

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 28, 1996

____ 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 11-3136595
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

135 Duryea Road 11747
Melville, New York (Address of principal executive offices) (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: X 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/A or any
amendment to this Form 10-K/A. X

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 21, 1997 was
approximately \$369,341,068.

As of March 21, 1997, 23,324,085 shares of registrant's Common Stock,
par value \$.01 per share, were outstanding.

Documents Incorporated by Reference

None

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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 should be read in conjunction with the Company's consolidated financial statements and notes thereto in Item 8 herein.

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 1996, 1995 and 1994.

	Percentage of Net Sales			Percentage Increase (Decrease)	
	Years Ended			1995 to 1996	1994 to 1995
	December 28, 1996	December 30, 1995	December 31, 1994		
Net Sales by Market (1):					
Dental (2)	52.5%	53.2%	56.3%	32.9%	19.5%
Medical	23.0	20.3	18.5	52.3	39.8
Veterinary	4.3	4.8	5.7	20.5	5.2
Technology (3)	2.5	4.2	2.2	(19.7)	142.1
International (4)	17.7	17.5	17.3	36.5	28.4
	-----	-----	-----		
	100.0%	100.0%	100.0%	34.7	26.6

(1) Restated to conform to 1996 presentation.

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

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

(4) International consists of the Company's business (substantially all dental) outside the United States and Canada, primarily in Europe.

1996 Compared to 1995

Net sales increased \$213.8 million, or 34.7%, to \$830.0 million in 1996 from \$616.2 million in 1995. Of the \$213.8 million increase, approximately \$107.9 million represented a 32.9% increase in the Company's dental business, \$65.6 million represented a 52.3% 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 \$5.1 million, or 19.7% 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 and acquisitions. Of the approximately \$65.6 million increase in medical net sales, approximately \$20.9 million, or 31.9%, represents incremental net sales to renal dialysis centers, with the effects of acquisitions and increased outbound telesales activity primarily accounting for the balance of the increase in 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 service. As anticipated, 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 (Registered) Plus Windows (Registered) based product.

Gross profit increased by \$54.6 million, or 28.7%, to \$245.2 million in 1996, from \$190.6 million in 1995, while gross profit margin decreased by 1.4% to 29.5% from 30.9% for the same period. The decrease in gross profit margin was primarily due to product mix as fewer high margin Easy Dental(Registered) Plus for Windows (Registered) products were sold in 1996. Excluding gross profit margin for the Company's technology group, which was 64.9% for 1996 as compared to 80.7% for 1995, gross profit margins were relatively unchanged at 28.6% for 1996 as compared to 28.7% for 1995.

Selling, general and administrative expenses increased by \$44.8 million, or 26.2%, to \$215.6 million in 1996 from \$170.8 million in 1995. Selling and shipping expenses increased by \$37.8 million, or 33.6%, to \$150.3 million in 1996 from \$112.5 million in 1995. As a percentage of net sales, selling and shipping expenses decreased 0.2% to 18.1% in 1996 from 18.3% 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(Registered) Plus for Windows(Registered) 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 0.4% higher than last year. This increase was due primarily to various promotional programs and incremental field sales and marketing personnel. General and administrative expenses increased \$7.0 million, or 12.0%, to \$65.3 million in 1996 from \$58.3 million in 1995, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses decreased 1.6% to 7.9% in 1996 from 9.5% in 1995 due primarily to the relatively fixed nature of general and administrative expenses when compared to the 34.7% increase in sales volume for the same period.

Net interest expenses decreased \$4.4 million to \$1.0 million in 1996 from \$5.4 million in 1995. This decrease primarily resulted from the use of the proceeds of the Company's follow-on offering in June 1996 to reduce debt and 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 \$11.3 million, while the pre-tax income was \$29.3 million. The difference between the Company's effective tax rate of 38.6% 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 \$5.1 million, while the pre-tax loss was \$6.1 million. The difference between the tax provision and the amount that would have been recoverable by applying the statutory rate to pre-tax loss was attributable substantially to the non-deductibility for income tax purposes of the \$17.5 million appreciation in the value of the stock issued to an executive officer and other senior management of the Company. On a pro forma basis, excluding special charges, taxes on income for 1995 were \$6.3 million, resulting in an effective tax rate of 42.9%. The difference between the pro forma effective tax rate and the Federal statutory rate relates primarily to state income taxes and currently non-deductible net operating losses of certain foreign subsidiaries, primarily in France, which are not included in the Company's consolidated tax return.

In 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 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.

1995 Compared to 1994

Net sales increased \$129.6 million, or 26.6%, to \$616.2 million in 1995 from \$486.6 million in 1994. Of the \$129.6 million increase, approximately \$53.4 million represented a 19.5% increase in the Company's dental business, \$35.8 million represented a 39.8% increase in its medical business, \$23.8 million represented a 28.4% increase in its international business, \$15.2 million represented a 142.1% increase in its technology business and \$1.4 million represented a 5.2% increase in the Company's veterinary business. The dental net sales increase, after taking into consideration acquisitions, was primarily due to the Company's increase in field sales consultants and telesales personnel, database marketing programs and promotional activities. Of the approximately \$35.8 million increase in medical net sales, approximately \$17.0 million, or 47.5%, represents incremental net sales to renal dialysis centers, with the effects of acquisitions and increased telesales personnel accounting for the other major increase in net sales. In the international market, the increase in net sales was due to the full year benefit of an acquisition made in France in July 1994, acquisitions made in 1995, increased unit volume growth and favorable exchange rate translation adjustments. The increase in net sales for the Company's technology market was primarily the result of an increase in unit sales due to the release of the new Windows(Registered) version of Easy Dental (Registered) Plus software in December 1995 and substantial price increases. The increased pricing on the Easy Dental(Registered) Plus software product was accompanied by substantial sales promotions and related expense. In the veterinary market, the Company now earns a commission on certain products which the manufacturer now sells direct. Including those sales on a basis similar to 1994, sales to the veterinary market would have increased by approximately 19.0%.

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

Selling, general and administrative expenses increased by \$42.2 million, or 32.8%, to \$170.8 million in 1995 from \$128.6 million in 1994. Selling and shipping expenses increased by \$34.8 million, or 44.8%, to \$112.5 million in 1995 from \$77.7 million in 1994. As a percentage of net sales, selling and shipping expenses increased 2.4% to 18.3% in 1995 from 15.9% in 1994. The increase in selling and shipping expenses as a percentage of net sales was primarily due to substantial sales promotions offered by the Company's technology group in conjunction with the promotion of Easy Dental(Registered)

Plus software and the new Windows(Registered) version released in December 1995, which accounted for approximately 0.9% of the 2.4% increase in selling and shipping expenses as a percentage of net sales. The balance of the increase was due primarily to various promotional programs and incremental field sales and marketing personnel. General and administrative expenses increased \$7.4 million, or 14.5%, to \$58.3 million in 1995 from \$50.9 million in 1994, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses decreased 1.0% to 9.5% in

1995 from 10.5% in 1994 due primarily to the relatively fixed nature of general and administrative expenses when compared to the 26.6% increase in sales volume for the same period.

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

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

In 1995, the Company's provision for taxes was \$5.1 million, while the pre-tax loss was \$6.1 million. The difference between the tax provision and the amount that would have been recoverable by applying the statutory rate to pre-tax loss was attributable substantially to the non-deductibility for income tax purposes of the \$17.5 million appreciation in the value of the stock issued to an executive officer and other senior management of the Company. On a pro forma basis, to give effect to special charges, taxes on income for 1995 were \$6.3 million, resulting in an effective tax rate of 42.9%. The difference between the pro forma effective tax rate and the Federal statutory rate relates primarily to state income taxes and currently non-deductible net operating losses of certain foreign subsidiaries, primarily in France, which are not included in the Company's consolidated tax return. In 1994, the income tax recovery was \$1.6 million, while the pre-tax loss was \$12.4 million. The effective tax rate of the Company for 1994 differed from the Federal statutory rate, primarily due to non-deductible special charges of approximately \$9.1 million arising from the appreciation in the value of stock issued to an executive officer of the Company and currently non-deductible net operating losses of certain foreign subsidiaries.

Inflation

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

Risk Management

The Company has operations in the United States, Canada, the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland and Spain. Each of the Company's operations endeavors to protect its margins by using foreign currency forward contracts to hedge the estimated foreign currency payments to foreign vendors. The total U.S. dollar equivalent of all foreign currency forward contracts hedging vendor payments was \$5.0 million as of the 1996 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 experienced a negative translation adjustment of \$0.5 million in 1996 and a positive translation adjustment of \$0.3 million in 1995, which adjustments were reflected in the balance sheet as an adjustment to stockholders' equity. The cumulative translation adjustment at the end of 1996 showed a net negative translation adjustment of \$0.6 million.

The Company issues a Canadian catalog once a year with prices stated in Canadian dollars; however, orders are shipped from the Company's United States warehouses resulting in U.S. dollar costs for Canadian dollar sales. To minimize the exposure to fluctuations in foreign currency exchange rates, the Company enters into foreign currency forward contracts with major international banks and an unconsolidated 50%-owned company to convert estimated monthly Canadian dollar receipts into U.S. dollars. The Company usually enters into the forward contract prior to the issuance of its Canadian catalog and for the expected life of the catalog. As of December 28, 1996, the Company had 28 forward contracts outstanding for the forward sale of 5.2 million Canadian dollars. The last of the contracts expires on October 31, 1997; however, the Company anticipates entering into new contracts in the normal course of its business.

The Company borrowed money in U.S. dollars under a term loan related to the Van den Braak acquisition. The Company loaned the proceeds to Henry Schein B.V. in Netherland Guilders ("NLG") with principal and interest payable in NLGs. To minimize the resultant exposure to fluctuations in foreign currency exchange rates between the U.S. dollar and The Netherland Guilder, the Company entered into a series of foreign currency forward contracts to sell NLGs for U.S. dollars. As of December 28, 1996, the Company had 5 contracts outstanding for the forward sale of NLG 7.1 million. The last contract expires on October 31, 1997.

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

Liquidity and Capital Resources

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

Net cash used in operating activities for the year ended December 28, 1996 of \$34.5 million resulted primarily from a net increase in working capital of \$63.9 million offset in part by net income, adjusted for non-cash charges relating primarily to depreciation and amortization and deferred income taxes of \$27.2 million and \$2.4 million, respectively. The increase in working capital was primarily due to (i) a \$43.1 million increase in accounts receivable resulting primarily from increased net sales (80.7%) and extended payment terms (10.9%), and a decrease in the percentage of customers who make payment with their orders (5.7%), (ii) a \$23.0 million increase in inventories, primarily due to year-end inventory buying opportunities and (iii) an \$8.6 million increase in loans and other receivables offset in part by an increase in accounts payable and other accrued expenses of \$10.7 million. The Company anticipates future increases in working capital as a result of its continued sales growth, extended payment terms and special inventory buying opportunities.

Net cash used in investing activities for the year ended December 28, 1996 of \$49.1 million resulted primarily from cash used to make acquisitions of \$32.5 million and capital expenditures of \$11.2 million. During the past three years, the Company has invested more than \$26.3 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 \$10.0 million per year in capital projects to modernize and expand its facilities and infrastructure systems.

Net cash provided by financing activities for the year ended December 28, 1996 of \$117.6 million resulted primarily from net cash proceeds from a follow-on offering of the Company's Common Stock, which was completed on June 21, 1996 amounting to \$124.1 million, partially offset by net debt repayments of approximately \$5.6 million.

A balloon payment of approximately \$3.5 million is due on October 31, 1997 under a term loan associated with a foreign acquisition. In addition, with respect to 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 28, 1996 of \$41.7 million consist of bank balances and investments in short-term tax exempt securities 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 as the securities are actively traded in public markets.

The Company entered into an amended revolving credit facility on January 31, 1997 that increased its main credit facility from \$65.0 million to \$100.0 million, extended the facility termination date to January 30, 2002 and reduced the interest rate on the Company's borrowings under the facility. Borrowings under the credit facility were \$18.0 million at December 28, 1996. Certain of the Company's subsidiaries have additional credit facilities available which totaled \$13.2 million at December 28, 1996 under which \$6.7 million had been borrowed.

The aggregate purchase price of the acquisitions completed during 1996 was approximately \$38.8 million, payable \$32.5 million in cash, \$0.9 million in notes and \$5.4 million in stock. The cash portion of the purchase price was primarily funded by proceeds from the Company's initial public offering, completed in November 1995, and a follow-on offering, completed in June 1996.

Since December 28, 1996, the Company has acquired (i) in a pooling-of-interests transaction, all of the outstanding common stock of Dentrax Dental Systems, Inc., a leading provider of clinically-based dental practice management systems, with 1996 net sales of approximately \$10.3 million, and (ii) in a purchase transaction, the business of Smith Holden, Inc., the longest operating dental supply company in the United States, with 1996 net sales of approximately \$14.2 million. Additionally, on March 7, 1997, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Micro Bio-Medics, Inc. (Nasdaq:MBMI) will merge into a wholly-owned subsidiary of the Company.

The Company believes that its cash and cash equivalents of \$41.7 million as of December 28, 1996, its anticipated cash flow from operations, 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

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 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. We have also audited the financial statement schedule listed in the accompanying index. 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 and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Henry Schein, Inc. and Subsidiaries at December 28, 1996 and December 30, 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 28, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

BDO SEIDMAN, LLP

New York, New York
March 7, 1997

HENRY SCHEIN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 28, 1996	December 30, 1995
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 41,673	\$ 7,603
Accounts receivable, less reserves of \$7,305 and \$6,335 respectively.....	140,197	91,248
Inventories.....	126,632	96,515
Deferred income taxes.....	6,189	6,896
Other.....	29,665	19,492
	-----	-----
Total current assets.....	344,356	221,754
Property and equipment, net.....	37,154	29,713
Goodwill and other intangibles, net	53,420	24,389
Investments and other.....	29,006	21,011
	-----	-----
	\$463,936	\$296,867
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 87,988	\$ 65,105
Bank credit lines.....	6,716	9,325
Accruals:		
Salaries and related expenses.....	11,041	9,074
Other.....	25,395	31,008
Current maturities of long-term debt.....	8,461	3,343
	-----	-----
Total current liabilities.....	139,601	117,855
Long-term debt.....	24,569	30,381
Other liabilities.....	2,715	1,233
	-----	-----
Total liabilities.....	166,885	149,469
	-----	-----
Minority interest.....	5,289	4,547
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value, authorized 60,000,000; issued: 22,272,441 and 18,358,673, respectively.....	222	183
Additional paid-in capital.....	254,180	123,866
Retained earnings	39,086	19,746
Treasury stock, at cost, 60,529 and 51,679 shares, respectively	(1,090)	(769)
Foreign currency translation adjustment.....	(636)	(175)
	-----	-----
Total stockholders' equity.....	291,762	142,851
	-----	-----
	\$463,936	\$296,867
	=====	=====

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 28, 1996	December 30, 1995	December 31, 1994
Net sales.....	\$829,962	\$616,209	\$486,610
Cost of sales.....	584,738	425,625	343,922
Gross profit.....	245,224	190,584	142,688
Operating expenses:			
Selling, general and administrative.....	215,561	170,823	128,560
Special management compensation.....	---	20,797	21,596
Special professional fees	---	---	2,007
Operating income (loss).....	29,663	(1,036)	(9,475)
Other income (expense):			
Interest income.....	2,456	475	251
Interest expense	(3,421)	(5,833)	(3,756)
Other-net.....	636	276	541
Income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates.....	29,334	(6,118)	(12,439)
Taxes on income (recovery)	11,343	5,126	(1,630)
Minority interest in net income of subsidiaries	246	509	561
Equity in earnings of affiliates.....	1,595	1,537	494
Net income (loss).....	\$ 19,340	\$(10,216)	\$(10,876)
Net income per common share.....	\$ 0.93		
Weighted average common and common equivalent shares outstanding.....	20,724		
Pro forma:			
Historical net loss.....		\$ (10,216)	\$(10,876)
Pro forma adjustments:			
Special management compensation and professional fees.....		20,797	23,603
Tax effect of above.....		(1,174)	(5,749)
Pro forma net income.....		\$ 9,407	\$ 6,978
Pro forma net income per common share.....		\$ 0.70	\$ 0.58
Pro forma weighted average common and common equivalent shares outstanding.....		13,447	12,127

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 25, 1993.....	11,390,544	\$114	\$ 11,225	\$ 41,390
Net loss.....	---	---	---	(10,876)
Deemed dividend.....	---	---	---	(552)
Adjustment resulting from revaluation of stock issued for special compensation (including \$4,897 attributable to stock of former parent).....	---	---	9,104	---
Stock issued and issuable, in part, to settle accrued liability under long-term executive incentive compensation plan...	489,456	5	3,460	---
Recognition of deferred compensation.....	---	---	---	---
Stock issued to ESOP trust	128,257	1	899	---
Reclassification of redeemable stock issued as special compensation and to ESOP trust.....	(2,084,398)	(21)	(14,724)	---
Foreign currency translation adjustment.....	---	---	---	---
Balance, December 31, 1994.....	9,923,859	99	9,964	29,962
Net loss.....	---	---	---	(10,216)
Shares issued for acquisition.....	1,260,416	13	6,500	---
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 (51,679 shares).....	---	---	---	---
Foreign currency translation adjustment.....	---	---	---	---
Balance, December 30, 1995.....	18,358,673	183	123,866	19,746
Net income.....	---	---	---	19,340
Shares issued for acquisitions.....	155,183	2	5,424	---
Stock issued in follow-on offering.....	3,734,375	37	124,070	---
Stock issued to ESOP trust.....	24,210	---	820	---
Purchase of treasury stock (8,850 shares).....	---	---	---	---
Foreign currency translation adjustment.....	---	---	---	---
Balance, December 28, 1996.....	22,272,441	\$222	\$254,180	\$39,086

	Treasury Stock	Foreign Currency Translation Adjustment	Deferred Compen- sation	Total Stockholders' Equity
Balance, December 25, 1993.....	\$ ---	\$(635)	\$(8,197)	\$ 43,897
Net loss.....	---	---	---	(10,876)
Deemed dividend.....	---	---	---	(552)
Adjustment resulting from revaluation of stock issued for special compensation (including \$4,897 attributable to stock of former parent).....	---	---	(9,104)	---
Stock issued and issuable, in part, to settle accrued liability under long-term executive incentive compensation plan...	---	---	---	3,465
Recognition of deferred compensation.....	---	---	17,301	17,301
Stock issued to ESOP trust	---	---	---	900
Reclassification of redeemable stock issued as special compensation and to ESOP trust.....	---	---	---	(14,745)
Foreign currency translation adjustment.....	---	177	---	177
Balance, December 31, 1994.....	---	(458)	---	39,567
Net loss.....	---	---	---	(10,216)
Shares issued for acquisition.....	---	---	---	6,513
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 (51,679 shares).....	(769)	---	---	(769)
Foreign currency translation adjustment.....	---	283	---	283
Balance, December 30, 1995.....	(769)	(175)	---	142,851
Net income.....	---	---	---	19,340
Shares issued for acquisitions.....	---	---	---	5,426
Stock issued in follow-on offering.....	---	---	---	124,107
Stock issued to ESOP trust.....	---	---	---	820
Purchase of treasury stock (8,850 shares).....	(321)	---	---	(321)
Foreign currency translation adjustment.....	---	(461)	---	(461)
Balance, December 28, 1996.....	\$(1,090)	\$(636)	\$ ---	\$291,762

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See accompanying notes to consolidated financial statements

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

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Cash flows from operating activities:			
Net income (loss).....	\$ 19,340	\$(10,216)	\$(10,876)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	7,898	6,037	3,811
Provision for losses and allowances on accounts receivable.....	970	2,016	1,061
Stock issued to ESOP trust	820	---	900
Provision (benefit) for deferred income taxes.....	2,397	(1,091)	(3,553)
Special management compensation.....	---	20,289	18,866
Undistributed earnings of affiliates.....	(1,595)	(1,537)	(494)
Minority interest in net income of subsidiaries.....	246	509	561
Other.....	(619)	(558)	(965)
Changes in assets and liabilities:			
Increase in accounts receivable.....	(43,063)	(35,055)	(12,809)
Increase in inventories.....	(22,962)	(7,342)	(5,412)
Increase in other current assets.....	(8,603)	(4,411)	(3,571)
Increase in accounts payable and accruals.....	10,683	20,562	18,759
Net cash provided by (used in) operating activities.....	(34,488)	(10,797)	6,278
Cash flows from investing activities:			
Capital expenditures.....	(11,213)	(9,219)	(5,919)
Business acquisitions, net of cash acquired.....	(32,540)	(16,377)	---
Other.....	(5,338)	(3,893)	(1,972)
Net cash used in investing activities.....	(49,091)	(29,489)	(7,891)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt.....	1,154	3,698	5,391
Principal payments on long-term debt.....	(4,688)	(15,289)	(1,150)
Proceeds from issuance of stock.....	124,107	72,468	---
Proceeds from borrowings from banks.....	4,449	2,446	3,764
Purchase of treasury stock.....	(321)	(769)	---
Payments on borrowings from banks.....	(6,478)	(20,826)	(4,200)
Deemed dividend.....	--	---	(552)
Other.....	(574)	1,711	445
Net cash provided by financing activities.....	117,649	43,439	3,698
Net increase in cash and cash equivalents.....	34,070	3,153	2,085
Cash and cash equivalents, beginning of year.....	7,603	4,450	2,365
Cash and cash equivalents, end of year.....	\$ 41,673	\$ 7,603	\$ 4,450

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 50% or less owned are accounted for under the equity method. All material intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

The Company reports its operations on a 52-53 week basis ending on the last Saturday of December. Accordingly, fiscal years ended December 28, 1996 and December 30, 1995 consisted of 52 weeks and the fiscal year ended December 31, 1994 consisted of 53 weeks.

Revenue Recognition

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

Inventories

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

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

Premium Coupon Program

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

Statement of Cash Flows

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

Foreign Currency Translation and Transactions

The financial position and results of operations of the Company's foreign subsidiaries are determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year.

Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation adjustment account in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings, except for certain hedging transactions (see below).

HENRY SCHEIN, INC. AND SUBSIDIARIES

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 based on LIBOR 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. No impairment losses have been necessary through December 28, 1996.

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."

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

(a) Historical

Historical per share information is computed using the weighted average number of common and common equivalent shares outstanding. Common equivalent shares relating to the stock options issued to executive management in 1995, the shares issued to senior management in 1994, and the shares contributed to the ESOP trust in 1994 have been treated as if they were outstanding since the beginning of 1994. Such ESOP shares and common equivalent shares relating to the stock options are calculated using the treasury stock method, using the initial public offering price of \$16.00 per share for assumed repurchase. Historical per share information for 1995 and 1994 is not considered relevant as it would differ materially from pro forma per share data, given the significance of the pro forma adjustments.

(b) Pro Forma Net Income Per Share

Pro forma net income per share is computed using pro forma net income and the pro forma weighted average number of common and common equivalent shares outstanding, after reflecting a 99-for-1 stock split effected immediately prior to the initial public offering. The common equivalent shares for pro-forma net income per share were computed on the same basis as the historical basis.

(c) Supplemental Earnings Per Share

As required by APB Opinion No. 15, supplementary net income per share for the year ended December 28, 1996 was \$.93. For this calculation, the weighted average number of common shares includes the shares assumed to provide the proceeds, at the follow-on offering price, needed to retire average revolving credit borrowings and debt for the period from the beginning of the year (or the date the debt was incurred) to the respective retirement date, and

the pro forma net income was adjusted to exclude the related financing and interest expenses of the debt.

NOTE 2--REORGANIZATION

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

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 2 --REORGANIZATION (Continued)

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

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

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

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

As part of the HSI Agreement, the vesting and events of forfeiture were removed and the stock issued in 1992 became fully vested. Accordingly, the estimated fair value of the stock issuances to HSI's executive officer were revalued to reflect the fair values of HSI and SPINC at the time of vesting and the related deferred compensation, net of amortization, of \$17,301 was charged to earnings as special management compensation in 1994.

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 2 -- REORGANIZATION (Continued)

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

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

In 1994, the Company incurred special professional fees on behalf of its stockholders relating to the reorganization in the amount of \$552. This amount was deemed to be a dividend and deducted from retained earnings.

NOTE 3--OTHER CURRENT ASSETS

Other current assets consist of the following:

	December 28, 1996	December 30, 1995
	-----	-----
Prepaid expenses	\$ 5,314	\$ 3,941
Vendor rebates receivable.....	11,798	5,744
Amounts due from affiliates	5,154	2,084
Refundable income taxes.....	727	2,645
Other.....	6,672	5,078
	-----	-----
	\$29,665	\$19,492
	=====	=====

NOTE 4--PROPERTY AND EQUIPMENT--NET

Major classes of property and equipment consist of the following:

	December 28, 1996	December 30, 1995
	-----	-----
Land.....	\$ 1,445	\$ 1,718
Buildings and leasehold improvements.....	24,726	23,288
Machinery and warehouse equipment..	14,937	10,509
Furniture, fixtures and other.....	14,585	12,165
Computer equipment and software....	20,914	15,937
	-----	-----
	76,607	63,617

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 4--PROPERTY AND EQUIPMENT--NET (Continued)

Less accumulated depreciation and amortization.....	39,453	33,904
	-----	-----
Net property and equipment.....	\$37,154	\$29,713
	=====	=====

NOTE 5--GOODWILL AND OTHER INTANGIBLES--NET

Goodwill and other intangibles consist of the following:

	December 28, 1996	December 30, 1995
	-----	-----
Goodwill.....	\$ 52,407	\$ 22,267
Other.....	4,672	3,917
	-----	-----
	57,079	26,184
Less accumulated amortization.....	3,659	1,795
	-----	-----
	\$ 53,420	\$ 24,389
	=====	=====

Goodwill represents the excess of the purchase price of acquisitions over the fair value of net assets acquired. During 1996, four acquisitions accounted for \$16,887 of the increase in goodwill. Other intangibles include covenants not to compete, customer lists and deferred acquisition costs. Goodwill and other intangibles are amortized on a straight-line basis over periods not exceeding 30 years.

NOTE 6--INVESTMENTS AND OTHER

Investments and other consist of:

	December 28, 1996	December 30, 1995
	-----	-----
Investments in unconsolidated affiliates.....	\$11,524	\$ 9,865
Long-term receivables (see Note 11(b)).....	11,051	8,399
Other.....	6,431	2,747
	-----	-----
	\$29,006	\$21,011
	=====	=====

The Company's investments are predominately 50% owned unconsolidated affiliates consisting of various companies involved in the healthcare distribution business and HS Pharmaceutical, Inc., which manufactures generic pharmaceuticals. As of December 28, 1996, the Company's investments in unconsolidated affiliates were \$2,859 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 28, 1996, approximately \$6,632 of the Company's retained earnings represented undistributed earnings of affiliates. Combined financial data for substantially all of these companies follows:

	December 28, 1996	December 30, 1995
	-----	-----
Current assets.....	\$38,172	\$28,904
Total assets.....	47,103	35,220
Liabilities.....	30,939	22,995
Stockholders' equity.....	16,164	12,225

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 6--INVESTMENTS AND OTHER (Continued)

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Net sales.....	\$103,169	\$55,090	\$34,003
Operating income.....	7,044	5,147	3,183
Net income.....	3,775	2,920	1,428

NOTE 7--BUSINESS ACQUISITIONS

The Company acquired 34 healthcare distribution businesses between 1994 and 1996, including, on July 7, 1995, the distribution business of The Veratex Corporation ("Veratex"), a national direct marketer of medical, dental and veterinary products, and on July 10, 1996, Scientific Supply Company, Inc., a regional distributor of medical supplies. The total amount of cash paid and promissory notes issued for these acquisitions was approximately \$33,423, \$22,710 and \$2,660, for 1996, 1995 and 1994, respectively. The Company also issued 155,183 shares of common stock in 1996 in connection with two of its

acquisitions and 1,260,416 shares of common stock in connection with one of its 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 28, 1996 no liabilities have been recorded for contingent consideration.

The summarized unaudited pro forma results of operations set forth below for 1996 and 1995 assume the acquisitions occurred as of the beginning of each of these periods.

	Years Ended	
	December 28, 1996	December 30, 1995
Net sales.....	\$877,925	\$762,333
Net income (loss).....	19,699	(9,594)
Pro forma net income, reflecting adjustment in 1995 to exclude special management compensation and professional fees	19,699	10,029
Pro forma net income per common share.....	\$0.95	\$0.75

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 7--BUSINESS ACQUISITIONS (Continued)

Since December 28, 1996, the Company has acquired (i) in a pooling-of-interest transaction, all of the outstanding common stock of Dentrax Dental Systems, Inc., a leading provider of clinically-based dental practice management systems, with 1996 net sales of approximately \$10.2 million, and (ii) in a purchase transaction, the business of Smith Holden, Inc., the longest operating dental supply company in the United States, with 1996 net sales of approximately \$14.2 million.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 7 - BUSINESS ACQUISITIONS (Continued)

The following summarized pro-forma unaudited results of operations combines the results of the Company and Dentrrix assuming the acquisition of Dentrrix occurred on December 26, 1993:

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Net sales.....	\$840,122	\$623,302	\$490,834
Historical net income (loss).....	22,523	(8,801)	(10,065)
Pro-forma net income(1).....	21,326	10,289	7,483
Pro-forma net income per common share.....	\$ 0.98	\$ 0.71	0.57

(1) Reflects adjustment in all years for income taxes that would have been provided for by Dentrrix had it not been an S Corporation, and in 1995 and 1994 to exclude special management compensation and professional fees.

NOTE 8--BANK CREDIT LINES

At December 28, 1996, certain subsidiaries of the Company had available various bank credit lines totaling approximately \$13,157, expiring through December 1997. Borrowings of \$6,716 under these credit lines at interest rates ranging from 3.5% to 7.5% were collateralized by accounts receivable, inventory and property and equipment of the subsidiaries with an aggregate net book value of \$17,163 at December 28, 1996.

NOTE 9--LONG-TERM DEBT

Long-term debt consists of:

	December 28, 1996	December 30, 1995
Borrowings under Revolving Credit Agreement (a).....	\$18,040	\$17,000
Notes payable for business acquisitions (b).....	3,930	6,783
Notes payable to banks, interest variable (8.0% at December 28, 1996), payable in quarterly installments ranging from \$16 to \$34 through 2003, secured by inventory and accounts receivable in the amount of \$21,192.....	1,932	2,020
Mortgage payable to bank in quarterly installments of \$14, interest at 5.2% through November 2013, collateralized by a building with a net book value of \$1,606.....	987	1,137
Various notes and loans payable with interest, in varying installments through 2001, uncollateralized.....	8,141	6,784
Total.....	33,030	33,724
Less current maturities.....	8,461	3,343
Total long-term debt.....	\$24,569	\$30,381

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 9--LONG-TERM DEBT (Continued)

(a) Revolving Credit Agreement

On January 31, 1997, the Company entered into an amended revolving credit agreement which, among other things, increased the maximum borrowings to \$100 million from \$65 million, extended the term of the agreement to January 30, 2002 and reduced the interest rate charged to the Company. The interest rate on any borrowings under the agreement is based on prime or LIBOR as defined in the agreement, which were 8.25% and 5.69%, respectively, at December 28, 1996. The borrowings outstanding at December 28, 1996 were at interest rates ranging from 6.3% to 8.25%. The agreement provides for a sliding scale fee ranging from .1% to .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 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) Notes Payable for Business Acquisitions

In November 1993, a subsidiary of the Company entered into a term loan agreement for \$5,290 with a bank. The proceeds of this loan were used to acquire a dental supply distribution company. Principal is payable in semi-annual installments of \$227 through October 1997, with a final balloon payment of \$3,474 on October 31, 1997. Interest is payable quarterly at a rate of 6.5% per year. The agreement also provides for the same financial covenants and restrictions as the revolving credit agreement. In October 1995, the Company entered into a term loan agreement for \$2,400 with a third party. The proceeds of this loan were used to acquire a medical distribution company. The loan was repaid in June 1996.

As of December 28, 1996, the aggregate amounts of long-term debt maturing in each of the next five years are as follows: 1997- \$8,461; 1998- \$1,670; 1999-\$774; 2000- \$710, 2001- \$689.

NOTE 10--TAXES ON INCOME (RECOVERY)

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

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Domestic.....	\$27,091	\$(7,435)	\$(13,978)
Foreign.....	2,243	1,317	1,539
Total income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates.....	\$29,334	\$(6,118)	\$(12,439)

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in thousands, except share data)

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

The provision for (recovery of) income taxes on income (loss) was as follows:

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Current tax expense (recovery):			
U.S. Federal.....	\$ 7,182	\$ 4,677	\$ 1,528
State and local.....	1,069	924	459
Foreign.....	695	616	(64)
Total current.....	8,946	6,217	1,923
Deferred tax expense (benefit):			
U.S. Federal.....	1,466	(836)	(3,563)
State and local.....	778	(285)	(155)
Foreign.....	153	30	165
Total deferred.....	2,397	(1,091)	(3,553)
Total provision (recovery).....	\$11,343	\$ 5,126	\$ (1,630)

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

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

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

	December 28, 1996	December 30, 1995
	-----	-----
Current deferred tax assets:		
Inventory, premium coupon redemptions and accounts receivable valuation allowances.....	\$2,798	\$3,592
Uniform capitalization adjustments to inventories.....	1,520	1,472
Accrued special professional fees and other accrued liabilities.....	1,871	1,832
	-----	-----
Total current deferred tax asset	6,189	6,896
	-----	-----
Non-current deferred tax assets (liabilities):		
Property and equipment.....	(1,607)	(428)
Provision for long-term executive incentive compensation and other accrued liabilities...	(85)	(110)
Net operating losses of foreign subsidiaries.....	1,928	2,403
	-----	-----
Total non-current deferred tax asset.....	236	1,865
Valuation allowance for non-current deferred tax assets.....	(1,928)	(2,403)
	-----	-----
Net non-current deferred tax liabilities.....	(1,692)	(538)
	-----	-----
Net deferred tax asset.....	\$ 4,497	\$6,358
	=====	=====

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.

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

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
	-----	-----	-----
Provision (recovery) at Federal statutory rate.....	\$10,267	\$(2,141)	\$(4,354)
State income taxes, net of Federal income tax effect...	1,575	582	53
Net foreign and domestic losses for which no tax benefits are available.....	---	574	23
Foreign income taxed at other than the Federal statutory rate.....	(55)	(25)	(214)
Non-deductible appreciation in stock issued as special management compensation.....	---	6,109	3,318
Deduction for charitable contributions.....	---	---	(180)
Tax exempt interest.....	(237)	---	---
Other.....	(207)	27	(276)
	-----	-----	-----
Income tax provision (recovery).....	\$11,343	\$ 5,126	\$(1,630)
	=====	=====	=====

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

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

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 28, 1996, the cumulative amount of reinvested earnings was approximately \$2,078.

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 28, 1996, the Company has outstanding foreign currency forward contracts aggregating \$9,790 related to debt and the purchase and sale of merchandise. The contracts hedge against currency fluctuations of the Canadian dollar (\$3,946), Swiss Franc (\$707), The Netherland Guilder (\$4,776), Deutsche Mark (\$180), and Japanese Yen (\$181). The contracts expire at various dates through October 1997. At December 28, 1996, the Company had net deferred losses from foreign currency forward contracts of \$27.

As of December 28, 1996, interest rate swaps totaling \$13,000 were outstanding. The swaps are used to convert floating rate debt to fixed rate debt to reduce the Company's exposure to interest rate fluctuations. The net result was to substitute a weighted average fixed interest rate of 7.81% for the variable LIBOR rate on \$13,000 of the Company's debt. The swaps expire in October and November 2001. Under the interest rate environment during the year ended December 28, 1996, the net fair value of the Company's interest rate swap agreements resulted in a recognized loss of \$299.

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

(b) Concentrations of Credit Risk

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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 28, 1996 is \$18,355 and \$7,785, respectively, related to Easy Dental(Registered) Plus software sales with non-interest bearing extended payment terms. Total unamortized discounts at December 28, 1996 amounted to \$1,487 based on an imputed interest rate of 8.25%. Included in interest income for the year ended December 28, 1996 was approximately \$998 of inputed interest relating to these non-interest bearing extended payment term receivables. Imputed interest relating to these receivables was not material for 1995 and 1994.

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 \$15,037, \$8,730 and \$12,055 in 1996, 1995 and 1994, respectively. Included in Accounts Payable at December 28, 1996 and December 30, 1995 were \$1,523 and \$1,591, 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 \$602, \$891 and \$1,691 during 1996, 1995 and 1994, respectively, for these services. In addition, sales (at cost) to unconsolidated affiliates were \$5,832, \$3,784 and \$3,160 in 1996, 1995 and 1994, respectively.

(c) The Company recorded interest income of \$129, \$88 and \$87, and interest expense of \$32, \$26 and \$13 in 1996, 1995 and 1994, respectively, attributable to transactions with unconsolidated affiliates. Included in the Other section of current assets are amounts due from unconsolidated affiliates of \$5,154 and \$2,051 at December 28, 1996 and December 30, 1995, respectively.

(d) A subsidiary of the Company leases its primary operating facility from an officer of the subsidiary. Rent expense attributed to this facility amounted to \$209 for 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 1996, 1995 and 1994 under this agreement were not material.

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

	United States	Europe	Consolidated
1996			
- - - - -			
Net sales.....	\$693,968	\$135,994	\$829,962
Operating income	26,267	3,396	29,663
Pre-tax income.....	27,091	2,243	29,334
Identifiable assets.....	394,410	69,526	463,936
Depreciation and amortization.....	5,929	1,969	7,898
Capital expenditures.....	9,817	1,396	11,213
1995			
- - - - -			
Net sales.....	\$516,794	\$ 99,415	\$616,209
Operating income (loss).....	(3,626)*	2,590	(1,036)
Pre-tax income (loss).....	(7,435)*	1,317	(6,118)
Identifiable assets.....	243,677	53,190	296,867
Depreciation and amortization.....	4,704	1,333	6,037
Capital expenditures.....	5,523	3,696	9,219
1994			
- - - - -			
Net sales.....	\$402,683	\$ 83,927	\$486,610
Operating income (loss).....	(11,649)*	2,174	(9,475)
Pre-tax income (loss).....	(13,978)*	1,539	(12,439)
Identifiable assets.....	155,772	34,248	190,020
Depreciation and amortization.....	2,524	1,287	3,811
Capital expenditures.....	4,425	1,494	5,919

* Includes special management compensation and special professional fees of \$20,797 and \$23,603 for 1995 and 1994, respectively.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 14--EMPLOYEE BENEFIT PLANS

(a) Stock Compensation Plan

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

In 1995, Class A options to acquire 237,897 common shares were issued to certain executive management at an exercise price of \$4.21 per share, substantially all of which became exercisable upon the closing of the initial public offering, at which time the excess of the initial public offering price of \$16.00 over the exercise price (\$2,805) was charged to special management compensation expense. On November 3, 1995, the Company issued Class B options to acquire 413,400 shares of common stock to certain employees at an exercise price of \$16.00 per share. During 1996, Class A options totalling 16,500 and Class B options totalling 10,200 were forfeited and 48,000 Class B options were issued. The exercise price of all Class B options equalled the market price on the date of grant and accordingly no compensation cost was 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 1996, 10,000 options were granted to certain non-employee directors at an exercise price of \$29.00 per share which was equal to the market price on the date of grant.

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 had accounted for its employee stock options under the fair value method of SFAS 123. The weighted average fair value of options granted during 1996 and 1995 was \$14.75 and \$10.00, 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% for both years; volatility factor of the expected market price of the Company's Common Stock of 30% for both years; and a weighted-average expected life of the option of 10 years.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 14--EMPLOYEE BENEFIT PLANS (Continued)

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

	1996	1995
	----	----
Net income:		
As reported, reflecting adjustment in 1995 to exclude special management compensation(1)	\$19,340	\$ 9,407
Pro forma	18,060	9,227
Net income per common share:		
As reported, reflecting adjustment in 1995 to exclude special management compensation (1).....	\$ 0.93	\$ 0.70
Pro forma	0.87	0.69

(1) Special management compensation in 1995 includes the value of Class A options which became exercisable upon the closing of the initial public offering.

A summary of the status of the Company's two fixed stock option plans as of December 28, 1996 and December 30, 1995, and changes during the years ending those dates is presented below:

	December 28, 1996		December 30, 1995	
	Shares	Weighted Average	Shares	Weighted Average
	(000)	Exercise Price	(000)	Exercise Price
	-----	-----	-----	-----
Outstanding at beginning of year.....	651,297	\$11.69	---	\$ ---
Granted.....	58,000	30.02	651,297	11.69
Exercised.....	(1,000)	16.00	---	---
Forfeited.....	(26,700)	8.71	---	---
	-----		-----	
Outstanding at end of year.....	681,597	\$13.36	651,297	\$11.69
	=====		=====	
Options exercisable at year-end.....	359,597	\$ 8.74	237,897	\$ 4.21
Weighted-average fair value of options granted during the year.....		\$14.75		\$10.00

The following table summarizes information about stock options outstanding at December 28, 1996:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
-----	-----	-----	-----	-----	-----
\$ 4.21.....	221,397	8.8 years	\$ 4.21	221,397	\$ 4.21
16.00.....	402,200	8.8	16.00	138,200	16.00
29 to 36.25.....	58,000	9.3	30.02	---	---
	-----			-----	
\$ 4.21 to 36.25.....	681,597	8.8	\$13.36	359,597	\$ 8.74
	=====			=====	

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 14--EMPLOYEE BENEFIT PLANS (Continued)

(b) Profit Sharing Plans

The Company has qualified noncontributory profit sharing plans for eligible employees. Contributions to the plans as determined by the Board of Directors and charged to operations during 1996, 1995 and 1994 amounted to \$3,057, \$2,178 and \$1,719, respectively.

(c) Employee Stock Ownership Plan (ESOP)

In 1994, the Company established an ESOP and a related trust as a benefit for substantially all of its domestic employees. This plan supplements the Company's Profit Sharing Plan. Under this plan, the Company issued 24,210 and 128,257 shares of HSI common stock to the trust in 1996 and 1994, at an estimated fair value of \$820 and \$900, respectively, which amounts were charged to operations during 1995 and 1994. For 1996, the Company will contribute 3% of eligible compensation with shares of the Company's common stock.

(d) Supplemental Executive Retirement Plan

In 1994, the Company instituted a nonqualified supplemental executive retirement plan for eligible employees. Contributions, as determined by the Board of Directors and charged to operations, were \$84, \$68, and \$27 for 1996, 1995 and 1994, respectively.

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 15--COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

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

Future minimum annual rental payments under the noncancelable leases at December 28, 1996 are as follows:

1997.....	\$ 9,704
1998.....	8,760
1999.....	7,469
2000.....	5,968
2001.....	4,666
Thereafter.....	11,769

Total minimum lease payments.....	\$ 48,336
	=====

Total rental expense for 1996, 1995 and 1994 was \$9,667, \$7,324 and \$5,874, respectively.

(b) Litigation

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

(c) Employment, Consulting and Noncompete Agreements

The Company has employment, consulting and noncompete agreements expiring through 2002 (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 \$4,106 per year which decrease periodically to approximately \$1,366 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 28, 1996	December 30, 1995	December 31, 1994
Interest.....	\$3,708	\$6,124	\$3,132
Income taxes.....	8,988	5,540	2,451

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

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Fair value of assets acquired, excluding cash.....	\$50,970	\$59,544	\$3,525
Less liabilities assumed and created upon acquisition.....	18,430	43,167	3,525
Net cash paid.....	\$32,540 =====	\$16,377 =====	\$ --- =====

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--OTHER INCOME (EXPENSE)-NET

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

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Investment gains.....	\$ 80	\$ ---	\$ ---
Gain on sale of assets.....	520	33	100
Net foreign exchange gain	3	43	415
Other non-operating income.....	33	200	26
	-----	-----	-----
	\$ 636	\$ 276	\$ 541
	=====	=====	=====

NOTE 18--QUARTERLY INFORMATION (Unaudited)

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

	Quarters Ended			
	March 30, 1996	June 29, 1996	September 28, 1996	December 28, 1996
Net sales.....	\$185,359	\$194,722	\$212,529	\$237,352
Gross profit.....	54,949	57,930	61,944	70,401
Operating income.....	4,704	6,470	7,621	10,868
Net income.....	2,464	4,214	5,290	7,372
Earnings per share.....	\$ 0.13	\$ 0.22	\$ 0.24	\$ 0.33

	Quarters Ended			
	April 1, 1995	July 1, 1995	September 30, 1995	December 30, 1995
Net sales.....	\$136,040	\$139,753	\$156,667	\$183,749
Gross profit.....	40,315	42,107	48,090	60,072
Pro forma operating income...	2,986	4,689	5,188	6,898
Pro forma net income.....	936	2,066	2,093	4,312
Pro forma earnings per share.	\$ 0.08	\$ 0.17	\$ 0.17	\$ 0.26

HENRY SCHEIN, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(in thousands, except share data)

NOTE 18--QUARTERLY INFORMATION (Unaudited) (Continued)

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.

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

NOTE 19 -- SUBSEQUENT EVENTS

On March 7, 1997, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Micro Bio-Medics, Inc. (MBMI) will merge into a wholly-owned subsidiary of the Company. As a result of the transaction, which has been approved by the Boards of Directors of MBMI and the Company, outstanding shares of MBMI's common stock will be exchanged at a fixed rate of 0.62 of a share of the Company's Common Stock for each outstanding 1.0 share of MBMI. Each of the members of MBMI's board of directors have granted to the Company a proxy to vote their shares of MBMI common stock in favor of the Merger Agreement and an option, exercisable under certain circumstances, to acquire their shares for the consideration that they would have received under the Merger Agreement in respect of those shares.

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 \$150.0

million and earnings of approximately \$1.7 million for its fiscal year ended November 30, 1996. The completion of the transaction is subject to the satisfaction of customary closing conditions, including, among others, MBMI shareholder approval and Hart-Scott-Rodino waiting periods.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Melville, State of New York, on June 24, 1997.

HENRY SCHEIN, INC.

By: /s/ Stanley M. Bergman
Stanley M. Bergman
Chairman, Chief Executive Officer and President

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Henry Schein, Inc.
Melville, NY

We hereby consent to the incorporation by reference in the Registration Statements of Henry Schein, Inc. on Form S-8, filed with the Securities and Exchange Commission on June 6, 1996, of our reports dated March 7, 1997 on the consolidated financial statements and schedule of Henry Schein, Inc. Annual report on Form 10-K/A for the year ended December 28, 1996.

BDO Seidman, LLP

New York, New York
June 24, 1997