... | \$ 7,696 |
| 1997..... | 7,304 |
| 1998..... | 6,308 |
| 1999..... | 4,751 |
| 2000..... | 4,028 |
| Thereafter..... | 14,309 |
| | ----- |
| Total minimum lease payments..... | \$44,396 |
| | ----- |
| | ----- |

Total rental expense for 1993, 1994 and 1995 was \$4,878, \$5,874 and \$7,324, respectively and \$1,547 and \$2,216 for the three months ended April 1, 1995, and March 30, 1996, respectively.

(b) Litigation

Various claims, suits and complaints, such as those involving government regulations and product liability, arise in the ordinary course of the Company's business. In the opinion of the Company, all such pending matters are without merit, covered by insurance or are of such kind, or involve such amounts, as would not have a material adverse effect on the financial statements of the Company if disposed of unfavorably.

(c) Employment, Consulting and Noncompete Agreements

The Company has employment, consulting and noncompete agreements expiring through 2000 (except for a lifetime consulting agreement with a principal stockholder which provides for initial compensation of \$258 per year, increasing \$25 every fifth year beginning in 1997). The agreements provide for varying base aggregate annual payments of approximately \$2,996 per year which decrease periodically to approximately \$1,437 per year. In addition, some agreements have provisions for incentive and additional compensation.

NOTE 16--SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes amounted to the following:

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|-------------------|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| Interest..... | \$2,222 | \$ 3,132 | \$ 6,124 | \$ 1,292 | \$ 667 |
| Income taxes..... | 2,214 | 2,451 | 5,540 | 401 | 267 |

HENRY SCHEIN, INC. AND SUBSIDIARIES
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(INFORMATION RELATED TO THE THREE MONTHS ENDED
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NOTE 16--SUPPLEMENTAL CASH FLOW INFORMATION--(CONTINUED)

In conjunction with business acquisitions, the Company used cash as follows:

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|--|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| | ----- | ----- | ----- | ----- | ----- |
| Fair value of assets acquired, excluding cash..... | \$ 10,163 | \$ 3,525 | \$ 59,544 | \$ 1,210 | \$ 5,819 |
| Less liabilities assumed and created upon acquisition..... | (9,049) | (3,525) | (43,167) | 930 | 3,894 |
| Net cash paid..... | \$ 1,114 | \$ -- | \$ 16,377 | \$ 280 | \$ 1,925 |

In 1995, the Company entered into a note payable of \$2,400 in connection with one of its acquisitions.

In connection with the HSI Agreement, certain expenses incurred on behalf of and advances to stockholders amounting to \$275 are included in deemed dividends for 1993.

NOTE 17--OTHER INCOME (EXPENSE)--NET

Other income (expense)-net consists of the following:

| | YEAR ENDED | | | THREE MONTHS ENDED | |
|---|----------------------|----------------------|----------------------|--------------------|-------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 | APRIL 1, 1995 | MARCH 30, 1996 |
| | ----- | ----- | ----- | ----- | ----- |
| Investment losses..... | \$ (463) | -\$- | -\$- | \$-- | \$-- |
| Gain (loss) on sale of assets..... | (70) | 100 | 33 | 4 | -- |
| Net foreign exchange gain (loss).... | (79) | 415 | 43 | (57) | (120) |
| Other non-operating income (expense)..... | (22) | 26 | 200 | 150 | 23 |
| | \$ (634) | \$541 | \$276 | \$ 97 | \$ (97) |

NOTE 18--QUARTERLY INFORMATION (UNAUDITED)

The following table sets forth summary quarterly unaudited financial information for 1994, 1995, and the first quarter of 1996 excluding non-recurring special charges and the related tax effects:

| | QUARTER ENDED | | | |
|-----------------------------------|-------------------|------------------|-----------------------|----------------------|
| | MARCH 26, 1994 | JUNE 25, 1994 | SEPTEMBER 24, 1994 | DECEMBER 31, 1994 |
| | ----- | ----- | ----- | ----- |
| Net sales..... | \$ 108,356 | \$115,793 | \$ 122,695 | \$139,766 |
| Gross profit..... | 31,695 | 33,708 | 34,998 | 42,287 |
| Pro forma operating income..... | 1,876 | 3,347 | 4,516 | 4,389 |
| Pro forma net income..... | 881 | 1,520 | 1,577 | 3,000 |
| Pro forma earnings per share..... | 0.07 | 0.13 | 0.13 | 0.25 |

HENRY SCHEIN, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
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(IN THOUSANDS, EXCEPT SHARE DATA)

NOTE 18--QUARTERLY INFORMATION (UNAUDITED)--(CONTINUED)

| | QUARTER ENDED | | | | |
|-----------------------------------|------------------|-----------------|-----------------------|----------------------|-------------------|
| | APRIL 1, 1995 | JULY 1, 1995 | SEPTEMBER 30, 1995 | DECEMBER 30, 1995 | MARCH 30, 1996 |
| Net sales..... | \$136,040 | \$139,753 | \$ 156,667 | \$183,749 | \$ 185,359 |
| Gross profit..... | 40,315 | 42,107 | 48,090 | 60,072 | 54,949 |
| Pro forma operating income..... | 2,986(1) | 4,689 | 5,188 | 6,898 | 4,704(1) |
| Pro forma net income..... | 936(1) | 2,066 | 2,093 | 4,312 | 2,464(1) |
| Pro forma earnings per share..... | 0.08(1) | 0.17 | 0.17 | 0.26 | 0.13(1) |

(1) Historical.

The Company's business has been subject to seasonal and other quarterly influences. Net sales and operating profits have been generally higher in the fourth quarter due to timing of sales of software, year-end promotions and purchasing patterns of office-based healthcare practitioners and have been generally lower in the first quarter due primarily to the increased purchases in the prior quarter. Quarterly results also may be materially affected by a variety of other factors, including the timing of acquisitions and related costs, the release of software enhancements, timing of purchases, special promotional campaigns, fluctuations in exchange rates associated with international operations and adverse weather conditions.

Earnings per share calculations for each quarter were based on the weighted average number of shares outstanding for each period, and the sum of the quarters may not necessarily be equal to the full year earnings per share amount.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Henry Schein, Inc.

We have audited the accompanying statement of assets purchased of Veratex (a division of The Veratex Corporation) as of December 31, 1994, and the statement of revenues and direct operating expenses for the year then ended. These financial statements are the responsibility of Veratex's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of assets purchased and statement of revenues and direct operating expenses were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in the registration statement on Form S-1 of Henry Schein, Inc.), and is not intended to be a complete presentation of the Company's financial position or results of operations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets purchased of Veratex (a division of The Veratex Corporation) at December 31, 1994, and its revenues and direct operating expenses for the year then ended in conformity with generally accepted accounting principles.

BDO SEIDMAN, LLP

New York, New York
July 24, 1995

VERATEX
 (A DIVISION OF THE VERATEX CORPORATION)
 STATEMENTS OF ASSETS PURCHASED

| | DECEMBER 31, 1994 | JUNE 31, 1995 |
|-----------------------------|----------------------|------------------|
| | ----- | ----- |
| | | (UNAUDITED) |
| ASSETS | | |
| Accounts receivable..... | \$3,100,000 | \$ 3,300,000 |
| Inventories..... | 5,591,000 | 4,989,000 |
| Furniture and fixtures..... | 75,000 | 75,000 |
| | ----- | ----- |
| Assets purchased..... | \$8,766,000 | \$ 8,364,000 |
| | ----- | ----- |

See accompanying notes to financial statements.

VERATEX
(A DIVISION OF THE VERATEX CORPORATION)
STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES

| | YEAR ENDED DECEMBER 31, 1994 | SIX MONTHS ENDED JUNE 30, | |
|--|------------------------------------|------------------------------|--------------|
| | | 1994 | 1995 |
| | | (UNAUDITED) | |
| Net sales..... | \$ 39,538,000 | \$20,161,000 | \$19,853,000 |
| Cost of sales..... | 26,999,000 | 13,628,000 | 14,079,000 |
| Gross profit..... | 12,539,000 | 6,533,000 | 5,774,000 |
| Direct operating expenses..... | 10,369,000 | 5,084,000 | 5,015,000 |
| Revenues in excess of direct operating expenses..... | \$ 2,170,000 | \$ 1,449,000 | \$ 759,000 |
| Pro forma income taxes (unaudited)..... | \$ 846,000 | \$ 565,000 | \$ 296,000 |

See accompanying notes to financial statements.

VERATEX
(A DIVISION OF THE VERATEX CORPORATION)
NOTES TO FINANCIAL STATEMENTS
(INFORMATION AS OF JUNE 30, 1995 AND FOR THE SIX MONTHS ENDED
JUNE 30, 1994 AND 1995 IS UNAUDITED.)

NOTE 1--BASIS OF PRESENTATION

The statements of assets purchased and statements of revenues and direct operating expenses relate to Veratex (the "Company"), the retail distribution division of The Veratex Corporation. The Company is engaged in the business of distributing a wide range of health care supplies and paper products via mail order. Under an agreement dated June 14, 1995, inventories, certain furniture and fixtures and the business of the division are to be sold to Henry Schein, Inc.

The financial statements have been prepared to substantially comply with rules and regulations of the Securities and Exchange Commission for businesses acquired. Such financial statements, rather than complete financial statements, are presented because the business was acquired from an unaffiliated third party in a negotiated transaction and the seller would not allow management of Henry Schein, Inc. access to records supporting net assets that will not be acquired (such as certain property and equipment, accounts payable, accrued liabilities and debt) and expenses not allocated by the group to the divisions, primarily consisting of corporate compensation, data processing and management fees. Accordingly, the statements present only the assets to be acquired and the revenues and expenses directly attributable to the Company, consisting primarily of selling expenses, freight and advertising. Pro forma income taxes are based on applying the statutory Federal and state income tax rates to revenues in excess of direct operating expenses. The Company's historical costs of finished goods obtained from related entities do not reflect any markups that would otherwise be charged to unrelated third parties by these entities. The accompanying statements of revenues and direct operating expenses include adjustments to cost of sales of \$1,844,000, \$931,000 and \$915,000 for the year ended December 31, 1994 and the six months ended June 30, 1994 and 1995, respectively, for the estimated effect of these markups.

The financial statements presented are not representative of the actual operations of the Company and, accordingly, statements of financial position and cash flows are not applicable.

Interim Financial Information

The statement of assets purchased as of June 30, 1995 and the statements of revenues and direct operating expenses for the six months ended June 30, 1994 and 1995, in the opinion of the Company's management, include all adjustments, consisting of normal, recurring accruals necessary for a fair presentation. The revenues and direct operating expenses for the six months ended June 30, 1995 are not necessarily indicative of the results for any other period.

NOTE 2--REVENUE RECOGNITION

Revenue is recognized when inventory is shipped to the customer.

NOTE 3--INVENTORIES

Inventories consist of merchandise purchased for resale and finished goods acquired from related entities in the group. All inventories are valued at the lower of cost or market. Cost is determined using the replacement cost method, which approximates actual cost on a first-in, first-out basis.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

HS Pharmaceutical, Inc.

We have audited the accompanying consolidated balance sheets of HS Pharmaceutical, Inc. and Subsidiaries as of December 31, 1994 and December 30, 1995 and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HS Pharmaceutical, Inc. and Subsidiaries at December 31, 1994 and December 30, 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 30, 1995, in conformity with generally accepted accounting principles.

BDO Seidman, LLP

New York, New York
February 16, 1996

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
|--|----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current: | | |
| Accounts receivable, less allowance for doubtful accounts of \$105,400 and \$95,703..... | \$ 7,257,514 | \$ 7,062,447 |
| Inventories..... | 3,059,126 | 4,258,660 |
| Advances to affiliates..... | 1,239,478 | 543,925 |
| Prepaid expenses and other..... | 377,286 | 565,845 |
| | ----- | ----- |
| Total current assets..... | 11,933,404 | 12,430,877 |
| Property and equipment, net..... | 3,576,613 | 3,539,376 |
| Intangibles, less accumulated amortization of \$182,833 and \$201,479..... | 184,085 | 165,439 |
| Deposits and other..... | 269,056 | 5,786 |
| Advances and notes to affiliates..... | -- | 1,076,723 |
| | ----- | ----- |
| | \$ 15,963,158 | \$ 17,218,201 |
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Bank overdraft..... | \$ 900,722 | \$ 324,875 |
| Revolving credit agreement..... | 1,000,000 | -- |
| Accounts payable and accrued expenses..... | 3,845,875 | 4,266,631 |
| Income taxes payable..... | 85,826 | 480,684 |
| Current portion of long-term debt..... | 1,093,268 | 834,700 |
| | ----- | ----- |
| Total current liabilities..... | 6,925,691 | 5,906,890 |
| Long-term debt, less current portion..... | 2,770,718 | 2,195,980 |
| Deferred income taxes..... | 71,000 | 152,000 |
| | ----- | ----- |
| Total liabilities..... | 9,767,409 | 8,254,870 |
| | ----- | ----- |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock--no par value, shares authorized 200; issued and outstanding 20..... | 382,845 | 40,100 |
| Additional paid-in capital..... | -- | 342,745 |
| Retained earnings..... | 5,812,904 | 8,580,486 |
| | ----- | ----- |
| Total stockholders' equity..... | 6,195,749 | 8,963,331 |
| | ----- | ----- |
| | \$ 15,963,158 | \$ 17,218,201 |
| | ----- | ----- |

See accompanying notes to consolidated financial statements.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

| | YEAR ENDED | | |
|---|----------------------|----------------------|----------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
| Net sales..... | \$ 26,424,528 | \$ 24,500,962 | \$ 28,123,977 |
| Cost of sales..... | 16,580,174 | 15,925,685 | 17,467,680 |
| Gross profit..... | 9,844,354 | 8,575,277 | 10,656,297 |
| Operating expenses: | | | |
| Selling, general and administrative..... | 4,777,310 | 5,615,183 | 6,157,515 |
| Operating income..... | 5,067,044 | 2,960,094 | 4,498,782 |
| Other income (expense): | | | |
| Interest expense, net..... | (310,963) | (395,159) | (500,293) |
| Foreign exchange remeasurement gain..... | 1,523 | 47,543 | (10,163) |
| Contract settlement..... | 120,520 | -- | -- |
| Other..... | -- | -- | 147,387 |
| Income before taxes on income..... | 4,878,124 | 2,612,478 | 4,135,713 |
| Taxes on income..... | 1,875,500 | 1,004,000 | 1,368,131 |
| Net income..... | 3,002,624 | 1,608,478 | 2,767,582 |
| Retained earnings, beginning of year..... | 1,201,802 | 4,204,426 | 5,812,904 |
| Retained earnings, end of year..... | \$ 4,204,426 | \$ 5,812,904 | \$ 8,580,486 |

See accompanying notes to consolidated financial statements.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED | | |
|---|----------------------|----------------------|----------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income..... | \$3,002,624 | \$1,608,478 | \$2,767,582 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization..... | 484,277 | 469,763 | 425,861 |
| Provision for losses on accounts receivable..... | 203,774 | 38,843 | 15,000 |
| Provision for deferred income taxes..... | 6,500 | 16,000 | 81,000 |
| Other..... | -- | 25,000 | 5,000 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable..... | (1,590,054) | (1,821,447) | 180,067 |
| (Increase) decrease in inventories..... | 232,953 | (33,420) | (1,199,165) |
| (Increase) decrease in advances to affiliates.... | (734,339) | 156,123 | (381,170) |
| (Increase) decrease in prepaid expenses and other..... | 134,956 | (212,711) | (138,634) |
| (Increase) decrease in deposits and other..... | (1,800) | (258,071) | 263,270 |
| Increase (decrease) in accounts payable and accrued expenses..... | (2,207,023) | 940,230 | 415,386 |
| Increase (decrease) in income taxes payable..... | 1,848,882 | (1,763,056) | 339,870 |
| Net cash provided by (used in) operating activities.... | 1,380,750 | (834,268) | 2,774,067 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures..... | (928,508) | (1,156,332) | (369,978) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Increase (decrease) in bank overdraft..... | 186,211 | (309,837) | (575,847) |
| Credit line borrowings, net..... | -- | 1,000,000 | (1,000,000) |
| Proceeds from long-term debt..... | -- | 1,792,020 | -- |
| Principal payments on long-term debt..... | (638,453) | (491,583) | (828,242) |
| Net cash provided by (used in) financing activities.... | (452,242) | 1,990,600 | (2,404,089) |
| Net increase (decrease) in cash..... | -- | -- | -- |
| Cash, beginning of year..... | -- | -- | -- |
| Cash, end of year..... | \$ -- | \$ -- | \$ -- |
| Supplemental cash flow information: | | | |
| Interest paid..... | \$ 297,338 | \$ 387,101 | \$ 608,216 |
| Taxes paid..... | \$ 20,542 | \$2,836,776 | \$ 996,520 |

See accompanying notes to consolidated financial statements.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF ACCOUNTING POLICIES

Description of Business

HS Pharmaceutical, Inc. and Subsidiaries (the "Company") manufactures and distributes pharmaceutical products and sells other accessory products to dental, medical and veterinary distributors worldwide.

Principles of Consolidation

The consolidated financial statements include the accounts of HS Pharmaceutical, Inc. and all of its wholly-owned subsidiaries. All material intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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.

Fiscal Year

The Company reports its operations on a 52-53 week basis ending on the last Saturday of December. Accordingly, fiscal years ended December 30, 1995 and December 25, 1993 consisted of 52 weeks and the fiscal year ended December 31, 1994 consisted of 53 weeks.

Inventories

Inventories are valued at the lower of cost or market value. Manufactured inventories of raw materials, work-in-progress and finished goods are valued using standard costing methods, which approximate the first-in, first-out (FIFO) method. The cost of inventory purchased for resale is determined by the FIFO method.

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost. Depreciation is computed primarily under the straight-line method over the following estimated useful lives:

| | YEARS |
|---------------------------------|-------|
| | ----- |
| Buildings and improvements..... | 40 |
| Machinery and warehouse..... | 5-10 |
| Computer hardware..... | 5 |
| Capital lease equipment..... | 5-10 |

NOTE 1--SUMMARY OF ACCOUNTING POLICIES--(CONTINUED)

Amortization of leasehold improvements is computed using the straight-line method over the lesser of the useful lives of the assets or the lease term.

Intangibles

Intangibles consist of costs incurred in connection with obtaining abbreviated new drug applications, investigational new drug exemptions and licenses, permits and approvals relating to the manufacture and sale of pharmaceutical products. These costs are being amortized using the straight-line method over their estimated useful lives which is expected to be 20 years.

Taxes on Income

Effective for 1993, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS No. 109"), "Accounting for Income Taxes." SFAS No. 109 provides that deferred income taxes are recognized for the tax consequences of temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities.

Statement of Cash Flows

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash equivalents.

Foreign Currency Remeasurement

Monetary assets and liabilities denominated in foreign currency have been remeasured into the functional currency (the U.S. dollar) at the year-end rate of exchange (U.S. \$1 = Canadian \$1.35, \$1.40 and \$1.31 at December 30, 1995, December 31, 1994 and December 25, 1993, respectively). Non-monetary items are remeasured at historical rates. Revenue and expenses are remeasured based on the average monthly rate. Foreign exchange remeasurement gains and losses are included in the determination of net income for the year.

Long-Lived Assets

Long-lived assets, such as goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. This policy is in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which is effective for fiscal years beginning after December 15, 1995. No impairment losses have been necessary through December 30, 1995.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 2--INVENTORIES

Inventories consist of the following:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
|-------------------------------------|----------------------|----------------------|
| Raw materials..... | \$ 711,394 | \$ 962,845 |
| Work-in-progress..... | 53,464 | 136,062 |
| Finished goods..... | 468,489 | 418,780 |
| Parts..... | 156,286 | 148,012 |
| Total manufactured inventories..... | 1,389,633 | 1,665,699 |
| Inventory purchased for resale..... | 1,669,493 | 2,592,961 |
| | \$3,059,126 | \$4,258,660 |

NOTE 3--PROPERTY AND EQUIPMENT, NET

Major classes of property and equipment consist of the following:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
|---|----------------------|----------------------|
| Land..... | \$ 23,474 | \$ 23,474 |
| Building..... | 1,314,486 | 1,331,400 |
| Machinery and equipment..... | 5,256,967 | 5,552,819 |
| Computer hardware..... | 238,188 | 281,645 |
| Capital lease equipment..... | 359,658 | 359,658 |
| Leasehold improvements..... | 185,765 | 199,519 |
| | 7,378,538 | 7,748,515 |
| Less accumulated depreciation and amortization. | 3,801,925 | 4,209,139 |
| Net property and equipment..... | \$3,576,613 | \$3,539,376 |

NOTE 4--BANK OVERDRAFT

Bank overdraft bears interest at the U.S. and Canadian prime rates, as well as LIBOR plus 3/4%, which were 8.5% and 9.0% for prime, respectively, and 6.63% for LIBOR at the time the Company entered into such overdraft agreement, and is due on demand. The bank overdraft and bank loans payable (see Note 6) are secured by a general assignment of accounts receivable, a general security agreement on all machinery and equipment, and a \$2,500,000 demand debenture on land and building.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 5--REVOLVING CREDIT AGREEMENT

During 1995, the Company entered into a \$2,000,000 revolving credit agreement with its bank, expiring September 30, 1996. Borrowings are due on demand, collateralized by accounts receivable and inventories and bear interest at Canadian prime plus 1/8%.

NOTE 6--LONG-TERM DEBT

Long-term debt consists of the following:

| | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
|---|----------------------|----------------------|
| | ----- | ----- |
| Term loans payable in monthly installments maturing at varying dates from August 1997 through December 1999, with interest at Canadian prime plus 0.5%..... | \$2,492,643 | \$1,877,901 |
| Notes payable bearing interest at prime, payable in annual installments of \$191,885 principal, plus interest, due March 31, 2001..... | 1,343,194 | 1,151,308 |
| Capital lease obligations, payable in monthly installments of \$2,227, including interest, due January 1996..... | 28,149 | 1,471 |
| | ----- | ----- |
| | 3,863,986 | 3,030,680 |
| Less: Current portion..... | 1,093,268 | 834,700 |
| | ----- | ----- |
| | \$2,770,718 | \$2,195,980 |
| | ----- | ----- |

Principal payments on long-term debt mature as follows:

| YEAR | AMOUNT |
|-----------|-------------|
| ---- | ----- |
| 1996..... | \$ 834,700 |
| 1997..... | 741,656 |
| 1998..... | 571,246 |
| 1999..... | 460,062 |
| 2000..... | 312,411 |
| | ----- |
| | \$2,920,075 |
| | ----- |

NOTE 7--RELATED PARTY TRANSACTIONS

(a) Certain services of a 50% shareholder are provided to the Company at the shareholder's cost. Total charges from this shareholder were approximately \$83,000, \$109,000 and \$105,000 for 1995, 1994 and 1993, respectively. In addition, the Company has made advances to this shareholder during 1995, 1994 and 1993. At December 30, 1995 and December 31, 1994, "Advances to affiliates" includes amounts due from this shareholder of approximately \$390,000 and \$256,000, respectively, and "Accounts payable and accrued expenses" includes amounts due to this shareholder of approximately \$927,000 and \$906,000, respectively.

In March 1991, the Company entered into an agreement with this same shareholder to supply products at prices and quantities as defined in the agreement. Sales to this same shareholder (including sales under this agreement) accounted for approximately 22%, 24% and 27% of the Company's sales for 1995, 1994 and 1993, respectively. Included in "Accounts receivable" at December 30, 1995 and December 31, 1994 were approximately \$1,356,000 and \$1,276,000, respectively, for amounts due from this shareholder.

(b) In March 1991, the other 50% shareholder of the Company granted the Company a ten-year license to use certain of their trademarks. Royalties of \$75,000 annually are required under the terms of the agreement and were paid in 1995, 1994 and 1993.

In the ordinary course of business, the Company sells products to this same shareholder. Net sales to this shareholder amounted to approximately \$608,000, \$1,167,000 and \$606,000 for 1995, 1994 and 1993, respectively. Included in "Accounts receivable" at December 30, 1995 and December 31, 1994 were approximately \$88,000 and \$653,000, respectively, for amounts due from this shareholder.

In addition, the Company also purchases pharmaceutical products from this shareholder. Net purchases from this shareholder amounted to approximately \$4,434,000, \$3,773,000 and \$4,775,000 for 1995, 1994 and 1993, respectively. Included in "Accounts payable and accrued expenses" at December 30, 1995 were approximately \$974,000 and \$1,001,000, respectively, for amounts due to this shareholder.

(c) Interest expense related to accounts payable and accrued expenses owing to the above shareholders amounted to approximately \$51,000, \$65,000 and \$77,000 for 1995, 1994 and 1993, respectively.

(d) An affiliated company supplies a new product line to the Company. Included in "Advances to affiliates" are net amounts due from this affiliate of approximately \$974,000 and \$983,000 at December 30, 1995 and December 31, 1994, respectively.

NOTE 8--COMMITMENTS AND CONTINGENCIES

The Company leases facilities and equipment under noncancelable operating leases expiring through 1998. Total rental expense for 1995, 1994 and 1993 was approximately \$163,000, \$153,000 and

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 8--COMMITMENTS AND CONTINGENCIES--(CONTINUED)

\$108,000, respectively. At December 30, 1995, future minimum annual rental payments under these leases are as follows:

| YEAR ---- | AMOUNT ----- |
|--------------|-----------------|
| 1996..... | \$153,000 |
| 1997..... | 148,000 |
| 1998..... | 148,000 |
| 1999..... | 105,000 |
| 2000..... | 1,000 |
| | ----- |
| | \$555,000 |
| | ----- |
| | ----- |

NOTE 9--TAXES ON INCOME

The Company adopted SFAS No. 109 as of the beginning of 1993. The cumulative effect of this change was not material.

Taxes on income are as follows:

| | YEAR ENDED ----- | | |
|--|----------------------|----------------------|----------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
| | ----- | ----- | ----- |
| Domestic..... | \$2,763,533 | \$1,193,905 | \$2,500,916 |
| Foreign..... | 2,114,591 | 1,418,573 | 1,634,797 |
| Total income before taxes on income... | \$4,878,124 | \$2,612,478 | \$4,135,713 |
| | ----- | ----- | ----- |
| | ----- | ----- | ----- |

| | YEAR ENDED ----- | | |
|-----------------------|----------------------|----------------------|----------------------|
| | DECEMBER 25, 1993 | DECEMBER 31, 1994 | DECEMBER 30, 1995 |
| | ----- | ----- | ----- |
| Current tax expense: | | | |
| Current tax expense: | | | |
| U.S. Federal..... | \$ 859,000 | \$ 382,000 | \$ 764,670 |
| State and local..... | 265,000 | 124,000 | 26,801 |
| Foreign..... | 745,000 | 482,000 | 495,660 |
| Total current..... | 1,869,000 | 988,000 | 1,287,131 |
| Deferred tax expense: | | | |
| Foreign..... | 6,500 | 16,000 | 81,000 |
| Total provision..... | \$1,875,500 | \$1,004,000 | \$1,368,131 |
| | ----- | ----- | ----- |
| | ----- | ----- | ----- |

The deferred tax liability arises from temporary differences relating to depreciation and amortization.

The Company's effective tax rate approximates the U.S. Federal statutory rate.

NOTE 10--MAJOR CUSTOMERS AND EXPORT SALES

Sales to one unaffiliated customer accounted for approximately 13% of net sales in 1993. Sales to this customer and another unaffiliated customer accounted for approximately 25% of net sales in 1995 and 1994.

The Company had export sales amounting to 14%, 16% and 12% of net sales for 1995, 1994 and 1993, respectively.

NOTE 11--EMPLOYEE BENEFIT PLAN

Effective January 1, 1992, the Company adopted a 401(k) profit sharing plan to provide retirement benefits for eligible employees. Matching contributions by the Company, which were determined by the board of directors, were approximately \$39,000, \$36,000 and \$29,000 for 1995, 1994 and 1993, respectively.

In addition, the Company maintains a defined contribution plan for eligible employees. Contributions to this plan, which were determined by the board of directors, were approximately \$92,000, \$97,000 and \$50,000 for 1995, 1994 and 1993, respectively.

NOTE 12--FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATIONS

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables and temporary cash investments. The carrying value of financial instruments approximated fair value as of December 30, 1995 because of the short maturity of these instruments.

Concentrations of credit risk with respect to trade receivables are limited due to a large customer base and its dispersion across different geographic areas. The Company maintains an allowance for losses based on the expected collectability of all receivables.

 NO DEALER, SALESPERSON, OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY TO ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

 5,700,000 Shares
 [LOGO] HENRY SCHEIN(R)
 Common Stock

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 PROSPECTUS
 , 1996

William Blair & Company
 Alex. Brown & Sons
 INCORPORATED
 Montgomery Securities
 Smith Barney Inc.

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth an itemized statement of all estimated expenses in connection with the registration, offering and sale of the Securities being registered hereby other than underwriting discounts and commissions.*

| | |
|---|--------------|
| SEC registration fee..... | \$ 82,786 |
| NASD fee..... | 24,508 |
| NASDAQ fee..... | 17,500 |
| Transfer agents' fees..... | 1,000 |
| Costs of printing and engraving..... | 200,000 |
| Legal fees and expenses..... | 300,000 |
| Accounting fees and expenses..... | 200,000 |
| Blue sky expenses and counsel fees..... | 25,000 |
| Directors and Officers Insurance..... | 50,000 |
| Miscellaneous..... | 99,206 |
| | ----- |
| Total..... | \$ 1,000,000 |
| | ----- |
| | ----- |

* Pursuant to the Global Agreement, the Company will pay all of the expenses incurred in connection with the registration, offering and sale of the Common Stock, other than (i) underwriting discounts, commissions, spreads and similar amounts payable to any underwriter or broker-dealer that are attributable to the sale of Selling Stockholders' shares, (ii) transfer taxes incurred by such Selling Stockholders in connection with the sale of such shares, and (iii) any fees and expenses which the Company is prohibited from paying on behalf of Selling Stockholders under applicable "blue sky" laws, rules and regulations.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Article TENTH of the Company's Amended and Restated Certificate of Incorporation provides that the Company shall indemnify and hold harmless, to the fullest extent authorized by the Delaware General Corporation Law, its officers and directors against all expenses, liability and loss actually and reasonably incurred in connection with any civil, criminal, administrative or investigative action, suit or proceeding. The Amended and Restated Certificate of Incorporation also extends indemnification to those serving at the request of the Company as directors, officers, employees or agents of other enterprises.

In addition, Article NINTH of the Company's Amended and Restated Certificate of Incorporation provides that no director shall be personally liable for any breach of fiduciary duty. Article NINTH does not eliminate a director's liability (i) for a breach of his or her duty of loyalty to the Company or its stockholders, (ii) for acts of intentional misconduct, (iii) under Section 174 of the Delaware General Corporation Law for unlawful declarations of dividends or unlawful stock purchases or redemptions, or (iv) for any transactions from which the director derived an improper personal benefit.

Section 145 of the Delaware General Corporation Law permits a corporation to indemnify its directors and officers against expenses (including attorney's fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by them in connection with any action, suit or proceeding brought by third parties, if such directors or officers acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reason to believe their conduct was unlawful. In a derivative action, i.e., one by or in the right of the corporation, indemnification may be made only for expenses actually and reasonably incurred by directors and officers in connection with the defense or settlement of an action or

suit, and only with respect to a matter as to which they shall have acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interest of the corporation, except that no indemnification shall be made if such person shall have been adjudged liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine upon application that the defendant officers or directors are reasonably entitled to indemnity for such expenses despite such adjudication of liability.

Section 102(b)(7) of the Delaware General Corporation Law provides that a corporation may eliminate or limit the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit. No such provision shall eliminate or limit the liability of a director for any act or omission occurring prior to the date when such provision becomes effective.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

There were no underwriters retained in any of the issuances of securities described below. All issuances of stock described below were made without registration in reliance upon Section 4(2) of the Securities Act of 1933.

(a) On September 30, 1994, the Company reclassified and changed each share of Class A Common Stock and Class B Common Stock into 100 shares of Common Stock.

(b) The Company issued 314,820, 91,377 and 83,259 shares of Common Stock on December 27, 1994, May 1, 1995 and September 22, 1995, respectively, for par value to certain management employees and executive officers.

(c) In connection with the Company's acquisition of Schein Dental Equipment in the third quarter of 1995, the Company issued an aggregate of 1,260,416 shares of Common Stock to the stockholders of Schein Dental Equipment, in exchange for 100% of their interests in Schein Dental Equipment.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statement Schedules

(i) Valuation and Qualifying Accounts

(b) Exhibits

The exhibits required by Item 601 of Regulation S-K and filed herewith are listed in the Exhibit List immediately preceding the exhibits.

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling

person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned Company hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Company pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Company has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Melville, and the State of New York, on this 18th day of June, 1996.

By: /s/ STANLEY M. BERGMAN

Stanley M. Bergman
 Chairman, Chief Executive Officer,
 President and
 Director

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed by the following persons in their capacities on June 18, 1996.

| NAME | CAPACITY | DATE |
|---|---|---------------|
| /s/ STANLEY M. BERGMAN Stanley M. Bergman | Chairman, Chief Executive Officer, President and Director (Principal Executive Officer) | June 18, 1996 |
| * Steven Paladino | Senior Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer) | June 18, 1996 |
| * James P. Breslawski | Director | June 18, 1996 |
| * Gerald A. Benjamin | Director | June 18, 1996 |
| * Leonard A. David | Director | June 18, 1996 |
| * Mark E. Mlotek | Director | June 18, 1996 |
| * Barry J. Alperin | Director | June 18, 1996 |
| * Pamela Joseph | Director | June 18, 1996 |
| * Donald J. Kabat | Director | June 18, 1996 |
| * Marvin H. Schein | Director | June 18, 1996 |
| * Irving Shafran | Director | June 18, 1996 |

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE

Henry Schein, Inc.
Melville, New York

The audits referred to in our report dated February 23, 1996 relating to the consolidated financial statements of Henry Schein, Inc., which is included in the Prospectus constituting a part of this Registration Statement included the audit of financial statement Schedule II, Valuation and Qualifying Accounts. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based upon our audits.

In our opinion, such financial statement schedule presents fairly, in all material respects, the information set forth therein.

BDO SEIDMAN, LLP

New York, New York
February 23, 1996

S-1

HENRY SCHEIN, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

| COLUMN A | COLUMN B | COLUMN C | COLUMN D | COLUMN E |
|--|--|--|------------|-----------------------------------|
| DESCRIPTIONS | BALANCE AT BEGINNING OF PERIOD | ADD CHARGED TO COSTS AND EXPENSES | DEDUCTIONS | BALANCE AT END OF PERIOD |
| ----- | | | | |
| Year Ended December 25, 1993 | | | | |
| Allowance for doubtful accounts..... | \$1,699 | \$ 316 | \$ -- | \$2,015 |
| Other accounts receivable allowances(1)..... | 1,415 | -- | (172) | 1,243 |
| | ----- | ----- | ----- | ----- |
| | \$3,114 | \$ 316 | \$ (172) | \$3,258 |
| | ----- | ----- | ----- | ----- |
| Year ended December 31, 1994 | | | | |
| Allowance for doubtful accounts..... | \$2,015 | \$ 246 | \$ -- | \$2,261 |
| Other accounts receivable allowances(1)..... | 1,243 | 815 | -- | 2,058 |
| | ----- | ----- | ----- | ----- |
| | \$3,258 | \$1,061 | \$ -- | \$4,319 |
| | ----- | ----- | ----- | ----- |
| Year ended December 30, 1995 | | | | |
| Allowance for doubtful accounts..... | \$2,261 | \$ 253 | \$ -- | \$2,514 |
| Other accounts receivable allowances(1)..... | 2,058 | 1,763 | -- | 3,821 |
| | ----- | ----- | ----- | ----- |
| | \$4,319 | \$2,016 | \$ -- | \$6,335 |
| | ----- | ----- | ----- | ----- |

(1)Primarily allowance for sales returns.

EXHIBIT INDEX

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|-------------------------|---|----------------------|
| 1.1 | Form of Underwriting Agreement+++ | |
| 3.1 | Form of Amended and Restated Articles of Incorporation+ | |
| 3.2 | Form of Bylaws+ | |
| 5.1 | Opinion of Proskauer Rose Goetz and Mendelsohn LLP with respect to the legality of the securities being registered* | |
| 9.1 | Voting Trust Agreement dated September 30, 1994, as amended, among the Company, the Estate of Jacob M. Schein, the Trusts under Articles Third and Fourth of the Will of Jacob M. Schein, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, the Trust established by Martin Sperber under Trust Agreement dated September 19, 1994, management stockholders and Stanley M. Bergman, as voting trustee+ | |
| 9.2 | Agreements dated December 27, 1994 among the Company, various executive officers and Stanley M. Bergman, as voting trustee+ | |
| 9.3 | Agreements dated as of May 1, 1995 among the Company, various executive officers and Stanley M. Bergman, as voting trustee+ | |
| 10.1 | Amended and Restated HSI Agreement (the "HSI Agreement"), effective as of February 16, 1994, among the Company, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated September 9, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, the Estate of Jacob M. Schein, the Trusts established by Articles Third and Fourth of the Will of Jacob M. Schein, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, the Trust established by Martin Sperber under Trust Agreement dated September 19, 1994, the Trust established by Stanley M. Bergman under Trust Agreement dated September 15, 1994, Pamela Schein, Pamela Joseph, Martin Sperber, Stanley M. Bergman, Steven Paladino and James P. Breslawski (collectively, the "HSI Parties")+ | |
| 10.2 | HSI Registration Rights Agreement dated September 30, 1994, among the Company, Pamela Schein, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated December 31, 1993, the Trust established by Marvin H. Schein under Trust Agreement dated September 19, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, Martin Sperber, the Trust established by Martin Sperber under Trust Agreement dated September 19, 1994, Stanley M. Bergman and the Trust established by Stanley M. Bergman under Trust Agreement dated September 15, 1994+ | |
| 10.3 | Letter Agreement dated September 30, 1994 to the Company from Marvin H. Schein, Pamela Joseph and Pamela Schein+ | |
| 10.4 | Release to the HSI Agreement dated September 30, 1994+ | |
| 10.5 | Separation Agreement dated as of September 30, 1994 by and between the Company, Schein Pharmaceutical, Inc. and Schein Holdings, Inc.+ | |

- 10.6 Restructuring Agreement dated September 30, 1994 among Schein Holdings, Inc., the Company, the Estate of Jacob M. Schein, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated December 31, 1993, the Trust established by Marvin H. Schein under Trust Agreement dated September 9, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, Pamela Schein, Pamela Joseph, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994; the Trusts under Articles Third and Fourth of the Will of Jacob M. Schein; Stanley M. Bergman, the Trust established by Stanley M. Bergman under Trust Agreement dated September 15, 1994, Martin Sperber, the Trust established by Martin Sperber under Trust Agreement dated December 31, 1993, and the Trust established by Martin Sperber under Trust Agreement dated September 19, 1994
- 10.7 Agreement and Plan of Corporate Separation and Reorganization dated as of September 30, 1994 among Schein Holdings, Inc., the Company, the Estate of Jacob M. Schein, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated December 31, 1993, the Trust established by Marvin H. Schein under Trust Agreement dated September 9, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, Pamela Schein, the Trust established by Article Fourth of the Will of Jacob M. Schein for the benefit of Pamela Schein and her issue under Trust Agreement dated September 29, 1994, Pamela Joseph, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, the Trust established by Pamela Joseph under Trust Agreement dated September 28, 1994 and the Trusts under Articles Third and Fourth of the Will of Jacob M. Schein+
- 10.8 Henry Schein, Inc. 1994 Stock Option Plan, as amended and restated effective as of July 1, 1995+
- 10.9 Henry Schein, Inc. Amendment and Restatement of the Supplemental Executive Retirement Plan+
- 10.10 Henry Schein, Inc. Summary Executive Incentive Plan+
- 10.11 Consulting Agreement dated September 30, 1994 between the Company and Marvin H. Schein+
- 10.12 Employment Agreement dated as of January 1, 1992 between the Company and Stanley M. Bergman+
- 10.13 Amended and Restated Stock Issuance Agreement dated as of December 24, 1992 between the Company and Stanley M. Bergman+
- 10.14 Stock Issuance Agreements dated December 27, 1994 between the Company and various executive officers+
- 10.15 Agreement and Plan of Merger dated as of September 1, 1995, among Henry Schein, Inc., Schein Dental Equipment Corp., Marvin H. Schein and others+
- 10.16 Stock Purchase Agreement dated August 25, 1995 by Henry Schein, Inc., PRN Medical, Inc. and its shareholders, and Florida Doctor Supply, Inc. and its shareholders+
- 10.17 Restated Standard Indemnity Agreement dated February 8, 1993, as amended January 25, 1993, by and between Showa Denko America, Inc. and the Company+
- 10.18 Guaranty Agreement by and between Showa Denko K.K. and the Company, relating to the Restated Standard Indemnity Agreement dated February 8, 1993, as amended January 25, 1993, by and between Showa Denko America, Inc. and the Company+
- 10.19 Stock Issuance Agreements dated as of May 1, 1995 between the Company and executive officers+
- 10.20 Agreement of Purchase and Sale of Assets dated February 28, 1996 by and among the Company, Benton Dental, Inc. and Modern Dental Concepts, Inc.++

| EXHIBIT NO. | EXHIBIT | PAGE NO. |
|----------------|---|-------------|
| 10.21 | Credit Agreement dated as of December 8, 1994 between the Company and The Chase Manhattan Bank, N.A.+ | |
| 10.22 | Loan Agreement dated May 5, 1995 by and between the Company and New York State Urban Development Corporation+ | |
| 10.23 | Term Loan Agreement dated as of November 15, 1993 between Henry Schein Europe, Inc. and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.+ | |
| 10.24 | Corporate Guarantee dated November 15, 1993 by the Company, Zahn Dental Co., Inc., Zahn Dental (Florida), Inc., Zahn Dental (Mass), Inc., Tri-State Medical Supply, Inc. and Zahn Holdings, Inc. with respect to the Term Loan dated as of November 15, 1993 between Henry Schein Europe, Inc. and Cooperatieve Centrale Raiffeisen-Boerenleenbank, B.A.+ | |
| 10.25 | Joint and Several Guarantee dated February 7, 1995 by the Company in favor of Banque Nationale de Paris+ | |
| 10.26 | Joint and Several Guarantee dated February 7, 1995 by the Company in favor of Banque Francaise du Commerce Exterieur+ | |
| 10.27 | Guarantee dated March 1, 1996 by the Company in favor of Deutsche Bank AG++ | |
| 10.28 | Lease Agreement dated December 22, 1995 by and between Dugan Realty, L.L.C. and the Company++ | |
| 10.29 | Commercial Guaranty dated August 1, 1994 by the Company in favor of the Mid-City National Bank+ | |
| 10.30 | Discretionary Line of Credit dated August 18, 1995 between PNC Bank, Delaware and one of the Company's 50% owned companies+ | |
| 10.31 | Discretionary Line of Credit Demand Note dated August 18, 1995 in favor of one of the Company's 50% owned companies+ | |
| 10.32 | Loan Agreement dated March 30, 1992 between the Royal Bank of Scotland plc, Henry Schein U.K. Holdings Limited and BDG U.K. Holdings Limited+ | |
| 10.33 | Loan Agreement dated January 28, 1994 between the Royal Bank of Scotland plc, Henry Schein U.K. Holdings Limited and Dental Express (Supplies) Limited+ | |
| 10.34 | Credit Agreement dated June 5, 1995 among Canadian Imperial Bank of Commerce and one of the Company's 50% owned companies+ | |
| 10.35 | Master Lease Agreement dated as of February 28, 1991 between General Electric Capital Corporation and the Company+ | |
| 10.36 | Master Lease Agreement dated December 2, 1994 between Chase Equipment Leasing, Inc. and the Company+ | |
| 10.37 | Software License Agreement dated as of June 20, 1995 between the Company and XcelleNet, Inc.+ | |
| 10.38 | Software License Agreement dated as of October 31, 1994, as amended, between J.D. Edwards & Company+ | |
| 10.39 | Software Update Agreement dated as of October 31, 1994, as amended, between J.D. Edwards & Company+ | |
| 10.40 | Software Services Agreement dated as of October 31, 1994, as amended, between J.D. Edwards & Company+ | |
| 10.41 | Lease dated December 3, 1990 between WRC Properties, Inc. and the Company+ | |
| 10.42 | Lease dated March 2, 1992 between Vista Distribution Center, Inc. and the Company+ | |
| 10.43 | Lease dated as of September 30, 1993, as amended October 14, 1993 and May 23, 1995, by and between Broad Hollow Realty Co. and the Company+ | |

| EXHIBIT NO. ----- | EXHIBIT ----- | PAGE NO. ----- |
|-------------------------|--|----------------------|
| 10.44 | Lease dated April 27, 1995 by Lyndean Investments Limited to Kent Dental Limited and Henry Schein U.K. Holdings Limited+ | |
| 10.45 | Lease dated October 23, 1994 between Georg and Pia Netzhammer and Henry-Schein Dentina GmbH (English translation and original version)+ | |
| 10.46 | Lease dated January 11, 1995 between Lyndean Investments Limited, Kent Dental Limited and Henry Schein U.K. Holdings Limited+ | |
| 10.47 | Stock Purchase Agreement dated as of August 18, 1995 among the Company, the Mark Family Partnership and others+ | |
| 10.48 | Group Purchasing Program Agreement dated March 31, 1994, as amended June 26, 1995, by and between AMA Resources, Inc. and the Company+ | |
| 10.49 | Hospital Supply Purchase Agreement dated as of November 10, 1994 between Veterinary Centers of America, Inc. and the Company+ | |
| 10.50 | Award of Contract to the Company dated April 14, 1995 by Department of the Army+ | |
| 10.51 | Sales Agent Agreement dated March 1, 1995 by and between Merck & Co., Inc. and the Company+ | |
| 10.52 | Supply Agreement dated March 20, 1991+ | |
| 10.53 | Shareholders' Agreement dated March 20, 1991 among Deproco, Inc., the Company, and others+ | |
| 10.54 | Non-Negotiable Promissory Note dated March 20, 1991 from the Company to N-Tech+ | |
| 10.55 | Guaranty dated March 20, 1991 by the Company and others in favor of N-Tech, Inc.+ | |
| 10.56 | Demand Debenture dated December 20, 1988 from one of the Company's 50% owned companies to Canadian Imperial Bank of Commerce+ | |
| 10.57 | Pledge Agreement dated December 20, 1988 of one of the Company's 50% owned companies to Canadian Imperial Bank of Commerce+ | |
| 10.58 | Shareholders' Agreement dated as of December 1, 1990 by and among the shareholders of Henry Schein Espana, S.A.+ | |
| 10.59 | Shareholders' Agreement dated as of April 1, 1991 between the shareholders of Schein-Dentina, B.V. (English translation)+ | |
| 10.60 | Put and Call Option Agreement dated August 29, 1991 between Schein International (Europe) Inc. and the shareholders of Henry Schein U.K. Holdings Limited+ | |
| 10.61 | Deed of Guarantee dated August 29, 1991 between Henry Schein, Inc. and the shareholders of Henry Schein U.K. Holdings Limited+ | |
| 10.62 | Stock Purchase Agreement dated November 1, 1992 among SSN Healthcare Supply, Inc., the Company, Tri-State Medical Supply, Inc. and a shareholder+ | |
| 10.63 | Stock Purchase and Shareholders' Agreement dated March 19, 1993 by and among S.A. Hospithera and Henry Schein Europe, Inc.+ | |
| 10.64 | Agreement dated March 19, 1993 by and among S.A. Hospithera N.V., Henry Schein Europe Inc., and S.A. Henry Schein Hospithera N.V.+ | |
| 10.65 | Supply Agreement dated as of March 15, 1993 between Henry Schein B.V. and S.A. Henry Schein Hospithera N.V.+ | |
| 10.66 | Put and Call Option Agreement dated July 1, 1993 between P.W. White Holdings Limited and Henry Schein Europe Inc.+ | |
| 10.67 | Shareholders' Agreement dated July 1, 1993 between the shareholders of Henry Schein UK Holdings Ltd.+ | |

| EXHIBIT NO. ----- | EXHIBIT ----- | PAGE NO. ----- |
|-------------------------|--|----------------------|
| 10.68 | Consortium Agreement dated July 1, 1993 between the shareholders of Henry Schein UK Holdings Ltd.+ | |
| 10.69 | Guarantee dated July 1, 1993 between the Company and P.W. White Holdings Limited+ | |
| 10.70 | Restructuring Agreement dated July 30, 1993 by and among the Company, Dental Plan, Inc., and certain of its employees+ | |
| 10.71 | Share Purchase Agreement dated as of November 17, 1993 by and among Henry Schein B.V. and Johannes Cornelis van den Braak+ | |
| 10.72 | Asset Purchase and Business Development Agreement dated May 23, 1994 among the Company, Chicago Medical Equipment Company, and its principal stockholder, Universal Footcare Holdings Corp., Universal Footcare Products, Inc. and Universal Footcare Sales Co., L.L.C.+ | |
| 10.73 | Sales Service Agreement dated as of August 1, 1994 between Universal Footcare Products, Inc. and Universal Footcare Sales Co., L.L.C.+ | |
| 10.74 | Unanimous Shareholders Agreement dated August 4, 1994 among Henry Schein Canada Inc., the Company, 972704 Ontario Inc. and its shareholders, and Consolidated Dental Ltd.+ | |
| 10.75 | Share Purchase Agreement dated June 27, 1994 by and between the shareholders of Henry Schein France S.A.+ | |
| 10.76 | Shareholders Agreement dated January 1, 1995 among SSN Healthcare Supply, Inc., South Jersey Medical Supply Co., Inc., South Jersey Surgical Supply Co., Inc., and its shareholders+ | |
| 10.77 | Shareholders Agreement dated as of January 24, 1995 by and among the shareholders of Dentisoft, Inc.+ | |
| 10.78 | Purchase Agreement dated as of June 14, 1995 among The Veratex Corporation, the Company and HSI Michigan Corp.+ | |
| 10.79 | Form of Henry Schein, Inc. Non-Employee Director Stock Option Plan++ | |
| 10.80 | Supply Agreement made as of July 7, 1995 between Tidi Products, Inc. and the Company+ | |
| 10.81 | Agreement Subject to Conditions Precedent dated July 21, 1995 between Henry Schein Europe Inc., Henry Schein France S.A., Gerard Ifker, Didier Cochet, Frederic Ladet, Jean-Hugues Lelievre and Christophe Morales (English Translation)+ | |
| 10.82 | Put and Call Option Agreement dated June 9, 1995 between William Roger Killiner and Henry Schein U.K. Holdings Limited+ | |
| 10.83 | Put and Call Option Agreement dated June 9, 1995 between Anthony Alan Anderson and Henry Schein U.K. Holdings Limited+ | |
| 10.84 | Agreement of Purchase and Sale of Assets dated as of July 1, 1995 by and among Precision Dental Specialties, Inc. and its shareholders, PDS Acquisition Corp., and the Company+ | |
| 10.85 | Shareholders Agreement dated as of July 1, 1995 by and among Precision Dental Specialties, Inc. and its shareholders, PDS Acquisition Corp., and the Company+ | |
| 10.86 | Agreement dated January 1, 1995 between Henry Schein (UK) Holdings Ltd. and The Royal Bank of Scotland plc+ | |
| 10.87 | Agreement dated March 4, 1993 between Henry Schein (UK) Holdings Ltd. and The Royal Bank of Scotland plc+ | |
| 10.88 | Loan Agreement dated November 16, 1993 between Henry Schein B.V. and others and Crediet-en Effectenbank N.V. (English translation and original version)+ | |

| EXHIBIT NO. ----- | EXHIBIT ----- | PAGE NO. ----- |
|-------------------------|--|----------------------|
| 10.89 | Multicurrency Credit Policy between Henry Schein Espana, S.A. and others and Banco Popular Espanol, S.A. (English translation and original version)+ | |
| 10.90 | Amended and Restated Credit Agreement (the "Amended Credit Agreement") dated as of July 5, 1995 among the Company, The Chase Manhattan Bank, N.A., Natwest Bank, N.A., Cooperatieve Centrale Raiffeisen Boerenleenbank, B.A. "Rabobank Nederland". New York Branch and European American Bank+ | |
| 10.91 | First Amendment to the Amended Credit Agreement dated December 15, 1995 among the Company, The Chase Manhattan Bank, N.A., Natwest Bank, N.A., Cooperatieve Centrale Raiffeisen Boerenleenbank, B.A. "Rabobank Nederland", New York Branch and European American Bank++ | |
| 10.92 | Agreement and Plan of Merger dated as of April 26, 1996 among the Company, SSC Holdings, Inc., Scientific Supply Company, Lawrence J. Frankel, the Lawrence and Pamela Frankel Charitable Remainder Trust, Norman Frankel, Rudolph Kelemen and Bruce Barber* | |
| 10.93 | Registration Rights Agreement among the Company, Lawrence J. Frankel, the Lawrence and Pamela Frankel Charitable Remainder Trust, Norman Frankel, Rudolph Kelemen and Bruce Barber* | |
| 10.94 | Acquisition Agreement dated as of May 23, 1996 among HSI, Silverman's Dental Supply Corp. San Francisco Dental Supply, Inc. and Larry Olsen* | |
| 10.95 | Acquisition Agreement dated as of May 23, 1996 the Company and Pattison-McGrath Company Dental Supplies* | |
| 11.1 | Statement re: computation of per share income (loss)* | |
| 21.1 | List of Subsidiaries of the Registrant* | |
| 23.1 | Consent of BDO Seidman, LLP* | |
| 23.2 | Consent of Proskauer Rose Goetz & Mendelsohn LLP included in its opinion to be filed as Exhibit 5.1 to this Registration Statement* | |

* Filed herewith.

** To be filed by amendment.

+ Incorporated by reference to the Company's Registration Statement on Form S-1 (Commission File No. 33-96528).

++ Incorporated by reference to the Company's Annual Report on Form 10-K (Commission File No. 0-27078).

+++ Incorporated by reference to the Company's Registration statement on Form S-1 (Commission File No. 333-5157)

[PROSKAUER ROSE GOETZ & MENDELSON LLP]

June 4, 1996

Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

You have requested our opinion in connection with the statement on Form S-1 filed on the date hereof (the "Registration Statement"), under which Henry Schein, Inc. (the "Company") will offer 3,735,500 shares (including 855,000 shares subject to over-allotment in favor of the underwriters) (the "Primary Shares") of its Common Stock, par value of \$.01 per share (the "Common Stock"), in a public offering, and certain stockholders of the Company will offer up to 2,819,500 shares (the "Selling Stockholder Shares") of the Common Stock in a public offering. The shares of Common Stock to be offered by the Company and such stockholders are collectively referred to herein as the "Offered Shares."

We have reviewed the Amended and Restated Certificate of Incorporation of the Company, resolutions by the Company's Board of Directors, the Registration Statement and the other exhibits thereto, including the form of Underwriting Agreement (the "Underwriting Agreement") relating to the Offered Shares filed as Exhibit 1.1 to the Registration Statement, and have examined such corporate documents and records and other certificates and have made such investigations of law as we deemed necessary in order to render the opinion hereinafter set forth. Based upon and subject to the foregoing, the Selling Stockholder Shares, and

Henry Schein, Inc.
June 4, 1996
Page 2

when issued in accordance with the terms of the Underwriting Agreement the Primary Shares, will be duly authorized, legally issued and fully paid and nonassessable.

We consent to the use of our name under the caption "Legal Matters" in the Registration Statement and to the filing of this opinion as an exhibit to the Registration Statement. In giving this consent, we do not hereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

PROSKAUER ROSE GOETZ & MENDELSON LLP

AGREEMENT AND PLAN OF MERGER

among

HENRY SCHEIN, INC.

SSC HOLDINGS, INC.

SCIENTIFIC SUPPLY COMPANY

LAWRENCE J. FRANKEL

THE LAWRENCE AND PAMELA FRANKEL
CHARITABLE REMAINDER TRUST

NORMAN FRANKEL

RUDOLPH KELEMEN

and

BRUCE BARBER

Dated as of April 26, 1996

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated as of April 26, 1996, among HENRY SCHEIN, INC., a Delaware corporation ("Parent"), SSC HOLDINGS, INC., an Illinois corporation and wholly-owned subsidiary of Parent ("Sub"), SCIENTIFIC SUPPLY COMPANY, an Illinois corporation (the "Company"), and LAWRENCE J. FRANKEL, the LAWRENCE AND PAMELA FRANKEL CHARITABLE REMAINDER TRUST CREATED UNDER A TRUST AGREEMENT DATED AS OF MARCH 1, 1996, NORMAN FRANKEL, RUDOLPH KELEMEN and BRUCE BARBER (collectively, the "Stockholders").

The Parent, the Sub, the Company and the Stockholders desire that Parent acquire the Company pursuant to the merger of Sub with and into the Company in accordance with the terms of this Agreement, and the Illinois Business Corporation Act ("IBCA").

The parties hereto agree as follows:

ARTICLE I

THE MERGER; THE SURVIVING CORPORATION

Section 1.1 The Merger. In accordance with the provisions of this Agreement and the IBCA, at the Effective Time (as defined in Section 1.2), Sub shall be merged with and into the Company (the "Merger"), the separate existence of Sub shall thereupon cease, and the Company shall be the surviving corporation in the Merger (the "Surviving Corporation") and shall continue its corporate existence under the laws of the State of Illinois. The Merger shall have the effects set forth in Section 11.50 of the IBCA.

Section 1.2 Effective Time of the Merger. The Merger shall become effective at the time of filing of or at such later time specified in, a properly executed Certificate of Merger, in the form required by and executed in accordance with the IBCA, filed with the Secretary of State of the State of Illinois, in accordance with the provisions of Section 11.35 of the IBCA. Such filing shall be made as soon as practicable after the Closing (as defined in Section 1.3). When used in this Agreement, the term "Effective Time" shall mean the date and time at which the Merger shall become effective.

Section 1.3 Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Aronberg Goldgehn Davis & Garmisa, One IBM Plaza, Suite 3000, Chicago, Illinois, at 10:00 a.m., local time, on May 17, 1996 or on such other date and at such other time and place as Parent and the Company shall agree (the "Closing Date").

Section 1.4 Certificate of Incorporation. The Articles of

Incorporation of Sub in effect at the Effective Time shall be the Articles of Incorporation of the Surviving Corporation until amended in accordance with applicable law, except that the name of the Surviving Corporation shall be "Scientific Supply Company."

Section 1.5 By-Laws. The By-Laws of Sub as in effect at the

Effective Time shall be the By-Laws of the Surviving Corporation until amended in accordance with applicable law.

Section 1.6 Directors and Officers of Surviving Corporation.

(a) The directors of Sub at the Effective Time shall be the initial directors of the Surviving Corporation and shall hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the Articles of Incorporation or By-Laws of the Surviving Corporation or as otherwise provided by law.

(b) The officers of Sub at the Effective Time shall be the initial officers of the Surviving Corporation and shall hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the Articles of Incorporation or By-Laws of the Surviving Corporation, or as otherwise provided by law.

ARTICLE II

CONVERSION OF SHARES

Section 2.1 Exchange Ratio. At the Effective Time, by virtue of the

Merger and without any action on the part of the holder thereof:

(a) Each share of common stock, par value \$100.00 per share, of the Company (the "Company Common Stock"), issued and outstanding immediately

prior to the Effective Time (other than shares to be cancelled in accordance with Section 2.1(b)) shall be converted into the right to receive (x) a number of shares of the common stock, par value \$.01 per share, of Parent (the "Parent Common Stock"), payable upon the surrender of

the certificate formerly representing such share of Company Common Stock

in accordance with Section 2.2, equal to the quotient derived by dividing (i) the Interim Stock Value (as defined in Section 3.2(b)) by (ii) the product of (A) the number of outstanding shares of Company Common Stock at the Closing multiplied by (B) the average of the per share closing prices for the Parent Common Stock on the NASDAQ National Market System ("NASDAQ")

for the ten trading days immediately preceding the Closing and (y) an amount in cash equal to the quotient derived by dividing (i) the Interim Cash Value (as defined in Section 3.2(b)) by (ii) the number of outstanding shares of Company Common Stock at the Closing.

(b) All shares of Company Common Stock that are held by the Company as treasury shares shall be cancelled and retired and cease to exist, and no securities of Parent or other consideration shall be delivered in exchange therefor. As used in this Agreement, the term "Subsidiary" means,

with respect to any party, any corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party and/or one or more of its Subsidiaries.

(c) Each share of common stock, par value \$.01 per share, of Sub ("Sub Common Stock"), issued and outstanding immediately prior to the

Effective Time shall be converted into and become one fully paid and nonassessable share of common stock, par value \$.01 per share, of the Surviving Corporation.

(d) The holders of shares of Company Common Stock as to which appraisal rights shall have been duly demanded under applicable law ("Dissenting Shares"), if any, shall be entitled to payment by the

Surviving Corporation of the appraised value of such shares to the extent permitted by and in accordance with the provisions of applicable law; provided, however, that (i) if any holder of the Dissenting Shares shall,

under the circumstances permitted by applicable law, subsequently deliver a written withdrawal of such holder's demand for appraisal of such shares or (ii) if any holder fails to establish such holder's entitlement to rights to payment as provided under applicable law or (iii) if neither any holder of Dissenting Shares nor the Surviving Corporation has filed a petition demanding a determination of the value of all Dissenting Shares within the time provided under applicable law, such holder or holders (as the case may be) shall forfeit such right to payment for such shares and such shares shall thereupon be deemed to have been converted into Parent Common Stock and cash pursuant to Section 2.1(a) as of the Effective Time. The Surviving Corporation shall be solely responsible for, and shall pay out of its own funds, any amounts which become due and payable to holders of Dissenting Shares, and such amounts shall not be paid directly or indirectly by Parent.

Section 2.2 Exchange of Company Stock. Promptly after the Effective

Date, each Stockholder shall present to the Parent for cancellation a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the "Certificates") that were

converted pursuant to Section 2.1 into the right to receive shares of Parent Common Stock prior to the Closing Date, and the Parent shall thereupon deliver to such Stockholder in exchange therefor (x) a certificate representing that number of whole shares of Parent Common Stock which such Stockholder has the right to receive pursuant to the provisions of this Article II and (y) cash in lieu of any fractional shares of Parent Common Stock to which such Stockholder is entitled pursuant to Section 2.3, after giving effect to any required tax withholdings. The shares of Parent Common Stock shall be deemed to have been issued at the Effective Time.

Section 2.3 No Fractional Securities. No certificates or scrip

representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates or pursuant to Section 3.4, and such fractional interests shall not entitle the owner thereof to vote or to any rights of a security holder. In lieu of any such fractional securities, each holder of Company Common Stock who would otherwise have been entitled to a fraction of a share of Parent Common Stock upon surrender of such holder's Certificates or pursuant to Section 3.4 will be entitled to receive, and Parent will timely make a cash payment (without interest) determined by multiplying (i) the fractional interest to which such holder would otherwise be entitled (after taking into account all shares of Parent Common Stock then held of record by such holder) and (ii) the average of the per share closing prices for Parent Common Stock on NASDAQ for the ten trading days immediately preceding the Closing (the "Parent Stock Price").

ARTICLE III

DETERMINATION OF INTERIM AND FINAL EXCHANGE VALUE;
ADJUSTMENT TO MERGER CONSIDERATION

Section 3.1 Company's Calculations of 1995 EBITD, Adjusted April 12

Net Worth and April 12 Inventory. On the date hereof, the Company shall deliver

to Parent a statement (the "Company's Statement") in reasonable detail of the

Company's calculation of 1995 EBITD (as defined below), Adjusted April 12 Net Worth (as defined below) and April 12 Inventory (as defined below). For purposes of this Agreement, "1995 EBITD" means the product of (x) the Company's

net income, increased solely by non-recurring expenses and adjustments listed on Exhibit A, interest, depreciation and taxes (but only to the extent such non-recurring expenses and adjustments interest, depreciation and taxes have been deducted in the computation of net income), for the eight-month period ending February 29, 1996 and (y) 1.5; "Adjusted April 12 Net Worth" means (x) the

Company's net worth as of April 12, 1996 (including in the calculation of Adjusted April 12 Net Worth the items described on Exhibit B-1 and excluding from the calculation of Adjusted April 12 Net Worth the Company's inventory as of April 12, 1996 and the items described on Exhibit B-2); and "April 12

Inventory" means the dollar value of the Company's inventory as of April 12,

1996 (excluding from the calculation of April 12 Inventory the inventory described on Exhibit C). 1995 EBITD, Adjusted April 12 Net Worth and April 12 Inventory shall be calculated in accordance with generally accepted accounting principles consistently applied, including, in the case of Adjusted April 12 Net Worth, principles relating to the establishment of reserves on inventory, accounts receivable and the like ("GAAP"), as adjusted in accordance with the

accounting principles set forth on Exhibit D.

Section 3.2 Parent's Calculations of 1995 EBITD, Adjusted April 12

Net Worth and/or April 12 Inventory.

(a) Prior to and after the Closing, Parent's authorized representatives shall have the right at reasonable times and on reasonable notice, at the Parent's sole expense, to review and/or audit the books and records of the Company and the work papers of the Company's accountants, and shall be provided access to the Company's employees and/or representatives (including, without limitation, the Company's accountants). If Parent disagrees with the accuracy of the Company's calculation under Section 3.1 of 1995 EBITD (the "Company's Calculation of 1995 EBITD"), the Company's calculation under

Section 3.1 of Adjusted April 12 Net Worth (the "Company's Calculation of Adjusted April 12 Net Worth") or the Company's calculation under Section 3.1 of

April 12 Inventory (the "Company's Calculation of April 12 Inventory"), the

Parent shall deliver to the Company and each of the Stockholders, prior to the end of the 15 business days following the date hereof, a statement and explanation of such disagreement (the "Parent's Statement"), accompanied by an

alternative determination of 1995 EBITD ("Parent's Calculation of 1995 EBITD"),

Adjusted April 12 Net Worth ("Parent's Calculation

of Adjusted April 12 Net Worth") and/or April 12 Inventory ("Parent's

Calculation of April 12 Inventory"), provided that in no event shall Parent's

delivery of Parent's Statement be a condition of Closing.

(b) For purposes of this Agreement: "Interim Exchange Value" means

(i) the product of (A) Parent's Calculation of 1995 EBITD and (B) the Value Multiple (as defined in Section 3.2(c)), plus (ii) if Parent's Calculation of Adjusted April 12 Net Worth is greater than \$275,000, then the difference between Parent's Calculation of Adjusted April 12 Net Worth and \$275,000, minus (iii) if Parent's Calculation of Adjusted April 12 Net Worth is less than \$275,000, then the difference between \$275,000 and Parent's Calculation of Adjusted April 12 Net Worth, plus (iv) if Parent's Calculation of April 12 Inventory is greater than \$1,675,000, then the product of (A) 60% and (B) the difference between Parent's Calculation of April 12 Inventory and \$1,675,000, minus (v) if Parent's Calculation of April 12 Inventory is less than \$1,675,000 but more than \$725,000, then the product of (A) 60% and (B) the difference between \$1,675,000 and Parent's Calculation of April 12 Inventory, minus (vi) if Parent's Calculation of April 12 Inventory is \$725,000 or less, then the sum of (A) \$360,000 and (B) the difference between \$725,000 and Parent's Calculation of April 12 Inventory; "Interim Stock Value" means an amount equal to 20% of

Interim Exchange Value, or, with respect to any Stockholder, such greater or (in the case of any Stockholder other than Lawrence Frankel) lesser percentage as such Stockholder may elect by notice to Parent not less than three business days prior to the Closing (the "Stock Percentage"); and "Interim Cash Value" means an

amount equal to 80% of Interim Exchange Value, or, with respect to any Stockholder, such greater or lesser percentage such that the sum of such percentage and the Stock Percentage for such Stockholder equals 100%. Notwithstanding anything contained in the preceding sentence: (w) in no event shall the aggregate amount of cash paid to the Stockholders at the Closing exceed 80% of Interim Exchange Value; (x) upon any failure of Parent so to timely deliver Parent's Statement, the Company's Statement shall be deemed final, binding and conclusive on each of the parties hereto, and, for purposes of the preceding sentence, the Company's Calculation of 1995 EBITD, the Company's Calculation of Adjusted April 12 Net Worth and the Company's Calculation of April 12 Inventory shall be deemed Parent's Calculation of 1995 EBITD, Parent's Calculation of Adjusted April 12 Net Worth and the Parent's Calculation of April 12 Inventory, respectively; (y) if Parent's Calculation of 1995 EBITD is less than 90% of the Company's Calculation of 1995 EBITD, then, for purposes of the preceding sentence, Final 1995 EBITD (as defined in Section 3.4(a)) shall be deemed Parent's Calculation of 1995 EBITD (it being understood that, if Parent's Calculation of 1995 EBITD is less than 90% of the Company's Calculation of 1995 EBITD, the Closing shall be deferred pending the determination of 1995 EBITD pursuant to Sections 3.3 and 3.4); and (z) for purposes of the preceding sentence, the Company's Calculation of 1995 EBITD shall be deemed Parent's Calculation of 1995 EBITD, unless the difference between the Company's Calculation of 1995 EBITD and Parent's Calculation of 1995 EBITD is greater than \$50,000.

(c) For purposes of this Agreement, "Value Multiple" shall mean the

quotient derived by dividing (i) (A) 10,080,000 minus (B) notes payable - bank of the Company at the Closing minus (C) long term debt of the Company at the Closing minus (D) other loans to Stockholders and indebtedness of the Company at the Closing minus (E) accrued and unpaid interest in respect of (B), (C) and (D) (the "Value Base") by (ii) 1,062,067.

Section 3.3 Dispute Resolution.

(a) If Parent shall timely deliver Parent's Statement, then Parent and the Stockholders will attempt in good faith to resolve all differences with regard to their respective determinations of 1995 EBITD, Adjusted April 12 Net Worth and/or April 12 Inventory during the next 20 business days or such longer period as Parent and the Stockholders may agree in writing. If Parent and the Stockholders are unable to resolve such differences and agree as to 1995 EBITD, Adjusted April 12 Net Worth and/or April 12 Inventory prior to the expiration of such 20 business day period (or longer period if so agreed), 1995 EBITD, Adjusted April 12 Net Worth and/or April 12 Inventory shall be determined as set forth in Section 3.3(b).

(b) (i) Written reports of disagreement over the amounts in Sections 3.2(a) shall be prepared in concise form by Parent and the Stockholders and submitted (along with copies of Parent's Statement and the Stockholders' Dispute Statement) to the Third Accountants (as defined below) no later than 10 business days following the later of (A) the last day of the 15 business day (or longer period if so agreed) period referred to in the last sentence of Section 3.2(a) or (B) the designation of the Third Accountants. For purposes of this Section 3.3(b), the "Third Accountants" shall be Ernst

& Young (Chicago, Illinois office). Each of Parent and the Stockholders shall also be entitled to make a brief supplemental oral presentation to the Third Accountants in this regard.

(ii) The Third Accountants shall be instructed to deliver to Parent and the Stockholders a written report setting forth such Third Accountants' calculation, to the extent in dispute, of 1995 EBITD, Adjusted April 12 Net Worth and/or April 12 Inventory (the "Third Accountants' Report") no later than 20 business days following the earlier of (A) such firm's receipt of the later of the reports of disagreement submitted to it by Parent and the Stockholders as aforesaid and (B) the last day permitted for the delivery of such reports as provided above. The determination, to the extent in dispute, of 1995 EBITD, Adjusted April 12 Net Worth and/or April 12 Inventory set forth in the Third Accountant's Report shall be deemed final, binding and conclusive upon each party, absent manifest error. One-half of any fees and expenses of the Third Accountants shall be paid by Parent and the other half of such fees and expenses shall be paid by the Stockholders.

Section 3.4 Final 1995 EBITD, Final Adjusted April 12 Net Worth and

Final

April 12 Inventory; Adjustment to Merger Consideration.

(a) 1995 EBITD, Adjusted April 12 Net Worth and April 12 Inventory as mutually agreed to by Parent and the Stockholders pursuant to 3.3(a), or as deemed final, binding and conclusive pursuant to Section 3.3(b)(ii), shall be deemed the "Final 1995 EBITD", "Final Adjusted April 12 Net Worth" and "Final April 12 Inventory", respectively.

(b) For purposes of this Agreement: "Final Exchange Value" means (i) the product of (A) Final 1995 EBITD and (B) the Value Multiple, plus (ii) if the Final Calculation of Adjusted April 12 Net Worth is greater than \$275,000, then the difference between the Final Calculation of Adjusted April 12 Net Worth and \$275,000, minus (iii) if the Final Calculation of Adjusted April 12 Net Worth is less than \$275,000, then the difference between \$275,000 and the Final Calculation of Adjusted April 12 Net Worth, plus (iv) if the Final Calculation of April 12 Inventory is greater than \$1,675,000, then the product of (A) 60% and (B) the difference between the Final Calculation of April 12 Inventory and \$1,675,000, minus (v) if the Final Calculation of April 12 Inventory is less than \$1,675,000 but more than \$725,000, then the product of (A) 60% and (B) the difference between \$1,675,000 and the Final Calculation of April 12 Inventory, minus (vi) if the Final Calculation of April 12 Inventory is \$725,000 or less, then the sum of (A) \$360,000 and (B) the difference between \$725,000 and the Final Calculation of April 12 Inventory; "Final Stock Value" means an amount equal to the Stock Percentage of the Final Exchange Value; and "Final Cash Value" means an amount equal to a percentage of the Final Exchange Value, equal to 100% minus the Stock Percentage (the "Cash Percentage"). Notwithstanding

anything contained in the preceding sentence: (x) in no event shall the aggregate amount of cash paid to the Stockholders hereunder exceed 80% of Final Exchange Value; and (y) for purposes of the preceding sentence, the Company's Calculation of 1995 EBITD shall be deemed Final 1995 EBITD, unless the difference between the Company's Calculation of 1995 EBITD and Final 1995 EBITD is greater than \$50,000.

(c) If the Final Exchange Value exceeds the Interim Exchange Value, then, promptly after the determination of Final Exchange Value, Parent shall deliver to each Stockholder, with respect to each share of Company Common Stock held by such Stockholder immediately prior to the Closing, (x) a number of shares of Parent Common Stock equal to the quotient derived by dividing (i) the Final Stock Value minus the Interim Stock Value by (ii) the product of (A) the number of outstanding shares of Company Common Stock at the Closing multiplied by (B) the Parent Stock Price and (y) an amount in cash equal to the quotient derived by dividing (i) the Final Cash Value minus the Interim Cash Value by (ii) the number of outstanding shares of Company Common Stock at the Closing.

(d) If the Interim Exchange Value exceeds the Final Exchange Value, then, promptly after the determination of Final Exchange Value, each Stockholder shall deliver to the Parent, with respect to each share of Company Common Stock held by such

Stockholder immediately prior to the Closing, (x) a number of shares of Parent Common Stock equal to the quotient derived by dividing (i) the Interim Stock Value minus the Final Stock Value by (ii) the product of (A) the number of outstanding shares of Company Common Stock at the Closing multiplied by (B) the Parent Stock Price and (y) an amount in cash equal to the quotient derived by dividing (i) the Interim Cash Value minus the Final Cash Value by (ii) the number of outstanding shares of Company Common Stock at the Closing.

Section 3.5 Cash Earn-Out.

(a) For each of the 12-month periods ended December 31, 1996, 1997, 1998, 1999 and 2000, Parent shall pay to each Stockholder an amount equal to the product of (x) a fraction, the numerator of which is the number of shares of Company Common Stock owned by such Stockholder as of the Closing, and the denominator of which is the aggregate number of outstanding shares of Company Common Stock as of the Closing and (y) the Cash Earn-Out Amount (as defined below) for such 12-month period. For purposes of this Agreement: "Cash Earn-

Out Amount" for any 12-month period shall mean the product of (i) \$10,000 and

(ii) the product of (A) 100 and (B) a fraction, the numerator of which is (I) Gross Profit (as defined below) for such 12-month period minus (II) Gross Profit for the preceding 12-month period ("Base Gross Profit"), and the denominator of

which is Base Gross Profit; and "Gross Profit" for any 12-month period means the

aggregate gross profit, determined in accordance with generally accepted accounting principles consistently applied, of Parent, its Subsidiaries and the Company for such 12-month period in respect of sales of the Company, and sales of Parent and its Subsidiaries to medical (and not podiatric) physicians, clinics, hospital laboratories, schools and universities, government institutions (sales to which are primarily of medical (and not podiatric) products) and HMOs in Illinois (and any other territory mutually agreed to by Parent and Lawrence Frankel), as shown on the consolidated financial statements of Parent and the Company, as the case may be, and taking into consideration manufacturer and vendor rebates and adjustments (such rebates and adjustments to be allocated to products sold by the Company, and products sold by Parent and its Subsidiaries to medical (and not podiatric) physicians, clinics, hospital laboratories, schools and universities, government institutions (sales to which are primarily of medical (and not podiatric) products) and HMOs in Illinois (and any other territory mutually agreed to by Parent and Lawrence Frankel), in the case of each product, based on the proportion that sales of such product bears to the aggregate amount of sales of such product by the Company, Parent and its Subsidiaries), the "actual" purchase price from the manufacturer or vendor (including any discounts and rebates) and cash payment terms, provided that Gross Profit for the Company for the 12-month period ended December 31, 1995 shall be deemed to be \$5,162,000. The Cash Earn-Out Amount for each 12-month period shall be paid within 90 days after the end of such 12-month period.

(b) If Parent or any of its Subsidiaries consummates prior to December 31, 2000 an acquisition that is reasonably likely to have a material effect on Gross Profit,

Parent and Lawrence Frankel shall discuss in good faith and agree to any adjustment to Base Gross Profit appropriate in order to eliminate the effect of such acquisition on Gross Profit.

(c) In no event shall payments to the Stockholders pursuant to the preceding paragraph exceed an aggregate of \$1,000,000.

Section 3.6 Additional Earn-Out. If (a) the difference between the

Company's Calculation of 1995 EBITD is more than \$50,000 greater than Parent's Calculation of 1995 EBITD and (b) aggregate Gross Profit for the 36-month period ended December 31, 1998 equals or exceeds the product of (i) 3.31 and (ii) Gross Profit for the 12-month period ended December 31, 1995 (Gross Profit for the Company for the 12-month period ended December 31, 1995 being deemed to be \$5,162,000), subject to adjustment in accordance with the second succeeding sentence, then Parent shall: (1) issue to the Stockholders a number of shares of Parent Common Stock equal to the quotient derived by dividing (x) the product of (I) 20% and (II) (A) the Value Base minus (B) the product of the Value Multiple and Final 1995 EBITD by (y) the Parent Stock Price and (2) pay to the Stockholders in cash an amount equal to the product of (I) 80% and (II) (A) the Value Base minus (B) the product of the Value Multiple and Final 1995 EBITD. Such shares of Parent Common Stock shall be issued, and such cash shall be paid, within 90 days after the end of such 36-month period and shall be allocated among the Stockholders as the Stockholders shall direct in writing within 30 days after the end of such 36-month period. If Parent or any of its Subsidiaries consummates prior to December 31, 1998 an acquisition that is reasonably likely to have a material effect on Gross Profit, Parent and Lawrence Frankel shall discuss in good faith and agree to any adjustment in Gross Profit for the Company for the 12-month period ended December 31, 1995 appropriate in order to eliminate the effect of such acquisition on Gross Profit.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company and the Stockholders jointly and severally represent and warrant to Parent and Sub as follows:

Section 4.1 Organization. The Company is a corporation duly

organized, validly existing and in good standing under the laws of the State of Illinois and has the corporate power to carry on its business as it is now being conducted or presently proposed to be conducted. The Company is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned or held under lease or the nature of its activities makes such qualification necessary, except where the failure to be so qualified will not have a Company Material Adverse Effect. For purposes of this Agreement, "Company Material

Adverse Effect" means a material adverse effect, individually or in the

aggregate, on the financial condition, results of operations or business of the Company and its Subsidiaries taken as a whole, or the ability of the Company to consummate the Merger and the other transactions contemplated by this Agreement.

Section 4.2 Capitalization.

(a) The authorized capital stock of the Company consists of 100,000 shares of Company Common Stock. As of the date hereof, 11,160 shares of Company Common Stock were issued and outstanding. Schedule 4.2(a) lists each of the stockholders of the Company and the number and class of common stock owned by each such stockholder. Each of the Stockholders represents that all of the shares of Company Common Stock set forth beside such Stockholder's name on Schedule 4.2(a) are owned by such Stockholder free and clear of any Liens (as defined in Section 4.3).

(b) Except as disclosed in this Section 4.2 or as set forth on Schedule 4.2(b), (i) there is no outstanding right, subscription, warrant, call, option or other agreement or arrangement of any kind (collectively, "Rights") to purchase or otherwise to receive from the Company or any of its Subsidiaries any of the outstanding authorized but unissued or treasury shares of the capital stock or any other security of the Company or any of its Subsidiaries, (ii) there is no outstanding security of any kind convertible into or exchangeable for such capital stock and (iii) there is no voting trust or other agreement or understanding to which the Company or any of its Subsidiaries is a party or is bound with respect to the voting of the capital stock of the Company or any of its Subsidiaries.

Section 4.3 Company Subsidiaries. Schedule 4.3(a) contains a

complete and accurate list of all Subsidiaries or affiliates of the Company. Each Subsidiary of the Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Each Subsidiary of the Company has the corporate power to carry on its business as it is now being conducted or presently proposed to be conducted. Each Subsidiary of the Company is duly qualified as a foreign corporation authorized to do business, and is in good standing, in each jurisdiction where the character of its properties owned or held under lease or the nature of its activities makes such qualification necessary, except where the failure to be so qualified will not have a Company Material Adverse Effect. All of the outstanding shares of capital stock of the Subsidiaries of the Company that are corporations are validly issued, fully paid and nonassessable. All of the outstanding shares of capital stock of each Subsidiary of the Company are owned by the Company or a Subsidiary of the Company free and clear of any liens, pledges, security interests, claims, charges or other encumbrances of any kind whatsoever ("Liens").

Section 4.4 Authority Relative to this Agreement. The Company has

the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. Each of the Stockholders has the

capacity to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated on its part hereby have been duly authorized by the Company's Board of Directors and stockholders, and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or for the Company to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company and each of the Stockholders and constitutes a valid and binding agreement of the Company and each of the Stockholders, enforceable against the Company and each of the Stockholders in accordance with its terms.

Section 4.5 Consents and Approvals; No Violations. Neither the

execution, delivery and performance of this Agreement by the Company or the Stockholders, nor the consummation by the Company or the Stockholders of the transactions contemplated hereby, will (i) conflict with or result in any breach of any provisions of the charter, by-laws or other organizational documents of the Company or any of its Subsidiaries, (ii) require a filing with, or a permit, authorization, consent or approval of, any federal, state, local or foreign court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority or administrative agency or commission (a "Governmental Entity"), except the filing and recordation of a

Certificate of Merger as required by the IBCA, (iii) except as set forth on Schedule 4.5, result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of a Lien on any property or asset of the Company or any of its Subsidiaries pursuant to, any of the terms, conditions or provisions of any material note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation (each, a "Contract") to which the Company or any of its Subsidiaries

is a party or by which any of them or any of their properties or assets may be bound or (iv) violate any law, order, writ, injunction, decree, statute, rule or regulation of any Governmental Entity applicable to the Company, any of its Subsidiaries or any of their properties or assets.

Section 4.6 Financial Statements. The Company has delivered to the

Parent (a) the unaudited financial statements of the Company as of June 30, 1993, 1994 and 1995, and for each of the fiscal years then ended (the "Financial Statements"), and has delivered to the Parent the Company's internally prepared

restated income statement of the Company for the six months ended December 31, 1995 and the eight months ended February 29, 1996 (the "Restated Financial Statements"). Except as disclosed on Schedule 4.6, the Financial Statements of

the Company have been prepared in accordance with GAAP consistently applied throughout the periods indicated (except as otherwise noted therein). The Financial Statements and Restated Financial Statements, which are attached hereto as Schedule 4.6, are true and correct, and fairly present the consolidated financial position of the Company and its consolidated Subsidiaries as at the dates thereof and the consolidated results of operations and cash flows of the Company and its consolidated Subsidiaries for the periods then ended. Since January 1, 1996, there has been no change

in any of the significant accounting (including tax accounting) policies, practices or procedures of the Company or any of its consolidated Subsidiaries. The accounting books and records of the Company are organized and maintained, in a manner that would enable the financial statements of the Company to be audited.

Section 4.7 Absence of Certain Changes or Events; Material Contracts.

Except as set forth on Schedule 4.7, since December 31, 1995, (i) neither the Company nor any of its Subsidiaries has conducted its business and operations other than in the ordinary course of business and consistent with past practices or taken any actions that, if it had been in effect, would have violated or been inconsistent with the provisions of Section 6.1 and (ii) there has not been any fact, event, circumstance or change affecting or relating to the Company or any of its Subsidiaries which to the best knowledge of the Company and its Stockholders has had or is reasonably likely to have a Company Material Adverse Effect. Except as set forth on Schedule 4.7, the transactions contemplated by this Agreement will not constitute a change of control under or require the consent from or the giving of notice to a third party pursuant to the terms, conditions or provisions of any material Contract to which Parent or any of its Subsidiaries is a party.

Section 4.8 Litigation. Except as set forth on Schedule 4.8, there

is no material suit, action, proceeding or investigation pending or, to the best knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries, including any material suit, action or proceeding brought by the Company, and, to the best knowledge of the Company, no basis for any such suit, action, proceeding or investigation; nor is there any material judgment, decree, injunction, ruling or order of any Governmental Entity outstanding against the Company or any of its Subsidiaries.

Section 4.9 Absence of Undisclosed Liabilities. Except for

liabilities or obligations which are accrued or reserved against in the Financial Statements or the Restated Financial Statements or which were incurred after January 1, 1996 in the ordinary course of business and consistent with past practice, and except as set forth on Schedule 4.9, none of the Company and its Subsidiaries has any liabilities or obligations (whether absolute, accrued, contingent or otherwise) in excess of \$50,000.

Section 4.10 No Default. Except as set forth on Schedule 4.10,

neither the Company nor any Subsidiary of the Company is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its charter, by-laws or comparable organizational documents, (ii) any Contract to which the Company or any of its Subsidiaries is a party or by which they or any of their properties or assets may be bound, or (iii) any order, writ, injunction, decree, statute, rule or regulation of any Governmental Entity applicable to the Company or any of its Subsidiaries, except, in the cases of clauses (ii) and (iii), for defaults or violations which would not have a Company Material Adverse Effect.

Section 4.11 Taxes.

(a) The Company has heretofore delivered or will make available to Parent true, correct and complete copies of the consolidated federal, state, local and foreign income, franchise sales and other Tax Returns (as hereinafter defined) filed by the Company and the Company Subsidiaries for each of the Company's years ended June 30, 1995, 1994 and 1993 inclusive. Except as set forth on Schedule 4.11, the Company has duly filed, and each Subsidiary has duly filed, all material federal, state, local and foreign income, franchise, sales and other Tax Returns required to be filed by the Company or any of its Subsidiaries. All such Tax Returns are true, correct and complete, and the Company and any of its Subsidiaries have duly paid, all Taxes (as hereinafter defined) shown on such Tax Returns and has made adequate provision for payment of all accrued but unpaid Taxes anticipated in respect of all periods since the periods covered by such Tax Returns. Except as set forth on Schedule 4.11, all deficiencies assessed as a result of any examination of Tax Returns of the Company or any of its Subsidiaries by federal, state, local or foreign tax authorities have been paid or reserved on the financial statements of the Company in accordance with GAAP consistently applied. The Company has heretofore delivered or will make available to Parent true, correct and complete copies of all written tax-sharing agreements and written descriptions of all such unwritten agreements or arrangements to which the Company or any of its Subsidiaries is a party. Except as set forth in Schedule 4.11, no issue has been raised during the past five years by any federal, state, local or foreign taxing authority which, if raised with regard to any other period not so examined, could reasonably be expected to result in a proposed material deficiency for any other period not so examined. Except as disclosed in Schedule 4.11 hereof, neither the Company nor any of its Subsidiaries has granted any extension or waiver of the statutory period of limitations applicable to any claim for any material Taxes. Except as set forth in Schedule 4.11, (i) no consent has been filed under Section 341(f) of the Internal Revenue Code of 1986, as amended (the "Code"), with respect to any of the Company or the

Subsidiaries of the Company; (ii) neither the Company nor any of the Subsidiaries of the Company has participated in, or cooperated with, an international boycott within the meaning of Section 999 of the Code; and (iii) neither the Company nor any of the Subsidiaries of the Company has issued or assumed any corporate acquisition indebtedness, as defined in Section 279(b) of the Code. The Company and each Subsidiary of the Company have complied (and until the Effective Time will comply) in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes (including, without limitation, withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or similar provisions under any foreign laws) and have, within the time and in the manner prescribed by law, withheld from employee wages and paid over to the proper governmental authorities all amounts required to be so withheld and paid over under all applicable laws.

(b) For purposes of this Agreement, the term "Taxes" shall mean all

taxes, charges, fees, levies, duties, imposts or other assessments, including, without limitation, income, gross receipts, excise, property, sales, use, transfer, gains, license, payroll,

withholding, capital stock and franchise taxes, imposed by the United States, or any state, local or foreign government or subdivision or agency thereof, including any interest, penalties or additions thereto. For purposes of this Agreement, the term "Tax Return" shall mean any report, return or other

information or document required to be supplied to a taxing authority in connection with Taxes.

Section 4.12 Title to Properties; Encumbrances. Except as described

in the following sentence or as set forth on Schedule 4.12, each of the Company and its Subsidiaries has good, valid and marketable title to, or a valid leasehold interest in, all of its material properties and assets (real, personal and mixed, tangible and intangible), including, without limitation, all the properties and assets reflected in the consolidated balance sheet of the Company and its Subsidiaries as of December 31, 1995 (except for properties and assets disposed of in the ordinary course of business and consistent with past practices since December 31, 1995). None of such properties or assets are subject to any Liens (whether absolute, accrued, contingent or otherwise), except minor imperfections of title and encumbrances, if any, which are not substantial in amount, do not materially detract from the value of the property or assets subject thereto and do not impair the operations of any of the Company and its Subsidiaries.

Section 4.13 Intellectual Property. (a) Except as set forth on

Schedule 4.13(a), the Company and its Subsidiaries are the sole and exclusive owners of all material patents, patent applications, patent rights, trademarks, trademark rights, trade names, trade name rights, copyrights, service marks, trade secrets, registrations for and applications for registration of trademarks, service marks and copyrights, technology and know-how, rights in computer software and other proprietary rights and information and all technical and user manuals and documentation made or used in connection with any of the foregoing, used or held for use in connection with the businesses of the Company or any of its Subsidiaries as currently conducted, other than software licenses (collectively, the "Intellectual Property"), free and clear of all Liens except

as set forth on Schedule 4.13(a) and except minor imperfections of title and encumbrances, if any, which are not substantial in amount, do not materially detract from the value of the Intellectual Property subject thereto and do not impair the operations of any of the Company and its Subsidiaries.

(b) All grants, registrations and applications for Intellectual Property that are used in and are material to the conduct of the Business (as hereinafter defined) (i) are valid, subsisting, in proper form and enforceable, and have been duly maintained, including the submission of all necessary filings and fees in accordance with the legal and administrative requirements of the appropriate jurisdictions and (ii) have not lapsed, expired or been abandoned, and no application or registration therefor is the subject of any legal or governmental proceeding before any registration authority in any jurisdiction.

(c) Each of the Company and its Subsidiaries owns or has the right to

use all of the material Intellectual Property used by it or held for use by it in connection with its business. To the knowledge of the Company, there are no conflicts with or infringements of any Intellectual Property by any third party. The conduct of the businesses of the Company and its Subsidiaries as currently conducted (collectively, the "Business") does not conflict with or infringe in

any way any proprietary right of any third party, which conflict or infringement would have a Company Material Adverse Effect, and there is no claim, suit, action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries (i) alleging any such conflict or infringement with any third party's proprietary rights, or (ii) challenging the ownership, use, validity or enforceability of the Intellectual Property.

Section 4.14 Compliance with Applicable Law. Except as set forth on

Schedule 4.14, (i) the Company and its Subsidiaries hold, and are in compliance with the terms of, all permits, licenses, exemptions, orders and approvals of all Governmental Entities necessary for the current and proposed conduct of their respective businesses ("Company Permits"), except for failures to hold or

to comply with such permits, licenses, exemptions, orders and approvals which would not have a Company Material Adverse Effect, (ii) no fact exists or event has occurred, and no action or proceeding is pending or, to the Company's knowledge, threatened, that has a reasonable possibility of resulting in a revocation, nonrenewal, termination, suspension or other material impairment of any material Company Permits, (iii) the businesses of the Company and its Subsidiaries are not being conducted in violation of any applicable law, ordinance, regulation, judgment, decree or order of any Governmental Entity ("Applicable Law"), and (iv) to the knowledge of the Company, (x) no investiga-

tion or review by any Governmental Entity with respect to the Company or its Subsidiaries is pending or threatened and (y) no Governmental Entity has indicated an intention to conduct the same.

Section 4.15 Employee Benefit Plans; ERISA; Labor Matters.

(a) Schedule 4.15 hereto sets forth a true and complete list of each material employee benefit plan, arrangement or agreement that is maintained, or was maintained at any time during the five (5) calendar years preceding the date of this Agreement (the "Company Plans"), by the Company or by any trade or

business, whether or not incorporated (a "Company ERISA Affiliate"), which

together with the Company would be deemed a "single employer" within the meaning of Section 414(b), (c), (m) or (o) of the Code or Section 4001 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(b) Each of the Company Plans is and has been in compliance with ERISA and the Code in all material respects; each of the Company Plans intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified.

(c) Neither the Company nor any Company ERISA Affiliate nor any predecessors of the Company or any Company ERISA Affiliate maintains, has ever

maintained, contributes to or has ever contributed to a plan which is subject to Section 412 of the Code or Title IV of ERISA. No Company Plan is a multiemployer plan (within the meaning of Sections 3(37) or 4001(a)(3) of ERISA or Section 414(f) of the Code) ("Multiemployer Plan") and no Company Plan is a

multiple employer plan as defined in Section 413 of the Code ("Multiple Employer Plan"); and all material contributions or other amounts payable by the Company

as of the Effective Time with respect to each Company Plan in respect of current or prior plan years have been either paid or accrued on the balance sheet of the Company. Neither the Company nor any Company ERISA Affiliate is or was obligated to contribute to any Multiemployer Plan or Multiple Employer Plan. To the best knowledge of the Company, there are no material pending, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any of the Company Plans or any trusts related thereto.

(d) Neither the Company nor any Company ERISA Affiliate, nor any Company Plan, nor any trust created thereunder, nor any trustee or administrator thereof has engaged in a transaction in connection with which the Company or any Company ERISA Affiliate, any Company Plan, any such trust, or any trustee or administrator thereof, or any party dealing with any Company Plan or any such trust could be subject to either a material civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a material tax imposed pursuant to Section 4975 or 4976 of the Code. No Company Plan provides death or medical benefits (whether or not insured), with respect to current or former employees of the Company or any Company ERISA Affiliate beyond their retirement or other termination of service other than (i) coverage mandated by applicable law (excluding "COBRA") or (ii) death benefits under any "employee pension plan," as that term is defined in Section 3(2) of ERISA that is qualified under Section 401(a) of the Code).

(e) Neither the Company nor any of its Subsidiaries is a party to, or bound by, any collective bargaining agreement, contract or other understanding with a labor union or labor organization and, to the knowledge of the Company, there is no activity involving any employees of the Company or its Subsidiaries seeking to certify a collective bargaining unit or engaging in any other organizational activity.

(f) Neither the Company nor any Company ERISA Affiliate, or any officer or employee thereof, has made any promises or commitments, whether legally binding or not, to create any additional plan, agreement or arrangement, or to modify or change any existing Company Plan.

Section 4.16 Environmental Laws and Regulations. (a) Except as set

forth on Schedule 4.16(a): (i) the Company and its Subsidiaries are and, to the best knowledge of the Company, have been in compliance with, and the Company is not aware of any outstanding allegations by any person or entity that the Company or its Subsidiaries is not and has not been in compliance with, all applicable laws, rules, regulations, common law, ordinances, decrees, orders or other binding legal requirements relating to pollution

(including the treatment, storage and disposal of wastes and the remediation of releases and threatened releases of materials), the protection of the environment, and the exposure to regulated substances, materials or wastes in the environment or work place ("Environmental Laws"); and (ii) the Company and

its Subsidiaries currently hold all permits, licenses, registrations and other governmental authorizations (including exemptions, waivers, and the like) and financial assurance required under Environmental Laws for the Company and its Subsidiaries to operate the Business.

(b) Except as set forth on Schedule 4.16(b), (i) to the knowledge of the Company and its Stockholders, there is no friable asbestos-containing material in or on any real property currently owned, leased or operated by the Company or its Subsidiaries and (ii) there are and have been no underground storage tanks (whether or not required to be registered under any applicable law), dumps, landfills, lagoons, surface impoundments, injection wells or other land disposal units in or on any property currently owned, leased or operated by the Company or its Subsidiaries.

(c) Except as set forth on Schedule 4.16(c), (i) neither the Company nor its Subsidiaries has received (x) any written communication from any person stating or alleging that any of them may be a potentially responsible party under any Environmental Law (including, without limitation, the Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended) with respect to any actual or alleged environmental contamination or (y) any request for information under any Environmental Law from any Governmental Entity with respect to any actual or alleged material environmental contamination; and (ii) none of the Company, its Subsidiaries or any Governmental Entity is conducting or has conducted (or, to the knowledge of the Company, is threatening to conduct) any environmental remediation or investigation which could result in a material liability of the Company or its Subsidiaries under any Environmental Law.

Section 4.17 Affiliate Transactions. Except as set forth in Schedule

4.17, there are no material Contracts or other transactions between the Company or any of its Subsidiaries, on the one hand, and any (i) officer, director or stockholder of the Company or any of its Subsidiaries or (ii) affiliate (as such term is defined in Regulation 12b-2 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") of any such officer, director or

stockholder, on the other hand, other than compensation and benefits paid or provided to employees in the ordinary course and on arms-length terms.

Section 4.18 Brokers. No broker, finder or financial advisor is

entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the

transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company.

Section 4.19 Customers and Suppliers. Except as set forth in

Schedule 4.19, the Company is not engaged in any disputes with customers or suppliers. Except as disclosed in Schedule 4.19 hereto, to the best of the Company's knowledge, no customer or supplier is considering termination, non-renewal or any adverse modification of its arrangements with the Company, and the transactions contemplated by this Agreement will not, to the best of the Company's knowledge, have any adverse effect on the Company's relationship with any of its suppliers or customers. Except as set forth on Schedule 4.19, there has not been any adverse change and there are no facts known to the Company or any Stockholder which may reasonably be expected to indicate that any adverse change may occur in the business relationship of the Company with any material customer of or supplier to the Company.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent represents and warrants to the Company as follows:

Section 5.1 Organization. Parent is a corporation duly organized,

validly existing and in good standing under the laws of the State of Delaware and has the corporate power to carry on its business as it is now being conducted or presently proposed to be conducted. Parent is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned or held under lease or the nature of its activities make such qualification necessary, except where the failure to be so qualified will not have a Parent Material Adverse Effect. For purposes of this Agreement, "Parent Material Adverse Effect" means a material

adverse effect, individually or in the aggregate, on the financial condition, results of operations or business of Parent and its Subsidiaries taken as a whole or on the ability of Parent to consummate the Merger and the other transactions contemplated by this Agreement (a "Parent Material Adverse

Effect"). Sub is a corporation duly organized, validly existing and in good

standing under the laws of the State of Delaware. Sub has not engaged in any business (other than in connection with this Agreement and the transactions contemplated hereby) since the date of its incorporation.

Section 5.2 Capitalization.

(a) The authorized capital stock of Parent consists of 60,000,000 shares of Parent Common Stock. As of December 31, 1995, (i) 18,306,994 shares of Parent Common Stock were issued and outstanding and (ii) options to acquire 651,297 shares of Parent Common Stock (the "Parent Stock Options") were

outstanding under all stock

option plans of Parent. All of the outstanding shares of capital stock of Parent are, and the shares of Parent Common Stock issuable in exchange for shares of Company Common Stock at the Effective Time in accordance with this Agreement will be, when so issued, duly authorized, validly issued, fully paid and nonassessable.

(b) The authorized capital stock of Sub consists of 2,000 shares of Sub Common Stock, of which 100 shares, as of the date hereof, were issued and outstanding. All of such outstanding shares are owned by Parent, and are validly issued, fully paid and nonassessable.

Section 5.3 Authority Relative to this Agreement. Each of Parent and

Sub has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by each of Parent and Sub and the consummation by Parent and Sub of the transactions contemplated on its part hereby have been duly authorized by their respective Boards of Directors, and no other corporate proceedings on the part of Parent or Sub are necessary to authorize this Agreement or for Parent and Sub to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Parent and Sub and constitutes a valid and binding agreement of each of Parent and Sub, enforceable against Parent and Sub in accordance with its terms.

Section 5.4 Consents and Approvals No Violations. Neither the

execution, delivery and performance of this Agreement by Parent or Sub, nor the consummation by Parent or Sub of the transactions contemplated hereby will (i) conflict with or result in any breach of any provisions of the Certificate of Incorporation or Articles of Incorporation, as the case may be, of By-Laws of Parent or of Sub, (ii) require a filing with, or a permit, authorization, consent or approval of, any Governmental Entity except in connection with or in order to comply with the applicable provisions of the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act, state securities or "blue sky"

laws, the By-Laws of the National Association of Securities Dealers (the "NASD"), and the filing and recordation of a Certificate of Merger as required

by the IBCA, (iii) except as set forth on Schedule 5.4 hereto, result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of a Lien on any property or asset of Parent or any of its Subsidiaries pursuant to, any of the terms, conditions or provisions of any material contract to which Parent or Sub is a party or by which either of them or any of their properties or assets may be bound or (iv) violate any law, order, writ, injunction, decree, statute, rule or regulation of any Governmental Entity applicable to Parent, Sub or any of their properties or assets.

Section 5.5 Reports and Financial Statements. Parent has timely

filed all reports required to be filed with the Securities and Exchange Commission ("SEC") pursuant to the Exchange Act or the Securities Act

(collectively, the "Parent SEC Reports"),

and has previously made available to the Company and the Stockholders true and complete copies of all such Parent SEC Reports. Such Parent SEC Reports, as of their respective dates, complied in all material respects with the applicable requirements of the Securities Act and the Exchange Act, as the case may be, and none of such SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of Parent included in the Parent SEC Reports have been prepared in accordance with GAAP consistently applied throughout the periods indicated (except as otherwise noted therein or, in the case of unaudited statements, as permitted by applicable law and fairly present (subject, in the case of unaudited statements, to normal, recurring year-end adjustments and any other adjustments described therein) the consolidated financial position of Parent and its consolidated Subsidiaries as at the dates thereof and the consolidated results of operations and cash flows of Parent and its consolidated Subsidiaries for the periods then ended. Except as set forth on Schedule 5.5, since the date of Parent's last quarterly report on Form 10-Q, there has not been any fact, event, circumstance or change affecting or relating to the Company or any of its Subsidiaries which has had or is reasonably likely to have a Parent Material Adverse Effect.

Section 5.6 Brokers. No broker, finder or financial advisor is

entitled to any brokerage finder's or other fee or commission in connection with the Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Parent or Sub

Section 5.7 Legal Proceedings. There are no outstanding court orders

or administrative decisions to which Parent or any of its Subsidiaries is a party or bound which, if resolved adversely to Parent or such Subsidiary, would have a Parent Material Adverse Effect. Parent has provided to the Company copies of its "auditors' letter" in respect of the 1995 fiscal year and any updates thereto.

Section 5.8 Absence of Undisclosed Liabilities. Except for

liabilities or obligations which are accrued or reserved against in Parent's financial statements or were thereafter incurred in the ordinary course of business and consistent with past practice, Parent has no liabilities or obligations (whether absolute, accrued, contingent or otherwise) of a nature required by generally accepted accounting principles to be reflected in its consolidated balance sheet (or reflected in the notes thereto) or which would have a Parent Material Adverse Effect.

Section 5.9 Taxes. Parent has duly filed, and each of its

Subsidiaries has duly filed, all material federal, state, local and foreign income, franchise, sales and other Tax Returns required to be filed by Parent or any of its Subsidiaries. All such Tax Returns are true, correct and complete, and Parent and each of its Subsidiaries have duly paid, all Taxes shown on such Tax Returns and have made adequate provision for payment of all accrued but unpaid Taxes anticipated in respect of all periods since the

periods covered by such Tax Returns. All deficiencies assessed as a result of any examination of Tax Returns of Parent or any of its Subsidiaries by federal, state, local or foreign tax authorities have been paid or reserved on the financial statements of Parent in accordance with generally accepted accounting principles consistently applied. Parent and each of its Subsidiaries have complied in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes (including, without limitation, withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or similar provisions under any foreign laws) and have, within the time and in the manner prescribed by law, withheld from employee wages and paid over to the proper governmental authorities all amounts required to be so withheld and paid over under all applicable laws.

Section 5.10 Insurance. Parent has delivered to the Company copies

of each of its material insurance policies. All such insurance policies are in full force and effect and the premiums due thereon have been timely paid. Neither Parent nor any of its Subsidiaries is presently in default regarding the provisions of such policy, nor have they failed to give any notice or present any material claim thereunder in due and timely fashion. The consummation of the transactions contemplated by this Agreement will not constitute a default under any such insurance policy.

ARTICLE VI

CONDUCT OF BUSINESS PENDING THE MERGER

Section 6.1 Conduct of Business by the Company Pending the Merger.

Prior to the Effective Time, unless Parent shall otherwise agree in writing, or as otherwise expressly contemplated by this Agreement:

(a) except as described on Schedule 6.1(a), the Company shall conduct, and cause each of its Subsidiaries to conduct, its business only in the ordinary and usual course consistent with past practice, and the Company shall use, and cause each of its Subsidiaries to use, its reasonable efforts to preserve intact the present business organization, keep available the services of its present officers and key employees, and preserve the goodwill of those having business relationships with it;

(b) the Company shall not, nor shall it permit any of its Subsidiaries to, (i) amend its charter, bylaws or other organizational documents, (ii) split, combine or reclassify any shares of its outstanding capital stock, (iii) declare, set aside or pay any dividend or other distribution payable in cash, stock or property, or (iv) directly or indirectly redeem or otherwise acquire any shares of its capital stock or shares of the capital stock of any of its Subsidiaries;

(c) the Company shall not, nor shall it permit any of its Subsidiaries to,

(i) authorize for issuance, issue or sell or agree to issue or sell any shares of, or Rights to acquire or convertible into any shares of, its capital stock or shares of the capital stock of any of its Subsidiaries (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise); (ii) merge or consolidate with another entity; (iii) acquire or purchase an equity interest in or a substantial portion of the assets of another corporation, partnership or other business organization or otherwise acquire any assets outside the ordinary and usual course of business and consistent with past practice or otherwise enter into any material contract, commitment or transaction outside the ordinary and usual course of business consistent with past practice; (iv) sell, lease, license, waive, release, transfer, encumber or otherwise dispose of any of its assets outside the ordinary and usual course of business and consistent with past practice; (v) incur, assume or prepay any material indebtedness or any other material liabilities other than in the ordinary course of business and consistent with past practice; (vi) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person; (vii) make any loans, advances or capital contributions to, or investments in, any other person, other than to Subsidiaries of the Company and extensions of credit to customers in the ordinary course of business consistent with past practice; (viii) authorize or make capital expenditures other than in the ordinary course of business consistent with past practice; (ix) permit any insurance policy naming the Company or any Subsidiary of the Company as a beneficiary or a loss payee to be cancelled or terminated other than in the ordinary course of business; or (x) enter into any contract, agreement, commitment or arrangement with respect to any of the foregoing;

(d) the Company shall not, nor shall it permit its Subsidiaries to, (i) adopt, enter into, terminate or amend (except as may be required by Applicable Law) any Company Plan or other arrangement for the current or future benefit or welfare of any director, officer or current or former employee, (ii) increase in any manner the compensation or fringe benefits of, or pay any bonus to, any director, officer or employee (except for normal increases in salaried compensation in the ordinary course of business consistent with past practice), or (iii) take any action to fund or in any other way secure, or to accelerate or otherwise remove restrictions with respect to, the payment of compensation or benefits under any employee plan, agreement, contract, arrangement or other Company Plan; and

(e) the Company shall not, nor shall it permit its Subsidiaries to, take any action with respect to, or make any material change in, its accounting or tax policies or procedures, except as required by law.

Section 6.2 Conduct of Business of Sub. During the period from the

date of this Agreement to the Effective Time, Sub shall not engage in any activities of any nature except as provided in or contemplated by this Agreement. It is understood that Sub was formed by Parent solely for the purpose of effecting the Merger, and that Sub will have no material assets and no material liabilities prior to the Merger.

ARTICLE VII

ADDITIONAL AGREEMENTS

Section 7.1 Access and Information. Each of the Company and Parent

shall (and shall cause its Subsidiaries and its and their respective officers, directors, employees, auditors and agents to) afford to the other and to the other's officers, employees, financial advisors, legal counsel, accountants, consultants and other representatives reasonable access during normal business hours throughout the period prior to the Effective Time to all of its books and records (other than privileged documents) and its properties, plants and personnel and, during such period, each shall furnish promptly to the other a copy of each report, schedule and other document filed or received by it pursuant to the requirements of federal securities laws, provided that no investigation pursuant to this Section 7.1 shall affect any representations or warranties made herein or the conditions to the obligations of the respective parties to consummate the Merger. Unless otherwise required by law, each party agrees that it (and its Subsidiaries and its and their respective representatives) shall hold in confidence all non-public information so acquired.

Section 7.2 No Solicitation. Prior to the Effective Time, the

Company agrees that neither it, any of its Subsidiaries or its affiliates, nor any of the respective directors, officers, employees, agents or representatives of the foregoing will, directly or indirectly, solicit, initiate, facilitate or encourage (including by way of furnishing or disclosing non-public information) any inquiries or the making of any proposal with respect to any merger, consolidation or other business combination involving the Company or any Subsidiary of the Company or the acquisition of all or any significant assets or capital stock of the Company or any Subsidiary of the Company taken as a whole (an "Acquisition Transaction") or negotiate, explore or otherwise engage in

discussions with any person (other than Parent and its representatives) with respect to any Acquisition Transaction or enter into any agreement, arrangement or understanding with respect to any such Acquisition Transaction or which would require it to abandon, terminate or fail to consummate the Merger or any other transaction contemplated by this Agreement. The Company agrees that as of the date hereof, it, its Subsidiaries and affiliates, and the respective directors, officers, employees, agents and representatives of the foregoing, shall immediately cease and cause to be terminated any existing activities, discussions or negotiations with any person (other than Parent and its representatives) conducted heretofore with respect to any Acquisition Transaction. The Company agrees to immediately advise Parent in writing of any inquiries or proposals (or desire to make a proposal) received by (or indicated to), any such information requested from, or any such negotiations or discussions sought to be initiated or continued with, any of it, its Subsidiaries or affiliates, or any of the respective directors, officers, employees, agents or representatives of the foregoing, in each case from a person (other than Parent and its representatives) with respect to an Acquisition Transaction, and the terms thereof, including the identity of such third party, and to update on an ongoing basis or upon Parent's request, the status thereof, as well as any actions taken or other developments

pursuant to this Section 7.2.

Section 7.3 Reasonable Best Efforts. Subject to the terms and

conditions herein provided, each of the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including, without limitation, the obtaining of all necessary waivers, consents and approvals and the effecting of all necessary registrations and filings.

Section 7.4 Salary; Employee Benefits. Parent agrees to cause the

Surviving Corporation, for not less than two years after the Effective Time, (A) to maintain the salaries of members of the Company's senior management listed on Schedule 7.4 at no less than their present Levels and (B)(i) to continue to maintain the Company Plans listed on Schedule 4.15 that are in effect as of the date hereof or (ii) to make available to employees of the Surviving Corporation reasonably comparable benefits, considered in the aggregate, under one or more employee benefit plans of Parent or any of its Subsidiaries.

Section 7.5 Stockholder Transactions. At the Closing, (a) Parent

shall cause the Company to pay or otherwise discharge in full in cash all loans and other indebtedness to the Stockholders, including accrued and unpaid interest, up to the aggregate amount of \$2,100,000, and (b) each Stockholder shall pay, and shall cause each of the Company's and Stockholder's affiliates, and each of the entities and ventures listed on Schedule 4.3(a), to pay, in full all accounts receivable and advances payable by such Stockholder or affiliate or entity or venture to the Company.

Section 7.6 Non-Compete Agreements. Prior to and after the Closing,

the Company shall use its best efforts to have each of the salespersons listed on Schedule 7.7 enter into Non-Compete Agreements, substantially in the form attached hereto as Exhibit E ("Non-Compete Agreements"), with such changes as

shall be mutually agreed to by Parent and Larry Frankel. Prior to and after the Closing, the Company and Parent shall develop a mutually satisfactory plan pursuant to which the Company's salespersons (the "Salespersons") will be paid

by the Company, subsequent to the Closing, an aggregate of \$250,000 in cash. Such plan shall include, among other things, an allocation of amounts among the Salespersons. Such amount shall be accrued as a liability on the books of the Company prior to the Closing, but shall not be treated as a liability for purposes of calculating Adjusted April 12 Net Worth.

Section 7.7 Certain Company Liabilities. The Company and

Stockholders agree that the sum of the Company's (a) notes payable - bank, (b) long term debt, (c) other loans to the Stockholders and other indebtedness and (d) accrued and unpaid interest with respect to the foregoing shall not exceed an aggregate of \$2,100,000 at the Closing.

Section 7.7 Expenses. Whether or not the Merger is consummated, all

costs and expenses incurred in connection with this Agreement (including the Exhibits hereto) and the transactions contemplated hereby (and thereby) shall be paid by the party incurring such expenses, provided that if the Merger is consummated, Parent shall cause the Company to pay up to \$50,000 of Company and Stockholder fees and expenses. The balance of Company and Stockholder fees and expenses shall be paid by the Stockholders.

Section 7.8 Public Announcements. Each of Parent, Sub, and the

Company agrees that it will not issue any press release or otherwise make any public statement with respect to this Agreement (including the Exhibits hereto) or the transactions contemplated hereby (or thereby) without the prior consent of the other party, which consent shall not be unreasonably withheld or delayed; provided, however, that such disclosure can be made without obtaining such prior

consent if (i) the disclosure is required by law or by obligations imposed pursuant to any listing agreement with any national securities exchange and (ii) the party making such disclosure has first used its reasonable best efforts to consult with (but not obtain the consent of) the other party about the form and substance of such disclosure.

Section 7.9 Supplemental Disclosure. The Company shall give prompt

notice to Parent, and Parent shall give prompt notice to the Company, of (i) the existence, nonexistence, occurrence, or non-occurrence, of any fact, circumstance or event the existence, nonexistence, occurrence, or non-occurrence of which would be likely to cause (x) any representation or warranty by any party contained in this Agreement to be untrue or inaccurate or (y) any covenant, condition or agreement contained in this Agreement not to be complied with or satisfied and (ii) any failure of the Company or Parent, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery

of any notice pursuant to this Section 7.10 shall not have any effect for the purpose of determining the satisfaction of the conditions set forth in Article VIII of this Agreement or otherwise limit or affect the remedies available hereunder to any party (except to the extent any breach of representation or warranty is cured by the breaching party within 20 business days after delivery of such notice). If (p) any of Stanley Bergman, Mark Mlotek or Jeff Gasparini ("Parent Senior Management") obtains actual knowledge after March 25, 1996 and

prior to the Effective Date, of the existence, nonexistence, occurrence, or non-occurrence, of any fact, circumstance or event the existence, nonexistence, occurrence, or non-occurrence of which would be likely to cause any representation or warranty of the Company contained in this Agreement to be untrue or inaccurate, (q) such member of Parent Senior Management fails to give the Company prompt notice thereof and (r) if the Company had received prompt notice thereof, it would have cured any breach of representation or warranty resulting therefrom, then the Company shall have waived any right to seek indemnification, arising out of such breach of representation or warranty.

ARTICLE VIII

CONDITIONS TO CONSUMMATION OF THE MERGER

Section 8.1 Conditions to Each Party's Obligation to Effect the

Merger. The respective obligations of each party to effect the Merger shall be

subject to the satisfaction at or prior to the Effective Time of the condition that no Governmental Entity (including a federal or state court) of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which materially restricts, prevents or prohibits consummation of the Merger or any transaction contemplated by this Agreement; provided, however, that the parties

shall use their reasonable best efforts to cause any such decree, judgment, injunction or other order to be vacated or lifted.

Section 8.2 Conditions to Obligations of Parent and Sub to Effect the

Merger. The obligations of Parent and Sub to effect the Merger shall be subject

to the satisfaction at or prior to the Effective Time of the following additional conditions, unless waived in writing by Parent:

(a) Representations and Warranties. The representations and

warranties of the Company and Stockholders set forth in this Agreement shall be true and correct in all material respects, as of the date hereof (or, to the extent such representations and warranties shall not have been true and correct as of the date hereof, any breach thereof has been cured within 30 days after written notice of such breach is given by the Company to the Parent), and, except to the extent such representations and warranties speak as of an earlier date, as of the Effective Time as though made at and as of the Effective Time, and Parent shall have received a certificate signed on behalf of the Company by the chief executive officer or the chief financial officer of the Company to such effect.

(b) Performance of Obligations of the Company. Each of the Company

and its Subsidiaries and each Stockholder shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and Parent shall have received a certificate signed on behalf of the Company by the chief executive officer or the chief financial officer of the Company to such effect.

(c) Stock Price. The Parent Stock Price shall not be less than 80%

the average of the per share closing price for the Parent Common Stock on NASDAQ for the ten trading days immediately preceding the date hereof.

(d) 1995 EBITD. Parent's Calculation of 1995 EBITD shall be not

greater than 120% of the Company's Calculation of 1995 EBITD.

(e) Opinion of Counsel. Parent shall have received the opinion of

Aronberg Goldgehn Davis & Garmisa, in the form attached hereto as Exhibit
F.

(f) Consent. All notices to, and consents, approvals and waivers

from, third parties under the Contracts set forth on Schedule 4.5 shall
have been obtained, in each case without any condition or qualification
adverse to Parent or Sub.

Section 8.3 Conditions to Obligation of the Company to Effect the

Merger. The obligation of the Company and the Stockholders to effect the Merger

shall be subject to the satisfaction at or prior to the Effective Time of the
following additional conditions, unless waived in writing by the Company:

(a) Representations and Warranties. (i) The representations and

warranties of Parent set forth in this Agreement shall be true and correct
in all material respects as of the date hereof, and, except to the extent
such representations and warranties speak as of an earlier date, as of the
Effective Time as though made on and as of the Effective Time, and the
Company shall have received a certificate signed on behalf of Parent by the
chief executive officer or the chief financial officer of Parent to such
effect.

(b) Performance of Obligations of Parent and Sub. Each of Parent and

Sub shall have performed in all material respects all obligations required
to be performed by it under this Agreement at or prior to the Effective
Time, and the Company shall have received a certificate signed on behalf of
Parent by the chief executive officer or the chief financial officer of
Parent to such effect.

(c) Stock Price. The Parent Stock Price shall not be less than 80%

of the average of the per share closing price for the Parent Common Stock
on NASDAQ for the ten trading days immediately preceding the date hereof;
provided, that, if the Parent Stock Price shall be less than 80% of the

average of the per share closing price for the Parent Common Stock on
NASDAQ for the ten trading days immediately preceding the date hereof,
Parent shall have the right to pay each Stockholder, in lieu of Parent
Common Stock to be issued to such Stockholder pursuant to this Agreement
and notwithstanding anything contained in this Agreement that provides for
the issuance to such Stockholder of Parent Common Stock, an amount in cash
equal to the aggregate Parent Stock Price of such Parent Common Stock (and
thereby satisfy the condition contained in this Section 8.3(c)).

(d) 1995 EBITD. Parent's Calculation of 1995 EBITD shall be not less

than 85% of the Company's Calculation of 1995 EBITD; provided that if this
Agreement terminates as a result of this condition not being satisfied or
waived, and the Company and/or the Stockholders enter into any agreement
with respect to the sale of the Company prior to the six month anniversary
of this Agreement,

Company shall pay to Parent, at the closing of any such transaction, an amount equal to Parent's out-of-pocket costs incurred in connection with the transactions contemplated hereby (including without limitation fees and disbursements incurred in connection with due diligence and the preparation and negotiation of any documentation), up to \$100,000.

(e) Registration Rights Agreement. Parent shall have entered into a

Registration Rights Agreement, substantially in the form attached hereto as Exhibit G.

(f) Opinion of Counsel. The Company and Stockholders shall have

received the opinion of Proskauer Rose Goetz & Mendelsohn LLP, in the form attached hereto as Exhibit H.

ARTICLE IX

TERMINATION

Section 9.1 Termination. This Agreement may be terminated at any time

prior to the Effective Time:

- (a) by mutual consent of Parent and the Company;
- (b) by either Parent or the Company, if the Merger shall not have been consummated before July 31, 1996 (unless, in the case of any such termination pursuant to this Section 9.1(b), the failure to so consummate the Merger by such date shall have been caused by the action or failure to act of the party (or its Subsidiaries) seeking to terminate this Agreement, which action or failure to act constitutes a breach of this Agreement);
- (c) by Parent, if (i) there has been a breach of any representations or warranties of the Company set forth herein the effect of which is a Company Material Adverse Effect or (ii) there has been a breach in any material respect of any of the covenants or agreements set forth in this Agreement on the part of the Company, which breach (in the case of either (i) or (ii)) is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by Parent to the Company; or
- (d) by the Company, if (i) there has been a breach of any representations or warranties of Parent set forth herein the effect of which is a Parent Material Adverse Effect or (ii) there has been a breach in any material respect of any of the covenants or agreements set forth in this Agreement on the part of Parent, which breach (in the case of either (i) or (ii)) is not curable or, if curable, is not cured

within 30 days after written notice of such breach is given by the Company to Parent.

Section 9.2 Effect of Termination. In the event of termination of

this Agreement pursuant to this Article IX, the Merger shall be deemed abandoned and this Agreement shall forthwith become void, without liability on the part of any party hereto, except as provided in this Section 9.2, Section 7.1 and Section 7.8 and 7.9, and except that nothing herein shall relieve any party from liability for any breach of this Agreement.

ARTICLE X

INDEMNIFICATION

Section 10.1 Survival of Representations and Warranties. All

representations and warranties contained in Articles IV and V of this Agreement shall survive the Closing until June 30, 1997, except that the representations and warranties contained in Section 4.9 shall survive until the second anniversary of the Closing, the representations and warranties contained in Sections 4.11 and 4.17 shall survive the Closing until the expiration of the applicable statute of limitations, and the representations and warranties contained in Sections 4.2, 4.4, 4.5 (except, in the case of Section 4.5, to the extent Losses (as defined in Section 10.2) arising from a breach of representations and warranties contained therein involve only the payment of cash to a third party), 4.16, 5.2, 5.3, 5.4 (except, in the case of Section 5.4, to the extent Losses arising from a breach of representations and warranties contained therein involve only the payment of cash to a third party) and 5.7 shall survive the Closing indefinitely.

Section 10.2 Indemnification by Stockholders. From and after the

Closing, the Stockholders shall jointly and severally indemnify and save Parent, the Surviving Corporation and their respective Affiliates, directors, officers, employees, agents and representatives and all of their successors and assigns (collectively "Parent Claimants" and individually "Parent Claimant") harmless

from and defend each of them from and against any and all demands, claims, actions, liabilities, losses, costs, damages or expenses whatsoever (including any reasonable attorneys' fees) (collectively, "Losses") asserted against,

imposed upon or incurred by any Parent Claimant resulting from or arising out of (a) any inaccuracy or breach of any representation or warranty of the Stockholders or the Company contained herein; (b) any breach of any covenant or obligation of Stockholders or the Company contained herein; or (c) the inability of the Company to take as a deduction in the computation of its taxable income any compensation or bonuses described in this Agreement or the schedules hereto.

Section 10.3 Indemnification by Parent. From and after the Closing,

Parent shall indemnify and save the Stockholders, and their respective Affiliates and directors, officers, employees, agents and representatives (collectively "Company Claimants" and

individually "Company Claimant") harmless from and defend each of them from and

against any and all Losses asserted against, imposed upon or incurred by the
Company Claimants resulting from or arising out of (a) any inaccuracy or breach
of any representation or warranty of Parent or Sub contained herein; or (2) any
breach of any covenant or obligation of Parent or Sub contained herein.

Section 10.4 Indemnification Procedures.

(a) The rights and obligations of each party claiming a right to
indemnification hereunder ("Indemnitee") from the other party ("Indemnitor")

shall be governed by the following rules:

(i) The Indemnitee shall give prompt written notice to the
Indemnitor of any state of facts which Indemnitee determines will give rise to a
claim by the Indemnitee against the Indemnitor based on the indemnity agreements
contained herein, stating the nature and basis of said claims and the amount
thereof, to the extent known. No failure to give such notice shall affect the
indemnification obligations of Indemnitor hereunder, except to the extent such
failure materially prejudices such Indemnitor's ability successfully to defend
the matter giving rise to the indemnification claim.

(ii) In the event any action, suit or proceeding is brought
against the Indemnitee, with respect to which the Indemnitor may have liability
under the indemnity agreements contained herein, then upon the written
acknowledgment by the Indemnitor within thirty days of the bringing of such
action, suit or proceeding that it is undertaking and will prosecute the defense
of the claim under such indemnity agreements and confirming that the claim is
one with respect to which the Indemnitor is obligated to indemnify and that it
will be able to pay the full amount of potential liability in connection with
any such claim, the action, suit or proceeding (including all proceedings on
appeal or for review which counsel for the Indemnitee shall deem appropriate)
may be defended by the Indemnitor, provided that the Indemnitee shall provide

such reasonable assistance as is reasonably requested by Indemnitor, at no cost
to Indemnitee. However, in the event the Indemnitor shall not offer reasonable
assurances as to its financial capacity to satisfy any final judgment or
settlement, the Indemnitee may assume the defense and dispose of the claim,
after 30 days' prior written notice to the Indemnitor, at the Indemnitor's cost.
The Indemnitee shall have the right to employ its own counsel in any other case,
but the fees and expenses of such counsel shall be at the Indemnitee's own
expense unless (a) the employment of such counsel and the payment of such fees
and expenses both shall have been specifically authorized by the Indemnitor in
connection with the defense of such action, suit or proceeding or (b) the
Indemnitee shall have reasonably concluded and specifically notified the
Indemnitor that there may be specific defenses available to it which are
different from or additional to those available to the Indemnitor, or that such
action, suit or proceeding involves or could have an effect upon any matter
beyond the scope of the indemnity agreements contained herein.

(iii) In addition, in any event specified in clause (b) of the second sentence of subparagraph (ii) above, the Indemnitor, to the extent made necessary by such different or additional defenses, shall not have the right to direct the defense of such action, suit or proceeding on behalf of the Indemnatee. If Indemnitor and Indemnatee cannot agree on a mechanism to separate the defense of matters extending beyond the scope of indemnification, such matters shall be defended on the basis of joint consultation.

(iv) The Indemnatee shall be kept fully informed by the Indemnitor of such action, suit or proceeding at all stages thereof, whether or not it is represented by counsel. The Indemnitor shall, at the Indemnitor's expense, make available to the Indemnatee and its attorneys and accountants all books and records of the Indemnitor relating to such proceedings or litigation, and the parties hereto agree to render to each other such assistance as they may reasonably require of each other in order to ensure the proper and adequate defense of any such action, suit or proceeding.

(b) The Indemnitor shall make no settlement of any claims which Indemnitor has undertaken to defend, without Indemnatee's consent, unless the Indemnitor fully indemnifies the Indemnatee for all losses, there is no finding or admission of violation of law by, or effect on any other claims that may be made against, the Indemnatee and the relief granted in connection therewith requires no action on the part of and has no effect on the Indemnatee.

10.5 Limitation on Indemnification. The Stockholders shall have no liability under this Agreement for breach of warranty or misrepresentation: (a) unless the aggregate amount of Losses to Parent and its affiliates from all claims under this Agreement for breach of warranty and misrepresentation exceeds \$50,000 (the "Indemnification Threshold"); provided, that if the Indemnification Threshold is met, all liabilities for breach of warranty or representation under this Agreement shall be indemnifiable; and (b) in connection with any Losses (up to \$380,000) resulting from the adjustment described in the first sentence of Schedule 4.6.

ARTICLE XI

RESTRICTIVE COVENANTS

Section 11.1 Non-Competition. Except as set forth on Schedule 11.1,

none of the Stockholders nor any of their respective affiliates shall, for a period of five years after the Effective Date, directly or indirectly, engage, anywhere in the world, in the sale or offering or promoting for sale of any product, process, good or service which is the same as, is functionally similar to, or competes with, any product, process, good or service which Parent has sold or offered or promoted for sale within the three years preceding the Effective Date in connection with Parent's business.

Section 11.2 Non-Solicitation of Employees. None of the Stockholders

nor any of their respective Affiliates shall directly or indirectly, for itself or on behalf of any other individual or entity, hire any employee of Parent, including, without limitation, any employees of the Company that Parent or its affiliates has hired in its sole discretion, or induce nor attempt to induce any such employee to leave his or her employment with Parent at any time within five years from the Effective Date.

Section 11.3 Non-Solicitation or Interference with Customers and

Suppliers. None of the Stockholders nor any of their respective Affiliates

shall, directly or indirectly, for itself or on behalf of any other individual or entity, solicit, divert, take away or attempt to take away any of Parent's or Parent's affiliates' customers or suppliers or the business or patronage of any such customers or suppliers or in any way interfere with, disrupt or attempt to disrupt any then existing relationships between Parent or Parent's affiliates and any of their respective customers or suppliers or other individuals or entities with whom it deals or contact or enter into any business transaction with any such customers or suppliers or other individuals or entities for any purpose at any time within five years from the Effective Date.

Section 11.4 Acknowledgements. Each of the Stockholders acknowledges

that, in view of the nature of the Company's business and the business objectives of Parent in acquiring the Company, and the consideration paid to the Stockholders therefor, the restrictions contained in this Article XI are reasonably necessary to protect the legitimate business interests of Parent and that any violation of such restrictions will result in irreparable injury to Parent and the business Parent has acquired hereunder for which damages will not be an adequate remedy. Each of the Stockholders therefore acknowledges that, if any such restrictions are violated, Parent shall be entitled to preliminary and injunctive relief as well as to an equitable accounting of earnings, profits and other benefits arising from such violation.

ARTICLE XII

GENERAL PROVISIONS

Section 12.1 Amendment and Modification. At any time prior to the

Effective Time, this Agreement may be amended, modified or supplemented only by written agreement (referring specifically to this Agreement) of Parent, Sub and the Company with respect to any of the terms contained herein.

Section 12.2 Waiver. At any time prior to the Effective Time, Parent

and Sub, on the one hand, and the Company and the Stockholders, on the other hand, may (i) extend the time for the performance of any of the obligations or other acts of the other, (ii) waive any inaccuracies in the representations and warranties of the other contained herein or in any documents delivered pursuant hereto and (iii) waive compliance by the

other with any of the agreements or conditions contained herein which may legally be waived. Any such extension or waiver shall be valid only if set forth in an instrument in writing specifically referring to this Agreement and signed on behalf of such party.

Section 12.3 Survivability; Investigations. The respective

representations and warranties of Parent, the Company and the Stockholders contained herein or in any certificates or other documents delivered prior to or as of the Effective Time (i) shall not be deemed waived or otherwise affected by any investigation made by any party hereto and (ii) shall not survive beyond the Effective Time. The covenants and agreements of the parties hereto (including the Surviving Corporation after the Merger) shall survive the Effective Time without limitation (except for those which, by their terms, contemplate a shorter survival period).

Section 12.4 Notices. All notices and other communications hereunder

shall be in writing and shall be delivered personally or by next-day courier or telecopied with confirmation of receipt, to the parties at the addresses specified below (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof. Any such notice shall be effective upon receipt, if personally delivered or telecopied, or one day after delivery to a courier for next-day delivery.

(a) If to Parent or Sub, to:

Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747

Attention: Mark E. Mlotek, Esq.

with a copy to:

Proskauer Rose Goetz & Mendelsohn LLP
1585 Broadway
New York, New York 10036

Attention: Richard L. Goldberg, Esq.

(b) if to the Company or the Stockholders, to:

Scientific Supply Company
9405 West River Street
Schiller Park, Illinois 60176

Attention: Lawrence Frankel

with a copy to:

Aronberg Goldgehn Davis & Garmisa
Suite 3000 One IBM Plaza
Chicago, Illinois 60611

Attention: Ned S. Robertson, Esq.

Section 12.5 Descriptive Headings; Interpretation. The headings

contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. References in this Agreement to Sections, Schedules, Exhibits or Articles mean a Section, Schedule, Exhibit or Article of this Agreement unless otherwise indicated. References to this Agreement shall be deemed to include the Exhibits and Schedules hereto, unless the context otherwise requires. The term "person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, a Governmental Entity or an unincorporated organization.

Section 12.6 Entire Agreement; Assignment. This Agreement

(including the Schedules and other documents and instruments referred to herein) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties or any of them, with respect to the subject matter hereof. This Agreement is not intended to confer upon any person not a party hereto any rights or remedies hereunder. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement shall not be assigned by operation of law or otherwise by Parent, Sub or the Company; provided that Parent or Sub may assign its rights and obligations hereunder to a -----
direct or indirect subsidiary of Parent, but no such assignment shall relieve Parent or Sub, as the case may be, of its obligations hereunder.

Section 12.7 Governing Law. This Agreement shall be governed by

and construed in accordance with the laws of the State of Delaware without giving effect to the provisions thereof relating to conflicts of law.

Section 12.8 Severability. In case any one or more of the

provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect against a party hereto, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby and such invalidity, illegality or unenforceability shall only apply as to such party in the specific jurisdiction where such judgment shall be made.

Section 12.9 Counterparts. This Agreement may be executed in two

or more counterparts, each of which shall be deemed to be an original but all of which shall

constitute one and the same agreement.

Section 12.10 Knowledge. When used in any representation or

warranty contained herein, the term "knowledge" shall be deemed to mean
knowledge after due inquiry.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as
of the date first above written.

HENRY SCHEIN, INC.

SCIENTIFIC SUPPLY COMPANY

By: _____
Authorized Officer

By: _____
Authorized Officer

SSC HOLDINGS, INC.

LAWRENCE FRANKEL

By: _____
Authorized Officer

THE LAWRENCE AND PAMELA FRANKEL
CHARITABLE REMAINDER TRUST CREATED
UNDER TRUST AGREEMENT DATED AS OF
MARCH 1, 1996

By: _____
Lawrence Frankel, Trustee

NORMAN FRANKEL

RUDOLPH KELEMEN

BRUCE BARBER

EXHIBIT G

REGISTRATION RIGHTS AGREEMENT

This agreement dated _____, 1996 is among Henry Schein, Inc., a Delaware corporation ("Parent"), and Lawrence J. Frankel, Norman Frankel, Rudolph Kelemen and Bruce Barber (collectively, the "Stockholders").

Pursuant to the terms of the agreement and plan of merger (the "Merger Agreement") dated April __, 1996 among Parent, SSC Holdings, Inc., an Illinois corporation and wholly-owned subsidiary of Parent ("Sub"), Scientific Supply Company, an Illinois corporation (the "Company"), and the Stockholders, each share of Company Common Stock (as defined in the Merger Agreement) issued and outstanding immediately prior to the Effective Time (as defined in the Merger Agreement) shall be convertible into the right to receive a number of shares of common stock, par value \$.01 per share, of Parent ("Parent Common Stock"), as provided in the Merger Agreement.

In connection with the transactions contemplated by the Merger Agreement, the parties are entering into this registration rights agreement.

Accordingly, the parties agree as follows:

1. Definitions. As used in this agreement:

1.1 "Prior Holders" means any person or entity previously

granted rights pursuant to the registration rights agreement dated September 30, 1994 among Parent and certain parties named therein (the "Prior Registration Rights Agreement").

1.2 "Registrable Shares" means the shares of Parent Common Stock

issued to the Stockholders pursuant to the Merger Agreement. Registrable Shares shall cease to be such when (i) a registration statement covering such Registrable Shares has become or been declared effective and they have been disposed of pursuant to that registration statement, (ii) eligible to be sold, transferred or distributed pursuant to or in compliance with Rule 144 (or any similar provision then in force) or any other exemption from registration under the Securities Act of 1933 (the "Securities Act") or (iii) they have been otherwise transferred and Parent has delivered new certificates not

subject to any stop transfer order or other restriction on transfer and not bearing a legend restricting transfer in the absence of an effective registration statement.

2. Piggyback Registration.

2.1 Inclusion in Registration. If at any time after the date of

this agreement, Parent proposes to register any of its shares of common stock under the Securities Act (other than pursuant to Form S-8 or S-4 or a comparable registration statement, pursuant to an employee benefits plan or in connection with any transaction of the type referred to in Rule 145 under the Securities Act) it will promptly give notice to the Stockholders of its intention to do so.

If any Stockholder notifies Parent within 20 days after receipt of any such notice of its desire to include any Registrable Shares in such proposed registration, Parent shall afford that Stockholder the opportunity to have such Registrable Shares registered under such registration statement.

Notwithstanding anything in this section 2 to the contrary, Parent shall have the right, in its sole and absolute discretion, at any time after it shall have given any notice pursuant to this section 2 (irrespective of whether a written request for inclusion of any Registrable Shares shall have been made), to elect to postpone or not to file such proposed registration statement or to withdraw the same after filing but prior to the effective date thereof.

2.2 Underwriting Requirements. If the registration of which

Parent gives notice pursuant to this section 2 is for a registered public offering involving an underwriting of shares, Parent shall so advise the Stockholders as part of the notice given pursuant to section 2.1. Parent shall not be required under this section 2 to include any Registrable Shares in such underwriting unless each Stockholder desiring to participate in such underwritten public offering accepts the terms of the underwriting as agreed upon between Parent and the underwriters selected by it, and then only in such quantity as will not, in the opinion of the underwriters, jeopardize the success of the offering by the Company. If any stockholder disapproves of the terms of any such underwriting, that stockholder may elect to withdraw from the underwriting by written notice to Parent and the representative of the underwriters. Any Registrable Shares

or other securities excluded or withdrawn from such underwriting shall be withdrawn from such registration.

Subject to the rights of the Prior Holders contained in the Prior Registration Rights Agreement, notwithstanding any other provision of this section 2, if the total number of shares, including the Registrable Shares, requested by all stockholders, to be included in the offering exceeds the number of shares to be sold other than by Parent that the underwriters reasonably believe compatible with the success of the offering, then the number of selling stockholders' shares (including the Registrable Shares) that may be included in the offering shall be apportioned pro rata among all selling stockholders (including the Stockholders) according to the total number of shares entitled to be included in the offering owned by each selling stockholder or in such other proportions as shall mutually be agreed to by all selling stockholders. If the number of Registrable Shares included in the underwriting is less than 50% of the number of Registrable Shares proposed by the Stockholders to be distributed through such underwriting, then, as promptly as practicable, but in any event within six months after the effective date of such registration statement, Parent shall use its reasonable best efforts to either (a) effect a registration of the Registrable Shares or (b) repurchase the Registrable Shares at a price equal to the fair market value of such Registrable Shares at the date of repurchase.

2.3 Number. The Stockholders shall be entitled to have their

shares included in an unlimited number of registrations pursuant to this section 2.

3. Expenses of Registration. Except as otherwise provided in this

agreement, Parent shall pay all registration, filing and qualification fees, accounting fees and printing expenses of Parent, reasonable fees and disbursements of counsel for Parent and reasonable fees and expenses of one counsel for the Stockholders up to \$5,000. All (i) underwriting discounts and commissions, (ii) stock transfer taxes incurred in respect of the Registrable Shares being sold and (iii) legal and accounting fees, expenses and disbursements of the Stockholders (except as set forth above) shall be borne and paid ratably by the Stockholders of the Registrable Securities included in any such registration.

4. Registration Procedures. In the case of each registration

effected by Parent pursuant to this agreement, Parent shall:

(a) keep such registration statement effective for a period of 120 days or until each Stockholder has completed the distribution described in the registration statement, whichever occurs first;

(b) furnish each Stockholder copies of any registration statement and each preliminary or final prospectus, or supplement or amendment required to be prepared pursuant to this agreement, as any Stockholder may from time to time reasonably request;

(c) prepare and promptly file with the Securities and Exchange Commission (the "SEC") and promptly notify each Stockholder of the

filing of any amendments or supplements to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at any time when a prospectus relating to the Registrable Shares is required to be delivered under the Securities Act, any event with respect to Parent shall have occurred as a result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and

(d) use its best efforts to qualify as soon as reasonably practicable the Registrable Shares included in the registration statement for sale under the securities or blue-sky laws of such states and jurisdictions within the United States as shall be reasonably requested by any Stockholder; provided that Parent shall not be required in connection therewith or as a

condition thereto to qualify to do business, to become subject to taxation or to file a consent to service of process generally in any of the aforesaid states or jurisdictions.

5. Delay of Registration

No Stockholder shall have any right to take any action to restrain, enjoin or otherwise delay any registration as a result of any controversy that may arise with respect to the interpretation or implementation of this agreement.

6. Indemnification

(a) Parent shall indemnify each Stockholder offering

Registrable Shares for sale pursuant to each registration that has been effected pursuant to this agreement against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement of a material fact contained in any registration statement under which such Registrable Shares were registered under the Securities Act, or based on any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each such Stockholder for any legal or other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that Parent shall pay for only one firm

of counsel for all such Stockholders and Parent shall not be liable to a Stockholder in any such case (i) to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission based upon information furnished to Parent by such Stockholder or (ii) in the case of a sale directly by a Stockholder of Registrable Shares (including a sale of such Registrable Shares through any underwriter retained by such Stockholder engaging in a distribution on behalf of such Stockholder), such untrue statement or omission was contained in a preliminary prospectus and corrected in a final or amended prospectus, and such Stockholder failed to deliver a copy of the final or amended prospectus at or prior to the confirmation of the sale of the Registrable Shares to the person or entity asserting any such loss, claim, damage or liability.

(b) Each of the Stockholders shall, if Registrable Shares

held by them are included in the securities as to which such registration is being effected, severally indemnify Parent, each of its directors and officers who sign such registration statement, each affiliate and control person of Parent, each underwriter, if any, of Parent's securities covered by such registration statement, each other Stockholder and each other security holder whose securities are included in such registration, and each affiliate thereof against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement of a material fact contained in any such registration statement under which such Registrable Shares were registered under

the Securities Act, or based on any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse Parent, such directors, officers, employees, affiliates, other Stockholders or security holders or underwriters for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement or omission is made in such registration statement in reliance upon and in conformity with information furnished to Parent by such Holder.

(c) Each party entitled to indemnification under this section 6 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and any claim or any litigation resulting therefrom. In case any action is brought against an Indemnified Party, and it notifies the Indemnifying Parties of the commencement thereof, the Indemnifying Party will be entitled to participate in and, to the extent it so determines, assume the defense thereof; provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense. After notice from the Indemnifying Party of its election to so assume the defense thereof, the Indemnifying Party will not be liable to such Indemnified Party for any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

7. Conditions to Registration. As a condition to Parent's

obligation under this agreement to cause a registration statement to be filed or Registrable Shares to be included in a registration statement, each Stockholder shall provide such information and execute such documents as may reasonably be required in connection with such registration. In addition, Parent shall not be obligated to file a registration statement or to include Registrable

Shares in a registration statement under this agreement as to any Stockholder, (i) if Parent shall have received opinions of counsel reasonably satisfactory to such Stockholder and to the effect that the proposed disposition of such Registrable Shares by such Holder may be effected without registration under the Securities Act, (ii) to the extent any such Registrable Shares can then be sold during a single three month period pursuant to Rule 144 under the Securities Act or (iii) unless such Stockholder shall enter into customary agreements (including underwriting and lock-up agreements in customary form) and take all such other actions as Parent or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of the Registrable Shares of such Stockholder. Without limiting the foregoing, no Stockholder may participate in any registration under this agreement which is underwritten unless such Stockholder (a) agrees to sell its securities on the basis provided in any such underwriting arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

8. Rule 144. With a view to making available the benefits of

certain rules and regulations of the SEC which may permit the sale of the restricted securities to the public without registration, Parent agrees to (a) make and keep public information available as those terms are understood and defined in Rule 144 under the Securities Act at all times filed by the Company for an offering of its securities to the general Public, and (b) use its best efforts to file with the SEC in a timely manner all reports and other documents required of Parent under the Securities Exchange Act of 1934.

9. Notices. All notices and other communications under this

agreement shall be in writing and shall be delivered personally or by next-day courier or telecopied, to the parties at the addresses specified below (or at such other address for a party as shall be specified by like notice):

if to Parent, to:

Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747
Fax: 516-843-5675
Attention: Mark E. Mlotek, Esq.

with a copy to:

Proskauer Rose Goetz & Mendelsohn LLP
1585 Broadway
New York, New York 10036
Fax: 212-969-2900
Attention: Richard L. Goldberg, Esq.

if to the Stockholders, to:

Scientific Supply Company
9405 West River Street
Schiller Park, Illinois 60176
Fax: 847-671-0064
Attention: Lawrence Frankel

with a copy to:

Aronberg Goldgehn Davis & Garmisa
Suite 3000 One IBM Plaza
Chicago, Illinois
Fax: 312-828-9635
Attention: Ned S. Robertson, Esq.

All such notices and communications shall be deemed received upon (a) actual receipt by the addressee, (b) actual delivery to the appropriate address or (c) in the case of a facsimile transmission, upon transmission by the sender and issuance by the transmitting machine of a confirmation slip confirming the number of pages constituting the notice have been transmitted without error.

10. Assignment. The registration rights granted pursuant to this

agreement shall not be assignable.

11. Separability. If any provision of this agreement is invalid or

unenforceable, the balance of this agreement shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall

nevertheless remain applicable to all other persons and circumstances.

12. Governing Law. This agreement shall be governed by and construed

in accordance with the law of the State of Delaware applicable to agreements
made and to be performed wholly in Delaware.

13. Equitable Relief. The parties acknowledge that the remedy at law

for breach of this agreement may be inadequate and that, in addition to any
other remedy a party may have for a breach of this agreement, that party may be
entitled to an injunction restraining any such breach or threatened breach, or a
decree of specific performance, without posting any bond or security. The
remedy provided in this section 13 is in addition to, and not in lieu of, any
other rights or remedies a party may have.

14. Counterparts. This agreement may be executed in any number of

counterparts, each of which shall be deemed an original but all of which shall
constitute one and the same agreement.

HENRY SCHEIN, INC.

By: _____
Name:
Title:

Lawrence J. Frankel

Norman Frankel

Rudolph Kelemen

Bruce Barber

ACQUISITION AGREEMENT

dated as of May 23, 1996

Among

HENRY SCHEIN, INC.,
SILVERMAN'S DENTAL SUPPLY CORP.,
SAN FRANCISCO DENTAL SUPPLY, INC.,

and

LARRY OLSON

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ACQUISITION AGREEMENT

ACQUISITION AGREEMENT, dated as of May 23, 1996 (the "Agreement"), by and among Henry Schein, Inc., a Delaware corporation ("HSI"), Silverman's Dental Supply Corp., a New York corporation ("Silverman's"), San Francisco Dental Supply, Inc., a California corporation ("SF"), and Larry Olson, an individual and the principal stockholder of SF ("Olson").

WITNESSETH

WHEREAS, HSI is principally engaged in the distribution of healthcare products, supplies and equipment primarily to office-based healthcare practitioners in the dental, medical and veterinary markets (the "HSI Business"), including, without limitation, the Pattison Business (as such term is hereinafter defined); and

WHEREAS, Silverman's is principally engaged in the distribution through direct marketing of dental supplies and equipment (the "Silverman's Business"); and

WHEREAS, SF is principally engaged in the distribution of dental supplies and equipment (the "SF Business"); and

WHEREAS, Silverman's is a wholly-owned subsidiary of HSI; and

WHEREAS, Olson is the principal stockholder of SF and, in such capacity, controls SF; and

WHEREAS, as a result of the transactions contemplated hereby, Olson shall become the sole stockholder of SF; and

WHEREAS, subject to the terms and conditions of this Agreement, SF desires to sell and transfer, and HSI desires to purchase and acquire, certain specified inventory owned by SF; and

WHEREAS, subject to the terms and conditions of this Agreement, SF desires to sell and transfer, and HSI desires to purchase and acquire, the EX-Territory Business (as such term is hereinafter defined); and

WHEREAS, subject to the terms and conditions of this Agreement, SF desires to sell and transfer, and HSI desires to purchase and acquire, the SF Designated Territory Related Business (as such term is hereinafter defined); and

WHEREAS, subject to the terms and conditions of this Agreement, SF desires to sell and transfer, and HSI and Silverman's desire to purchase and acquire, the SF/Robin Business (as such term is hereafter defined); and

WHEREAS, HSI and Pattison (as such term is hereinafter defined) have concurrently entered into the Pattison Agreement (as such term is hereinafter defined) pursuant to which, among other things, HSI shall acquire certain specified assets and the related business from Pattison; and

WHEREAS, the parties hereto have previously entered into that certain Acquisition Agreement, dated of even date herewith (the "Original Agreement"), by means of their execution and delivery of that certain Agreement, dated of even date herewith (the "Agreement"); and

WHEREAS, the parties hereto desire to enter into this Agreement to amend and restate the Original Agreement as amended, modified and supplemented by the Agreement and set forth their complete agreement and understanding with respect to the subject matter hereof;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties hereto have agreed, and do hereby agree, as follows:

ARTICLE I DEFINITIONS

The terms defined in this Article I, whenever used herein (including the exhibits and schedules hereto, unless otherwise defined therein), shall have the following meanings.

1.1 "Acquired Assets" shall mean, collectively, the Purchased

Inventory, the Ex-Territory Assets, the SF Designated Territory Related Assets and the SF/Robin Assets.

1.2 "Adjusted Purchase Price Dispute Statement" shall mean either the

Designated Territory Sales Dispute Statement or the Silverman's/Robin Sales Dispute Statement, as the case may be.

1.3 "Affiliate" shall mean any Person that directly or indirectly

controls, is controlled by or is under common control with another Person.

1.4 "Agreed Upon Ex-Territory Business Value" shall mean \$2,383,231.

1.5 "Agreement" shall mean this Acquisition Agreement, including all

Schedules and Exhibits hereto, in each case, as the same may be amended from time to time.

1.6 "Agreement Date" shall mean May 23, 1996 which is the date on

which this Agreement shall be effective.

1.7 "Assumed Contracts" shall mean, collectively, the leases,

agreements, contracts, commitments and understandings specifically assumed
pursuant to Sections 2.3(b) and 2.4(b).

1.8 "Authorizations" shall mean all licenses, permits, approvals,

authorizations, qualifications, concessions or the like, issued by any federal,
state, local or foreign regulatory or governmental authorities.

1.9 "Business" shall mean the distribution of dental supplies and

equipment, including the HSI Business (but only to the extent the HSI Business
includes the distribution of dental supplies and equipment), the Silverman's
Business, the Pattison Business, the SF Business and the SF/Robin Business.

1.10 "Business Day" shall mean any day other than a Saturday, Sunday

or other day on which banks are closed or are authorized to be closed in New
York, New York.

1.11 "Buyer Claimant" shall have the meaning set forth in Section

10.2 of this Agreement.

1.12 "Closing" shall mean the closing of the purchase and sale of the

Acquired Assets and the Ex-Territory Business, the SF Designated Territory
Related Business and the SF/Robin Business as contemplated by this Agreement.

1.13 "Closing Date" shall have the meaning set forth in Section 3.1

of this Agreement.

1.14 "Closing Inventory Report" shall have the meaning set forth in

Section 2.1.3(a) of this Agreement.

1.15 "Closing Payments" shall mean the sum of (i) the SF Closing

Inventory Payment, (ii) the amount, if any, payable by HSI pursuant to Section
2.1.3(c), (iii) the Agreed Upon Ex-Territory Business Value, (iv) the HSI
Closing Sales Payment Amount, (v) the Silverman's/Robin Closing Sales Payment
Amount, (vi) the amount, if any, payable by HSI pursuant to Section 2.3(g) and
(vii) the amount, if any, payable by HSI pursuant to Section 2.4(g).

1.16 "Closing SF Inventory Value" shall mean the Inventory Purchase

Price of all Inventory of SF as of the Closing Date which is included in the
Purchased Inventory as determined in accordance with Section 2.1.3(b).

1.17 "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.18 "Combined Designated Territory Net Sales Base" shall mean

\$33,716,478

1.19 "Combined HSI/SF Sales" shall mean the sum of HSI Sales and SF Sales.

1.20 "Combined Silverman's/Robin Net Sales Base" shall mean \$13,955,456.

1.21 "Combined Silverman's/Robin Sales" shall mean the sum of Silverman's Sales and SF/Robin Sales.

1.22 "Credit Agreement" shall have the meaning set forth in Section 7.6(b).

1.23 "Corporate Account" shall mean any customer which conducts a dental practice which is principally owned by one or more Persons who do not practice dentistry at the location of such customer. For purposes of illustration, the parties hereto agree that as of the Agreement Date the Corporate Accounts include Parke-Dental.

1.24 "Dealer Sales" shall mean any customer who is not a practicing dentist or doctor or a Corporate Account.

1.25 "Designated Territory" shall mean, collectively, Iowa, Kansas, Minnesota, Missouri, Nebraska, Wisconsin, the portion of Upper Michigan included within the following ZIP codes: all ZIP codes between 49800 and 49999, and the portion of Greater St. Louis included within the following ZIP codes: all ZIP codes between 62000 and 62299.

1.26 "Designated Territory Business" shall mean the HSI Business (but only to the extent the HSI Business includes the distribution of dental supplies and equipment) and the SF Business as conducted in the Designated Territory.

1.27 "Designated Territory Sales" shall mean all Net Sales by HSI and its Affiliates located in the Designated Territory for the 12-month period beginning on the first day of the fourth calendar month immediately succeeding the Closing Date minus New Reps Sales; provided, however, that with respect to Corporate Accounts, Designated Territory Sales shall only include Corporate Accounts of those Persons who maintain corporate headquarters in the Designated Territory.

1.28 "Employee Benefit Plan" means any "employee benefit plan" within the meaning of Section 3(3) of ERISA, and any other bonus, profit sharing, compensation, pension, severance, deferred compensation, fringe benefit, insurance, welfare, medical, post-retirement health or welfare benefit, medical reimbursement, health, life, stock option, stock purchase, tuition refund, service award, company car, scholarship, relocation, disability, accident, sick pay, sick leave, vacation, termination, individual employment, executive compensation, incentive, bonus, commission, payroll practices, retention or other plan, agreement, policy, trust fund or arrangement, whether written

or unwritten, and whether maintained, sponsored or contributed to by SF or any entity that would be deemed a "single employer" with SF under Section 414(b), (c), (m) or (o) of the Code or Section 4001(a)(14) of ERISA (an "ERISA Affiliate") on behalf of any of the current, former or retired employees of SF or their beneficiaries or with respect to which SF or any ERISA Affiliate of SF has or has had any obligation on behalf of any such employee or beneficiary.

1.29 "Employment Agreement" shall mean the Employment Agreement

between Olson and HSI substantially in the form of Exhibit 1.29.

1.30 "Encumbrance" shall mean any lien, charge, restriction, encum-

brance, option, right of first refusal, security interest, easement, obligation or claim or other third party right of any kind.

1.31 "Environment" shall mean any surface or subsurface physical

medium or natural resource, including, air, land, soil, surface waters, ground waters, stream and river sediments, and biota.

1.32 "Environmental Laws" shall mean any federal, state, local or

foreign law, rule, regulation, ordinance, code, order or judgment (including the common law and any judicial or administrative interpretations, guidances, directives or opinions) relating to the injury to, or the pollution or protection of human health and safety or the Environment.

1.33 "Environmental Liabilities" shall mean any claims, judgments,

damages (including punitive damages), losses, penalties, fines, liabilities, encumbrances, liens, violations, costs and expenses (including attorneys' and consultants' fees) of investigation, remediation or defense of any matter relating to human health, safety or the Environment of whatever kind or nature by any party, entity or authority, (a) which are incurred as a result of (i) the existence of Hazardous Substances in, on, under, at or emanating from any real property presently or formerly owned or operated by SF or any of its Affiliates, (ii) the offsite transportation, treatment, storage or disposal of Hazardous Substances generated by SF or any of its Affiliates, or (iii) the violation of any Environmental Laws or (b) which arise under the Environmental Laws.

1.34 "ERISA" shall mean the Employee Retirement Income Security Act

of 1974, as amended, and the regulations thereunder.

1.35 "ERISA Affiliate" shall have the meaning set forth in Section

1.28 of this Agreement.

1.36 "Estimated Closing SF Inventory Value" shall mean an estimate of

the Inventory Purchase Price of all Inventory of SF as of the Closing Date prepared in good faith by SF in accordance with Section 2.1.3(a).

1.37 "Estimated Designated Territory Sales" shall mean an estimate of

Designated Territory Sales prepared in good faith by HSI in accordance with
Section 2.5.1(d).

1.38 "Estimated Goodwill" shall mean an estimate of Goodwill prepared

in good faith by HSI in accordance with Section 2.6.3.

1.39 "Estimated HSI Sales" shall mean \$25,076,044.

1.40 "Estimated HSI/SF Average Eligible Sales" shall mean an estimate

of the HSI/SF Average Eligible Sales prepared in good faith by HSI in accordance
with Section 2.6.3.

1.41 "Estimated New Reps Sales" shall mean an estimate of New Reps

Sales prepared in good faith by HSI in accordance with Section 2.5.1.1(a).

1.42 "Estimated New Reps Sales Statement" shall have the meaning set

forth in Section 2.5.1.1(b).

1.43 "Estimated SF Sales" shall mean \$8,640,434.

1.44 "Estimated SF Share of the Overlapping Business Purchase Price"

shall mean an estimate of the SF Share of the Overlapping Business Purchase
Price prepared in good faith by HSI in accordance with Section 2.6.3.

1.45 "Estimated SF Share of the Overlapping Designated Territory

Business Purchase Price" shall mean an estimate of the SF Share of the

Overlapping Designated Territory Business Purchase Price prepared in good faith
by HSI in accordance with Section 2.6.3.

1.46 "Estimated SF/Robin Sales" shall mean \$7,745,456.

1.47 "Estimated Silverman's Sales" shall mean \$6,210,000.

1.48 "Estimated Silverman's/Robin Average Eligible Sales" shall mean

an estimate of the Silverman's/Robin Average Eligible Sales prepared in good
faith by HSI in accordance with Section 2.6.3.

1.49 "Estimated Silverman's/Robin Sales" shall mean an estimate of

Silverman's/Robin Sales prepared in good faith by HSI in accordance with Section
2.5.2(d).

1.50 "Ex-Territory" shall mean any place located in the United States

of America exclusive of the Designated Territory.

1.51 "Ex-Territory Assets" shall have the meaning set forth in

Section 1.50.

1.52 "Ex-Territory Business" shall mean all of SF's right, title and

interest in and to its assets (wherever located, tangible and intangible (including goodwill), real, personal or mixed, whether known or unknown and whether or not carried on the books and records of SF) and the SF Business as a going concern, in each case, as conducted in the Ex-Territory (excluding only the assets specified in the proviso below), including, but not limited to, the following (the "Ex-Territory Assets"):

(a) all of SF's rights under agreements, arrangements, commitments, and understandings ("Ex-Territory Contracts") relating to the SF Business as a going concern as conducted in the Ex-Territory and which are set forth on schedule 1.50(a);

(b) all of SF's records, files and other data relating to the SF Business as a going concern as conducted in the Ex-Territory;

(c) all of SF's copyrights and all of SF's rights in the trademarks, service marks, trade names and logos now or previously used by SF in the SF Business as a going concern as conducted in the Ex-Territory;

(d) all of SF's inventions, computer software, trade secrets and confidential data relating to the SF Business as a going concern as conducted in the Ex-Territory;

(e) all rights to the name "San Francisco Dental Supply" and all names derivative therefrom (the "SF Name") in the Ex-Territory, and all rights to the names "DDS," "PRN Dental Supply," "Dental Preferred," "Critser's" and "Midwestern Dental" (both within and outside the Ex-Territory) and all names derivative therefrom (collectively, the "Other SF Names");

(f) all of SF's equipment (including office equipment), computers, furniture, fixtures, leasehold improvements, stationery, forms, labels, promotional materials and similar supplies used by SF in the SF Business as a going concern conducted in the Ex-Territory;

(g) all other tangible assets owned by SF wherever located in the Ex-Territory;

(h) customer lists, customer sales orders and sales leads, customer shipping labels and forms, customer sales and vendor purchase histories, catalogs, brochures, mailing lists, advertising materials, records, files, computer software, and other information pertaining to SF or the SF Business or the customers and suppliers thereto in the Ex-Territory;

(i) to the extent transferable, all manufacturer's warranties with respect to any of the foregoing;

(j) all Authorizations relating to the SF Business as conducted in the Ex-Territory;

(k) all "800 numbers"; and

(l) all claims against third parties;

provided, however, that the term "Ex-Territory Business" shall not include (i)

the minute books and stock ledger of SF; (ii) cash and cash equivalents on hand or in banks and debt and equity securities; (iii) SF's accounts receivable or Non-Matching Inventory which is not designated as Optional SF Inventory, (iv) any asset or business included and used principally in the Designated Territory Business or the SF/Robin Business, (v) the assets specifically listed on Schedule 1.52 hereto or (vi) the Oats Business.

1.53 "Ex-Territory Contracts" shall have the meaning set forth in

Section 1.52(a).

1.54 "Excess Designated Territory Sales" shall mean the amount, if

positive, by which Designated Territory Sales exceed the Combined Designated Territory Net Sales Base by more than the Inflation Rate.

1.55 "Excess Silverman's/Robin Sales" shall mean the amount, if

positive, by which Silverman's/Robin Sales exceed the Combined Silverman's/Robin Net Sales Base by more than the Inflation Rate.

1.56 "Excluded Liabilities" shall mean all liabilities or obligations

of SF or Olson of any kind whatsoever, excluding solely those liabilities or obligations which become Assumed Contracts pursuant to this Agreement.

1.57 "GAAP" shall mean generally accepted accounting principles

consistently applied.

1.58 "Goodwill" shall mean with respect to any acquisition of an

Overlapping Designated Territory Business or Overlapping Business, as the case may be, the excess, if any, of the purchase price of any such Business over the book value of such Business as determined in accordance with GAAP.

1.59 "Hazardous Discharge" shall mean any releasing, spilling,

leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migrating, disposing or dumping (including the movement of any material through or in air, soil, surface or groundwater) of Hazardous Substances, whether on, off, under or

from the Real Property or any other real property owned, operated, leased or used at any time by SF or any of its predecessors.

1.60 "Hazardous Substances" shall mean petroleum, petroleum products, -----
petroleum-derived substances, radioactive materials, hazardous wastes, polychlorinated biphenyls, lead based paint, urea formaldehyde, asbestos or any materials containing asbestos, and any materials, wastes or substances regulated or defined as or included in the definition of "hazardous substances," "hazardous materials," "hazardous constituents," "toxic substances," "pollutants," "contaminants" or any similar denomination intended to classify substances by reason of toxicity, carcinogenicity, ignitability, corrosivity or reactivity under any Environmental Laws.

1.61 "HSI" shall mean Henry Schein, Inc., a Delaware corporation.

1.62 "HSI Business" shall have the meaning set forth in the recitals

hereto.

1.63 "HSI Closing Documents" shall have the meaning set forth in

Section 5.2.

1.64 "HSI Common Stock" shall mean the common stock, par value \$.01

per share, of HSI.

1.65 "HSI Designated Territory Assets" shall mean only the following

assets used by HSI in connection with the dental supply and equipment products sold by HSI in the Designated Territory: customer lists, customer sales orders and sales leads, customer shipping labels and forms, customer sales and vendor purchase histories, catalogs, brochures, mailing lists, advertising materials, records, files, computer software, and other information pertaining to the HSI Designated Territory Related Business or the customers and suppliers thereto.

1.66 "HSI Designated Territory Related Business" shall mean the HSI

Business as presently conducted to the extent it includes the sale of dental supplies and equipment in the Designated Territory as a going concern.

1.67 "HSI Financial Statements" shall mean the audited consolidated

financial statements of HSI as of December 25, 1993, December 31, 1994 and December 30, 1995, and for each of the fiscal years then ended.

1.68 "HSI Material Adverse Effect" shall mean any material adverse

effect, individually or in the aggregate, on the condition (financial or otherwise), business, assets, operations or prospects of any of HSI or Silverman's, the HSI Designated Territory Related Business or the Silverman's Business, taken as a whole.

1.69 "HSI Net Margin Factor" shall mean the product of (x) 8.5 and

(y) the quotient of HSI's consolidated after tax net income divided by HSI's consolidated net

sales, in each case, for the most recently completed fiscal year of HSI preceding the determination of the HSI Net Margin Factor. For all purposes of this Agreement, the amounts referred to in clause (y) of the immediately preceding sentence shall be determined solely by reference to the audited financial statements of HSI.

1.70 "HSI Sales" shall mean the sum of the Net Sales of HSI to

customers located in the Designated Territory (other than Net Sales to Corporate Accounts and Dealer Sales) for the fourth quarter of fiscal year 1995 and the first quarter of fiscal year 1996 multiplied by 2, plus Net Sales of Pattison for the fiscal year ending February 29, 1996, determined, in each case, in accordance with Section 2.3(f).

1.71 "HSI Closing Sales Payment Amount" shall have the meaning set

forth in Section 2.3(e).

1.72 "HSI/SF Combined Average Eligible Sales" shall mean the sum of

the following: (i) the product of (A) HSI/SF Combined Eligible Sales for the 12-month period ("Year 1") ending on the last day of the calendar month immediately preceding the date of exercise of a put or call option pursuant to Sections 2.6.1(a) or 2.6.2(a), as the case may be, and (B) 45%, (ii) the product of (A) HSI/SF Combined Eligible Sales for the 12-month period immediately preceding Year 1 ("Year 2") and (B) 35%, and (iii) the product of (A) HSI/SF Combined Eligible Sales for the 12-month period immediately preceding Year 2 and (B) 20%.

1.73 "HSI/SF Combined Eligible Sales" shall mean, for any period, the

dollar value of the aggregate Net Sales by HSI and its Affiliates under the "Schein" or "SF Dental" name to customers located in the Designated Territory (other than Net Sales to Corporate Accounts and Dealer Sales), as determined in accordance with Section 2.6.3; provided, however, that with respect to Corporate

Accounts, HSI/SF Combined Eligible Sales shall only include Corporate Accounts of those Persons who maintain corporate headquarters in the Designated Territory.

1.74 "HSI/SF Combined Sales" shall mean the sum of HSI Sales and SF

Sales.

1.75 "HSI/SF Designated Territory Assumed Liabilities" shall have the

meaning set forth in Section 2.3(b) hereto.

1.76 "HSI/SF Sales Dispute Statement" shall have the meaning set

forth in Section 2.3(f).

1.77 "HSI/Silverman's Authorizations" shall mean, collectively, all

Authorizations held, used or required by HSI and/or Silverman's in connection with the HSI Designated Territory Related Business and the Silverman's Business.

1.78 "HSI/Silverman's Business" shall mean the HSI Business and

Silverman's Business with respect to dental supplies and equipment sold under the name "Schein" and "Silverman's".

1.79 "Indemnitee" and "Indemnitor" shall have the meanings set forth

in Section 10.4(a) of this Agreement.

1.80 "Ineligible Inventory" shall mean all Inventory which is

obsolete, damaged, excessive, below standard quality or slow moving (i.e., items that are for discontinued or expected to be discontinued product lines, or have a stated expiration date of 6 months or less from the Closing Date, or items that have not been used or sold within 6 months prior to the date hereof, or items that have not been sold within the customary inventory turnover cycle of SF with respect to such item, or items for which there is excess capacity (i.e., more products are on hand of any such item than have been sold in the past nine (9) months)).

1.81 "Inflation Rate" shall mean the increase in the cost of living

for the 12-month period beginning on the first day of the fourth calendar month immediately succeeding the Closing Date based on "The Consumer Price Index for all Urban Consumers (1967 = 100)" (the "Index"), published by the United States Department of Labor and computed as follows:

(i) The Index number in the column for Chicago-Gary-Lake County, Ill-In-Wi, entitled "all items," for the fourth calendar month immediately succeeding the Closing Date, shall be the "base index number" and the corresponding Index number for such month for the next year shall be the current Index number;

(ii) The increase in the cost of living during the relevant measurement period shall be determined by subtracting the base Index number (BIN) from the current Index number (CIN), and dividing the result thereof by the BIN, in accordance with the following formula: increase in cost of living = CIN minus BIN / BIN; and

(iii) In the event the Index is discontinued, the parties hereto shall accept comparable statistics on the cost of living for Chicago-Gary-Lake County, Ill-In-Wi as computed and published by an agency of the United States or by a responsible financial periodical of recognized authority then to be selected by the parties hereto.

1.82 "Intellectual Property" shall mean all United States and foreign

patents and pending patent applications, unpatented inventions, trademarks, service marks and trade names, including, without limitation, the marks and patents described on Schedule 4.8 of this Agreement, and copyrights, and registrations and pending applications therefor, and all trade secrets, trade names, computer programs and software, research and development, know-how, customer lists, manufacturing, engineering and other drawings and blueprints, technology, technical information, engineering data, design and engineering specifications, inventions and other proprietary processes and

information of any kind owned by SF or Olson or in which SF or Olson has a proprietary or ownership or usage right, and all software necessary or desirable to operate equipment included in the Acquired Assets, all as set forth on Schedule 4.8 of this Agreement.

1.83 "Inventory" shall mean all inventory and related items

(including all production, shipping and packaging supplies) relating to or used or useful in connection with the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business.

1.84 "Inventory Dispute Statement" shall have the meaning set forth

in Section 2.1.3(b) of this Agreement.

1.85 "Inventory Disputed Items" shall have the meaning set forth in

Section 2.1.3(b) of this Agreement.

1.86 "Inventory Purchase Price" shall mean the lower of (x) the

Invoice Price or (y) market price of all Purchased Inventory goods and products other than Ineligible Inventory, minus an inventory reserve computed in accordance with GAAP.

1.87 "Invoice Price" shall mean, in the case of Purchased Inventory

finished goods and products other than Ineligible Inventory, the last actual purchase price in accordance with SF's customary accounting principles (after giving effect to any actual discounts or allowances (including cash discounts and vendor rebates)) immediately prior to the Closing Date at which SF purchased such Inventory from a non-Related Party.

1.88 "IRS" shall mean the Internal Revenue Service (or any successor

agency thereto).

1.89 "Losses" shall have the meaning set forth in Section 10.2 of

this Agreement.

1.90 "Material Adverse Effect" shall mean any material adverse

effect, individually or in the aggregate, on the condition (financial or otherwise), business, assets, operations or prospects of SF, or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business or the Acquired Assets.

1.91 "New Repts Sales" shall mean all Net Sales attributable to New

Sales Repts for the 3-month period immediately succeeding the Closing Date multiplied by 4, determined in accordance with Section 2.5.1.1(b).

1.92 "New Repts Sales Dispute Statement" shall have the meaning set

forth in Section 2.5.1.1.(b).

1.93 "New Sales Repts" shall have the meaning set forth in Section

2.5.1.1(a).

1.94 "Net Sales" shall mean net sales (as determined in accordance

with GAAP, taking into account any returns and allowances) of dental supplies
and equipment (other than software).

1.95 "Non-Matching Inventory" shall mean any Inventory owned or held

by SF which is not SF Like Kind Inventory or Ineligible Inventory.

1.96 "Oats Business" shall mean the marketing, development and sale

of oats based products through any entity owned or controlled by Olson
including, but not limited to, Ultravena Industries USA Ltd., Sativa Medical USA
Ltd. and Advanced Dental Technologies Ltd.

1.97 "Olson" shall mean Larry Olson.

1.98 "Option Dispute Statement" shall have the meaning set forth in

Section 2.6.3.

1.99 "Option Statement" shall have the meaning set forth in Section

2.6.3.

1.100 "Optional SF Inventory" shall mean all Inventory owned by SF

which is not SF Like Kind Inventory; provided, however, that the Optional SF

Inventory shall not include any Ineligible Inventory.

1.101 "Overlapping Business" shall mean any Person principally engaged

in the distribution of dental supplies or equipment to the discount or "low end"
market segment of the same type or same customer base as the Silverman's/Robin
Business.

1.102 "Overlapping Business Purchase Price" shall mean the sum of all

cash and the fair market value of all property paid by HSI and/or its Affiliates
(including, for this purpose, the assumption of any debt) for the purchase of
each Overlapping Business, plus imputed interest thereon at the Prime Rate.

1.103 "Overlapping Designated Territory Business" shall mean any

Person engaged in the distribution of dental supplies or equipment (in whole or
in part) to customers located in the Designated Territory.

1.104 "Overlapping Designated Territory Business Purchase Price" shall

mean the sum of all cash and the fair market value of all property paid by HSI
and/or the Affiliates (including, for this purpose, the assumption of any debt)
for the purchase of each Overlapping Designated Territory Business, plus imputed
interest thereon at the Prime Rate.

1.105 "Pattison" shall mean Pattison-McGrath Company Dental Supplies,

a Missouri corporation and wholly-owned subsidiary of SF.

1.106 "Pattison Agreement" shall mean the Acquisition Agreement, dated

as of May 23, 1996, by and between HSI and Pattison.

1.107 "Pattison Assets" shall mean the "Pattison Assets" as such term

is defined in the Pattison Agreement.

1.108 "Pattison Business" shall mean the "Business" as such term is

defined in the Pattison Agreement.

1.109 "Pattison Note" shall mean the "Pattison Note" as such term is

defined in the Pattison Agreement.

1.110 "Permitted Activities" shall have the meaning set forth in

Section 9.1 of this Agreement.

1.111 "Permitted Encumbrances" means mechanics', carriers', workmen's,

repairmen's and other similar liens arising or incurred in the ordinary course
of business, purchase money liens arising in the ordinary course of business and
liens for taxes, assessments and other governmental charges not due and payable
or that may be paid without penalty.

1.112 "Person" shall mean any natural person, corporation, limited or

limited liability partnership, general partnership, joint venture, association,
joint-stock company, limited liability company, company, trust, bank, trust
company, land trust, business trust or other organization, whether or not a
legal entity, and any governmental unit or agency or political subdivision
thereof.

1.113 "Prime Rate" shall mean the fluctuating prime or base rate

publicly announced from time to time by The Chase Manhattan Bank, N.A. (or any
successor thereto).

1.114 "Purchased Inventory" shall mean all Inventory purchased by HSI

pursuant to Section 2.1.1.

1.115 "Real Property" shall mean the real property and interest in

real property described on Schedule 4.7 held by SF and the plants, buildings,
structures, storage tanks, erections and improvements of all kinds made to,
located on or forming a part of the real property and interests in real property
(including, without limitation, all fixtures), together with all easements,
rights-of-way, appurtenances and tenements to, on or otherwise beneficial to the
use of such real property or interests in real property or in the operation of
the SF Business, the Ex-Territory Business, the SF Designed Territory Related
Business or the SF/Robin Business.

1.116 "Related Party" shall have the meaning set forth in Section 4.18

of this Agreement.

1.117 "Robin Name" shall mean the name "Robin," "Robin Dental" or

"Robin Dental Company" and all names derivative therefrom.

1.118 "Securities Act" shall mean the Securities Act of 1933, together

with the rules and regulations promulgated thereunder.

1.119 "Seller Claimant" shall have the meaning set forth in Section

10.3 of this Agreement.

1.120 "SF" shall mean San Francisco Dental Supplies, Inc., a

California corporation, and, unless the context otherwise requires, shall also
include all of SF's subsidiaries.

1.121 "SF Closing Documents" shall have the meaning set forth in

Section 4.2.

1.122 "SF Closing Inventory Payment" shall have the meaning set forth

in Section 2.1.2.

1.123 "SF Closing Sales Payment Amount" shall have the meaning set

forth in Section 2.3(c).

1.124 "SF Designated Territory Assets" shall mean all of SF's right,

title and interest in and to its assets (wherever located, tangible and
intangible (including goodwill), real, personal or mixed, whether known or
unknown and whether or not carried on the books and records of SF) and the SF
Business as a going concern, in each case, as conducted in the Designated
Territory (excluding only the assets specified in the proviso below), including,
but not limited to, the following:

(a) all of SF's rights under agreements, arrangements,
commitments, and understandings ("SF Designated Territory Contracts") relating
to the SF Designated Territory Related Business;

(b) all of SF's records, files and other data relating to the
SF Designated Territory Related Business;

(c) all of SF's copyrights and all of SF's rights in the
trademarks, service marks, trade names and logos now or previously used by SF in
the SF Designated Territory Related Business;

(d) all of SF's inventions, computer software, trade secrets
and confidential data relating to the SF Designated Territory Related Business;

(e) all rights to the SF Name and the Other Names in the
Designated Territory;

(f) all of SF's equipment (including office equipment), computers, furniture, fixtures, leasehold improvements, stationery, forms, labels, promotional materials and similar supplies used principally in connection with the SF Designated Territory Related Business;

(g) all other tangible assets owned by SF wherever located in the Designated Territory;

(h) customer lists, customer sales orders and sales leads, customer shipping labels and forms, customer sales and vendor purchase histories, catalogs, brochures, mailing lists, advertising materials, records, files, computer software, and other information pertaining to the SF Designated Territory Related Business or the customers and suppliers thereto in the Designated Territory;

(i) to the extent transferable, all manufacturer's warranties with respect to any of the foregoing;

(j) all Authorizations relating to the SF Designated Territory Related Business;

(k) all "800 numbers"; and

(l) all claims against third parties;

provided, however, that the term "SF Designated Territory Assets" shall not

include (i) the minute books and stock ledger of SF; (ii) cash and cash equivalents on hand or in banks and debt and equity securities; (iii) SF's accounts receivable or Non-Matching Inventory which is not designated as Optional SF Inventory, (iv) any asset or business included in the Ex-Territory Business, the Robin Business or the SF/Robin Business, (v) the real property and other SF assets specifically set forth on Schedule 1.124 hereto or (vi) the Oats Business.

1.125 "SF Designated Territory Contracts" shall have the meaning set forth in Section 1.124(a).

1.126 "SF Designated Territory Related Business" shall mean the SF Business as a going concern as conducted in the Designated Territory.

1.127 "SF Excluded Assets" shall mean, collectively, all of the assets of SF referred to in the proviso contained in the definitions of Ex-Territory Business, SF Designated Territory Assets and SF/Robin Assets and the Oats Business.

1.128 "SF Financial Statements" shall mean, collectively, (a) in the case of each of SF, Robin Dental Company and Critser's Dental Equipment, Inc., its unaudited financial statements as of (i) December 31, 1993, 1994 and 1995, and for each of the fiscal

years then ended and (ii) March 31, 1996, and for the fiscal quarter then ended and (b) in the case of Midwestern Dental, Inc., its unaudited financial statements as of (i) February 29, 1996 and February 28, 1995, and for each of the fiscal years then ended and (ii) March 31, 1996, and for the month then ended.

1.129 "SF Like Kind Inventory" shall mean all Inventory owned by SF

relating to or useful in connection with the SF Business, the SF Designated Territory Related Business, the Ex-Territory Business or the SF/Robin Business which (i) matches a stock keeping unit currently sold by HSI and/or (ii) is large dental equipment, and which is not, in either case, Ineligible Inventory.

1.130 "SF Name" shall have the meaning set forth in Section 1.52(e).

1.131 "SF Note" shall have the meaning set forth in Section 2.7.

1.132 "SF Sales" shall mean the sum of the Net Sales of SF to non-

Related Parties located in the Designated Territory (other than Net Sales to Corporate Accounts and Dealer Sales) for the fourth quarter of fiscal year 1995 and the first quarter of fiscal year 1996 multiplied by 2, determined in accordance with Section 2.3(f).

1.133 "SF Share of the Overlapping Business Purchase Price" shall mean

the product of (x) the Overlapping Business Purchase Price and (y) a fraction, the numerator of which is total Net Sales of the Overlapping Businesses attributable to the distribution of dental supplies and equipment to the discount or "low-end" market segment of the same type or same customer base as the Silverman's/Robin Business at the time of acquisition and the denominator of which is the sum of the total Net Sales of the Overlapping Businesses at the time of acquisition plus all other Net Sales of any such Overlapping Businesses which do not constitute sales attributable to the distribution of dental supplies and equipment to the discount or "low-end" market segment of the same type and to the same customer base as the Silverman's/Robin Business, multiplied

by 20%.

1.134 "SF Share of the Overlapping Designated Territory Business

Purchase Price" shall mean the product of (x) the Overlapping Designated Territory Business Purchase Price and (y) a fraction, the numerator of which is total Net Sales of the Overlapping Designated Territory Businesses within the Designated Territory at the time of acquisition and the denominator of which is the sum of total Net Sales of the Overlapping Designated Territory Businesses at the time of acquisition plus all other Net Sales of any such Overlapping Designated Territory Businesses to customers located inside or outside of the Designated Territory, multiplied by 30%.

1.135 "SF/Robin Authorizations" shall mean, collectively, all

Authorizations held, used or required by SF in connection with the SF Business, the Ex-Territory Business, SF Designated Territory Related Business and/or the SF/Robin Business.

1.136 "SF/Robin Business" shall mean the SF Business, but only with

respect to the distribution through direct marketing of dental supplies and
equipment principally under the name "Robin" and "Robin Dental" as presently
conducted, excluding the Oats Business.

1.137 "SF/Robin Contracts" shall have the meaning set forth in Section

4.9.

1.138 "SF/Robin Closing Sales Payment Amount" shall have the meaning

set forth in Section 2.4(e).

1.139 "SF/Robin Assets" shall mean all right, title and interest of SF

in and to its assets (wherever located, tangible and intangible (including
goodwill), real, personal or mixed, whether known or unknown and whether or not
carried on the books and records of SF) relating to the SF/Robin Business and
the SF/Robin Business as a going concern (excluding only the assets specified in
the proviso below), including, but not limited to, the following:

(a) all of SF's rights under agreements, arrangements,
commitments, and understandings relating to the SF/Robin Business;

(b) all of SF's records, files and other data relating to the
SF/Robin Business;

(c) all of SF's copyrights and all of SF's rights in the
trademarks, service marks, trade names and logos now or previously used by SF in
the SF/Robin Business;

(d) all of SF's inventions, computer software, trade secrets
and confidential data relating to the SF/Robin Business;

(e) all rights to the SF Name and the Other Names as used in
the SF/Robin Business and all rights to the Robin Name;

(f) all of SF's equipment (including office equipment),
computers, furniture, fixtures, leasehold improvements, stationery, forms,
labels, promotional materials and similar supplies used principally in
connection with the SF/Robin Business;

(g) all other tangible assets owned by SF and used in the
SF/Robin Business wherever located;

(h) customer lists, customer sales orders and sales leads,
customer shipping labels and forms, customer sales and vendor purchase
histories, catalogs, brochures, mailing lists, advertising materials, records,
files, computer software, and other information pertaining to the SF/Robin
Business or the customers and suppliers thereto;

(i) to the extent transferable, all manufacturer's warranties with respect to any of the foregoing;

(j) all Authorizations relating to the SF/Robin Business;

(k) all "800 numbers"; and

(l) all claims against third parties;

provided, however, that the term "SF/Robin Assets" shall not include (i) the -----
minute books and stock ledger of SF; (ii) cash and cash equivalents on hand or in banks and debt and equity securities; (iii) SF's accounts receivable or Non-Matching Inventory which is not designated as Optional SF Inventory, (iv) any asset or business included in the Ex-Territory Business or the Designated Territory Business, (v) any asset specifically listed on Schedule 1.134 hereto or (vi) the Oats Business.

1.140 "SF/Robin Sales" shall mean the sum of the Net Sales of the -----
SF/Robin Business to non-Related Parties (other than Net Sales to Corporate Accounts and Dealer Sales) for the fourth quarter of fiscal year 1995 and the first quarter of fiscal year 1996 multiplied by 2, determined in accordance with Section 2.4(f).

1.141 "Shortfall Designated Territory Sales" shall mean the amount, if -----
positive, by which the Combined Designated Territory Sales Base exceeds Designated Territory Sales.

1.142 "Shortfall Silverman's/Robin Sales" shall mean the amount, if -----
positive, by which the Combined Silverman's/Robin Sales Base exceeds Silverman's/Robin Sales.

1.143 "Silverman's" shall mean Silverman's Dental Supply Corp., a New -----
York corporation.

1.144 "Silverman's Assets" shall mean all of Silverman's right, title -----
and interest in and to its assets (wherever located, tangible and intangible (including goodwill), real, personal or mixed, whether known or unknown and whether or not carried on the books and records of Silverman's) and the Silverman's Business as a going concern (excluding only the assets specified in the proviso below), including, but not limited to, the following:

(a) all of Silverman's rights under agreements, arrangements, commitments, and understandings ("Silverman's Contracts") relating to the Silverman's Business;

(b) all of Silverman's records, files and other data relating to the Silverman's Business;

(c) all of Silverman's copyrights and all of Silverman's rights in the trademarks, service marks, trade names and logos now or previously used by Silverman's in the Silverman's Business;

(d) all of Silverman's inventions, computer software, trade secrets and confidential data relating to the Silverman's Business;

(e) all of Silverman's equipment (including office equipment), computers, furniture, fixtures, leasehold improvements, stationery, forms, labels, promotional materials and similar supplies used principally in connection with the Silverman's Business;

(f) all other tangible assets owned by Silverman's wherever located;

(g) customer lists, customer sales orders and sales leads, customer shipping labels and forms, customer sales and vendor purchase histories, catalogs, brochures, mailing lists, advertising materials, records, files, computer software, and other information pertaining to the Silverman's Business or the customers and suppliers thereto;

(h) to the extent transferable, all manufacturer's warranties with respect to any of the foregoing;

(i) all Authorizations relating to the Silverman's Business;

(j) all "800 numbers"; and

(k) all claims against third parties;

provided, however, that the term "Silverman's Assets" shall not include (i) the -----
minute books and stock ledger of Silverman's; (ii) cash and cash equivalents on hand or in banks and debt and equity securities; (iii) Silverman's accounts receivable; (iv) Inventory of Silverman's or (v) any asset or business included in the Ex-Territory Business or the Designated Territory Business.

1.145 "Silverman's Contracts" shall have the meaning set forth in -----
Section 1.144(a).

1.146 "Silverman's Sales" shall mean the sum of the Net Sales of -----
Silverman's to unaffiliated third parties (other than Net Sales to Corporate Accounts and Dealer Sales) during the fourth quarter of fiscal year 1995 and the first quarter of fiscal year 1996 multiplied by 2, determined in accordance with Section 2.4(f).

1.147 "Silverman's/Robin Assumed Liabilities" shall have the meaning -----
set forth in Section 2.4(b).

1.148 "Silverman's/Robin Business" shall mean, collectively, the

combined businesses of Silverman's and SF/Robin.

1.149 "Silverman's Closing Sales Payment Amount" shall have the

meaning set forth in Section 2.4(e).

1.150 "Silverman's/Robin Combined Average Eligible Sales" shall mean

the sum of the following: (i) the product of (A) Silverman's/Robin Combined
Eligible Sales for the 12-month period ("Year 1") ending on the last day of the
calendar month immediately preceding the date of exercise of a put or call
option pursuant to Sections 2.6.1(b) or 2.6.2(b), as the case may be, and (B)
45%, (ii) the product of (A) Silverman's/Robin Combined Eligible Sales for the
12-month period immediately preceding Year 1 ("Year 2") and (B) 35%, and (iii)
the product of (A) Silverman's/Robin Combined Eligible Sales for the 12-month
period immediately preceding Year 2 and (B) 20%.

1.151 "Silverman's/Robin Combined Eligible Sales" shall mean, for any

period, the dollar value of the aggregate Net Sales by HSI and/or Silverman's
under the "Silverman's" or "Robin" name (other than Net Sales to Corporate
Accounts and Dealer Sales), as determined in accordance with Section 2.6.3.

1.152 "Silverman's/Robin Sales" shall mean all Net Sales of the

Silverman's/Robin Business for the 12-month period beginning on the last day of
the fourth calendar month immediately succeeding the Closing Date.

1.153 "Silverman's/Robin Sales Dispute Statement" shall have the

meaning set forth in Section 2.5.2(d).

1.154 "Silverman's/Robin Sales Statement" shall have the meaning set

forth in Section 2.5.2(d).

1.155 "Taxes" (or "Tax" where the context requires) shall mean all

federal, state, local, foreign or other taxes, duties, or similar charges
(including, without limitation, income (whether net or gross), profits, premium,
estimated, excise, sales, use, environmental (including taxes under Code Section
59A), occupancy, franchise, license, value added stamp, windfall profits, social
security, gross receipts, franchise, ad valorem, severance, capital levy,
production, transfer, gains, withholding, occupation, employment and payroll
related and property taxes, alternative or add-on, minimum or estimated, import
and export duties and other governmental charges and assessments) imposed by any
taxing or governmental authority on or payable by SF or any other party with
respect to the income, operations, products, assets or properties of SF, whether
attributable to statutory or nonstatutory rules and whether or not measured in
whole or in part by net income, and including interest, additions to tax or
interest, and penalties with respect thereto, and including expenses associated
with contesting any proposed adjustment related to any of the foregoing.

1.156 "Third Accountants" shall mean Ernst & Young LLP.

1.157 "Undisputed HSI Sales" shall have the meaning set forth in

Section 2.3(f).

1.158 "Undisputed HSI/SF Combined Sales" shall mean the sum of

Undisputed HSI Sales and Undisputed SF Sales.

1.159 "Undisputed SF Sales" shall have the meaning set forth in

Section 2.3(f).

1.160 "Undisputed SF/Robin Sales" shall have the meaning set forth in

Section 2.4(e).

1.161 "Undisputed Silverman's Sales" shall have the meaning set forth

in Section 2.4(e).

1.162 "Undisputed Silverman's/Robin Combined Sales" shall mean the sum

of Undisputed Silverman's Sales and Undisputed SF/Robin Sales.

ARTICLE II SALE AND PURCHASE OF INVENTORY, SALE

AND PURCHASE OF EX-TERRITORY BUSINESS,

SALE AND PURCHASE OF SF DESIGNATED

TERRITORY RELATED BUSINESS AND SALE AND

PURCHASE OF SF/ROBIN BUSINESS

2.1 Purchase of Inventory.

2.1.1 Purchased Inventory. (a) Upon terms and subject to the

conditions hereof, upon the basis of the agreements, representations and
warranties contained in, and the schedules and exhibits to, this Agreement, at
the Closing, SF shall sell, transfer, assign, convey, and deliver to HSI, and
HSI shall purchase and acquire from SF, all of the SF Like Kind Inventory, free
and clear of all Encumbrances.

(b) At the Closing, at the option of HSI (the exercise of which
shall be in the sole and absolute discretion of HSI), HSI may purchase and
acquire from SF, and, if HSI exercises such option, SF shall sell, transfer,
assign, convey, and deliver to HSI, all or such portion of the Optional SF
Inventory as shall be designated by HSI, free and clear of all Encumbrances.

2.1.2 Purchase Price. In consideration for the Purchased

Inventory, HSI shall pay to SF at the Closing an amount equal to the product of
(x) the Estimated Closing SF Inventory Value and (y) 80% (the "SF Closing
Inventory Payment").

2.1.3 Closing Inventory. (a) At least five (5) Business

Days before the Closing Date¹, SF shall complete preparation of an inventory report (by SKU number, quantity and Invoice Price) setting forth the Estimated Closing SF Inventory Value (such inventory report is hereinafter referred to as the "Closing Inventory Report").

(b) SF will deliver the Closing Inventory Report to HSI at least three (3) Business Days before the Closing Date. Following receipt of the Closing Inventory Report, HSI will have a period of twenty (20) Business Days after the Closing Date to review the Closing Inventory Report. At or before the end of such review period, HSI will either (i) accept the Closing Inventory Report in its entirety, in which case the Closing SF Inventory Value shall be deemed to be equal to the Estimated Closing SF Inventory Value as set forth in the Closing Inventory Report or (ii) deliver to SF a written explanation (the "Inventory Dispute Statement") of those items in the Closing Inventory Report which HSI in good faith disputes (the "Inventory Disputed Items"), in which case the Estimated Closing SF Inventory Value not affected by Inventory Disputed Items shall be deemed to be as set forth in the Closing Inventory Report. Within a further period of thirty (30) Business days from the date on which the Inventory Dispute Statement is delivered by HSI, the parties will attempt to resolve in good faith any Inventory Disputed Items. In the absence of such resolution by the last day of such thirty (30) Business Day period, the unresolved Inventory Disputed Items will be referred for final binding resolution by the Third Accountants. Each of HSI and SF shall be entitled to make a brief supplemental oral presentation to the Third Accountants. The Closing SF Inventory Value affected by any Inventory Disputed Items will be determined by the Third Accountants within thirty (30) days of such reference based upon the definitions of Inventory, SF Like Kind Inventory, Closing SF Inventory Value, Inventory Purchase Price, Invoice Price, Non-Matching Inventory and Ineligible Inventory as set forth herein. The determination of such firm will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any reason. Promptly after the determination by the Third Accountants, HSI or SF, as the case may be, shall make the payments, if any, required by Section 2.1.3(c). The fees and expenses of the Third Accountants shall be paid one-half by HSI and one-half by SF.

(c) If the Closing SF Inventory Value is (i) greater than the SF Closing Inventory Payment, then HSI shall pay SF an amount equal to such difference within ten (10) days after the determination of the Closing SF Inventory Value or (ii) less than the SF Closing Inventory Payment, then SF shall pay HSI an amount equal to such difference within ten (10) days after the determination of the Closing SF Inventory Value.

2.1.4 Right to Set-Off. Notwithstanding anything in this

Agreement to the contrary, HSI shall have the right to offset any amount otherwise due and payable

1 In light of the changed circumstances, it seemed appropriate to make this change.

by HSI to SF on the Closing Date pursuant to any provision of this Agreement against any amount due and payable by SF to HSI on the Closing Date.

2.2 Purchase of the Ex-Territory Business.

2.2.1 Purchase of the Ex-Territory Business. Upon terms and

subject to the conditions hereof, upon the basis of the agreements, representations and warranties contained in, and the schedules and exhibits to, this Agreement at the Closing, SF shall sell, transfer, assign, convey, and deliver to HSI, and HSI shall purchase and acquire from SF, all of the Ex-Territory Business free and clear of all Encumbrances (other than Permitted Encumbrances).

2.2.2 Purchase Price. In consideration for the Ex-Territory

Business, at the Closing HSI shall pay to SF an amount equal to the Agreed Upon Ex-Territory Business Value. Notwithstanding anything in this Agreement to the contrary, HSI is not assuming, and shall not have any liability, (a) for any income, franchise, sales, payroll, withholding or other taxes of SF, (b) for any expenses of SF related to the negotiation, preparation and execution of this Agreement, (c) as a "successor-in-interest" to SF with respect to the Ex-Territory Business, (d) for any accounts payable of SF, or (e) for any matter or thing set forth on Schedule 2.2.2(e).

2.2.3 Right to Set-Off. Notwithstanding anything in this

Agreement to the contrary, HSI shall have the right to offset any amount otherwise due and payable by HSI to SF on the Closing Date pursuant to any provision of this Agreement against any amount due and payable by SF to HSI on the Closing Date.

2.3 Purchase of the SF Designated Territory Related Business.

(a) At the Closing, and in accordance with the terms and provisions of this Agreement, SF will assign, transfer, convey and deliver to HSI, and HSI will acquire from SF, all of SF's right, title and interest in and to the SF Designated Territory Assets and the SF Designated Territory Related Business as a going concern, free and clear of all Encumbrances (other than Permitted Encumbrances and the liabilities and obligations referred to in Section 2.3(b)). Notwithstanding anything in this Agreement to the contrary, SF is not assigning, transferring, conveying or delivering to HSI any of the SF Excluded Assets. HSI shall initially use the HSI Designated Territory Assets, HSI Designated Territory Related Business, the Pattison Assets and the Pattison Business, together with the SF Designated Territory Assets and the SF Designated Territory Related Business, to conduct the Designated Territory Business.

(b) At the Closing, and in accordance with the terms and provisions of, this Agreement, HSI is assuming and agreeing to pay, perform and discharge only the following obligations and liabilities relating to the SF Designated Territory Assets and the SF Designated Territory Related Business (collectively, the "HSI/SF Designated Territory Assumed Liabilities"): all liabilities and obligations of SF

arising after the Closing Date under the SF Designated Territory Contracts listed on Schedule 2.3(b) hereto.

(c) Except as specifically provided in Section 2.3(b), HSI is not assuming, and shall not have any liability for, any liabilities or obligations of SF or any liabilities or obligations which arose or may arise out of the operations of the SF Designated Territory Assets or the SF Designated Territory Related Business prior to the Closing Date, and SF shall pay, perform and discharge all such liabilities and obligations when due in the ordinary course of business. Without limitation to the generality of the foregoing, HSI is not assuming, and shall not have any liability, (a) for any income, franchise, sales, payroll, withholding or other taxes of SF, (b) for any expenses of SF related to the negotiation, preparation and execution of this Agreement or the consummation of the transactions contemplated hereby, (c) as a "successor-in-interest" to SF with respect to the SF Designated Territory Related Business, (d) for any accounts payable of SF, or (e) for any matter or thing set forth on Schedule 2.3(c).

(d) As total consideration for the assets and business being sold, transferred, conveyed and delivered to HSI by SF pursuant to this Section 2.3, HSI shall:

- (i) Assume the HSI/SF Designated Territory Assumed Liabilities; and
- (ii) Pay SF the amount referred to in Section 2.3(e)(x) and (g) below; and
- (iii) Pay SF any amount which may become due and payable pursuant to Section 2.5.1(a), 2.6.1(a) or 2.6.2(a), as the case may be.

(e) In connection with the sale, transfer, conveyance and delivery to HSI by SF of the SF Designated Territory Assets and SF Designated Territory Related Business, at the Closing, (x) HSI shall pay SF an amount (the "HSI Closing Sales Payment Amount"), if positive, equal to the Undisputed SF Sales minus the product of (i) Undisputed HSI/SF Combined Sales and (ii) 30%,

multiplied by 25% or (y) SF shall pay to HSI an amount (the "SF Closing Sales
- -----
Payment Amount") if positive, equal to the Undisputed HSI Sales minus the

product of (i) Undisputed HSI/SF Combined Sales and (ii) 70%, multiplied by 25%.

(f) The authorized representatives of each of HSI and SF shall have the right at reasonable times and on reasonable notice, at the sole expense of each of them, to review and/or audit the books and records of HSI and SF, respectively, relating to the Estimated HSI Sales, on the one hand, and the Estimated SF Sales, as well as the work papers of their respective independent public accountants, in each case solely for the purpose of verifying the Estimated HSI Sales and the Estimated SF Sales. Such right of review must be completed within forty-five (45) Business Days after the Agreement Date. If prior to the end of such review period, either HSI or SF in good faith

disagrees with or disputes the accuracy of the Estimated HSI Sales on the one hand, or the Estimated SF Sales, on the other hand, then HSI or SF, as the case may be, shall deliver to the other party a written statement and explanation of such disagreement or dispute which sets forth in reasonable detail the good faith bases of any such disagreement or dispute (a "HSI/SF Sales Dispute Statement" (and, to the extent Estimated HSI Sales or Estimated SF Sales, are not subject to any HSI/SF Sales Dispute Statement, such Estimated HSI Sales or Estimated SF Sales are hereinafter referred to as "Undisputed HSI Sales" and "Undisputed SF Sales", respectively)). If prior to the end of the above referenced forty-five (45) Business Day review period following the Agreement Date, either HSI or SF shall fail to deliver a HSI/SF Sales Dispute Statement, then the Estimated HSI Sales or the Estimated SF Sales, as the case may be, shall be deemed to equal both the HSI Sales and Undisputed HSI Sales, on the one hand, or the SF Sales and Undisputed SF Sales on the other hand. If, however, either HSI or SF shall have delivered an HSI/SF Sales Dispute Statement prior to the end of such review period, then HSI and SF will attempt in good faith to resolve all differences with regard to the determination of HSI Sales and/or SF Sales during the next twenty (20) Business Day period commencing after the end of such review period. If HSI and SF are unable to resolve such differences prior to the expiration of such twenty (20) Business Day period (or such longer period if so agreed by HSI and SF), the HSI Sales and/or SF Sales shall be determined as set forth in Section 2.3(i) of this Agreement.

(g) Within ten (10) days after the determination of SF Sales and HSI Sales, HSI shall pay SF an amount equal to the amount, if any, by which (I) the SF Sales minus the product of (i) HSI/SF Combined Sales and (ii) 30%,

multiplied by 25% exceeds (II) the HSI Closing Sales Payment Amount.

(h) Within ten (10) days after the determination of HSI Sales and SF Sales, SF shall pay to HSI an amount equal to the amount, if any, by which (I) the HSI Sales minus the product of (i) HSI/SF Combined Sales and (ii)

70%, multiplied by 25% exceeds (II) the SF Closing Sales Payment Amount.

(i) Written reports of disagreement or disputes with respect to any amounts referred to in Section 2.3(f) shall be prepared in concise form by HSI and SF and submitted, together with copies of any HSI/SF Sales Dispute Statements, to the Third Accountants no later than ten (10) Business Days following the last day of the twenty (20) Business Day period (or longer period if so agreed) referred to in the last sentence of Section 2.2(f). Each of HSI and SF shall also be entitled to make a brief supplemental oral presentation to the Third Accountants regarding any such disagreement or dispute. The Third Accountants shall be instructed by HSI and SF to deliver a written report setting forth such Third Accountants' resolution of any difference or dispute referred to it no later than thirty (30) Business Days following the earlier of (i) such firm's receipt of the report of disagreement or disputes submitted to it by HSI and SF pursuant to this Section 2.2(i) and (ii) the last day permitted for the submission of such report as provided above. The determination of the Third Accountants with respect to any disagreement or dispute referred to it by HSI and SF as provided in this Section 2.2(i)

will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any reason. Promptly after the determination by the Third Accountants, HSI or SF, as the case may be, shall make the payments, if any, required by Sections 2.2(g) and (h).

(j) Notwithstanding anything in this Section 2.3 to the contrary, no disagreement or dispute as to HSI Sales and/or SF Sales shall delay or prevent the Closing.

(k) Notwithstanding anything in this Agreement to the contrary, HSI shall have the right to offset any amount otherwise due and payable by HSI to SF pursuant to any provision of this Agreement against any amount due and payable by SF to HSI.

2.4 Purchase of SF/Robin Business.

(a) At the Closing, and in accordance with the terms and provisions of this Agreement, SF will assign, transfer, convey and deliver to Silverman's, and Silverman's will acquire from SF, all of the right, title and interest of SF in and to the SF/Robin Assets and the SF/Robin Business as a going concern, free and clear of all Encumbrances (other than Permitted Encumbrances and the liabilities and obligations referred to in Section 2.4(b)). Notwithstanding anything in this Agreement to the contrary, SF is not assigning, transferring, conveying or delivering to Silverman's any of the SF Excluded Assets. Silverman's shall initially use the SF/Robin Assets and the SF/Robin Business, together with the Silverman's Assets and the Silverman's Business, to conduct the Silverman's/Robin Business.

(b) At the Closing, and in accordance with the terms and provisions of this Agreement, Silverman's is assuming and agreeing to pay, perform and discharge only the following obligations and liabilities relating to the SF/Robin Assets and the SF/Robin Business (collectively, the "Silverman's/Robin Assumed Liabilities"): all liabilities and obligations of SF arising after the Closing Date under the SF/Robin Contracts listed on Schedule 2.4(b) hereto.

(c) Except as specifically provided in Section 2.4(b), Silverman's is not assuming, and shall not have any liability for, any liabilities or obligations of SF, or any liabilities or obligations which arose or may arise out of the operations of the SF/Robin Assets or the SF/Robin Business prior to the Closing Date, and SF shall pay, perform and discharge all such liabilities and obligations when due in the ordinary course of business. Without limitation to the generality of the foregoing, Silverman's is not assuming, and shall not have any liability, (a) for any income, franchise, sales, payroll, withholding or other taxes of SF, (b) for any expenses of SF related to the negotiation, preparation and execution of this Agreement, (c) as a "successor-in-interest" to SF with respect to the SF/Robin Business, (d) for any accounts payable of SF, or (e) for any matter or thing set forth on Schedule 2.4(c).

(d) As total consideration for the assets and business being sold, transferred, conveyed and delivered to Silverman's by SF pursuant to this Section 2.4, Silverman's shall:

(i) Assume the Silverman's/Robin Assumed Liabilities;
and

(ii) Pay SF the amount referred to in Section 2.4(e)(x)
and (g) below; and

(iii) Pay SF any amount which may become due and payable pursuant to Section 2.5.2(a), 2.6.1(b) or 2.6.2(b), as the case may be.

(e) In connection with the sale, transfer, conveyance and delivery to HSI by SF of the SF/Robin Assets and SF/Robin Business, at the Closing, (x) HSI shall pay SF an amount (the "Silverman's Closing Sales Payment Amount"), if positive, equal to the Undisputed SF/Robin Sales minus the product

of (i) Undisputed Silverman's/Robin Combined Sales and (ii) 20%, multiplied by 20% or (y) SF shall pay to HSI an amount (the "SF/Robin Closing Sales Payment Amount"), if positive, equal to the Undisputed Silverman's Sales minus the product of (i) Undisputed Silverman's/Robin Combined Sales and (ii) 80%, multiplied by 20%.

(f) The authorized representatives of each of Silverman's, on the one hand, and SF, on the other hand, shall have the right at reasonable times and on reasonable notice, at the sole expense of each of them, to review and/or audit the books and records of Silverman's, on the one hand, and SF, on the other hand, relating to the Estimated Silverman's Sales, on the one hand, and the Estimated SF/Robin Sales, on the other hand, as well as the work papers of their respective independent public accountants, in each case solely for the purpose of verifying the Estimated Silverman's Sales and the Estimated SF/Robin Sales. Such right of review must be completed within forty-five (45) Business Days after the Agreement Date. If prior to the end of such review period, either Silverman's on the one hand, or SF, on the other hand, in good faith disagrees with or disputes the accuracy of the Estimated Silverman's Sales, on the one hand, or the Estimated SF/Robin Sales, on the other hand, then Silverman's or SF, as the case may be, shall deliver to the other party a written statement and explanation of such disagreement or dispute which sets forth in reasonable detail the good faith bases of any such disagreement or dispute (a "Silverman's/Robin Sales Dispute Statement" (and, to the extent Estimated Silverman's Sales or Estimated SF/Robin Sales are not subject to any Silverman's/Robin Sales Dispute Statement, such Estimated Silverman's Sales or Estimated SF/Robin Sales are hereinafter referred to as "Undisputed Silverman's Sales" and "Undisputed SF/Robin Sales," respectively)). If prior to the end of the above referenced forty-five (45) Business Day review period following the Agreement Date, either Silverman's or SF shall fail to deliver a Silverman's/Robin Sales Dispute Statement, then the Estimated Silverman's Sales or the Estimated SF/Robin Sales, as the case may be, shall be deemed to equal both the Silverman's Sales and Undisputed Silverman's Sales, on the

one hand, or the SF/Robin Sales and Undisputed Silverman's Sales, on the other hand. If, however, either Silverman's or SF shall have delivered a Silverman's/Robin Sales Dispute Statement prior to the end of such review period, then Silverman's and SF will attempt in good faith to resolve all differences with regard to the determination of Silverman's Sales and/or SF/Robin Sales during the next twenty (20) Business Day period commencing after the end of such review period. If Silverman's and SF are unable to resolve such differences prior to the expiration of such twenty (20) Business Day period (or such longer period if so agreed by Silverman's and SF), the Silverman's Sales and/or SF/Robin Sales shall be determined as set forth in Section 2.4(i) of this Agreement.

(g) Within ten (10) days after the determination of SF/Robin Sales and Silverman's Sales, HSI shall pay SF an amount equal to the amount, if any, by which (I) the SF/Robin Sales minus the product of (i) Silverman's/Robin Combined Sales and (ii) 20%, multiplied by 20% exceeds (II) the Silverman's Closing Sales Payment Amount.

(h) Within ten (10) days after the determination of Silverman's Sales and SF/Robin Sales, SF shall pay to HSI an amount equal to the amount, if any, by which (I) the Silverman's Sales minus the product of (i) Silverman's/Robin Combined Sales and (ii) 80%, multiplied by 20%, exceeds (II) the SF/Robin Closing Sales Payment Amount.

(i) Written reports of disagreement or disputes with respect to any amounts referred to in Section 2.4(f) shall be prepared in concise form by Silverman's, on the one hand, and SF, on the other hand, and submitted, together with copies of any Silverman's/Robin Sales Dispute Statements, to the Third Accountants no later than ten (10) Business Days following the last day of the twenty (20) Business Day period (or longer period if so agreed) referred to in the last sentence of Section 2.2(f). Each of Silverman's, on the one hand, and SF, on the other hand, shall also be entitled to make a brief supplemental oral presentation to the Third Accountants regarding any such disagreement or dispute. The Third Accountants shall be instructed by Silverman's and SF to deliver a written report setting forth such Third Accountants' resolution of any difference or dispute referred to it no later than thirty (30) Business Days following the earlier of (i) such firm's receipt of the report of disagreement or disputes submitted to it by Silverman's, on the one hand, and SF, on the other hand, pursuant to this Section 2.4(i) and (ii) the last day permitted for the submission of such report as provided above. The determination of the Third Accountants with respect to any disagreement or dispute referred to it by Silverman's, on the one hand, and SF, on the other hand, as provided in this Section 2.4(i) will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any reason. Promptly after the determination by the Third Accountants, HSI, on the one hand, or SF, on the other hand, as the case may be, shall make the payments, if any, required by Sections 2.4(g) and (h).

(j) Notwithstanding anything in this Section 2.4 to the contrary, no disagreement or dispute as to Silverman's Sales and/or SF/Robin Sales shall delay or prevent the Closing.

(k) Notwithstanding anything in this Agreement to the contrary, HSI shall have the right to offset any amount otherwise due and payable by HSI to SF pursuant to any provision of this Agreement against any amount due and payable by SF to HSI.

2.5 Adjusted Purchase Price Determination.

2.5.1 Designated Territory Adjusted Purchase Price.

(a) If Designated Territory Sales exceed the Combined Designated Territory Net Sales Base by more than the Inflation Rate, then HSI shall pay to SF an amount equal to the product of (i) Excess Designated Territory Sales and (ii) 30%, multiplied by 25%; provided, however, that in no event shall such amount exceed \$2,000,000.

(b) If the Combined Designated Territory Net Sales Base exceeds Designated Territory Sales by more than the Inflation Rate, then SF shall pay to HSI an amount equal to the product of (i) Shortfall Designated Territory Sales and (ii) 40%, multiplied by 25%; provided, however, that in no event shall such amount exceed \$2,000,000.

(c) HSI shall have the right to offset any amount otherwise due and payable by HSI pursuant to Section 2.5.1(a) against any amount due and payable by SF or Olson, as the case may be, to HSI (i) pursuant to this Section 2.5 or (ii) as a result of any Losses incurred by any Buyer Claimant in connection with a breach of a representation, warranty or covenant contained in this Agreement.

(d) Not more than three (3) months after the first anniversary of the Closing Date, HSI shall prepare a statement, signed by its chief financial officer, providing reasonable detail as to the computation of the Estimated Designated Territory Sales (such statement is hereinafter referred to as the "Designated Territory Sales Statement"). The authorized representatives of SF shall have the right at reasonable times and on reasonable notice, at the sole expense of SF, to review and/or audit the books and records of HSI relating to the Estimated Designated Territory Sales and the Designated Territory Sales Statement, as well as the work papers of HSI's independent public accountants, solely for the purpose of verifying the amounts and computations set forth in the Designated Territory Sales Statement. Such right of review must be completed within thirty (30) Business Days after receipt of such Statement by SF. If prior to the end of such review period, SF in good faith disagrees with or disputes the accuracy of the Estimated Designated Territory Sales and/or the Designated Territory Sales Statement, then SF shall deliver to HSI a written statement and explanation of such disagreement or dispute which sets forth in reasonable detail the good faith bases of any such disagreement

or dispute (a Designated Territory Sales Dispute Statement"). If prior to the end of the above referenced thirty (30) Business Day review period following the receipt of the Designated Territory Sales Statement, SF shall fail to deliver a Designated Territory Sales Dispute Statement, then the Designated Territory Sales and the Designated Territory Sales Statement shall be deemed final and the Estimated Designated Territory Sales as set forth therein shall be deemed to equal the Designated Territory Sales. If, however, SF shall have delivered a Designated Territory Sales Dispute Statement prior to the end of such review period, then HSI and SF will attempt in good faith to resolve all differences with regard to the determination of Designated Territory Sales during the next twenty (20) Business Day period commencing after the end of such review period. If HSI and SF are unable to resolve such differences prior to the expiration of such twenty (20) Business Day period (or such longer period if so agreed by HSI and SF), the Designated Territory Sales shall be determined as set forth in Section 2.5.3 of this Agreement.

(e) Notwithstanding anything herein to the contrary, the term "Designated Territory Sales" as used in this Section 2.5.1 shall not include Net Sales attributable to any Overlapping Designated Territory Business acquired by HSI or any of the Affiliates after the Closing Date.

(f) Notwithstanding anything in this Agreement to the contrary, HSI shall have the right to offset any amount otherwise due and payable by HSI to SF pursuant to any provision of this Agreement against any amount due and payable by SF to HSI.

2.5.1.1 Interim Designated Territory Adjusted Purchase

Price.

(a) Notwithstanding anything in this Agreement to the contrary, during the period between the Agreement Date and the Closing Date SF shall not employ, hire or otherwise engage any additional field sales personnel without the prior written consent of HSI (which consent shall be given or withheld in the sole discretion of HSI). Any such additional field sales personnel employed by SF with the permission of HSI are hereinafter referred to collectively as "New Sales Reps."

(b) Within twenty (20) Business Days after the third full calendar month following the Closing Date, HSI shall prepare a statement (the "Estimated New Reps Sales Statement") setting forth its computation of Estimated New Reps Sales. Upon completion of the Estimated New Reps Sales Statement, HSI will deliver the Estimated New Reps Sales Statement to SF. Following receipt of the Estimated New Reps Sales Statement, SF will have a period of ten (10) Business Days to review the Estimated New Reps Sales Statement. In connection with such review, the authorized representatives of SF shall have the right at reasonable times and on reasonable notice, at the sole expense of SF, to review and/or audit the books and records of HSI relating to the Estimated New Reps Sales Statement, as well as the work papers of its independent public accountants,

solely for the purpose of computing the Estimated New Reps Sales. If prior to the end of such review periods SF in good faith disagrees with or disputes the accuracy of the Estimated New Reps Sales, then Pattison shall deliver to HSI a written statement and explanation of such disagreement or dispute which sets forth in reasonable detail the good faith bases of any such disagreement or dispute (a "New Reps Sale Dispute Statement" (and, to the extent Estimated New Reps Sales are not subject to any New Reps Sales Dispute Statement, such Estimated New Reps Sales re hereinafter referred to as "Undisputed New Reps Sales")). If prior to the end of the above referenced ten (10) Business Day review period following receipt of the Estimated New Reps Sales Statement, SF shall fail to deliver a New Reps Sales Dispute Statement, then the Estimated New Reps Sales shall be deemed to equal both the New Reps Sales and Undisputed New Reps Sales. If, however, SF shall have delivered a New Reps Sales Dispute Statement prior to the end of such review period, then HSI and SF will attempt in good faith to resolve all differences with regard to the determination of New Reps Sales during the next twenty (20) Business Day period commencing after the end of such review period. If HSI and SF are unable to resolve such differences prior to the expiration of such twenty (20) Business Day period (or such longer period if so agreed by HSI and SF), the New Reps Sales shall be determined as set forth in Section 2.5.1.1(c) of this Agreement.

(c) Written reports of disagreement or disputes with respect to any amounts referred to in Section 2.5.1.1(b) shall be prepared in concise form by HSI and SF and submitted, together with copies of any New Reps Sales Dispute Statement, to the Third Accountants no later than ten (10) Business Days following the last day of the twenty (20) Business Day period (or longer period if so agreed) referred to in the last sentence of Section 2.5.1.1(b). Each of HSI and SF shall also be entitled to make a brief supplemental oral presentation to the Third Accountants regarding any such disagreement or dispute. The Third Accountants shall be instructed by HSI and SF to deliver a written report setting forth such Third Accountants' resolution of any difference or dispute referred to it no later than thirty (30) Business Days following the earlier of (i) such firm's receipt of the report of disagreement or disputes submitted to it by HSI and SF pursuant to this Section 2.5.1.1(c) and (ii) the last day permitted for the submission of such report as provided above. The determination of the Third Accountants with respect to any disagreement or dispute referred to it by HSI and SF as provided in this Section 2.5.1.1(c) will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any reason. Promptly after the determination by the Third Accountants, HSI shall make the payment, if any, referred to in Section 2.5.1.1(d) of this Agreement.

(d) Within ten (10) days after the determination of New Reps Sales, HSI shall pay SF an amount equal to the product of (i) News Reps Sales and (ii) 20%.

(e) Notwithstanding anything in this Agreement to the contrary, HSI shall have the right to offset any amount otherwise due and payable by HSI to FS

pursuant to any provision of this Agreement against any amount due and payable by SF to HSI.

2.5.2 Silverman's/Robin Related Adjusted Purchase Price.

(a) If Silverman's/Robin Sales exceed the Combined Silverman's/Robin Net Sales Base by more than the Inflation Rate, then HSI shall pay to SF an amount equal to the product of (i) Excess Silverman's/Robin Sales and (ii) 20%, multiplied by 20%; provided, however, that in no event shall such amount exceed \$1,000,000.

(b) If the Combined Silverman's/Robin Net Sales Base exceeds Silverman's/Robin Sales by more than the Inflation Rate, then SF shall pay to HSI an amount equal to the product of (i) Shortfall Silverman's/Robin Sales and (ii) 50%, multiplied by 20%; provided, however, that in no event shall such amount exceed \$1,000,000.

(c) HSI shall have the right to offset any amount otherwise due and payable by HSI pursuant to Section 2.5.2(a) against any amount due and payable by SF or Olson, as the case may be, to HSI (i) pursuant to this Section 2.5 or (ii) as a result of any Losses incurred by any Buyer Claimant in connection with a breach of a representation, warranty or covenant contained in this Agreement.

(d) Not more than three (3) months after the first anniversary of the Closing Date, HSI shall prepare a statement, signed by its chief financial officer, providing reasonable detail as to the computation of the Estimated Silverman's/Robin Sales (such statement is hereinafter referred to as the "Silverman's/Robin Sales Statement"). The authorized representatives of SF shall have the right at reasonable times and on reasonable notice, at the sole expense of SF, to review and/or audit the books and records of HSI relating to the Estimated Silverman's/Robin Sales and the Silverman's/Robin Sales Statement, as well as the work papers of HSI's independent public accountants, solely for the purpose of verifying the amounts and computations set forth in the Silverman's/Robin Sales Statement. Such right of review must be completed within thirty (30) Business Days after receipt of such Statement by SF. If prior to the end of such review period, SF in good faith disagrees with or disputes the accuracy of the Estimated Silverman's/Robin Sales and/or the Silverman's/Robin Sales Statement, then SF shall deliver to HSI a written statement and explanation of such disagreement or dispute which sets forth in reasonable detail the good faith bases of any such disagreement or dispute (a "Silverman's/Robin Sales Dispute Statement"). If prior to the end of the above referenced thirty (30) Business Day review period following the receipt of the Silverman's/Robin Sales Statement, SF shall fail to deliver a Silverman's/Robin Sales Dispute Statement, then the Silverman's/Robin Sales and the Silverman's/Robin Sales Statement shall be deemed final and the Estimated Silverman's/Robin Sales as set forth therein shall be deemed to equal the Silverman's/Robin Sales. If, however, SF shall have delivered a Silverman's/Robin Sales Dispute Statement prior to the end of such review period, then HSI and SF will attempt

in good faith to resolve all differences with regard to the determination of Silverman's/Robin Sales during the next twenty (20) Business Day period commencing after the end of such review period. If HSI and SF are unable to resolve such differences prior to the expiration of such twenty (20) Business Day period (or such longer period if so agreed by HSI and SF), the Silverman's/Robin Sales shall be determined as set forth in Section 2.5.3 of this Agreement.

(e) Notwithstanding anything herein to the contrary, the term "Silverman's/Robin Sales" as used in this Section 2.5.2 shall not include Net Sales attributable to any Overlapping Business acquired by HSI or any of the Affiliates after the Closing Date.

(f) Notwithstanding anything in this Agreement to the contrary, HSI shall have the right to offset any amount otherwise due and payable by HSI to SF pursuant to any provision of this Agreement against any amount due and Payable by SF to HSI.

2.5.3 Dispute Resolution. Written reports of disagreement or

disputes with respect to any amounts referred to in Section 2.5.1 or 2.5.2 shall be prepared in concise form by HSI and SF and submitted, together with copies of any Adjusted Purchase Price Dispute Statement, to the Third Accountants no later than ten (10) Business Days following the last day of the twenty (20) Business Day period (or longer period if so agreed) referred to in the last sentence of Sections 2.5.1(d) or 2.5.2(d), as the case may be. Each of HSI and SF shall also be entitled to make a brief supplemental oral presentation to the Third Accountants regarding any such disagreement or dispute. The Third Accountants shall be instructed by HSI and SF to deliver a written report setting forth such Third Accountants' resolution of any difference or dispute referred to it no later than thirty (30) Business Days following the earlier of (i) such firm's receipt of the report of disagreement or disputes submitted to it by HSI and SF pursuant to this Section 2.5.3 and (ii) the last day permitted for the submission of such report as provided above. The determination of the Third Accountants with respect to any disagreement or dispute referred to it by HSI and SF as provided in this Section 2.5.3 will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any reason. Promptly after the determination by the Third Accountants, HSI or SF, as the case may be, shall make the payments, if any, required by Sections 2.5.1 and 2.5.2. The fees and expenses of the Third Accountants shall be paid one-half by HSI and one-half by SF.

2.6 Options.

2.6.1 Put Options. (a) At any time after the fifth

anniversary of the Closing Date, SF may, at its option, by written notice given to HSI, elect to receive the balance of the purchase price for the SF Designated Territory Related Business and the SF Designated Territory Assets for an amount equal to the greater of (i) the product of (x) 30% and (y) HSI/SF Combined Average Eligible Sales, multiplied by 25% and (ii)
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the product of (x) HSI/SF Combined Average Eligible Sales and (y) the HSI Net Margin Factor, multiplied by 30% minus, in either case, the SF Share of the

Overlapping Designated Territory Business Purchase Price; provided, however, if

HSI or any of its Affiliates shall hereafter acquire one or more Overlapping Designated Territory Businesses and the Goodwill purchased as a result of any such single acquisition or series of related acquisitions (or, in the case of any acquisition structured as a "pooling," the amount of Goodwill which would have resulted therefrom if the transaction was not structured as a "pooling") equals or exceeds \$1,000,000, then the foregoing clause (ii) shall not be applicable.

(b) At any time after the fifth anniversary of the Closing Date, SF may, at its option, by written notice given to HSI, elect to receive the balance of the purchase price for the SF/Robin Business and the SF/Robin Assets for an amount equal to the greater of (i) the product of (x) 20% and (y) Silverman's/Robin Average Eligible Sales, multiplied by 20% and (ii) the product

of (x) Silverman's/Robin Average Eligible Sales and (y) the HSI Net Margin Factor, multiplied by 20% minus, in either case, the SF Share of the Overlapping Business Purchase Price; provided, however, if HSI or any of its Affiliates

(including Silverman's) shall hereafter acquire one or more Overlapping Businesses and the Goodwill purchased as a result of any such single acquisition or series of related acquisitions (or, in the case of any acquisition structured as a "pooling," the amount of Goodwill which would have resulted therefrom if the transaction was not structured as a "pooling") equals or exceeds \$1,000,000, then the foregoing clause (ii) shall not be applicable.

2.6.2 Call Options. (a) At any time after the seventh

anniversary of the Closing Date, provided the option under Section 2.6.1(a) has not been exercised, HSI may, at its option, by written notice given to SF, elect to pay the balance of the purchase price for the SF Designated Territory Related Business and the SF Designated Territory Assets for an amount equal to the greater of (i) the product of (x) 30% and (y) HSI/SF Average Eligible Sales, multiplied by 25% and (ii) the product of (x) HSI/SF Average Eligible Sales and

(y) the HSI Net Margin Factor, multiplied by 30% minus, in either case, the SF Share of the Overlapping Designated Territory Business Purchase Price; provided, however, if HSI or any of its Affiliates shall hereafter acquire one or more

Overlapping Designated Territory Businesses and the Goodwill purchased as a result of any such single acquisition or series of related acquisitions (or, in the case of any acquisition structured as a "pooling," the amount of Goodwill which would have resulted therefrom if the transaction was not structured as a "pooling") equals or exceeds \$1,000,000, then the foregoing clause (ii) shall not be applicable.

(b) At any time after the seventh anniversary of the Closing Date, provided the option under Section 2.6.1(b) has not been exercised, HSI may, at its option, by written notice given to SF, elect to pay the balance of the purchase price for the SF/Robin Business and the SF/Robin Assets for an amount equal to the greater of (i) the product of (x) 20% and (y) Silverman's/Robin Average Eligible Sales, multiplied by 20% and (ii) the product of (x) Silverman's/Robin Average Eligible Sales and (y) the HSI

Net Margin Factor, multiplied by 20% minus, in either case, the SF Share of the

Overlapping Business Purchase Price; provided, however, if HSI or any of its

Affiliates (including Silverman's) shall hereafter acquire one or more Overlapping Businesses and the Goodwill purchased as a result of any such single acquisition or series of related acquisitions (or, in the case of any acquisition structured as a "pooling," the amount of Goodwill which would have resulted therefrom if the transaction was not structured as a "pooling") equals or exceeds \$1,000,000, then the foregoing clause (ii) shall not be applicable.

2.6.3 Determination of HSI/SF Average Sales, Silverman's/

Robin Average Eligible Sales, Goodwill, SF Share of the Overlapping Designated Territory Business Purchase Price and the SF Share of the Overlapping Business Purchase Price. Not more than three (3) months after the exercise of any option

pursuant to Section 2.6.1 or 2.6.2, HSI shall prepare a statement, signed by its chief financial officer, providing reasonable detail as to the computation of the Estimated HSI/SF Average Eligible Sales or Estimated Silverman's/ Robin Eligible Sales, as the case may be, and, if applicable, the Estimated Goodwill, the Estimated SF Share of Overlapping Designated Territory Business Purchase Price or the SF Share of the Overlapping Business Purchase Price, as the case may be, (such statement is hereinafter referred to as the "Option Statement"). The authorized representatives of SF shall have the right at reasonable times and on reasonable notice, at the sole expense of SF, to review and/or audit the books and records of HSI relating to the Estimated HSI/SF Average Eligible Sales and/or Estimated Silverman's/Robin Average Eligible Sales, and, if applicable, the Estimated Goodwill, the Estimated SF Share of Overlapping Designated Territory Business Purchase Price or the SF Share of the Overlapping Business Purchase Price, as the case may be, and Option Statement, as well as the work papers of HSI's independent public accountants, solely for the purpose of verifying the amounts and computations set forth in the Option Statement. Such right of review must be completed within thirty (30) Business Days after receipt of such Statement by SF. If prior to the end of such review period, SF in good faith disagrees with or disputes the accuracy of the Estimated HSI/SF Average Eligible Sales, the Estimated Silverman's/Robin Average Eligible Sales, and, if applicable, the Estimated Goodwill, the Estimated SF Share of Overlapping Designated Territory Business Purchase Price or the SF Share of the Overlapping Business Purchase Price, as the case may be, and/or the Option Statement, then SF shall deliver to HSI a written statement and explanation of such disagreement or dispute which sets forth in reasonable detail the good faith bases of any such disagreement or dispute (an "Option Dispute Statement"). If prior to the end of the above referenced thirty (30) Business Day review period following the receipt of the Option Statement, SF shall fail to deliver an Option Dispute Statement, then the Estimated HSI/SF Average Eligible Sales and/or the Silverman's/Robin Average Eligible Sales, and, if applicable, the Estimated Goodwill, the Estimated SF Share of Overlapping Designated Territory Business Purchase Price or the SF Share of the Overlapping Business Purchase Price, as the case may be, and the Option Statement shall be deemed final and the HSI/SF Average Eligible Sales and the Estimated Silverman's/Robin Average Eligible Sales and, if applicable, the Estimated Goodwill, the Estimated SF Share of the Overlapping Designated Territory Business Purchase Price or

the SF Share of the Overlapping Business Purchase Price, as the case may be, as set forth therein shall be deemed to equal the HSI/SF Average Eligible Sales, the Silverman's/Robin Average Eligible Sales, and, if applicable, the Goodwill, the SF Share of the Overlapping Designated Territory Business Purchase Price or the SF Share of the Overlapping Business Purchase Price, as the case may be. If, however, SF shall have delivered an Option Dispute Statement prior to the end of such review period, then HSI and SF will attempt in good faith to resolve all differences with regard to the determination of HSI/SF Average Eligible Sales and the Silverman's/Robin Average Eligible Sales, and, if applicable, the Goodwill, during the next twenty (20) Business Day period commencing after the end of such review period. If HSI and SF are unable to resolve such differences prior to the expiration of such twenty (20) Business Day period (or such longer period if so agreed by HSI and SF), the HSI/SF Average Eligible Sales and/or Silverman's/Robin Average Eligible Sales, and, if applicable, the Goodwill, the SF Share of the Overlapping Designated Territory Business Purchase Price or the SF Share of the Overlapping Business Purchase Price, as the case may be, shall be determined as set forth in Section 2.6.4 of this Agreement.

2.6.4 Dispute Resolution. Written reports of disagreement or

disputes with respect to any amounts referred to in Section 2.6.3 shall be prepared in concise form by HSI and SF and submitted, together with copies of any Option Dispute Statement, to the Third Accountants no later than ten (10) Business Days following the last day of the twenty (20) Business Day period (or longer period if so agreed) referred to in the last sentence of Section 2.6.3. Each of HSI and SF shall also be entitled to make a brief supplemental oral presentation to the Third Accountants regarding any such disagreement or dispute. The Third Accountants shall be instructed by HSI and SF to deliver a written report setting forth such Third Accountants' resolution of any difference or dispute referred to it no later than thirty (30) Business Days following the earlier of (i) such firm's receipt of the report of disagreement or disputes submitted to it by HSI and SF pursuant to this Section 2.6.3 and (ii) the last day permitted for the submission of such report as provided above. The determination of the Third Accountants with respect to any disagreement or dispute referred to it by HSI and SF as provided in this Section 2.6.3 will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any reason. Promptly after the determination by the Third Accountants, HSI shall make the payments, if any, required by Sections 2.6.1 and 2.6.2. The fees and expenses of the Third Accountants shall be paid one-half by HSI and one-half by SF.

2.6.5 Closing under Section 2.6.1 or 2.6.2. If HSI or SF

exercises an option under Section 2.6.1 or 2.6.2, HSI and SF shall consummate the transactions contemplated thereby at HSI's offices at 10:00 a.m. (New York time) on the Business Day HSI designates, by written notice given to SF, which shall not be fewer than 10 days or more than 30 days after the determination of HSI/SF Average Eligible Sales, Silverman's/Robin Average Eligible Sales or Goodwill, as the case may be, pursuant to Section 2.6.3 above. At the closing, (a) HSI shall pay the amount specified under Section 2.6.1 or 2.6.2, as the case may be, by wire transfer of immediately available funds to an

account designated by SF at least three Business Days before the closing and (b) the balance of the purchase price payable by HSI in respect of the SF Designated Territory Related Business or the SF/Robin Business, as the case may be, shall be deemed paid in full by HSI and HSI shall have no further obligation to SF relating thereto.

2.6.6 Mandatory Exercise of Put Options. Notwithstanding

anything in this Section 2.6 to the contrary, if, as and when (x) the SF Note shall become due and payable (whether at stated maturity, by acceleration or otherwise), or (y) the Accounts Payable Default (as such term is defined in Section 6.1(b)) has occurred, then, at HSI's sole option upon written notice to SF, SF shall be deemed to have exercised its option under Section 2.6.1(a) and/or (b), a closing with respect to such exercise shall occur in accordance with Section 2.6.5 and at the closing HSI shall have the right to offset any amount otherwise due and payable by HSI to SF pursuant to Section 2.6.1(a) and/or (b) against any amount then due and payable by SF to HSI pursuant to the SF Note or as a result of the Accounts Payable Default, as the case may be.

2.7 HSI Bridge Loan. (a) In order to facilitate all the payments

which have to be made by SF at the Closing, including without limitation, the payments described on Schedule 7.9 hereto, HSI shall loan SF an aggregate of \$2,800,000 pursuant to, and in accordance with the terms of, a promissory note in the form of Exhibit 2.7 hereto (the "SF Note"). SF shall use the proceeds of the loan solely for purposes of making the payment described on Schedule 7.9 and repayment of the Pattison Note.

(b) HSI shall have the right to offset any amount otherwise due and payable by HSI to SF pursuant to any provision in this Agreement against any amount due and payable by SF to HSI pursuant to the SF Note.

2.8 HSI Common Stock. Notwithstanding anything to the contrary in

Sections 2.5 or 2.6, at the option of HSI, in lieu of making any cash payment required to be made by HSI in accordance with the terms of Sections 2.5 and 2.6, HSI may tender payment by means of the delivery of one (1) or more certificates representing shares of HSI Common Stock and any such payment shall be deemed to satisfy any cash payment obligation of HSI; provided, however, that without the prior consent of SF, fifty percent (50%) of any payment to be made by HSI in accordance with the terms of Section 2.5 and/or 2.6 must be paid in cash. If HSI shall so deliver any such shares of HSI Common Stock, such shares shall be freely tradeable under the Securities Act or HSI shall cause such shares to be registered for resale under the Securities Act within 180 days of the delivery thereof. For purposes of determining the number of shares of HSI Common Stock to be delivered in lieu of a cash payment, the HSI Common Stock so delivered shall be valued at the average of the per share closing sales prices for the HSI Common Stock on the NASDAQ-NMS (or any national exchange on which shares of HSI Common Stock are then traded) for the ten (10) trading days immediately preceding the date on which the HSI Common Stock is tendered as payment.

2.9 Allocation of Purchase Price. The purchase price for the

Acquired Assets shall be allocated for federal, state, local and foreign tax purposes by each party among the Acquired Assets sold, transferred and assigned hereunder and the covenant contained in Article IX below as determined by HSI and approved by Olson, acting on behalf of himself and SF (such approval not to be unreasonably withheld or delayed), not later than three months after the Closing Date. For all pertinent tax purposes each party hereto shall report the purchase and sale and assignment provided for, and with the characterization given these transactions, in this Agreement to taxing authorities on a basis consistent with such allocation, and each party agrees not to take a position inconsistent with such allocation. After the Closing, each of HSI and SF shall timely file form 8594 with the IRS detailing this allocation. In the event that HSI determines, subject to Olson's reasonable approval, that any adjustments to such allocation are necessary, each of SF and Olson shall make such modifications as are necessary reporting the same on form 8594 (if required) or any tax report or return filed or to be filed by each of SF and Olson in order to conform to HSI's allocation as adjusted.

2.10 Nonassignable Contracts and Authorizations. To the extent that

the assignment of any Assumed Contract or Authorization to be assigned to HSI or Silverman's pursuant to this Agreement shall require the consent of any other party, this Agreement shall not constitute a contract to assign the same if an attempted assignment would constitute a breach thereof. Each of SF and Olson shall use all reasonable efforts, and HSI and/or Silverman's, as the case may be, shall cooperate where appropriate, to obtain any consent necessary to any such assignment where such consent is requested by HSI and/or Silverman's. If any such consent is not obtained, each of SF and Olson shall cooperate with HSI and/or Silverman's, as the case may be, in any reasonable arrangement designed to provide for HSI and/or Silverman's, as the case may be, the benefit, monetary or otherwise, of any such Assumed Contract or Authorization including enforcement of any and all rights of SF, Olson or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business against the other party thereto arising out of a breach or cancellation thereof by such other party or otherwise.

2.11 Control of Acquired Business During Adjustment Period. Each of

SF and Olson acknowledges that, notwithstanding any other provision of this Agreement (including, without limitation, Sections 2.5 and 2.6), HSI shall have sole authority and control over the conduct of the Designated Territory Business and the Silverman's/Robin Business during the 12-month period following the Closing Date and thereafter, including, without limitation, all decisions relating to products, pricing, sourcing and marketing programs. In addition, HSI, in its absolute discretion, may determine to merge itself, Silverman's or any subsidiaries of either of them into any Affiliate, to acquire the stock or assets of another business or otherwise go into new businesses or undertake new operations or activities, to consolidate all or part of the operations of HSI with any Affiliate, or to liquidate or terminate all or part of the Designated Territory Business and the Silverman's/Robin Business or to terminate any part of its business, and liquidate its or any subsidiary's assets or any part thereof. Any action referred to in this Section 2.11

undertaken by HSI shall be without prejudice to any right of SF or Olson to seek monetary damages as a result of such action.

2.12 Guarantee of Performance by SF. From and after the Closing

Date, Olson unconditionally and irrevocably guarantees the full payment and/or performance of each obligation of SF under this Agreement, the SF Note, each of the other SF Closing Documents and the Pattison Agreement. This guaranty constitutes a guaranty of payment and performance when due and not of collection, and Olson specifically agrees that it shall not be necessary or required that HSI (or any other Buyer Claimant) exercise any right, assert any claim or demand or enforce any remedy whatsoever against SF before or as a condition to the obligations of Olson hereunder. At the Closing, Olson shall execute and deliver a guaranty in the form of Exhibit 2.12 hereto (the "Olson Guaranty").

ARTICLE III CLOSING

3.1 The Closing. The Closing shall take place at 10:00 a.m. local

time on June 24, 1996 or on such other date as may be agreed upon in writing by the parties hereto (the "Closing Date"), at the offices of counsel to HSI and Silverman's, Proskauer Rose Goetz & Mendelsohn LLP ("Proskauer"), 1585 Broadway, New York, New York.

3.2 Obligations of SF and Olson. At the Closing, SF and Olson shall

deliver to HSI and Silverman's the following:

(a) A Closing Inventory Report.

(b) An opinion of Hanaway, Ross, Hanaway, Weidner & Bachhuber, S.C., counsel to SF and Olson, dated as of the Closing Date, in the form of annexed hereto as Exhibit 3.2(b).

(c) In the case of Olson, a duly executed counterpart of the Employment Agreement.

(d) Bills of Sale, duly executed by SF, in the forms annexed hereto as Exhibits 3.2(d)-1 and 3.2(d)-2.

(e) In the case of Olson, the duly executed Guaranty.

(f) If applicable, the SF Closing Sales Payment Amount.

(g) If applicable, the Silverman's Closing Sales Payment Amount.

(h) Firstar Bank Milwaukee, N.A. (or its applicable affiliate) shall have delivered to SF and HSI a duly executed release of all Encumbrances against SF, the Acquired Assets, the SF Business, the Ex-Territory Business, the SF Designated Territory

Related Business and the SF/Robin Business, and all outstanding indebtedness owed to Firststar Bank Milwaukee, N.A. (or its applicable affiliate) by SF shall have been repaid.

(i) Each of First Bank National Association ("FBNA") (or its applicable affiliate), Thompson-Schwinghammer, Inc. (d/b/a "FM Dental Supply") and John Thompson (collectively, the "FM Dental Related Parties") shall have advised SF and HSI in writing that it has no Encumbrances against SF, HSI, the Acquired Assets, the SF Business, the Ex-Territory Business, the SF Designated Territory Business, the SF/Robin Business, the Pattison Assets or the Pattison Business, nor will it assert any purported Encumbrance in the future; provided,

however, if the FM Dental Related Parties shall not have delivered a written

statement to the foregoing effect satisfactory to HSI, HSI and Silverman's may, in their sole discretion, consummate the Closing, but HSI shall have the right to withhold from the proceeds of the Closing Payments and/or the SF Note \$1,000,000 (the "FM Dental Claim Amount") to satisfy any claim made by (or which could be made by) the FM Dental Related Parties against HSI, SF, the Acquired Assets, the SF Business, the Ex-Territory Business, the SF Business, the Ex-Territory Business, the SF-Designated Territory Business, the SF/Robin Business, the Pattison Assets or the Pattison Business. If any such claim by the FM Dental Related Parties shall not have been resolved within thirty (30) days after the Closing Date, HSI shall be entitled on its own behalf and on behalf of SF to compromise and settle any such claim directly with the FM Dental Related Parties. Any payment of the FM Dental Claim Amount by HSI to the FM Dental Related Parties shall be deemed for all purposes hereof to be a payment by HSI to SF in an amount equal to the FM Dental Claim Amount so paid which SF shall be deemed to have directed HSI to pay directly to the FM Dental Related Parties on behalf of SF. If after HSI has paid the FM Dental Related Parties in respect of any claim by the FM Dental Related Parties, there shall exist any surplus FM Dental Claim Amount, HSI shall immediately pay such surplus to SF. Nothing in this Section 3.2(i) shall relieve SF from the performance of any obligation owed by SF to the FM Dental Related Parties or HSI, or impose any obligation on HSI to perform any such obligation on SF's behalf.

(j) Such other instruments of assignment and conveyance as may be necessary or appropriate to fully and effectively transfer the Acquired Assets being transferred by SF in accordance with the terms of this Agreement.

3.3 Obligations of HSI and Silverman's. At the Closing, HSI and

Silverman's shall deliver to SF and Olson the following:

- (a) The SF Closing Inventory Payment.
- (b) If applicable, the HSI Closing Sales Payment Amount.
- (c) If applicable, the Silverman Closing Sales Payment Amount.

(d) An opinion of Proskauer, dated as of the Closing Date, in the form annexed hereto as Exhibit 3.3(d).

(g) Assumption Agreement, duly executed by HSI and Silverman's, in the form annexed hereto as Exhibits 3.3(e)-1 and 3.3(e)-2.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF

SF AND OLSON

SF and Olson hereby jointly and severally represent and warrant to HSI and Silverman's as follows:

4.1 Organization and Qualification. SF is a corporation duly

organized, validly existing and in good standing under the laws of the State of California with full corporate power and authority to own, lease and operate its properties and assets and to conduct the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business respectively, as it is now being conducted. SF is duly qualified as a foreign corporation and is in good standing under the laws of each jurisdiction in which the conduct of the business or the ownership of its assets requires such qualification.

4.2 Authority. Olson has all requisite legal capacity, and SF has

all requisite corporate power and authority, to execute and deliver this Agreement and all documents, certificates, agreements, instruments and writings related hereto (collectively, the "SF Closing Documents") to which he or it is a party and to perform, carry out and consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the other SF Closing Documents have been duly authorized by all necessary corporate action on the part of SF (including the unanimous approval of the shareholders of SF). This Agreement does, and when executed by SF and Olson, the other SF Closing Documents shall, constitute the legal, valid and binding obligations of each of them, enforceable against SF and Olson in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency or similar laws and by equitable principles.

4.3 No Breach. Subject to Section 8.5(b) and except as set forth on

Schedule 4.3 hereto, neither the execution and delivery of this Agreement or the other SF Closing Documents by SF and Olson nor the consummation of the transactions contemplated hereby or thereby will: (a) in the case of SF, violate any provision of the Certificate of Incorporation or By-Laws or other organizational documents of SF; (b) conflict with, result in a breach of or constitute a default (or an event which, with or without notice, lapse of time or both, would constitute a default) under any material agreement, document, certificate or other instrument to which SF or Olson is a party or by which SF or Olson or any of its or his properties or assets (including the Acquired Assets) is subject or bound; (c) result in the creation of, or give any party the right to create, any Encumbrance upon assets or properties of SF or Olson (including the Acquired Assets); (d) conflict with, violate, result in a breach of or constitute a default under any

judgment, decree, order, or process of any court or governmental authority; (e) conflict with or violate any material statute, law or regulation applicable to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business, the SF/Robin Business, the Acquired Assets, SF or Olson; or (f) require SF or Olson to obtain any authorization, consent, approval or waiver from, or to make any filing with, any governmental or regulatory authority.

4.4 Financial Statements and Sales Information. (a) Prior to the

date hereof, SF has delivered to HSI the SF Financial Statements (to the extent required by the definition thereof) attached hereto as Schedule 4.4A. Such Financial Statements have been prepared from, and are in accordance with, the books and records of SF, present fairly the financial position and results of operations of the Acquired Assets, the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business as of and for the periods set forth therein in accordance with GAAP and are true, correct and complete in all material respects, except as set forth on Schedule 4.4B.

(b) The books and records of SF are accurate and complete and have been maintained in accordance with good business practices.

4.5 Absence of Certain Changes or Events. Except as set forth on

Schedule 4.5 hereto and the transactions contemplated by the Pattison Agreement, since December 31, 1995:

(a) Each of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business has been conducted and the Acquired Assets have been acquired, owned and operated only in the ordinary and usual course consistent with past practice.

(b) Neither the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business nor the Acquired Assets have suffered any event or condition that has had a Material Adverse Effect.

(c) Neither SF or Olson has become aware of any event or condition that has occurred or would reasonably be expected to occur that could result in a Material Adverse Effect.

4.6 Assets. SF has good and freely transferable title to all of the

Acquired Assets, free and clear of all Encumbrances (other than, in the case of Acquired Assets which do not constitute Purchased Inventory, Permitted Encumbrances), and has the complete and unrestricted power and right to sell and/or transfer the Acquired Assets in accordance with the terms hereof. Each item of equipment included in the Acquired Assets is and will when delivered be adequate for the uses to which it is being put as of the Closing Date, is and will when delivered be in good order and working condition, ordinary wear and tear excepted, and have no material defects, and no condition exists

or will when such equipment is delivered exist which interferes with the value thereof or the use thereof in the manner used by SF, in connection with the operations of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business prior to the date hereof. SF has maintained such equipment in accordance with good business practices. Except as set forth on Schedule 4.6, the Acquired Assets constitute all of the properties and assets used by SF and Olson in connection with the operations of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business and include all of the properties and assets necessary to operate the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business as such businesses have been operated immediately prior to the date hereof.

4.7 Real Property. Schedule 4.7 sets forth an accurate and complete

list of all Real Property owned by SF and all leases of Real Property used in the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business.

4.8 Intellectual Property. Schedule 4.8 hereto lists all licenses of

Intellectual Property to or from any of SF or Olson with respect to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business. No currently outstanding claims have been asserted either orally or in writing to any of SF or Olson or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business, by any Person challenging the validity of or alleging infringement by, or misuse of, any Intellectual Property used by SF or Olson or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business, or challenging or questioning the validity or enforceability of any license or agreement referred to on Schedule 4.8, no such claims have been asserted during the last five years, and there is no valid basis for any such claim. Except as set forth on Schedule 4.8, none of SF or Olson nor the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business has, nor has SF or Olson or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business been alleged to have, infringed upon or violated any Intellectual Property right or misappropriated or misused any invention, trade secret or other proprietary information entitled to legal protection. None of SF or Olson nor the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business has asserted any currently outstanding claim of infringement, misappropriation or misuse of any Intellectual Property, nor has any of SF, Olson or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business asserted any such claims during the last five years.

4.9 Contracts and Commitments. (a) The contracts listed on Schedule

4.9 are all of the leases, agreements, arrangements, contracts, commitments or understandings, written or oral, and whether legally binding or otherwise ("SF/Robin Contracts"), that relate to the SF Business, the Ex-Territory Business, the SF Designated

Territory Related Business or the SF/Robin Business (excluding (i) any SF/Robin Contract that involves a commitment by any of SF or Olson of less than \$10,000 over the next 12 months and less than \$50,000 over the balance of the term of the SF/Robin Contract and (ii) customer sales orders entered into in the ordinary course of business.)

(b) None of SF or Olson nor the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business is in breach or default, nor is there any basis for any valid claim of breach or default by any of SF, Olson or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business, under any SF/Robin Contract. Except as set forth on Schedule 4.9, all SF/Robin Contracts are valid and in full force and effect, and neither the consummation of the transactions contemplated by this Agreement nor the consummation of the transactions contemplated by any other SF Closing Document will cause any SF/Robin Contract to cease to be valid and in full force and effect. None of the SF/Robin Contracts contain "change of control" provisions (i.e., provisions which would create a right against, or obligation of, SF as a result of the consummation of the transactions contemplated by this Agreement and the other SF Closing Documents). Accurate and complete copies of all SF/Robin Contracts, including all amendments thereto, have been heretofore delivered to HSI.

4.10 Accounts Receivable. Schedule 4.10 sets forth a complete and accurate list of all accounts receivable of SF, including an aging thereof as of a date within five days of the date hereof. All of such accounts receivable (a) represent sales actually made in the ordinary course of business for goods or services delivered or rendered to unaffiliated customers in bona fide arm's-length transactions, (b) constitute valid claims, (c) have not been and will not be extended or rolled over in order to make them current and (d) are not and will not be subject to counterclaims or setoffs. Not less than 95% of the accounts receivable of SF will be collected in full within 90 days of the date they were created.

4.11 Inventory. The Inventory of SF is described on Schedule 4.11. Such Inventory is of merchantable quality, free of defects in workmanship or design and is usable and salable by SF at normal profit margins and in accordance with historical sales practices in the ordinary course of the SF Business, the Robin Business or the SF/Robin Business. Such Inventory does not include any items which are obsolete, damaged, excessive, below standard quality or slow moving (i.e., items that are for discontinued or expected to be discontinued product lines, or have a stated expiration date of 6 months or less from the Closing Date, or items that have not been used or sold within 6 months prior to the date hereof, or items that have not been sold within the customary inventory turnover cycle of SF, as the case may be, with respect to such item, or items for which there is excess capacity (i.e., more products are on hand of any such item than have been sold in the past nine (9) months).

4.12 Customers and Suppliers. There have been no adverse changes and there are no facts known to SF or Olson which may reasonably be expected to indicate

that any adverse change may occur in the business relationship of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business with any Person who was one of the fifteen largest customers or suppliers of any of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business as of the end of the 12-month period ending on December 31, 1995.

4.13 Litigation, Etc. Except as set forth on Schedule 4.13 hereto:

(a) There has not been in the three years prior to the date hereof, nor is there currently, any claim, action, suit, inquiry, proceeding or, to the best knowledge of SF and Olson, investigation of any kind or nature whatsoever (including, but not limited to, products liability issues and Environmental Liabilities), by or before any court or governmental or other regulatory or administrative agency, commission or tribunal brought, asserted or initiated by or against SF or Olson, or pending or, to the best knowledge of SF and Olson, threatened against or involving the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business and which is material, or which questions or challenges the validity of this Agreement or any action taken or to be taken by SF or Olson pursuant to this Agreement or in connection with the transactions contemplated hereby. There is no valid basis for any such claim, action, suit, inquiry, proceeding or investigation.

(b) None of SF or Olson is subject to any judgment, order or decree which may have a Material Adverse Effect.

4.14 Employee Benefit Plans. Schedule 4.14 hereto contains a

complete and accurate list of all Employee Benefit Plans. Each Employee Benefit Plan complies and has been maintained and operated in all respects in accordance with its terms and the terms and the provisions of applicable law, including, without limitation, ERISA and the Code, except where the failure to so comply would not cause a Material Adverse Effect.

4.15 Compliance with Law; Necessary Authorizations. (a) Except as

listed or described on Schedule 4.15(a) hereto, SF is and has been conducting the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business, marketing its products and owning and operating all of the Acquired Assets, in compliance with all applicable laws, rules, regulations, orders, building and other codes, zoning and other ordinances, Authorizations, judgments and decrees, including all Environmental Laws, of all federal, state, local, foreign or other governmental authorities, except, in any such case, where the failure to so conduct the SF Business, Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business or comply with any such laws, rules or regulations would not cause a Material Adverse Effect.

(b) Schedule 4.15(b) lists or describes the material Authorizations held or required by SF, the SF Business, the Ex-Territory Business, the SF Designated

Territory Related Business or the SF/Robin Business and, except as set forth in that schedule, all such Authorizations are in full force and effect, SF is in compliance with all such Authorizations and, to the best knowledge of SF and Olson, there is no reasonable basis for the revocation or suspension of any thereof. Except as set forth on Schedule 4.15(b), such Authorizations constitute all the permits, licenses, approvals, qualifications or the like issued by any regulatory authorities required for ownership of the Acquired Assets and the operation of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business, all of which are transferable and will be transferred to HSI or Silverman's, as the case may be, at Closing.

4.16 Finders. Neither SF or Olson, nor the SF Business, the Ex-

Territory Business, the SF Designated Territory Related Business or the SF/Robin Business or any of their respective Affiliates or any of their respective directors or officers, has taken any action that, directly or indirectly, would obligate HSI, Silverman's, or any of their respective Affiliates to anyone acting as broker, finder, financial advisor or in any similar capacity in connection with this Agreement or any of the transactions contemplated hereby.

4.17 Consents and Approvals of Governmental Authorities. Except as

set forth on Schedule 4.17, no consent, approval or authorization of, or declaration, filing or registration with, or the giving of notice to, any domestic or foreign governmental or regulatory authority is required in connection with the execution, delivery and performance by SF or Olson of this Agreement or the consummation by SF and Olson of the transactions contemplated hereby.

4.18 Related Party Transactions; Intercompany Accounts. Except as

set forth on Schedule 4.18 hereto, there are no SF/Robin Contracts between any of SF or Olson, on one hand, and any stockholder, director, officer or Affiliate (including Olson) of SF (each, a "Related Party"), on the other; in each case, other than routine employment agreements in the ordinary course of business (and which are terminable without penalty in not more than 30 days). Set forth on Schedule 4.18 is a true and complete list of each transaction during the prior 18 months between any of SF or Olson with respect to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business, on one hand, and any Related Party, on the other hand. No amounts are owed by or to any of SF or Olson with respect to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business to or by any Related Party, and no amount is owed by or to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business to or by any of SF or Olson or any Related Party.

ARTICLE V REPRESENTATIONS AND WARRANTIES

OF HSI AND SILVERMAN'S

HSI and Silverman's hereby, jointly and severally, represent and warrant to SF and Olson as follows:

5.1 Organization and Qualification. HSI and Silverman's are

corporations duly organized, validly existing and in good standing under the laws of Delaware and New York, respectively, with full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as it is now being conducted. Each of HSI and Silverman's is duly qualified as a foreign corporation and is in good standing under the laws of such jurisdiction in which the conduct of the business or the ownership of its assets requires such qualification.

5.2 Authority. Each of HSI and Silverman's has all requisite

corporate power and authority to execute and deliver this Agreement and all documents, certificates, agreements, instruments and writings relating hereto (collectively, the "HSI Closing Documents") to which it is a party and to perform, carry out and consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the other HSI Closing Documents have been duly authorized by all necessary corporate action on the part of HSI and Silverman's. This Agreement does, and when executed by HSI and Silverman's, the other HSI Closing Documents shall, constitute the legal, valid and binding obligations of each of them enforceable against HSI and Silverman's in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency or similar laws and by equitable principles.

5.3 No Breach. Subject to Sections 7.5(b) and 7.6(b) hereof, neither

the execution and delivery of this Agreement by HSI or Silverman's nor the consummation of the transactions contemplated herein will: (i) violate any provision of the Certificate of Incorporation or By-laws of HSI or Silverman's; (ii) conflict with, result in a breach of or constitute a default (or an event which, with or without notice, lapse of time or both, would constitute a default) under, or give any third party the right to terminate or modify, any material agreement or other instrument to which HSI or Silverman's is a party or by which it or any of its assets is bound; (iii) result in the creation of, or give any party the right to create, any Encumbrance, upon assets or properties of HSI, Silverman's, the HSI Designated Territory Related Assets or the Silverman's Assets; (iv) conflict with, violate, result in a breach of or constitute a default under any judgment, decree, order or process of any court or governmental authority; (v) conflict with or violate any material statute, law or regulation applicable to the business of HSI or Silverman's; or (vi) require HSI or Silverman's to obtain any authorization, consent, approval or waiver from, or to make any filing with, any governmental or regulatory authority.

5.4 HSI Financial Statements and Sales Information. Prior to the

date hereof, HSI delivered to SF and Olson the HSI Financial Statements (to the extent

required by the definition thereof) attached hereto as Schedule 5.4A. Such HSI Financial Statements have been prepared from, and are in accordance with, the books and records of HSI, present fairly the financial position and results of operations of the HSI Designated Territory Related Assets, the Silverman's Assets, the HSI Designated Territory Related Business and the Silverman's Business as of and for the periods set forth therein in accordance with GAAP and are true, correct and complete in all material respects, except as set forth on Schedule 5.4B.

5.5 Absence of Certain Changes or Events. Except as set forth on

Schedule 5.5 hereto, since December 31, 1995:

(a) The HSI Designated Territory Related Business and the Silverman's Business has been conducted and the HSI/Silverman's Assets have been acquired, owned and operated only in the ordinary and usual course consistent with past practice.

(b) Neither the HSI Designated Territory Related Business or the Silverman's Business nor the HSI Designated Territory Related Assets or the Silverman's Assets have suffered any event or condition that has had a HSI Material Adverse Effect.

(c) Neither HSI nor Silverman's has become aware of any event or condition that has occurred or would reasonably be expected to occur that could result in a HSI Material Adverse Effect.

5.6 Customers and Suppliers. There has not been any adverse change

and there are no facts known to HSI or Silverman's which may reasonably be expected to indicate that any adverse change may occur in the business relationship of HSI, the HSI Designated Territory Related Business or Silverman's Business with any material customer.

5.7 Litigation, Etc. Except as set forth on Schedule 5.7 hereto:

(a) There has not been in the three years prior to the date hereof, nor is there currently, any claim, action, suit, inquiry, proceeding or, to the best knowledge of HSI and Silverman's, investigation of any kind or nature whatsoever (including, but not limited to, products liability issues), by or before any court or governmental or other regulatory or administrative agency, commission or tribunal brought or asserted or initiated by or against HSI or Silverman's, or pending or, to the best knowledge of HSI and Silverman's, threatened against or involving the HSI Designated Territory Related Business or the Silverman's Business which is material, or which questions or challenges the validity of this Agreement or any action taken or to be taken by HSI or Silverman's pursuant to this Agreement or in connection with the transaction contemplated hereby. There is no valid basis for any such claim, action, suit, inquiry, proceeding or investigation.

(b) Neither HSI nor Silverman's is subject to any judgment, order or decree which may have a material adverse effect on the HSI Designated Territory Related Business, the Silverman's Business, the HSI Designated Territory Related Assets or the Silverman's Assets.

5.8 Finders. None of HSI or Silverman's, any of their respective

Affiliates or any of their respective directors or officers, has taken any action that, directly or indirectly, would obligate SF or Olson or any of their Affiliates to anyone acting as a broker, finder, financial advisor or in any similar capacity in connection with this Agreement or any of the transactions contemplated hereby.

ARTICLE VI COVENANTS

6.1 Certain Covenants of SF and Olson. SF and Olson, jointly and

severally hereby covenant that (unless HSI otherwise gives its written approval in its sole discretion) SF and Olson shall at their sole cost and expense take the actions set forth below:

(a) At the Closing, SF and Olson shall pay or otherwise discharge all the amounts set forth on Schedule 7.9 which are then due and owing and SF and Olson shall thereafter pay or otherwise discharge in full all the Excluded Liabilities relating to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and/or the SF/Robin Business as such amounts shall become due in accordance with their terms.

(b) Prior to the Closing, SF and Olson shall operate the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business in the ordinary course of business as historically conducted, and maintain the Acquired Assets in good operating condition and both prior to and after the Closing pay those debts and accounts payable relating to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business and the Acquired Assets (other than, after the Closing, those debts which constitute Assumed Liabilities) that are incurred by SF in the ordinary course of business and on a timely basis. Without limitation to the generality of the foregoing, SF and Olson shall use the proceeds of the Closing Payments and the HSI Loan for the purposes set forth on Schedule 7.9, including the payment of all accounts payable in full within 30 days after the Closing Date. If (i) SF shall not have paid and otherwise satisfied all such accounts payable by that date, (ii) the failure to so pay such accounts payable has caused, in the good faith determination of HSI, adverse consequences to any of the HSI Business, the Silverman's Business, the Acquired Assets, the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business and (iii) the Trade Creditor Payment Amount (as such term is defined in Section 7.9) is zero (the occurrence of the events described in the foregoing clauses (i) through (iii) is hereinafter referred to as the "Accounts Payable Default"), then HSI, in its sole and absolute discretion, may (x)

pay all or any portion of such accounts payable on behalf of SF, which shall promptly reimburse HSI for any such payment, plus interest thereon at the Prime Rate or (y) upon prior written notice to Olson, pay all or any portion of such accounts payable on behalf of SF and, as a consequence of any such payment by HSI, SF shall be deemed to have effected a mandatory exercise of its option under Section 2.6.1(a) and/or (b) in accordance with Section 2.6.6.

(c) Prior to the Closing and after the Closing, SF and Olson shall afford HSI, its attorneys, accountants, consultants and representatives, free and full access to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business, and prior to and after the Closing Date, SF and Olson shall afford HSI, its attorneys, accountants, consultants and representatives free and full access to the Acquired Assets to be sold, transferred or assigned by either of them pursuant to this Agreement, the books and records of SF relating thereto and employees of SF who are familiar with the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business and the Acquired Assets, at all reasonable times upon reasonable notice and during normal business hours, and shall provide to HSI and its representatives such additional financial and operating data and other information as to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and/or the SF/Robin Business and the Acquired Assets pursuant to this Agreement as HSI shall from time to time reasonably request.

(d) Prior to and after the Closing, SF and Olson shall use their respective reasonable efforts to preserve for HSI the goodwill of the customers and suppliers of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business, and others having business relations with SF and Olson with respect to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business and Acquired Assets, and prior to and after the Closing shall do all things reasonably requested by HSI for such purpose.

(e) Prior to the Closing, SF and Olson shall promptly advise HSI in writing of the commencement or threat against SF or Olson of any suit, litigation or legal proceeding that relates to or might affect the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business or the Acquired Assets.

(f) Prior to the Closing, neither SF or Olson shall give its permission to or authorize any officer, director, employee or representative to, solicit or enter into negotiations with any party, other than HSI and Silverman's, for the purchase and sale of any of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business or any of the Acquired Assets.

(g) Prior to the Closing Date, none of SF or Olson shall dispose, encumber or cause any Encumbrance to be placed on the Acquired Assets (other than the disposition of Inventory in the ordinary course of business).

(h) Prior to the Closing Date, neither SF or Olson shall amend or terminate any Assumed Contract.

(i) Prior to the Closing Date, SF and Olson shall use their respective best efforts to take any action where the failure or omission to take such action would cause (i) any representation or warranty in Article IV hereof (but excluding any representation or warranty which specifically relates to an earlier date) to be untrue or incorrect as of the Closing or (ii) any of the conditions to the Closing not to be satisfied.

6.2 Obtaining Consents. Prior to and after the Closing, SF and Olson

shall use all reasonable efforts to obtain all consents to the assignment to HSI or Silverman's, as the case may be, of all of the Assumed Contracts and Authorizations of SF, in each case without any condition or qualification adverse to HSI or Silverman's, as the case may be. Prior to and after the Closing, HSI and Silverman's, on the one hand, and SF and Olson, on the other hand, shall use all reasonable efforts to obtain all consents, approvals and waivers from, and give all notices to, and make all declarations, filings and registrations with, any governmental and regulatory agencies that are required to consummate the transactions contemplated hereby and to permit the continued operation of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business and the HSI/Silverman's Business after the Closing Date as herein provided. HSI and Silverman's, on the one hand, and SF and Olson, on the other hand, shall coordinate and cooperate with one another and supply such assistance as may be reasonably requested by each in connection with the foregoing.

6.3 Publicity. Prior to the Closing, none of SF, Olson, HSI or

Silverman's shall issue or make, or cause to have issued or made, the publication or dissemination of any press release or other announcement to divulge the existence of this Agreement or with respect to the transactions contemplated hereby, except after consultation with and prior approval of the other party hereto, which approval shall not be unreasonably withheld, and except as may be required by applicable law.

6.4 Transfer and Retention of Records. After the Closing Date,

except as may be required for tax purposes, other regulatory purposes or Permitted Activities, none of SF or Olson nor any of their respective successors and assigns will retain any document, databases or other media embodying any confidential or proprietary information relating to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business which constitutes a part of the Acquired Assets or use, publish or disclose to any third person any such confidential or proprietary information relating to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business; provided, however, that SF

and Olson shall be entitled to retain copies of any of the foregoing to the extent

necessary in connection with prosecuting or defending any matter not expressly assumed by HSI or Silverman's pursuant to this Agreement. SF and Olson shall take all actions requested by HSI to transfer records relating to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business to HSI or Silverman's which may include making duplicate copies of any records retained by SF and Olson in the form of papers or computer media.

6.5 Product Replacement and Repairs. After the Closing Date, HSI or

Silverman's will, subject to the following sentence, honor all outstanding warranties and guaranties and other claims for replacements, repairs and credits, relating to products or services of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business shipped, sold or furnished by SF prior to the Closing Date, or relating to Purchased Inventory. Any claims in respect of returned or damaged products accepted by HSI or Silverman's shall be for the account of SF, which shall promptly reimburse HSI or Silverman's, as the case may be, for the cost thereof.

6.6 Employee Matters. (a) HSI may, but shall not be required to,

offer employment to employees employed by SF in connection with the operations of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business on such terms as HSI in its sole discretion deems appropriate. Any such offers shall be on terms which HSI customarily hires new employees (e.g., without assumption of seniority). Alternatively, at HSI's request, SF shall continue its employment of all or a portion of its employees engaged in the operations of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business to assist HSI in its conduct of HSI Business or Silverman's Business, as the case may be, after the Closing date on an interim basis not exceeding 90 days. HSI shall reimburse SF for all actual payroll costs and related incidental costs incurred by it for continuing the employment of such employees for HSI's benefit.

(b) Neither HSI nor Silverman's shall assume or be responsible in any way for the obligations, liabilities or responsibilities (i) of any Employee Benefit Plan of SF, (ii) of SF, any Affiliate or any fiduciary under, arising from, or with respect to any Employee Benefit Plan of SF or (iii) to any of SF's officers, directors, employees and agents, arising from or related to the transactions contemplated by this Agreement, including, without limitation, obligations, liabilities or responsibilities under the WARN Act. Neither HSI nor Silverman's shall be deemed to be a successor employer with respect to the employment of any employee of SF or with respect to any of Employee Benefit Plans of SF.

6.7 Further Assurances. After the Closing, HSI and Silverman's, on

the one hand, and SF and Olson, on the other hand, shall, and shall cause their respective Affiliates to, at the request and the expense of the other, execute and deliver such other instruments of conveyance and transfer and assumption and take such other action as may be reasonably requested so as to consummate the transactions contemplated hereby or otherwise to consummate the intent of this Agreement.

6.8 Name Change. SF hereby covenants and agrees that, promptly after

the Closing, it shall file a certificate of amendment of certificate of incorporation of SF, and file appropriate documentation in those jurisdictions in which it is qualified to do business as a foreign corporation, changing its name from "San Francisco Dental Supply, Inc.", to a name that does not include any of the Intellectual Property.

6.9 Certain Leased Property Related Matters. Solely for the purpose

of facilitating the orderly transfer of the conduct of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Robin Business from SF to HSI, and Silverman's respectively, HSI shall reimburse SF for its actual out-of-pocket rental obligations incurred by it for continuing the rental of the following leased premises for the benefit of HSI and the Silverman's: (i) warehouse space under lease at 2201 S. Oneida Street, Green Bay, Wisconsin; (ii) warehouse space under lease at 3180 Coronet Way, Green Bay, Wisconsin; and (iii) facilities space under lease at Darby Commons Court, Georgetown Building, Bays 107 and 108, Folcroft West Business Park, Folcroft, Pennsylvania. Notwithstanding anything in the immediately preceding sentence to the contrary, unless otherwise requested by HSI, HSI shall have no obligation to reimburse SF in respect of any rental obligations incurred by it with respect to the leased premises referred to (x) in the foregoing clauses (i) and (ii) for any period beyond October 31, 1996 and (y) in the foregoing clause (iii) for any period beyond August 31, 1996.

ARTICLE VII CONDITIONS PRECEDENT TO OBLIGATIONS

OF HSI AND SILVERMAN'S

The obligation of HSI and Silverman's under this Agreement to consummate the transactions contemplated hereby at the Closing shall be subject to the satisfaction, at or prior to the Closing, of all of the following conditions, any one or more of which may be waived in writing by HSI and Silverman's:

7.1 Representations and Warranties Accurate. All representations and

warranties of SF and Olson contained in this Agreement and the other SF Closing Documents shall be true and accurate in all material respects on and as of the Closing Date as if made again at and as of such date.

7.2 Performance by SF and Olson. SF and Olson shall have performed

and complied with all agreements required by this Agreement and the other SF Closing Documents to be performed and complied with by each of them prior to or on the Closing Date.

7.3 Certificate. HSI and Silverman's shall have received a

certificate, dated the Closing Date, signed on behalf of SF by a principal corporate officer of SF, and by Olson, in his individual capacity, to the effect that the conditions set forth in Sections 7.1 and 7.2 have been satisfied.

7.4 Opinions of Counsel for SF and Olson. HSI and Silverman's shall

have received from counsel to SF and Olson a written opinion, dated the Closing Date, in the form annexed hereto as Exhibit 3.2(b).

7.5 Authorization; Legal Prohibition. (a) SF and Olson shall have

delivered to HSI and Silverman's copies of the resolutions of the Board of Directors of SF and the stockholders of SF, in each case certified by the secretary or assistant secretary of SF, which resolutions shall unanimously approve and authorize the execution and delivery of this Agreement, the other SF Closing Documents and the consummation of the transactions contemplated hereby and thereby.

(b) No suit, action, investigation, inquiry or other proceeding by any governmental body or other person shall have been instituted or threatened which (i) could reasonably be expected to result in a material adverse change in the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business; (ii) arises out of or relates to this Agreement or the transactions contemplated hereby; or (iii) questions the validity hereof or seeks to obtain substantial damages in respect thereof. On the date of the Closing, there shall be no effective permanent or preliminary injunction, writ, temporary restraining order or any order of any nature issued by a court of competent jurisdiction directing that the transactions provided for herein not be consummated as so provided.

7.6 Consents. (a) All notices to, and declarations, filings and

registrations with, and consents, approvals and waivers from, governmental and regulatory agencies (including, without limitation, the FTC and DOJ) required to consummate the transactions contemplated hereby and to permit the continued operation by HSI or Silverman's, as the case may be, of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business after the Closing Date, shall have been obtained and all consents to the assignment to HSI or Silverman's, as the case may be, of each of the Acquired Assets and Authorizations of SF shall have been obtained, in each case without any condition or qualification adverse to HSI or Silverman's, as the case may be.

(b) On or prior to the Closing Date, HSI and Silverman's shall have obtained the consent of the Banks (as such term is defined in that certain Amended and Restated Credit Agreement, dated as of July 5, 1995 (the "Credit Agreement"), among Henry Schein, Inc., The Chase Manhattan Bank, N.A., Natwest Bank N.A., Cooperative Centrale Raiffeisen-Boerenleenbank, B.A. "Rabobank Nederland", New York Branch and European American Bank) to the transactions contemplated by this Agreement.

7.7 Closing Deliveries. HSI and Silverman's shall have received all

deliveries to be made to it pursuant to Article III of this Agreement.

7.8 Absence of Adverse Changes. There shall not have occurred since

the date hereof (i) any material adverse change in the condition (financial or otherwise)

or results of operations of or prospects of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business; or (ii) any other event, loss, damage, condition or state of facts of any character which can reasonably be expected materially and adversely to affect the business, financial condition, prospects, earnings, assets, properties, net worth or results of operations of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business.

7.9 Payments by SF to Shareholders and Debtholders. SF shall use the

proceeds of the Closing Payments to (i) repurchase all of its outstanding equity securities (including, without limitation, any options, warrants or convertible securities) other than those held by Olson and (ii) repay, satisfy and discharge all outstanding indebtedness of SF, including, without limitation, all indebtedness reflected on the SF/Robin Financial Statements, in each case, as more particularly described on Schedule 7.9. Notwithstanding anything in this Agreement to the contrary, none of the proceeds from the Closing Payments and/or the SF Note shall be used by SF to make any payment referred to on Schedule 7.9 to be made to any shareholder of SF unless at and as of the Closing Date, HSI shall be satisfied that Schedule 7.9 adequately provides for the payment by SF of outstanding amounts owed to its trade creditors. If HSI shall not be so satisfied, HSI shall have the right to withhold from the proceeds of the Closing Payments and/or the SF Note an amount (the "Trade Creditor Payment Amount") estimated in good faith by HSI to be required to ensure that all such trade creditors are paid all amounts due and payable by SF, and HSI shall be entitled to pay the trade creditors of SF on behalf of SF and such payments shall be deemed for all purposes hereof to be a payment by HSI to SF in an amount equal to the Trade Creditor Payment Amount which SF shall be deemed to have directed HSI to pay directly to SF's trade creditors on behalf of SF. If after HSI has paid all such SF trade creditors, there shall exist any surplus Trade Creditor Payment Amount, HSI shall immediately pay such surplus to SF. Nothing in this Section 7.9 shall relieve SF from the performance of any obligation owed by SF to any of its trade creditors or HSI, or impose any obligation on HSI to perform any such obligation on SF's behalf. In no event shall SF make any payment to Thomas F. Novotny or Larry Olson in respect of any SF debt or equity securities owned or held by either of them unless and until (i) all amounts due and payable by SF to its trade creditors as of the Closing Date shall have been paid and (ii) all claims by the FM Dental Related Parties against SF, HSI, the Acquired Assets, the SF Business, the Ex-Territory Business, the SF/Robin Business, the Pattison Assets or the Pattison Business shall have been finally resolved to the satisfaction of HSI and, in connection with such resolution, HSI shall have received a release from each of the FM Dental Related Parties satisfactory to HSI.

7.10 Satisfactory Completion of Due Diligence. HSI and its

representatives (including, without limitation, its attorneys and accountants) shall have completed their due diligence review relating to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business, the SF/Robin Business, SF and the Acquired Assets, and the results of such review shall be satisfactory to HSI.

7.11 Confirmation of Agreed Upon Ex-Territory Business Value. HSI

shall have determined, following a review and/or audit of the books and records of SF, that the Agreed Upon Ex-Territory Business Value is not less than \$2,383,231.

7.12 Distribution Agreement. HSI and SF shall have entered into a

distribution agreement relating to the distribution of oats based medical and dental products, such agreement to be in form and substance mutually satisfactory to HSI and SF.

7.13 Actions by SF. SF shall have executed Bills of Sale in the form

of Exhibits 3.2(d)-1 and 3.2(d)-2.

7.14 Additional Documents, Etc. SF and Olson shall have delivered to

HSI and Silverman's such other documents, instruments and certificates as shall be reasonably requested by HSI or Silverman's or counsel to HSI and Silverman's for the purpose of effecting the transactions provided for and contemplated by this Agreement and the other HSI Closing Documents.

ARTICLE VIII CONDITIONS PRECEDENT TO OBLIGATIONS OF

SF AND OLSON

The obligations of SF and Olson under this Agreement shall be subject to the satisfaction, at or prior to the Closing, of all of the following conditions, any one or more of which may be waived in writing by SF and Olson.

8.1 Representations and Warranties Accurate. All representations and

warranties of HSI and Silverman's contained in this Agreement and the other HSI Closing Documents shall be true and accurate in all material respects on and as of the Closing Date as if made again at and as of such date.

8.2 Performance by Buyer. HSI and Silverman's shall have performed

and complied with all agreements required by this Agreement and the other HSI Closing Documents to be performed and complied with by it prior to or on the Closing Date.

8.3 Certificate. SF and Olson shall have received a certificate,

dated the Closing Date, signed on behalf of HSI and Silverman's by a principal corporate officer of HSI and Silverman's, to the effect that the conditions set forth in Sections 8.1 and 8.2 have been satisfied.

8.4 Opinion of Counsel for HSI and Silverman's. SF and Olson shall

have received from Proskauer a written opinion, dated the Closing Date, in the form annexed hereto as Exhibit 3.3(d).

8.5 Authorizations; Legal Prohibition. (a) HSI and Silverman's

shall have delivered to SF and Olson copies of the resolutions of the Board of Directors of each of HSI and Silverman's and, if necessary in the case of Silverman's, resolutions of HSI, in its capacity as sole shareholder of Silverman's, certified by the secretary or assistant secretary of each of HSI and Silverman's, which resolutions shall approve and authorize the execution and delivery of this Agreement, the other HSI Closing Documents and the consummation of the transactions contemplated hereby and thereby.

(b) No suit, action, investigation, inquiry or other proceeding by any governmental body or other person shall have been instituted which arises out of or relates to this Agreement or the transactions contemplated hereby or questions the validity hereof or seeks to obtain substantial damages in respect thereof. On the date of the Closing, there shall be no effective permanent or preliminary injunction, writ, temporary restraining order or any order of any nature issued by a court of competent jurisdiction directing that the transactions provided for herein not be consummated as so provided.

8.6 Closing Deliveries. SF and Olson shall have received all

deliveries to be made to each of them pursuant to Article III of this Agreement.

8.7 Actions by HSI and Silverman's. HSI shall have executed a

counterpart to the Employment Agreement. HSI and Silverman's shall have executed Assumption Agreements in the form of Exhibits 3.3(e)-1 and 3.3(e)-2.

8.8 Additional Documents, Etc. HSI and Silverman's shall have

delivered to SF and Olson such other documents, instruments and certificates as shall be reasonably requested by any of them or their counsel for the purpose of effecting the transactions provided for and contemplated by this Agreement and the other SF Closing Documents.

ARTICLE IX RESTRICTIVE COVENANTS

9.1 Non-Competition. None of SF or Olson nor any of their

respective Affiliates shall, until the later of a (x) period of five years after the date hereof and (y) two (2) years after the cessation of Olson's employment pursuant to the Employment Agreement, directly or indirectly, engage, anywhere in the world, in the sale or offering or promoting for sale of any product, process, good or service which is the same as, is functionally similar to, or competes with, any product, process, good or service which any of HSI, Silverman's or SF has sold or offered or promoted for sale within the three years preceding the date hereof in connection with their respective businesses. Notwithstanding anything in the immediately preceding sentence to the contrary, nothing herein shall preclude (i) Olson from performing his duties pursuant to the Employment Agreement; (ii) SF from collecting existing receivables or satisfying their respective payables or any action reasonably related thereto, (iii) SF selling or offering for sale within six (6) months after the date hereof any Non-Matching Inventory or Ineligible

Inventory not purchased by HSI pursuant to the terms of this Agreement or (iv) subject to the Employment Agreement, SF and Olson from engaging in the Oats Business (collectively, the "Permitted Activities").

9.2 Non-Solicitation of Employees. None of SF or Olson nor any of

their respective Affiliates shall directly or indirectly, for itself or himself or on behalf of any other Person, hire any employee of HSI (or any of its Affiliates), including, without limitation, any employees of SF that HSI (or any of its Affiliates) has hired in its sole discretion, or induce nor attempt to induce any such employee to leave his or her employment with HSI (or any of its Affiliates) at any time until the later of (x) five years from the date hereof and (y) two (2) years after the cessation of Olson's employment pursuant to the Employment Agreement.

9.3 Non-Solicitation or Interference with Customers and Suppliers.

None of SF or Olson nor any of their respective Affiliates shall, directly or indirectly, for itself or on behalf of any other Person, solicit, divert, take away or attempt to take away any customers of HSI (or any of its Affiliates) or suppliers or the business or patronage of any such customers or suppliers or in any way interfere with, disrupt or attempt to disrupt any then existing relationships between HSI (or any of its Affiliates) and any of its customers or suppliers or other Persons with whom it deals or contact for business purposes or enter into any business transaction with any such customers or suppliers or other Persons for any purpose at any time until the later of (x) five years from the date hereof and (y) two (2) years after the cessation of Olson's employment pursuant to the Employment Agreement. Notwithstanding anything in the immediately preceding sentence to the contrary, nothing herein shall preclude Olson from engaging in any of the Permitted Activities.

9.4 Acknowledgements. Each of SF and Olson acknowledges that, in

view of the nature of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business and the SF/Business and the business objectives of HSI in acquiring such business (or portions thereof) as herein provided, and the consideration paid to each of SF and Olson therefor, the restrictions contained in this Article IX are reasonably necessary to protect the legitimate business interests of HSI and that any violation of such restrictions will result in irreparable injury to HSI and the business HSI has acquired hereunder for which damages will not be an adequate remedy. Each of SF and Olson therefore acknowledges that, if any such restrictions are violated, HSI shall be entitled to preliminary and injunctive relief as well as to an equitable accounting of earnings, profits and other benefits arising from such violation.

ARTICLE X INDEMNIFICATION

10.1 Survival of Representations and Warranties. All representations

and warranties contained in Articles IV and V of this Agreement shall survive until the third anniversary of the Closing Date.

10.2 Indemnification by SF and Olson. From and after the Closing,

each of SF and Olson shall jointly and severally indemnify and save HSI and its Affiliates (including, for this purpose, Silverman's), their respective directors, officers, employees, agents and representatives and all of their successors and assigns (collectively "Buyer Claimants" and individually "Buyer Claimant") harmless from and defend each of them from and against any and all demands, claims, actions, liabilities, losses, costs, damages or expenses whatsoever (including any reasonable attorneys' fees) (collectively, "Losses") asserted against, imposed upon or incurred by the Buyer Claimants resulting from or arising out of (a) any inaccuracy or breach of any representation or warranty of SF or Olson contained herein; (b) any breach of any covenant or obligation of SF or Olson contained herein; (c) any liability of SF or Olson or the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business, except for the Assumed Liabilities; (d) noncompliance with any applicable bulk sales or similar laws (including laws which may impose transferee liability on HSI or an Affiliate (including, for this purpose, Silverman's) or create Encumbrances on any Acquired Assets relating to the liability of SF or Olson for sales, use or other taxes or withholdings arising out of the operations of the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business by SF or Olson); (e) any personal injuries, death or property damage arising from products sold by SF or Olson prior to the Closing Date; (f) any liability arising out of or related to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business prior to Closing, other than the Assumed Liabilities or the assertion against a Buyer Claimant of a claim which, if valid, would constitute a liability arising out of or related to the SF Business, the Ex-Territory Business, the SF Designated Territory Related Business or the SF/Robin Business, other than the Assumed Liabilities; (g) any claim made against HSI or Silverman's by Above the Rest, Inc. or any of its Affiliates as a result of the transactions contemplated hereby or otherwise; (h) any claim made against HSI or Silverman's by any FM Dental Related Party or any of their respective Affiliates as a result of the consummation of the transactions contemplated hereby, including, without limitation, the sale and purchase of the Purchased Inventory; and (i) any liability of SF or Olson under the WARN Act or any state equivalent.

10.3 Indemnification by HSI and Silverman's. From and after the

Closing, HSI and Silverman's shall indemnify and save SF and Olson and their respective Affiliates and their respective directors, officers, employees, agents and representatives (collectively "Seller Claimants" and individually "Seller Claimant") harmless from and defend each of them from and against any and all Losses asserted against, imposed upon or incurred by the Seller Claimants resulting from or arising out of (a) any inaccuracy or breach of any representation or warranty of HSI and Silverman's contained herein;

(b) any breach of any covenant or obligation of HSI and Silverman's contained herein; (c) except as described in clause 10.2(e) above, HSI or Silverman's ownership of Acquired Assets and operation of their respective businesses from and after the Closing Date or any liability of HSI or Silverman's arising after the Closing Date under any Assumed Contract; (d) any personal injuries, death or property damage arising from products sold by HSI or Silverman's prior to the Closing Date; (e) any liability arising out of or related to the HSI Business or the Silverman's Business prior to Closing or the assertion against a Seller Claimant of a claim which, if valid, would constitute a liability arising out of or related to the HSI Business or the Silverman's Business; and (f) any liability of HSI or Silverman's under the WARN Act or any state equivalent.

10.4 Indemnification Procedures.

(a) The rights and obligations of each party claiming a right to indemnification hereunder ("Indemnitee") from the other party ("Indemnitor") shall be governed by the following rules:

(i) The Indemnitee shall give prompt written notice to the Indemnitor of any state of facts which Indemnitee determines will give rise to a claim by the Indemnitee against the Indemnitor based on the indemnity agreements contained herein, stating the nature and basis of said claims and the amount thereof, to the extent known. No failure to give such notice shall affect the indemnification obligations of Indemnitor hereunder, except to the extent such failure materially prejudices such Indemnitor's ability successfully to defend the matter giving rise to the indemnification claim.

(ii) In the event any action, suit or proceeding is brought against the Indemnitee, with respect to which the Indemnitor may have liability under the indemnity agreements contained herein, then upon the written acknowledgment by the Indemnitor within thirty (30) days of the bringing of such action, suit or proceeding that it is undertaking and will prosecute the defense of the claim under such indemnity agreements and confirming that the claim is one with respect to which the Indemnitor is obligated to indemnify and that it will be able to pay the full amount of potential liability in connection with any such claim, the action, suit or proceeding (including all proceedings on appeal or for review which counsel for the Indemnitee shall deem appropriate) may be defended by the Indemnitor. However, in the event the Indemnitor shall not offer reasonable assurances as to its financial capacity to satisfy any final judgment or settlement, the Indemnitee may assume the defense and dispose of the claim, after 30 days' prior written notice to the Indemnitor. The Indemnitee shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the Indemnitee's own expense unless (a) the employment of such counsel and the payment of such fees and expenses both shall have been specifically authorized by the Indemnitor in connection with the defense of such action, suit or proceeding or (b) the Indemnitee shall have reasonably concluded

and specifically notified the Indemnitor that there may be specific defenses available to it which are different from or additional to those available to the Indemnitor, or that such action, suit or proceeding involves or could have an effect upon matters beyond the scope of the indemnity agreements contained herein.

(iii) In addition, in any event specified in clause (b) of the second sentence of subparagraph (ii) above, the Indemnitor, to the extent made necessary by such different or additional defenses, shall not have the right to direct the defense of such action, suit or proceeding on behalf of the Indemnitee. If Indemnitor and Indemnitee cannot agree on a mechanism to separate the defense of matters extending beyond the scope of indemnification, such matters shall be defended on the basis of joint consultation.

(iv) The Indemnitee shall be kept fully informed by the Indemnitor of such action, suit or proceeding at all stages thereof, whether or not it is represented by counsel. The Indemnitor shall, at the Indemnitor's expense, make available to the Indemnitee and its attorneys and accountants all books and records of the Indemnitor relating to such proceedings or litigation, and the parties hereto agree to render to each other such assistance as they may reasonably require of each other in order to ensure the proper and adequate defense of any such action, suit or proceeding.

(b) The Indemnitor shall make no settlement of any claims which Indemnitor has undertaken to defend, without Indemnitee's consent, unless the Indemnitor fully indemnifies the Indemnitee for all losses, there is no finding or admission of violation of law by, or effect on any other claims that may be made against, the Indemnitee and the relief granted in connection therewith requires no action on the part of and has no effect on the Indemnitee.

(c) In the event any claim of a right to indemnification is made by HSI or another indemnified party hereunder, such party may, at its sole option, satisfy all or a portion of its Losses by way of setoff against any payments due SF or Olson. Such right to setoff is without prejudice to any right of SF or Olson, as the case may be, to challenge its liability hereunder. This Section in no way constitutes a limitation on rights hereunder and HSI and each other indemnified party hereunder may seek full indemnification for all damages suffered and may pursue all rights and remedies available to it, at law or in equity, against any party hereto, jointly with other parties hereto or severally, without seeking recourse against any other party and without exercising any right of offset.

11.1 Termination. (a) This Agreement may be terminated at any time

prior to the Closing Date:

(i) by mutual consent of the parties hereto;

(ii) by HSI, by written notice given to SF and Olson, if (A) any of the conditions set forth in Section 3.2 shall have become incapable of fulfillment and shall not have been waived by HSI and/or Silverman's or (B) there has been a material violation or breach by SF or Olson of any agreement, representation or warranty contained in this Agreement which has rendered the satisfaction of any condition to the obligations of HSI or Silverman's impossible and such violation or breach has not been waived by HSI or Silverman's, as the case may be; or

(iii) by Olson, acting on behalf of SF and himself, by written notice given to HSI and Silverman's, if (A) any of the conditions set forth in Section 3.3 shall have become incapable of fulfillment and shall not have been waived by SF and Olson or (B) there has been a material violation or breach by HSI or Silverman's of any agreement, representation or warranty contained in this Agreement which has rendered the satisfaction of any condition to the obligations of SF or Olson impossible and such violation or breach has not been waived by Olson, acting on behalf of SF and himself;

(iv) by any of the parties hereto:

(A) if a court of competent jurisdiction or governmental, regulatory or administrative agency or commission shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use their best efforts to vacate), in each case permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable; or

(B) if the Closing Date shall not have occurred on or before June 30, 1996; provided, however, that the right to terminate this

Agreement shall not be available to any party whose breach of this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date.

(b) In the event of termination pursuant to Section 11.1(a) of this Agreement, written notice thereof shall forthwith be given as therein provided and this Agreement shall terminate, without further action by any of the parties hereto. If this Agreement is terminated as provided herein:

(i) Upon request therefor, each party will redeliver all documents, work papers and other material of any other party relating to the transactions contemplated hereby, whether obtained before or after the execution hereof, to the party furnishing the same; and

(ii) no party hereto shall have any liability or further obligation to any other party to this Agreement resulting from such termination except (A) that the provision of this Section 11.1(b) and the proviso of Section 11.1(a)(iv)(B) of this Agreement shall remain in full force and effect and (B) no party waives any claim or right against a breaching party to the extent that such termination results from the breach by a party hereto of any of its representations, warranties, covenants or agreements set forth in this Agreement; and

(iii) no party hereto shall use any confidential or proprietary information of any other party hereto which information was acquired solely in connection with the transactions contemplated hereby for the use in such party's business.

11.2 Expenses. Each party hereto shall pay its own expenses incurred

in connection with this Agreement, except as otherwise specified in this Agreement and except that all sales, transfer and other similar taxes, levies and charges that may be imposed, levied or assessed in connection with the consummation of the transactions contemplated hereby shall be borne by SF and Olson with respect to the Acquired Assets.

11.3 Amendment. This Agreement may not be terminated, amended,

altered or supplemented except by a written agreement executed by the parties hereto.

11.4 Entire Agreement. This Agreement, including the schedules and

exhibits hereto, and the instruments and other documents delivered pursuant to this Agreement contains the entire agreement of the parties relating to the subject matter of this Agreement and supersedes all prior agreements and understandings of any kind between the parties respecting such subject matter. Each and every representation, warranty and covenant shall be deemed to include the information contained in the schedules thereto.

11.5 Waivers. Waiver by either party of either breach of or failure

to comply with any provision of this Agreement by the other party shall not be construed as, or constitute, a continuing waiver of such provision, or a waiver of any other breach of, or failure to comply with, any other provision of this Agreement. No waiver of any such breach or failure or of any term or condition of this Agreement shall be effective unless in a written notice signed by the waiving party and delivered, in the manner required for notices generally, to each affected party.

11.6 Notices. All notices, consents, directions, approvals,

instructions, requests and other communications required or permitted by the terms of this Agreement to be given to any Person shall be in writing, and any such communication shall become effective five Business Days after being deposited in the United States mails, certified or registered, with appropriate postage prepaid for first class mail or, if delivered by hand or courier service or in the form of a telex, telecopy or telegram, when received (if received during normal business hours on a Business Day, or if not, then on the next Business Day thereafter), and shall be directed to the following address or telex or telecopy number:

If to SF or Olson:

San Francisco Dental Supply, Inc.
2201 South Oneida Street
Green Bay, Wisconsin 54304
Attention: Larry Olson
Telecopier: (414) 494-3386

With copies to:

Hanaway, Ross, Hanaway,
Weidner & Bachhuber, S.C.
345 S. Jefferson Street
Green Bay, Wisconsin 54301-4522
Attention: William S. Woodward, Esq.
Telecopier: (414) 432-4037

If to HSI or Silverman's:

Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747
Attention: Mark E. Mlotek, Esq.
Telecopier: (516) 843-5675

With copies to:

Proskauer Rose Goetz & Mendelsohn LLP
1585 Broadway
New York, New York 10036
Attention: Richard L. Goldberg, Esq.
Telecopier: (212) 969-2900

or to such other address as a party may have furnished to the other parties in writing in accordance herewith, except that notices of change of address shall only be effective upon

receipt. Any notice which is so mailed shall be deemed delivered on the fourth Business Day (or Days) after mailing; any notice which is transmitted by telecopier shall be deemed delivered when transmitted to the telecopier number specified above and acknowledgement of receipt of such facsimile is received.

11.7 Counterparts. This Agreement may be executed in two or more

counterparts, and by the different parties hereto in separate counterparts each of which when executed shall be deemed to be an original, but all of which together shall constitute one and the same document.

11.8 Governing Law; Submission to Jurisdiction. This Agreement shall

be governed by, and construed in accordance with, the law of the State of New York, without regard to applicable principles of conflict of laws that might otherwise govern. Each of SF and Olson hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State Court sitting in New York City for the purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each of SF and Olson irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

11.9 Binding Effect; Assignment. This Agreement shall be binding

upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, that none of SF or Olson shall assign or transfer this Agreement nor any right or obligation hereunder by operation of law or otherwise; further provided, that either HSI or Silverman's, in their sole discretion, may (a) prior to the Closing Date, assign all or a portion of its rights hereunder to an Affiliate or Affiliates without the consent of SF or Olson and (b) after the Closing Date, may assign all or a portion of its rights hereunder to any Person without the consent of SF or Olson; further provided, that no assignment shall relieve HSI or Silverman's of its obligations hereunder.

11.10 Severability. Any provision of this Agreement that shall be

prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties to such instrument waive any provision of law that renders any provision thereof prohibited or unenforceable in any respect.

11.11 Headings. The headings contained in this Agreement (including

the exhibits and schedules) are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

11.12 No Partnership; Etc. Nothing contained in this Agreement

shall constitute or be deemed a representation, agreement or understanding that the parties hereto are members of any partnership, joint venture, association, syndicate or other entity, and each of the parties hereto expressly disclaims the existence of any such relationship or arrangement.

11.13 Third Parties. Nothing herein is intended or shall be

construed to confer upon or give to any person other than the parties hereto any rights or remedies under or by reason of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first above written.

SAN FRANCISCO DENTAL SUPPLY, INC.

By: _____
Authorized Officer

Larry Olson

HENRY SCHEIN, INC.

By: _____
Authorized Officer

SILVERMAN'S DENTAL SUPPLY CORP.

By: _____
Authorized Officer

Schedule 2.3(c)
(SF Excluded Liabilities)

1. Legal, accounting, brokerage, finder's fees, taxes or other expenses incurred by SF, Olson or any of their respective Affiliates in connection with this Agreement or the consummation of the transactions contemplated hereby;
2. Any intercompany debt or other liability or obligation of any nature between Olson and any past or present Affiliate, on the one hand, or SF and any past or present Affiliate, on the other hand;
3. Liabilities or obligations incurred by SF after the Closing;
4. Any obligation or liability relating to any litigation or any claim arising out of any dispute, whether or not listed on any schedule hereto and regardless of whether accruing prior or subsequent to the Closing;
5. Any liability for any federal, state, local or foreign income or other Taxes accrued to or incurred by Olson or SF or any of their respective Affiliates or relating to the SF/Robin Business, the SF Designated Territory Related Business or the Ex-Territory Business, operations, products or assets of Olson or SF or any of their respective Affiliates, or as a consequence of the transactions contemplated hereby;
6. Any liability or costs (including, without limitation, costs of remediation) arising out of or relating to a Hazardous Discharge or the release, discharge or disposal of any solid wastes or the handling, storage, use, transportation or disposal of any of the foregoing, as these terms are defined by the Environmental Laws in, on, under or from facilities of SF at any time prior to the Closing regardless of whether such liability or costs arise before or after Closing and whether or not in breach of any representation or warranty under this Agreement;
7. Any liability or obligation to employees, government agencies or other third parties in connection with any Employee Benefit Plan, option plan, pension plan or any other ERISA plan, or other Employee Benefit Plan and any health, dental or life insurance benefits, whether or not insured and whether or not disclosed on any schedule hereto;
8. Any liability or obligation under any contract or commitment that is not an Assumed Contract or under any SF/Robin Contract which relates to any default in respect of such contract or other commitment or obligation of SF prior to the Closing Date;

9. Any liability or obligation to employees in the nature of workmen's compensation relating to the period prior to the Closing, whether or not listed on any Schedule hereto and regardless of whether accruing prior or subsequent to the Closing;

10. Any accounts payable, notes payable, bank debts, and/or debt to any officer, director or stockholder of SF;

11. Any liability or obligation of any nature of SF or any of its Affiliates owed or claimed by any FM Dental Related Party relating to the Purchased Inventory or otherwise.

12. Any liability or obligation of any nature of SF or any of its Affiliates owned or claimed by Above the Rest, Inc. or any of its Affiliates relating to the transactions contemplated by the Agreement or otherwise.

13. Any other liability not expressly included as an Assumed Contract.

ACQUISITION AGREEMENT

dated as of May 23, 1996

Between

HENRY SCHEIN, INC.,

and

PATTISON-MCGRATH COMPANY DENTAL SUPPLIES

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ACQUISITION AGREEMENT

ACQUISITION AGREEMENT, dated as of May 23, 1996 (the "Agreement"), by and between Henry Schein, Inc., a Delaware corporation ("HSI"), and Pattison-McGrath Company Dental Supplies, a Missouri corporation ("Pattison").

WITNESSETH

WHEREAS, Pattison owns and operates the Business (as hereinafter defined); and

WHEREAS, Pattison is a wholly-owned subsidiary of San Francisco Dental Supply, Inc., a California corporation ("SF"), and will be merged with and into SF as soon as practicable after the date hereof (the "Merger"); and

WHEREAS, Pattison desires to sell and transfer, and HSI desires to purchase and acquire, certain of Pattison's assets used in connection with the Business, all on the terms and conditions set forth herein; and

WHEREAS, the parties hereto and certain of their respective affiliates have concurrently entered into that certain Acquisition Agreement, dated of even date herewith (the "HSI/SF Agreement"), pursuant to which, among other things, HSI shall acquire certain specified assets and businesses from SF; and

WHEREAS, the parties hereto have previously entered into that certain Acquisition Agreement, dated of even date herewith (the "Original Agreement"), by means of their execution and delivery of that certain Agreement, dated of even date herewith (the "Agreement"); and

WHEREAS, the parties hereto desire to enter into this Agreement to amend and restate the Original Agreement as amended, modified and supplemented by the Agreement and set forth their complete agreement and understanding with respect to the subject matter hereof;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties hereto have agreed, and do hereby agree, as follows:

ARTICLE I DEFINITIONS

The terms defined in this Article I, whenever used herein (including the exhibits and schedules hereto, unless otherwise defined therein), shall have the following meanings.

1.1 "Acquired Assets" shall mean, collectively, the Purchased

Inventory and the Pattison Assets.

1.2 "Affiliate" shall mean any Person that directly or indirectly

controls, is controlled by or is under common control with another Person.

1.3 "Agreement" shall mean this Acquisition Agreement, including all

Schedules and Exhibits hereto, in each case, as the same may be amended from time to time.

1.4 "Agreement Date" shall mean May 23, 1996 which is the date on

which this Agreement shall be effective.

1.5 "Authorizations" shall mean all licenses, permits, approvals,

authorizations, qualifications, concessions or the like, issued by any federal, state, local or foreign regulatory or governmental authorities.

1.6 "Business" shall mean all of Pattison's right, title and interest

in and to all of the assets (wherever located, tangible and intangible (including goodwill), real, personal or mixed of Pattison, whether known or unknown and whether or not carried on the books and records of Pattison) and the Business as a going concern (excluding only the assets specified in the proviso below), including, but not limited to, the following (the "Pattison Assets"):

(a) all of Pattison's rights under agreements, arrangements, commitments, and understandings ("Pattison Contracts") relating to the Business as a going concern as conducted and which are set forth on schedule 1.6(a);

(b) all of Pattison's records, files and other data relating to the Business as a going concern;

(c) all of Pattison's copyrights and all of Pattison's rights in the trademarks, service marks, trade names and logos now or previously used by Pattison in the Business as a going concern;

(d) all of Pattison's inventions, computer software, trade secrets and confidential data relating to the Business as a going concern;

(e) all rights to the name "Pattison" and all names derivative therefrom (the "Pattison Name");

(f) all of Pattison's equipment (including office equipment), computers, furniture, fixtures, leasehold improvements, stationery, forms, labels, promotional materials and similar supplies used by Pattison in the Business as a going concern;

(g) all other tangible assets owned by Pattison wherever located;

(h) customer lists, customer sales orders and sales leads, customer shipping labels and forms, customer sales and vendor purchase histories, catalogs, brochures, mailing lists, advertising materials, records, files, computer software, and other information pertaining to Pattison or the Business or the customers and suppliers thereto;

(i) to the extent transferable, all manufacturer's warranties with respect to any of the foregoing;

(j) all Authorizations relating to the Business;

(k) all "800 numbers"; and

(l) all claims against third parties;

provided, however, that the term "Business" shall not include (i) the minute books and stock ledger of Pattison; (ii) cash and cash equivalents on hand or in banks and debt and equity securities; (iii) Pattison's accounts receivable or Non-Matching Inventory which is not designated as Optional Pattison Inventory, (iv) the assets specifically listed on Schedule 1.6(b) hereto or (v) life insurance policies.

1.7 "Business Day" shall mean any day other than a Saturday, Sunday or other day on which banks are closed or are authorized to be closed in New York, New York.

1.8 "Buyer Claimant" shall have the meaning set forth in Section 10.2 of this Agreement.

1.9 "Closing" shall mean the closing of the purchase and sale of the Acquired Assets and the Business as contemplated by this Agreement.

1.10 "Closing Date" shall have the meaning set forth in Section 3.1 of this Agreement.

1.11 "Closing Inventory Report" shall have the meaning set forth in Section 2.1.3(a) of this Agreement.

1.12 "Closing Pattison Inventory Value" shall mean the Inventory

Purchase Price of all Purchased Inventory as of the Closing Date as determined
in accordance with Section 2.1.3(b).

1.13 "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.14 "Employee Benefit Plan" means any "employee benefit plan" within

the meaning of Section 3(3) of ERISA, and any other bonus, profit sharing,
compensation, pension, severance, deferred compensation, fringe benefit,
insurance, welfare, medical, post-retirement health or welfare benefit, medical
reimbursement, health, life, stock option, stock purchase, tuition refund,
service award, company car, scholarship, relocation, disability, accident, sick
pay, sick leave, vacation, termination, individual employment, executive
compensation, incentive, bonus, commission, payroll practices, retention or
other plan, agreement, policy, trust fund or arrangement, whether written or
unwritten, and whether maintained, sponsored or contributed to by Pattison or
any entity that would be deemed a "single employer" with Pattison under Section
414(b), (c), (m) or (o) of the Code or Section 4001(a)(14) of ERISA (an "ERISA
Affiliate") on behalf of any of the current, former or retired employees of
Pattison or their beneficiaries or with respect to which Pattison or any ERISA
Affiliate of Pattison has or has had any obligation on behalf of any such
employee or beneficiary.

1.15 "Employment Agreement" shall mean the Employment Agreement, dated

as of the Agreement Date, by and between HSI and Tom McGrath.

1.16 "Encumbrance" shall mean any lien, charge, restriction, encum-

brance, option, right of first refusal, security interest, easement, obligation
or claim or other third party right of any kind.

1.17 "Environment" shall mean any surface or subsurface physical

medium or natural resource, including, air, land, soil, surface waters, ground
waters, stream and river sediments, and biota.

1.18 "Environmental Laws" shall mean any federal, state, local or

foreign law, rule, regulation, ordinance, code, order or judgment (including the
common law and any judicial or administrative interpretations, guidances,
directives or opinions) relating to the injury to, or the pollution or
protection of human health and safety or the Environment.

1.19 "Environmental Liabilities" shall mean any claims, judgments,

damages (including punitive damages), losses, penalties, fines, liabilities,
encumbrances, liens, violations, costs and expenses (including attorneys' and
consultants' fees) of investigation, remediation or defense of any matter
relating to human health, safety or the Environment of whatever kind or nature
by any party, entity or authority, (a) which are incurred as a result of (i) the
existence of Hazardous Substances in, on, under, at or

emanating from any real property presently or formerly owned or operated by Pattison or any of its Affiliates, (ii) the offsite transportation, treatment, storage or disposal of Hazardous Substances generated by Pattison or any of its Affiliates, or (iii) the violation of any Environmental Laws or (b) which arise under the Environmental Laws.

1.20 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

1.21 "ERISA Affiliate" shall have the meaning set forth in Section 1.15 of this Agreement.

1.22 "Estimated Closing Pattison Inventory Value" shall mean an estimate of the Inventory Purchase Price of all Purchased Inventory as of the Closing Date prepared in good faith by Pattison in accordance with Section 2.1.3(a).

1.23 "Estimated Pattison Sales" shall mean an estimate of the Pattison Sales prepared in good faith by HSI in accordance with Section 2.2(d).

1.24 "Estimated Pattison Sales Statement" shall have the meaning set forth in Section 2.2(d).

1.25 "Excluded Liabilities" shall mean all liabilities or obligations of SF, Pattison or the Business of any kind whatsoever, except the HSI Assumed Liabilities.

1.26 "Final Value" shall mean the sum of (i) the Closing Pattison Inventory Value and (ii) the product of (x) Pattison Sales and (y) 25%.

1.27 "Financial Statements" shall mean, in the case of Pattison, its unaudited compiled financial statements as of February 29, 1996, February 28, 1995 and February 28, 1994.

1.28 "GAAP" shall mean generally accepted accounting principles consistently applied.

1.29 "Hazardous Discharge" shall mean any releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, migrating, disposing or dumping (including the movement of any material through or in air, soil, surface or groundwater) of Hazardous Substances, whether on, off, under or from the Real Property or any other real property owned, operated, leased or used at any time by Pattison or any of its predecessors.

1.30 "Hazardous Substances" shall mean petroleum, petroleum products, petroleum-derived substances, radioactive materials, hazardous wastes, polychlorinated biphenyls, lead based paint, urea formaldehyde, asbestos or any materials containing

asbestos, and any materials, wastes or substances regulated or defined as or included in the definition of "hazardous substances," "hazardous materials," "hazardous constituents," "toxic substances," "pollutants," "contaminants" or any similar denomination intended to classify substances by reason of toxicity, carcinogenicity, ignitability, corrosivity or reactivity under any Environmental Laws.

1.31 "HSI" shall mean Henry Schein, Inc., a Delaware corporation.

1.32 "HSI Assumed Liabilities" shall have the meaning set forth in Section 2.2(b).

1.33 "HSI Closing Documents" shall have the meaning set forth in Section 5.2.

1.34 "HSI Financial Statements" shall mean the audited consolidated financial statements of HSI as of December 25, 1993, December 31, 1994 and December 30, 1995, and for each of the fiscal years then ended.

1.35 "HSI Material Adverse Effect" shall mean any material adverse effect, individually or in the aggregate, on the condition (financial or otherwise), business, assets, operations or prospects of HSI and its subsidiaries, taken as a whole.

1.36 "HSI/Pattison Closing Sales Payment Amount" shall have the meaning set forth in Section 2.2(d).

1.37 "Indemnatee" and "Indemnitor" shall have the meanings set forth in Section 10.4(a) of this Agreement.

1.38 "Ineligible Inventory" shall mean all Inventory which is obsolete, damaged, excessive, below standard quality or slow moving (i.e., items that are for discontinued or expected to be discontinued product lines, or have a stated expiration date of 6 months or less from the Closing Date, or items that have not been used or sold within 6 months prior to the date hereof, or items that have not been sold within the customary inventory turnover cycle of Pattison with respect to such item, or items for which there is excess capacity (i.e., more products are on hand of any such item than have been sold in the past nine (9) months)).

1.39 "Intellectual Property" shall mean all United States and foreign patents and pending patent applications, unpatented inventions, trademarks, service marks and trade names, including, without limitation, the marks and patents described on Schedule 4.8 of this Agreement, and copyrights, and registrations and pending applications therefor, and all trade secrets, trade names, computer programs and software, research and development, know-how, customer lists, manufacturing, engineering and other drawings and blueprints, technology, technical information, engineering data,

design and engineering specifications, inventions and other proprietary processes and information of any kind owned by Pattison or in which Pattison has a proprietary or ownership or usage right, and all software necessary or desirable to operate equipment included in the Acquired Assets, all as set forth on Schedule 4.8 of this Agreement.

1.40 "Inventory" shall mean all inventory and related items (including -----
all production, shipping and packaging supplies) relating to or used or useful in connection with the Business.

1.41 "Inventory Dispute Statement" shall have the meaning set forth in -----
Section 2.1.3(b) of this Agreement.

1.42 "Inventory Disputed Items" shall have the meaning set forth in -----
Section 2.1.3(b) of this Agreement.

1.43 "Inventory Purchase Price" shall mean the lower of (x) the -----
Invoice Price or (y) market price of all Purchased Inventory goods and products other than Ineligible Inventory, minus an inventory reserve computed in accordance with GAAP.

1.44 "Invoice Price" shall mean, in the case of Purchased Inventory, -----
finished goods and products other than Ineligible Inventory, the last actual purchase price in accordance with Pattison's customary accounting principles (after giving effect to any actual discounts or allowances (including cash discounts and vendor rebates)) immediately prior to the Closing Date at which Pattison purchased such Inventory from a non-Related Party.

1.45 "IRS" shall mean the Internal Revenue Service (or any successor -----
agency thereto).

1.46 "Losses" shall have the meaning set forth in Section 10.2 of this -----
Agreement.

1.47 "Material Adverse Effect" shall mean any material adverse effect, -----
individually or in the aggregate, on the condition (financial or otherwise), business, assets, operations or prospects of the Business or the Acquired Assets.

1.48 "Net Sales" shall mean net sales (as determined in accordance -----
with GAAP, taking into account any returns and allowances) of dental supplies and equipment (other than software).

1.49 "Non-Compete Agreement" shall mean the Noncompete Agreement, -----
dated as of the Agreement Date, by and among HSI, and Thomas McGrath and Donald McGrath.

1.50 "Non-Matching Inventory" shall mean any Inventory owned or held

by Pattison which is not Pattison Like Kind Inventory or Ineligible Inventory.

1.51 "Optional Pattison Inventory" shall mean all Inventory owned by

Pattison which is not Pattison Like Kind Inventory; provided, however, that the

Optional Pattison Inventory shall not include any Ineligible Inventory.

1.52 "Pattison" shall mean Pattison-McGrath Company Dental Supplies, a

Missouri corporation.

1.53 "Pattison Contracts" shall have the meaning set forth in Section

4.9.

1.54 "Pattison Closing Documents" shall have the meaning set forth in

Section 4.2.

1.55 "Pattison Like Kind Inventory" shall mean all Inventory owned by

Pattison relating to or useful in connection with the Business which (i) matches
a stock keeping unit currently sold by HSI and/or (ii) is large dental
equipment, and which is not, in either case, Ineligible Inventory.

1.56 "Pattison Sales" shall mean the sum of the Net Sales of Pattison

to non-Related Parties for the 12-month period ending February 29, 1996.

1.57 "Pattison Specified Contracts" shall mean, collectively, the

promissory notes attached to, or referred to in, Exhibit 1.57.

1.58 "Permitted Encumbrances" means mechanics', carriers', workmen's,

repairmen's and other similar liens arising or incurred in the ordinary course
of business, purchase money liens arising in the ordinary course of business and
liens for taxes, assessments and other governmental charges not due and payable
or that may be paid without penalty.

1.59 "Person" shall mean any natural person, corporation, limited or

limited liability partnership, general partnership, joint venture, association,
joint-stock company, limited liability company, company, trust, bank, trust
company, land trust, business trust or other organization, whether or not a
legal entity, and any governmental unit or agency or political subdivision
thereof.

1.60 "Prime Rate" shall mean the fluctuating prime or base rate

publicly announced from time to time by The Chase Manhattan Bank, N.A. (or any
successor thereto).

1.61 "Purchased Inventory" shall mean all Inventory purchased by HSI

pursuant to Section 2.1.1.

1.62 "Real Property" shall mean the real property and interest in real

property described on Schedule 4.7 held by Pattison and the plants, buildings,
structures, storage tanks, erections and improvements of all kinds made to,
located on or forming a part of the real property and interests in real property
(including, without limitation, all fixtures), together with all easements,
rights-of-way, appurtenances and tenements to, on or otherwise beneficial to the
use of such real property or interests in real property or in the operation of
the Business.

1.63 "Related Party" shall have the meaning set forth in Section 4.18

of this Agreement.

1.64 "Securities Act" shall mean the Securities Act of 1933, together

with the rules and regulations promulgated thereunder.

1.65 "Seller Claimant" shall have the meaning set forth in Section

10.3 of this Agreement.

1.66 "SF" shall mean San Francisco Dental Supply, Inc., a California

corporation.

1.67 "SF Business" shall mean the distribution of dental supplies and

equipment by SF.

1.68 "Stock Purchase Agreement" shall mean the Stock Purchase

Agreement, dated as of April 30, 1996, among SF and the shareholders of
Pattison.

1.69 "Taxes" (or "Tax" where the context requires) shall mean all

federal, state, local, foreign or other taxes, duties, or similar charges
(including, without limitation, income (whether net or gross), profits, premium,
estimated, excise, sales, use, environmental (including taxes under Code Section
59A), occupancy, franchise, license, value added stamp, windfall profits, social
security, gross receipts, franchise, ad valorem, severance, capital levy,
production, transfer, gains, withholding, occupation, employment and payroll
related and property taxes, alternative or add-on, minimum or estimated, import
and export duties and other governmental charges and assessments) imposed by any
taxing or governmental authority on or payable by Pattison or any other party
with respect to the income, operations, products, assets or properties of
Pattison, whether attributable to statutory or nonstatutory rules and whether or
not measured in whole or in part by net income, and including interest,
additions to tax or interest, and penalties with respect thereto, and including
expenses associated with contesting any proposed adjustment related to any of
the foregoing.

1.70 "Undisputed Pattison Sales" shall have the meaning set forth in

Section 2.2(e).

ARTICLE II SALE AND PURCHASE OF INVENTORY; SALE AND PURCHASE OF

BUSINESS

2.1 Purchase of Inventory.

2.1.1 Purchased Inventory. (a) Upon terms and subject to the

conditions hereof, upon the basis of the agreements, representations and warranties contained in, and the schedules and exhibits to, this Agreement, at the Closing, Pattison shall sell, transfer, assign, convey, and deliver to HSI, and HSI shall purchase and acquire from Pattison, all of the Pattison Like Kind Inventory, free and clear of all Encumbrances.

(b) At the Closing, at the option of HSI (the exercise of which shall be in the sole and absolute discretion of HSI), HSI may purchase and acquire from Pattison, and, if HSI exercises such option, Pattison shall sell, transfer, assign, convey and deliver to HSI, all or such portion of the Optional Pattison Inventory as shall be designated by HSI, free and clear of all Encumbrances.

2.1.2 Closing Inventory. (a) Within twenty (20) Business Days

after the Closing Date, Pattison shall complete preparation of an inventory report (by SKU number, quantity and Invoice Price) setting forth the Estimated Closing Pattison Inventory Value (such inventory report is hereinafter referred to as the "Closing Inventory Report").

(b) Upon completion of the Closing Inventory Report, Pattison will deliver the Closing Inventory Report to HSI. Following receipt of the Closing Inventory Report, HSI will have a period of thirty (30) Business Days after the receipt thereof to review the Closing Inventory Report. At or before the end of such review period, HSI will either (i) accept the Closing Inventory Report in its entirety, in which case the Closing Pattison Inventory Value shall be deemed to be equal to the Estimated Closing Pattison Inventory Value as set forth in the Closing Inventory Report or (ii) deliver to Pattison a written explanation (the "Inventory Dispute Statement") of those items in the Closing Inventory Report which HSI in good faith disputes (the "Inventory Disputed Items"), in which case the Estimated Closing Pattison Inventory Value not affected by Inventory Disputed Items shall be deemed to be as set forth in the Closing Inventory Report. Within a further period of thirty (30) Business days from the date on which the Inventory Dispute Statement is delivered by HSI, the parties will attempt to resolve in good faith any Inventory Disputed Items. In the absence of such resolution by the last day of such thirty (30) Business Day period, the unresolved Inventory Disputed Items will be referred for final binding resolution by the Third Accountants. Each of HSI and Pattison shall be entitled to make a brief supplemental oral presentation to the Third Accountants. The Closing Pattison Inventory Value affected by any Inventory Disputed Items will be determined by the Third Accountants within thirty (30) days of such reference based upon the definitions of Inventory, Closing Pattison Inventory Value, Inventory Purchase Price, Invoice Price, and Ineligible Inventory as set forth herein. The

determination of such firm will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any reason. Promptly after the determination by the Third Accountants, the Pattison Note (as such term is defined in Section 2.6) shall be adjusted as set forth in Section 2.6. The fees and expenses of the Third Accountants shall be paid one-half by HSI and one-half by Pattison.

2.2 Purchase of the Business. (a) At the Closing, and in accordance

with the terms and provisions of this Agreement, Pattison will assign, transfer, convey and deliver to HSI, and HSI will acquire from Pattison, all of Pattison's right, title and interest in and to the Pattison Assets and the Business as a going concern, free and clear of all Encumbrances (other than Permitted Encumbrances). Notwithstanding anything in this Agreement to the contrary, Pattison is not assigning, transferring, conveying or delivering to HSI any of the Pattison Excluded Assets.

(b) At the closing, and in accordance with the terms and provisions of this Agreement, HSI is assuming and agreeing to pay, perform and discharge only the following obligations and liabilities of Pattison relating to the Business (the "HSI Assumed Liabilities"): all liabilities and obligations of Pattison arising after the Closing Date under the Pattison Specified Contracts.

(c) Except as specifically provided in Section 2.2(b), HSI is not assuming, and shall not have any liability for, any liabilities or obligations of Pattison or any liabilities or obligations which arose or may arise out of the operations of the Acquired Assets or the Business or otherwise prior to the Closing Date, and Pattison shall pay, perform and discharge all such liabilities and obligations when due in the ordinary course of business. Without limitation to the generality of the foregoing, HSI is not assuming, and shall not have any liability, (a) for any income, franchise, sales, payroll, withholding or other taxes of Pattison, (b) for any expenses of Pattison related to the negotiation, preparation and execution of this Agreement or the consummation of the transactions contemplated hereby, (c) as a "successor-in-interest" to Pattison with respect to the Business, (d) for any accounts payable of Pattison, or (e) for any matter or thing set forth on Schedule 2.2(e).

(d) As total consideration for the Purchased Inventory, and the other assets and business being sold, transferred, conveyed and delivered to HSI by Pattison pursuant to Sections 2.1 and 2.2, (i) HSI shall, at the Closing, pay SF \$500,000 (the "HSI/Pattison Closing Sales Payment Amount"), and assume the HSI Assumed Liabilities and (ii) in connection with the assumption by HSI of the HSI Assumed Liabilities, Pattison shall issue, execute and deliver the Pattison Note (as such term hereinafter defined) and, within ten (10) days after the determination of Pattison Sales and Closing Pattison Inventory Value, the Pattison Note shall be adjusted as set forth in Section 2.6.

(e) Within thirty (30) Business Days after the Closing Date, HSI shall prepare a statement (the "Estimated Pattison Sales Statement") setting forth its

computation of Estimated Pattison Sales. In connection with the preparation of such report, the authorized representatives of HSI shall have the right at reasonable times and on reasonable notice, at the sole expense of HSI, to review and/or audit the books and records of Pattison relating to the Estimated Pattison Sales, as well as the work papers of its independent public accountants, in each case solely for the purpose of computing the Estimated Pattison Sales. Upon completion of the Estimated Pattison Sales Statement, HSI will deliver the Estimated Pattison Sales Statement to SF. Following receipt of the Estimated Pattison Sales Statement, Pattison will have a period of twenty (20) Business Days to review the Estimated Pattison Sales Statement. If prior to the end of such review period, Pattison in good faith disagrees with or disputes the accuracy of the Estimated Pattison Sales, then Pattison shall deliver to HSI a written statement and explanation of such disagreement or dispute which sets forth in reasonable detail the good faith bases of any such disagreement or dispute (a "HSI/Pattison Sales Dispute Statement" (and, to the extent Estimated Pattison Sales are not subject to any HSI/Pattison Sales Dispute Statement, such Estimated Pattison Sales are hereinafter referred to as "Undisputed Pattison Sales")). If prior to the end of the above referenced twenty (20) Business Day review period following receipt of the Estimated Pattison Sales Statement, Pattison shall fail to deliver a HSI/Pattison Sales Dispute Statement, then the Estimated Pattison Sales shall be deemed to equal both the Pattison Sales and Undisputed Pattison Sales. If, however, Pattison shall have delivered an HSI/Pattison Sales Dispute Statement prior to the end of such review period, then HSI and Pattison will attempt in good faith to resolve all differences with regard to the determination of Pattison Sales during the next twenty (20) Business Day period commencing after the end of such review period. If HSI and Pattison are unable to resolve such differences prior to the expiration of such twenty (20) Business Day period (or such longer period if so agreed by HSI and Pattison), the Pattison Sales shall be determined as set forth in Section 2.2(f) of this Agreement.

(f) Written reports of disagreement or disputes with respect to any amounts referred to in Section 2.3(d) shall be prepared in concise form by HSI and Pattison and submitted, together with copies of any HSI/Pattison Sales Dispute Statement, to the Third Accountants no later than ten (10) Business Days following the last day of the twenty (20) Business Day period (or longer period if so agreed) referred to in the last sentence of Section 2.2(e). Each of HSI and Pattison shall also be entitled to make a brief supplemental oral presentation to the Third Accountants regarding any such disagreement or dispute. The Third Accountants shall be instructed by HSI and Pattison to deliver a written report setting forth such Third Accountants' resolution of any difference or dispute referred to it no later than thirty (30) Business Days following the earlier of (i) such firm's receipt of the report of disagreement or disputes submitted to it by HSI and Pattison pursuant to this Section 2.2(g) and (ii) the last day permitted for the submission of such report as provided above. The determination of the Third Accountants with respect to any disagreement or dispute referred to it by HSI and Pattison as provided in this Section 2.2(f) will be final, binding, non-appealable and uncontestable by the parties hereto and will not be subject to collateral attack for any

reason. Promptly after the determination by the Third Accountants, the Pattison Note shall be adjusted as set forth in Section 2.6.

2.3 Allocation of Purchase Price. The purchase price for the

Acquired Assets shall be allocated for federal, state, local and foreign tax purposes by each party among the Acquired Assets sold, transferred and assigned hereunder and the covenant contained in the Non-Compete Agreement as determined by HSI and approved by Pattison, acting on (such approval not to be unreasonably withheld or delayed), not later than six (6) months after the Closing Date. For all pertinent tax purposes each party hereto shall report the purchase and sale and assignment provided for, and with the characterization given these transactions, in this Agreement to taxing authorities on a basis consistent with such allocation, and each party agrees not to take a position inconsistent with such allocation. After the Closing, each of HSI and Pattison shall timely file form 8594 with the IRS detailing this allocation. In the event that HSI determines, subject to Pattison's reasonable approval, that any adjustments to such allocation are necessary, Pattison shall make such modifications as are necessary reporting the same on form 8594 (if required) or any tax report or return filed or to be filed by Pattison in order to conform to HSI's allocation as adjusted.

2.4 Nonassignable Contracts and Authorizations. To the extent that

the assignment of any Pattison Contract or Authorization to be assigned to HSI pursuant to this Agreement shall require the consent of any other party, this Agreement shall not constitute a contract to assign the same if an attempted assignment would constitute a breach thereof. Pattison shall use all reasonable efforts, and HSI shall cooperate where appropriate, to obtain any consent necessary to any such assignment where such consent is requested by HSI. If any such consent is not obtained, Pattison shall cooperate with HSI in any reasonable arrangement designed to provide for HSI the benefit, monetary or otherwise, of any such Pattison Contract or Authorization including enforcement of any and all rights of Pattison or the Business against the other party thereto arising out of a breach or cancellation thereof by such other party or otherwise.

2.5 Guarantee of Performance by Pattison. As a material inducement

to HSI to execute, deliver and perform its obligations under this Agreement, from and after the Closing Date, SF unconditionally and irrevocably guarantees the full payment and/or performance of each obligation of Pattison under this Agreement (including, without limitation, the obligations of Pattison under Section 10.2 hereof) and each of the other Pattison Closing Documents (including the Pattison Note). This guaranty constitutes a guaranty of payment and performance when due and not of collection, and SF specifically agrees that it shall not be necessary or required that HSI (or any other Buyer Claimant) exercise any right, assert any claim or demand or enforce any remedy whatsoever against Pattison before or as a condition to the obligations of SF hereunder. At the Closing, SF shall execute and deliver a guaranty in the form of Exhibit 2.5 hereto (the "SF Guaranty"). SF further acknowledges that it is its intention to cause the merger of Pattison with and into SF as soon as practicable after the date hereof and thereby

assume, and become liable for, all obligations of Pattison by law (including the Pattison Note).

2.6 Pattison Bridge Loan. (a) At the Closing, Pattison shall

execute and deliver its promissory note in the form of Exhibit 2.6 hereto (the "Pattison Note") in an aggregate principal amount of \$325,297.94; provided, however, that the original principal amount shall be subject to adjustment as

follows: (i) if the Final Value is greater than \$1,450,000, then the face amount of the Pattison Note shall be reduced by the amount by which the Final Value exceeds such amount and (ii) if the Final Value is less than \$1,450,000, then the face amount of the Pattison Note shall be increased by the amount by which the Final Value is less than such amount. If the event referred to in the foregoing clause (i) is applicable, HSI hereby consents to any reduction of the Pattison Note as a result thereof and if the event referred to in the foregoing clause (ii) is applicable, Pattison hereby consents to an increase in the Pattison Note as a result thereof, and, in either case, HSI and Pattison agree to the exchange of a new promissory note to give effect to the applicable event.

(b) The Pattison Note shall be secured by an assignment in favor of HSI of those certain life insurance policies listed on Schedule 2.6(b) (the "Life Insurance Policies") and, at the election of HSI, an encumbrance on the Real Property described on Schedule 4.7 hereto. If HSI elects to require the imposition of an Encumbrance on such Real Property as additional security for the Pattison Note, Pattison hereby agrees to execute such documentation as shall be requested by HSI and its counsel to perfect such Lien.

ARTICLE III CLOSING

3.1 The Closing. The Closing shall take place at 10:00 a.m. local

time on June 24, 1996 or on such other date as may be agreed upon in writing by the parties hereto (the "Closing Date"), at the offices of counsel to HSI, Proskauer Rose Goetz & Mendelsohn LLP ("Proskauer"), 1585 Broadway, New York, New York.

3.2 Obligations of Pattison. At the Closing, Pattison shall deliver

to HSI the following:

(a) An opinion of Hanaway, Ross, Hanaway, Weidner & Bachhuber, S.C., counsel to Pattison and SF, dated as of the Closing Date, in the form of annexed hereto as Exhibit 3.2(a).

(b) Bill of Sale duly executed by Pattison, in the form annexed hereto as Exhibit 3.2(b).

(c) An assignment, duly executed by SF and each of the former shareholders of Pattison, pursuant to which SF shall assign to HSI, all of SF's rights under the Stock Purchase Agreement, such assignment to be in the form annexed hereto as Exhibit 3.2(c).

(d) FirstStar Financial shall have consented to the consummation of the transactions contemplated by this Agreement and the Stock Purchase Agreement, and HSI shall have received satisfactory evidence of such consent.

(e) SF shall have delivered the duly executed Guaranty.

(f) Thomas McGrath shall have executed and delivered the Employment Agreement.

(g) Thomas McGrath and Donald McGrath shall have executed the Non-Compete Agreement.

(h) Pattison shall have delivered the duly executed Pattison Note.

(i) Mercantile Bank of Kansas City ("Mercantile Bank") shall have delivered to Pattison and HSI a duly executed release of all Encumbrances against the Business and the Pattison Assets, and all outstanding indebtedness owed to Mercantile Bank by Pattison shall have been repaid.

(j) Security Agreement duly executed by Pattison, in the form annexed hereto as Exhibit 3.2(j), covering the Life Insurance Policies.

(k) Each of First Bank National Association ("FBNA") (or its applicable affiliates), Thompson-Schwinghammer, Inc. (d/b/a "FM Dental Supply") and John Thompson (collectively, the "FM Dental Related Parties") shall have advised Pattison, SF and HSI in writing that it has no Encumbrance relating to the Business or the Pattison Assets nor will it assert any purported Encumbrance in the future; provided, however, if the FM Dental Related Parties shall not

have delivered written agreements to the foregoing effect satisfactory to HSI, HSI may, in its sole discretion, consummate the Closing, but HSI may exercise all of its rights described in the proviso to Section 3.2(i) of the HSI/SF Agreement. Nothing in this Section 3.2(k) shall relieve Pattison from the performance of any obligation owed by Pattison or SF to any FM Dental Related Party or HSI, or impose any obligation on HSI to perform any such obligation on behalf of Pattison or SF.

(l) Each of Norman E. Shepard, Robert D. Cowell, Donald M. Shortess and Thomas J. McGowan shall have executed and delivered acknowledgment and waiver letters to Pattison and HSI in the form annexed hereto as Exhibit 3.2(l).

(m) Such other instruments of assignment and conveyance as may be necessary or appropriate to fully and effectively transfer the Acquired Assets being transferred by Pattison in accordance with the terms of this Agreement.

3.3 Obligations of HSI. At the Closing, HSI shall deliver to

Pattison and SF the following (or cause the following to occur):

(a) The SF Closing Inventory Payment.

(b) The HSI/Pattison Closing Sales Payment Amount.

(c) Assumption Agreement, duly executed by HSI in the form annexed hereto as Exhibit 3.3(c).

(d) HSI shall pay by wire transfer of funds to Mercantile Bank the amount referred to in that certain pay-off letter included in the Pattison Specified Contracts.

(e) HSI shall pay by wire transfer of funds to each of Thomas McGrath, the amount of \$45,882.46, the Estate of W.J. McGrath, the amount of \$31,415.48, Thomas McGrath, the amount of \$28,000, Jack McGrath, the amount of \$10,000 and William McGrath, the amount of \$10,000, in each case, in full satisfaction of the promissory notes in such amounts included in the Pattison Specified Contracts and HSI shall receive satisfactory receipts and releases therefor. [SF Dental should obtain wire transfer instructions from the McGraths.]

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PATTISON

Pattison hereby represents and warrants to HSI as follows:

4.1 Organization and Qualification. Pattison is a corporation duly

organized, validly existing and in good standing under the laws of the State of Missouri with full corporate power and authority to own, lease and operate its properties and assets and to conduct the Business, as it is now being conducted. Pattison is duly qualified as a foreign corporation and is in good standing under the laws of each jurisdiction in which the conduct of the business or the ownership of its assets requires such qualification.

4.2 Authority. Pattison has all requisite corporate power and

authority, to execute and deliver this Agreement and all documents, certificates, agreements, instruments and writings related hereto (collectively, the "Pattison Closing Documents") to which it is a party and to perform, carry out and consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this

Agreement and the other Pattison Closing Documents have been duly authorized by all necessary corporate action on the part of Pattison (including the unanimous approval of SF, in its capacity as sole shareholder of Pattison). This Agreement does, and when executed by Pattison, the other Pattison Closing Documents shall, constitute the legal, valid and binding obligations of each of Pattison, enforceable against Pattison in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency or similar laws and by equitable principles.

4.3 No Breach. Subject to Section 8.5(b) and except as set forth on

Schedule 4.3 hereto, neither the execution and delivery of this Agreement or the other Pattison Closing Documents by Pattison nor the consummation of the transactions contemplated hereby or thereby will: (a) violate any provision of the Certificate of Incorporation or By-Laws or other organizational documents of Pattison; (b) conflict with, result in a breach of or constitute a default (or an event which, with or without notice, lapse of time or both, would constitute a default) under any material agreement, document, certificate or other instrument to which Pattison is a party or by which Pattison or any of its properties or assets (including the Acquired Assets) is subject or bound; (c) result in the creation of, or give any party the right to create, any Encumbrance upon assets or properties of Pattison (including the Acquired Assets); (d) conflict with, violate, result in a breach of or constitute a default under any judgment, decree, order, or process of any court or governmental authority; (e) conflict with or violate any material statute, law or regulation applicable to the Business, the Acquired Assets or Pattison; or (f) require Pattison to obtain any authorization, consent, approval or waiver from, or to make any filing with, any governmental or regulatory authority.

4.4 Financial Statements and Sales Information. (a) Prior to the

date hereof, Pattison has delivered to HSI the Financial Statements (to the extent required by the definition thereof) attached hereto as Schedule 4.4A. Such Financial Statements have been prepared from, and are in accordance with, the books and records of Pattison, present fairly the financial position and results of operations of the Acquired Assets and the Business as of and for the periods set forth therein in accordance with GAAP and are true, correct and complete in all material respects, except as set forth on Schedule 4.4B.

(b) The books and records of Pattison are accurate and complete and have been maintained in accordance with good business practices.

4.5 Absence of Certain Changes or Events. Except as set forth on

Schedule 4.5 hereto, since February 29, 1996:

(a) The Business has been conducted, and the Acquired Assets have been acquired, owned and operated only in the ordinary and usual course consistent with past practice.

(b) Neither the Business nor the Acquired Assets have suffered any event or condition that has had a Material Adverse Effect.

(c) Pattison has not become aware of any event or condition that has occurred or would reasonably be expected to occur that could result in a Material Adverse Effect.

4.6 Assets. Pattison has good and freely transferable title to all

of the Acquired Assets, free and clear of all Encumbrances (other than, in the case of Acquired Assets which do not constitute Purchased Inventory, Permitted Encumbrances), and has the complete and unrestricted power and right to sell and/or transfer the Acquired Assets in accordance with the terms hereof. Each item of equipment included in the Acquired Assets is and will when delivered be adequate for the uses to which it is being put as of the Closing Date, is and will when delivered be in good order and working condition, ordinary wear and tear excepted, and have no material defects, and no condition exists or will when such equipment is delivered exist which interferes with the value thereof or the use thereof, in connection with the operations of the Business prior to the date hereof. Such equipment has been maintained in accordance with good business practices. Except as set forth on Schedule 4.6, the Acquired Assets constitute all of the properties and assets used in connection with the operations of the Business and include all of the properties and assets necessary to operate the Business as such business has been operated immediately prior to the date hereof.

4.7 Real Property. Schedule 4.7 sets forth an accurate and complete

list of all Real Property owned by Pattison and all leases of Real Property used in the Business.

4.8 Intellectual Property. Schedule 4.8 hereto lists all licenses of

Intellectual Property to or from Pattison with respect to the Business. No currently outstanding claims have been asserted either orally or in writing to Pattison or the Business, by any Person challenging the validity of or alleging infringement by, or misuse of, any Intellectual Property used by Pattison or the Business, or challenging or questioning the validity or enforceability of any license or agreement referred to on Schedule 4.8, no such claims have been asserted during the last five years, and there is no valid basis for any such claim. Except as set forth on Schedule 4.8, none of Pattison nor the Business, nor has Pattison or the Business, been alleged to have, infringed upon or violated any Intellectual Property right or misappropriated or misused any invention, trade secret or other proprietary information entitled to legal protection. None of Pattison nor the Business has asserted any currently outstanding claim of infringement, misappropriation or misuse of any Intellectual Property, nor has any of Pattison or the Business asserted any such claims during the last five years.

4.9 Contracts and Commitments. (a) The contracts listed on Schedule

4.9 are all of the leases, agreements, arrangements, contracts, commitments or

understandings, written or oral, and whether legally binding or otherwise ("Pattison Contracts"), that relate to the Business, (excluding (i) any Pattison Contract that involves a commitment by Pattison of less than \$10,000 over the next 12 months and less than \$25,000 over the balance of the term of the Pattison Contract and (ii) customer sales orders entered into in the ordinary course of business.)

(b) None of Pattison or the Business is in breach or default, nor is there any basis for any valid claim of breach or default by any of Pattison or the Business under any Pattison Contract. Except as set forth on Schedule 4.9, all Pattison Contracts are valid and in full force and effect, and neither the consummation of the transactions contemplated by this Agreement nor the consummation of the transactions contemplated by any other Pattison Closing Document will cause any Pattison Contract to cease to be valid and in full force and effect. None of the Pattison Contracts contain "change of control" provisions (i.e., provisions which would create a right against, or obligation

of, Pattison as a result of the consummation of the transactions contemplated by this Agreement and the other Pattison Closing Documents). Accurate and complete copies of all Pattison Contracts, including all amendments thereto, have been heretofore delivered to HSI.

4.10 Accounts Receivable. Schedule 4.10 sets forth a complete and

accurate list of all accounts receivable of Pattison, including an aging thereof as of May 1, 1996. All of such accounts receivable (a) represent sales actually made in the ordinary course of business for goods or services delivered or rendered to unaffiliated customers in bona fide arm's-length transactions, (b) constitute valid claims, (c) have not been and will not be extended or rolled over in order to make them current and (d) are not and will not be subject to counterclaims or setoffs.

4.11 Inventory. The Inventory of Pattison is described on Schedule

4.11. Such Inventory is of merchantable quality, free of defects in workmanship or design and is usable and salable by Pattison at normal profit margins and in accordance with historical sales practices in the ordinary course of the Business. Such Inventory does not include any items which are obsolete, damaged, excessive, below standard quality or slow moving (i.e., items that are

for discontinued or expected to be discontinued product lines, or have a stated expiration date of 6 months or less from the Closing Date, or items that have not been used or sold within 6 months prior to the date hereof, or items that have not been sold within the customary inventory turnover cycle of Pattison, as the case may be, with respect to such item, or items for which there is excess capacity (i.e., more products are on hand of any such item than have been sold

in the past nine (9) months).

4.12 Customers and Suppliers. There have been no adverse changes and

there are no facts known to Pattison which may reasonably be expected to indicate that any adverse change may occur in the business relationship of the Business with any Person who was one of the fifteen largest customers or suppliers of the Business as of the end of the 12 month period ending on February 29, 1996.

4.13 Litigation, Etc. Except as set forth on Schedule 4.13 hereto:

(a) There has not been in the three years prior to the date hereof, nor is there currently, any claim, action, suit, inquiry, proceeding or, to the best knowledge of Pattison, investigation of any kind or nature whatsoever (including, but not limited to, products liability issues and Environmental Liabilities), by or before any court or governmental or other regulatory or administrative agency, commission or tribunal brought, asserted or initiated by or against Pattison, or pending or, to the best knowledge of Pattison, threatened against or involving the Business and which is material, or which questions or challenges the validity of this Agreement or any action taken or to be taken by Pattison pursuant to this Agreement or in connection with the transactions contemplated hereby. There is no valid basis for any such claim, action, suit, inquiry, proceeding or investigation.

(b) Pattison is not subject to any judgment, order or decree which may have a Material Adverse Effect.

4.14 Employee Benefit Plans. Schedule 4.14 hereto contains a complete

and accurate list of all Employee Benefit Plans. Each Employee Benefit Plan complies and has been maintained and operated in all respects in accordance with its terms and the terms and the provisions of applicable law, including, without limitation, ERISA and the Code, except where the failure to so comply would not cause a Material Adverse Effect.

4.15 Compliance with Law; Necessary Authorizations. (a) Except as

listed or described on Schedule 4.15(a) hereto, the Business has been conducted, marketed its products and owned and operated all of the Acquired Assets, in compliance with all applicable laws, rules, regulations, orders, building and other codes, zoning and other ordinances, Authorizations, judgments and decrees, including all Environmental Laws, of all federal, state, local, foreign or other governmental authorities, except, in any such case, where the failure to so conduct the Business or comply with any such laws, rules or regulations would not cause a Material Adverse Effect.

(b) Schedule 4.15(b) lists or describes the material Authorizations held or required by the Business and, except as set forth in that schedule, all such Authorizations are in full force and effect, Pattison is in compliance with all such Authorizations and, to the best knowledge of Pattison, there is no reasonable basis for the revocation or suspension of any thereof. Except as set forth on Schedule 4.15(b), such Authorizations constitute all the permits, licenses, approvals, qualifications or the like issued by any regulatory authorities required for ownership of the Acquired Assets and the operation of the Business, all of which are transferable and will be transferred to HSI at Closing.

4.16 Finders. Neither Pattison nor the Business has taken any action

that, directly or indirectly, would obligate HSI or any of its Affiliates to anyone acting as

broker, finder, financial advisor or in any similar capacity in connection with this Agreement or any of the transactions contemplated hereby.

4.17 Consents and Approvals of Governmental Authorities. Except as

set forth on Schedule 4.17, no consent, approval or authorization of, or declaration, filing or registration with, or the giving of notice to, any domestic or foreign governmental or regulatory authority is required in connection with the execution, delivery and performance by Pattison of this Agreement or the consummation by Pattison of the transactions contemplated hereby.

4.18 Related Party Transactions; Intercompany Accounts. Except as set

forth on Schedule 4.18 hereto, there are no Pattison Contracts between Pattison, on one hand, and any stockholder, director, officer or Affiliate of Pattison (each, a "Related Party"), on the other; in each case, other than routine employment agreements in the ordinary course of business (and which are terminable without penalty in not more than 30 days). Set forth on Schedule 4.18 is a true and complete list of each transaction during the prior 18 months between any of Pattison or the Business, on one hand, and any Related Party, on the other hand. No amounts are owed by or to Pattison with respect to the Business to or by any Related Party, and no amount is owed by or to Pattison or the Business to or by any Related Party.

ARTICLE V REPRESENTATIONS AND

WARRANTIES OF HSI

HSI hereby represents and warrants to Pattison as follows:

5.1 Organization and Qualification. HSI is a corporation duly

organized, validly existing and in good standing under the laws of Delaware, with full corporate power and authority to own, lease and operate its properties and assets and to conduct its business as it is now being conducted. HSI is duly qualified as a foreign corporation and is in good standing under the laws of such jurisdiction in which the conduct of the business or the ownership of its assets requires such qualification.

5.2 Authority. HSI has all requisite corporate power and authority

to execute and deliver this Agreement and all documents, certificates, agreements, instruments and writings relating hereto (collectively, the "HSI Closing Documents") to which it is a party and to perform, carry out and consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the other HSI Closing Documents have been duly authorized by all necessary corporate action on the part of HSI. This Agreement does, and when executed by HSI, the other HSI Closing Documents shall, constitute the legal, valid and binding obligations of each of them enforceable against HSI in accordance with their respective

terms, except as such enforceability may be limited by bankruptcy, insolvency or similar laws and by equitable principles.

5.3 No Breach. Subject to Section 7.5(b), neither the execution and

delivery of this Agreement by HSI nor the consummation of the transactions contemplated herein will: (i) violate any provision of the Certificate of Incorporation or By-laws of HSI; (ii) conflict with, result in a breach of or constitute a default (or an event which, with or without notice, lapse of time or both, would constitute a default) under, or give any third party the right to terminate or modify, any material agreement or other instrument to which HSI is a party or by which it or any of its assets is bound; (iii) result in the creation of, or give any party the right to create, any Encumbrance, upon assets or properties of HSI; (iv) conflict with, violate, result in a breach of or constitute a default under any judgment, decree, order or process of any court or governmental authority; (v) conflict with or violate any material statute, law or regulation applicable to the business of HSI; or (vi) require HSI to obtain any authorization, consent, approval or waiver from, or to make any filing with, any governmental or regulatory authority.

5.4 HSI Financial Statements and Sales Information. Prior to the

date hereof, HSI delivered to Pattison the HSI Financial Statements (to the extent required by the definition thereof) attached hereto as Schedule 5.4A. Such HSI Financial Statements have been prepared from, and are in accordance with, the books and records of HSI, present fairly the financial position and results of operations of HSI as of and for the periods set forth therein in accordance with GAAP and are true, correct and complete in all material respects, except as set forth on Schedule 5.4B.

5.5 Finders. Neither HSI nor any of its respective Affiliates has

taken any action that, directly or indirectly, would obligate Pattison or any of its Affiliates to anyone acting as a broker, finder, financial advisor or in any similar capacity in connection with this Agreement or any of the transactions contemplated hereby.

ARTICLE VI COVENANTS

6.1 Certain Covenants of Pattison. Pattison hereby covenants that

(unless HSI otherwise gives its written approval in its sole discretion)
Pattison shall at its sole cost and expense take the actions set forth below:

(a) Prior to and after the Closing Date, Pattison shall pay those debts and accounts payable relating to the Business and the Acquired Assets that are or have been incurred by Pattison in the ordinary course of business and on a timely basis. If Pattison shall not pay and otherwise satisfy all such accounts payable on a timely basis, then HSI, in its sole and absolute discretion, may pay all or any portion of such accounts payable on behalf of Pattison, which shall promptly reimburse HSI for any such payment, plus interest thereon at the Prime Rate. Pattison shall thereafter pay or otherwise

discharge in full all the Excluded Liabilities relating to the Business as such amounts shall become due in accordance with their terms.

(b) Prior to and after the Closing Date, Pattison shall afford HSI, its attorneys, accountants, consultants and representatives free and full access to the Acquired Assets to be sold, transferred or assigned by Pattison pursuant to this Agreement, the books and records of Pattison relating thereto and employees of Pattison who are familiar with the Business and the Acquired Assets, at all reasonable times upon reasonable notice and during normal business hours, and shall provide to HSI and its representatives such additional financial and operating data and other information as to the Business and the Acquired Assets pursuant to this Agreement as HSI shall from time to time reasonably request.

(c) Prior to and after the Closing, Pattison shall use its reasonable efforts to preserve for HSI the goodwill of the customers and suppliers of the Business, and others having business relations with Pattison with respect to the Business and Acquired Assets, and prior to and after the Closing shall do all things reasonably requested by HSI for such purpose.

6.2 Obtaining Consents. Prior to and after the Closing, Pattison and

Pattison shall use all reasonable efforts to obtain all consents to the assignment to HSI of all of the HSI Assumed Liabilities and Authorizations of Pattison, in each case without any condition or qualification adverse to HSI. HSI, on the one hand, and Pattison, on the other hand, shall coordinate and cooperate with one another and supply such assistance as may be reasonably requested by each in connection with the foregoing.

6.3 Transfer and Retention of Records. After the Closing Date,

except as may be required for tax purposes, other regulatory purposes neither Pattison nor any of its successors and assigns will retain any document, databases or other media embodying any confidential or proprietary information relating to the Business which constitutes a part of the Acquired Assets or use, publish or disclose to any third person any such confidential or proprietary information relating to the Business; provided, however, that Pattison shall be

entitled to retain copies of any of the foregoing. Pattison shall take all actions requested by HSI to transfer records relating to the Business to HSI which may include making duplicate copies of any records retained by Pattison in the form of papers or computer media.

6.4 Product Replacement and Repairs. After the Closing Date, HSI

will, subject to the following sentence, honor all outstanding warranties and guaranties and other claims for replacements, repairs and credits, relating to products or services of the Business shipped, sold or furnished by Pattison prior to the Closing Date, or relating to Purchased Inventory. Any claims in respect of returned or damaged products accepted by HSI shall be for the account of Pattison, which shall promptly reimburse HSI for the cost thereof.

6.5 Employee Matters. (a) HSI may, but shall not be required to,

offer employment to employees employed by Pattison in connection with the operations of the Business on such terms as HSI in its sole discretion deems appropriate. Any such offers shall be on terms which HSI customarily hires new employees (e.g., without assumption of seniority). Alternatively, at HSI's request, Pattison shall continue its employment of all or a portion of its employees engaged in the operations of the Business to assist HSI in its conduct of the Business on an interim basis not exceeding 90 days. HSI shall reimburse Pattison for all actual payroll costs and related incidental costs incurred by it for continuing the employment of such employees for HSI's benefit.

(b) HSI shall not assume or be responsible in any way for the obligations, liabilities or responsibilities (i) of any Employee Benefit Plan of Pattison, (ii) of SF or Pattison, any Affiliate or any fiduciary under, arising from, or with respect to any Employee Benefit Plan of Pattison or Pattison or (iii) to any of SF's or Pattison's officers, directors, employees and agents, arising from or related to the transactions contemplated by this Agreement, including, without limitation, obligations, liabilities or responsibilities under the WARN Act. HSI shall not be deemed to be a successor employer with respect to the employment of any employee of Pattison or with respect to any of Employee Benefit Plans of SF or Pattison.

6.6 Further Assurances. After the Closing, HSI, on the one hand, and

Pattison, on the other hand, shall, and shall cause their respective Affiliates to, at the request and the expense of the other, execute and deliver such other instruments of conveyance and transfer and assumption and take such other action as may be reasonably requested so as to consummate the transactions contemplated hereby or otherwise to consummate the intent of this Agreement.

6.7 Name Change. Pattison hereby covenants and agrees that, if the

Merger shall not occur within thirty (30) days of the Closing Date, it shall file a certificate of amendment of certificate of incorporation of Pattison, and file appropriate documentation in those jurisdictions in which it is qualified to do business as a foreign corporation, changing its name from "Pattison-McGrath Company Dental Supplies", to a name that does not include any of the Intellectual Property.

6.8 Use of Facilities. In order to facilitate the orderly transition

of the conduct of the Business from Pattison to HSI, Pattison hereby agrees to permit HSI to operate and conduct the Business at the Pattison corporate headquarters located at 1901 Baltimore, Kansas City, Missouri 64108 (the "Premises") for a period not to exceed 90 days following the Closing Date. Such occupancy of the Pattison corporate headquarters shall be at no cost to HSI.

6.9 No Encumbrance on Premises. For so long as the Pattison Note

shall be outstanding, Pattison shall not create or suffer to exist any Encumbrance upon or with respect to the Premises, except an Encumbrance in favor of HSI as contemplated by Section 2.6(b).

ARTICLE VII CONDITIONS PRECEDENT TO OBLIGATIONS

OF HSI

The obligation of HSI under this Agreement to consummate the transactions contemplated hereby at the Closing shall be subject to the satisfaction, at or prior to the Closing, of all of the following conditions, any one or more of which may be waived in writing by HSI:

7.1 Representations and Warranties Accurate. All representations and warranties of Pattison contained in this Agreement and the other Pattison Closing Documents shall be true and accurate in all material respects on and as of the Closing Date as if made again at and as of such date.

7.2 Performance by SF and Pattison. SF and Pattison shall have performed and complied with all agreements required by this Agreement and the other SF Closing Documents to be performed and complied with by each of them prior to or on the Closing Date.

7.3 Certificate. HSI shall have received a certificate, dated the Closing Date, signed on behalf of Pattison by a principal corporate officer of Pattison to the effect that the conditions set forth in Sections 7.1 and 7.2 have been satisfied.

7.4 Opinions of Counsel for Pattison. HSI shall have received from counsel to SF and Pattison a written opinion, dated the Closing Date, in the form annexed hereto as Exhibit 3.2(a).

7.5 Authorization; Legal Prohibition. (a) Pattison shall have delivered to HSI copies of the resolutions of the Board of Directors of Pattison and the stockholders of Pattison, in each case certified by the secretary or assistant secretary of Pattison, which resolutions shall unanimously approve and authorize the execution and delivery of this Agreement, the other Pattison Closing Documents and the consummation of the transactions contemplated hereby and thereby.

(b) No suit, action, investigation, inquiry or other proceeding by any governmental body or other person shall have been instituted or threatened which (i) could reasonably be expected to result in a material adverse change in the Business; (ii) arises out of or relates to this Agreement or the transactions contemplated hereby; or (iii) questions the validity hereof or seeks to obtain substantial damages in respect thereof. On the date of the Closing, there shall be no effective permanent or preliminary injunction, writ, temporary restraining order or any order of any nature issued by a

court of competent jurisdiction directing that the transactions provided for herein not be consummated as so provided.

7.6 Consents. All notices to, and declarations, filings and registrations with, and consents, approvals and waivers from, governmental and regulatory agencies (including, without limitation, the FTC and DOJ) required to consummate the transactions contemplated hereby and to permit the continued operation by HSI of the Business after the Closing Date, shall have been obtained and all consents to the assignment to HSI of each of the Acquired Assets and Authorizations of Pattison shall have been obtained, in each case without any condition or qualification adverse to HSI.

7.7 Closing Deliveries. HSI shall have received all deliveries to be made to it pursuant to Article III of this Agreement.

7.8 Absence of Adverse Changes. There shall not have occurred since the date hereof (i) any material adverse change in the condition (financial or otherwise) or results of operations of or prospects of the Business; or (ii) any other event, loss, damage, condition or state of facts of any character which can reasonably be expected materially and adversely to affect the business, financial condition, prospects, earnings, assets, properties, net worth or results of operations of the Business.

7.9 Actions by Pattison. Pattison shall have executed a Bill of Sale in the form of Exhibits 3.2(b).

7.10 Additional Documents, Etc. Pattison shall have delivered to HSI such other documents, instruments and certificates as shall be reasonably requested by HSI or counsel to HSI for the purpose of effecting the transactions provided for and contemplated by this Agreement and the other HSI Closing Documents.

ARTICLE VIII CONDITIONS PRECEDENT TO OBLIGATIONS
OF PATTISON

The obligations of Pattison under this Agreement shall be subject to the satisfaction, at or prior to the Closing, of all of the following conditions, any one or more of which may be waived in writing by Pattison.

8.1 Representations and Warranties Accurate. All representations and warranties of HSI contained in this Agreement and the other HSI Closing Documents shall be true and accurate in all material respects on and as of the Closing Date as if made again at and as of such date.

8.2 Performance by Buyer. HSI shall have performed and complied with

all agreements required by this Agreement and the other HSI Closing Documents to be performed and complied with by it prior to or on the Closing Date.

8.3 Certificate. Pattison shall have received a certificate, dated

the Closing Date, signed on behalf of HSI by a principal corporate officer of HSI, to the effect that the conditions set forth in Sections 8.1 and 8.2 have been satisfied.

8.4 Legal Prohibition. No suit, action, investigation, inquiry or

other proceeding by any governmental body or other person shall have been instituted which arises out of or relates to this Agreement or the transactions contemplated hereby or questions the validity hereof or seeks to obtain substantial damages in respect thereof. On the date of the Closing, there shall be no effective permanent or preliminary injunction, writ, temporary restraining order or any order of any nature issued by a court of competent jurisdiction directing that the transactions provided for herein not be consummated as so provided.

8.5 Closing Deliveries. Pattison and SF shall have received all

deliveries to be made to each of them pursuant to Article III of this Agreement.

8.6 Additional Documents, Etc. HSI shall have delivered to SF and

Pattison such other documents, instruments and certificates as shall be reasonably requested by any of them or their counsel for the purpose of effecting the transactions provided for and contemplated by this Agreement and the other Pattison Closing Documents.

ARTICLE IX RESTRICTIVE COVENANTS

9.1 Non-Solicitation of Employees. Neither Pattison nor any of its

Affiliates shall directly or indirectly, for itself or himself or on behalf of any other Person, hire any employee of HSI (or any of its Affiliates), including, without limitation, any employees of Pattison that HSI (or any of its Affiliates) has hired in its sole discretion, or induce nor attempt to induce any such employee to leave his or her employment with HSI (or any of its Affiliates) at any time until the later of five years from the date hereof.

9.2 Non-Solicitation or Interference with Customers and Suppliers.

Neither Pattison nor any of its respective Affiliates shall, directly or indirectly, for itself or on behalf of any other Person, solicit, divert, take away or attempt to take away any customers of HSI (or any of its Affiliates) or suppliers or the business or patronage of any such customers or suppliers or in any way interfere with, disrupt or attempt to disrupt any then existing relationships between HSI (or any of its Affiliates) and any of its customers or suppliers or other Persons with whom it deals or contact for business purposes or enter into any business transaction with any such customers or suppliers or other Persons for any purpose at any time until five years from the date hereof.

9.3 Acknowledgements. Pattison acknowledges that, in view of the

nature of the Business and the business objectives of HSI in acquiring such business (or portions thereof) as herein provided, and the consideration paid to Pattison therefor, the restrictions contained in this Article IX are reasonably necessary to protect the legitimate business interests of HSI and that any violation of such restrictions will result in irreparable injury to HSI and the business HSI has acquired hereunder for which damages will not be an adequate remedy. Pattison therefore acknowledges that, if any such restrictions are violated, HSI shall be entitled to preliminary and injunctive relief as well as to an equitable accounting of earnings, profits and other benefits arising from such violation.

ARTICLE X INDEMNIFICATION

10.1 Survival of Representations and Warranties. All representations

and warranties contained in Articles IV and V of this Agreement shall survive until the third anniversary of the Closing Date.

10.2 Indemnification by Pattison. From and after the Closing,

Pattison shall jointly and severally indemnify and save HSI and its Affiliates, their respective directors, officers, employees, agents and representatives and all of their successors and assigns (collectively "Buyer Claimants" and individually "Buyer Claimant") harmless from and defend each of them from and against any and all demands, claims, actions, liabilities, losses, costs, damages or expenses whatsoever (including any reasonable attorneys' fees) (collectively, "Losses") asserted against, imposed upon or incurred by the Buyer Claimants resulting from or arising out of (a) any inaccuracy or breach of any representation or warranty of Pattison contained herein; (b) any breach of any covenant or obligation of Pattison contained herein; (c) any liability of SF or Pattison or the Business; (d) noncompliance with any applicable bulk sales or similar laws (including laws which may impose transferee liability on HSI or an Affiliate or create Encumbrances on any Acquired Assets relating to the liability of SF or Pattison for sales, use or other taxes or withholdings arising out of the operations of the Business by SF or Pattison); (e) any personal injuries, death or property damage arising from products sold by SF or Pattison prior to the Closing Date; (f) any liability arising out of or related to the Business prior to Closing; (g) any claim made against HSI by any FM Dental Related Party or any of their respective Affiliates as a result of the consummation of the transactions contemplated hereby, including, without limitation, the sale and purchase of the Purchased Inventory; and (h) any liability of SF or Pattison under the WARN Act or any state equivalent.

10.3 Indemnification by HSI. From and after the Closing, HSI shall

indemnify and save Pattison and its respective Affiliates and its respective directors, officers, employees, agents and representatives (collectively "Seller Claimants" and individually "Seller Claimant") harmless from and defend each of them from and against

any and all Losses asserted against, imposed upon or incurred by the Seller Claimants resulting from or arising out of (a) any inaccuracy or breach of any representation or warranty of HSI contained herein; (b) any breach of any covenant or obligation of HSI contained herein; (c) except as described in clause 10.2(e) above, HSI's ownership of Acquired Assets and operation of its businesses from and after the Closing Date; (d) any personal injuries, death or property damage arising from products sold by HSI prior to the Closing Date; and (e) any liability of HSI under the WARN Act or any state equivalent.

10.4 Indemnification Procedures. (a) The rights and obligations of

each party claiming a right to indemnification hereunder ("Indemnitee") from the other party ("Indemnitor") shall be governed by the following rules:

(i) The Indemnitee shall give prompt written notice to the Indemnitor of any state of facts which Indemnitee determines will give rise to a claim by the Indemnitee against the Indemnitor based on the indemnity agreements contained herein, stating the nature and basis of said claims and the amount thereof, to the extent known. No failure to give such notice shall affect the indemnification obligations of Indemnitor hereunder, except to the extent such failure materially prejudices such Indemnitor's ability successfully to defend the matter giving rise to the indemnification claim.

(ii) In the event any action, suit or proceeding is brought against the Indemnitee, with respect to which the Indemnitor may have liability under the indemnity agreements contained herein, then upon the written acknowledgment by the Indemnitor within thirty (30) days of the bringing of such action, suit or proceeding that it is undertaking and will prosecute the defense of the claim under such indemnity agreements and confirming that the claim is one with respect to which the Indemnitor is obligated to indemnify and that it will be able to pay the full amount of potential liability in connection with any such claim, the action, suit or proceeding (including all proceedings on appeal or for review which counsel for the Indemnitee shall deem appropriate) may be defended by the Indemnitor. However, in the event the Indemnitor shall not offer reasonable assurances as to its financial capacity to satisfy any final judgment or settlement, the Indemnitee may assume the defense and dispose of the claim, after 30 days' prior written notice to the Indemnitor. The Indemnitee shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the Indemnitee's own expense unless (a) the employment of such counsel and the payment of such fees and expenses both shall have been specifically authorized by the Indemnitor in connection with the defense of such action, suit or proceeding or (b) the Indemnitee shall have reasonably concluded and specifically notified the Indemnitor that there may be specific defenses available to it which are different from or additional to those available to the

Indemnitor, or that such action, suit or proceeding involves or could have an effect upon matters beyond the scope of the indemnity agreements contained herein.

(iii) In addition, in any event specified in clause (b) of the second sentence of subparagraph (ii) above, the Indemnitor, to the extent made necessary by such different or additional defenses, shall not have the right to direct the defense of such action, suit or proceeding on behalf of the Indemnatee. If Indemnitor and Indemnatee cannot agree on a mechanism to separate the defense of matters extending beyond the scope of indemnification, such matters shall be defended on the basis of joint consultation.

(iv) The Indemnatee shall be kept fully informed by the Indemnitor of such action, suit or proceeding at all stages thereof, whether or not it is represented by counsel. The Indemnitor shall, at the Indemnitor's expense, make available to the Indemnatee and its attorneys and accountants all books and records of the Indemnitor relating to such proceedings or litigation, and the parties hereto agree to render to each other such assistance as they may reasonably require of each other in order to ensure the proper and adequate defense of any such action, suit or proceeding.

(b) The Indemnitor shall make no settlement of any claims which Indemnitor has undertaken to defend, without Indemnatee's consent, unless the Indemnitor fully indemnifies the Indemnatee for all losses, there is no finding or admission of violation of law by, or effect on any other claims that may be made against, the Indemnatee and the relief granted in connection therewith requires no action on the part of and has no effect on the Indemnatee.

(c) In the event any claim of a right to indemnification is made by HSI or another indemnified party hereunder, such party may, at its sole option, satisfy all or a portion of its Losses by way of setoff against any payments due Pattison. Such right to setoff is without prejudice to any right of Pattison to challenge its liability hereunder. This Section in no way constitutes a limitation on rights hereunder and HSI and each other indemnified party hereunder may seek full indemnification for all damages suffered and may pursue all rights and remedies available to it, at law or in equity, against any party hereto, jointly with other parties hereto or severally, without seeking recourse against any other party and without exercising any right of offset.

ARTICLE XI MISCELLANEOUS

11.1 Expenses. Each party hereto shall pay its own expenses incurred

in connection with this Agreement, except as otherwise specified in this Agreement and except that all sales, transfer and other similar taxes, levies and charges that may be imposed, levied or assessed in connection with the consummation of the transactions contemplated hereby shall be borne by Pattison with respect to the Acquired Assets.

11.2 Amendment. This Agreement may not be terminated, amended,

altered or supplemented except by a written agreement executed by the parties hereto.

11.3 Entire Agreement. This Agreement, including the schedules and

exhibits hereto, and the instruments and other documents delivered pursuant to this Agreement contains the entire agreement of the parties relating to the subject matter of this Agreement and supersedes all prior agreements and understandings of any kind between the parties respecting such subject matter. Each and every representation, warranty and covenant shall be deemed to include the information contained in the schedules thereto.

11.4 Waivers. Waiver by either party of either breach of or failure

to comply with any provision of this Agreement by the other party shall not be construed as, or constitute, a continuing waiver of such provision, or a waiver of any other breach of, or failure to comply with, any other provision of this Agreement. No waiver of any such breach or failure or of any term or condition of this Agreement shall be effective unless in a written notice signed by the waiving party and delivered, in the manner required for notices generally, to each affected party.

11.5 Notices. All notices, consents, directions, approvals,

instructions, requests and other communications required or permitted by the terms of this Agreement to be given to any Person shall be in writing, and any such communication shall become effective five Business Days after being deposited in the United States mails, certified or registered, with appropriate postage prepaid for first class mail or, if delivered by hand or courier service or in the form of a telex, telecopy or telegram, when received (if received during normal business hours on a Business Day, or if not, then on the next Business Day thereafter), and shall be directed to the following address or telex or telecopy number:

If to Pattison:

San Francisco Dental Supply, Inc.
2201 South Oneida Street
Green Bay, Wisconsin 54304
Attention: Larry Olson
Telecopier: (414) 494-3386

With copies to:

Hanaway, Ross, Hanaway,
Weidner & Bachhuber, S.C.
345 S. Jefferson Street
Green Bay, Wisconsin 54301-4522
Attention: William S. Woodward, Esq.
Telecopier: (414) 432-4037

If to HSI:

Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747
Attention: Mark E. Mlotek, Esq.
Telecopier: (516) 843-5675

With copies to:

Proskauer Rose Goetz & Mendelsohn LLP
1585 Broadway
New York, New York 10036
Attention: Richard L. Goldberg, Esq.
Telecopier: (212) 969-2900

or to such other address as a party may have furnished to the other parties in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt. Any notice which is so mailed shall be deemed delivered on the fourth Business Day (or Days) after mailing; any notice which is transmitted by telecopier shall be deemed delivered when transmitted to the telecopier number specified above and acknowledgement of receipt of such facsimile is received.

11.6 Counterparts. This Agreement may be executed in two or more

counterparts, and by the different parties hereto in separate counterparts each of which when executed shall be deemed to be an original, but all of which together shall constitute one and the same document.

11.7 Governing Law; Submission to Jurisdiction. This Agreement shall

be governed by, and construed in accordance with, the law of the State of New York, without regard to applicable principles of conflict of laws that might otherwise govern. Pattison hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State Court sitting in New York City for the purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Pattison irrevocably waives, to the

fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

11.8 Binding Effect; Assignment. This Agreement shall be binding upon

and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, that SF shall not assign or transfer this

Agreement nor any right or obligation hereunder by operation of law or otherwise; further provided, that HSI in its sole discretion, may assign all or

a portion of its rights hereunder to an Affiliate or Affiliates without the consent of Pattison and after the Closing Date, assign all or a portion of its rights hereunder to any Person without the consent of Pattison; further

provided, that no assignment shall relieve HSI of its obligations hereunder.

11.9 Severability. Any provision of this Agreement that shall be

prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions thereof and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties to such instrument waive any provision of law that renders any provision thereof prohibited or unenforceable in any respect.

11.10 Headings. The headings contained in this Agreement

(including the exhibits and schedules) are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

11.11 No Partnership; Etc. Nothing contained in this Agreement

shall constitute or be deemed a representation, agreement or understanding that the parties hereto are members of any partnership, joint venture, association, syndicate or other entity, and each of the parties hereto expressly disclaims the existence of any such relationship or arrangement.

11.12 Third Parties. Nothing herein is intended or shall be

construed to confer upon or give to any person other than the parties hereto any rights or remedies under or by reason of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date first above written.

PATTISON-MCGRATH COMPANY DENTAL SUPPLIES

By: _____
Authorized Officer

HENRY SCHEIN, INC.

By: _____
Authorized Officer

Schedule 2.2(e)
(Pattison Excluded Liabilities)

1. Legal, accounting, brokerage, finder's fees, taxes or other expenses incurred by SF, Pattison, or any of their respective Affiliates in connection with this Agreement or the consummation of the transactions contemplated hereby;
2. Any intercompany debt or other liability or obligation of any nature between Pattison and any past or present Affiliate, on the one hand, or Pattison and any past or present Affiliate, on the other hand;
3. Liabilities or obligations incurred by Pattison after the Closing;
4. Any obligation or liability relating to any litigation or any claim arising out of any dispute, whether or not listed on any schedule hereto and regardless of whether accruing prior or subsequent to the Closing;
5. Any liability for any federal, state, local or foreign income or other Taxes accrued to or incurred by Pattison or SF any of their respective Affiliates or relating to the Business, operations, products or assets of Pattison or SF any of their respective Affiliates prior to the Closing, or as a consequence of the transactions contemplated hereby;
6. Any liability or costs (including, without limitation, costs of remediation) arising out of or relating to a Hazardous Discharge or the release, discharge or disposal of any solid wastes or the handling, storage, use, transportation or disposal of any of the foregoing, as these terms are defined by the Environmental Laws in, on, under or from facilities of Pattison at any time prior to the Closing regardless of whether such liability or costs arise before or after Closing and whether or not in breach of any representation or warranty under this Agreement;
7. Any liability or obligation to employees, government agencies or other third parties in connection with any Employee Benefit Plan, option plan, pension plan or any other ERISA plan, or other Employee Benefit Plan and any health, dental or life insurance benefits, whether or not insured and whether or not disclosed on any schedule hereto;
8. Any liability or obligation under any contract or commitment that is not an HSI Assumed Liability or under any Pattison Contract which relates to any default in respect of such contract or other commitment or obligation of Pattison;

9. Any liability or obligation to employees in the nature of workmen's compensation relating to the period prior to the Closing, whether or not listed on any Schedule hereto and regardless of whether accruing prior or subsequent to the Closing;

10. Any accounts payable, notes payable, bank debts, and/or debt to any officer, director or stockholder of Pattison;

11. Any deferred compensation agreements of Pattison or any insurance policies relating thereto; and

12. Any liability or obligation of any nature of Pattison or SF or any of their respective Affiliates owed or claimed by any FM Dental Related Party relating to the Purchased Inventory or otherwise.

13. Any other liability not expressly included as an HSI Assumed Liability.

HENRY SCHEIN, INC. AND SUBSIDIARIES
COMPUTATION OF PRO FORMA EARNINGS PER SHARE

| | Year Ended | Three Months Ended | |
|---|-----------------------|-----------------------|------------------------|
| | December 30, 1995 | April 1, 1995 | March 30, 1996 |
| Pro forma net income per consolidated statements of operations (in thousands) . . . | \$9,407 | \$936 | \$2484 |
| Pro forma weighted average common shares outstanding: | | | |
| Shares outstanding at December 25, 1993 | 11,390,544 | 11,390,544 | 11,390,544 |
| 1994 issuances: | | | |
| Shares issued, in part, to extinguish liability under long-term executive incentive compensation plan | 489,456 | 489,456 | 489,456 |
| Shares issued to ESOP trust in 1994 | 128,257 | 128,257 | 128,257 |
| Stock options granted at an exercise price of \$4.21 per share ¹ | 237,897 | 237,897 | 221,397 |
| IPO Options (Class B) | 65,871 | --- | 408,400 |
| 1995 Issuances: | | | |
| Shares issued as of September 1, 1995 in connection with an acquisition | 418,984 | --- | 1,260,416 |
| IPO Shares | 811,044 | --- | 5,090,000 |
| | 13,542,053 | 12,246,154 | 18,988,470 |
| Less: Treasury stock | (8,235) | --- | (51,679) |
| | 13,533,818 | 12,246,154 | 18,938,791 |
| Less assumed repurchase of shares under treasury stock method based on an average price of \$27.96 per share ² : | | | |
| Stock options -- 221,397 shares | | | |
| x \$4.21 | (42,313) ³ | (62,597) ⁴ | (33,336) ⁵ |
| ----- | | | |
| \$932,081/\$27.96 | | | |
| IPO options --- 408,400 shares | | | |
| x \$16.00 | (44,527) ³ | --- | (233,705) ⁵ |
| ----- | | | |
| \$8,534,400/\$27.96 . | | | |
| Weighted average common shares outstanding | 13,446,978 | 12,183,557 | 18,669,750 |
| Pro forma net income per common share | \$0.70 | \$0.08 | \$0.13 |

-
- 1 Considered cheap stock and treated as outstanding since January 1, 1995.
 - 2 The treasury stock method was not used for the shares issued to settle the long-term incentive plan liability and the compensatory portion of the stock options granted because the related special compensation shares have been excluded from net income and, therefore, were not assumed to be proceeds.
 - 3 Computed using the average closing value per share of \$23.67 for 237,897 Stock options and 413,400 IPO options.
 - 4 Computed using the IPO value per share of \$16.00 for 237,897 Stock options.
 - 5 Computed using the average closing value per share for the three months ended March 30, 1996.

EXHIBIT 21.1

List of Subsidiaries

| Subsidiary | State of Incorporation |
|--|------------------------|
| Avamark, Inc. | New York |
| BDG UK Holdings Limited* | England |
| Budget Dental Supplies Ltd.* | England |
| C E Seminars, Inc.* | New York |
| Debmar, Inc. | Arizona |
| Dental Express (Supplies) Limited* | England |
| Dental Instrument Sales & Service LLC | New York |
| Dental Plan, Inc. | Texas |
| Dentisoft, Inc.* | Delaware |
| Florida Doctor Supply, Inc. | Indiana |
| Health and Safety Communications, Inc. | Delaware |
| Henry Schein Canada Ltd. | Ontario, Canada |
| Henry Schein Dental Supply, Inc. | New York |
| Henry Schein - Dentina Gmbh* | Konstanz, Germany |
| Henry Schein Espana, S.A.* | |
| Henry Schein Europe B.V.* | The Netherlands |
| Henry Schein Europe, Inc. | Delaware |
| Henry Schein Financial Services, Inc. | Delaware |
| Henry Schein France Holdings, Inc.* | Delaware |
| Henry Schein France S.A.* | Paris, France |
| HSI Acquisition, Inc. | Delaware |
| Henry Schein Holland Holding B.V.* | The Netherlands |
| Henry Schein Van den Braak, B.V.* | The Netherlands |

| Subsidiary | State of Incorporation |
|-----------------------------------|------------------------|
| Henry Schein UK Holdings Limited* | England |
| HLH Acquisition Corp. | Delaware |

| | |
|--|-----------------|
| HSI Michigan Corp. | Delaware |
| Jameson Management Inc. | Delaware |
| JS Pacific LLC | Delaware |
| Kent Dental Limited* | England |
| Mayflower Healthcare Supply, Inc. | New York |
| Medenta International B.V.* | The Netherlands |
| Precision Dental Specialties, Inc.* | Delaware |
| PRN Medical Inc. | Indiana |
| PW Pharmacal, Inc. | New York |
| Rockford Dental Mfg. Co.* | Delaware |
| SSN Healthcare Supply, Inc. | New York |
| Schein Creative Services, Inc. | New York |
| Schein Dental Equipment Corp. | New York |
| Schein Europe Marketing B.V.* | The Netherlands |
| Schein Rexodent Limited* | England |
| Silverman's Dental Supply Corp. | New York |
| South Jersey Medical Supply Company Inc.* | Delaware |
| Tri-State Medical Supply Co., Inc.* | New York |
| Universal Footcare Holdings Corp. | Delaware |
| Universal Footcare Products, Inc.* | Delaware |
| Zahn Dental Co., Inc.* | Massachusetts |
| Zahn Dental Canada, Inc.* | Ontario, Canada |
| Zahn Dental (Florida), Inc. | Delaware |
| Zahn Dental (Illinois), Inc. | Delaware |
| Zahn Dental Supplies, Limited* | England |

Subsidiary

State of Incorporation

Zahn Holdings, Inc.

Delaware

* Indirect subsidiary of the Company.

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Henry Schein, Inc.
New York, New York

We hereby consent to the use in the Prospectus constituting a part of this Registration Statement of our report dated February 23, 1996 relating to the consolidated financial statements of Henry Schein, Inc. and Subsidiaries, our report dated July 24, 1995 relating to the financial statements of Veratex (a division of The Veratex Corporation) and our report dated February 16, 1996 relating to the consolidated financial statements of HS Pharmaceutical, Inc. and Subsidiaries which are contained in that Prospectus, and of our report dated February 23, 1996, relating to the schedule which is contained in Part II of the Registration Statement.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

BDO SEIDMAN, LLP

New York, New York
June 17, 1996