

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

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

For the fiscal year ended December 27, 1997

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

Commission file number 0-27078

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

11-3136595
(I.R.S. Employer
Identification No.)

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

11747
(Zip Code)

Registrant's telephone number, including area code (516) 843-5500

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. YES: NO:

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K.

The aggregate market value of the registrant's voting stock held by
non-affiliates of the registrant, computed by reference to the closing sales
price as quoted on the NASDAQ National Market on March 23, 1998 was
approximately \$1,378,059,189.

As of March 23, 1998, 35,334,851 shares of registrant's Common Stock, par
value \$.01 per share, were outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement filed pursuant to
Regulation 14A not later than 120 days after the end of the fiscal year
(December 27, 1997) are incorporated by reference in Part III hereof.

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PART I

ITEM 1. Business Recent Developments

On November 12, 1997, August 1, 1997 and February 28, 1997, the Company completed the acquisitions of Sullivan Dental Products, Inc. ("Sullivan"), Micro Bio-Medics, Inc. ("MBMI") and Dentrrix Dental Systems, Inc. ("Dentrrix"), respectively, in merger transactions accounted for as poolings of interests. Pursuant to the respective merger agreements, the Company issued approximately 7,594,900, 3,231,400 and 1,070,000 shares of its Common Stock with aggregate market values (on their respective closing dates) of approximately \$266.8 million, \$122.8 million and \$29.4 million, respectively and assumed and exchanged all options to purchase Sullivan and MBMI stock for options to purchase approximately 1,192,000 and 1,117,000 shares, respectively of the Company's Common Stock.

Sullivan distributes consumable dental supplies to dentists using a marketing strategy which combines personal visits with a catalog of approximately 12,000 competitively priced items. Sullivan also sells, installs and services dental equipment through 52 sales and service centers located throughout the United States. Sullivan had net sales of approximately \$241.6 million and earnings of \$8.7 million in 1996, and net sales of \$196.3 million and earnings of \$7.4 million in the first nine months of 1997.

MBMI distributes medical supplies to physicians and hospitals in the New York metropolitan area, as well as to healthcare professionals in sports medicine, emergency medicine, school health, industrial safety, government and laboratory markets nationwide. MBMI had net sales of approximately \$150.1 million and earnings of \$1.7 million in 1996, and net sales of \$77.8 million and earnings of \$0.7 million for the first six months of their 1997 fiscal year.

Dentrrix is a leading provider of clinically-based dental practice management systems, with 1996 net sales of approximately \$10.2 million, pro forma earnings, after adjusting for taxes on previously untaxed earnings, of \$2.0 million and an approximate 3,500 installed user base as of December 28, 1996.

In connection with these acquisitions, the Company incurred certain merger and integration costs of approximately \$50.8 million during the year ended December 27, 1997. Net of taxes, merger and integration costs were approximately \$1.17 per share, on a diluted basis. Merger and integration costs consist primarily of investment banking, legal, accounting and advisory fees, compensation, impairment of goodwill arising from acquired businesses integrated into the Company's recent acquisitions of Sullivan and MBMI, as well as certain other integration costs associated with these mergers. Excluding the merger and integration cost, net of the related tax benefit, net income and net income per common share, on a diluted basis, would have been \$41.7 million and \$1.14, respectively, for the year ended December 27, 1997.

General

The Company is the largest distributor of healthcare products and services to office-based healthcare practitioners in the combined North American and European markets. The Company has operations in the United States, Canada, Mexico, the United Kingdom, the Netherlands, Belgium, Germany, France, the Republic of Ireland, Austria and Spain. The Company sells products and services to over 250,000 customers, primarily dental practices and dental laboratories, as well as physician practices, veterinary clinics and institutions. In 1997, the Company sold products to over 70% 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 55,000 stock keeping units ("SKU's") in North America and approximately 50,000 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 December 27, 1997, the Company has sold over 26,000 dental practice management software systems, more than any of its competitors.

During 1997, the Company distributed over 12.0 million pieces of direct marketing materials (such as catalogs, flyers and order stuffers) to approximately 500,000 office-based healthcare practitioners. The Company supports its direct marketing efforts with over 450 telesales representatives who facilitate order processing and generate sales through direct and frequent contact with customers and with approximately 850 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 orders in the United States and Canada received before 7:00 p.m. and 4:00 p.m., respectively, are shipped on the same day the order is received and approximately 92% of orders are received by the customer within two days of placing the order. In addition, the Company estimates that approximately 99% of all items ordered in the United States and Canada are shipped without back ordering.

Acquisition and Joint Venture Strategies

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. The Company's acquisition and joint venture strategies include acquiring additional sales that will be channelled through the Company's existing infrastructure, acquiring access to additional product lines, acquiring regional distributors with networks of field sales consultants and international expansion. The Company has completed 23 acquisitions during the year ended December 27, 1997. The 1997 acquisitions, which had aggregate net sales for 1996 of approximately \$534.7 million, included (a) ten dental supply companies, the most significant of which was Sullivan; (b) four medical supply companies, the most significant of which was MBMI; (c) two international dental and three international medical supply companies; (d) three technology and value-added product companies; and (e) certain assets and the business of IDE Interstate, Inc., a direct marketer of healthcare products to dentists, doctors and veterinarians. Of the 23 completed acquisitions, six were accounted for under the pooling of interests method, with the remainder being accounted for under the purchase method of accounting (fourteen for 100% ownership interest and three for majority ownership interests).

During 1996, the Company acquired 20 healthcare distribution businesses. The 1996 acquisition included twelve dental and four medical companies, a veterinary supply distributor and three international dental companies, with aggregate net sales in their last fiscal year ends of approximately \$104.0 million. All of the 1996 acquisitions were accounted for under the purchase method of accounting. Of these, eighteen were for majority ownership (100% in twelve of the transactions).

Corporate Structure Background

The Company was formed on December 23, 1992 as a wholly-owned subsidiary of Schein Holdings, Inc. ("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, Inc. ("Pharmaceutical"), a company engaged in the manufacture and distribution of multi-source pharmaceutical products. In December 1992, Holdings separated the Company's business from Pharmaceutical by transferring to the Company all of the assets (including Holdings' 50% interest in HS Pharmaceutical, Inc., a manufacturer and distributor of generic pharmaceuticals ("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 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 Company's Common Stock, par value \$.01 per share ("Common Stock"), held by Holdings was distributed to certain of the current stockholders of the Company (the "Reorganization").

On November 8, 1995, the Company completed an initial public offering of its Common Stock, and on June 21, 1996, the Company completed a follow-on offering of its Common Stock. Proceeds from these offerings to the Company, after expenses, were approximately \$72.5 million and \$124.1 million, respectively. The proceeds enabled the Company to pay off certain indebtedness, with the remaining proceeds available for general corporate purposes, including subsequent acquisitions.

Customers

The Company serves over 250,000 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, surgery centers, institutions, hospitals and governmental agencies; and the Company's veterinary products are sold primarily to office-based veterinarians serving primarily small companion animals.

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 place larger orders and order more frequently from their primary suppliers. The Company estimates that it serves as a primary supplier to less than 15% 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, hospitals, 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 1997, the AMA-sponsored service and the veterinarian-sponsored purchasing service accounted for net sales of over \$32.1 million. These services, government institutions and agencies, hospitals 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 3.5% of net sales in 1997.

Sales and Marketing

The Company's sales and marketing efforts, which are designed to establish and solidify customer relationships through personal visits by field sales representatives and frequent direct marketing contact, emphasize the Company's broad product lines, competitive prices and ease of order placement. The key elements of the Company's program in the United States are:

- o Direct Marketing. During 1997, the Company distributed over 12.0 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to approximately 500,000 office-based healthcare practitioners. The Company's principal U.S. dental catalog, which is issued semi-annually, contains an average of over 400 pages and includes approximately 24,000 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.

- o Telesales. The Company supports its direct marketing with over 450 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 approximately \$188.9 million of the Company's net sales in 1997. The Company has approximately 200 medical and veterinary telesales representatives many of which 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 representative 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.

o Field Sales Consultants. In 1992, the Company initiated its field sales consultant program and, primarily as a result of its acquisition of Sullivan, now has approximately 850 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, internet, 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 7:00 p.m. and 4:00 p.m. respectively, 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, approximately 92% of orders are received 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 certain top selling types of products in each category, with the percentage of 1997 net sales in parenthesis:

Dental Products (64.4%)		
Consumable Dental Products and Small Equipment (48.8%) Equipment (12.0%)	Dental Laboratory Products (3.6%)	Large Dental
X-Ray Products; Infection Control; Units and Lights; X-Handpieces; Preventatives; Impression Equipment Repair Materials; Composites; and Anesthetics	Teeth; Composites; Gypsum; Acrylics; Articulators; and Abrasives	Dental Chairs, Rays; and
Products Medical Products (29.9%) (2.5%)	Veterinary Products (3.2%)	Value-Added and Services
Branded and Generic Pharmaceuticals; Related Products; Surgical Products; Diagnostic Tests; Products; and other value-Infection Control; and Vitamins	Branded and Generic Pharmaceuticals; Surgical Products; and Dental Products	Software and Financial added products

The percentage of 1996 and 1995 net sales was as follows: consumable dental products and small equipment, 50.3% and 53.3%, respectively; dental laboratory products, 3.8% and 4.1%, respectively; large dental equipment, 11.7% and 9.3%, respectively; medical products, 28.6% and 26.6%, respectively; veterinary products, 3.0% and 3.2%, respectively; and value-added products and services, 2.6% and 3.5%, respectively.

Consumable Supplies and Equipment

The Company offers approximately 55,000 SKUs to its customers in North America, of which approximately 40,000 SKUs are offered to its dental customers, approximately 17,000 are offered to its medical customers and approximately 20,000 are offered to its veterinary customers. Over 14% of the Company's products are offered to all three types of the Company's customers in North America. The Company offers approximately 50,000 SKUs to its customers in Europe. Approximately 9.8% of the Company's net sales in 1997 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 6,000 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 manufactures and distributes certain large dental equipment through Schein Dental Equipment Corp. ("Schein Dental Equipment"), a distributor and manufacturer of large dental equipment which was owned 73.7% by Marvin H. Schein, a director and principal stockholder of the Company prior to its acquisition by the Company. The Company updates its product offerings regularly to meet its customers' changing needs.

On November 12, 1997, the Company completed the acquisition of Sullivan, which was accounted for under the pooling of interests method of accounting and accordingly, the Company's results have been restated retroactively to include Sullivan's results for all periods presented. Sullivan distributes dental consumable supplies and equipment to dentists throughout the United States. Sullivan's net sales included a proportionately higher percentage of large dental equipment sales than that of the Company, on a historical basis.

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:

o Practice Management Software. The Company sells practice management software systems to its dental and veterinary customers. The Company has sold over 20,000 users of its Easy Dental(R) Plus software systems as of the end of fiscal 1997, and over 2,800 of its AVImark(R) veterinary software systems. 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 allows the customer to connect with the Company's order entry management systems. On February 28, 1997, the Company acquired all of the outstanding common stock of Dentrrix Dental Systems, Inc., which had net sales for 1996 of approximately \$10.2 million. The Dentrrix system is one of the most comprehensive clinically-based dental practice management software packages in the United States. The Dentrrix premium software product complements Easy Dental(R) Plus, the Company's high-value practice management system. The Company has sold over 5,800 Dentrrix systems as of December 27, 1997. During 1997, the Company also acquired the rights to distribute the DenTech practice management system, which is designed to handle the needs of large group practices. The Company believes the combined software product offerings enhance its ability to provide its customers with the widest array of system solutions to help manage their practices.

o 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 and offers electronic insurance claims submission services for faster, cheaper processing of patient reimbursements, all 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. The Company also offers practice management consulting services as well as practice management brokerage services in selected markets in the United States.

o 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. In accordance with its plan to expand its repair service business and sales of large dental equipment, the Company has opened seven new equipment sales and service centers in North America and two in Europe, and had a total of 101 centers open at the end of 1997.

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, credit and returns, inventory levels, stock balancing, unshipped orders, order fulfillment and other operational statistics. In the United States, the Company is in the process of expanding and upgrading its order processing information system and, during February 1997 completed the upgrading of its accounts receivable information system. Additionally, worldwide, the Company is in the process of installing an integrated information system for its large dental equipment sales and service functions. Such a system will centralize the tracking of customers' equipment orders as well as spare parts inventories and repair services.

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 substantially all 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 1,400 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 1997, the Company's top 10 vendors and the Company's single largest vendor, accounted for approximately 24.7% and 7.1%, 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 principal national competitor is Patterson Dental Co. 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 Physician's Sales and Service, Inc. and McKesson/General Medical, 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 medical and veterinary distributors, as well as a number of manufacturers that sell direct to physicians and veterinarians. 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 Mexico, the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland, Austria and Spain. The Company has several large competitors in these markets, including ORBIS, Serona Dental 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, Inc. are entitled to use the "Schein" name in connection with their respective businesses, but Schein Pharmaceutical, Inc. is not entitled to use the name "Henry Schein." The Company intends to protect its trademarks to the fullest extent practicable.

Employees

As of December 27, 1997, the Company had over 5,000 full-time employees in North America and Europe, including approximately 450 telesales representatives, 850 field sales consultants, including equipment sales specialists, 1,290 warehouse employees, 120 computer programmers and technicians, 470 management employees and 1,820 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.

Disclosure Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Certain information in Items 1, 2, 3, 7 and 8 of this Form 10-K include information that is forward looking, such as the Company's opportunities to increase sales through, among other things, acquisitions; its exposure to fluctuations in foreign currencies; its anticipated liquidity and capital requirements; competitive product and pricing pressures and the ability to gain or maintain share of sales in global markets as a result of actions by competitors; and the results of legal proceedings. The matters referred to in forward looking statements could be affected by the risks and uncertainties involved in the Company's business. These risks and uncertainties include, but are not limited to, the effect of economic and market conditions, the impact of the consolidation of healthcare practitioners, the impact of healthcare reform, opportunities for acquisitions and the Company's ability to effectively integrate acquired companies, the acceptance and quality of

software products, acceptance and ability to manage operations in foreign markets, the ability to maintain favorable supplier arrangements and

relationships, possible disruptions in the Company's computer systems or telephone systems, the Company's ability and its customers' and suppliers' ability to replace, modify or upgrade computer programs in ways that adequately address the Year 2000 issue, possible increases in shipping rates or interruptions in shipping service, the level and volatility of interest rates and currency values, economic and political conditions in international markets, including civil unrest, government changes and restrictions on the ability to transfer capital across borders, the impact of current or pending legislation and regulation, as well as certain other risks described above in this Item under "Competition" and "Government Regulation," and below in Item 3 in "Legal Proceedings" and in Item 7 in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Form 10-K.

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 Report, the term the "Company" refers to Henry Schein, Inc., a Delaware corporation, and its subsidiaries, 50%-owned companies and predecessor, unless otherwise stated.

Executive Officers of the Registrant

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

Name -----	Age -----	Position -----
Stanley M. Bergman.....	48	Chairman, Chief Executive Officer, President and Director
Gerald A. Benjamin.....	45	Senior Vice President--Administration and Customer Satisfaction and Director
James P. Breslawski.....	44	Executive Vice President and Director
Leonard A. David.....	49	Vice President--Human Resources and Special Counsel and Director
Diane Forrest	51	Senior Vice President--Information Services and Chief Information Officer
Larry M. Gibson	51	President-- Practice Management Technologies Division
Bruce J. Haber	45	Executive Vice President and President-Medical Group and Director
Stephen R. LaHood	50	Senior Vice President--Distribution Services
Mark E. Mlotek.....	42	Vice President, General Counsel, Secretary and Director
Steven Paladino	40	Senior Vice President, Chief Financial Officer and Director
James W. Stahly	50	President--North American Dental Group
Michael Zack.....	48	Senior Vice President--International Group

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, Inc. 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.

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.

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.

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.

Larry M. Gibson joined the Company as President of the Practice Management Technologies Division on February 24, 1997, concurrent with the acquisition of Dentrix. Before joining the Company, Mr. Gibson was founder, Chairman and CEO of Dentrix, started in 1980. Prior to his employment with Dentrix, Mr. Gibson was employed by Weidner Communication Systems from 1978.

Bruce J. Haber has been an Executive Vice President of Schein and President of Schein's Medical Group since August 1, 1997, the date on which Schein acquired MBMI. Mr. Haber has been a director of the Company since October 1997. Mr. Haber has been President of MBMI since 1983.

Stephen R. LaHood joined the Company in 1992 as Senior Vice President of Distribution Services and is also responsible for purchasing. 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 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.

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 Gruenenthal GmbH as Manager of International Subsidiaries from 1975 to 1984.

ITEM 2. Properties

The Company owns or leases the following properties:

Property	Location	Own or Lease	Approximate Square Footage	Lease Expiration Date
-----	-----	-----	-----	-----
Corporate				
Headquarters.....	Eastern United States	Lease	100,000	December 2005
Distribution Center.....	Eastern United States	Own	173,000	N/A
Distribution Center.....	Central United States	Lease	25,000	December 1999
Distribution Center.....	Western United States	Lease	115,500	June 2002
Distribution Center.....	United Kingdom	Lease	85,000	August 2005
Manufacturing				
Facilities.....	Western United States	Own	75,000	N/A
Distribution Center	Eastern United States	Lease	413,000	December 2007
Distribution Center.....	Eastern United States	Lease	108,000	July 2007
Distribution Center.....	Eastern United States	Lease	120,000	April 2001
Distribution Center.....	Eastern United States	Lease	82,000	January 2001
Distribution Center	Central United States	Lease	171,000	November 2011

The Company also leases warehouse, office, showroom and sales 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. As a result of the Company's expansion and acquisition activities, the Company is in the process of consolidating its distribution facilities.

The Company has additional operating capacity at its listed facilities.

ITEM 3. Legal Proceedings

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 December 27, 1997, the Company was named a defendant in seventeen such cases. Of the seventeen product liability claims, eleven involve claims made by healthcare workers who claim allergic reaction relating to exposure to latex gloves. In each of these cases, the Company acted as a distributor of both brand name and "Henry Schein" private brand latex gloves which were manufactured by third parties. To date, discovery in these cases has been limited to product identification issues. The manufacturers in these cases have withheld indemnification of the Company pending product identification, however, the Company is taking steps to implead those manufacturers into each case in which the Company is a defendant. 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 should have a material adverse effect on the Company.

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.

From time to time, 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. The Company intends to vigorously defend these litigations. The Company believes that these actions will not have a material adverse effect on the Company.

ITEM 4. Submission of Matters to a Vote of Security Holders

At a special meeting of stockholders held on November 12, 1997, the Company's stockholders approved (i) the issuance of shares of Common Stock in connection with the Company's acquisition of Sullivan and (ii) adopted amendments to the Company's Amended and Restated Certificate of Incorporation (x) authorizing the Company's Board of Directors to establish from time to time the number of directors constituting the entire Board and enable the Board to amend or repeal any By-law except By-laws adopted by the Company's stockholders from and after the 1997 Annual Meeting of Stockholders and (y) reducing from 80% to 66 2/3% the supermajority voting requirement for amendments to Article V of the Amended and Restated Certificate of Incorporation, relating to the Board of Directors.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

The following table sets forth for the periods indicated the high and low reported sales prices of the Common Stock of the Company as reported on the NASDAQ National Market System since December 31, 1995 through March 23, 1998.

	High ----	Low ---
Fiscal 1996:		
1st Quarter	\$30-3/4	\$23-1/2
2nd Quarter	\$43-1/2	\$27-1/2
3rd Quarter	\$40-1/4	\$31-1/4
4th Quarter	\$41-1/4	\$33
Fiscal 1997:		
1st Quarter	\$39	\$24-1/2
2nd Quarter	\$37	\$26-7/8
3rd Quarter	\$40-1/2	\$30-1/4
4th Quarter	\$37-3/4	\$31-1/2
Fiscal 1998:		
1st Quarter (through March 23, 1998)	\$41	\$29-1/4

The Company's Common Stock is quoted through the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol "HSIC." On March 23, 1998, there were approximately 1,039 holders of record of the Common Stock. On March 23, 1998, the last reported sales price was \$39.00.

Dividend Policy

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 Company's revolving credit agreement and the note issued in connection with an acquisition in The Netherlands limit the distributions of dividends without the prior written consent of the lenders.

Issuance of Unregistered Securities

In 1997, the Company completed the 100% acquisition of four companies by issuing 1,916,866 shares of unregistered Common Stock, with an aggregate value of approximately \$55.9 million at the respective closing dates. These transactions were completed without registration under the Securities Act in reliance upon exemptions provided by Section 4(2) of the Securities Act.

ITEM 6. Selected Financial Data

The following selected financial data with respect to the Company's financial position and its results of operations for each of the five years in the period ended December 27, 1997 set forth below has been derived from the Company's consolidated financial statements. The selected financial data and consolidated financial statements have been restated to give effect to the acquisitions of Sullivan, MBMI and Dentrix, effective November 12, 1997, August 1, 1997 and February 28, 1997, respectively, which were accounted for under the pooling of interests method. The selected financial data presented below should be read in conjunction with the Consolidated Financial Statements and related notes thereto in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7. The Selected Operating Data and Net Sales By Market Data presented below have not been audited.

	Years Ended				
	December 27, 1997	December 28, 1996	December 30, 1995	December 31, 1994	December 25, 1993
(in thousands, except per share and selected operating data)					
Statement of Operations Data:					
Net sales	\$ 1,518,123	\$ 1,231,848	\$ 958,744	\$816,040	\$ 660,789
Cost of sales	1,067,299	865,156	663,508	573,777	462,831
Gross profit	450,824	366,692	295,236	242,263	197,958
Selling, general and administrative expenses	388,394	319,294	260,952	212,313	173,623
Merger and integration costs(1)	50,779	--	--	--	--
Special management compensation(2)	--	--	20,797	21,596	617
Special contingent consideration(3)	--	--	--	--	3,216
Special professional fees(4)	--	--	--	2,007	2,224
Operating income	11,651	47,398	13,487	6,347	18,278
Interest income	7,242	6,353	2,680	1,842	951
Interest expense	(5,541)	(4,712)	(7,341)	(4,998)	(3,758)
Other income (expense) - net	577	985	453	577	(634)
Income before taxes on income, minority interest and equity in earnings of affiliates	13,929	50,024	9,279	3,768	14,837
Taxes on income	17,512	18,606	10,823	4,458	6,248
Minority interest in net income (loss) of subsidiaries	(430)	246	509	561	318
Equity in earnings of affiliates	2,141	1,595	1,537	494	1,296
Income (loss) before cumulative effect of accounting change	(1,012)	32,767	(516)	(757)	9,567
Cumulative effect of accounting change	--	--	--	(60)	1,891
Net income (loss)	\$ (1,012)	\$ 32,767	\$ (516)	\$ (817)	\$ 11,458
Net income (loss) per common share:					
Basic	\$ (0.03)	\$ 1.06	\$ (0.02)	\$ (0.04)	
Diluted	\$ (0.03)	\$ 1.01	\$ (0.02)	\$ (0.04)	
Weighted average shares outstanding:					
Basic	34,557	30,912	23,157	21,673	
Diluted	34,557	32,400	23,157	21,673	

Years Ended

December 27, December 28, December 30, December 31, December 25,
1997 1996 1995 1994 1993

(in thousands, except per share and selected operating data)

Pro Forma Income Data (5):

Pro forma operating income.....			\$ 34,284	\$ 31,004	
Pro forma net income.....		\$ 31,570	\$ 18,574	\$ 16,731	
Pro forma net income per common share:					
Basic		\$ 1.02	\$ 0.80	\$ 0.77	
Diluted		\$ 0.97	\$ 0.76	\$ 0.74	
Pro forma average shares outstanding:					
Basic		30,912	23,157	21,673	
Diluted.....		32,400	24,443	22,757	

Selected Operating Data:

Number of orders shipped	5,213,000	4,445,000	3,864,000	3,505,000	3,146,000
Average order size	\$ 291	\$ 277	\$ 248	\$ 233	\$ 210

Net Sales by Market Data:

Dental(6)	\$ 819,083	\$ 677,226	\$ 543,265	\$ 477,939	\$ 422,223
Medical	441,015	341,329	245,439	211,393	144,972
Veterinary	40,843	35,329	29,330	27,872	24,312
Technology(7)	35,943	30,965	33,007	14,909	9,866
International(8)	181,239	146,999	107,703	83,927	59,416
	-----	-----	-----	-----	-----
	\$1,518,123	\$1,231,848	\$ 958,744	\$ 816,040	\$ 660,789
	=====	=====	=====	=====	=====

Balance Sheet Data (at period end):

Working capital	\$ 307,027	\$ 286,354	\$ 181,080	\$ 152,252	\$ 132,570
Total assets	741,194	628,944	447,415	326,939	262,825
Total debt	114,535	48,893	70,698	80,957	59,322
Redeemable stock (9)	--	--	--	14,745	--
Minority interest	2,225	5,289	4,547	1,823	1,051
Stockholders' equity	411,198	399,517	227,198	115,831	109,294

(1) Merger and integration costs consist primarily of investment banking, legal, accounting and advisory fees, compensation, impairment of goodwill arising from acquired businesses integrated into the Company's medical and dental businesses, as well as certain other integration costs incurred in connection with the 1997 acquisitions of Sullivan, MBMI and Dentrix, which were accounted for under the pooling of interests method of accounting. See "Management's Discussion and Analysis of Financial Condition and Results of

Operations - Recent Developments" in Item 7 and the Consolidated Financial Statements and related notes thereto in Item 8.

(2) Includes: (a) 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; (b) 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 the repurchase features referred to above) 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, and 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 (c) for 1993, non-cash special management compensation charges of \$0.6 million in amortization of deferred compensation arising from the 1992 stock grants. See "Management's Discussion and Analysis of Financial Condition And Results of Operations - Overview" in Item 7 herein.

- (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. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Overview" in Item 7 herein.
- (4) Includes special professional fees incurred by the Company in connection with the Reorganization. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in Item 7 herein.
- (5) Reflects the pro forma elimination of special charges incurred in 1995 and 1994 for special management compensation of \$20.8 million and \$21.6 million, respectively, and special professional fees incurred in 1994 of \$2.0 million, arising from the Reorganization, and the related tax effects of \$1.2 million and \$5.8 million for 1995 and 1994, respectively, and provision for income taxes on previously untaxed earnings of Dentrix as an S Corporation of \$1.2 million, \$0.5 million and \$0.3 million for 1996, 1995 and 1994, respectively. See "Management's Discussion and Analysis of Results of Financial Condition and Results of Operations-Overview and Recent Developments" in Item 7 herein.
- (6) Dental consists of the Company's dental business in the United States and Canada.
- (7) Technology consists of the Company's practice management software business and certain other value-added products and services.
- (8) International consists of the Company's business (substantially all dental) outside the United States and Canada, primarily Europe.
- (9) Redeemable stock includes stock issued for compensation which was subject to repurchase by the Company at fair market value in the event of termination of employment of the holder of such shares, as well as shares purchased by the trust for the Company's ESOP and allocable to the ESOP participants. With the completion of the Company's initial public offering, the stock issued for compensation and the ESOP Common Stock were no longer subject to repurchase. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Overview" in Item 7 herein.

ITEM 7. 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 has been restated to give retroactive effect to the transactions accounted for under the pooling of interests method of accounting and should be read in conjunction with the Company's consolidated financial statements and notes thereto included herein.

Recent Developments

During the year ended December 27, 1997, the Company acquired in pooling of interests transactions, all of the outstanding common stock of (i) Sullivan, a distributor of consumable dental supplies and equipment, with 1996 net sales of approximately \$241.6 million, (ii) MBMI a distributor of medical supplies with 1996 net sales of approximately \$150.1 million, and (iii) Dentrrix, a leading provider of clinically-based dental practice management systems with 1996 net sales of approximately \$10.2 million. Prior to its acquisition by the Company, Dentrrix elected to be treated as an S Corporation under the Internal Revenue Code, and accordingly, its earnings were not subject to taxation at the corporate level. Pro forma adjustments have been made to reflect a provision for income taxes on such previously untaxed earnings for each period presented.

In connection with these acquisitions, the Company incurred certain merger and integrations costs of approximately \$50.8 million during the year ended December 27, 1997. Net of taxes, merger and integration costs were approximately \$1.17 per share, on a diluted basis. Merger and integration costs consist primarily of investment banking, legal, accounting and advisory fees, compensation, impairment of goodwill arising from acquired businesses integrated into the Company's medical and dental businesses, as well as certain other integration costs associated with these mergers. Excluding the merger and integration costs, net income and net income per common share, on a diluted basis, would have been \$41.7 million and \$1.14, respectively, for the year ended December 27, 1997.

In addition to these three acquisitions, the Company completed 20 other acquisitions including; three medical and nine dental supply companies with aggregate net sales for 1996 of approximately \$32.0 million and \$17.1 million, respectively; two international dental and three international medical supply companies with aggregate net sales for 1996 of approximately \$5.3 million and \$18.3 million, respectively; two technology and value-added product companies with aggregate net sales for 1996 of approximately \$10.1 million; and certain assets and the business of IDE Interstate, Inc., a direct marketer of healthcare products to dentists, doctors and veterinarians with net sales for 1996 of approximately \$50.0 million.

Of the 23 completed acquisitions, six were accounted for under the pooling of interests method of accounting, with the remainder being accounted for under the purchase method of accounting (fourteen for 100% ownership interests and three for majority ownership interests). The financial statements have been restated to give retroactive effect to three of the pooling transactions (Sullivan, MBMI and Dentrrix) as the remaining three pooling transactions were not material and have been included in the consolidated financial statements from the beginning of the quarter in which the acquisitions occurred. Operations of the 1997 completed acquisitions, accounted for under the purchase method of accounting, have been included in the consolidated financial statements from their respective acquisition dates.

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.

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, Inc. 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 \$17.5 million and cash payments of \$0.5 million for income taxes related to the stock issuances.

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 \$20.8 million and \$23.6 million for 1995 and 1994, respectively.

Results of Operations

The following table sets forth for the periods indicated the percentage of net sales by market of the Company and the percentage change in such items for the years ended 1997, 1996 and 1995.

	Percentage of Net Sales			Percentage Increase (Decrease)	
	Years Ended			1997 to 1996	1996 to 1995
	December 27, 1997	December 28, 1996	December 30, 1995		
Net Sales by Market:					
Dental(1)	54.0%	55.0%	56.7%	20.9%	24.6%
Medical	29.0	27.7	25.6	29.2	39.1
Veterinary	2.7	2.9	3.1	15.6	20.5
Technology(2)	2.4	2.5	3.4	16.1	(6.2)
International(3)	11.9	11.9	11.2	23.3	36.5
	100.0%	100.0%	100.0%	23.2	28.5

- (1) Dental consists of the Company's dental business in the United States and Canada.
- (2) Technology consists of the Company's practice management software business and certain other value-added products and services.
- (3) International consists of the Company's business (substantially all dental) outside the United States and Canada, primarily in Europe.

1997 Compared to 1996

Net sales increased \$286.3 million, or 23.2%, to \$1,518.1 million in 1997 from \$1,231.8 million in 1996. Of the \$286.3 million increase, approximately \$141.9 million represented a 20.9% increase in the Company's dental business, \$99.7 million represented a 29.2% increase in its medical business, \$34.2 million represented a 23.3% increase in its international business, \$5.5 million represented a 15.6% increase in the Company's veterinary business, and \$5.0 million, represented a 16.1% increase in its technology business. The increase in dental net sales was primarily the result of the continuing favorable impact of the Company's integrated sales and marketing approach (which coordinates the efforts of its field sales consultants with its direct marketing and telesales

personnel), purchase acquisitions, continued success in the Company's target marketing programs and increased sales in the large dental equipment market. Of the approximately \$99.7 million increase in medical net sales, approximately \$16.9 million, or 17.0%, represents incremental net sales to renal dialysis centers, with a more focused direct mail strategy, large account flu vaccine sales and acquisitions primarily accounting for the balance of the increase in medical net sales. The Company's largest renal dialysis customer (Renal Treatment Centers, Inc.) was recently acquired by Total Renal Care, Inc. who currently is not a customer of the Company. In the international market, the increase in net sales was due to acquisitions, primarily in Germany and the United Kingdom, and increased account penetration in France and Germany. Unfavorable exchange rate translation adjustments resulted in a net sales decrease of approximately \$10.5 million. Had net sales for the international market been translated at the same exchange rates in effect during 1996, net sales would have increased by an additional 7.7%. In the veterinary market, the increase in net sales was primarily due to increased account penetration with corporate accounts, improved participation in select purchasing groups, and targeted emphasis on the equine race track segment.

The increase in technology and value-added product sales was primarily due to increase in sales of Dentrix software systems and 1997 acquisitions.

Gross profit increased by \$84.1 million, or 22.9%, to \$450.8 million in 1997, from \$366.7 million in 1996, substantially following the changes in sales. Gross profit margin decreased by only 0.1% to 29.7% from 29.8% last year, with slight improvements in technology, international and medical margins offset by nominal declines in veterinary and dental margins.

Selling, general and administrative expenses, excluding merger and integration costs, increased by \$69.1 million, or 21.6%, to \$388.4 million in 1997 from \$319.3 million in 1996. Selling and shipping expenses increased by \$45.7 million, or 20.8%, to \$265.6 million in 1997 from \$219.9 million in 1996. As a percentage of net sales, selling and shipping expenses decreased 0.4% to 17.5% in 1997 from 17.9% in 1996. This decrease was primarily due to leveraging of the Company's distribution infrastructure, partially offset by incremental shipping, payroll and related costs amounting to \$1.3 million resulting from the Teamsters strike against UPS in the third quarter and an increase in selling expenses. General and administrative expenses increased \$23.4 million, or 23.5%, to \$122.8 million in 1997 from \$99.4 million in 1996, primarily as a result of purchase acquisitions. As a percentage of net sales, general and administrative expenses remained unchanged at 8.1% in 1997 and 1996.

Other income (expense) - net decreased by \$0.3 million, to \$2.3 million for the year ended December 27, 1997 from \$2.6 million for 1996. Interest expense increased due principally to an increase in average borrowings partially offset by a decline in the average cost of borrowing. Interest income increased primarily due to an increase in finance charge income and imputed interest income arising from non-interest bearing extended payment term sales.

Equity in earnings of affiliates increased \$0.5 million or 31.3% to \$2.1 million in 1997 from \$1.6 million in 1996. This increase in earnings of affiliates was primarily due to increased sales volume and improved margins for the products sold by an unconsolidated 50%-owned company.

For 1997 the Company's effective tax rate was 125.7%. Excluding merger and integration costs, the majority of which are not deductible for income tax purposes, the Company's effective tax rate would have been 39.5%. The difference between the effective tax rate (excluding merger and integration costs) and the Federal statutory rate relates primarily to state income taxes. For 1996, the Company's provision for taxes was \$18.6 million, while the pre-tax income was \$50.0 million. On a pro forma basis, adjusting for a provision for taxes on the previously untaxed earnings of Dentrix included in 1996 results, Schein's effective tax rate would have been 39.6%. The difference between the Company's effective tax rate and the Federal statutory rate relates primarily to state income taxes offset by tax-exempt interest on municipal securities.

1996 Compared to 1995

Net sales increased \$273.1 million, or 28.5%, to \$1,231.8 million in 1996 from \$958.7 million in 1995. Of the \$273.1 million increase, approximately \$133.9 million represented a 24.6% increase in the Company's dental business, \$95.9 million represented a 39.1% increase in its medical business, \$39.3 million represented a 36.5% increase in its international business and \$6.0 million represented a 20.5% increase in the Company's veterinary business, offset by a \$2.0 million, or 6.2% decrease in its technology business. The dental net sales increase was primarily the result of the Company's continued emphasis on its integrated sales and marketing approach (which coordinates the efforts of its field sales consultants with its direct

marketing and telesales personnel), expansion into the U.S. market for large dental equipment, which helped increase sales to existing customers and allowed for greater market penetration and acquisitions. Of the approximately \$95.9 million increase in medical net sales, approximately \$20.9 million, or 21.8%, represents incremental net sales to renal dialysis centers, with the effects of acquisitions, increased sales to hospitals, increased outbound telesales activity and the addition of new customers primarily accounting for the balance of the increase in medical net sales. In the international market, the increase in net sales was due to acquisitions, primarily in France, and increased account penetration in Germany and the United Kingdom. Unfavorable exchange rate translation adjustments resulted in a net sales decrease of approximately \$4.4 million dollars. Had net sales for the International market been translated at the same exchange rates in effect during 1995, net sales would have increased by an additional 4.1%. In the veterinary market, the increase in net sales was due to the full year impact of new product lines introduced in the fourth quarter of 1995, increased account penetration and continued volume growth to customers of a veterinary-sponsored purchasing group. Net sales in the Company's technology group was below last year's sales volume levels due to unusually high sales volume in the fourth quarter of 1995 related to the introductory launch, at that time, of the Company's Easy Dental (R) Plus Windows (R) based product; offset due to increase in sales of Dentrix software systems.

Gross profit increased by \$71.5 million, or 24.2%, to \$366.7 million in 1996, from \$295.2 million in 1995, while gross profit margin decreased by 1.0% to 29.8% from 30.8% for the same period. The decrease in gross profit margin was primarily due to product mix as fewer high margin Easy Dental(R) Plus for Windows(R) products were sold in 1996 coupled with lower margin hospital sales. Excluding the gross profit margin for the Company's technology group, which was 69.0% for 1996 as compared to 79.3% for 1995, gross profit margins decreased by 0.4% from 29.1% for 1995 to 28.7% for 1996.

Selling, general and administrative expenses increased by \$58.3 million, or 22.3%, to \$319.3 million in 1996 from \$261.0 million in 1995. Selling and shipping expenses increased by \$45.0 million, or 25.7%, to \$219.9 million in 1996 from \$174.9 million in 1995. As a percentage of net sales, selling and shipping expenses decreased 0.3% to 17.9% in 1996 from 18.2% in 1995. The decrease in selling and shipping expenses as a percentage of net sales was primarily due to reductions in sales promotions offered by the Company's technology group in conjunction with the introductory promotion of Easy Dental(R) Plus for Windows(R) version which occurred during 1995. These introductory promotional expenses represented 0.6% of net sales in 1995. Excluding these expenses from 1995, selling and shipping expenses, as a percentage of net sales, would have been 0.3% higher than last year. This increase was due primarily to increased commissions as a result of increased sales, various promotional programs and incremental field sales and marketing personnel. General and administrative expenses increased \$13.3 million, or 15.4%, to \$99.4 million in 1996 from \$86.1 million in 1995, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses decreased 0.9% to 8.1% in 1996 from 9.0% in 1995 due primarily to the relatively fixed nature of general and administrative expenses when compared to the 28.5% increase in sales volume for the same period.

Interest-net increased \$6.3 million to a net interest income of \$1.7 million in 1996 from a net interest expense of \$4.6 million in 1995. This decrease primarily resulted from the use of the proceeds of the Company's follow-on offering in June 1996 and from the conversion of outstanding warrants to reduce debt, an increase in interest income arising from the temporary investment of proceeds in excess of debt and imputed interest income arising from non-interest bearing extended payment term sales, offset in part by an increase in average interest rates.

For 1996, the Company's provision for taxes was \$18.6 million, while the pre-tax income was \$50.0 million. On a pro forma basis, adjusting for a provision for taxes on the previously untaxed earnings of Dentrax included in

1996 results, Schein's effective tax rate would have been 39.6%. The difference between the Company's effective tax rate and the Federal statutory rate relates primarily to state income taxes offset by tax-exempt interest on municipal securities. In 1995, the Company's provision for taxes was \$10.8 million, while the pre-tax income was \$9.3 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, excluding special charges, and adjusting for a provision for taxes on the previously untaxed earnings of Dentrax included in 1995 results, taxes on income for 1995 were \$12.6 million, resulting in an effective tax rate of 41.9%. 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 the fourth quarter of 1996 the Company made adjustments which increased net income by approximately \$2.4 million. These adjustments, which related predominately to estimated reserves for premium coupon redemptions, finance charges receivable, and income taxes, resulted from management's updated evaluations of historical trends (reflecting changes in business practices and other factors) and other assumptions underlying such estimates. The amounts of such reserves in prior quarters were based on reasonable estimates reflecting available facts and circumstances.

Year 2000

Management has initiated a company-wide program to prepare the Company's computer systems and applications for the year 2000, as well as identify critical third parties which the Company relies upon to operate its business to assess their readiness for the year 2000. The Year 2000 issue arises from the widespread use of computer programs that rely on two-digit date codes to perform computations or decision-making functions. The Company expects to incur internal payroll costs as well as consulting costs and other expenses related to infrastructure and facilities enhancements necessary to prepare for the Company's systems for the year 2000. Management estimates that the cost of this program will be between \$2.0 million and \$3.0 million, with approximately \$1.5 million representing incremental costs to the Company. There can be no assurance that the systems of other companies which the Company's systems rely upon will be timely converted, or that such failure to convert by another company would not have a material adverse effect on the Company's systems and results of operations.

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

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131) which supersedes SFAS No. 14, Financial Reporting for Segments of a Business

Enterprise. SFAS 131 establishes standards for the way that public companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

SFAS 131 is effective for financial statements for periods beginning after December 15, 1997 and requires comparative information for earlier years to be restated. Because of the relatively recent issuance of this standard, management has been unable to fully evaluate the impact, if any, it may have on future financial statement disclosures. Results of operations and financial position, however, will be unaffected by implementation of this standard.

Risk Management

The Company has operations in the United States, Canada, Mexico, the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland, Austria and Spain. Substantially all 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 \$3.4 million as of the 1997 fiscal year end.

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 has experienced negative translation adjustments of approximately \$1.0 million and \$0.5 million in 1997 and 1996, respectively, which adjustments were reflected in the balance sheet as an adjustment to stockholders' equity. The cumulative translation adjustment at the end of 1997 showed a net negative translation adjustment of \$1.6 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, in January 1998 the Company entered into a foreign currency forward option with a major international bank to convert estimated monthly Canadian dollar receipts into U.S. dollars. Under this agreement, the Company has an option to sell 6.0 million Canadian dollars at predetermined fixed rates. The option expires on August 28, 1998, however the Company anticipates entering into new options and contracts in the normal course of its business.

A balloon payment of approximately \$3.4 million due to a bank under a term loan related to a Dutch acquisition came due in October 1997. The Company settled this loan by entering into a new Netherlands Guilder (NLG) loan in the amount of 6.5 million NLG. The loan serves to hedge the repayment of an intercompany loan in the same amount, denominated in NLG, due from a Dutch

subsidiary. The new NLG loan has a balloon payment of 4.1 million NLG due in January 2002.

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 entered into an interest rate collar agreement with a major bank for \$10.0 million. The agreement limits the net interest rate charged to 8.25%. The Company receives no further interest rate benefit once the applicable interest rate falls below 6.55%. This agreement matures in June 1998.

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, special inventory forward buy-in opportunities and to fund initial start-up inventory requirements for new distribution centers, (b) acquisitions, and (c) capital expenditures. Since sales have been strongest during the fourth quarter and special inventory forward buy-in 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. In addition, a subsidiary of the Company had a stock repurchase plan under which 205,800 shares of common stock, on a converted basis, were repurchased from the public over the last two years at an approximate cost of \$2.5 million. The Company has financed its business primarily through its revolving credit facilities and stock issuances.

Net cash used in operating activities for the year ended December 27, 1997 of \$37.2 million resulted primarily from a net increase in working capital of \$65.5 million offset in part by non-cash charges relating primarily to provision for merger and integration costs, depreciation and amortization and allowances on accounts receivable of \$17.1 million, \$14.4 million and \$3.1 million, respectively. The increase in working capital was primarily due to (i) a \$45.3 million increase in accounts receivable resulting primarily from increased net sales and extended payment terms and a decrease in the percentage of customers who make payment with their orders, (ii) a \$24.1 million increase in inventories, primarily due to year-end inventory forward buy-in opportunities and to fund initial start-up inventory requirements for new distribution centers, and (iii) a \$4.9 million increase in loans and other receivables, offset in part by an increase in accounts payable and other accrued expenses of \$8.7 million. The Company anticipates future increases in working capital as a result of its continued sales growth, extended payment terms and special inventory forward buy-in opportunities.

Net cash used in investing activities for the year ended December 27, 1997 of \$55.1 million resulted primarily from cash used to make acquisitions of \$32.9

million and capital expenditures of \$16.5 million. During the past three years, the Company has invested more than \$43.0 million in the development of new computer systems, and expenditures for new operating facilities. The Company expects that it will continue to invest in excess of \$30.0 million during the year ending December 26, 1998, including approximately \$10.0 million to \$12.0 million relating to the consolidation and integration of facilities and systems as a result of recent acquisitions. Thereafter, the Company expects to invest in excess of \$20.0 million per year in capital projects to modernize and expand its facilities and infrastructure systems and integrate operations.

Net cash provided by financing activities for the year ended December 27, 1997 of \$54.3 million resulted primarily from cash proceeds from bank borrowings of approximately \$69.9 million offset by debt repayments of approximately \$16.0 million.

Certain acquisitions and joint ventures, holders of minority interests in the acquired entities or ventures have the right at certain times to require the Company to acquire their interest at either fair market value or a formula price based on earnings of the entity.

The Company's cash and cash equivalents as of December 27, 1997 of \$7.8 million consist of bank balances and investments in commercial paper rated AAA by Moody's (or an equivalent rating). These investments have staggered maturity dates, none of which exceed three months, and have a high degree of liquidity since the securities are actively traded in public markets.

The Company entered into an amended revolving credit facility on August 15, 1997 that increased its main credit facility to \$150.0 million and extended the facility termination date to August 15, 2002. Borrowings under the credit facility were \$76.2 million at December 27, 1997. Certain of the Company's subsidiaries have credit facilities that totaled \$35.3 million at December 27, 1997 under which \$12.0 million had been borrowed.

The aggregate purchase price of the acquisitions completed during 1997, including the acquisition of the minority interests of a subsidiary, was approximately \$494.7 million, payable \$33.1 million in cash, \$8.6 million in notes and \$453.0 million in stock. The cash portion of the purchase price was primarily funded by proceeds from the Company's follow-on offering, completed in June 1996.

The Company believes that its cash and cash equivalents of \$7.8 million as of December 27, 1997, its ability to access public debt and equity markets and the availability of funds under its existing credit

agreements will provide it with sufficient liquidity to meet its currently foreseeable short-term and long-term capital needs.

ITEM 8. Financial Statements and Supplementary Data

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All other schedules are omitted because the required information is either inapplicable or is included in the consolidated financial statements or the notes thereto.

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 27, 1997 and December 28, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 27, 1997. 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 did not audit the 1996 and 1995 consolidated financial statements of Micro Bio-Medics, Inc., which statements reflect total assets of \$60,444,000 as of November 30, 1996, and total revenues of \$150,143,000 and \$119,874,000, for the years ended November 30, 1996 and 1995, respectively, or the 1996 and 1995 financial statements of Sullivan Dental Products, Inc. which statements reflect total assets of \$101,050,000 as of December 31, 1996 and total revenues of \$241,583,000 and \$215,568,000 for the years ended December 31, 1996 and 1995, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such subsidiaries, is based solely on the reports of the other auditors.

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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Henry Schein, Inc. and Subsidiaries at December 27, 1997 and December 28, 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 1997 in conformity with generally accepted accounting principles.

BDO SEIDMAN, LLP

New York, New York
February 27, 1998

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Micro Bio-Medics, Inc.
Pelham Manor, New York

We have audited the consolidated balance sheets of Micro Bio-Medics, Inc. and Subsidiaries as of November 30, 1996 and the related consolidated statements of income, cash flows and changes in stockholders' equity for each of the two years in the period ended November 30, 1996, not presented separately herein. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 Micro Bio-Medics, Inc. and Subsidiaries as of November 30, 1996 and the results of their operations and their cash flows for each of the two years in the period ended November 30, 1996, in conformity with generally accepted accounting principles.

MILLER, ELLIN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
February 2, 1997, except for Notes 8 and 12 which are dated March 7, 1997

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Sullivan Dental Products, Inc.
West Allis, Wisconsin

We have audited the balance sheets of Sullivan Dental Products, Inc. as of December 31, 1996 and the related statements of income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 1996, not presented separately herein. 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, such financial statements present fairly, in all material respects, the financial position of Sullivan Dental Products, Inc. as of December 31, 1996 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1996 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE, LLP

Milwaukee, Wisconsin
February 18, 1997

HENRY SCHEIN, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 27, 1997	December 28, 1996
	-----	-----
ASSETS		(Restated)
Current assets:		
Cash and cash equivalents	\$ 7,824	\$ 45,814
Accounts receivable, less reserves of \$13,048 and \$9,035, respectively	261,665	207,187
Inventories	212,848	180,750
Deferred income taxes	13,323	7,944
Other	39,396	31,987
	-----	-----
Total current assets	535,056	473,682
Property and equipment, net	54,449	48,019
Goodwill and other intangibles, net	122,217	77,718
Investments and other	29,472	29,525
	-----	-----
	\$ 741,194	\$ 628,944
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 129,806	\$ 120,693
Bank credit lines	11,973	6,716
Accruals:		
Salaries and related expenses	20,729	14,146
Merger and integration costs	17,056	-
Other	39,095	36,879
Current maturities of long-term debt	9,370	8,894
	-----	-----
Total current liabilities	228,029	187,328
Long-term debt	93,192	33,283
Other liabilities	6,550	3,527
	-----	-----
Total liabilities	327,771	224,138
	-----	-----
Minority interest	2,225	5,289
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value, authorized 60,000,000; issued: 35,146,892 and 33,817,550, respectively	352	338
Additional paid-in capital	322,998	314,000
Retained earnings	92,238	89,717
Treasury stock, at cost, 62,479 and 281,394 shares, respectively	(1,156)	(3,902)
Foreign currency translation adjustment	(1,609)	(636)
Deferred compensation	(1,625)	-
	-----	-----
Total stockholders' equity	411,198	399,517
	-----	-----
	\$ 741,194	\$ 628,944
	=====	=====

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended		
	December 27, 1997	December 28, 1996	December 30, 1995
		(Restated)	(Restated)
Net sales	\$ 1,518,123	\$ 1,231,848	\$ 958,744
Cost of sales	1,067,299	865,156	663,508
Gross profit	450,824	366,692	295,236
Operating expenses:			
Selling, general and administrative	388,394	319,294	260,952
Special management compensation	--	--	20,797
Merger and integration costs	50,779	--	--
Operating income	11,651	47,398	13,487
Other income (expense):			
Interest income	7,242	6,353	2,680
Interest expense	(5,541)	(4,712)	(7,341)
Other-net	577	985	453
Income before taxes on income, minority interest and equity in earnings of affiliates	13,929	50,024	9,279
Taxes on income	17,512	18,606	10,823
Minority interest in net income (loss) of subsidiaries	(430)	246	509
Equity in earnings of affiliates	2,141	1,595	1,537
Net income (loss)	\$ (1,012)	\$ 32,767	\$ (516)
Net income (loss) per common share:			
Basic	\$ (0.03)	\$ 1.06	\$ (0.02)
Diluted	\$ (0.03)	\$ 1.01	\$ (0.02)
Weighted average shares outstanding:			
Basic	34,557	30,912	23,157
Diluted	34,557	32,400	23,157
Pro forma:			
Historical net income (loss)		\$ 32,767	\$ (516)
Pro forma adjustments:			
Special management compensation		--	20,797
Tax effect of above		--	(1,174)
Provision for income taxes on previously untaxed earnings of an acquisition .		(1,197)	(533)
Pro forma net income		\$ 31,570	\$ 18,574
Pro forma net income per common share:			
Basic		\$ 1.02	\$ 0.80
Diluted		\$ 0.97	\$ 0.76
Weighted average shares outstanding:			
Basic		30,912	23,157
Diluted		32,400	24,443

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 Paid-in Capital	Retained Earnings
	Shares	Amount		
Balance, December 31, 1994, as previously reported	9,923,859	\$ 99	\$ 9,960	\$ 29,954
Adjustment for pooled companies	10,032,498	100	39,950	36,225
Balance, December 31, 1994, as restated	19,956,357	199	49,910	66,179
Net loss	--	--	--	(516)
Dividends paid by pooled companies	--	--	--	(2,912)
Shares issued for acquisition	1,341,266	14	7,957	--
Stock issued in initial public offering	5,090,000	51	72,417	--
Reclassification of redeemable stock issued as special compensation and to ESOP trust upon closing of initial public offering	2,084,398	20	32,180	--
Issuance of compensatory stock options	--	--	2,805	--
Purchase of treasury stock (233,442 shares)	--	--	--	--
Shares reacquired from a prior year's acquisition (7,497 shares)	--	--	--	--
Foreign currency translation adjustment	--	--	--	--
Shares issued for stock options and warrants, including tax benefit	84,996	1	779	--
Shares issued for conversion of debentures	116,250	1	1,389	--
Balance, December 30, 1995	28,673,267	286	167,437	62,751
Net income	--	--	--	32,767
Dividends paid by pooled companies	--	--	--	(5,801)
Shares issued for acquisitions	820,930	10	16,246	--
Stock issued in follow-on offering	3,734,375	37	124,070	--
Stock issued to ESOP trust	24,210	--	820	--
Purchase of treasury stock (27,455 shares)	--	--	--	--
Shares reacquired from a prior year's acquisition (13,000 shares)	--	--	--	--
Foreign currency translation adjustment	--	--	--	--
Shares issued for stock options and warrants, including tax benefit	448,518	4	4,030	--
Shares issued for conversion of debentures	116,250	1	1,397	--
Balance, December 28, 1996	33,817,550	338	314,000	89,717
Retained earnings of three companies acquired under the pooling of interests method, deemed not material in the aggregate	--	--	--	5,899
Adjustment to change the fiscal year end of a company acquired under the pooling of interests method	--	--	--	76
Net loss	--	--	--	(1,012)
Dividends paid by pooled companies	--	--	--	(2,442)
Shares issued for acquisitions	906,401	9	2,945	--
Restricted stock issued in accordance with executive compensation agreements	44,846	--	--	--
Treasury shares issued for acquisitions (246,960 shares)	--	--	--	--
Purchase of treasury stock (30,507 shares)	--	--	--	--
Shares reacquired from a prior year's acquisition (2,339 shares)	--	--	--	--
Treasury shares retired	(5,644)	--	(95)	--
Foreign currency translation adjustment	--	--	--	--
Stock issued to ESOP trust	44,122	--	1,150	--
Shares issued for stock options, including tax benefit	339,617	5	4,998	--
Balance, December 27, 1997	35,146,892	\$ 352	\$ 322,998	\$ 92,238

	Treasury Stock	Currency Translation Adjustment	Deferred Compen- sation	Total Stockholders' Equity
Balance, December 31, 1994, as previously reported	\$ --	\$ (458)	\$ --	\$ 39,555
Adjustment for pooled companies	--	--	--	76,275
Balance, December 31, 1994, as restated	--	(458)	--	115,830
Net loss	--	--	--	(516)
Dividends paid by pooled companies	--	--	--	(2,912)
Shares issued for acquisition	--	--	--	7,971
Stock issued in initial public offering	--	--	--	72,468
Reclassification of redeemable stock issued as special compensation and to ESOP trust upon closing of initial public offering	--	--	--	32,200
Issuance of compensatory stock options	--	--	--	2,805
Purchase of treasury stock (233,442 shares)	(3,000)	--	--	(3,000)
Shares reacquired from a prior year's acquisition (7,497 shares)	(101)	--	--	(101)
Foreign currency translation adjustment	--	283	--	283
Shares issued for stock options and warrants, including tax benefit	--	--	--	780
Shares issued for conversion of debentures	--	--	--	1,390
Balance, December 30, 1995	(3,101)	(175)	--	227,198
Net income	--	--	--	32,767
Dividends paid by pooled companies	--	--	--	(5,801)
Shares issued for acquisitions	--	--	--	16,256
Stock issued in follow-on offering	--	--	--	124,107
Stock issued to ESOP trust	--	--	--	820

Purchase of treasury stock (27,455 shares)	(628)	--	--	(628)
Shares reacquired from a prior year's acquisition (13,000 shares) ..	(173)	--	--	(173)
Foreign currency translation adjustment	--	(461)	--	(461)
Shares issued for stock options and warrants, including tax benefit	--	--	--	4,034
Shares issued for conversion of debentures	--	--	--	1,398
	-----	-----	-----	-----
Balance, December 28, 1996	(3,902)	(636)	--	399,517
Retained earnings of three companies acquired under the pooling of interests method, deemed not material in the aggregate	--	--	--	5,899
Adjustment to change the fiscal year end of a company acquired under the pooling of interests method	--	--	--	76
Net loss	--	--	--	(1,012)
Dividends paid by pooled companies	--	--	--	(2,442)
Shares issued for acquisitions	--	--	--	2,954
Restricted stock issued in accordance with executive compensation agreements	--	--	(1,625)	(1,625)
Treasury shares issued for acquisitions (246,960 shares)	3,303	--	--	3,303
Purchase of treasury stock (30,507 shares)	(618)	--	--	(618)
Shares reacquired from a prior year's acquisition (2,339 shares) ..	(34)	--	--	(34)
Treasury shares retired	95	--	--	--
Foreign currency translation adjustment	--	(973)	--	(973)
Stock issued to ESOP trust	--	--	--	1,150
Shares issued for stock options, including tax benefit	--	--	--	5,003
	-----	-----	-----	-----
Balance, December 27, 1997	\$ (1,156)	\$ (1,609)	\$ (1,625)	\$ 411,198
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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

	Years Ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Cash flows from operating activities:			
Net income (loss)	\$ (1,012)	\$ 32,767	\$ (516)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	14,374	11,624	9,063
Provision for losses and allowances on accounts receivable	3,083	1,477	2,445
Stock issued to ESOP trust	1,150	820	--
Provision (benefit) for deferred income taxes	(3,920)	2,884	(874)
Provision for merger and integration costs	17,056	--	--
Special management compensation	--	--	20,289
Undistributed earnings of affiliates	(2,141)	(1,595)	(1,537)
Minority interest in net income (loss) of subsidiaries	(430)	246	509
Other	221	(593)	(524)
Changes in assets and liabilities:			
Increase in accounts receivable	(45,304)	(50,149)	(38,710)
Increase in inventories	(24,113)	(16,936)	(16,648)
Increase in other current assets	(4,882)	(7,430)	(5,400)
Increase in accounts payable and accruals	8,761	13,965	15,475
Net cash used in operating activities	(37,157)	(12,920)	(16,428)
Cash flows from investing activities:			
Capital expenditures	(16,511)	(13,778)	(12,737)
Business acquisitions, net of cash acquired	(33,123)	(32,222)	(17,541)
Other	(5,469)	(6,378)	(5,282)
Net cash used in investing activities	(55,103)	(52,378)	(35,560)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	5,423	1,154	3,698
Principal payments on long-term debt	(14,795)	(5,291)	(15,808)
Proceeds from issuance of stock	4,116	128,132	73,120
Proceeds from borrowings from banks	64,493	4,449	12,346
Purchase of treasury stock	(618)	(628)	(3,000)
Payments on borrowings from banks	(1,177)	(23,378)	(20,976)
Distributions to stockholders	(2,442)	(4,632)	(2,443)
Other	(730)	(565)	1,839
Net cash provided by financing activities	54,270	99,241	48,776
Net increase (decrease) in cash and cash equivalents	(37,990)	33,943	(3,212)
Cash and cash equivalents, beginning of year	45,814	11,871	15,083
Cash and cash equivalents, end of year	\$ 7,824	\$ 45,814	\$ 11,871
	=====	=====	=====

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 greater than 20% and less than 51% owned are accounted for under the equity method. All material intercompany accounts and transactions are eliminated in consolidation. The financial statements include adjustments to give retroactive effect to the acquisitions of Dentrix Dental Systems, Inc. ("Dentrix"), effective February 28, 1997, Micro Bio-Medics, Inc. ("MBMI"), effective August 1, 1997 and Sullivan Dental Products, Inc. ("Sullivan"), effective November 12, 1997, which were accounted for under the pooling of interests method of accounting.

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. Fiscal years ended December 27, 1997, December 28, 1996 and December 30, 1995 all consisted of 52 weeks. The accounts of (i) MBMI, and (ii) Sullivan and Dentrix, have been consolidated on a basis with years-ended of; (i) November 30, and (ii) December 31, respectively, for periods through December 28, 1996. MBMI and Dentrix adopted the Company's fiscal year end starting in 1997.

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 post contract 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.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and software.....	5 - 7

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 accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of changes in tax laws or rates. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized as income or expense in the period that includes the enactment date. The Company files a consolidated Federal income tax return with its 80% or greater owned subsidiaries.

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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 into fixed rate debt 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.

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. In connection with certain recent acquisitions, the Company has determined that certain long-lived assets have been impaired (see Note 7).

Stock-Based Compensation

The Company accounts for its stock option awards under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company makes pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied as required by Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

During 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share," which provides for the calculation of "basic" and "diluted" earnings per share. This Statement is effective for financial statements issued for periods ending after December 15, 1997. Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of common shares issuable upon exercise of stock options. As required by this Statement, all periods presented have been restated to comply with the provisions of SFAS No. 128.

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131) which supersedes SFAS No. 14, Financial Reporting for Segments of a Business Enterprise. SFAS 131 establishes standards for the way that public companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

SFAS 131 is effective for financial statements for periods beginning after December 15, 1997 and requires comparative information for earlier years to be restated. Because of the relatively recent issuance of this standard, management has been unable to fully evaluate the impact, if any, it may have on future financial statement disclosures. Results of operations and financial position, however, will be unaffected by implementation of this standard.

NOTE 2--REORGANIZATION

In connection with the Company's corporate restructuring in 1992, certain shares issued to an executive officer and certain senior management were subject to repurchase by the Company at fair market value in the event employment was terminated for any reason or an initial public offering 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 market value of stock grants and issuances based on the initial public offering price of \$16.00 per share 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)).

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 3--EARNINGS PER SHARE

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

	Historical -----	Pro Forma -----
December 28, 1996:		
Basic	30,912	30,912
Effect of assumed conversion of employee stock options	1,488 -----	1,488 -----
Diluted	32,400 =====	32,400 =====
December 30, 1995:		
Basic	23,157	23,157
Effect of assumed conversion of employee stock options	-- -----	1,286 -----
Diluted	23,157 =====	24,443 =====

Options to purchase approximately 4,135,000 and 2,395,000 shares of common stock at exercise prices ranging from \$4.21 to \$36.18 per share were outstanding during a portion of 1997 and 1995, respectively, but were not included in the computation of diluted earnings per share because they are anti-dilutive. These options expire through 2007.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 4--PROPERTY AND EQUIPMENT--NET

Major classes of property and equipment consist of the following:

	December 27, 1997	December 28, 1996
Land	\$ 1,654	\$ 1,539
Buildings and leasehold improvements	28,786	27,591
Machinery and warehouse equipment	24,930	25,979
Furniture, fixtures and other	20,987	20,419
Computer equipment and software	36,089	21,253
	-----	-----
	112,446	96,781
Less accumulated depreciation and amortization	57,997	48,762
	-----	-----
Net property and equipment	\$ 54,449	\$ 48,019
	=====	=====

Equipment held under capital leases amounted to approximately \$2,510 and \$2,400 as of December 27, 1997 and December 28, 1996, respectively (see Note 15(b)).

NOTE 5--GOODWILL AND OTHER INTANGIBLES--NET

Goodwill and other intangibles consist of the following:

	December 27, 1997	December 28, 1996
Goodwill	\$121,538	\$ 76,282
Other	11,074	7,412
	-----	-----
	132,612	83,694
Less accumulated amortization	10,395	5,976
	-----	-----
	\$122,217	\$ 77,718
	=====	=====

Goodwill represents the excess of the purchase price of acquisitions over the fair value of identifiable net assets acquired. During 1997, six acquisitions, including the acquisition of the minority interests of a foreign subsidiary, accounted for \$36,485 of the increase in goodwill. Other intangibles include covenants not to compete, computer programming costs, customer lists and deferred acquisition costs. Goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding 30 years. In connection with certain recent acquisitions, the Company has determined that the goodwill of certain prior acquisitions has been impaired (see Note 7).

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 6--INVESTMENTS AND OTHER

Investments and other consist of:

	December 27, 1997	December 28, 1996
Investments in unconsolidated affiliates	\$13,048	\$11,524
Long-term receivables (see Note 11(b))	8,203	11,051
Other	8,221	6,950
	-----	-----
	\$29,472	\$29,525
	=====	=====

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 and distributes generic pharmaceuticals. As of December 27, 1997, the Company's investments in unconsolidated affiliates were \$3,121 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. As of December 27, 1997, approximately \$8,773 of the Company's retained earnings represented undistributed earnings of affiliates. Combined financial data for substantially all of these companies is as follows:

	December 27, 1997	December 28, 1996
Current assets.....	\$39,688	\$38,172
Total assets.....	56,239	47,103
Liabilities.....	35,753	30,939
Stockholders equity.....	19,832	16,164

Years Ended

	December 27, 1997	December 28, 1996	December 30, 1995
Net sales	\$ 98,954	\$103,169	\$ 55,090
Operating income	7,303	7,044	5,147
Net income	4,841	3,755	2,920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 7--BUSINESS ACQUISITIONS

The Company has completed the acquisition of 60 healthcare distribution businesses between 1995 and 1997, the most significant of which were; Sullivan Dental Products, Inc. ("Sullivan"), a distributor of consumable dental supplies and dental equipment through 52 sales and service centers located throughout the United States, Micro Bio-Medics, Inc. ("MBMI"), a distributor of medical supplies to physicians and hospitals as well as to other healthcare professionals nationwide, and Dentrrix Dental Systems, Inc. ("Dentrrix"), a leading provider of clinically-based dental practice management systems, in merger transactions accounted for as poolings of interests. Pursuant to the respective merger agreements, which were completed on November 12, 1997, August 1, 1997 and February 28, 1997, the Company issued approximately 7,594,900, 3,231,400 and 1,070,000 shares of its Common Stock with aggregate market values (on their respective closing dates) of approximately \$266,800, \$122,800 and \$29,400, respectively and assumed and exchanged all options to purchase Sullivan and MBMI stock for options to purchase 1,192,000 and 1,117,000, respectively of the Company's Common Stock. Sullivan, MBMI and Dentrrix had net sales and earnings of approximately \$241,600 and \$8,700, \$150,000 and \$1,700, and \$10,000 and \$2,000, respectively in 1996.

Additionally, during 1997 the Company acquired 20 other businesses with aggregate net sales for 1996 of approximately \$132,800, three of which were accounted for under the pooling of interests method, with the remainder being accounted for under the purchase method of accounting (fourteen for 100% ownership interests and three for majority ownership interests). The total amount of cash paid and promissory notes issued, and the value of the Company's Common Stock issued in connection with these acquisitions was \$33,123 and \$34,000, respectively.

The financial statements have been restated to give retroactive effect to three of the pooling transactions (Sullivan, MBMI and Dentrrix) as the remaining three pooling transactions were not material and have been included in the consolidated financial statements from the beginning of the quarter in which the acquisitions occurred. Operations of the 1997 completed acquisitions, accounted for under the purchase method of accounting, have been included in the consolidated financial statements from their respective acquisition dates.

During 1996, the Company acquired twelve dental and four medical companies, a veterinary supply distributor and three international dental companies, with aggregate net sales in their last fiscal year ends of approximately \$104,000, all of which were accounted for under the purchase method of accounting. Of

these, eighteen were for majority ownership (100% in twelve of the transactions). The total amount of cash paid and promissory notes issued for these acquisitions was approximately \$33,105. The Company also issued 818,591 shares of common stock valued at approximately \$16,200 in 1996 in connection with five of these acquisitions. Operations of these businesses have been included in the consolidated financial statements from their respective acquisition dates. No single 1996 acquisition was material.

During 1995, the Company acquired the distribution business of The Veratex Corporation, a national direct marketer of dental, medical and veterinary products, and Schein Dental Equipment Corp., a distributor and manufacturer of large dental equipment. The Company also completed the majority acquisition of fourteen other companies and a 50% acquisition of one other company during 1995. The total amount of cash paid and promissory notes issued for the 1995 acquisitions was approximately \$23,518. The Company also issued 1,331,711 shares of common stock valued at approximately \$20,600 in connection with three of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 7 - BUSINESS ACQUISITIONS (Continued)

1995 acquisitions, of which approximately 928,700 shares were issued to a stockholder of the Company. These acquisitions have been accounted for under the purchase method, except one from an affiliate 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.

Certain acquisitions provide for contingent consideration, primarily cash, to be paid in the event certain financial performance targets are satisfied over periods typically not exceeding three years from the date of acquisition. The Company's policy is to record a liability for such amounts when it becomes probable that targets will be met. As of December 27, 1997 additional contingent consideration of \$271 was recorded as goodwill.

Additionally, pursuant to a shareholders' agreement, certain minority shareholders of a subsidiary of the Company exercised their option to sell their shares in the subsidiary to the Company. The value of the shares put to the Company was approximately \$11,800, of which approximately \$3,200 was paid for in cash, with the remainder payable over two years in equal annual installments.

In connection with these acquisitions, the Company recorded merger and integration costs of approximately \$50,800 during the year ended December 27, 1997. Net of taxes, merger and integration costs were approximately \$1.17 per share, on a diluted basis. These charges include approximately \$13,300 of direct transaction costs (consisting primarily of investment banking and professional fees) and \$37,500 for integration and other merger related charges. Such charges include the following:

- \$8,600 related to the write-off of fixed assets (including duplicate management information systems and other corporate assets), purchased technology, other assets and goodwill (of approximately \$4,800) primarily associated with the consolidation of the medical business under a national infrastructure;
- \$11,900 related to sales force and certain senior management signing bonuses directly related to the mergers;
- \$7,100 related to the closure of a distribution center;
- \$3,700 for severance and direct compensation, and
- \$6,200 of other nonrecurring costs associated with planning and executing the merger of the acquired companies operations.

Additional charges are expected to be recorded in subsequent reporting periods, and to the extent actual costs exceed estimated amounts, as the mergers are implemented. Excluding merger and integration costs, net income and net income per share, on a diluted basis, would have been \$41,746 and \$1.14, respectively, for the year ended December 27, 1997.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 7 - BUSINESS ACQUISITION (Continued)

The summarized unaudited pro forma results of operations set forth below for 1997 and 1996 assume the acquisitions, which were accounted for under the purchase method of accounting, occurred as of the beginning of each of these periods.

	Years Ended	
	December 27, 1997	December 28, 1996
Net sales	\$ 1,564,545	\$ 1,383,039
Net income (loss) (1)	(1,472)	32,583
Net income (loss) per common share:		
Basic.....	\$ (0.04)	\$ 1.05
Diluted.....	\$ (0.04)	\$ 1.01
Pro forma net income, reflecting adjustment in 1996 for income taxes on previously untaxed earnings of Dentrax		31,386
Pro forma net income (loss) per common share:		
Basic		\$ 1.02
Diluted		\$ 0.97

(1) Includes, in 1997, merger and integration costs of approximately \$50,779 and related tax benefit of \$8,021.

Pro forma adjusted 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 or potential sales erosion that may result from the Company's integration efforts.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 7 -- BUSINESS ACQUISITIONS (Continued)

Net sales, net income (loss) and pro forma net income for the Company, Dentrix, MBMI, Sullivan and on a combined basis for the years ended December 1996 and 1995 were as follows:

	Years Ended	
	December 28, 1996	December 30, 1995
Net sales:		
HSI, as previously reported	\$ 829,962	\$ 616,209
Dentrix	10,160	7,093
MBMI	150,143	119,874
Sullivan	241,583	215,568
Combined	<u>\$ 1,231,848</u>	<u>\$ 958,744</u>
Net income (loss):		
HSI, as previously reported	\$ 19,340	\$ (10,216)
Dentrix	3,183	1,415
MBMI	1,745	1,109
Sullivan	8,665	7,240
Adjustments to conform accounting policies	32,933 (166)	(452) (64)
Combined	<u>\$ 32,767</u>	<u>\$ (516)</u>
Pro forma net income:		
HSI, as previously reported(1)	\$ 19,340	\$ 9,407
Dentrix(2)	1,986	882
MBMI	1,745	1,109
Sullivan	8,665	7,240
Adjustments to conform accounting policies	31,736 (166)	18,638 (64)
Combined	<u>\$ 31,570</u>	<u>\$ 18,574</u>

(1) Reflects adjustment to exclude special management compensation in 1995, net of applicable tax benefits.

(2) Reflects adjustment for provision for income taxes on previously untaxed earnings.

Sullivan had net sales of approximately \$196,300 and earnings of \$7,400 for the nine months ended September 30, 1997, and MBMI had net sales of \$77,800 and earnings of \$700 for the six months ended May 31, 1997.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 8--BANK CREDIT LINES

At December 27, 1997, certain subsidiaries of the Company had available various bank credit lines totaling approximately \$37,533 expiring through July 1999. Borrowings of \$11,973 under these credit lines at interest rates ranging from 4.1% to 8.75% were collateralized by accounts receivable, inventory and property and equipment of the subsidiaries with an aggregate net book value of \$22,885 at December 27, 1997.

NOTE 9--LONG-TERM DEBT

Long-term debt consists of:

	December 27, 1997	December 28, 1996
	-----	-----
Borrowings under Revolving Credit Agreement (a)	\$ 76,152	\$ 18,040
Secured Revolving Loan (b)	--	7,500
Notes payable for business acquisitions (c)	11,552	4,383
Notes payable to banks, interest variable (9.25% at December 27, 1997), payable in quarterly installments ranging from \$16 to \$34 through 2004, secured by inventory and accounts receivable in the amount of \$26,164	3,925	1,932
Mortgage payable to bank in quarterly installments of \$14, interest at 4.5% through November 2013, collateralized by a building with a net book value of \$1,305	814	987
Various notes and loans payable with interest, in varying installments through 2006, uncollateralized	8,253	8,141
Capital lease obligations in various installments through fiscal 2006; interest at 6.5% to 9.06% or varies with prime rate	1,866	1,194
	-----	-----
Total	102,562	42,177
Less current maturities	9,370	8,894
	-----	-----
Total long-term debt	\$ 93,192	\$ 33,283
	=====	=====

(a) Revolving Credit Agreement

On August 15, 1997, the Company entered into an amended revolving credit agreement which, among other things, increased the maximum available borrowings to \$150,000 from \$100,000 and extended the term of the agreement to August 15, 2002. The interest rate on any borrowings under the agreement is based on prime or LIBOR as defined in the agreement, which were 8.50% and 6.065%, respectively, at December 27, 1997. The borrowings outstanding at December 27, 1997 were at interest rates ranging from 6.1% to 8.5%. The agreement provides for a sliding scale fee ranging from 0.1% to 0.3%, based upon certain financial ratios, on any unused portion of the commitment. The agreement also 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

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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.

(b) Secured Revolving Loan

A subsidiary of the Company had a \$25,000 secured revolving loan agreement with certain banks which was paid off following the acquisition of the subsidiary by the Company and the agreement was terminated.

(c) Notes Payable for Business Acquisitions

In May 1997, a subsidiary of the Company entered into a term loan for \$8,299 to acquire the remaining minority interests of a foreign subsidiary. The loan provides for \$4,312 of principal payable upon demand beginning in March 1998, with the remainder payable upon demand beginning in March 1999. The loan is denominated in British Pounds. Interest is payable quarterly at 4.5% through May 1998 and 5.5% thereafter.

A balloon payment of approximately \$3,400 due to a bank under a term loan related to a Dutch acquisition came due in October 1997. The Company settled this loan by entering into a new Netherlands Guilder (NLG) loan in the amount of 6,500 NLG. Principal is payable in semi-annual installments of 300 NLG through January 2002, with a final balloon payment of 4,100 NLG on January 31, 2002. Interest is payable quarterly at a rate of 4.90% per annum, plus a margin. The agreement also provides for the same financial covenants and restrictions as the revolving credit agreement. The loan serves to hedge the repayment of an intercompany loan in the same amount, denominated in NLG, due from a Dutch subsidiary.

As of December 27, 1997, the aggregate amounts of long-term debt maturing in each of the next five years are as follows: 1998- \$9,370; 1999- \$9,455; 2000 - \$1,668; 2001- \$1,331, 2002- \$78,580.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 10--TAXES ON INCOME

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

	Years Ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Domestic	\$11,799	\$47,781	\$ 7,962
Foreign	2,130	2,243	1,317
Total income before taxes on income, minority interest and equity in earnings of affiliates	\$13,929 =====	\$50,024 =====	\$ 9,279 =====

The provision for taxes on income was as follows:

	Years Ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Current tax expense:			
U.S. Federal	\$ 18,019	\$ 12,476	\$ 8,987
State and local	2,297	2,551	2,094
Foreign	1,116	695	616
Total current	21,432	15,722	11,697
Deferred tax expense (benefit):			
U.S. Federal	(3,954)	1,984	(628)
State and local	(78)	747	(276)
Foreign	112	153	30
Total deferred	(3,920)	2,884	(874)
Total provision	\$ 17,512 =====	\$ 18,606 =====	\$ 10,823 =====

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 10 --TAXES ON INCOME (Continued)

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

	December 27, 1997	December 28, 1996
	-----	-----
Current deferred tax assets:		
Inventory, premium coupon redemptions and accounts receivable valuation allowances	\$ 4,145	\$ 3,614
Uniform capitalization adjustments to inventories	2,838	2,053
Accrued special professional fees and other accrued liabilities	2,692	2,277
Merger and integration costs	3,648	--
	-----	-----
Total current deferred tax asset	13,323	7,944
	-----	-----
Non-current deferred tax assets (liabilities):		
Property and equipment	(2,591)	(2,592)
Provision for long-term executive incentive compensation and other accrued liabilities	(1,573)	(85)
Net operating loss carryforward	175	262
Net operating losses of foreign subsidiaries ...	2,375	1,928
Other	--	(88)
	-----	-----
Total non-current deferred tax asset (liability) ..	(1,614)	(575)
Valuation allowance for non-current deferred tax assets	(2,421)	(1,928)
	-----	-----
Net non-current deferred tax liabilities	(4,035)	(2,503)
	-----	-----
Net deferred tax asset	\$ 9,288	\$ 5,441
	=====	=====

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.

At December 27, 1997, the Company has net operating loss carryforwards for Federal income tax purposes of \$427 which are available to offset future Federal taxable income through 2009. Foreign net operating losses totalled \$7,300 at December 27, 1997. Such losses can be utilized against future foreign income. The losses expire between 1999 and 2002, with \$2,000 expiring in 1999.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 10--TAXES ON INCOME (Continued)

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

	Years Ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Provision at Federal statutory rate	\$ 4,877	\$ 17,508	\$ 3,248
State income taxes, net of Federal income tax effect	1,472	2,555	1,381
Net foreign and domestic losses for which no tax benefits are available	167	--	574
Foreign income taxed at other than the Federal statutory rate	(2)	(55)	(25)
Tax effect of Sub S income	--	(1,197)	(533)
Non-deductible appreciation in stock issued as special management compensation	--	--	6,109
Non-deductible merger and integration costs ..	10,752	--	--
Tax exempt interest	--	(237)	--
Other	246	32	69
Income tax provision	<u>\$ 17,512</u>	<u>\$ 18,606</u>	<u>\$ 10,823</u>

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 27, 1997, the cumulative amount of reinvested earnings was approximately \$4,173.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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.

As of December 27, 1997, the Company has outstanding foreign currency forward contracts aggregating \$12,162 related to debt and the purchase and sale of merchandise. The contracts hedge against currency fluctuations of the Canadian dollar (\$428), Swiss Franc (\$140), The Netherland Guilder (\$506), Spanish Pesetas (\$1,000), Deutsche Mark (\$1,293), Japanese Yen (\$78) and British Pounds (\$8,717). The contracts expire at various dates through December 1998. At December 27, 1997, the Company had net deferred losses from foreign currency forward contracts of \$147.

As of December 27, 1997, HSI had \$13,000 outstanding in interest rate swaps. These 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 year ended December 27, 1997, the net fair value of the Company's interest rate swap agreements resulted in a recognized loss of \$249.

On June 7, 1995, an acquired subsidiary of the Company entered into a zero cost, three year interest rate collar agreement for \$10,000 intended to reduce interest rate risk. The agreement was assumed by the Company and serves to limit the net interest rate charged on the first \$10,000 of the Company's Revolving Credit Agreement to 8.25%. The Company receives no further interest rate benefit once the applicable interest rate falls below 6.55%.

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 11-- FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATIONS (Continued)

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 at December 27, 1997 and December 28, 1996 is \$10,967 and \$4,651, and \$18,355 and \$7,485, respectively, related to Easy Dental(R) Plus software sales with non-interest bearing extended payment terms. Total unamortized discounts at December 27, 1997 and December 28, 1996 amounted to \$843 and \$1,487 based on an imputed interest rate of 8.5% and 8.25%, respectively. Included in interest income for the years ended December 27, 1997 and December 28, 1996 was approximately \$1,216 and \$998, respectively, of imputed interest relating to these non-interest bearing extended payment term receivables. Imputed interest relating to these receivables was not material for 1995.

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 \$17,951, \$15,037 and \$8,730 in 1997, 1996 and 1995, respectively. Included in Accounts payable at December 27, 1997 and December 28, 1996 were \$890 and \$1,523, respectively, for amounts due to these affiliates for purchases made from them.

(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 \$421, \$602 and \$891 during 1997, 1996 and 1995, respectively, for these services. In addition, sales (at cost) to unconsolidated affiliates were \$4,069, \$5,832 and \$3,784 in 1997, 1996 and 1995, respectively.

(c) The Company recorded interest income of \$414, \$129 and \$88, and interest expense of \$0, \$32 and \$26 in 1997, 1996 and 1995, respectively, attributable to transactions with unconsolidated affiliates. Included in Current Assets - Other are amounts due from unconsolidated affiliates of \$9,417 and \$5,154 at December 27, 1997 and December 28, 1996, respectively.

(d) Certain subsidiaries of the Company lease their executive office and distribution facilities from their respective officers, some of which are stockholders of the Company, and certain members of their families. Rent expense attributed to these facilities amounted to \$753, \$866 and \$824 for 1997, 1996 and 1995.

(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 1997 and 1996 amounted \$ 412 and \$ 340, respectively. Amounts paid under this agreement during 1995 were not material.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 12--RELATED PARTY TRANSACTIONS (Continued)

(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 \$1,803 in 1995.

(g) Since 1988, a subsidiary of the Company has been affiliated with Dash Medical Gloves, Inc., which is owned by an officer of a subsidiary and his family. Purchases of inventory by the subsidiary from Dash in 1997, 1996 and 1995 totalled \$4,323, \$4,586 and \$4,575, respectively.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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 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. No one European country represents a significant geographic area.

1997	United States	Europe	Consolidated
Net sales	\$1,352,723	\$ 165,400	\$1,518,123
Operating income	7,635*	4,016	11,651
Pre-tax income	11,799*	2,130	13,929
Identifiable assets	641,070	100,124	741,194
Depreciation and amortization ..	12,240	2,134	14,374
Capital expenditures	14,556	1,955	16,511
1996			
Net sales	\$1,095,854	\$ 135,994	\$1,231,848
Operating income	44,002	3,396	47,398
Pre-tax income	47,781	2,243	50,024
Identifiable assets	559,418	69,526	628,944
Depreciation and amortization ..	9,655	1,969	11,624
Capital expenditures	12,382	1,396	13,778
1995			
Net sales	\$ 859,329	\$ 99,415	\$ 958,744
Operating income	10,897**	2,590	13,487
Pre-tax income	7,962**	1,317	9,279
Identifiable assets	394,225	53,190	447,415
Depreciation and amortization ..	7,730	1,333	9,063
Capital expenditures	9,041	3,696	12,737

* Includes merger and integration costs of \$50,779.

** Includes special management compensation of \$20,797.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 14--EMPLOYEE BENEFIT PLANS

(a) Stock Compensation Plan

The Company established the 1994 Stock Option Plan for the benefit of certain employees. As amended in May 1997, pursuant to this plan the Company can issue up to approximately 2,280,000 shares of its Common Stock. 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 excess of the initial public offering price of \$16.00 over the exercise price (\$2,805) was charged to special management compensation expense. The exercise price of all Class B options issued has been equal to the market price on the date of grant and accordingly no compensation cost has been recognized. Substantially all Class B options 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.

On May 8, 1996, the Company's stockholders approved the 1996 Non-Employee Director Stock Option Plan, under which the Company may grant options to each director who is not also an officer or employee of the Company, for up to 50,000 shares of the Company's Common Stock. The exercise price and term, not to exceed 10 years, of each option is determined by the plan committee at the time of the grant. During 1997 and 1996, 2,000 and 10,000 options, respectively were granted to certain non-employee directors at an exercise prices which were equal to the market price on the date of grant.

Additionally, as a result of the Company's recent acquisition of Sullivan and MBMI, the Company has assumed their respective stock option plans (the "Assumed Plans"). Options granted under the Assumed Plans are exercisable for up to ten years from the date of grant at prices not less than the fair market value of the respective acquirees' common stock at the date of grant, on a converted basis.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 14 - EMPLOYEE BENEFIT PLANS (Continued)

A summary of the status of the Company's two fixed stock option plans, and the Assumed Plans, and the related transactions for the years ended December 27, 1997, December 28, 1996 and December 30, 1995 is presented below:

	December 27, 1997		December 28, 1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,713,255	\$11.68	2,394,584	\$10.44
Granted	1,758,918	27.45	409,595	18.58
Exercised	(279,363)	12.60	(40,895)	8.72
Forfeited	(58,233)	23.25	(50,027)	11.31
Outstanding at end of year	4,134,577	\$18.19	2,713,255	\$11.68
Options exercisable at year-end	2,755,010	\$13.24	2,248,505	\$ 7.06
Weighted-average fair value of options granted during the year		\$17.68		\$12.64

	December 30, 1995	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,403,496	\$10.63
Granted	1,078,415	12.50
Exercised	(53,523)	6.57
Forfeited	(33,804)	12.99
Outstanding at end of year	2,394,584	\$10.44
Options exercisable at year-end	1,829,997	\$ 8.99
Weighted-average fair value of options granted during the year		\$ 9.71

The following table summarizes information about stock options outstanding at December 27, 1997:

Range of Exercise Prices	Number Outstanding	Options Exercisable	Options Outstanding		Weighted Average Price
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	
\$ 4.21 to 12.59	1,173,023	5.1 years	\$ 6.66	1,180,053	\$ 6.64
12.93 to 23.30	1,584,055	8.1	16.34	1,285,735	16.09
24.63 to 36.18	1,377,499	9.3	30.16	289,222	27.51
	4,134,577	7.6	\$18.19	2,755,010	\$13.24

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 14 - EMPLOYEE BENEFIT PLANS (Continued)

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company and its acquired subsidiary had accounted for its employee stock options under the fair value method of SFAS 123. The weighted average fair value of options granted during 1997, 1996 and 1995 was \$17.68, \$12.64 and \$9.71, respectively. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1996 and 1995, risk-free interest rates of 6%; volatility factor of the expected market price of the Company's Common Stock of 30%; and a weighted-average expected life of the option of 10 years. The same assumptions were used for 1997 except for the risk free interest rate, which was assumed to be 6.5%.

Under the accounting provisions of FASB Statement 123, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

	1997	1996	1995
	-----	-----	-----
Net income (loss).....	\$ (13,842)	\$ 30,101	\$ (1,408)
Net income (loss) per common share:			
Basic.....	\$ (0.40)	\$ 0.77	\$ (0.06)
Diluted.....	\$ (0.40)	\$ 0.93	\$ (0.06)
Net income reflecting special adjustments (1).....		28,904	17,682
Net income per common share to reflect special adjustments (1):			
Basic.....		\$ 0.94	\$ 0.76
Diluted.....		\$ 0.89	\$ 0.72

(1) Special adjustments include management compensation in 1995 arising from the value of Class A options which became exercisable upon the closing of the initial public offering and an adjustment for provision for income taxes on previously untaxed earnings of Dentrix.

(b) Warrants Of An Acquired Subsidiary - MBMI

MBMI's Series 1 Warrants expired in June 1996. Most of these warrants were exercised at \$9.68 per 0.65 shares, on a converted basis. The total net proceeds from the exercise of all warrants from 1992 (inception) through June 1996 was approximately \$7,900, and resulted in approximately 868,000 shares of MBMI's common stock being issued, on a converted basis.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

(c) Profit Sharing Plans

The Company has qualified contributory and noncontributory profit sharing and 401(k) plans for eligible employees. Contributions to the plans as determined by the Board of Directors and charged to operations during 1997, 1996 and 1995 amounted to \$4,972, \$3,734 and \$2,797, respectively.

(d) 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. Changes to operations related to this plan were \$1,226, \$1,151 and \$820 for 1997, 1996 and 1995, respectively. Under this plan, the Company issued 44,122 and 24,210 shares of the Company's Common Stock to the trust in 1997 and 1996 to satisfy the 1996 and 1995 contribution. In 1998, the Company expects to fund the 1997 contribution with shares of the Company's Common Stock.

(e) 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 \$112, \$84 and \$68 for 1997, 1996 and 1995, respectively.

NOTE 15--COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Company leases facilities and equipment under noncancelable operating leases expiring through 2011. Management expects that in the normal course of business, leases will be renewed or replaced by other leases.

Future minimum annual rental payments under the noncancelable leases at December 27, 1997 are as follows:

1998.....	\$15,409
1999.....	14,248
2000.....	12,408
2001.....	9,206
2002.....	7,560
Thereafter.....	29,668
Total minimum lease payments.....	\$ 88,499
	=====

Total rental expense for 1997, 1996 and 1995 was \$17,566, \$14,771 and \$11,725, respectively.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

(b) Capital Leases

The Company leases certain equipment under capital leases. The following is a schedule by years of approximate future minimum lease payments under the capitalized leases together with the present value of the net minimum lease payments at December 27, 1997.

1998	\$ 849
1999	749
2000	377
2001	124
2002	7

Total minimum lease payments	2,106
Less: Amount representing interest at 6.5% to 9%	240

	\$1,866
	=====

(c) 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.

The Company has been named a defendant in eleven cases involving claims made by healthcare workers who claim allergic reaction relating to exposure to latex gloves. In each of these cases, the Company acted as a distributor of both brand name and "Henry Schein" private brand latex gloves which were manufactured by third parties. To date, discovery in these cases has been limited to product identification issues. The manufacturers in these cases have withheld indemnification pending product identification, however the Company is taking steps to implead those manufacturers into each case in which the Company is a defendant. The Company believes it is adequately covered by insurance in all cases, subject to certain self retention limits, and that none of the currently pending cases should have a material adverse effect on the Company.

(d) Employment, Consulting and Noncompete Agreements

The Company has employment, consulting and noncompete agreements expiring through 2003 (except for a lifetime consulting agreement with a principal stockholder which provides for initial compensation of \$283 per year, increasing \$25 every fifth year beginning in 2002). The agreements provide for varying base aggregate annual payments of approximately \$7,853 per year which decrease periodically to approximately \$2,538 per year. In addition, some agreements have provisions for incentive and additional compensation.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 16--SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years Ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Indemnification Interest..	\$6,525	\$5,010	\$7,606
Income taxes.....	12,950	14,791	10,858

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

	Years Ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Fair value of assets acquired, excluding cash	\$59,285	\$62,149	\$65,517
Less liabilities assumed and created upon acquisition	26,162	29,927	47,976
Net cash paid	\$33,123	\$32,222	\$17,541

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

NOTE 17--QUARTERLY INFORMATION (Unaudited)

The following presents certain unaudited quarterly financial data. The amounts differ from the amounts previously reported during 1997 and 1996 in the Company's Quarterly Reports on Form 10-Q as a result of the restatement of the financial statements to give retroactive effect to the results of the companies acquired during 1997 in business combinations accounted for under the pooling of interests method of accounting and includes pro forma tax adjustments relating to Dentrax in 1996:

	Quarters Ended			
	March 29, 1997	June 28, 1997	September 27, 1997	December 27, 1997
Net sales	\$ 339,049	\$ 373,434	\$ 395,484	\$ 410,156
Gross profit	100,037	110,932	113,779	126,076
Operating income (loss)	7,108	13,569	(2,039)	(6,987)
Net income (loss)	3,506	8,541	(6,677)	(6,382)
Net income (loss) per share:				
Basic	\$ 0.10	\$ 0.25	\$ (0.19)	\$ (0.18)
Diluted	\$ 0.10	\$ 0.24	\$ (0.19)	\$ (0.18)

	Quarters Ended			
	March 30, 1996	June 29, 1996	September 28, 1996	December 28, 1996
Net sales	\$ 271,686	\$ 292,094	\$ 319,074	\$ 348,994
Gross profit	81,427	87,359	93,667	104,239
Operating income	7,196	10,573	13,300	16,329
Net income	4,038	7,174	9,332	12,223
Net income per share:				
Basic	\$ 0.14	\$ 0.25	\$ 0.28	\$ 0.37
Diluted	\$ 0.13	\$ 0.24	\$ 0.27	\$ 0.36
Pro forma net income	4,038	6,745	9,036	11,751
Pro forma net income per share:				
Basic	\$ 0.14	\$ 0.23	\$ 0.27	\$ 0.35
Diluted	\$ 0.14	\$ 0.22	\$ 0.26	\$ 0.34

NOTE 17 - QUARTERLY INFORMATION (Unaudited)

The Company's business is subject to seasonal and other quarterly influences. Net sales and operating profits are 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 are 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. In the fourth quarter of 1996 the Company made adjustments which increased net income by approximately \$2,400. These adjustments, which related predominately to estimated reserves for premium coupon redemptions, finance charges receivable, and taxes, resulted from management's updated evaluations of historical trends (reflecting changes in business practices and other factors) and other assumptions underlying such estimates. The amounts of such reserves in prior quarters were based on reasonable estimates reflecting available facts and circumstances.

Diluted earnings per share calculations for each quarter include the effect of stock options, when such stock options are dilutive to average number of shares outstanding for each period. The sum of the quarters may not necessarily be equal to the full year earnings per share amount.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

HENRY SCHEIN, INC.

DATE: MARCH 27, 1998

By: /s/ Steven Paladino

Steven Paladino
Senior Vice President & Chief
Financial Officer

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K and the information set forth under the caption "Election of Directors" in the Company's definitive 1998 Proxy Statement to be filed pursuant to Regulation 14A is incorporated herein by reference.

ITEM 11. Executive Compensation

The information required by this item is hereby incorporated by reference from the Company's definitive 1998 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is hereby incorporated by reference from the Company's definitive 1998 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions

The information required by this item is hereby incorporated by reference from the Company's definitive 1998 Proxy Statement to be filed pursuant to Regulation 14A.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The Consolidated Financial Statements of the Company filed as a part of this report are listed on the index on page 29.

2. Financial Statement Schedules

(i) HS PHARMACEUTICAL, INC. AND SUBSIDIARIES

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3. Exhibits

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

(b) Reports on Form 8-K

During the fourth quarter of 1997, the Company filed one Form 8-K: The Report, dated November 12, 1997 and filed on November 26, 1997, reported the Company's acquisition of Sullivan and incorporated by reference Sullivan's audited financial statements filed as part of Sullivan's Annual Report on Form 10-K for the year ended December 31, 1996. On January 26, 1998, the Company filed Amendment No. 1 to the foregoing report on Form 8-K/A which, among other things, included (i) unaudited pro forma combined condensed financial information pursuant to Article 11 of Regulation S-X giving effect to the merger, (ii) Sullivan's unaudited balance sheets as of September 30, 1997 and December 31, 1996 and the related unaudited statements of income and cash flow for the three-month and nine-month periods ended September 30, 1997 and (iii) consolidated balance sheets of the Company as of December 28, 1996 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 28, 1996, restated to give effect to the Company's acquisition of MBMI.

Report of Independent Certified Public Accountants

HS Pharmaceutical, Inc.
New Castle, Delaware

We have audited the accompanying consolidated balance sheets of HS Pharmaceutical, Inc. and subsidiaries as of December 27, 1997 and December 28, 1996, and the related consolidated statements of income and retained earnings, and cash flows for each of the three years in the period ended December 27, 1997. 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 27, 1997 and December 28, 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 27, 1997, in conformity with generally accepted accounting principles.

BDO SEIDMAN, LLP

Philadelphia, Pennsylvania
January 30, 1998, except
for Note 13, as to which the
date is March 20, 1998.

HS Pharmaceutical, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 27, 1997	December 28, 1996

Assets (Note 4)		
Current assets:		
Cash	\$ 643,902	\$ 291,738
Accounts receivable, less allowance for doubtful accounts of \$191,590 and \$172,196 (Note 7)	10,666,474	9,214,519
Inventories (Note 2)	5,798,692	5,138,874
Advances to affiliates (Note 7)	800,271	668,568
Prepaid expenses and other	1,093,079	819,254
Deferred income taxes (Note 9)	266,000	--

Total current assets	19,268,418	16,132,953
Property and equipment, net (Note 3)	5,413,608	4,200,088
Goodwill and other intangibles, less accumulated amortization of \$498,793 and \$300,789 (Note 5)	8,772,209	2,507,055
Advances and notes to affiliates (Note 7)	913,302	1,114,074
Deposits and other assets (Note 12)	797,327	67,966

	\$ 35,164,864	\$ 24,022,136

Liabilities and Shareholders' Equity		
Current liabilities:		
Bank overdraft (Note 4)	\$ 4,616,355	\$ 1,057,570
Revolving credit agreement (Note 4)	--	1,106,000
Note payable, related party (Note 7)	6,000,000	--
Accounts payable and accrued expenses (Note 7)	5,400,376	4,865,854
Income taxes payable (Note 9)	496,557	543,592
Current maturities of long-term debt (Note 6)	686,035	1,536,428

Total current liabilities	17,199,323	9,109,444
Long-term debt, less current maturities (Note 6)	2,980,418	2,997,788
Deferred income taxes (Note 9)	218,700	191,500

Total liabilities	20,398,441	12,298,732

Commitments and contingency (Note 8)		
Shareholders' equity:		
Common stock - no par value, shares		
Authorized 200;		
Issued and outstanding 20	40,100	40,100
Additional paid-in capital	342,745	342,745
Retained earnings	14,383,578	11,340,559

Total shareholders' equity	14,766,423	11,723,404

	\$ 35,164,864	\$ 24,022,136

See accompanying notes to consolidated financial statements.

HS Pharmaceutical, Inc. and Subsidiaries

Consolidated Statements of Income and Retained Earnings

	Year ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Net sales (Note 7)	\$ 33,364,165	\$ 30,305,702	\$ 28,123,977
Cost of sales (Note 7)	20,312,401	18,507,815	17,467,680
Gross profit	13,051,764	11,797,887	10,656,297
Operating expenses:			
Selling, general and administrative	8,068,701	6,995,028	6,157,515
Operating income	4,983,063	4,802,859	4,498,782
Other income (expense):			
Interest expense, net	(578,914)	(577,712)	(500,293)
Foreign exchange remeasurement gain (loss)	175,079	(43,599)	(10,163)
Other (primarily fees from medical testing during 1997)	361,117	166,431	147,387
Income before taxes on income	4,940,345	4,347,979	4,135,713
Taxes on income (Note 9)	1,897,326	1,587,906	1,368,131
Net income	3,043,019	2,760,073	2,767,582
Retained earnings, beginning of year	11,340,559	8,580,486	5,812,904
Retained earnings, end of year	\$ 14,383,578	\$ 11,340,559	\$ 8,580,486

See accompanying notes to consolidated financial statements.

HS Pharmaceutical, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Cash flows from operating activities:			
Net income	\$ 3,043,019	\$ 2,760,073	\$ 2,767,582
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	839,610	597,184	425,861
Provision for losses on accounts receivable	19,394	55,682	15,000
Provision for obsolete inventories	--	112,677	--
Provision for deferred income taxes	(238,800)	39,500	81,000
Other	--	--	5,000
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(1,471,349)	(1,761,616)	180,067
(Increase) in inventories	(659,818)	(323,245)	(1,199,165)
(Increase) decrease in advances to affiliates	69,069	(161,994)	(381,170)
(Increase) in prepaid expenses and other	(273,825)	(239,287)	(138,634)
(Increase) decrease in deposits and other assets	(739,317)	(58,608)	263,270
Increase in accounts payable and accrued expenses	534,522	178,650	415,386
Increase (decrease) in income taxes payable	(47,035)	62,908	339,870
Net cash provided by operating activities	1,075,470	1,261,924	2,774,067
Cash flows from investing activities:			
Capital expenditures	(1,536,838)	(662,725)	(369,978)
Business acquisition, net of cash acquired	(6,155,416)	(800,000)	--
Purchase of sales rights	(616,074)	--	--
Net cash (used in) investing activities	(8,308,328)	(1,462,725)	(369,978)
Cash flows from financing activities:			
Increase (decrease) in bank overdraft	\$ 3,558,785	\$ 131,904	\$ (575,847)
Credit line borrowings, net	(1,106,000)	1,106,000	(1,000,000)
Proceeds from long-term debt	27,331	217,816	--
Proceeds from note payable, related party	6,000,000	--	--
Principal payments on long-term debt	(895,094)	(963,181)	(828,242)
Net cash provided by (used in) financing activities	7,585,022	492,539	(2,404,089)
Net increase in cash	352,164	291,738	--
Cash, beginning of year	291,738	--	--
Cash, end of year	\$ 643,902	\$ 291,738	\$ --
Supplemental disclosures of cash flow information:			
Cash paid during the year for			
Interest	\$ 795,677	\$ 802,331	\$ 608,216
Taxes	\$ 2,084,361	\$ 1,535,744	\$ 996,520
Business acquisition:			
Fair value of net assets acquired, excluding cash	\$ 6,155,416	\$ 4,070,265	\$ --
Less liabilities assumed and created upon acquisition	\$ --	\$ 3,270,265	\$ --
Net cash paid	\$ 6,155,416	\$ 800,000	\$ --

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant 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 27, 1997, December 28, 1996 and December 30, 1995 consisted of 52 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.

Notes to Consolidated Financial Statements

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
Computer hardware	5
Capital lease equipment	5-10

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.

Goodwill

Goodwill represents the excess of costs over the fair value of assets acquired and is amortized using the straight-line method over a life of 30 years.

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, except for sales licensing rights which are amortized over the 5-year term of the licensing agreement.

Notes to Consolidated Financial Statements

Taxes on Income

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 \$1.43, \$1.35 and \$1.40 at December 27, 1997, December 28, 1996 and December 30, 1995, 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, intangibles 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. No impairment losses have been necessary through December 27, 1997.

Notes to Consolidated Financial Statements

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and trade receivables. The Company places its cash with high quality financial institutions. At times, such amounts may be in excess of the FDIC insurance limits of \$100,000. At December 27, 1997, the Company's cash balances on deposit exceeded this limit by approximately \$512,000. With respect to accounts receivable, the Company performs ongoing credit evaluations of its customers' financial condition before extending credit and maintains an allowance for losses based on the expected collectibility of all receivables. Generally, the Company does not require collateral from its customers.

Fair Value of Financial Instruments

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments," which requires disclosures of fair value information about certain financial instruments.

The carrying amounts of the Company's financial instruments, consisting of accounts receivable, bank overdraft, revolving credit agreement, long-term debt, accounts payable and accrued expenses approximate their fair value because of the immediate or short-term maturity of these financial instruments.

Restatement of Prior Year

In connection with the preparation of the December 27, 1997 financial statements, the Company has restated certain prior year amounts to conform with current year's presentation.

Notes to Consolidated Financial Statements

Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of a Business Enterprise" ("SFAS 131"), establishes standards for public enterprises reporting of information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of an enterprise about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"), revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and

other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis and eliminate certain existing disclosure requirements.

Notes to Consolidated Financial Statements

SFAS 130, SFAS 131 and SFAS 132 are effective for financial statements for periods beginning after December 15, 1997 and require comparative information for earlier years to be restated. Adoption of all three statements is not expected to impact financial statements or disclosures.

2. Inventories

Inventories consist of the following:

	December 27, 1997	December 28, 1996
Raw materials	\$ 1,946,203	\$ 1,969,239
Work-in-progress	485,787	38,259
Finished goods	3,366,702	3,131,376
	\$ 5,798,692	\$ 5,138,874

3. Property and Equipment, Net

Major classes of property and equipment consist of the following:

	December 27, 1997	December 28, 1996
Land	\$ 23,474	\$ 23,474
Building	1,369,578	1,335,465
Machinery and equipment	8,303,598	6,691,295
Computer hardware	340,389	318,481
Leasehold improvements	700,795	532,281
	10,737,834	8,900,996
Less accumulated depreciation and amortization	5,324,226	4,700,908
Net property and equipment	\$ 5,413,608	\$ 4,200,088

Notes to Consolidated Financial Statements

4. Bank Overdraft and Revolving Credit Agreement
- The bank overdraft is due on demand and consists of two loan segments consisting of a U.S. dollar overdraft and a Canadian dollar overdraft. They bear interest at the U.S. prime rate and the Canadian prime rate, respectively. The revolving credit agreement is due on demand and bears interest at LIBOR plus 3/4%. These facilities are secured by a general assignment of accounts receivable, a general security agreement on all machinery, inventory and equipment, a \$2,500,000 demand debenture on building and land, including an assignment of fire insurance, a postponement of claim and guarantee bond.
5. Business Acquisitions
- On August 15, 1997, the Company acquired substantially all of the net assets of a manufacturer and distributor of anesthetics and dental products. The acquisition was accounted for as a purchase and, accordingly, the operations of this business have been included in the consolidated financial statements from the acquisition date. The aggregate purchase price of \$6,155,416 was financed primarily by a demand note from a shareholder (see Note 7(a)) and has been allocated to the net assets acquired based upon their respective fair market values.
- The excess of the acquisition costs over the fair value of the identifiable net assets acquired of \$5,355,416 has been recorded as goodwill. Amortization expense totaled approximately \$58,000 for the year ended December 27, 1997.
- On March 15, 1996, the Company acquired substantially all of the net assets of a manufacturer and distributor of private label dental products. The acquisition was accounted for as a purchase and, accordingly, the results of the acquiree are included in the consolidated financial statements from January 1, 1996, the effective date of the agreement. The aggregate purchase price is estimated at \$2,850,000, the maximum contingent amount which is based upon future revenues attained. The purchase price, which was financed through available cash resources and a note payable to the seller in the amount of \$1,793,874 (see Note 6), has been

Notes to Consolidated Financial Statements

allocated to the net assets acquired based upon their respective fair market values.

The excess of the acquisition costs over the fair value of the identifiable net assets acquired of \$2,501,924 has been recorded as goodwill. Amortization expense totaled approximately \$83,000 and \$81,000 for the years ended December 27, 1997 and December 28, 1996, respectively.

6. Long-Term Debt

Long-term debt consists of the following:

	December 27, 1997	December 28, 1996

Unsecured acquisition note payable over 5 years with annual payments ranging from \$250,000 to \$500,000, including interest at 6%, due March 15, 2000 (see Note 5).	\$ 1,543,874	\$ 1,793,874
Term loans payable in monthly installments maturing at varying dates from August 1997 through February 2000, with interest at Canadian prime plus 0.25%, refinanced during 1997.	--	1,723,462
Term loans payable in monthly installments maturing at varying dates through December 2002, with interest at LIBOR plus 1.15%.	1,300,000	--

Notes to Consolidated Financial Statements

	December 27, 1997	December 28, 1996

Notes payable bearing interest at U.S. prime (8.5% at December 27, 1997), payable in annual principal installments of \$191,885, plus interest due March 31, 2001.	\$ 767,539	\$ 959,424
Various capital lease obligations	55,040	57,456

	3,666,453	4,534,216
Less current maturities	686,035	1,536,428

	\$ 2,980,418	\$ 2,997,788

Principal payments on long-term debt mature as follows:		
1998		\$ 686,035
1999		893,175
2000		903,661
2001		923,582
2002		260,000

		\$ 3,666,453

The Company was in default of a certain financial covenant in connection with its banking facilities. This default has been waived by the lender.

Notes to Consolidated Financial Statements

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 \$257,000, \$160,000 and \$83,000 for 1997, 1996 and 1995, respectively. At December 27, 1997 and December 28, 1996, "Advances to affiliates" includes amounts due to this shareholder of approximately \$-0- and \$1,113,000 and "Accounts payable and accrued expenses" includes amounts due to this shareholder of approximately \$2,938,000 and \$900,000, respectively.

Additionally, the Company has a \$6,000,000 demand note payable to this shareholder which was used to fund the 1997 business acquisition (see Note 5). Interest is payable in monthly installments at U.S. prime.

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 31%, 26% and 22% of the Company's sales for 1997, 1996 and 1995, respectively. Included in "Accounts receivable" at December 27, 1997 and December 28, 1996 were approximately \$2,443,000 and \$1,680,000, 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 its trademarks.

Royalties of \$75,000 annually are required under the terms of the agreement and were paid in 1997, 1996 and 1995.

Notes to Consolidated Financial Statements

In the ordinary course of business, the Company sells products to this same shareholder. Net sales to this shareholder amounted to approximately \$1,030,000, \$1,090,000 and \$608,000 for 1997, 1996 and 1995, respectively. Included in "Accounts receivable" at December 27, 1997 and December 28, 1996 were approximately \$285,000 and \$271,000, 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 \$3,387,000, \$1,080,000 and \$4,434,000 for 1997, 1996 and 1995, respectively. Included in "accounts payable and accrued expenses" at December 27, 1997 and December 28, 1996 were approximately \$313,000 and \$5,549,000, 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 \$184,000, \$65,000 and \$51,000 for 1997, 1996 and 1995, 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 \$1,218,000 and \$1,225,000 at December 27, 1997 and December 28, 1996, respectively. Included in the net advances of \$1,218,000 and \$1,225,000 are two notes receivable of approximately \$1,127,000 at December 27, 1996 and 1997. Principal on these notes are due in various annual installments ranging between \$156,000 and \$411,000 beginning in 1997 through 2005, with an interest rate to be determined annually. These notes are secured by an assignment pledge and a first priority security interest in certain investment assets of the affiliated company.

Notes to Consolidated Financial Statements

8. Commitments and Contingency

Operating Leases

The Company leases facilities and equipment under various noncancelable operating leases expiring through September 2002. Total rental expense for 1997, 1996 and 1995 was approximately \$441,000, \$416,000 and \$163,000, respectively. At December 27, 1997, future minimum annual rental payments under these leases are as follows:

Year	Amount
1998	\$ 426,444
1999	385,297
2000	279,730
2001	12,601
2002	1,129
	\$ 1,105,201

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.

Notes to Consolidated Financial Statements

9. Taxes on Income

Income taxes are based upon income before taxes as follows:

	Year ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Domestic	\$ 2,424,151	\$ 2,233,668	\$ 2,500,916
Foreign	2,516,194	2,114,311	1,634,797
Total income before taxes on income	\$ 4,940,345	\$ 4,347,979	\$ 4,135,713

The significant components of income tax expense (benefit) consist of the following:

	Year ended		
	December 27, 1997	December 28, 1996	December 30, 1995
Current tax expense			
U.S. Federal	\$ 1,113,517	\$ 748,423	\$ 764,670
State and local	221,209	139,925	26,801
Foreign	801,400	660,058	495,660
Total current	2,136,126	1,548,406	1,287,131
Deferred tax expense (benefit)			
U.S. Federal	(226,000)	--	--
State and local	(40,000)	--	--
Foreign	27,200	39,500	81,000
Total deferred	(238,800)	39,500	81,000
Total provision	\$ 1,897,326	\$ 1,587,906	\$ 1,368,131

Notes to Consolidated Financial Statements

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to deferred income taxes, relate to the following:

	December 27, 1997	December 28, 1996
Nondeductible accruals	\$ 228,000	\$ --
Allowance for losses on inventory	38,000	--
Total deferred income tax assets	266,000	--
Depreciation and amortization	(218,700)	(191,500)
Net deferred income tax asset (liabilities)	\$ 47,300	\$ (191,500)

The Company's effective tax rate approximates the U.S. Federal statutory rate when taking into account state, local and provincial taxes.

10. Major Customers

Sales to three unaffiliated customers accounted for approximately 34%, 38% and 25% of net sales in 1997, 1996 and 1995, respectively.

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 \$44,000, \$41,000 and \$39,000 in 1997, 1996 and 1995, 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 \$180,000, \$92,000 and \$92,000 in 1997, 1996 and 1995, respectively.

Notes to Consolidated Financial Statements

12. Deposits and Other Assets
- During 1995, the Company entered into an agreement to exclusively distribute certain dental products to specific markets for a period of four years. The agreement contains provisions for minimum purchase requirements each year. During 1997, the Company prepaid approximately \$442,000 for merchandise in accordance with the minimum purchase requirements. Additionally, the Company has advanced approximately \$255,000 for joint promotional costs and clinical studies which are expected to be reimbursed as specified in the agreement. The Company has obtained the product and manufacturing rights as collateral for all of these advances.
13. Subsequent Events
- In March 1998, the Company entered into an agreement with a related party to be the exclusive distributors of certain dental anesthetics in Canada and the United States. The purchase price for the distribution rights is \$3,000,000 with \$2,100,000 payable at closing and the remainder payable in two installments of \$500,000 and \$400,000 in April and May 1998, respectively. The cost of the distribution agreement will be recorded as an asset by the Company and amortized over the period of its estimated benefit.
- In March 1998, the Company entered into an agreement to acquire patent rights for certain dental anesthetics. The purchase price for these patent rights is \$2,014,000 with \$50,000 payable at closing, \$500,000 payable at least 10 days prior to the date the Company markets the product to the public ("launch date"), \$250,000 on each of the first two anniversary dates of the launch date, and guaranteed payments of \$356,000 and \$608,000 on each of the anniversary dates for years three and four from the launch date. The costs to acquire the patent rights will be recorded as an asset by the Company and amortized over the period of its estimated benefit. Additionally, during the first four years starting from the launch date, royalty payments will be made at 25% of annual sales in excess of \$1,685,000 for years one and two and \$4,377,000 and \$5,723,000, for years three and four.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Henry Schein, Inc.
Melville, New York

The audits referred to in our report dated February 27, 1998 relating to the consolidated financial statements of Henry Schein, Inc. and subsidiaries, which is contained in Item 8 of the Form 10-K included the audit of the financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based upon our audits.

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

BDO Seidman, LLP

New York, New York
February 27, 1998

HENRY SCHEIN, INC.

Schedule II
Valuation and Qualifying Accounts

Column A ----- Description -----	Column B ----- Balance at beginning of period -----	Column C ----- Add --- Charged to costs and expenses -----	Column D ----- Deductions -----	Column E ----- Balance at end of period -----
Year ended December 28, 1996				
Allowance for doubtful accounts	\$ 4,049	\$ 1,872	\$ (275)	\$ 5,646
Other accounts receivable allowances(1)	3,821	--	(432)	3,389
	-----	-----	-----	-----
	\$ 7,870	\$ 1,872	\$ (707)	\$ 9,035
	=====	=====	=====	=====
Year ended December 27, 1997				
Allowance for doubtful accounts	\$ 5,646	\$ 3,547	\$ (1,544)	\$ 7,649
Other accounts receivable allowances(1)	3,389	2,010	--	5,399
	-----	-----	-----	-----
	\$ 9,035	\$ 5,557	\$ (1,544)	\$ 13,048
	=====	=====	=====	=====

(1) Primarily allowance for sales returns.

EXHIBIT INDEX

Unless otherwise indicated, exhibits are incorporated by reference to the correspondingly numbered exhibits in the Company's Registration Statement on Form S-1 (Commission File No. 33-96528)

- 3.1 Form of Amended and Restated Articles of Incorporation
- 3.2 Form of Amended and Restated By-laws.
- +3.3 Amendment dated November 12, 1997 to Amended and Restated Articles of Incorporation.
- 3.4 Amendments to Amended and Restated By-laws adopted July 15, 1997 (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-4, Commission File No. 333-3601).
- 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 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 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.*
- 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
- 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
- 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.
- 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)

- 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 (previously Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Commission File No. 33-96528))
- 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 Supply Agreement dated January 8, 1996 between the Bcompany and Modern Dental Concepts, Inc.
- 10.93 Agreement of Purchase and Sale of Assets dated February 28, 1996 by and among the Company, Benton Dental, Inc. and Modern Dental Concepts, Inc.
- 10.94 Agreement and the Plan of Merger, dated as of August 3, 1997 by and among the Company, HSI Acquisition Corp and Sullivan Dental Products, Inc. (Exhibit 2.1 to the Company's Registration Statement on Form S-4 (Commission File No. 333-3601)).
- 10.95 Amendments to the Company's 1994 Stock Option Plan effective as of July 15, 1997.+*
- 10.96 Revolving Credit Agreement (the "Credit Agreement") dated as of January 31, 1997 among the Company, The Chase Manhattan Bank, Fleet Bank, N.A., Cooperatieve Centrale Raiffeisen Boerenleenbank, B.A., "Rabobank Nederland", New York Branch and European American Bank (previously Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Commission File No. 33-96528)).
- 10.97 Employment Agreement, dated March 7, 1997, between Bruce J. Haber and the Company (Incorporated by reference to the Company's Registration Statement on Form S-4 (Registration No. 333-30615)).*
- 10.98 Termination of Employment Agreement, dated March 7, 1997, as revised, between Bruce J. Haber and the Company (filed as Exhibit 10.92 to the Company's Registration Statement on Form S-4 (Registration No. 333-30615)).*
- 10.99 Agreement and Plan of Merger among the Company, HS Acquisition, Inc., Roane- Barker, Inc. and Ralph L. Falls, Jr. dated as of May 23, 1997, as amended by letters dated June 24, 1997 and June 25, 1997 (filed as Exhibit 10.94 to the Company's Registration Statement on Form S-4 (Registration No. 333-30615)).
- 10.100 Employment Agreement, dated as of August 3, 1997, by and between Robert J. Sullivan and the Company (filed as Exhibit 10.96 to the Company's Registration Statement on Form S-4 (Commission File No. 333-36081)).*
- 10.101 Amendment No. 2 and Supplement to Revolving Credit Agreement, dated August 15, 1997 (filed as Exhibit 10.104 to the Company's Registration Statement on Form S-4 (Commission File No. 333-36081)).
- 10.102 Amendment dated as of June 30, 1997 to Credit Agreement (filed as Exhibit 10.103 to the Company's Registration Statement on Form S-4 (Commission File No. 333-36081)).
- 10.103 Lease Agreement dated December 23, 1997, between First Industrial Pennsylvania, L.P. and the Company.+
- 10.104 Amendment dated as of June 30, 1997 to Credit Agreement (filed as Exhibit 10.103 to the Company's Registration Statement on Form S-4 (Commission File No. 333-36081)).
- 27.1 Financial Data Schedules - Year ended December 27, 1997
- 27.2 Financial Data Schedules - Year ended December 28, 1996

- 27.3 Financial Data Schedules - Three months ended March 29, 1997
- 27.4 Financial Data Schedules - Six months ended June 28, 1997
- 27.5 Financial Data Schedules - Nine months ended September 27, 1997
- 27.6 Financial Data Schedules - Three months ended March 30, 1996
- 27.7 Financial Data Schedules - Six months ended June 29, 1996
- 27.8 Financial Data Schedules - Nine months ended September 28, 1996
- 27.9 Financial Data Schedules - Year ended December 30, 1995

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+ Filed herewith
+* Indicates management contract or compensatory plan or arrangement.

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
HENRY SCHEIN, INC.

(Under Section 242 of the General Corporation
Law of the State of Delaware)

HENRY SCHEIN, INC., a corporation organized and existing under the
General Corporation Law of the State of Delaware, does hereby certify that:

FIRST: The name of the corporation is Henry Schein, Inc. (the
"Corporation"). The name under which the Corporation was originally
incorporated was Henry Schein USA, Inc., and the date of filing the original
Certificate of Incorporation of the Corporation with the Secretary of State of
the State of Delaware was December 23, 1992.

SECOND: The Certificate of Incorporation of the Corporation is hereby
amended by

striking out Article FIFTH thereof and by substituting in lieu of said Article the following new Article:

"FIFTH:

A. The number of directors which shall constitute the entire Board of Directors shall be as fixed from time to time by resolution of the Board of Directors, but shall not be fewer than five nor more than nineteen.

B. In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

(1) To adopt, amend or repeal any By-Law (provided, however, that (a) any By-Law made, amended or repealed by the Board of Directors may be amended or repealed, and that any By-Laws may be adopted, by the stockholders of the Corporation and (b) the Board of Directors may not amend or repeal any By-Law adopted by the stockholders of the Corporation from and after the 1997 Annual Meeting of Stockholders of the Corporation).

(2) To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation;

(3) To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created; and

(4) By resolution passed by a majority of the whole Board, to designate one or more committees, each committee to consist of two or more of the directors of the Corporation, which,

to the extent provided in such resolution or in the By-Laws of the Corporation, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the By-Laws of the Corporation or as may be determined from time to time by resolution adopted by the Board of Directors.

C. The affirmative vote of the holders of 66-2/3% or more of the shares entitled to vote in the election of directors shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article FIFTH."

IN WITNESS WHEREOF, Henry Schein, Inc. has caused this Certificate to be signed this ____ day of November, 1997.

HENRY SCHEIN, INC.

By: _____
Name:
Title:

ATTEST:

- _____
Name:
Title:

Amendments to the Henry Schein, Inc. 1994 Stock Option Plan

At the July 15, 1997 Annual Meeting of Stockholders of Henry Schein, Inc., the stockholders amended the Henry Schein, Inc. 1994 Stock Option Plan (the "Plan") as follows:

1. The first sentence of Section 5(b) of the Plan was amended to read in its entirety as follows:

Subject to adjustment as provided in this Section 5, the maximum aggregate number of Shares that may be issued under the Plan shall be 2,279,635 shares of Common Stock of which a maximum of 237,897 of such Shares shall be covered by Class A Options and the balance of such Shares shall be covered by Class B Options.

2. The first sentence of Section 5(c) of the Plan was amended to read in its entirety as follows:

The Maximum number of Shares subject to any Option which may be granted under this Plan to each Participant on or after the HSI Public Offering shall not exceed 100,000 Shares (subject to any adjustment pursuant to Section 5(d)) during each fiscal year of HSI during the entire term of the Plan.

LEASE

This LEASE made as of this ____ day of _____, 1997, between FIRST INDUSTRIAL PENNSYLVANIA, L.P., a Delaware limited partnership (the "Landlord"), and HENRY SCHEIN (LANCASTER, PA.) INC., a Pennsylvania corporation (the "Tenant").

BACKGROUND

The Premises (hereinafter defined) is a portion of certain property (the "Property") located partly in Denver Borough, and partly in East Cocalico Township, Lancaster County, Pennsylvania. The Property consists of the land with the buildings and improvements now or hereafter erected thereon, as more particularly described on Exhibit "Legal Description". Tenant desires to lease that portion of the Property consisting of approximately 412,711 square feet of the main warehouse building (exclusive of interior docking area) on the Property (the "Building"), as more particularly shown on Exhibit "Premises" (the "Premises").

ARTICLE ONE Term/Demise

1.1. Landlord leases the Premises to Tenant, and Tenant leases the Premises from Landlord, upon the terms and conditions of this Lease, for a term (the "Term") commencing on the Commencement Date (hereinafter defined) and expiring on the last day of the one-hundredth twentieth (120th) calendar month following the Commencement Date, together with (a) the exclusive right to use for parking fifteen (15) tractor trailers the areas designated as the "Schein Trailer Area" on Exhibit "Site Plan" attached hereto (the "Schein Trailer Area"), (b) the exclusive right to use for parking family vehicles of Tenant's employees, invitees and guests the area shown designated as "Schein Parking Area" on Exhibit "Site Plan" attached hereto, and (c) the non-exclusive right to use only for their intended purposes the roads, sidewalks, driveways, parking areas and landscaped areas on the Property intended for the common use of the tenants of the Property and others to whom Landlord has granted or may grant such rights (together with the Schein Trailer Area and the Schein Parking Area, the "Common Areas"). Notwithstanding anything contained in this Lease to the contrary, Tenant shall not have the right to park tractor trailers on any portion of the Common Areas, except for the Schein Trailer Area.

1.2. The Term shall commence and Rent (as hereinafter defined) shall begin to accrue on March 1, 1998 (the "Commencement Date").

1.3. Landlord shall prepare the Premises for Tenant's initial occupancy in accordance with the plans and specifications for the Premises, which plans and specifications are attached hereto as Exhibit "Specifications" (the "Specifications"). Landlord reserves the right, however; (i) to make substitutions of material of equivalent grade and quality when and if specified material shall not be readily and reasonably available, and (ii) to make reasonable changes necessitated by conditions met in the course of construction which changes shall not substantially deviate from the intended results of the Specifications, provided, however, that no such

substitutions or changes shall materially alter the appearance or utility of the furnished Premises as intended by the Specifications. The Premises shall be deemed to be substantially completed on the date when the Borough of Denver or the Township of East Cocalico as applicable, has issued a certificate of occupancy for the Premises and the Premises have been substantially completed in accordance with the Specifications under this Section 1.2, except for (i) such items of finishing and construction of a nature which are not necessary to make the Premises reasonably tenantable for Tenant's use and (ii) items not then completed because of a Tenant Delay (hereinafter defined) (the "Substantial Completion Date"). Landlord shall give Tenant notice of the Substantial Completion Date.

1.4. The Specifications anticipate that Landlord's work pursuant to Section 1.3 shall be completed in Phases, delineated in the Specifications as Phases I through VB, Office Phase and Exterior. For purposes of this Section 1.4 only, the term "substantially completed" shall mean that a Phase has been completed to the extent necessary to allow the Tenant to install racking and conveyance equipment in the area related to such Phase. In the event that Phases I, II, III and IV (collectively, the "Key Phases") are not substantially completed by April 1, 1998 because of delays due to governmental intervention (not caused by Landlord's violation of law), Tenant Delay (hereinafter defined), unusual scarcity of or inability to obtain labor or materials, strikes, walkouts or similar labor difficulties, casualty or any other causes not within Landlord's reasonable control (collectively, "Uncontrollable Delays"), Landlord shall not be subject to any liability to Tenant, and no such failure to substantially complete the Key Phases by April 1, 1998 shall in any respect affect the validity of this Lease or any obligation of the Tenant hereunder. In the event and to the extent that the Key Phases are not substantially completed by April 1, 1998 for reasons other than Uncontrollable Delays, Basic Rent reserved hereunder shall be abated for the number of days beyond April 1, 1998 by which substantial completion of the Key Phases is delayed for such reasons other than Uncontrollable Delays (which abatement shall be Tenant's sole and exclusive remedy for such delay). As used in this Lease, the term "Tenant Delay" shall mean any delays resulting from changes in the work to be performed by Landlord which are required by Tenant or any delays resulting from any activity or the performance of any work in or about the Premises or Property by Tenant or any of its employees, agents or contractors. Landlord acknowledges that Tenant is not expected to deliver a detailed scope of work for the office area until December 31, 1997 and agrees that failure of Tenant to provide such detailed scope of work prior to December 31, 1997 shall not constitute Tenant Delay.

1.5. Landlord presently estimates that the Substantial Completion Date will be May 1, 1998 (the "Scheduled Commencement Date"). If the Premises are not substantially completed by the Scheduled Commencement Date because of Uncontrollable Delays, Landlord shall not be subject to any liability to Tenant and no such failure to complete the Premises by the Scheduled Commencement Date shall in any respect affect the validity of this Lease or any obligation of the Tenant hereunder. In the event and to the extent that the Premises are not substantially completed May 1, 1998 for reasons other than Uncontrollable Delays, time being of the essence, the Tenant shall receive a credit against Basic Rent equal to (a) two hundred percent (200%) of the daily Basic Rent accrual times (b) the number of days beyond May 1, 1998 by which the Substantial Completion Date is delayed for such reasons other than Uncontrollable Delays (which credit shall be Tenant's sole and exclusive remedy for such delay).

1.6. Within ten (10) days after the Substantial Completion Date, Landlord and Tenant, and their respective construction representatives, shall inspect the Premises and shall prepare a punchlist of work required under Section 1.2 not then actually completed by Landlord (the "Punchlist Inspection"); Landlord agrees that Landlord shall complete with commercially reasonable speed and diligence the items specified on such punchlist. Provided that Tenant notifies Landlord within sixty (60) days after the Commencement Date of latent defects in work required under Section 1.2 which could not have been reasonably discovered at the time of the Punchlist Inspection, Landlord shall correct with commercially reasonable speed and diligence any such latent defects of which Landlord is notified within sixty (60) days after the Commencement Date.

1.7. Subject to Landlord's reasonable requirements imposed to assure that Landlord and Landlord's contractors can work on the Building and the Premises without interference or delay, Tenant shall have access to the Premises during normal working hours prior to the Commencement Date only for the purpose of installing Tenant's racking and other equipment within the Premises and stocking inventory prior to commencement of operations. In performing such work, Tenant shall be bound by all of the obligations of Tenant under this Lease including specifically, without limitation, the requirements of Article 7. Landlord and Tenant each agree to use reasonable efforts to coordinate their respective work with the other so as to achieve the Substantial Completion Date.

1.8. The first lease year of the Term shall commence on the Commencement Date and shall end on the day immediately preceding the first anniversary of the Commencement Date. Each subsequent lease year shall be a period of twelve months, commencing on the day immediately following the expiration of the prior lease year and expiring on the day immediately preceding the anniversary of the commencement of such lease year.

1.9. On a single occasion only, at any time prior to or during the Term, Tenant may at its sole cost and expense retain a licensed engineer or architect ("Tenant's Professional") who shall furnish to both parties measurements, expressed in terms of rentable square feet, of the Premises and the Building. In the event that Tenant's Professional certifies to a measurement which varies more than 2,000 square feet from the 412,711 square feet represented by Landlord in the Lease (any smaller discrepancy being deemed "de minimus" and of no consequence), Landlord shall either (i) agree to and execute an amendment to this Lease adjusting the rentable square footage of the Premises and/or the rentable square footage of the Building in accordance with the measurement(s) of Tenant's Professional and acknowledging the resulting change in Tenant's Proportionate Share or (ii) retain, at its sole cost and expense, a licensed architect or engineer ("Landlord's Professional") to provide a certification as to the actual rentable square footage of the Premises and/or the Building, as appropriate. In the event that Landlord elects "(ii)" above and Landlord's Professional certifies as to a measurement which varies by 8,000 square feet or less from the measurement furnished by Tenant's Professional, the two measurements shall be added, with the sum divided by two and the resulting average measurement shall be deemed for all purposes under the lease to be the actual measurement. In the event that Landlord elects "(ii)" above and Landlord's Professional certifies as to a

measurement which varies by more than 8,000 square feet from the measurement furnished by Tenant's Professional, then Landlord's Professional and Tenant's Professional shall attempt to reach a consensus regarding the measurement(s) in dispute, failing which Landlord's Professional and Tenant's Professional shall jointly select a third professional (the "Third Professional"), whose fees shall be shared equally by the parties, to certify as to the measurement in dispute. The certification and measurement findings of the Third Professional shall be conclusive and binding upon the parties hereto.

Tenant shall have an additional one time right to obtain a measurement of the Premises and the Building in the event that Landlord and Tenant, or their respective successors, enter into an agreement for the lease of any additional space in the Building, as the same shall then exist or in the event that Landlord expands the Building. Any dispute as to such measurement(s) shall be resolved as set forth in the immediately preceding paragraph.

ARTICLE TWO Use

2.1. Tenant shall use the Premises only for assembling, packaging, labeling, warehousing and distributing pharmaceutical products that are not Hazardous Materials (hereinafter defined), with appurtenant offices, employee cafeteria, and vending machine area, and for no other purposes. Notwithstanding anything to the contrary contained in this Section 2.1, Tenant shall have the right:

(a) to assemble, package, label, warehouse and distribute pharmaceutical products and related products used in medical offices which are, or which have components which are, Hazardous Materials provided: (i) such products are not inherently flammable or explosive and (ii) such products are assembled, packaged, labeled, stored, used and disposed of in accordance with all applicable laws, ordinances and regulations and the other requirements of this Lease; and

(b) to use in conducting Tenant's operations at the Premises (i) propane in the operation of Tenant's forklifts, (ii) materials and supplies required for use by Tenant in servicing its truck fleet, (iii) cleaning substances or materials in commercially reasonable amounts which are customarily used in commercial warehouse operations provided that the items described in this subsection (b) shall be used, stored and disposed of in accordance with all applicable laws, ordinances and regulations and other requirements of this Lease.

ARTICLE THREE Rent

3.1. Tenant agrees to pay to Landlord, promptly when due, without notice or demand and without deduction or set-off of any amount for any reason whatsoever, except as may be expressly set forth in this Lease, as basic rent for the Premises ("Basic Rent") during the Term the annual amount set forth on Exhibit "Basic Rent" attached hereto and hereby made a part hereof.

3.2. Basic Rent is payable in equal monthly installments of one-twelfth of the annual amount in advance, on or before the first day of each calendar month during the Term.

3.3. All amounts payable by Tenant to Landlord under the terms of this Lease shall be paid to Landlord at 311 South Wacker Drive, Suite 4000, Chicago, Illinois 60606, or to such other entity or place as Landlord may from time to time designate by written notice to Tenant.

3.4. All amounts payable by Tenant pursuant to this Lease other than Basic Rent are additional rent ("Additional Rent") (Basic Rent and Additional Rent collectively being referred to as "Rent"), and Landlord shall have the same rights and remedies for nonpayment of Additional Rent as Landlord has for nonpayment of Basic Rent.

ARTICLE FOUR
Taxes; Utilities

4.1. Throughout the Term, Tenant shall pay to Landlord Tenant's Proportionate Share of all Taxes (as those terms are defined below). Tenant shall pay to Landlord, at the time when the monthly installment of Basic Rent is payable, an amount equal to one-twelfth (1/12th) of the

estimated annual Taxes for each Tax Year during the Term as reasonably estimated by Landlord. Tenant shall also pay to Landlord, within ten (10) days after receipt of Landlord's notice, the amount by which Tenant's Proportionate Share of the Taxes becoming due exceeds the monthly payments on account thereof previously made by Tenant to Landlord pursuant to the preceding sentence, which obligation of Tenant shall survive the termination of this Lease. Any overpayment of Taxes shall be credited against the next installments of Taxes due hereunder or, at the option of Tenant, repaid to Tenant (net of any sums then past due to Landlord under this Lease) upon the later of (i) within thirty (30) days after the end of the month in which such overpayment occurs or (ii) at the time such excess is refunded by any mortgagee escrowing Taxes to Landlord, but in no event later than sixty (60) days after the end of the month in which such overpayment occurs. The amounts paid by Tenant pursuant to this Section 4.1 shall be used to pay the Taxes, but such amounts shall not be deemed to be trust funds and no interest shall be payable thereon. Taxes payable for the Tax Years in which the Term begins and ends shall be prorated to correspond to that portion of such Tax Years occurring within the Term (calculated on the basis of 365 day Tax Years).

As used in this Lease, the term "Taxes" means all taxes, liens, charges, imposts and burdens, general and special assessments of every kind and nature, ordinary and extraordinary, assessed or imposed by any governmental authority on or with respect to the Premises or the Property, or both, which Landlord shall become obligated to pay because of or in connection with the ownership, leasing and operating of the Premises or the Property, or both, including any such Taxes which are levied or assessed in lieu of all or any part of Taxes or an increase in Taxes as provided in Section 4.2.

As used in this Lease, the term "Tax Year" shall mean each calendar year, or such other period of twelve (12) months as hereafter may be duly adopted by any applicable governmental

or quasi-governmental body or authority or special service district imposing Taxes on the Property or Premises, or both, as its fiscal year for purposes of Taxes, occurring during the Term.

As used in this Lease, the term "Tenant's Proportionate Share" means the ratio that the number of rentable square feet in the Premises bears to the number of rentable square feet of building space on the Property, as such number may change from time to time.

4.2. Nothing herein contained shall be interpreted as requiring Tenant to pay any income, excess profits, corporate capital stock, franchise, succession, transfer, gift, estate or inheritance tax imposed or assessed upon Landlord, unless such tax or any similar tax is levied or assessed in lieu of all or any part of any Taxes or an increase in any Taxes. If under the requirements of any state or local laws with respect to such new method of taxation, Tenant is prohibited from paying such

new tax which is in lieu of all or any part of any Taxes or any increase in Taxes, Landlord may, at its election, require that Tenant enter into a new lease for the balance of the Term, upon all of the same terms and conditions as this Lease, but which provides for a net rent to Landlord after the imposition of such tax, which is equal to the Rent payable hereunder, or Landlord may elect to amend this Lease to achieve the same economic result.

4.3. Notwithstanding the foregoing provisions of this Article Four, Landlord from time to time during the Term may elect to waive the requirement for payment of monthly installments on account of Taxes and, in such case, Tenant shall pay the full amount of any unpaid Taxes within fifteen (15) days after Tenant receives any bill for Taxes from Landlord which, notwithstanding the foregoing, may be sent to Tenant at any time and from time to time for any Tax Year. Such election by Landlord shall not preclude Landlord from thereafter requiring Tenant to commence paying monthly installments on account of Taxes as set forth above in this Article Four.

4.4. Tenant shall purchase all metered utilities in Tenant's name and shall pay, prior to any late payment or delinquency dates, all charges for water, sewer, electricity, gas, fuel, heat, telephone, and other utility services used on the Premises during the Term. Tenant shall pay Landlord within fifteen (15) days after being billed therefor for any utility services which are submetered to the Premises, and shall pay, as a component of Operating Expenses, any for any utility services which are provided to Tenant in common with another tenant or tenants in the Building and are not submetered to the Premises. Landlord is not required to furnish to Tenant any of the foregoing or other facilities or services of any kind whatsoever. Landlord reserves the right, without any liability to Tenant and without affecting Tenant's covenants and obligations under this Lease, to stop service of the HVAC, electric, sanitary, elevator (if any), or other systems serving the Premises, or to stop any other services required by Landlord under this Lease, whenever and for so long as may be necessary by reason of (i) accidents, emergencies, strikes, or the making of repairs or changes which Landlord in good faith deems necessary or (ii) any other cause beyond Landlord's reasonable control. Further, it is also understood and agreed that Landlord shall have no liability or responsibility for an interruption or cessation of services to the Premises or to the Property that occurs as a result of causes beyond Landlord's reasonable control. No such interruption or cessation of service shall be deemed an eviction or disturbance of Tenant's use and possession of the Premises or any part thereof, or render

Landlord liable to Tenant for damages, or relieve Tenant from performance of Tenant's obligations under this Lease, including, but not limited to, the obligation to pay Rent.

ARTICLE FIVE
Insurance and Restoration

5.1. Landlord shall maintain and keep in effect or cause to be maintained and kept in effect such insurance as it deems commercially reasonable, including, without limitation, (i) insurance against loss or damage to the Premises or other buildings and improvements on the Property owned by Landlord by fire and such other casualties as may be included within fire and extended coverage insurance, in an amount equal to the full replacement costs of such buildings and improvements, and (ii) commercial general liability insurance against claims for bodily injury, death and property damage in and about the Property owned by Landlord. Landlord shall, prior to the Commencement Date, and at least thirty (30) days prior to the expiration of each policy required under this Article, deliver to Tenant a certificate evidencing the foregoing insurance or renewal thereof, as the case may be. Each policy of insurance required by this Section 5.1 shall contain the insurer's waiver of subrogation against Tenant and shall be issued by an insurer licensed to do business in Pennsylvania. Landlord shall use reasonable efforts to cause such certificate to provide that it shall not be canceled without at least thirty (30) days prior written notice to Tenant.

5.2. Throughout the Term, Tenant shall pay to Landlord, as Additional Rent and as part of Tenant's Proportionate Share of Operating Expenses payable under Article Ten, Tenant's Proportionate Share of all premiums to be paid by Landlord for all insurance maintained by Landlord with respect to the Property (except for extraordinary insurance that may be necessitated solely by the use of another portion of the Property by another tenant).

5.3. Tenant, at Tenant's sole cost and expense, shall maintain and keep in effect the following insurance coverages throughout the Term:

(a) insurance against liability for bodily injury (including death) and property damage in or about the Property under a policy of commercial general liability insurance and umbrella liability (if necessary), on an occurrence basis (and including, without limitation, contractual liability coverage for liabilities assumed by Tenant under this Lease) and with such limits as to each as may be reasonably required by Landlord from time to time, but not less than \$5,000,000, combined single limit each occurrence;

(b) business automobile liability insurance including owned, hired and non-owned automobiles, on an occurrence basis and with such limits as may be reasonably required by Landlord from time to time, but not less than \$5,000,000 combined single limit;

(c) causes of loss-special form insurance upon Tenant's personal property, fixtures and leasehold improvements and items stored on the Premises by Tenant for the full replacement costs thereof (subject, however, to the deductible permitted under Section 5.4);

(d) workers' compensation insurance in statutorily required amounts and employers liability (with umbrella liability if necessary), with such limits as may be reasonably required by Landlord from time to time, but not less than \$1,000,000 each accident/disease - policy limit/disease - each employee; and

(e) warehouseman's legal liability insurance (with umbrella liability, if necessary) in an amount to the greater of \$5,000,000 or the full replacement value of property of others in the care, custody, or control of Tenant in, on, or about the Premises or the Property;

(f) loss-of-income insurance in an amount sufficient to assure that Landlord shall recover the loss of Rent due and owing under this Lease for a period of at least twelve (12) consecutive months; and

(g) such other policies as are (i) reasonably required by Landlord or any mortgagee or (ii) required by insurers by reason of Tenant's use of or activities at the Premises; provided that any such other policies are customarily required by Landlord or mortgagees of tenants using properties on the vicinity of the Property for purposes and scope of use similar to the Tenant's use and scope of use of the Premises.

5.4. The policies of insurance required pursuant to Section 5.3 shall name Landlord, and Landlord's mortgagees as additional insured parties, as their interests may appear. Each policy of insurance required by Section 5.3 shall provide that it shall not be canceled without at least thirty (30) days prior written notice to Landlord and to any mortgagee named in any endorsement thereto; shall contain the insurer's waiver of subrogation against Landlord, shall be issued by an insurer licensed to do business in Pennsylvania and reasonably acceptable to Landlord and Landlord's mortgagee; and shall be in a form reasonably satisfactory to Landlord. Each policy shall provide that no act or omission of Tenant shall affect the obligation of the insurer to pay the full amount of any loss sustained. The total amount of any deductible under any policy of insurance which Tenant is required to maintain pursuant to Section 5.3 shall be no more than \$25,000.00.

5.5. Prior to the Commencement Date, and at least thirty (30) days prior to the expiration of each policy required under this Article, Tenant shall deliver to Landlord certificates in form reasonably acceptable to Landlord evidencing the foregoing insurance or renewal thereof, as the case may be.

5.6. Each of the parties hereto hereby releases the other, and shall obtain a waiver of subrogation from its insurer, to the extent of the releasing party's required insurance coverage under sections 5.1 and 5.3 and all deductibles, from any and all liability for, or right of recovery against, any loss or damage covered by such insurance which may be inflicted upon the property of such party, or which may be claimed for bodily injury or death, even if such claim, loss or damage shall be brought about by the fault or negligence of the other party, its agents or employees.

In addition to the foregoing, Tenant hereby releases Landlord from all claims for loss of profits or earnings which would be covered under a policy of business interruption insurance in an amount sufficient to reimburse Tenant for loss of earnings attributable to loss of occupancy of the Premises for a period of at least one year, as a result of perils included in a standard comprehensive fire or casualty insurance policy or in a business or rent interruption insurance policy. The foregoing release shall apply even if such fire or other casualty shall have been caused by the fault or negligence of Landlord or anyone for whom Landlord is responsible, and shall apply irrespective of whether Tenant is insured for such loss.

5.7. Tenant will not do anything which would prevent Landlord from procuring either fire insurance on the Premises or public liability insurance with respect to the Property from companies and in a form reasonably satisfactory to Landlord. If Tenant, by its use of the Premises in a manner not permitted under this Lease, shall cause the rate for any insurance maintained by Landlord to be increased, Tenant will pay the amount of such increase as Additional Rent within ten (10) days after being billed therefor.

5.8. (a) In the event of damage to or destruction of the Premises caused by fire or other casualty, Landlord shall undertake to make repairs as hereinafter provided, unless this Lease is terminated by Landlord or Tenant. In the event that such damage or destruction is due to the gross negligence or willful misconduct of Tenant, Tenant shall be responsible for the first costs incurred for such repairs, up to the amount of the deductible of Landlord's insurance, not to exceed \$25,000.00.

(b) If (i) the damage is of such nature or extent, in the reasonable opinion of Landlord's architect or contractor, such opinion to be delivered to Tenant, in writing, within thirty (30) days after the damage has occurred, that (A) more than one hundred eighty (180) consecutive days, after commencement of the work, would be required (with normal work crews and hours) to repair and restore the part of the Premises which has been damaged, or (B) such restoration or repairs require the expenditure of more than fifty percent (50%) of the full replacement cost of the Premises prior to such casualty or (ii) less than two (2) years remain on the Term, and Landlord reasonably estimates that the restoration will take one hundred and twenty (120) days or more after the commencement of work, Landlord shall so advise Tenant promptly, and either party, for a period of thirty (30) days thereafter, shall have the right to terminate this Lease by written notice to the other, as of the date specified in such notice, which termination date shall be no later than thirty (30) days after the date of such notice.

5.9. In the event of such fire or other casualty, if this Lease is not terminated pursuant to the terms of Section 5.8, and if this Lease is then in full force and effect, Landlord shall proceed diligently to restore the Premises to substantially the same size and configuration and with substantially the same improvements existing prior to the

occurrence of the damage. Landlord shall not be obligated to repair or restore any alterations, additions or fixtures which Tenant may have installed after the date of the execution of this Lease (whether or not Tenant has the right or the obligation to remove the same or is required to leave the same on the Premises as of the expiration or earlier termination of this Lease) and which are not covered by the insurance required to be carried by Landlord under their Lease, unless Tenant, in a manner reasonably

satisfactory to Landlord, assures payment in full of such costs as may be incurred by Landlord in connection therewith. If there be any such alteration, fixtures or additions and Tenant does not assure payment of the cost of restoration or repair as aforesaid, Landlord shall have the right to determine the manner in which the Premises shall be restored, as if such alterations, additions or fixtures had not then been made or installed. The validity and effect of this Lease shall not be impaired in any way by the failure of Landlord to complete repairs and restoration of the Premises within one hundred eighty (180) consecutive days after commencement of work, even if Landlord had in good faith notified Tenant that the repair and restoration could be completed within such period, provided that Landlord proceeds diligently with such repair and restoration. Notwithstanding anything to the contrary to the foregoing, if Landlord does not complete restoration of the Premises within the Permitted Restoration Period (hereinafter defined), then, in such event, Tenant may at any time prior to the substantial completion of such work, terminate this Lease whereupon this Lease shall become null and void as of the date of the casualty and neither party shall have any further liability or obligation under this Lease. The term "Permitted Restoration Period" means two hundred ten (210) days after commencement of the work plus an additional period equal to the length of any delays caused by circumstances beyond the reasonable control of Landlord, not to exceed an additional forty-five (45) days.

5.10. In the case of damage to the Premises which is of a nature or extent that all or a portion of the Premises is rendered untenantable (including, without limitation, untenantability resulting from inaccessibility) during the period of repair and restoration by Landlord, the Rent otherwise payable by Tenant pursuant to this Lease shall be abated for the period of such untenantability in such proportion as the number of rentable square feet of the portion of the Premises rendered untenantable bears to the total number of rentable square feet in the Premises.

ARTICLE SIX Rent Absolute and Net to Landlord

6.1. Landlord shall receive, except as otherwise expressly provided in this Lease, all Basic Rent and all Additional Rent free from any charges, taxes, assessments, fees, impositions, expenses, or deductions of any and every kind or nature whatsoever, and, except as otherwise expressly provided in this Lease, free of all obligation to insure or to

repair, restore, or maintain the Premises. Landlord shall not be responsible for any costs, expenses, or charges of any kind or nature respecting the Premises, except as otherwise expressly provided in this Lease. Landlord shall not be required to render any services of any kind to Tenant or to the Premises, except as otherwise expressly provided in this Lease.

ARTICLE SEVEN Signs; Alterations

7.1. Except for signs which are located wholly within the interior of the Premises and which are not visible from the exterior of the Premises, no signs shall be placed, erected, maintained or painted at any place upon the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. All signs shall be maintained by Tenant in good condition during the Term, and Tenant shall remove all signs at

the termination of this Lease and shall repair and restore any damage caused by the installation or removal thereof.

7.2. Tenant may, from time to time, at its expense, make such alterations, decorations, additions, or improvements to the Premises (hereinafter collectively referred to as "Alterations") in and to the Premises, excluding structural changes, as Tenant may reasonably consider appropriate for the conduct of its business in the Premises; provided, however, that except as provided in Section 7.5. of this Lease, the written consent of the Landlord is first obtained. Landlord's consent to Alterations shall not be unreasonably withheld or delayed, provided that (a) the exterior of the improvements located on the Property shall not be affected; (b) the Alterations are non-structural and the structural integrity of the improvements located on the Property shall not be adversely affected; (c) the Alterations are to the interior of the Premises and no part of the outside of the Premises or the Building shall be affected; (d) the proper functioning of the mechanical, electrical, sanitary and other service systems of the Property shall not be adversely affected and such systems shall not be overburdened by their use by Tenant; (e) the Alterations do not have any effect on other leased premises or tenants on the Property; (f) Tenant shall have appropriate insurance coverage reasonably satisfactory to Landlord regarding the performance and installation of the Alterations; and (g) before proceeding with any Alterations, Tenant shall submit for Landlord's approval plans and specifications for the work to be done and Tenant shall not proceed with such work until it has received such approval. Landlord's approval of such Alterations under the immediately preceding sentence shall be deemed to have been given if Landlord does not send notice of disapproval to Tenant within fifteen (15) days after Landlord has received all of the plans and specifications for the Alterations from Tenant. If the costs of the alterations exceeds one hundred thousand dollars (\$100,000.00), Tenant shall obtain and deliver to Landlord (if so requested) either (i) a

performance bond and a labor and materials payment bond (issued by a corporate surety licensed to do business in Pennsylvania) each in an amount equal to one hundred fifteen percent (115%) of the estimated cost of the Alterations and in form satisfactory to Landlord, or (ii) such other security as shall be reasonably satisfactory to Landlord.

7.3. Tenant, at its expense, shall obtain all necessary governmental permits and certificates for the commencement and prosecution of Alterations and for the final approval thereof upon completion, and shall cause the Alterations to be performed in compliance therewith and in compliance with all applicable laws and requirements of public authorities and with rules and regulations promulgated by Landlord in Landlord's reasonable discretion or any other restrictions that Landlord may, in the exercise of reasonable discretion, impose on the Alterations provided, the same do not conflict with the terms of this Lease. Tenant shall not commence any Alterations without having first demonstrated, to Landlord's reasonable satisfaction, that all required permits and certificates have been obtained. The Alterations shall be diligently performed in a good and workmanlike manner, using new materials and equipment at least equal in quality and class to the then quality and class standards of the Premises and Building. Alterations shall be performed by contractors first approved by Landlord (which approval shall not be unreasonably withheld or delayed), and Tenant's agents, contractors, workmen, mechanics, suppliers and invitees shall work in harmony, and not interfere with, Landlord and its agents and contractors (if any) or the Premises. Tenant shall, and hereby does,

indemnify, defend, and hold Landlord and Agent harmless from any and all claims, damages or losses of any nature (including reasonable fees of attorneys of Landlord's choosing), suffered by Landlord, as a result of, or due to, or arising from, the performance of any Alterations by, or on behalf of, Tenant. Tenant acknowledges that any Alterations commenced or performed in violation of any provision of this Article Seven shall cause Landlord irreparable injury, and Landlord shall have the right to seek to enjoin any such violations by injunction or other equitable relief. All Alterations except Tenant's trade fixtures (including its machinery and conveyance equipment) shall be and remain part of the Premises, and shall not be removed by Tenant, unless in connection with Landlord's approval of the Alterations, Landlord requires Tenant to remove them, at Tenant's sole expense, at the expiration or sooner termination of the Term or if such Alterations are made pursuant to Section 7.5 of this Lease unless Landlord requires Tenant to remove them at Tenant's sole expense, at the expiration or sooner termination of the Term by written notice to Tenant within sixty (60) days after their completion; in performing such removal, Tenant shall restore the Premises to its condition prior to such Alteration, shall repair any damage caused by such removal, and shall otherwise comply with this Article 7.

7.4. Tenant shall not permit any mechanics or materialmen's liens to attach to the Premises, Tenant's leasehold estate, or the Property.

Tenant shall and hereby does defend, indemnify, and hold Landlord harmless from and against any and all mechanics and other liens and encumbrances filed in connection with Alterations or any other work, labor, services, or materials done for or supplied to Tenant, or any person claiming through or under Tenant including, without limitation, security interests in any materials, fixtures or articles installed in and constituting a part of the Premises and against all costs, expenses, and liabilities (including reasonable fees of attorneys of Landlord's choosing) incurred in connection with any such lien or encumbrance or any action or proceeding brought thereon. Tenant, at its expense, shall procure the satisfaction or discharge of record (which discharge of record may be by posting of a bond or other security as required by law) of all such liens and encumbrances within thirty (30) days after the filing thereof. In the event Tenant has not so performed, Landlord may, at its option, after ten (10) day's notice to Tenant, pay and discharge such liens and Tenant shall be responsible to reimburse Landlord for all costs and expenses incurred in connection therewith, together with interest thereon at the rate set forth in Section 26.4 below, which expenses shall include reasonable fees of attorneys of Landlord's choosing, and any costs in posting bond to effect discharge or release of the lien as an encumbrance against the Premises, Tenant's leasehold estate, or the Property or any part thereof.

7.5. Notwithstanding anything to the contrary contained in this Article Seven, Tenant may make Minor Alterations (as hereinafter defined) without Landlord's prior consent provided, however, that:

(a) Tenant shall first have given Landlord at least fifteen (15) days prior written notice of its intention to commence such construction, which notice shall be accompanied by plans and specifications for the work to be performed; and

(b) Tenant shall comply with the other provisions of Sections 7.2(a-f), 7.3 and 7.4 of this Lease.

For purposes of this Lease, the term "Minor Alterations" shall mean any alteration complying with this Section 7.5 and involving a cost of less than Fifty Thousand Dollars (\$50,000.00), provided that, for the purpose of determining such cost, multiple construction or alteration projects shall be aggregated to the extent that they are related to each other, whether undertaken simultaneously or sequentially.

7.6. Notwithstanding anything to the contrary contained in this Article 7, Landlord shall not unreasonably withhold or delay consent to the following Alterations which may be partially structural in nature, provided that such Alterations do not adversely effect the structural integrity of the Building and Tenant shall comply with the other provisions of Sections 7.2, 7.3 and 7.4 of this Lease: construction of a cafeteria, extension of the mezzanine, enclosing of dock doors, removal of the shipping office and creation of additional access ways through the existing fire walls in the Premises.

ARTICLE EIGHT Repairs

8.1. Except for the items specified in Section 8.3, Tenant at its own cost and expense shall keep the interior of the Premises including, without limitation, the lighting and other units, equipment and systems in connection with the Premises, and all other parts of the Premises in good order and condition and will make all necessary repairs and replacements thereto, ordinary and extraordinary, foreseen and unforeseen, and will make all necessary replacements thereto when necessary. Tenant shall hire and pay for all security, cleaning, custodial and janitorial services for the Premises. All glass, both interior and exterior, is the sole responsibility of Tenant, and any broken glass shall promptly be replaced by Tenant at Tenant's expense with glass of the same kind (to the extent permitted by applicable building codes), size and quality.

8.2. All repairs and replacements required of Tenant hereunder shall be promptly made with new materials of like kind and quality and shall be made subject to Tenant's compliance with Article Seven.

8.3. Landlord shall maintain in good order and repair at Landlord's sole cost and expense the structure and roof of the Building. Landlord shall maintain, repair and replace, or cause to be maintained, repaired and replaced, the Common Areas, the exterior of the Building and the plumbing, electrical, sprinkler and heating, ventilating and air conditioning units, equipment and systems serving the Premises, so as to keep the same in good order and repair; except as otherwise provided in Sections 8.4 and 8.5 below, the costs of such maintenance, repair and replacement shall be a part of the Operating Expenses as set forth in Article Ten.

8.4. Notwithstanding the provisions of Section 8.3, but subject to the limitations of this Section 8.5, Tenant shall be fully responsible for the costs of maintaining, repairing and replacing any plumbing, electrical, sprinkler and heating, ventilating and air conditioning units,

equipment and systems, or portions thereof, which exclusively serve the Premises and no other portion of the Building.

8.5. Landlord agrees that repairs and replacements (as opposed to maintenance) to the plumbing, electrical, sprinkler and heating, ventilating and air conditioning units, equipment and systems shall not be included in Operating Expenses, but shall be billed directly to Tenant as such expenses occur. Tenant shall be responsible for (i) Tenant's Proportionate Share of the costs of such repairs and replacements to such systems which serve the Premise in common with one or more other tenants, and (ii) the entire cost of such repairs and replacements to such systems which serve only the Premises; provided,

however, that Tenant's obligation to reimburse Landlord for costs pursuant to this Section 8.5 shall be limited, in any one calendar year to (i) up to \$15,000 for repairs and replacements to the heating, ventilating and air conditioning units, equipment and systems and (ii) up to \$25,000 in the aggregate for repairs and replacements to the plumbing, electrical and sprinkler systems serving the Premises.

8.6. The obligations of Landlord to maintain the items specified in Section 8.3 and to bear certain costs pursuant to Sections 8.3 and 8.5 does not include any maintenance, repairs or replacements due to the negligence or willful misconduct of Tenant, its employees, agents, contractors, or invitees; or to alterations made by Tenant, all of which shall be the sole responsibility of Tenant and shall be made by Tenant at Tenant's sole expense and in compliance with Article Seven

ARTICLE NINE

Rules and Regulations; Compliance with Laws

9.1. Tenant, at all times during the Term hereof, and at its sole cost and expense, agrees:

(a) to take such available legal action, if any, as may be necessary to bring about the cessation of any work stoppage, picketing or labor activity by Tenant's employees or against Tenant, which may materially interfere with the operation of or access to the Property or any work being performed or to be performed in or about the Property.

(b) to pay promptly and when due, all taxes, licenses, fees, assessments or other charges levied or imposed upon the business of Tenant or upon any fixtures, furnishings or equipment in, on or at the Premises; to pay Landlord any use and occupancy tax which Landlord is legally obligated to collect from Tenant;

(c) not to commit, permit or allow any waste, damage or nuisance to or on the Property or any portion(s) thereof, or use, permit or allow the plumbing facilities to be used for any purpose injurious to same or dispose of any garbage or any other foreign substance therein, or place a load on any floor in the Premises which would damage the floor or install, attach, operate or maintain in the Premises any heavy equipment or apparatus without the consent of Landlord, or install, operate or maintain in the Premises any electrical equipment which would

overload the electrical system therein, or any part thereof, beyond its capacity for proper and safe operation as reasonably determined by Landlord;

(d) not to use, permit or allow the Premises to be used in any manner which would be illegal or constitute a nuisance because of the emission of noise, smoke, dust or odors or which could damage the Premises or the Property, or be a nuisance or menace to or interfere with, any other occupants or the public, or, pursuant to any applicable governmental law

or requirement, require any plan or bond to be furnished or require any work to be performed to cure or correct any condition created by Tenant, or be for a purpose not permitted by this Lease (and Landlord agrees to cause a provision substantially similar to this Section 9.1(d) to be included in every lease of space in the Building);

(e) to comply with the requirements of all suppliers of utility services to the Premises and not to suffer or permit knowingly any act or omission, the consequence of which could be to cause the interruption, curtailment, limitation or cessation of any utility service to the Property;

(f) not to assemble, package, label, store or discharge or otherwise use any Hazardous Materials, flammable, explosive, poisonous or other hazardous or dangerous substances on the Premises, except in accordance with Sections 2.1(a) and 2.1(b) of this Lease; and

(g) not to block or obstruct or otherwise impede access by others through or across the Common Areas.

9.2. Tenant, at its sole cost and expense, agrees to promptly comply with all rules and regulations reasonably established by Landlord from time to time with respect to the Property. Landlord agrees not to enforce rules and regulations in a discriminatory manner. Such rules and regulations shall not conflict with the provisions of this Lease. In the event of any such conflict between the provisions of this Lease and such rules and regulations, the provisions of this Lease shall prevail.

9.3. The term "Legal Requirements" as used in this Lease means all present and future laws, orders, ordinances, rules, regulations and requirements of any lawful authorities and the orders, rules and regulations of the appropriate Board of Fire Underwriters or similar body, and all requirements of insurance companies writing policies covering the Premises. Tenant shall at Tenant's expense promptly comply with all Legal Requirements relating to or applicable to the use or occupancy of the Premises by Tenant (including, without limitation, the Americans With Disabilities Act). Tenant shall pay all costs, expenses, claims, and penalties, that may in any manner arise out of the failure of Tenant to comply with the requirements of this section.

ARTICLE TEN
Operating Expenses

10.1. Tenant shall pay to Landlord, Tenant's Proportionate Share of all expenses incurred or paid by Landlord in connection with the maintenance, operation, repair, or replacement of (a) the Common Areas, and (b) all other portions of the Property (not including the buildings thereon, except as expressly set forth in this Section 10.1), even if such portions of the Property (not including the buildings thereon, except as expressly set forth in this Section 10.1) are reserved for the exclusive use of others (unless those having such exclusive right of use

pay the entire expense of maintenance, operation, repair and replacement of such portion of the Property reserved for such exclusive use). Such expenses shall include, without limitation, (a) the costs of (1) cleaning, maintenance, repair and replacement of the roads, sidewalks, parking areas, and driveways on or adjoining the Property, including the cost of snow and ice removal; (2) repaving and restriping paved portions of the Property; (3) maintenance, repair and replacement of all landscaped areas on the Property; (4) maintenance, operation, repair and replacement of the lighting of the Property (not including the buildings thereon); (5) repairs and replacements of the systems referred to in Section 8.5. which serve the Premises in common with other tenants; (6) utility services which are provided to Tenant in common with another tenant or tenants in the Building and are not submetered to the Premises; (7) insurance carried by Landlord; (8) compliance with Legal Requirements affecting the Common Areas and all other portions of the Property (not including the buildings thereon), and (b) a management/administrative fee equal to two and twenty six hundredths percent (2.26%) of the annual Basic Rent per year. All sums payable under this Section 10.1 shall be referred to in this Lease collectively as the "Operating Expenses."

The term "Operating Expenses" shall not include (1) the salaries or benefits of any executive officers of Landlord; (2) any repairs or replacements necessitated by the negligence or willful misconduct of Landlord or any other tenant of the Property; (3) debt service or refinancing costs; (4) legal fees related to negotiation or enforcement of leases or any mortgages applicable to the Property; (5) depreciation of the Building; (6) interest or penalties to Landlord's late payment; (7) advertising costs; (8) leasing commissions and costs reimbursed by other tenants or insurance proceeds; (9) the cost of remediating any environmental condition existing as of the date of the Lease; or (9) the salary of an offsite manager. In the event of any capital expense incurred by Landlord to maintain, operate, repair or replace the Common Areas and all other portions of the Property (not including the buildings thereon, except as expressly set forth in Section 10.1), the annual amortization of such expenditure (calculated by dividing the amount of the expenditure over the useful life of the improvement) shall be deemed an Operating Expense for each year of such period.

10.2. Tenant shall pay to Landlord at the time when the monthly installment of Basic Rent is payable, an amount equal to one-twelfth (1/12th) of Tenant's Proportionate Share of the annual Operating Expenses as reasonably estimated by Landlord. Such estimate shall generally itemize the Operating Expenses and may be reasonably changed by Landlord from time to time, whereupon the amounts payable hereunder shall change (so that amounts payable by Tenant shall be sufficient to pay in full Tenant's Proportionate Share of the annual Operating Expenses, as

reasonably estimated by Landlord, over the balance of the calendar

year). Tenant shall also pay to Landlord within ten (10) days after a statement is rendered for the applicable calendar year (the "Operating Expense Statement") the amount by which Tenant's Proportionate Share of the Operating Expenses for such calendar year exceeds the monthly payments on account thereof previously made by Tenant. Any overpayment of Operating Expenses shall be credited against the next installments of Tenant's Proportionate Share of Operating Expenses due hereunder or, at the option of Tenant, repaid to Tenant (net of any unpaid sums due to Landlord under this Lease) within thirty (30) days after the end of the month in which the Operating Statement is issued. The Operating Expense Statement shall set forth the Operating Expenses for the prior year in reasonable detail. Tenant shall have the right to review Landlord's records relative to Operating Expenses during normal business hours at the office at which Landlord maintains such records. If Tenant desires to review Landlord's records, Tenant shall give Landlord notice thereof within ninety (90) days following the furnishing of the Operating Expense Statement to Tenant. Such review shall be completed by Tenant, if at all, within sixty (60) days following the giving of such notice by Tenant to Landlord. The amounts paid by Tenant pursuant to this Section 10.2 shall be used to pay the Operating Expenses, but such amounts shall not be deemed to be trust funds and no interest shall be payable thereon.

ARTICLE ELEVEN
Landlord's Right of Entry

11.1. Tenant shall permit Landlord and the authorized representatives of Landlord and of any mortgagee or any prospective mortgagee, prospective purchaser or tenant to enter the Premises at all reasonable times and with a representative of Tenant upon two days prior notice (except no notice shall be required in the event of emergency), for the purpose of (a) inspecting or showing the same, or (b) performing any obligations of Landlord under this Lease, or (c) correcting any defaults by Tenant under this Lease. Landlord will exercise reasonable efforts to minimize interference with the operations of Tenant, but shall not be liable for inconvenience, annoyance, disturbance or other damage to Tenant by reason of making any repair or by bringing or storing materials, supplies, tools and equipment in the Premises during the performance of any work (except for damage caused by Landlord's negligence or willful misconduct), and, except as otherwise expressly provided for in this Lease, the obligations of Tenant under this Lease shall not be thereby affected in any manner whatsoever.

ARTICLE TWELVE
Indemnification

12.1. Subject to the provisions of Section 5.6, Tenant will indemnify Landlord and save Landlord harmless from and against any and all claims, actions, damages, liability and expense (including, without limitation, reasonable fees of attorneys, investigators and experts) in connection with loss of life, personal injury or damage to property caused to any person in or about the Premises or arising out of the occupancy by Tenant or use by Tenant of the Property or occasioned wholly or in part (as to such part) by any act or omission of Tenant, its agents, contractors, employees, licensees or invitees, or by reason of any breach by Tenant of the terms and conditions of this Lease, unless such loss, injury or damage was caused by the gross

negligence or willful misconduct of Landlord, its agents, employees, licensees or invitees. This Section 12.1 shall survive the termination of the Lease. In case any such claim, action or proceeding is brought against Landlord, upon notice from Landlord and at Tenant's sole cost and expense, Tenant shall resist or defend such claim, action or proceeding or shall cause it to be resisted or defended by an insurer.

ARTICLE THIRTEEN
Condemnation

13.1. (a) If the whole or any part of the Premises shall be taken under the power of eminent domain, this Lease shall terminate as to the part so taken on the date Tenant is required to yield possession thereof to the condemning authority.

(b) (i) If the portion of the Premises so taken under the power of eminent domain substantially impairs the beneficial and economic use and occupancy of the remainder of the Premises for the use specified in Section 2.1, either Landlord or Tenant may terminate this Lease as of the date when Tenant is required to yield possession to the condemning authority by giving notice of termination within forty-five (45) days after the date of notice of such taking by Landlord to Tenant.

(ii) If any portion of the Property is so taken thereby causing the use of the Premises specified in Section 2.1 to be unlawful under applicable governmental requirements, and Landlord cannot or does not deem it reasonably feasible to take action to make such use lawful, then Landlord or Tenant may elect to terminate this Lease as of the date on which possession thereof is required to be yielded to the condemning authority, by giving notice of such election within forty-five (45) days after the date of notice of such taking by Landlord to Tenant.

(iii) If ten percent (10%) or more of the parking spaces in the Schein Parking Area or Schein Trailer Area are taken and Landlord does not replace such spaces at the Property, or if Tenant is permanently deprived of access to the Premises as a result of any condemnation of a portion of the Property, Tenant may elect to terminate this Lease as of the date the condemned property is required to be yielded to the possession of condemning authority by giving notice of termination within forty-five (45) days after receiving notice of such taking from Landlord.

(c) If this Lease is not terminated under this Section 13.1, Landlord, subject to Section 5.9 of this Lease, shall make such repairs and alterations as may be necessary in order to restore the part of the Premises not taken to tenantable condition, (i) all Rent (other than any Additional Rent due Landlord by reason of Tenant's failure to perform any of its obligations hereunder) shall be reduced proportionately as to the portion of the Premises so taken commencing on the date the property taken is required to be yielded to the possession of the condemning authority, and (ii) if the portion of the Premises being repaired is rendered untenable during the period of repair and restoration by Landlord, the Rent otherwise payable by Tenant pursuant to this Lease shall be abated for the period of such untenability in such

proportion as the number of rentable square feet of the portion of the Premises rendered untenable bears to the total number of rentable square feet of the Premises.

(d) If any notice of termination is given pursuant to this section, this Lease shall terminate on the date the property taken is required to be yielded to the possession of the condemning authority and all Rent shall be adjusted as of the date of such termination.

13.2. In the event of a condemnation affecting Tenant, Tenant shall have the right to make a claim against the condemning authority for relocation and moving expenses, and the unamortized cost of Alterations made by Tenant; provided and to the extent, however, that such claims or payments do not reduce the sums otherwise payable by the condemning authority to Landlord. Except as aforesaid, Tenant hereby waives all claims against Landlord and against the condemning authority, and Tenant hereby assigns to Landlord all claims against the condemning authority, including, without limitation, all claims for leasehold damages and diminution in value of Tenant's leasehold interest.

ARTICLE FOURTEEN
Quiet Enjoyment

14.1. Landlord hereby covenants that Tenant, upon paying all Rent and other charges herein provided for, and observing and keeping all covenants, agreements and conditions of this Lease on its part to be kept, shall quietly have and enjoy the Premises during the Term without hindrance or molestation by anyone claiming by or through Landlord, subject, however, to the exceptions, reservations and conditions of this Lease.

ARTICLE FIFTEEN
Assignment and Subletting

15.1. (a) Tenant shall not, voluntarily, or by operation of law or otherwise, assign, mortgage, pledge or encumber this Lease, or sublet the whole or any part of the Premises, or permit the Premises to be used or occupied by anyone other than Tenant, without the prior written consent of Landlord, which consent shall not be unreasonably withheld.

(b) An assignment of this Lease shall include any transfer of a majority of the voting stock of Tenant or to any other change in voting control of Tenant (if Tenant is a corporation) in one (1) or more transactions, or to a transfer of a majority of the general partnership interests in Tenant or managerial control of Tenant (if Tenant is a partnership), or to any comparable transaction involving any other form of business entity, whether effectuated in one (1) or more transactions; but, without Landlord's consent, Tenant shall have the right to assign this Lease or sublet the Premises or any portion thereof to a corporation into or with which Tenant is merged or consolidated, or to which substantially all of Tenant's assets are transferred, or to any corporation that controls or is controlled by Tenant, or is under common control with Tenant, provided in any of such events, (i) the successor to Tenant has a net worth (computed in accordance with generally accepted accounting principles), at least equal to the greater of (A) the net worth of Tenant and Guarantor immediately prior to such merger, consolidation or transfer or

(B) the net worth of Tenant and Guarantor on the date of this Lease, (ii) proof satisfactory to Landlord of such net worth shall have been delivered to Landlord at least twenty (20) days prior to such assignment, (iii) Guarantor (defined hereafter), if Landlord so requires, provides a reaffirmation of the Guaranty (defined hereafter) in form satisfactory to Landlord at least twenty (20) days prior to such assignment, and (iv) Tenant complies with this Article in all other respects in connection with such assignment.

15.2. In the event of any assignment of this Lease or a subletting of all or any portion of the Premises, whether or not consent to such assignment or subletting is required, Tenant nevertheless shall remain liable for the performance of all of the terms, conditions and covenants of this Lease and Guarantor shall remain liable for the performance of all of the terms conditions and covenants of the Guaranty. In the event of an assignment, Tenant shall require any assignee to execute and deliver to Landlord an assumption of liability agreement in form reasonably satisfactory to Landlord, including an assumption by the assignee of all of the obligations of Tenant and the assignee's ratification of and agreement to be bound by all of the provisions of this Lease. Any subleases of the Premises, whether or not consent is required to such sublease, shall be under and subject to the terms of this Lease, and each sublease shall specifically so state. In addition to all sums payable hereunder, Landlord shall be entitled to, and Tenant shall promptly remit to Landlord, one hundred percent (100%) of any consideration received by Tenant as a result of any assignment of this Lease in excess of Tenant's reasonable costs of preparing the Premises for the assignee, reasonable legal fees of preparing the assignment documents, and reasonable brokerage commissions paid to an independent third party broker in connection with such assignment, and one hundred percent (100%) of any rent and other consideration received by Tenant as a result of any subletting of the Premises in excess of the Basic Rent and Tenant's reasonable costs of preparing the Premises (or a portion thereof for the subtenant) the reasonable legal fees of preparing the sublease, and reasonable brokerage commissions paid to an independent third party broker in connection with such assignment.

Tenant's request for consent to any assignment or subletting shall be given to Landlord at least twenty (20) days before the execution of any assignment or sublease, shall be in writing and contain the name, address, and description of the business of the proposed assignee or subtenant, its most recent financial statement and other evidence of financial responsibility, its intended use of Premises, the terms and conditions of the proposed assignment or subletting, and a copy of the proposed form of assignment or sublease. Tenant shall also give Landlord at least twenty (20) days prior notice of any assignment or sublease permitted under Section 15.1(b) together with all of the information required by the immediately preceding sentence.

ARTICLE SIXTEEN Subordination

16.1. This Lease and Tenant's rights hereunder shall be subject and subordinate at all times in lien and priority to all mortgages now or hereafter placed upon or affecting the Property, and to all renewals, modifications, consolidations and extensions thereof, without the necessity of any further instrument or act on the part of Tenant. Tenant shall execute and deliver upon demand any further instrument or instruments confirming the subordination of this Lease to the

lien of any such mortgages and any further instrument or instruments of attornment that may be desired by any mortgagee. Notwithstanding the foregoing, any mortgagee may at any time subordinate its mortgage to this Lease, without Tenant's consent, by giving notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution and delivery. The foregoing provisions of this Section 16.1 are subject, however, to the condition that the holder of any mortgage to which this Lease is subordinate shall deliver to Tenant a subordination, non-disturbance and attornment agreement in form reasonably satisfactory to Tenant and such mortgagee. Provided such non-disturbance is afforded to Tenant, Tenant hereby agrees to attorn (i) to any purchaser of any real estate of which the Premises is a part of any foreclosure sale, execution sale or private sale conducted pursuant to any mortgage, security instrument, or lien encumbering or affecting the Premises, and (ii) to any grantee or transferee designated in any deed given in lieu of foreclosure.

16.2. Tenant agrees that in the event the interest of Landlord becomes vested in the holder of any mortgage, or in anyone claiming by, through or under the holder of any mortgage, then such holder shall not be:

(a) liable for any act or omission of any prior landlord (including Landlord herein); or

(b) subject to any offsets or defenses which Tenant may have against any prior landlord (including Landlord herein); or

(c) required to make or complete any improvements; or

(d) bound by any rent which Tenant may have paid for more than the current month to any landlord (including Landlord herein); or

(e) bound by any amendment or modification of any provisions hereof, or any cancellation or surrender of this Lease, after the mortgage is placed of record unless such amendment, modification, cancellation or surrender shall have been approved in writing by the holder of such mortgage.

ARTICLE SEVENTEEN
Estoppel Certificates; Financials

17.1. Each party, at any time and from time to time and within ten (10) days after written request by the other, shall execute, acknowledge and deliver to the other a written instrument certifying:

(a) whether this Lease has been modified or amended, and if so, the date, substance and manner of such modification or amendment;

(b) the validity and force and effect of this Lease;

(c) the existence of any default hereunder, and if so, the nature, scope and extent thereof;

(d) the existence of any offsets, counterclaims or defenses thereto on the part of the certifying party, and if so, the nature, scope and extent thereof;

(e) the commencement and expiration dates of the Term;

(f) the dates to which Rent has been paid;

(g) any other matters as may be reasonably requested.

Any such certificate may be relied upon by the recipient party and any other person, firm or corporation to whom the same may be exhibited or delivered, and the party executing such certificate shall be bound by the contents of the same.

17.2. Tenant agrees to furnish to Landlord at any time, but not more frequently than twice per year, within ten (10) days after request by Landlord, a copy of its financial statements for its last full fiscal year, including a balance sheet and a profit and loss statement for such year, and for the year in which the request is made through the end of the last fiscal period of Tenant for such year. Tenant agrees to furnish to Landlord at any time, but not more frequently than twice per year, within ten (10) days after request by Landlord, a copy of the Guarantor's financial statements for its last full fiscal year,

including a balance sheet and a profit and loss statement for such year, and for the year in which the request is made through the end of the last fiscal period of Guarantor for such year.

ARTICLE EIGHTEEN Curing Tenant's Defaults

18.1. If Tenant shall be in default in the performance of any of its obligations under this Lease, Landlord, without any obligation to do so, in addition to any other rights it may have in law or equity, may elect to cure such default on behalf of Tenant after providing Tenant written notice thereof (which notice shall, without obligating Landlord in any manner, expressly reiterate Landlord's cure right contained herein), and such time to cure as Landlord determines is reasonable under the circumstances; provided, however, that no notice or opportunity to cure shall be required in case of emergency. Tenant shall reimburse Landlord upon demand for any sums paid or costs reasonably incurred by Landlord in curing such default, including interest thereon from the respective dates of Landlord's making the payments and incurring such costs, which sums and costs together with interest thereon shall be deemed Additional Rent payable within ten (10) days after Tenant receives a bill therefor (which bill shall set forth in reasonable detail the costs for which compensation is claimed).

ARTICLE NINETEEN
Surrender

19.1. At the expiration or earlier termination of the Term, Tenant shall promptly yield up vacant, broom clean and neat, and in the same condition, order and repair in which they are required to be kept throughout the Term, the Premises and all improvements, alterations and additions thereto, ordinary wear and tear and damage by fire or other casualty excepted.

19.2. All movable non-structural partitions, business and trade fixtures, machinery and equipment, communications equipment and office equipment, whether or not attached to, or built into, the Premises, which are installed in the Premises by, or for the account of, Tenant without expense to Landlord and that can be removed without structural damage to the Premises or Property, and all furniture, furnishings and other articles of movable personal property owned by Tenant, or property of others in the care, custody and control of Tenant (collectively, the "Tenant's Property") shall be and shall remain the property of Tenant. At or before the expiration of the Term or the date of any earlier termination, Tenant, at its expense, shall remove from the Premises all of Tenant's Property (except such items thereof as Landlord shall have expressly permitted, in writing, to remain, which property shall become the property of Landlord), and Tenant shall repair any damage to the Premises or Property resulting from any installation or removal of Tenant's Property. Any items of Tenant's Property that shall remain in the Premises or Property after the expiration date of the Term, or

following an earlier termination date, may, at the option of Landlord, be deemed to have been abandoned, and in such case, such items may be retained by Landlord as its property or be disposed of by Landlord, in Landlord's sole and absolute discretion and without accountability, at Tenant's expense. Notwithstanding the foregoing, if Tenant is in default under the terms of this Lease, it may remove Tenant's Property from the Premises only upon the express written direction of Landlord. Landlord may not require Tenant to remove Alterations at the expiration or earlier termination of the Term unless Tenant was notified by Landlord of the requirement for such removal at the time specified in Section 7.3.

19.3. If Tenant, or any person claiming through Tenant, shall continue to occupy the Premises after the expiration or earlier termination of the term or any renewal thereof, such occupancy shall be deemed to be under a month-to-month tenancy under the same terms and conditions set forth in this Lease; except, however, that the Basic Rent during such continued occupancy shall be equal to one hundred fifty percent (150%) of the Basic Rent in effect immediately prior to such holdover. Anything to the contrary notwithstanding, any holding over by Tenant without Landlord's prior written consent shall constitute an event of default hereunder and shall be subject to all the remedies set forth in Article Twenty hereof.

ARTICLE TWENTY
Default-Remedies

20.1. It shall be an event of default under this Lease:

(a) If Tenant does not pay in full any and all installments of Basic Rent or Additional Rent or any other charges or payments whether or not herein defined as Rent, within seven (7) days after notice that the same is due, provided, however that Tenant shall not be entitled to any such notice or grace period more than twice in any twelve (12) month period; or

(b) If Tenant violates or fails to perform or otherwise breaches any agreement, term, covenant or condition herein contained (other than requiring the payment of money) and such failure continues for more than thirty (30) days after written notice thereof to Tenant unless the failure is of such a nature as to reasonably require more than thirty (30) days to correct or cure, in which case, provided that Tenant using its best efforts, has commenced to cure the default within such thirty (30) day period and thereafter continues to use Tenant's best efforts to cure the default, the period shall be extended for a reasonable period of time, not to exceed ninety (90) days after Landlord's notice under this Section 20.1(b), for Tenant, using its best efforts, to cure the default provided, however that Tenant shall not be entitled to any such notice or grace period more than twice in any twelve (12) month period; or

(c) If Tenant voluntarily abandons the Premises for a period greater than ninety (90) days or removes or attempts to remove Tenant's goods or property therefrom other than in the ordinary course of business; or

(d) If Guarantor violates or fails to perform or otherwise breaches any agreement, term, covenant or condition contained in the Guaranty; or

(e) If Tenant or Guarantor becomes insolvent or bankrupt in any sense or makes an assignment for the benefit of creditors or offers a composition or settlement to creditors, or if a petition in bankruptcy or for reorganization or for an arrangement with creditors under any federal or state law is filed by or against Tenant or Guarantor, or a bill in equity or other proceeding for the appointment of a receiver, trustee, liquidator, custodian, conservator or similar official for any of Tenant's or Guarantor's assets is commenced, or if a significant portion of the real or personal property of Tenant or Guarantor shall be levied upon by any sheriff, marshal or constable; provided, however, that any proceeding brought by anyone other than the parties to this Lease under any bankruptcy, reorganization arrangement, insolvency, readjustment, receivership or similar law shall not constitute an event of default until such proceeding, decree judgment or order has continued unstayed for more than ninety (90) consecutive days.

20.2. Anything to the contrary contained in this Lease notwithstanding, it shall not be a default under this Lease for Tenant to remove from all or a portion of the Premises to another location operated by Tenant (or any affiliate of Tenant) any or all of the equipment, trade fixtures, inventory and alterations owned by it, in connection with a transfer, closure, relocation or modification of any portion of its operations, provided that, prior to such removal, Tenant provides reasonably adequate assurance to Landlord that it intends to promptly reestablish significant business operations at the Premises and, within 90 days of the completion of any such removal, actually reestablishes significant business operations at the Premises.

20.3. Upon the occurrence of an event of default, Landlord shall have the following remedies and rights:

(a) To terminate this Lease by giving written notice thereof to Tenant, and upon the giving of such notice the Term, and all rights of Tenant hereunder shall terminate, without affecting Tenant's liability for all sums due under this Lease;

(b) To reenter the Premises, together with all additions, alterations and improvements, and, at the option of Landlord, remove all persons and all or any property therefrom, without being liable for prosecution or damages therefor, and repossess and enjoy the Premises;

(c) At any time after repossession of the Premises, whether or not the

Lease shall have been terminated by Landlord, Landlord may make such reasonable alterations and repairs as may be necessary in order to relet the Premises and relet the Premises or any part or parts thereof, either in Landlord's name or otherwise, for a term or terms which may, at Landlord's option, be less than or exceed the period which would otherwise have constituted the balance of the Term of this Lease and at such rent or rents and upon such other terms and conditions as Landlord may decide. If the rentals received from such reletting during any month after deducting all costs incurred by Landlord in exercising its rights hereunder shall be less than that to be paid during that month by Tenant, Tenant shall pay any such deficiency to Landlord, provided such reletting is a bona fide arms length transaction. Such deficiency shall be calculated and paid monthly.

(d) To declare due and payable all unpaid Basic Rent for the unexpired period of the Term (and also all Additional Rent, as reasonably estimated by Landlord,) as if by the terms of this Lease the same were due and payable in advance, all discounted to present worth using a rate equal to the annual rate for United States obligations of equal duration to the period remaining in the term of the Lease, and upon payment of the same, Tenant shall be entitled to continue in possession pursuant to the terms of this Lease;

(e) In the event of the termination of this Lease, or repossession of the Premises, Landlord shall be entitled to recover, in addition to any and all sums and damages for violation of Tenant's obligations hereunder in existence at the time of such termination, damages for Tenant's default in an amount equal to the amount of Basic Rent reserved for the balance of the Term of this Lease (plus Landlord's reasonable estimate of Additional Rent as well as all other charges, payments, costs and expenses herein agreed to be paid by Tenant), all discounted to present worth using a rate equal to the annual rate for United States obligations of equal duration to the period remaining in the term of the Lease, less the fair rental value of the Premises for the remainder of the Term, also discounted to present value at such rate, all of which shall be immediately due and payable from Tenant to Landlord; and

(f) TENANT, IN CONSIDERATION OF THE EXECUTION OF THIS LEASE BY LANDLORD AND FOR THE COVENANTS AND AGREEMENTS ON THE PART OF LANDLORD HEREIN CONTAINED, AND FULLY COMPREHENDING THE

RELINQUISHMENT OF CERTAIN RIGHTS INCLUDING RIGHTS OF PREJUDGMENT NOTICE AND HEARING AND OF POST-JUDGMENT/PRE-EXECUTION NOTICE AND HEARING, AND AFTER DEFAULT BY TENANT UNDER THIS LEASE AND TEN (10) DAYS' PRIOR NOTICE FROM LANDLORD OF LANDLORD'S INTENT TO CONFESS JUDGMENT IN EJECTMENT (IN ADDITION TO ANY OTHER NOTICE REQUIRED, IF ANY, UNDER SECTION 20.1(a) OR 20.1(b) OF THIS LEASE, HEREBY EXPRESSLY AUTHORIZES ANY ATTORNEY OF ANY COURT OF RECORD TO ACCEPT SERVICE OF PROCESS FOR, TO APPEAR FOR, AND TO CONFESS JUDGMENT IN EJECTMENT AGAINST TENANT IN ANY AND ALL ACTIONS BROUGHT HEREUNDER BY LANDLORD AGAINST TENANT TO RECOVER POSSESSION FROM TIME TO TIME OF THE PREMISES (AND TENANT AGREES THAT UPON THE ENTRY OF

EACH JUDGMENT FOR SUCH POSSESSION A WRIT OF POSSESSION OR OTHER APPROPRIATE PROCESS MAY ISSUE FORTHWITH). THE RIGHT TO CONFESS JUDGMENT IN EJECTMENT SHALL NOT BE EXHAUSTED BY THE SINGLE OR MULTIPLE USE THEREOF. TENANT CONFIRMS THAT THIS IS A COMMERCIAL LEASE, THAT TENANT WAS REPRESENTED BY COUNSEL IN TENANT'S NEGOTIATION AND EXECUTION OF THIS LEASE, AND THAT TENANT KNOWINGLY, WILLINGLY, FREELY AND VOLUNTARILY EXECUTED THIS LEASE WITH THIS SECTION 20.3.(F) AS A PART THEREOF.

20.4. Any payment of Basic Rent, Additional Rent, or any other charge under this Lease (including amounts due by acceleration) which is not paid within ten (10) days after the same is due, shall bear interest from the date due until the date paid by Tenant. In addition, Tenant shall pay to Landlord an administrative charge of three percent (3%) of any amount owed to Landlord pursuant to this Lease which is not paid within ten (10) days of the date which is set forth in this Lease if a date is specified as the due date for such payment, or, if a date is not specified, within ten (10) days of the mailing of a bill therefor by Landlord. The three percent (3%) administrative charge paid by Tenant shall be applied against the amount of interest which accrues on any delinquent installment, so that once Tenant has paid the administrative charge, no further interest shall accrue on any delinquent installment until the amount of interest due exceeds the amount of the administrative charge. If Landlord incurs a penalty in connection with any payment which Tenant has failed to make within the times required in this Lease, Tenant shall pay Landlord, in addition to such sums, the full amount of such penalty incurred by Landlord.

20.5. No waiver by either Landlord or Tenant of any breach by the other of any obligations, agreements or covenants herein shall be a waiver of any subsequent breach or of any obligation, agreement or covenant, nor shall any forbearance by either Landlord or Tenant to seek a remedy for any breach by the other be a waiver of any rights and remedies with respect to such or any subsequent breach.

20.6. No right or remedy herein conferred upon or reserved to Landlord or Tenant is intended to be exclusive of any other right or remedy provided herein or by law, but each shall be cumulative and in addition to every other right or remedy given herein or now or hereafter existing at law or in equity or by statute.

20.7. In addition to, and in no way limiting the other remedies set forth herein, Landlord and Tenant agree that if Tenant ever becomes the subject of a voluntary or involuntary bankruptcy, reorganization, composition, or other similar type proceeding under the federal bankruptcy laws, as now enacted or hereinafter amended, then:

(a) "Adequate assurance of future performance" by Tenant and/or any assignee of Tenant pursuant to Bankruptcy Code Section 365 will include (but not be limited to) payment of an additional/new security deposit in the amount of two (2) months the then-current Base Rent payable hereunder.

(b) Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code, shall be deemed, without further act or deed, to have assumed all of the obligations of Tenant arising under this Lease on and after the effective date of such assignment. Any such assignee shall, upon demand by landlord, execute and deliver to landlord an instrument confirming such assumption of liability.

(c) Notwithstanding anything in this Lease to the contrary, all amounts payable by Tenant to or on behalf of Landlord under this Lease, whether or not expressly denominated as "Rent", shall constitute "rent" for the purposes of Section 502(b)(6) of the Bankruptcy Code.

(d) If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other considerations payable or otherwise to be delivered to Landlord or Agent (including Basic Rent, Additional Rent and other amounts hereunder), shall be the remain the exclusive property of Landlord and shall not constitute property of Tenant or of the bankruptcy estate of Tenant. Any and all monies or other considerations constituting Landlord's property under the preceding sentence not paid or delivered to landlord or Agent shall be held in trust by Tenant or Tenant's bankruptcy estate for the benefit of Landlord and shall be promptly paid to or turned over the Landlord.

20.8. If Landlord shall be in default in the performance of any of its obligations under this Lease for thirty (30) consecutive days after written notice from Tenant (unless such default is not susceptible of cure within thirty (30) days in which event Landlord shall failed to commence curing such default within such thirty (30) day period and to diligently prosecute such cure to completion), then Tenant shall notify Landlord in writing if Tenant intends to cure such default on behalf of Landlord. If, ten (10) days following such second notice Landlord has failed to commence curing such default, Tenant shall have the right to cure the default on behalf of Landlord. Landlord shall reimburse Tenant for all reasonable out-of-pocket costs incurred by Tenant in curing such default within ten (10) days after Landlord receives a bill therefor (which bill shall set forth in reasonable detail the costs for which compensation is claimed). Notwithstanding the foregoing, Tenant shall not have any right in exercising its remedies under the preceding sentence to make any repairs or modifications to areas outside the Premises, except those solely serving the Premises.

20.9. Notwithstanding anything to the contrary contained in Section 20.8, in the event that Landlord fails to promptly perform any of its obligations under this Lease and, as a result of such failure, Tenant cannot reasonably conduct normal business activities under the circumstances, Tenant shall have the right, following notice to Landlord (which, for purposes of this Section 20.8 only, may be by telephone only), to commence curing such failure on behalf of Landlord, and Landlord shall reimburse Tenant for all reasonable out-of-pocket costs

incurred by Tenant in curing such default within twenty (20) days after Landlord receives a bill therefor (which bill shall set forth in reasonable detail the costs for which compensation is claimed).

ARTICLE TWENTY-ONE
Condition of Title and of Premises

21.1. Tenant represents that the Property and the Premises, the street or streets, sidewalks, parking areas, curbs and access ways adjoining them, any surface and subsurface conditions thereof, and the present uses and non-uses thereof, have been examined by Tenant, and Tenant accepts them AS-IS, WHERE-IS in the condition or state in which they now are, or any of them now is, without relying on any representation of Landlord, subject, however, to the Landlord's obligations under Section 1.2 and with respect to the items specified at Section 8.3. This Lease is made under and subject to all liens, encumbrances, easements, covenants, conditions, restrictions and other documents or matters now or hereafter of record.

ARTICLE TWENTY-TWO
Interruption of Services

22.1. Except as specifically provided in this Lease, in case Landlord is prevented or delayed by Uncontrollable Delay in furnishing any service required to be provided by Landlord under this Lease, Landlord shall not be liable to Tenant therefor, nor shall the same give rise to a claim in Tenant's favor that such absence of services constitutes actual or constructive, total or partial eviction or renders the Premises untenable.

ARTICLE TWENTY-THREE
Waiver of Jury Trial

23.1. Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Premises, or any claim of injury or damage, or any other remedy with respect thereto.

ARTICLE TWENTY-FOUR
Waiver of Notices

24.1. Except for notices expressly provided for in this Lease, Tenant hereby waives all notices of any nature, including, without limitation, all notice requirements of the Pennsylvania Landlord and Tenant Act.

ARTICLE TWENTY-FIVE
Enforcement Expenses

25.1. In the event any action or proceeding is brought by Landlord or

Tenant to enforce any of the provisions of this Lease, the prevailing party shall be entitled to receive from the other all costs and expenses, including reasonable legal fees, incurred in connection therewith. In addition, each party shall pay upon demand all of the other party's reasonable costs and expenses, including reasonable legal fees, incurred in any litigation in which the defaulting party causes the other, without the other's fault, to become involved. Tenant shall pay Landlord's reasonable attorneys' fees (not including in-house counsel) incurred in connection with Tenant's request for Landlord's consent under provisions of this Lease governing assignment and subletting, or in connection with any other act which Tenant proposes to do and which requires Landlord's consent.

ARTICLE TWENTY-SIX
Interpretation

26.1. The captions in this Lease are for convenience only and are not a part of this Lease and do not in any way define, limit, describe or amplify the terms and provisions of this Lease or the scope or intention thereof.

26.2. This Lease represents the entire agreement between the parties hereto and there are no collateral or oral agreements or understandings between Landlord and Tenant with respect to the Premises or the Property. No rights, easements or licenses are acquired in the Property or any land adjacent to the Property by Tenant by implication or otherwise. Tenant agrees, within twenty (20) days after request by Landlord, to make such changes to this Lease as are required by any institutional mortgagee, provided such changes do not increase any amounts payable by Tenant, impede Tenant's access to Premises, decrease the size of or change the location of the Premises, or otherwise materially and adversely affect Tenant's rights and obligations under this Lease. This Lease shall not be modified in any manner except by an instrument in writing executed by the parties. The masculine (or neuter) pronoun, singular number, shall include the masculine, feminine and neuter genders and the singular and plural number. Tenant shall not record or file this Lease (or any memorandum hereof) in the public records of any county or state.

26.3. Time is of the essence of this Agreement.

26.4. This Lease shall be governed by the laws of the Commonwealth of Pennsylvania.

26.5. Each writing or plan referred to herein as being attached hereto as an Exhibit or otherwise designated herein as an Exhibit hereto is hereby made a part hereof.

26.6. Wherever interest is required to be paid hereunder, such interest shall be at the rate of four percent (4%) per annum over the rate announced publicly by First National Bank of Chicago, or its successors, from time to time as its prime rate.

ARTICLE TWENTY-SEVEN
Common Areas

27.1. All Common Areas, including but not limited to roads, driveways, sidewalks, loading facilities, rail lines and other common facilities as may be provided, from time to time are for the general nonexclusive use, in common, of Landlord and all owners and tenants of the Property, their employees and guests, and at all times, are subject to the sole and exclusive control of the Landlord and the owners of other portions of the Property. Landlord and the owners of other portions of the Property shall have the right, from time to time, to establish, modify and enforce rules and regulations regarding the Common Areas, to alter, modify or otherwise change the Common Areas, to grant exclusive rights to use portions of the Common Areas and to do such other acts, in and to all Common Areas, as in Landlord's and such owners' sole judgment, shall be desirable or advisable to improve or maintain them; provided, however, that in the exercise of the rights set forth in this sentence, parking comparable to Schein Parking Area and Schein Trailer Area, and access to and from the Premises shall be maintained and Tenant's right to use and occupy the Premises in accordance with the terms of this Lease shall not be materially and adversely affected. Landlord and the other owners of portions of the Property shall have the right to construct additional buildings and other improvements on the Property for such purposes as Landlord and such owners may deem appropriate and to alter, modify or otherwise change the Property, provided, however, that parking comparable to Schein Parking and the Schein Trailer Area and access to and from the Premises is maintained and Tenant's right to use and occupy the Premises in accordance with the terms of this Lease shall not be materially and adversely affected.

ARTICLE TWENTY-EIGHT
Definitions

28.1. The word "Landlord" is used herein to include the Landlord named above as well as its successors and assigns, each of which shall have the same rights, remedies, powers, authorities and privileges as it would have had it originally signed this Lease as Landlord. Any such person, whether or not named herein, shall have no liability hereunder after such person ceases to hold title to the Premises except for obligations which may have theretofore accrued. Neither Landlord nor any partner or other principal of Landlord nor any owner of the Premises, whether disclosed or undisclosed, shall have any personal liability with respect to any of the provisions of this Lease or the Premises, and if Landlord is in breach or default with respect to Landlord's obligations under this Lease or otherwise, Tenant shall look solely to Landlord's interest in the Premises, or if the Premises have been sold, solely to the net proceeds to the Landlord from such sale (net of customary closing costs, broker's commissions, and apportionments), for the satisfaction of any claim, recovery, or judgment against Landlord; the liability of Landlord shall be limited to Landlord's interest in the Premises, or if the Premises have been sold, solely to the net proceeds to the Landlord from such sale (net of customary closing costs, broker's commissions, and apportionments).

28.2. The word "Tenant" is used herein to include the Tenant named above as well as its successors and assigns, each of which shall be under the same obligations, liabilities and disabilities and each of which shall have the same rights, privileges and powers as it would have possessed had it originally signed this Lease as Tenant. Each and every of the persons named above as Tenant shall be bound formally and severally by the terms, covenants and agreements contained herein. However, no such rights, privileges or power shall inure to the benefit of any assignee of Tenant immediate or remote, unless the assignment to such assignee is permitted or has been approved in writing by Landlord.

28.3. The word "mortgage" is used herein to include any lien or encumbrance on the Premises or the Property or on any part of or interest in or appurtenance to any of the foregoing. The word "mortgagee" is used herein to include the holder of any mortgage. Wherever any right is given to a mortgagee, that right may be exercised on behalf of such mortgagee by any representative or servicing agent of such mortgagee.

28.4. The word "person" is used herein to include a natural person, a partnership, a corporation, an association, and any other form of business association or entity.

ARTICLE TWENTY-NINE
Notices

29.1. All notices, demands, requests, consents, certificates, waivers and other communications required or permitted hereunder from either party to the other shall be in writing and sent by recognized overnight delivery service providing receipted delivery, such as Federal Express, and shall be deemed delivered and received one (1) business day after delivery to such overnight delivery service. All such notices shall be addressed as follows:

If to Landlord:

First Industrial
Harrisburg, L.P.
c/o First Industrial
Realty Trust, Inc.
6360 Flank Drive - Suite 600
Harrisburg, PA 17112
Attention: Mr. Craig Cosgrove

and

First Industrial Harrisburg, L.P.
c/o First Industrial
Realty Trust, Inc.

311 South Wacker Drive - Suite 4000
Chicago, IL 60606
Attention: Mr. Michael W. Brennan

and

F. Michael Wysocki, Esquire
Saul, Ewing, Remick & Saul LLP
Centre Square West
1500 Market Street - 38th Floor
Philadelphia, PA 19102

If to Tenant:

Henry Schein, Inc.
135 Duryea Road
Melville, NY 11747
Attention: Mark Mlotek, Esquire
Steven R. La Hood, Senior Vice President

and

Parker Chapin Fallau & Klimpl, LLP
1211 Avenue of the Americas
New York, NY 10036
Attention: Bruce S. DePaola, Esquire

Either party may at any time, in the manner set forth for giving notices to the other, specify a different address to which notices to it shall be sent.

ARTICLE THIRTY
Brokers

30.1. Landlord and Tenant each for itself, hereby covenants, warrants and represents to the other that neither Landlord nor Tenant has had any conversations or negotiations with any broker, except Cushman & Wakefield of Long Island, Inc., concerning the leasing of the Premises by Tenant. Landlord shall be solely responsible for paying the commissions of Cushman & Wakefield of Long Island, Inc. Each party agrees to and hereby does indemnify, defend and hold the other harmless from and against any brokerage commissions or finder's fees or claims therefor by a party (other than Cushman & Wakefield of Long Island, Inc. for whose commission Landlord is responsible) claiming to have dealt with the indemnifying party and all costs, expenses, and liabilities in connection therewith, including, without limitation, reasonable attorney's fees and expenses, for any breach of the foregoing. The foregoing indemnification shall survive the termination of the Lease for any reason.

ARTICLE THIRTY-ONE
Environmental Matters

31.1. For purposes of this Lease, the term "Hazardous Materials" shall mean (1) radon gas, asbestos, petroleum, petroleum products and byproducts, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of

polychlorinated biphenyls in excess of federal, state or local safety guidelines, whichever are more stringent; (2) any substance, gas, material or chemical which is defined as or included in the definition of "hazardous substances", "toxic substances", "hazardous materials", "hazardous wastes" or words of similar import under any federal, state or local statute, law, or ordinance applicable to the Premises or under the regulations adopted or guidelines promulgated pursuant thereto, including, but not limited to, the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, 42 U.S.C. Sections 9601 et seq. ("CERCLA"); the Hazardous Materials Transportation Act, as amended 49 U.S.C. Sections 1801, et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Sections 6901, et seq.; and (3) any other chemical, material, gas, or substance, exposure to or release of which is prohibited, limited or regulated by any governmental or quasi-governmental entity or authority that has jurisdiction over the Premises or the operations or activity at the Premises.

31.2. For purposes of this Lease, the term "Environmental Laws" means all applicable statutes, regulations, rules, ordinances, codes, licenses, permits, orders, approvals, authorizations, agreements and similar items, of or with any and all governmental agencies, departments, commissions, boards, bureaus or instrumentalities of the United States, Pennsylvania and political subdivisions having jurisdiction over the Premises or Property, and all applicable judicial and administrative and regulatory decrees, judgments and orders relating to the protection of the environment, including, without limitation, all requirements pertaining to reporting, licensing, permitting, investigation and remediation of emissions, discharges, Releases or threatened releases of Hazardous Materials into the air, surface water, groundwater or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials or relating to storage tanks.

31.3. For purposes of this Lease, the term "Release" means any releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping into soil, surface waters, ground waters, land, stream sediments, surface or subsurface strata, ambient air and any environmental medium comprising or proximate to the Premises or Property.

31.4. For purposes of this Lease, the term "Threat of Release" means a substantial likelihood of a Release which requires action to prevent or mitigate damage to the soil, surface waters, ground waters, land, stream sediments, surface or subsurface strata, ambient air and any environmental medium comprising or proximate to the Premises or Property which may result from such Release.

31.5. Tenant shall not store, place, use, generate, transport or dispose of any Hazardous Materials at, on, or in the Premises or Property (except to the extent permitted under Sections 2.1(a) and 9.1(f)), shall comply with Environmental Laws, and promptly shall take all remedial action, at Tenant's sole cost and expense, necessary or desirable to remedy, clean-up and remove the presence of Hazardous Materials resulting from Tenant's violation of the prohibitions set forth in this section or Tenant's failure to comply with Environmental Laws. Any such remedial action shall be performed by an independent reputable environmental remediation engineer, in strict compliance with the requirements of Environmental Laws, in accordance with

environmental remediation industry practices, in accordance with the then current and evolving best available environmental remediation technology, and in accordance with a remediation plan approved by Landlord. Such remediation shall comply with the terms of Sections 7.2, 7.3 and 7.4 of this Lease. Tenant shall immediately notify Landlord of any Release or Threat of Release caused by Tenant or of which Tenant has knowledge. Tenant shall promptly provide to Landlord copies of all correspondence relating to any Release, Threat of Release or remediation or other, environmental response action under this Section 31.5. Landlord shall have the right, but not the obligation, from time to time during the performance of any remediation work and following the completion of the same, to inspect the Premises and all information and documentation relating thereto.

31.6. Tenant hereby agrees to indemnify, protect, defend and hold harmless Landlord, and Landlord's successors and assigns, officers, directors, shareholders, partners and employees ("Indemnified Landlord Parties") (with counsel reasonably acceptable to the Indemnified Landlord Parties) from and against, and shall pay and reimburse the Indemnified Landlord Parties for, any and all losses, claims, liabilities, damages, injunctive relief, injuries to persons, property or natural resources, fines, penalties, costs, expenses, including, without limitation, attorneys' fees, expenditures, expenses and court costs, actions, administrative investigations and/or proceedings, and causes of action and sums paid in settlement of litigation (it being understood that so long as Tenant is defending the Indemnified Landlord Party and is not in default of its obligations hereunder, no such litigation (other than relating to governmental fines and penalties or criminal actions) shall be settled without the reasonable consent of Tenant), arising directly or indirectly, in whole or in part, out of any Release, Threat of Release or any discharge, threatened discharge, deposit, presence, treatment, transport, handling or disposal of any Hazardous Materials on, at, under, in or from the Property caused or generated by Tenant, its employees, agents or contractors or in the air, land surface, subsurface strata, soil, surface water, groundwater, or

soil vapor on, under, in or from any part of the Property caused or generated by Tenant, its employees, agents or contractors, or resulting from the migration or the alleged or potential migration of Hazardous Materials from the Property caused or generated by Tenant, its employees, agents or contractors. The foregoing indemnity shall include, without limitation, (1) all costs at law or in equity of inspection, clean-up, removal, remediation, testing, monitoring and restoration of any kind, and disposal of any Hazardous Materials, (2) all costs of determining whether the Premises and Property are in compliance, and causing the Premises and Property to be or become in compliance, with all applicable Environmental Laws, (3) all costs and liabilities associated with claims for damages to, and remedial action with respect to, persons, property or natural resources, (4) all fines and other penalties associated with claims of noncompliance with any Environmental Laws, and (5) all reasonable consultants' and attorneys' fees and costs. The foregoing indemnity shall survive any assignment or other transfer by any or all of the Indemnified Landlord Parties of their respective interests in the Premises and shall remain in full force and effect regardless of whether the indemnified costs and liabilities are incurred by the Indemnified Landlord Parties in question before or after termination of the Lease.

31.7. Landlord hereby agrees to indemnify, protect, defend and hold harmless Tenant, and Tenant's successors and assigns, officers, directors, shareholders, partners and employees ("Indemnified Tenant Parties") (with counsel reasonably acceptable to the Indemnified Tenant

Parties) from and against, and shall pay and reimburse the Indemnified Tenant Parties for, any and all losses, claims, liabilities, damages, injunctive relief, injuries to persons, property or natural resources, fines, penalties, costs, expenses, including, without limitation, attorneys' fees, expenditures, expenses and court costs, actions, administrative investigations and/or proceedings, and causes of action and sums paid in settlement of litigation (it being understood that so long as Landlord is defending the Indemnified Tenant Party and is not in default of its obligations hereunder, no such litigation (other than relating to governmental fines and penalties or criminal actions) shall be settled without the reasonable consent of Landlord), arising directly or indirectly, in whole or in part, out of any Release, Threat of Release or any discharge, threatened discharge, deposit, presence, treatment, transport, handling or disposal of any Hazardous Materials on, at, under, in or from the Property caused or generated by Landlord, its employees, agents or contractors or in the air, land surface, subsurface strata, soil, surface water, groundwater, or soil vapor on, under, in or from any part of the Property caused or generated by Landlord, its employees, agents or contractors, or resulting from the migration or the alleged or potential migration of Hazardous Materials from the Property caused or generated by Landlord, its employees, agents or contractors. The foregoing indemnity shall include, without limitation, (1) all costs at law or in equity of inspection, clean-up, removal, remediation, testing, monitoring and restoration of any kind,

and disposal of any Hazardous Materials, (2) all costs of determining whether the Premises and Property are in compliance, and causing the Premises and Property to be or become in compliance, with all applicable Environmental Laws, (3) all costs and liabilities associated with claims for damages to, and remedial action with respect to, persons, property or natural resources, (4) all fines and other penalties associated with claims of noncompliance with any Environmental Laws, and (5) all reasonable consultants' and attorneys' fees and costs. The foregoing indemnity shall survive any assignment or other transfer by any or all of the Indemnified Tenant Parties of their respective interests in the Premises and shall remain in full force and effect regardless of whether the indemnified costs and liabilities are incurred by the Indemnified Tenant Parties in question before or after termination of the Lease.

31.8. Landlord agrees that it shall be solely responsible for complying with Environmental Laws as they pertain to all underground storage tanks on the Property (the "Tanks"). Landlord shall by April 15, 1998 remove in accordance with applicable Environmental Laws the two (2) gasoline pumps now located in the Common Areas immediately adjacent to the Premises (the "Pumps"), at its cost and expense. Landlord shall indemnify, defend and hold harmless Tenant from and against any claims, actions, losses, costs, liabilities, damages or expenses relating to the Tanks and Pumps, unless such claims, actions, losses, costs, liabilities, damages or expenses are attributable to the actions of Tenant, its employees, agents or contractors.

ARTICLE THIRTY-TWO
Subdivision or other Development of the Property

32.1. (a) Subject to the provisions of Article 35 hereof, Tenant acknowledges and agrees that Landlord and other owners of the Property have the right to develop, alter, modify or otherwise change the Property in such manner and for such purposes as they may deem appropriate provided that Tenant's rights to use and occupy the Premises and to use the Schein

Parking Area and Schein Trailer Area (or parking facilities reasonably comparable to the Schein Parking Area and Schein Trailer Area) in accordance with the terms of this Lease are not materially and adversely affected. Without limiting the generality of the foregoing, Tenant acknowledges and agrees that at any time and from time to time as Landlord and other owners of the Property shall deem necessary or appropriate, they, or any of them shall have the right to subdivide the Property, undertake development of the Property, or establish any easement, dedication, or right of way over the Property. Tenant shall, at the request of Landlord or any governmental authority, public utility or private utility operator, and at Landlord's cost, promptly execute, acknowledge and deliver such documents as Landlord, any governmental authority, public utility or private utility may deem necessary or desirable in connection with such subdivision, development, easement, dedication or right-of-way. Landlord shall give Tenant notice of any covenants, conditions or restrictions imposed upon the Property.

(b) Tenant acknowledges and agrees that Landlord's activities pursuant to Section 32.1(a) may change the description of the Property and the denominator in the calculating Tenant's Operating Expense Proportionate Share. Landlord shall give Tenant notice of all such changes, and such changes shall become effective upon at least five (5) days' prior notice by Landlord to Tenant.

ARTICLE THIRTY-THREE Options to Renew

33.1. Tenant is granted four (4) options (each, a "Renewal Option") to extend the Term for three (3) consecutive additional periods of five (5) years each and, immediately following such three (3) periods, one final period of four (4) years, eleven (11) months (each period, a "Renewal Term").

33.2. Each Renewal Option is granted subject to the following conditions:

(a) Each Renewal Option must be exercised, if at all, by notice from Tenant to Landlord given on or before the two hundred seventieth (270th) day prior to the end of the then expiring Term or Renewal Term, as the case may be, time being of the essence.

(b) In the case of the second, third and fourth Renewal Terms, Tenant shall have first exercised its option with respect to all prior Renewal Terms.

(c) At the time of exercise of each Renewal Option and the commencement of each Renewal Term, this Lease must be in full force and effect, and there shall not exist any default by Tenant under this Lease.

33.3. All terms, provisions and conditions contained in this Lease shall continue to apply during the Renewal Terms, except that:

(a) The Basic Rent for each Renewal Term shall be in the amount set forth on Exhibit "Renewal Term Rent."

33.4. There shall be no further right of renewal after the expiration of the Renewal Terms set forth in this Article Thirty-Three.

ARTICLE XXXIV
Right of First Offer

34.1. (a) Subject to the conditions set forth in this Article XXXIV, in the event that during the First Offer Period (as hereinafter defined) all or any portion of the First Offer Space (as hereinafter defined) becomes available for lease from time to time, Landlord shall offer to lease the First Offer Space to Tenant prior to leasing the same to

another person or entity. The term "First Offer Period" shall mean the period from the Commencement Date through the date which is two (2) years prior to the expiration of the Term, taking into account any Renewal Terms, if the Renewal Options have been exercised by Tenant. The "First Offer Space" consists of all space in the Building which shall have, subsequent to the date of this Lease, been first leased to a tenant other than F. W. Woolworth Company and then become vacant.

(b) Landlord shall make such offer by notice in writing to Tenant (the "First Offer Notice"). The First Offer Notice shall specify which portion of the First Offer Space Landlord proposes to lease to Tenant and shall also set forth the following terms and conditions for Tenant's lease of the First Offer Space, all of which shall be determined by Landlord in its sole discretion:

(i) Basic Rent and Additional Rent;

(ii) any rent credits, abatements, construction allowances and other concessions or economic terms;

(iii) the commencement date for Tenant's lease of the First Offer Space; and

(iv) the expiration date(s) of the term of the lease of the First Offer Space, which may be before or after the expiration date of the Term of this Lease. If the expiration date of the Term as to the First Offer Space would occur after the expiration date of the Term of this Lease as to the balance of the Premises, this Lease shall continue in full force and effect as to the First Offer Space until the expiration date of the Term as to the First Offer Space.

(c) (i) Tenant shall have the right (the "Right of First Offer") to lease all (but not less than all) of the portion of the First Offer Space specified in Landlord's First Offer Notice upon the terms and conditions set forth in Landlord's First Offer Notice and in this Section. Tenant shall exercise its Right of First Offer only by delivering written notice to Landlord within thirty (30) days after Tenant's receipt of the First Offer Notice, time being of the essence. At the time of the exercise of the Right of First Offer, and the commencement of this

Lease as it pertains to the First Offer Space, this Lease must be in full force and effect and there shall not exist any default by Tenant under this Lease..

(ii) In the event Tenant does not exercise the Right of First Offer with respect to any First Offer Space offered to Tenant under this Section 35.1, Landlord may thereafter lease such First Offer Space to any person or entity on any terms and conditions that Landlord deems acceptable, subject, however, to the restriction that that annual basic rent on a per rentable square foot basis (taking into

consideration all allowances, abatements and other economic factors) under the terms of the lease which Landlord enters into with a person or entity other than Tenant shall not be lower than the basic rent offered Tenant in the First Offer Notice. Notwithstanding the foregoing, if Landlord from time to time desires to lease the First Offer Space on terms which would violate the foregoing restriction (the "Revised Terms"), Landlord may lease the First Offer Space on the Revised Terms so long as Landlord, by notice to Tenant (the "Revised First Offer Notice"), shall first offer to lease the First Offer Space to Tenant on the Revised Terms. Tenant shall exercise its Right of First Offer on the Revised Terms by delivering written notice to Landlord within seven (7) days after receipt of the Revised First Offer Notice, time being of the essence. If Landlord does not receive Tenant's notice of its exercise of its Right of First Offer on the Revised Terms within such seven (7) day period, Landlord may lease the First Offer Space on any terms and conditions, but again subject to the restriction against entering into a lease at lower basic rent than that offered Tenant in the Revised First Offer Notice.

(d) Any First Offer Space as to which Tenant exercises its Right of First Offer shall become part of the Premises, and, except as otherwise set forth in the First Offer Notice, all of the terms and conditions applicable to the Premises shall also apply to such space.

(e) Promptly following Tenant's exercise of any Right of First Offer, Landlord and Tenant shall execute an amendment to this Lease setting forth the Basic Rent and the other terms of Tenant's lease of such First Offer Space.

ARTICLE THIRTY-FIVE
No Construction Area

Notwithstanding anything in this Lease to the contrary, Landlord agrees that it shall not construct an addition to the Building, or other improvements, in the area designated as "No Construction Area" on the Exhibit "Site Plan", without Tenant's prior written consent.

ARTICLE THIRTY-SIX
Guaranty

This Lease shall be guaranteed by Henry Schein, Inc. (the "Guarantor") pursuant to a guaranty in the form of the Guaranty of Lease attached hereto as Exhibit "Guaranty", (the "Guaranty") which shall be delivered to Landlord simultaneously with delivery of this Lease.

ARTICLE THIRTY-SEVEN
Signs of Other Tenants of the Building

Anything to the contrary contained in this Lease notwithstanding, Landlord shall not permit any other tenant of the Building, as the same may be expanded, altered or reconfigured, to erect

a pylon, monument or any other sign on the Property or on any adjacent property owned by Landlord or an affiliate of Landlord (unless the Tenant leases space in such adjacent property in the building to which the pylon, monument or other sign is related), without Tenant's prior written consent; provided, however, that all other tenants of the Building may be afforded space on Tenant's pylon sign which space shall be beneath Tenant's space thereupon and shall be of a size equal to (x) the surface area on the pylon sign which is usable for signage multiplied by (y) such tenant's Proportionate Share. Additionally, Landlord will not permit another tenant of the Building nor any other person (including Landlord) to erect, install, affix or add any sign to the roof, exterior walls, exterior windows or any other exterior surface of the Building, provided that Landlord may permit other tenants of the Building to have signs at access points into their respective premises.

ARTICLE THIRTY-EIGHT
Additional Reimbursements

38.1. Landlord has agreed to sell to Tenant, and Tenant has agreed to purchase from Landlord, certain racking and conveyor equipment located at the Property (the "Equipment"). The Equipment is being sold "as-is, where is," without representation or warranty by Landlord. In consideration of the Equipment, Tenant agrees to pay Landlord sixty (60) consecutive monthly payments (the "Equipment Payments") of \$2,844.76 each, commencing on the first day of March 1998 and thereafter on the first day of each of the next fifty-nine months of the Term. Such payments are Additional Rent hereunder. In the event that this Lease shall be terminated prior to payment in full of the foregoing payments, for any reason, Tenant shall, at the time of termination of this Lease, pay to Landlord in full all remaining unpaid Equipment Payments.

38.2. At Tenant's request, Landlord has agreed to install certain new heating equipment at the Premises during preparation of the Premises by Landlord (the "Heating Equipment"). The Heating Equipment consists of the new gas fired air rotation heating units for the Premises. In consideration of the installation of the Heating Equipment, Tenant agrees to pay Landlord monthly payments ("Heating Equipment Payments") of \$1,770.55 each, commencing on the first day of March 1998 and thereafter on the first day of each of the next two hundred forty (240) months of the Terms or until expiration of the Term, whichever shall occur first; provided, however, that if the Term shall be terminated prior to its scheduled expiration date pursuant to Article 1.1, as the same may have been extended pursuant to Article 33, by reason of default by Tenant hereunder, Tenant shall, at the time of termination of this Lease, pay to Landlord the sum of the Heating Equipment Payments which Tenant would have paid Landlord during the remainder of the Term had the Term continued to its scheduled expiration date.

IN WITNESS WHEREOF, and in consideration of the mutual entry into this Lease and for other good and valuable consideration, and intending to be legally bound, each party hereto has caused this

agreement to be duly executed under seal.

Landlord:

FIRST INDUSTRIAL PENNSYLVANIA, L.P., a Delaware limited partnership, by its sole general partner, First Industrial Pennsylvania Corporation, a Maryland corporation

Witness:

_____ By: _____
Print Name: _____
Print Title: _____

Tenant:

Attest: HENRY SCHEIN (LANCASTER, PA.) INC., a Pennsylvania corporation

_____ By: _____
Secretary President

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Henry Schein, Inc.
Melville, NY

We hereby consent to the incorporation by reference in the previously filed Registration Statements (No. 333-05453, No. 333-33193, and No. 333-39893) of Henry Schein Inc. on Form S-8, filed with the Securities and Exchange Commission on June 7, 1996, August 8, 1997 and November 11, 1997, respectively, of our reports dated February 27, 1998 on the consolidated financial statements and schedule of Henry Schein, Inc. Annual report on Form 10-K for the year ended December 27, 1997.

BDO Seidman, LLP

New York, New York
March 27, 1998

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	12-MOS	
	DEC-27-1997	
	DEC-28-1996	
	DEC-27-1997	7,824
		0
	261,665	
	(7,649)	
	212,848	
	535,056	112,446
	57,997	
	741,194	
228,029		102,562
0		0
		352
	410,846	
741,194		1,518,123
	1,518,123	
		1,067,299
	1,067,299	
	439,173	
	1,544	
	5,541	
	13,929	
	17,512	
	(1,012)	
	0	
	0	
		0
	(1,012)	
	(0.03)	
	(0.03)	

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	12-MOS	
	DEC-28-1996	
	DEC-30-1995	
	DEC-28-1996	45,814
		0
		207,187
		(5,646)
		180,750
		473,682
		96,781
		48,762
		628,944
187,328		42,177
		0
		0
		338
		399,179
628,944		1,231,848
		1,231,848
		865,156
		865,156
		319,294
		275
		4,712
		50,024
		18,606
32,767		0
		0
		0
		32,767
		1.06
		1.01

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	3-MOS	
	DEC-27-1997	
	DEC-28-1996	
	MAR-29-1997	
		17,433
		0
		205,422
		(6,835)
		175,420
		441,133
		99,101
		50,438
		603,824
157,458		38,876
		0
		0
		401
		406,333
603,824		339,049
		339,049
		239,012
		239,012
		92,929
		386
		1,016
		7,550
		4,008
3,506		0
		0
		0
		3,506
		0.10
		0.10

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	6-MOS	
	DEC-27-1997	
	DEC-28-1996	
	JUN-28-1997	
		20,823
		0
		232,693
		(9,016)
		175,181
	471,964	
		104,200
	53,692	
	654,619	
174,925		62,579
	0	
		0
		411
		420,853
654,619		
		712,483
	712,483	
		501,514
	501,514	
	190,292	
		386
	2,032	
		21,620
		10,033
12,047		
		0
		0
		0
		12,047
		0.35
		0.33

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	9-MOS	
	DEC-27-1997	
	DEC-28-1996	
	SEP-27-1997	
		16,867
		0
	264,368	
	(10,508)	
	197,168	
	523,394	112,374
	54,777	
	727,962	
221,038		96,227
	0	
		0
		351
		415,904
727,962		
		1,107,967
	1,107,967	783,219
		783,219
	306,110	
	386	
	3,600	
	20,302	
	16,255	
	5,370	
		0
		0
		0
	5,370	
	0.15	
	0.15	

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	3-MOS	
	DEC-28-1996	
	DEC-30-1995	
	MAR-30-1996	
		10,896
		0
		160,820
		(6,672)
		141,889
	342,221	86,510
		44,588
		448,679
140,621		86,776
	0	0
		330
		233,695
448,679		271,686
	271,686	190,259
		190,259
		74,231
		69
	1,457	6,713
		2,881
4,038		0
		0
		0
		4,038
		0.14
		0.14

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	6-MOS	
	DEC-28-1996	
	DEC-30-1995	
	JUN-29-1996	
		95,846
		0
		172,008
		(6,726)
		152,322
		449,233
		89,383
		44,968
		562,504
153,858		43,160
		0
		0
		372
562,504		364,342
		563,780
		563,780
		394,994
		394,994
		151,017
		69
		3,110
		16,931
		6,230
11,212		0
		0
		0
		11,212
		0.39
		0.37

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	9-MOS	
	DEC-28-1996	
	DEC-30-1995	
	SEP-28-1996	
		55,237
		0
		199,543
		(8,185)
		158,652
	451,209	
		94,391
	46,862	
	596,931	
170,556		42,773
	0	
		0
		389
		382,507
596,931		
		882,854
	882,854	
		620,401
		620,401
	231,385	
		69
	4,132	
		30,838
		11,420
20,544		
		0
		0
		0
		20,544
		0.67
		0.64

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial arrangements.

1000

	12-MOS	
	DEC-30-1995	
	DEC-31-1994	
	DEC-30-1995	
		11,872
		0
	149,297	
	(8,840)	
	154,938	
	346,996	
		82,714
	42,602	
	447,415	
173,262		51,473
	0	
		0
		324
		227,059
447,415		958,744
	958,744	
		663,508
	663,508	
	281,749	
	451	
	7,341	
	9,279	
	10,823	
	(516)	
	0	
	0	
		0
	(516)	
	(0.02)	
	(0.02)	