2000 Annual Report
we are ready!
HENRY SCHEIN®

About Henry Schein, Inc.

Henry Schein, Inc. is the largest distributor of healthcare products and services to office-based practitioners in the combined North American and European markets. Customers include dental practices and laboratories, physician practices and veterinary clinics, as well as government and other institutions.

Widely recognized for superior service, low prices, and innovative value-added solutions, the Company is dedicated to helping its customers practice high-quality healthcare and improve their profitability.

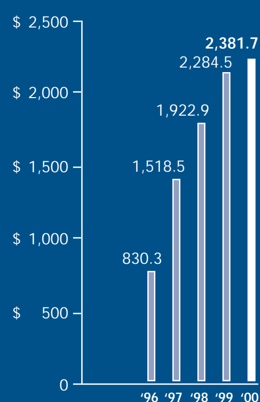
Henry Schein operates its five business groups – Dental, Medical, Veterinary, International and Technology – through a centralized and automated distribution network, which provides customers in more than 125 countries with a comprehensive selection of over 80,000 national and private brand products. The Company reaches its customers through an integrated sales and marketing approach, combining a network of 1,200 field sales consultants with extensive direct marketing programs, electronic ordering options and 730 telesales representatives. During 2000, Henry Schein distributed more than 18 million pieces of direct marketing materials to approximately 650,000 office-based practitioners.

Financial Highlights

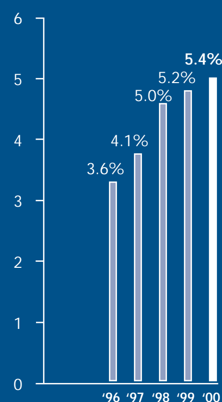
(In thousands, except per share and operating data)

	2000	1999	1998
OPERATING RESULTS			
Net Sales	**$ 2,381,721**	$ 2,284,544	$ 1,922,851
Operating Income	**$ 127,613**	$ 119,232	$ 96,196
Operating Margin	**5.4%**	5.2%	5.0%
Net Income	**$ 70,147**	$ 59,796	$ 57,823
Diluted Earnings Per Share	**$ 1.67**	$ 1.44	$ 1.39
Diluted Average Shares Outstanding	**42,007**	41,438	41,549
OPERATING DATA			
Number of Orders Shipped	**8,280,000**	7,979,000	6,718,000
Average Order Size	**$ 288**	$ 286	$ 286
FINANCIAL POSITION AND CASH FLOW			
Total Assets	**$ 1,231,068**	$ 1,204,102	$ 962,040
Stockholders' Equity	**$ 579,060**	$ 517,867	$ 463,034
Net Cash from Operating Activities	**$ 152,994**	$ 56,493	$ 2,693

Net Sales
($ in millions)

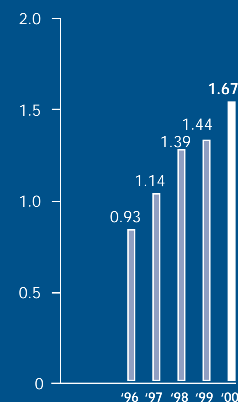


Operating Margin
(% of net sales)



Operating Income
($ in millions)

Earnings per Share
(in dollars)



NOTE: Financial Highlights are presented as originally reported, and have been restated to reflect various new accounting pronouncements and exclude merger and integration costs, and restructuring costs, net of taxes; as well as losses on the disposal of certain non-core business units.

We are efficient, we are reliable, and we are the most innovative supplier to the markets we serve. Our heritage is grounded in the 69 years of service we've established as a premier distributor of healthcare products to office-based practitioners. Our future is dependent on helping our customers succeed by providing the value-added services and products they demand. We are Team Schein.

Abe Lobel, Medical Field Sales Consultant, with customer Dr. Jude Barbera

49 million

We ship more than 49 million line items per year.

By offering the latest electronic ordering capabilities and employing state-of-the-art distribution technology, we efficiently meet our customers' needs and offer a broad array of 80,000+ branded and private-label products.

Team Schein Member Romulus Voigt

we are... Efficient

Our customers demand it.

A five-year program of strategic acquisitions coupled with steady organic growth has created a global healthcare products and services leader with approximately $2.4 billion in annual sales, and more than $1.2 billion in assets. This foundation provides us with the critical mass and economies of scale to maximize purchasing power, ensure high fill rates and continue offering prices that are below our competitors' prices.

Through four major state-of-the-art distribution centers strategically located across the U.S., as well as over 10 distribution centers outside the U.S., we provide an extensive range of products – more than 80,000 branded and private-label products in total. We ship, on average, over 49 million line items per year.

At Henry Schein we efficiently address our customers' product needs through the effective use of the latest distribution technology. Our distribution centers use radio-frequency scanners to read bar coding on products and locations in our facilities. A bar code is given to each order upon its arrival at the distribution center, and remains with the order acting as its "license plate" as it is electronically guided through the distribution center for fulfillment. Our distribution centers are also managed by sophisticated warehouse management systems that allow us to optimize efficiency. We have incorporated pick-to-light carousels and pick-to-light carton flow racks to allow for the higher volume of product shipped to our customers.

We sell our products via field sales, direct marketing, telesales and various electronic modes. This unique system of integrated and complementary channels drives financial efficiencies for the Company, improves communication with our customers and leverages our infrastructure. We are committed to helping satisfy our customers' needs. Whatever channel serves their needs, they can use.

Field sales – Armed with technology that provides real-time, comprehensive on-site customer account information, our field salesforce can provide superior consultative services.

Direct marketing – Henry Schein was founded as a catalog marketer, and to this day our direct marketing expertise remains a core competency and a competitive advantage.

Telesales – Our telesales organization provides highly efficient outbound sales and support.

Electronic sales – Our suite of electronic ordering products including our Web site www.henryschein.com, ARUBA® PC and ARUBA® Touch-Tone provide 24/7 ordering capabilities, and have recorded, on average, higher order sizes and lower return rates – at less cost to the Company.

The bottom line is this: Our complementary, multichannel system works. It works for our customers through ease-of-use and level of service. It works for the Company by driving sales with a focus on improving margins.

we are... Reliable

We earn our customers' trust.

Our heritage is rooted in seven decades of reliable, first-rate service. Our future is dependent on our continued ability to be a trusted business partner – to help our customers stay on top of industry changes, reduce costs and operate more efficiently.

We are confident that Henry Schein is the most reliable provider in the industry. Our reliability is defined by our service, our competitive prices, our comprehensive product offerings and our ability to offer the latest in technological innovations.

And the data supports this claim. During 2000, our average order fill rate in the U.S. and Canada was over 99 percent, and we posted an order accuracy rate of 99 percent. Further, over 99 percent of orders were out the door by 5:00 p.m. the same day they were received. That's reliable, and we're proud of our record.

Our unique approach to servicing our customers ensures that their reliance on us is well placed. Through our 1,200 Field Sales Consultants, and through 730 Telesales Representatives who offer introductions to new products, special promotions and discounts, we provide a comprehensive product and service offering. Most important, our Team Schein representatives listen. And by listening, we're able to stay a step ahead in anticipating and exceeding expectations. As a recognized leader in the direct marketing of healthcare products, our dental, medical and veterinary catalogs are considered reference guides for each of those markets. During 2000, we mailed over 18 million catalogs, flyers, newsletters and other direct-response vehicles to more than 650,000 office-based healthcare practitioners worldwide.

As our industry's only Pan-European Company with operations in 16 countries, we print many of our catalogs in local languages. In countries where we do not have a local presence, our worldwide customers can rely on Schein Direct™, our rapid-response, door-to-door air package delivery program that guarantees delivery to practitioners in over 125 countries.

Our Zahn Dental laboratory business is an industry leader, and our ProRepair® operation provides reliable 24-hour turnaround repair service for handpieces, small equipment, operative and surgical instruments, sterilizers and laboratory equipment. During 2000, ProRepair's operations in New York achieved ISO 9002 and EN46002 certifications.

We launched the Achieving Excellence Program during 2001. Under this new, nationwide initiative, our customers and vendor partners will find it easier to do business with Sullivan-Schein Dental®, our U.S. Dental business. Its utilization of technology, the elimination of cumbersome paperwork and the enhancement of skills and tools collectively will help us to serve our customers even better. Highlights of this program include remote computer devices to empower our technicians with valuable information, streamlined procurement for large dental equipment coupled with centralized service dispatching, parts procurement, customer service and technical support.

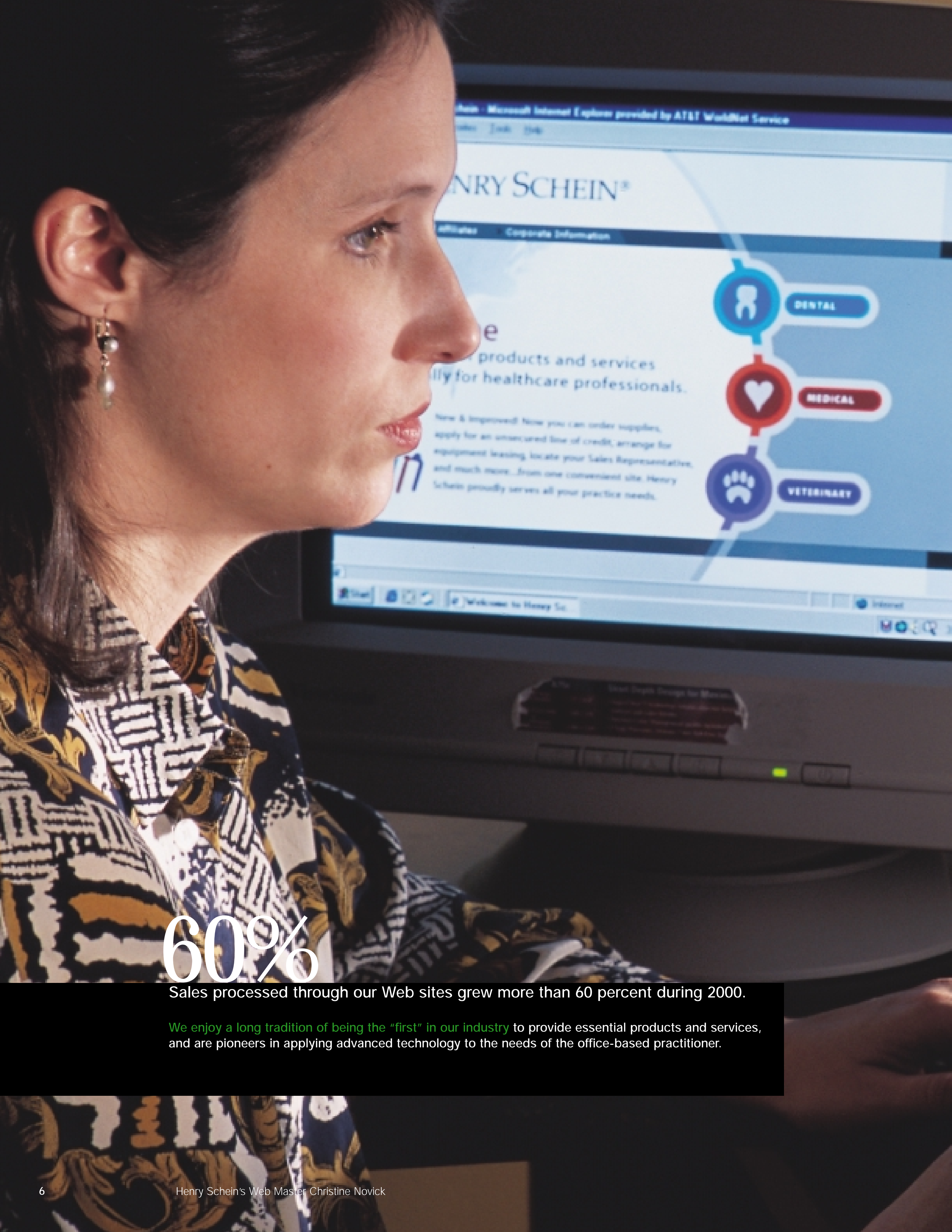
If there are customer needs we can't fill, we will do everything possible to make sure those needs do not go unmet. That's how relationships are built, and strengthened.

99%

Over 99% of our U.S. and Canadian orders are out the door by 5 p.m. the same day they are received.

Helping our customers succeed is our No. 1 priority. With a 99% fill rate in the U.S. and Canada and an order accuracy rate of 99%, our customers' faith in us for the highest level of quality service is well placed.

Medical Telesales Representative Patty DellaPiazza-Cobb with Medical Telesales Manager Tony Falco



60%

Sales processed through our Web sites grew more than 60 percent during 2000.

We enjoy a long tradition of being the "first" in our industry to provide essential products and services, and are pioneers in applying advanced technology to the needs of the office-based practitioner.

Henry Schein's Web Master Christine Novick

we are... Innovative

We help our customers succeed.

We enjoy a long tradition of being the "first" in our industry to provide essential products and services; for example, our exclusive distribution of OralCDx® for the early detection of oral cancer, our pioneering work in the development of clinically-based practice management systems, and our work in the field of veterinary dentistry.

We are committed to providing our customers with innovative solutions for success. Our customized formulary programs give practitioners a more cost-effective way to meet the product and cost guidelines of their practice. Through plans such as the AMA PurchaseLink® Program, now in its sixth year, member practitioners can purchase over 750 commonly used products at significantly reduced prices. Sales from this program in 2000 were approximately $30 million. We have other similar formulary programs in place with organizations such as the American Academy of Dermatology, which had sales growth of nearly 200% over 1999; the American Society of Plastic Surgeons and The Laser Vision Centers.

Most recently, we established the Heritage Medical Alliance formulary, specifically designed to help practitioners who practice in the "underserved" areas of the United States, as noted in the U.S. Surgeon General's Report on Oral Health in America. We are also pioneers in supporting our customers who use the Internet, and we have done so since 1997. Through www.henryschein.com and, for our U.S. office-based dental practitioner customers, www.sullivanschein.com, we've been able to service customer demand as evidenced through more than 60 percent growth in sales processed through our Web sites during 2000.

Early in 2001, we introduced newly designed sites that offer an array of value-added features including instant customer registration, easy shopping and ordering, and a high level of customer service and supply procurement capabilities.

Our state-of-the-art electronic catalog and ordering system, ArubA®, lets customers order products by telephone, CD-ROM or via the Internet. More than $200 million in sales were generated during 2000 through our ArubA suite of products.

We are pioneers in applying advanced technology to the needs of the office-based practitioner. And, we are at the forefront of the evolution in the "Digital Dental Office" through such innovative products as our DENTRIX®, Easy Dental® and LabNet® systems. DENTRIX is one of the most comprehensive, clinically-based practice management software packages, with nearly 16,000 installations worldwide. It is successful among professional dental practices, and has been installed in several dental schools throughout the U.S., as well. Easy Dental is the best selling practice management software system in the industry today, with over 25,000 systems sold to date. With laboratory fees the second largest expense for the dental practitioner after staff salaries, our LabNet system helps reduce those expenses by making it easier for the dentist to communicate directly with the dental lab.

For the veterinary market, we offer AVImark®, a high-value practice management system. To date, we've sold more than 4,500 systems. A recent survey by the American Animal Hospital Association revealed that 97 percent of all AVImark users said they would recommend it to a colleague, and rated the system the highest among all competing systems as having met their expectations.

We are partners with our customers.

We do much more than fill product and service needs reliably, efficiently and at a competitive price. We also partner with our customers to simplify and streamline office operations, and keep them on top of changes to their industry. This enables our customers to increase their service and drive more revenue.

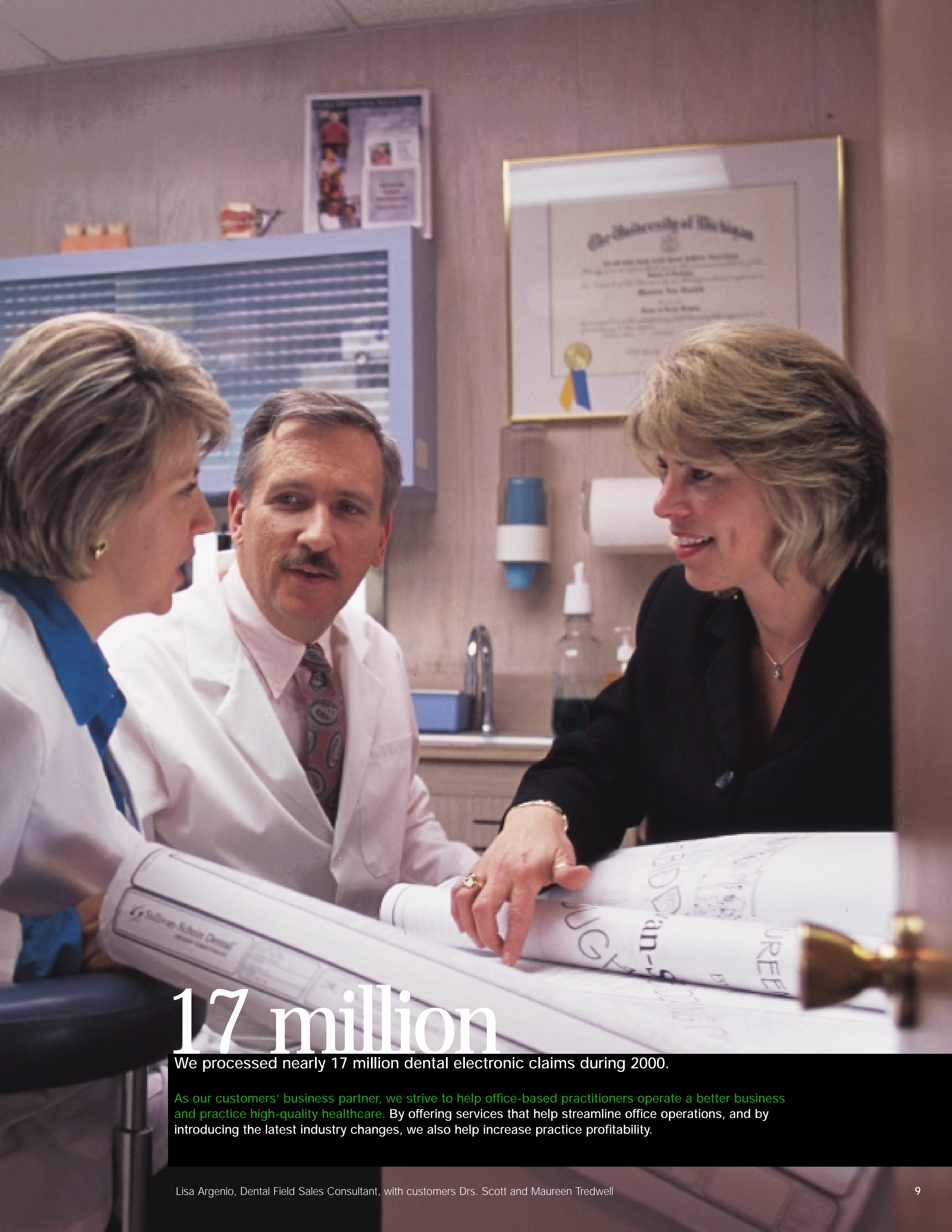
During 2001, we will continue working to maximize the various components of our dental business. We are intent on unifying and leveraging the synergies among our various dental assets – including consumables, equipment, e-commerce and practice management solutions. We already enjoy a strong presence on the dental practice desktop, and we will utilize that asset to enhance and expand the products and services we provide.

In addition to our leading practice management software offerings, we are the exclusive supplier of OralCDx®, a breakthrough product in oral cancer detection. OralCDx is an easy-to-use brush biopsy test that provides dentists with a valuable tool and offers a potentially life-saving service to their patients. Further, it's an easy test to incorporate into a routine dental checkup. We are proud to have been selected as the exclusive distributor of this product.

We offer an array of innovative, high-tech practice management products, including the Vipersoft® and DENTRIX® Image intraoral imaging suites. Last year, we were awarded a key patent covering the digital motion video capabilities found in both products, effectively making Henry Schein the only source for this digital motion video technology used in intraoral photography. Digital motion video solves the problem of capturing just the right image at just the right angle.

Another way we bring added value to our customers is through Henry Schein Financial Services. We offer low rates for equipment leasing and financing, patient financing options, electronic credit card processing and lines of credit, as well as financial planning services. We are also a leader in electronic claims processing, handling nearly 17 million claims during 2000.

We provide clinical skills training with Henry Schein's Continuing Education for Healthcare Professionals (CEHP) program, through which participants can access fully accredited courses online, in print and in person.



17 million

We processed nearly 17 million dental electronic claims during 2000.

As our customers' business partner, we strive to help office-based practitioners operate a better business and practice high-quality healthcare. By offering services that help streamline office operations, and by introducing the latest industry changes, we also help increase practice profitability.

Lisa Argenio, Dental Field Sales Consultant, with customers Drs. Scott and Maureen Tredwell

Success

Our people are our most important asset, and are key to our success.

The development of new ideas has always been at the core of Henry Schein's success. If not for the contribution of each and every Team Schein Member, we would not be in the position of strength we enjoy today, looking forward to an outstanding future.

Team Schein Members at Henry Schein's Northeast Distribution Center in Denver, Pennsylvania

we are... Team Schein

People serving people.

Henry Schein is more than 6,200 people in 16 countries who support the needs of over 400,000 customers in 125 countries. Our people are our most important asset, and are key to our success.

And, our success is directly related to the foundation from which Team Schein was born. A foundation built with entrepreneurial spirit, a workplace where every person is as important as the next, and a participatory atmosphere that encourages new ideas.

Through our Employee Stock Ownership Plan and our incentive-based compensation plans, which inspire motivation and the drive for success, we have proven that our Team-based working environment helps us attract and retain the industry's best talent. During 2000, we carried out new training initiatives to instruct our field salesforce on how to maximize the various integrated sales tools at their disposal – and there are more initiatives planned for 2001. We are also committed to providing the industry's most attractive sales compensation packages.

Guided by our corporate value system of integrity, honesty and good business ethics, Team Schein is committed to providing the highest level of quality and service to our customers for many years to come.

To Our Shareholders, We are ready! It's on the cover of this Annual Report. And it's on the mind of every member of Team Schein.

We're ready to continue building on the significant success we achieved during 2000, and to leverage assets that are unmatched in our industry for the benefit of our customers and our shareholders. Last year, we carried out several initiatives to streamline our Company's operations and improve efficiencies, and we put in place other initiatives that will benefit us for years to come.

Our results speak for themselves, as by any number of financial metrics, last year was a tremendous success for Henry Schein.

Our Financial and Operating Results

For the year 2000, adjusted net income was up 17% to $70.1 million, earnings per diluted share rose 16% to $1.67, gross margin improved by 60 basis points to 27.2% and operating margin increased by 20 basis points to 5.4%. Cash flow from operations reached an impressive $153 million, and we paid down $84 million in debt.

We effectively managed our working capital with a 2-day improvement in accounts receivable days sales outstanding and a .3-turn improvement in inventory turnover. Our return on committed capital during 2000 was 24%, up from 22% in 1999.

We posted record sales of $2.4 billion last year, representing 4.3% growth over 1999. These gains were made despite the impact on our significant overseas operations of a strong U.S. dollar relative to the Euro. Eliminating the impact of foreign exchange, in local currencies our 2000 sales were up 6.3% compared with 1999.

Going forward, we are committed to our objectives of achieving accelerating sales growth on a Company-wide basis, continuing improvements in gross and operating margins, and generating continued strong cash flow as a result of a growing top line and improved efficiencies.

Our Markets

As evidenced by the results outlined above, we are driven by a commitment to continuous improvement. A contributing factor to that improvement is our focus on strict financial and operational accountability. Another factor is the attractiveness of our markets.

The annual healthcare products market for office-based practitioners in North America and Western Europe is estimated at over $12 billion, and it is growing. For the most part, this market has been historically resistant to economic downturns and, overall, our customers' businesses are doing well. We are positioned to capitalize on these growth trends with our unique combination of competitive pricing, which is made possible by the purchasing power and economies of scale generated by our size, and the level of customer service and value-added services.

Our office-based medical customers are benefiting from the trend of procedures moving from acute-care settings to less costly alternate-care and physician-office settings. Our dental customers have been experiencing a rise in the average number of procedures they perform each year, and a growing awareness of the relationship between oral health and a patient's overall well being. A deeper focus on the prevention of oral cancer has been the subject of several recent dental industry journal articles. We are proud to have an opportunity to play a role in increasing the awareness of the importance of early cancer detection through our exclusive distribution of OralCDx®, a breakthrough product in oral cancer detection. OralCDx not only helps our customers save patients' lives, but provides a new stream of revenue for their practice.

We are dedicated to helping improve access to quality healthcare. To that end, we have responded to the Surgeon General's Report on Oral Health in America, which pointed out the disparity in the delivery of healthcare throughout the United States, by establishing a formulary of products at discounted prices specifically for practitioners who treat patients in the "underserved" communities as identified in the Surgeon General's report.

As business partners of our customers, we are always striving to find new ways to help practitioners succeed. As small business managers and owners, our customers embrace the use of technologies that fully integrate their offices to make their practices more profitable. We are at the forefront of that trend. We strongly support the needs of office-based practitioners in the integration of their workstations to include accounting systems, electronic charting, integrated digital x-ray, inventory ordering and inventory management. In addition, we have introduced a new product to help improve the vital communications between the dental practice and the dental laboratory. With lab fees the dentists' single largest operating expense after salaries, this new product will help improve the practice's profitability.

A Commitment to Superior Performance

Last year's performance of our largest group, our Dental operations, was led by a turnaround in equipment sales. Under the Achieving Excellence initiative, we implemented a number of changes to help this group succeed, including the beginning of a program to provide portable computer-based tools to all professionals who have contact with our customers. Additionally, we streamlined our procurement program for large dental equipment. But most importantly, the growth in dental equipment sales could not have been achieved without the enthusiasm of our sales organization.

Sales to our medical and veterinary practitioners were strong throughout 2000, as well. We continue to be a leading vaccine supplier to office-based medical practitioners; we serve as a prime vendor supplier to such organizations as US Oncology, Inc., the largest network of community-based cancer physicians, clinicians, nurses and administrators in the world; we provide customized formulary plans to organizations including the American Medical Association and the American Society of Plastic Surgeons; and we are the prime vendor to Veterinary Centers of America.

On the international front, we have a market presence in more countries than any competitor. We are the only Pan-European dental supplier with a growing presence in the medical and veterinary markets. Going forward, we believe we have significant opportunities for growth in this highly fragmented market.

Leveraging Our Desktop Presence

Currently, nearly one in three U.S. dental practices are using a Henry Schein practice management product. This gives us a unique and significant opportunity to leverage our desktop presence with a host of other programs to maximize the inherent synergies.

Our DENTRIX® and Easy Dental® practice management products, and our AVImark® software system for veterinary clinics are supported by a high level of customer satisfaction ratings. And, we intend to continue to lead the industry in the development of the clinical workstation of the future.

For example, we are looking at an inventory management system, linked through the Company's completely new Web site. This supplements current technology that offers inventory monitoring services, purchase tracking and past purchase review. Ultimately, the system may anticipate equipment service needs, too. But for now, from what we've heard from our customers, we've hit a home run with the technology improvements we've made.

Our No. 1 Asset

None of this would be possible, of course, without the commitment and energy of our most important asset – our Team Schein Members.

The success of our customers is directly related to Team Schein's foundation and principles, those being:

- An open-door policy that encourages communication
- A participatory environment that promotes a healthy exchange of ideas
- A philosophy that each person is as important as the next

These principles, coupled with the support of our customers and supplier partners, help us remain fully committed to providing innovative and dedicated service.

We have made a significant investment in training and in technology to enhance the ability of our salesforce to maximize the benefits of the suite of sales and support tools available to them. This effort was extremely successful, and we remain 100% committed to attracting and retaining the industry's best sales talent.

Midyear, we undertook a strategic restructuring that was designed to align our human capital with our business prospects. Though difficult, that initiative is behind us. Team Schein and our infrastructure is fully focused on tapping into the opportunities our industry-leading position affords us.

Looking Forward

We have plenty of opportunity to expand market share organically and through acquisitions, both in the U.S. and internationally. In many ways, with its large number of small, regional players, the European marketplace resembles the U.S. marketplace 10 years ago.

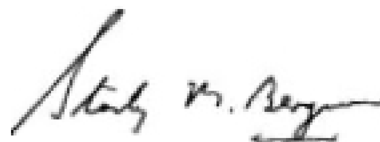
We also have opportunities to drive additional costs out of our business. We will continue to remain focused on gaining efficiencies throughout the organization, reducing expenses where we can, and reviewing assets to ensure they are meeting our stringent performance goals. We'll sharpen our focus on our core value-added distribution business as we continue to selectively dispose of assets, as we have done in the recent past with Novocol, a pharmaceutical manufacturing company, and our U.K. software development unit.

We will capitalize on the critical mass we've built over the past five years, and will create additional value-added opportunities by better aligning our individual businesses. We are ready!

I encourage you to read the preceeding pages of this Annual Report, which discuss traits that will deliver future success: Efficiency, Reliability, Innovation, Adding Value and Teamwork.

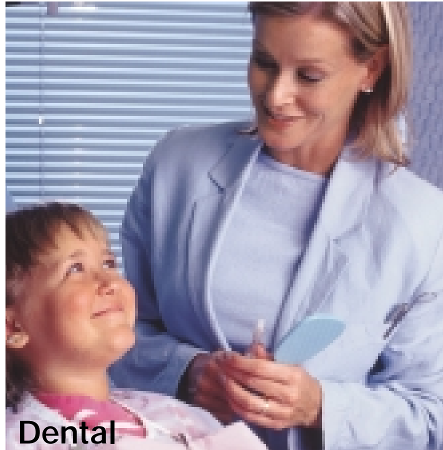
On behalf of the Board of Directors and Team Schein, I thank you for your continued support and reaffirm our commitment to creating value for you, our shareholders.

Sincerely,



Stanley M. Bergman
Chairman, Chief Executive Officer and President
April 2001

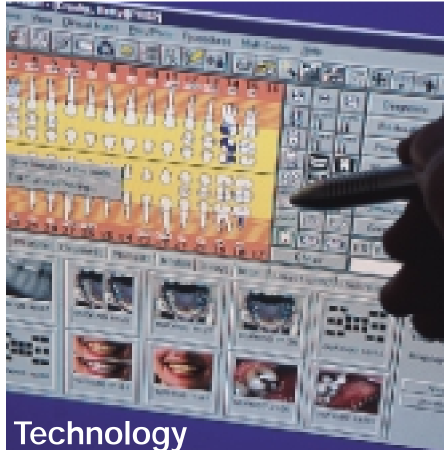
At-A-Glance



Dental

Medical

	Dental	Medical
Overview	Henry Schein's Dental Group leads the industry in sales and serves more than 75% of the estimated 110,000 dental practices in the United States. The Group is also a major supplier to government, schools and other institutions – serving, for example, as prime vendor for the U.S. Army bases and clinics located in the United States and Europe. Commanding approximately 28% of the estimated $3.8 billion U.S. and Canadian dental products market, the Group offers a broad array of more than 60,000 items to its dental customers, as well as a national equipment sales and service capability. The Dental Group – which includes Sullivan-Schein Dental®, our full-service U.S. business; Henry Schein Arcona in Canada; and Zahn Dental laboratory supply business – has over 700 field sales consultants and a network of nearly 80 equipment sales and service centers in the U.S. and Canada.	Henry Schein's Medical Group has grown at a five-year compound annual growth rate of 43%. As a leading competitor in the $4-$5 billion office-based physician supply market, the Medical Group supplies more than one-third of the nation's medical practices with 28,000 items, including generic and branded pharmaceuticals, a full complement of medical and surgical supplies, diagnostic kits and major equipment. Offering formulary plans with significantly reduced prices, the Group is a major supplier to organizations such as the American Medical Association and the American Academy of Dermatology. The Group serves its customers through an extensive national direct marketing and telesales effort, as well as a field sales presence in the Eastern and Central U.S.
2000 Sales	$1,073.9 million	$794.9 million
Percentage of 2000 Revenues	45%	33%
Growth Opportunities	Following five years of acquisitions, the platform is in place for Henry Schein to grow its share of the dental market. There is significant opportunity to increase sales to the Company's current base of customers through an expanded national equipment sales and service capability, and new, innovative value-added service offerings.	A primary opportunity for growth in the medical market is to leverage industry consolidation through internal sales growth, as well as select strategic acquisitions. Approximately 500 smaller distributors occupy an estimated 60% of the office-based physician market. Successful direct marketing and telesales programs, and a strong field sales force, combined with a growing injectable and vaccine business will continue to spur Henry Schein's growth.



Henry Schein's International Group distributes dental products across the United Kingdom, the European Continent, the Middle East, Australia, New Zealand, Africa and Latin America, and continues to expand in the medical and veterinary fields. The Group has operations in more countries than any of its competitors, including the Netherlands, Spain, Belgium, the United Kingdom, Germany, France, Iceland, Israel, the Republic of Ireland, Mexico, Austria, Australia, New Zealand and Portugal. In countries where there is no local presence, sales are supported through Schein Direct™, a door-to-door air package delivery service that reaches practitioners in more than 125 countries.

$389.9 million

17%

As the only Pan-European dental Company, Henry Schein will capitalize on the significant opportunity that exists within the fragmented European healthcare supply market. Currently, more than 200 competitors occupy approximately 90% of the market. The Company's international growth strategies are based largely on its U.S. model – to increase penetration of the European dental market following its unique integrated marketing approach; expand its dental, medical and veterinary businesses; leverage its existing infrastructure; and begin a strategic entry into Asian and Pacific Rim markets.

Henry Schein offers all of its customers an array of innovative technology and value-added products and services designed to help maximize a practitioner's efficiency and profitability, including such leading practice management software systems as DENTRIX®, Easy Dental® and LabNet® for its dental customers; and AVImark® for veterinary clinics. The Group also features the ArubA® PC-based electronic catalog and ordering systems, credit card and electronic claims processing, practice and patient financing, equipment financing and the Continuing Education for Healthcare Professionals (CEHP) program.

$66.6 million

3%

With nearly one of every three dental practices using a Henry Schein practice-management desktop product, the Company is accelerating its efforts toward maximizing the synergies inherent in that presence. In addition, the Company will continue to offer the latest advances in integrated technologies, such as digital x-ray and intraoral photography. These integrated technologies help practitioners increase the efficiencies of their practices and maximize revenues.

Henry Schein's Veterinary Group is the largest direct marketer to companion-animal veterinary clinics in the U.S., providing a high level of quality service and more than 23,000 items at low prices. Currently, the Group serves nearly 70% of the approximately 22,000 U.S. veterinary clinics. The Group's veterinary catalogs are supported by nearly 50 telesales professionals, and a variety of promotional material such as postcards, inserts, mailers and other direct marketing materials. The Group also enjoys a prime vendor relationship with Veterinary Centers of America (VCA), the largest provider of clinical pet care in the U.S.

$56.4 million

2%

The Veterinary Group's market position as the low-cost provider is enhanced by the expense efficiencies realized through a core infrastructure shared with Henry Schein's Dental and Medical Groups. This cost-effectiveness positions the Veterinary Group to service large-scale practice management companies and groups, in addition to individual veterinary clinics.

Directors & Officers

Board of Directors

Stanley M. Bergman [4]
Chairman, Chief Executive Officer and President

Barry J. Alperin [1] [2] [3]
Retired Vice Chairman, Hasbro, Inc.

Gerald A. Benjamin [4]
Executive Vice President and Chief Administrative Officer

James P. Breslawski [4]
Executive Vice President and President, Sullivan-Schein Dental

Leonard A. David
Vice President, Human Resources and Special Counsel

Pamela Joseph
Director, MaNose Studios

Donald J. Kabat [1] [2] [3]
Retired Partner, Andersen Consulting

Mark E. Mlotek
Senior Vice President, Corporate Business Development

Steven Paladino [4]
Executive Vice President and Chief Financial Officer

Marvin H. Schein [4]
Founder, Schein Dental Equipment Corp.

Irving Shafran, Esq.
Attorney at Law

Executive Officers

Stanley M. Bergman
Chairman, Chief Executive Officer and President

Gerald A. Benjamin
Executive Vice President and Chief Administrative Officer

James P. Breslawski
Executive Vice President and President, Sullivan-Schein Dental

Leonard A. David
Vice President, Human Resources and Special Counsel

Larry Gibson
Executive Vice President and Chief Technology Officer

Mark E. Mlotek
Senior Vice President, Corporate Business Development

Steven Paladino
Executive Vice President and Chief Financial Officer

Michael Racioppi
President, Medical Group

Michael Zack
Senior Vice President, International Group

[1] Member Audit Committee
[2] Member Compensation Committee
[3] Member Stock Option Committee
[4] Member Executive Committee

Financial Information

Table of Contents

18 Market for Registrant's Common Equity and
Related Stockholder Matters

19 Selected Financial Data

21 Management's Discussion and Analysis of
Financial Condition and Results of Operations

Consolidated Financial Statements:

29 Report of Independent Certified Public Accountants

30 Balance Sheets as of December 30, 2000 and December 25, 1999

31 Statements of Operations and Comprehensive Income for the years ended
December 30, 2000, December 25, 1999 and December 26, 1998

32 Statements of Stockholders' Equity for the years ended
December 30, 2000, December 25, 1999 and December 26, 1998

33 Statements of Cash Flows for the years ended
December 30, 2000, December 25, 1999 and December 26, 1998

34 Notes to Consolidated Financial Statements

Market for Registrant's Common Equity and Related Stockholder Matters

The following table sets forth, for the periods indicated, the high and low reported sales prices of the Common Stock of the Company as reported on the NASDAQ National Market System for each quarterly period in fiscal 1999 and 2000 and for the first quarter of fiscal 2001 through March 23, 2001.

Fiscal 1999:	High	Low
1st Quarter	$46.88	$24.00
2nd Quarter	$35.00	$19.56
3rd Quarter	$32.13	$13.25
4th Quarter	$15.38	$10.38
Fiscal 2000:		
1st Quarter	**$18.81**	**$10.75**
2nd Quarter	**$18.50**	**$13.12**
3rd Quarter	**$20.63**	**$13.31**
4th Quarter	**$36.50**	**$18.59**
Fiscal 2001:		
1st Quarter (Through March 23, 2001)	**$34.27**	**$27.19**

The Company's Common Stock is quoted through the NASDAQ National Market tier of the NASDAQ Stock Market under the symbol "HSIC." On March 23, 2001, there were approximately 870 holders of record of the Common Stock. On March 23, 2001, the last reported sales price was $33.38.

Dividend Policy

The Company does not anticipate paying any cash dividends on its Common Stock in the foreseeable future; it intends to retain its earnings to finance the expansion of its business and for general corporate purposes. Any payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon the earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends and other factors. The Company's revolving credit agreement and the note issued in connection with an acquisition in The Netherlands limit the distributions of dividends without the prior written consent of the lenders.

Disclosure Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Certain information in this Annual Report includes information that is forward looking, such as the Company's opportunities to increase sales through, among other things, acquisitions; its exposure to fluctuations in foreign currencies; its anticipated liquidity and capital requirements; competitive product and pricing pressures and the ability to gain or maintain share of sales in global markets as a result of actions by competitors; and the results of legal proceedings. The matters referred to in forward looking statements could be affected by the risks and uncertainties involved in the Company's business. These risks and uncertainties include, but are not limited to, the effect of economic and market conditions, the impact of the consolidation of healthcare practitioners, the impact of healthcare reform, opportunities for acquisitions and the Company's ability to effectively integrate acquired companies, the acceptance and quality of software products, acceptance and ability to manage operations in foreign markets, the ability to maintain favorable supplier arrangements and relationships, possible disruptions in the Company's computer systems or telephone systems, possible increases in shipping rates or interruptions in shipping service, the level and volatility of interest rates and currency values, economic and political conditions in international markets, including civil unrest, government changes and restriction on the ability to transfer capital across borders, the impact of current or pending legislation, regulation and changes in accounting standards and taxation requirements, environmental laws in domestic and foreign jurisdictions, as well as certain other risks described in this Annual Report. Subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere described in this Annual Report.

Selected Financial Data

Henry Schein, Inc. and Subsidiaries

The following selected financial data with respect to the Company's financial position and its results of operations for each of the five years in the period ended December 30, 2000 set forth below has been derived from the Company's consolidated financial statements. The selected financial data presented below should be read in conjunction with the Consolidated Financial Statements and related notes thereto herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein. The Selected Operating Data and Net Sales By Market Data presented below have not been audited.

Certain prior year amounts have been reclassified to conform the current year's presentation as discussed in the Consolidated Financial Statements and related notes thereto herein.

	Years Ended				
(In thousands, except per share and selected operating data)	December 30, 2000	December 25, 1999	December 26, 1998	December 27, 1997	December 28, 1996
Statements of Operations Data:					
Net sales	**$2,381,721**	$2,284,544	$1,922,851	$1,698,862	$1,374,639
Gross profit	**647,901**	608,596	523,831	442,842	358,092
Selling, general and administrative expenses	**520,288**	489,364	427,635	380,233	314,979
Merger and integration costs [1]	**585**	13,467	56,666	50,779	—
Restructuring costs [2]	**14,439**	—	—	—	—
Operating income	**112,589**	105,765	39,530	11,830	43,113
Interest income	**6,279**	7,777	6,964	7,353	7,139
Interest expense	**(20,409)**	(23,593)	(12,050)	(7,643)	(5,487)
Other—net	**(1,925)**	(166)	1,570	1,375	1,177
Other income (expense)—net	**(16,055)**	(15,982)	(3,516)	1,085	2,829
Income before taxes on income, minority interest and equity in earnings (losses) of affiliates	**96,534**	89,783	36,014	12,915	45,942
Taxes on income	**36,150**	35,589	20,325	17,670	18,606
Minority interest in net income (loss) of subsidiaries	**1,757**	1,690	145	(430)	246
Equity in earnings (losses) of affiliates	**(1,878)**	(2,192)	783	2,141	1,595
Net income (loss)	**56,749**	50,312	16,327	(2,184)	28,685
Net income (loss) per common share:					
Basic	**$ 1.38**	$ 1.24	$ 0.42	$ (0.06)	$ 0.85
Diluted	**$ 1.35**	$ 1.21	$ 0.39	$ (0.06)	$ 0.81
Weighted average shares outstanding:					
Basic	**41,244**	40,585	39,305	37,531	33,714
Diluted	**42,007**	41,438	41,549	37,531	35,202

(In thousands, except per share and selected operating data)	Years Ended December 30, 2000	December 25, 1999	December 26, 1998	December 27, 1997	December 28, 1996
Pro Forma Data (3)**:**					
Pro forma net income (loss)			$ 13,748	$ (1,778)	$ 29,023
Pro forma net income (loss) per common share					
Basic			$ 0.35	$ (0.05)	$ 0.86
Diluted			$ 0.33	$ (0.05)	$ 0.82
Pro forma average shares outstanding:					
Basic			39,305	37,531	33,714
Diluted			41,549	37,531	35,202
Selected Operating Data:					
Number of orders shipped	**8,280,000**	7,979,000	6,718,000	6,064,000	5,127,000
Average order size	**$ 288**	$ 286	$ 286	$ 280	$ 268
Net Sales by Market Data:					
Healthcare Distribution:					
Dental (4)	**$1,073,889**	$1,047,259	$1,085,717	$ 999,671	$ 819,898
Medical	**794,880**	715,210	515,276	441,110	341,403
Veterinary	**56,421**	52,050	48,492	40,852	35,336
International (5)	**389,946**	403,137	230,792	181,278	147,031
Total Healthcare Distribution	**2,315,136**	2,217,656	1,880,277	1,662,911	1,343,668
Technology (6)	**66,585**	66,888	42,574	35,951	30,971
	$2,381,721	$2,284,544	$1,922,851	$1,698,862	$1,374,639
Balance Sheet data:					
Working capital	**$ 423,547**	$ 428,429	$ 403,592	$ 312,916	$ 290,482
Total assets	**1,231,068**	1,204,102	962,040	803,946	668,239
Total debt	**276,693**	363,624	209,451	148,685	59,404
Minority interest	**7,996**	7,855	5,904	2,225	5,289
Stockholders' equity	**579,060**	517,867	463,034	424,223	408,877

(1) Merger and integration costs consist primarily of investment banking, legal, accounting and advisory fees, compensation, write-off of duplicate management information systems, other assets and the impairment of goodwill arising from acquired businesses integrated into the Company's medical and dental businesses, as well as certain other integration costs incurred primarily in connection with the 1998 acquisition of H. Meer Dental Supply Co., Inc. (" Meer") and the 1997 acquisitions of Sullivan Dental Products, Inc., Micro Bio-Medics, Inc. and Dentrix Dental Systems, Inc. ("Dentrix"), which were accounted for under the pooling of interests method of accounting. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisition and Joint Ventures Strategies" herein and the Consolidated Financial Statements and related notes thereto herein.

(2) Restructuring costs consist primarily of employee severance costs, including severance pay and benefits of approximately $7.2 million, facility closing costs, primarily lease termination and asset write-off costs of approximately $4.4 million and professional and consulting fees directly related to the restructuring plan of approximately $2.8 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Plan of Restructuring" herein and the Consolidated Financial Statements and related notes thereto herein.

(3) Reflects the provision for income taxes on previously untaxed earnings of Dentrix as an S Corporation of $1.2 million for 1996, and provision for income tax (expense) recoveries on previously untaxed earnings of Meer as an S Corporation of $(0.6) million, $0.4 million, and $1.5 million for 1998, 1997 and 1996, respectively, and the pro forma elimination of a net deferred tax asset arising from Meer's conversion from an S Corporation to a C Corporation of $2.0 million in 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisition and Joint Ventures Strategies" herein.

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

(5) International consists of the Company's business (primarily dental) outside the United States and Canada, primarily Europe and Australia.

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

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 related notes thereto included herein.

Plan of Restructuring

On August 1, 2000, the Company announced a comprehensive restructuring plan designed to improve customer service and increase profitability by maximizing the efficiency of the Company's infrastructure. In addition to closing or downsizing certain facilities, this world-wide initiative included the elimination of approximately 300 positions, including open positions, or approximately 5% of the total workforce, throughout all levels within the organization.

Estimated annual cost savings from the restructuring plan are expected to be approximately $20.0 million on a pre-tax basis ($12.0 million after taxes), equating to approximately $0.29 per diluted share. The restructuring plan was implemented over the last five months of 2000 and was substantially completed at December 30, 2000.

For the year ended December 30, 2000, the Company has incurred one-time restructuring costs of approximately $14.4 million, $9.3 million after taxes, or approximately $0.22 per diluted share, consisting primarily of: employee severance costs, including severance pay and benefits of approximately $7.2 million, facility closing costs, primarily lease termination and asset write-off costs of approximately $4.4 million, and outside professional and consulting fees directly related to the restructuring plan of approximately $2.8 million.

Business Dispositions

On November 27, 2000, the Company announced that one of its United Kingdom subsidiaries had sold its software development business unit. In an ongoing effort to enhance the focus of the Company's core distribution business in Europe, certain practice management software systems were sold. The United Kingdom subsidiary will continue to distribute such practice management systems, but will no longer be responsible for development and technical support of the systems.

The sale of this practice management software development business unit resulted in a non-recurring loss of approximately $1.6 million, or approximately $0.04 per diluted share.

On October 23, 2000, the Company announced the sale of its 50% interest in dental anesthetic manufacturer, HS Pharmaceutical Inc. ("HS Pharmaceutical"), which owns Novocol Pharmaceutical of Canada, Inc. ("Novocol"), to the then current co-owner, Deproco, Inc. The Company incurred a non-recurring net charge of approximately $1.9 million, or approximately $0.05 per diluted share, in connection with the sale. Novocol was an unconsolidated subsidiary and was the Company's only manufacturing business.

Acquisition and Joint Venture Strategies

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.

During the year ended December 30, 2000, the Company completed the acquisition of two healthcare distribution and one technology business, none of which were considered material either individually or in the aggregate. Of the three completed acquisitions, two were accounted for under the purchase method of accounting and the remaining acquisition was accounted for under the pooling of interests method of accounting. The Company issued 465,480 shares of its Common Stock, with an aggregate value of approximately $7.9 million in connection with the pooling transaction. The transactions completed under the purchase method of accounting have been included in the consolidated financial statements from their respective acquisition dates. The pooling transaction was not material and, accordingly, prior period financial statements have not been restated. Results of the acquired company have been included in the consolidated financial statements from the beginning of the second quarter of 2000.

During the year ended December 25, 1999, the Company completed the acquisition of eight healthcare distribution and one technology business. The completed acquisitions included General Injectables and Vaccines, Inc. ("GIV"), through the purchase of all of the outstanding common stock of Biological & Popular Culture, Inc., and the international dental, medical and veterinary healthcare distribution businesses of Heiland Holding GmbH (the "Heiland Group"). GIV, which had 1998 net sales of approximately $120.0 million, is a leading independent direct marketer of vaccines and other injectable products to office-based practitioners in the United States. The Heiland Group, the largest direct marketer of healthcare supplies to office-based practitioners in Germany, had 1998 net sales of approximately $130.0 million. The acquisition agreements for GIV and the Heiland Group provide for additional cash consideration of up to $20.0 million per year through 2004, not to exceed $75.0 million in total, and $3.9 million per year through

2001, respectively, to be paid if certain sales and profitability targets are met. The GIV acquisition agreement also provided for additional cash consideration of $4.1 million based upon sales of new products, as defined; of which $1.2 million was paid during fiscal 2000. The remaining seven acquisitions had combined net sales of approximately $74.0 million for 1998. Six of the acquisitions were accounted for under the purchase method of accounting, while the remaining acquisition was accounted for under the pooling of interests method of accounting. Results of operations of the business acquisitions accounted for under the purchase method of accounting have been included in the consolidated financial statements commencing with the acquisition dates. The total cash purchase price paid for the acquisitions accounted for under the purchase method of accounting was approximately $137.2 million. The excess of the acquisition costs over the fair value of identifiable assets will be amortized on a straight-line basis over 30 years. The Company issued 189,833 shares of its Common Stock with an aggregate market value of $6.4 million in connection with the pooling transaction. The pooling transaction was not material and, accordingly, prior period financial statements have not been restated. Results of the acquired company have been included in the consolidated financial statements from the beginning of the quarter in which the acquisition occurred.

During the year ended December 26, 1998, the Company completed the acquisition of five healthcare distribution businesses. The 1998 completed acquisitions included two dental supply companies, the most significant of which was H. Meer Dental Supply Co., Inc. ("Meer"), a leading full-service dental distributor serving dentists, dental laboratories and institutions throughout the United States, with 1997 annual net sales of approximately $180.0 million. Combined, Meer and the other dental company had approximately $212.0 million in aggregate net sales for 1997. The completed acquisitions also included two medical supply companies with aggregate net sales for 1997 of approximately $37.0 million, and one international dental distribution business with 1997 net sales of approximately $16.0 million. Of the five completed acquisitions, four (including Meer) were accounted for under the pooling of interests method, and the remaining acquisition of a 50.1% interest was accounted for under the purchase method of accounting. The historical financial statements were restated to give retroactive effect only to the Meer transaction, as the remaining three pooling transactions were not material and were included in the consolidated financial statements from the beginning of the quarter in which the acquisitions occurred. Results of operations of the business acquisition accounted for under the purchase method of accounting have been included in the consolidated financial statements commencing with the acquisition date.

The Company issued 2,973,680 shares, 347,063 shares and 121,000 shares of its Common Stock, with an aggregate value of approximately $151.1 million in connection with three of the 1998 pooling transactions. Prior to its acquisition by the Company, Meer elected to be treated as an S Corporation under the Internal Revenue Code, and accordingly, was not subject to taxation at the corporate level. Pro forma adjustments have been made to reflect a provision for income taxes for each period presented and the elimination of a deferred tax benefit arising from Meer's conversion from the S Corporation to a C Corporation.

Additionally, in connection with one of the 1998 dental supply company acquisitions accounted for under the pooling of interests method of accounting, the Company issued shares of a subsidiary, with rights equivalent to those of the Company's Common Stock, which are exchangeable into 603,500 shares of the Company's Common Stock, at each shareholders' option, and had an aggregate value of approximately $24.0 million. The total cash purchase price for the 1998 acquisition accounted for under the purchase method of accounting was approximately $6.8 million. The excess of the acquisition costs over the fair value of identifiable net assets acquired are being amortized on a straight-line basis over 30 years.

In connection with the 2000, 1999 and 1998 acquisitions, the Company incurred certain merger and integration costs of approximately $0.6 million, $13.5 million and $56.7 million, respectively. Net of taxes, merger and integration costs were approximately $0.01, $0.23, and $1.06 per share, on a diluted basis, respectively. Merger and integration costs for the healthcare distribution and technology segments were $0.0 million and $0.6 million for 2000, $13.5 million and $0.0 million for 1999 and $55.7 million and $1.0 million for 1998, respectively. Merger and integration costs consist primarily of investment banking, legal, accounting and advisory fees, severance, impairment of goodwill arising from acquired businesses integrated into the Company's medical and dental businesses, as well as certain other integration costs associated with these mergers.

Excluding the merger and integration costs and restructuring costs, and the losses on the disposals of HS Pharmaceutical and the United Kingdom software development business unit, and including pro forma adjustments, pro forma net income and pro forma net income per common share, on a diluted basis, would have been $70.1 million, and $1.67, respectively, for the year ended December 30, 2000, $59.8 million and $1.44, respectively, for the year ended December 25, 1999 and $57.8 million and $1.39, respectively, for the year ended December 26, 1998.

Results of Operations

The following table sets forth for the periods indicated Net Sales, Gross Profit and Adjusted Operating Profit, excluding merger and integration, and restructuring costs (in thousands), by business segment for the years ended 2000, 1999 and 1998. Percentages are calculated on related net sales.

Certain prior year amounts have been reclassified to conform the current year's presentation as discussed in the Consolidated Financial Statements and related notes thereto herein.

	2000		1999		1998	
Net Sales by Segment Data:						
Healthcare distribution:						
Dental (1)	$1,073,889	45.1%	$1,047,259	45.8%	$1,085,717	56.5%
Medical	794,880	33.4	715,210	31.3	515,276	26.8
Veterinary	56,421	2.4	52,050	2.3	48,492	2.5
International (2)	389,946	16.4	403,137	17.6	230,792	12.0
Total healthcare distribution	2,315,136	97.2	2,217,656	97.1	1,880,277	97.8
Technology (3)	66,585	2.8	66,888	2.9	42,574	2.2
Total	$2,381,721	100.0%	$2,284,544	100.0%	$1,922,851	100.0%
Gross Profit by Segment Data:						
Healthcare distribution	$ 601,036	26.0%	$ 563,107	25.4%	$ 490,442	26.1%
Technology	46,865	70.4%	45,489	68.0%	33,389	78.4%
Total	$ 647,901	27.2%	$ 608,596	26.6%	$ 523,831	27.2%
Adjusted Operating Profit (excluding merger and integration, and restructuring costs) by Segment Data:						
Healthcare distribution (4)	$ 102,953	4.4%	$ 93,934	4.2%	$ 79,871	4.3%
Technology (5)	24,660	37.0%	25,298	37.8%	16,325	38.3%
Total	$ 127,613	5.4%	$ 119,232	5.2%	$ 96,196	5.0%

(1) Dental consists of the Company's dental business in the United States and Canada.
(2) International consists of the Company's business (primarily dental) outside the United States and Canada, primarily in Europe, and Australia.
(3) Technology consists of the Company's practice management software business and certain other value-added products and services.
(4) Excludes merger and integration, and restructuring costs of $14.1 million, $13.5 million and $55.7 million in 2000, 1999 and 1998, respectively.
(5) Excludes merger and integration, and restructuring costs of $1.0 million, $0.0 million and $1.0 million in 2000, 1999, and 1998, respectively.

2000 Compared to 1999

Net sales increased $97.2 million, or 4.3%, to $2,381.7 million in 2000 from $2,284.5 million in 1999. Of the $97.2 million increase, approximately $97.5 million, or 100.3%, represented a 4.4% increase in the Company's healthcare distribution business. As part of this increase, approximately $79.7 million represented a 11.1% increase in its medical business, $26.6 million represented a 2.5% increase in its dental business, $4.4 million represented a 8.4% increase in the Company's veterinary business, and $(13.2) million represented a 3.3% decrease in the Company's international business. The increase in medical net sales was primarily attributable to increased sales to core physicians office and alternate care markets. In the dental market, the increase in net sales was primarily due to increased account penetration. In the veterinary market, the increase in net sales was primarily due to increased account penetration. In the international market, the decrease in net sales was primarily due to unfavorable exchange rate translation adjustments. Had net sales for the international market been translated at the same exchange rates in 1999, net sales would have increased by 8.4%.

The remaining decrease in 2000 net sales was due to the technology business, which decreased $(0.3) million, or 0.3%, to $66.6 million for 2000, from $66.9 million for 1999. The decrease in technology and value-added product net sales was primarily due to a decrease in practice management software sales, which was exceptionally strong in 1999 primarily due to Year 2000 conversions.

Gross profit increased by $39.3 million, or 6.5%, to $647.9 million in 2000, from $608.6 million in 1999. Gross profit margin increased by 0.6% to 27.2% from 26.6% last year. Healthcare distribution gross profit increased by $37.9 million, or 6.7%, to $601.0 million in 2000, from $563.1 million in 1999. Healthcare distribution gross profit margin increased by 0.6%, to 26.0%, from 25.4% last year primarily due to changes in sales mix. Technology gross profit increased by $1.4 million, or 3.0%, to $46.9 million in 2000, from $45.5 million in 1999. Technology gross profit margin increased by 2.4%, to 70.4%, from 68.0% last year also primarily due to changes in sales mix.

Selling, general and administrative expenses increased by $30.9 million, or 6.3%, to $520.3 million in 2000 from $489.4 million in 1999. Selling and shipping expenses increased by $9.7 million, or 3.2%, to $310.6 million in 2000 from $300.9 million in 1999. As a percentage of net sales, selling and shipping expenses decreased 0.2% to 13.0% in 2000 from 13.2% in 1999. This decrease was primarily due to improvement in the Company's distribution efficiencies resulting from the leveraging of the Company's distribution infrastructure. General and administrative expenses increased $21.2 million, or 11.2%, to $209.7 million in 2000 from $188.5 million in 1999, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses increased 0.5% to 8.8% in 2000 from 8.3% in 1999.

Other income (expense)—net changed by $(0.1) million, to $(16.1) million for the year ended December 30, 2000 from $(16.0) million for 1999 primarily due to the non-recurring loss of approximately $1.6 million, or approximately $0.04 per diluted share, from the sale of the Company's software development unit in the United Kingdom and lower interest income on accounts receivable balances, offset by a decrease in interest expense resulting from a decrease in average borrowings.

Equity in losses of affiliates decreased $0.3 million or 13.6%, to $(1.9) million in 2000 from $(2.2) million in 1999. The net increase is primarily due to increased earnings from an affiliate offset by a non-recurring net loss of approximately $1.9 million, or approximately $0.05 per diluted share from the sale of the Company's interest in HS Pharmaceutical during the fourth quarter of 2000.

For 2000, the Company's effective tax rate was 37.4%. Excluding merger and integration costs, the majority of which are not deductible for income tax purposes, the Company's effective tax rate would have been 37.3%. The difference between the Company's effective tax rate, excluding merger and integration costs, and the Federal statutory rate relates primarily to state income taxes.

For 1999, the Company's effective tax rate was 39.6%. Excluding merger and integration costs, the majority of which are not deductible for income tax purposes, the Company's effective tax rate would have been 38.3%. The difference between the Company's effective tax rate, excluding merger and integration costs, and the Federal statutory rate relates primarily to state income taxes.

1999 Compared to 1998

Net sales increased $361.7 million, or 18.8%, to $2,284.5 million in 1999 from $1,922.8 million in 1998. Of the $361.7 million increase, approximately $337.4 million, or 93.3%, represented a 17.9% increase in the Company's healthcare distribution business. As part of this increase, approximately $200.0 million represented a 38.8% increase in its medical business, $172.3 million represented a 74.7% increase in its international business, $3.5 million represented a 7.3% increase in the Company's veterinary business, and $(38.4) million represented a 3.5% decrease in the Company's dental business. The increase in medical net sales was primarily attributable to telesales and direct marketing activities, acquisitions, and increased sales to hospitals. In the international market, the increase in net sales was primarily due to acquisitions in Germany and the United Kingdom, and increased account penetration in the United Kingdom, Belgium, Spain and France. In the veterinary market, the increase in net sales was primarily due to increased account penetration. The decrease in dental net sales was primarily due to sales erosion related to the Meer acquisition and a reduction in dental equipment sales. The remaining increase in 1999 net sales was due to the technology business, which increased $24.3 million, or 57.0%, to $66.9 million for 1999, from $42.6 million for 1998. The increase in technology and value-added product net sales was primarily due to increased practice management software sales and an acquisition.

Gross profit increased by $84.8 million, or 16.2%, to $608.6 million in 1999, from $523.8 million in 1998. Gross profit margin decreased by 0.6% to 26.6% from 27.2% last year. Healthcare distribution gross profit increased by $72.7 million, or 14.8%, to $563.1 million in 1999, from $490.4 million in 1998. Healthcare distribution gross profit margin decreased by 0.7%, to 25.4%, from 26.1% last year primarily due to changes in sales mix and lower manufacturers rebates as a result of reduced annual sales. Technology gross profit increased by $12.1 million, or 36.2%, to $45.5 million in 1999, from $33.4 million in 1998. Technology gross profit margin decreased by 10.4%, to 68.0%, from 78.4% last year primarily due to changes in sales mix.

Selling, general and administrative expenses increased by $61.8 million, or 14.4%, to $489.4 million in 1999 from $427.6 million in 1998. Selling and shipping expenses increased by $30.4 million, or 11.2%, to $300.9 million in 1999 from $270.5 million in 1998. As a percentage of net sales, selling and shipping expenses decreased 0.9% to 13.2% in 1999 from 14.1% in 1998. This decrease was primarily due to improvement in the Company's distribution efficiencies resulting from the leveraging of the Company's distribution infrastructure. General and administrative expenses increased $31.4 million, or 20.0%, to $188.5 million in 1999 from $157.1 million in 1998, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses increased 0.1% to 8.3% in 1999 from 8.2% in 1998.

Other income (expense)—net changed by $12.5 million, to $(16.0) million for the year ended December 25, 1999 from $(3.5) million for 1998 due to an increase in interest expense resulting from an increase in average borrowings and to a lesser extent an increase in interest rates, offset by higher interest income on notes receivable and accounts receivable balances.

Equity in earnings (losses) of affiliates decreased $3.0 million or 375%, to a loss of $(2.2) million in 1999 from income of $0.8 million in 1998. The decline was due to reduced earnings from HS Pharmaceutical, which is accounted for under the equity method; totaling approximately $1.3 million, net of taxes, due to a temporary cessation of production of anesthetic products. On September 23, 1999, the FDA issued clearance for HS Pharmaceutical to resume production of its anesthetic products for shipment into the United States. HS Pharmaceutical resumed limited production and shipment of its products in the fourth quarter of 1999.

For 1999, the Company's effective tax rate was 39.6%. Excluding merger and integration costs, the majority of which are not deductible for income tax purposes, the Company's effective tax rate would have been 38.3%. The difference between the Company's effective tax rate, excluding merger and integration costs, and the Federal statutory rate relates primarily to state income taxes.

For 1998 the Company's effective tax rate was 56.4%. Excluding merger and integration costs, the majority of which are not deductible for income tax purposes, and including a proforma tax adjustment for Meer on previously untaxed earnings as an S Corporation, combined with the elimination of a net deferred tax asset arising from Meer's conversion from an S Corporation to a C Corporation, the Company's effective tax rate would have been 38.3%. The difference between the Company's effective tax rate, excluding merger and integration costs and the Meer tax adjustment, and the Federal statutory rate relates primarily to state income taxes.

Euro Conversion

Effective January 1, 1999, 11 of the 15 member countries of the European Union have adopted the Euro as their common legal currency. On that date, the participating countries established fixed Euro conversion rates between their existing sovereign currencies and the Euro. The Euro now trades on currency exchanges and is available for non-cash transactions. The participating countries now issue sovereign debt exclusively in Euro, and have re-denominated outstanding sovereign debt. The authority to direct monetary policy for the participating countries, including money supply and official interest rates for the Euro, is now exercised by the new European Central Bank.

Beginning on January 1, 2002, Euro banknotes and coins will be put into circulation. There will be a changeover period of two months where there will be dual circulation—where both Euro and national currencies will be used together. Following the changeover period, the national currencies will be completely replaced by the Euro.

The Company is currently addressing the impact of the Euro on its information systems, as well as, product and customer concerns. The Company expects to achieve timely Euro information system and product readiness, so as to conduct transactions in the Euro, in accordance with implementation schedules as they are established by the European Commission. The Company does not anticipate that the costs of the overall effort will have a material adverse impact on future results.

E-Commerce

Traditional healthcare supply and distribution relationships are being challenged by electronic on-line commerce solutions. The Company's distribution business is characterized by rapid technological developments and intense competition. The rapid evolution of on-line commerce will require continuous improvement in performance, features and reliability of Internet content and technology by the Company, particularly in response to competitive offerings. Through the Company's proprietary technologically based suite of products, customers are offered a variety of competitive alternatives. The Company's tradition of reliable service, proven name recognition, and large customer base built on solid customer relationships makes it well situated to participate fully in this rapidly growing aspect of the distribution business. The Company is exploring ways and means of improving and expanding its Internet presence and will continue to do so. In January 2001, the Company announced the unveiling of a new website (http://www.henryschein.com), which includes an array of value-added features. As part of this effort, the Company also launched http://www.sullivanschein.com for its office-based dental practitioner customers.

Inflation

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

Effect of Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities." FAS 133 is required for transactions entered into by the Company after December 30, 2000. FAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of the hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings.

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 ("FAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities" which amended FAS 133. The amendments in FAS 138 address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign currency denominated assets and liabilities, and intercompany derivatives.

Effective December 31, 2000, the Company will adopt FAS 133 and FAS 138. The initial impact of adoption on the Company's financial statements will be recorded in the first quarter of 2001 and will not be material. The ongoing effect of adoption on the Company's consolidated financial statements will be determined each quarter by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the end of each period.

Risk Management

The Company has operations in the United States, Canada, Mexico, the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland, Austria, Spain, Israel, Australia and New Zealand. Substantially all of the Company's operations endeavor to protect their financial results by using foreign currency forward contracts to hedge intercompany debt and the foreign currency payments to foreign vendors. The total U.S. dollar equivalent of all foreign currency forward contracts hedging debt and the purchase of merchandise from foreign vendors was $51.2 million and $6.8 million, respectively, as of the end of fiscal 2000. The contracts expire at various dates through 2001.

The Company considers its investment in foreign operations to be both long-term and strategic. As a result, the Company does not hedge the long-term translation exposure to its balance sheet. The Company has experienced negative translation adjustments of approximately $7.8 million and $8.3 million in 2000 and 1999, respectively, which adjustments were reflected in the balance sheet as a component of stockholders' equity. The cumulative translation adjustment at the end of 2000 showed a net negative translation adjustment of $18.2 million.

In October 1997, the Company entered into a Netherlands Guilder (NLG) loan in the amount of 6.5 million NLG. The loan serves to hedge the repayment of an intercompany loan in the same amount, denominated in NLG, due from a Dutch subsidiary. The NLG loan calls for periodic payments and a balloon payment of 4.1 million NLG in January 2002.

Interest Rate Swaps and Cap

As of December 30, 2000, the Company had approximately $17.8 million outstanding in interest rate swaps. These swaps are used to convert $13.0 million of floating rate debt relating to the Company's revolving credit agreement and $4.8 million relating to a Deutsche Mark floating rate debt of DM10.0 million, 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 7.2% for the variable LIBOR rate on $13.0 million and a 5.3% fixed interest rate for the variable EURIBOR Deutsche Mark loan of the Company's debt. The swaps expire in December 2003, December 2004 and April 2005. Under the interest rate environment during the year ended December 30, 2000, the Company's interest rate swap agreements resulted in additional interest expense of approximately $0.1 million. In addition, the Company has an interest rate cap of 5.5% on a Deutsche Mark floating rate debt of DM6.3 million (approximately $3.0 million).

Liquidity and Capital Resources

Historically, the Company's principal capital requirements have been to fund capital expenditures, acquisitions and working capital needs resulting from increased sales, special inventory forward buy-in opportunities and to fund initial start-up inventory requirements for new distribution centers. Since sales tend to be strongest during the fourth quarter and special inventory forward buy-in opportunities are most prevalent just before the end of the year, the Company's working capital requirements have been generally higher from the end of the third quarter to the end of the first quarter of the following year. In 2000, the Company's operating cash flow has increased significantly due to increased profitability and better management of net working capital. The Company has financed its business primarily through its revolving credit facilities, private placement loans and stock issuances. The Company continues to make capital expenditures as it invests in its infrastructure, however debt reduction has also been a major use of cash.

Net cash provided by operating activities for the year ended December 30, 2000 of $153.0 million resulted primarily from net income of $56.7 million, increased by non-cash charges, relating primarily to depreciation and amortization of $33.8 million, and net cash flow from working capital of approximately $50.1 million. The increase of working capital was primarily due to an increase in accounts payable and other accrued expenses of $44.9 million, a $5.2 million decrease in accounts receivable, and a $4.6 million decrease in inventories, offset by a $4.6 million increase in other current assets.

Net cash used in investing activities for the year ended December 30, 2000 of $46.2 million resulted primarily from cash used for capital expenditures and acquisitions (primarily contingent consideration arising from acquisitions completed in prior periods) of $29.7 million and $6.8 million, respectively. During the past three years, the Company has invested $97.8 million in the development of new computer systems, and for new and existing operating facilities. In the coming year, the Company expects to invest in excess of $45.0 million in capital projects to modernize and expand its facilities and infrastructure systems, and integrate operations.

Net cash used in financing activities for the year ended December 30, 2000 of $77.9 million resulted primarily from net debt repayments of $84.5 million, offset primarily by proceeds from the issuance of stock upon exercise of stock options of $6.3 million.

Certain holders of minority interests in 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 30, 2000 of $58.4 million consist of bank balances and investments in commercial paper rated AAA by Moody's (or an equivalent rating). These investments have staggered maturity dates, none of which exceed three months, and have a high degree of liquidity since the securities are actively traded in public markets.

The Company entered into an amended revolving credit facility on August 15, 1997 that increased its main credit facility to $150.0 million and extended the facility termination date to August 15, 2002. Borrowings under the credit facility were $10.7 million at December 30, 2000. The Company also has two uncommitted bank lines totaling $30.0 million, none of which had been borrowed against at December 30, 2000. On June 30, 1999 and September 25, 1998, the Company completed private placement transactions under which it issued $130.0 million and $100.0 million, respectively, in Senior Notes, the proceeds of which were used respectively, for the permanent financing of its acquisitions of GIV and the Heiland Group, as well as repaying and retiring a portion of four uncommitted bank lines and to pay down amounts owed under its revolving credit facility. The $130.0 million notes come due on June 30, 2009 and bear interest at a rate of 6.94% per annum. Principal payments totaling $20.0 million are due annually starting September 25, 2006 on the $100.0 million notes and bear interest at a rate of 6.66% per annum. Interest is payable semi-annually. Certain of the Company's subsidiaries have credit facilities that totaled $52.3 million at December 30, 2000 under which $4.4 million had been borrowed.

The aggregate purchase price of the acquisitions completed during 1999, including the acquisition of the minority interests of two subsidiaries, was approximately $139.0 million, payable $132.6 million in cash and $6.4 million in stock. The acquisitions of GIV and the Heiland Group were funded by the Company's revolving credit agreement and various short-term borrowings entered into in January 1999. Existing borrowing lines primarily funded the remaining cash portion of the purchases.

The Company believes that its cash and cash equivalents of $58.4 million as of December 30, 2000, its ability to access public and private 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.

Market Risks

The Company is exposed to market risks, which include changes in U.S. and international interest rates as well as changes in foreign currency exchange rates as measured against the U.S. dollar and each other. The Company attempts to reduce these risks by utilizing financial instruments, pursuant to Company policies.

Forward Foreign Currency Contracts

The value of certain foreign currencies as compared to the U.S. dollar may affect the Company's financial results. Changes in exchange rates may positively or negatively affect the Company's revenues (as expressed in U.S. dollars), gross margins, operating expenses, and retained earnings. Where the Company deems it prudent, it engages in hedging programs aimed at limiting, in part, the impact of currency fluctuations. Using primarily forward exchange contracts, the Company hedges those transactions that, when remeasured according to accounting principles generally accepted in the United States, may impact its statement of operations. From time to time, the Company purchases short-term forward exchange contracts to protect against currency exchange risks associated with the ultimate repayment of intercompany loans due from the Company's international subsidiaries and the payment of merchandise purchases to foreign vendors. As of December 30, 2000, the Company had outstanding foreign currency forward contracts aggregating $58.0 million, of which $51.2 million related to intercompany debt and $6.8 million related to the purchase of merchandise from foreign vendors. The contracts hedge against currency fluctuations of Australian dollars ($0.4 million), Canadian dollars ($13.9 million), Deutsche Mark ($11.9 million), Euro ($0.1 million), French Francs ($9.2 million) British Pounds ($14.2 million), Netherland Guilders ($2.5 million), Swiss Francs ($0.7 million), Belgium Francs ($2.0 million) and Spanish Pesetas ($3.1 million). At December 30, 2000, the Company had net deferred losses from foreign currency forward contracts of approximately $0.4 million. The contracts expire at various dates through 2001.

These hedging activities provide only limited protection against currency exchange risks. Factors that could impact the effectiveness of the Company's programs include volatility of the currency markets, and availability of hedging instruments. All currency contracts that are entered into by the Company are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated currency exposure, not for speculation. Although the Company maintains these programs to reduce the impact of changes in currency exchange rates, when the U.S. dollar sustains a strengthening position against currencies in which the Company sells products and services, or a weakening exchange rate against currencies in which the Company incurs costs, the Company's revenues or costs are adversely affected.

Interest Rate Swaps and Cap

As of December 30, 2000, the Company had approximately $17.8 million outstanding in interest rate swaps. These swaps are used to convert $13.0 million of floating rate debt relating to the Company's revolving credit agreement and $4.8 million relating to a Deutsche Mark floating rate debt of DM10.0 million 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 7.2% for the variable LIBOR rate on $13.0 million and 5.3% fixed interest rate for the variable EURIBOR Deutsche Mark loan of the Company's debt. The swaps expire in December 2003, December 2004 and April 2005. Under the interest rate environment during the year ended December 30, 2000, the Company's interest rate swap agreements resulted in additional expense of approximately $0.1 million. In addition, the Company has an interest rate cap of 5.5% on a Deutsche Mark floating rate debt of DM6.3 million (approximately $3.0 million).

The Company is exposed to risk from changes in interest rates from borrowings under certain variable bank credit lines and loan agreements. If the outstanding balance at December 30, 2000 of $46.7 million was the average balance for the following twelve month period and the Company experienced a 1% increase in average interest rates, the interest expense for that period would have increased by $0.5 million. Based upon current economic conditions, the Company does not believe interest rates will increase substantially in the near future. As a result, the Company does not believe it is necessary to hedge its exposure against potential future interest rate increases.

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
Henry Schein, Inc.
Melville, New York

We have audited the accompanying consolidated balance sheets of Henry Schein, Inc. and Subsidiaries as of December 30, 2000 and December 25, 1999, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 30, 2000. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Henry Schein, Inc. and Subsidiaries at December 30, 2000 and December 25, 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

BDO SEIDMAN, LLP
New York, New York
March 1, 2001

Consolidated Balance Sheets

Henry Schein, Inc. and Subsidiaries

(In thousands, except share data)	December 30, 2000	December 25, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 58,362	$ 26,019
Accounts receivable, less reserves of $27,556 and $20,391, respectively	371,668	388,063
Inventories	276,473	285,590
Deferred income taxes	21,001	15,520
Prepaid expenses and other	60,900	63,617
Total current assets	788,404	778,809
Property and equipment, net	94,663	86,627
Goodwill and other intangibles, net	292,018	295,113
Investments and other	55,983	43,553
	$1,231,068	$1,204,102
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 216,535	$ 198,983
Bank credit lines	4,390	41,527
Accruals:		
Salaries and related expenses	39,830	31,188
Merger and integration, and restructuring costs	13,735	10,093
Other	84,288	64,710
Current maturities of long-term debt	6,079	3,879
Total current liabilities	364,857	350,380
Long-term debt	266,224	318,218
Other liabilities	12,931	9,782
Total liabilities	644,012	678,380
Minority interest	7,996	7,855
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value, authorized 120,000,000, issued:		
41,946,284 and 40,768,306, respectively	419	407
Additional paid-in capital	373,413	361,757
Retained earnings	225,029	167,809
Treasury stock, at cost, 62,479 shares	(1,156)	(1,156)
Accumulated comprehensive loss	(18,179)	(10,359)
Deferred compensation	(466)	(591)
Total stockholders' equity	579,060	517,867
	$1,231,068	$1,204,102

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Income

Henry Schein, Inc. and Subsidiaries

(In thousands, except per share data)	Years Ended December 30, 2000	December 25, 1999	December 26, 1998
Net sales	**$2,381,721**	$2,284,544	$1,922,851
Cost of sales	**1,733,820**	1,675,948	1,399,020
Gross profit	**647,901**	608,596	523,831
Operating expenses:			
Selling, general and administrative	**520,288**	489,364	427,635
Merger and integration costs	**585**	13,467	56,666
Restructuring costs	**14,439**	—	—
Operating income	**112,589**	105,765	39,530
Other income (expense):			
Interest income	**6,279**	7,777	6,964
Interest expense	**(20,409)**	(23,593)	(12,050)
Other—net	**(1,925)**	(166)	1,570
Income before taxes on income, minority interest and equity in earnings (losses) of affiliates	**96,534**	89,783	36,014
Taxes on income	**36,150**	35,589	20,325
Minority interest in net income of subsidiaries	**1,757**	1,690	145
Equity in earnings (losses) of affiliates	**(1,878)**	(2,192)	783
Net income	**$ 56,749**	$ 50,312	$ 16,327
Net income	**$ 56,749**	$ 50,312	$ 16,327
Other comprehensive income:			
Foreign currency translation adjustment	**(7,820)**	(8,302)	(448)
Other comprehensive income	**$ 48,929**	$ 42,010	$ 15,879
Net income per common share:			
Basic	**$ 1.38**	$ 1.24	$ 0.42
Diluted	**$ 1.35**	$ 1.21	$ 0.39
Weighted average common shares outstanding:			
Basic	**41,244**	40,585	39,305
Diluted	**42,007**	41,438	41,549
Pro forma:			
Historical net income			$ 16,327
Pro forma adjustment:			
Elimination of deferred tax benefit arising from conversion of an acquisition from S Corporation to a C Corporation			(2,000)
Income tax expense related to acquired S Corporation			(579)
Pro forma net income			$ 13,748
Pro forma net income per common share:			
Basic			$ 0.35
Diluted			$ 0.33

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Henry Schein, Inc. and Subsidiaries

(In thousands, except share data)	Common Stock $.01 Par Value		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Comprehensive Loss	Deferred Compensation	Total Stockholders' Equity
	Shares	Amount						
Balance, December 27, 1997	38,120,572	$381	$328,644	$ 99,588	$(1,156)	$ (1,609)	$(1,625)	$424,223
Retained earnings of three companies acquired under the pooling of interests method, not deemed material individually or in the aggregate	—	—	—	5,161	—	—	—	5,161
Net income	—	—	—	16,327	—	—	—	16,327
Dividends paid by pooled companies	—	—	—	(2,012)	—	—	—	(2,012)
Shares issued for acquisitions	1,124,469	11	2,110	—	—	—	—	2,121
Shares issued to ESOP trust	34,720	—	1,311	—	—	—	—	1,311
Amortization of restricted stock	—	—	—	—	—	—	287	287
Accumulated comprehensive loss	—	—	—	—	—	(448)	—	(448)
Shares issued upon exercise of stock options by employees, including tax benefit of $5,098	971,175	10	16,054	—	—	—	—	16,064
Balance, December 26, 1998	40,250,936	402	348,119	119,064	(1,156)	(2,057)	(1,338)	463,034
Deficit of one company acquired under the pooling of interests method, not deemed material	—	—	—	(1,567)	—	—	—	(1,567)
Net income	—	—	—	50,312	—	—	—	50,312
Shares issued for acquisitions	189,833	2	1,900	—	—	—	—	1,902
Shares issued to ESOP trust	101,233	1	1,766	—	—	—	—	1,767
Amortization of restricted stock	—	—	—	—	—	—	747	747
Accumulated comprehensive loss	—	—	—	—	—	(8,302)	—	(8,302)
Shares issued upon exercise of stock options by employees, including tax benefit of $5,974	226,304	2	9,972	—	—	—	—	9,974
Balance, December 25, 1999	40,768,306	407	361,757	167,809	(1,156)	(10,359)	(591)	517,867
Retained earnings of one company acquired under the pooling of interests method, not deemed material	—	—	—	471	—	—	—	471
Net income	—	—	—	56,749	—	—	—	56,749
Shares issued for acquisitions	465,480	5	423	—	—	—	—	428
Shares issued to ESOP trust	121,253	1	2,192	—	—	—	—	2,193
Amortization of restricted stock	—	—	—	—	—	—	125	125
Accumulated comprehensive loss	—	—	—	—	—	(7,820)	—	(7,820)
Shares issued upon exercise of stock options by employees, including tax benefit of $2,758	591,245	6	9,041	—	—	—	—	9,047
Balance, December 30, 2000	41,946,284	$419	$373,413	$225,029	$(1,156)	$(18,179)	$ (466)	$579,060

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Henry Schein, Inc. and Subsidiaries

(In thousands)	Years Ended December 30, 2000	December 25, 1999	December 26, 1998
Cash flows from operating activities:			
Net income	**$ 56,749**	$ 50,312	$ 16,327
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**33,762**	28,273	19,984
Provision for losses and allowances on accounts receivable	**7,165**	255	4,379
Stock issued to ESOP trust	**2,193**	1,767	1,311
Provision (benefit) for deferred income taxes	**(1,335)**	13	185
Write-off of equipment and intangibles	**464**	415	13,500
Undistributed (earnings) losses of affiliates	**1,878**	2,192	(783)
Minority interest in net income of subsidiaries	**1,757**	1,690	145
Other	**237**	(129)	178
Changes in operating assets and liabilities (net of purchase acquisitions):			
Decrease (increase) in accounts receivable	**5,186**	(22,258)	(48,947)
Decrease (increase) in inventories	**4,630**	12,102	(34,533)
(Increase) decrease in other current assets	**(4,628)**	6,786	(12,143)
Increase (decrease) in accounts payable and accruals	**44,936**	(24,925)	43,090
Net cash provided by operating activities	**152,994**	56,493	2,693
Cash flows from investing activities:			
Capital expenditures	**(29,743)**	(34,549)	(33,521)
Business acquisitions, net of cash acquired of $0, $11,092, and $0	**(6,838)**	(132,552)	(13,883)
Proceeds from sale of fixed assets	**—**	8,583	8,121
Other	**(9,645)**	(5,557)	(9,416)
Net cash used in investing activities	**(46,226)**	(164,075)	(48,699)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	**—**	131,211	129,717
Principal payments on long-term debt	**(5,147)**	(14,873)	(49,192)
Proceeds from issuance of stock upon exercise of stock options by employees	**6,283**	3,998	10,956
Proceeds from borrowing from banks	**9,714**	139,924	112,344
Payments on borrowings from banks	**(89,047)**	(146,877)	(139,503)
Distributions to stockholders	**—**	—	(2,012)
Other	**346**	40	105
Net cash (used in) provided by financing activities	**(77,851)**	113,423	62,415
Net increase in cash and cash equivalents	**28,917**	5,841	16,409
Effect of exchange rate changes on cash and cash equivalents	**3,426**	(8,044)	—
Cash and cash equivalents, beginning of year	**26,019**	28,222	11,813
Cash and cash equivalents, end of year	**$ 58,362**	$ 26,019	$ 28,222

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Henry Schein, Inc. and Subsidiaries
(In thousands, except share data)

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 (collectively the "Company"). Investments in unconsolidated affiliates, which are greater than 20% and less than or equal to 50% owned, are accounted for under the equity method. All intercompany accounts and transactions are eliminated in consolidation.

The consolidated financial statements reflect, for all periods presented, the adoption of the classification requirements pursuant to Emerging Issues Task Force ("EITF") 00-10, *Accounting for Shipping and Handling Fees and Costs*, EITF 00-14, *Accounting for Certain Sales Incentives*, and EITF 00-22, *Accounting for "Points" and Certain Other Time Based or Volume Based Sales Incentive Offers, and Offers for Free Products to be Delivered in the Future*, which were effective in the Company's fourth quarter of 2000. Accordingly, the Company reclassified certain costs for the periods presented (including the quarterly information included in Note 16) for freight incurred on delivered merchandise, merchandise and other products provided to customers pursuant to promotional incentive programs and other costs which were historically included in "Selling, general and administrative" expenses to "Cost of sales." In addition, the Company reclassified to "Net sales" income from freight charged to customers, and the cost of rebates and refunds provided to customers pursuant to promotional incentive programs, which were historically included in "Selling, general and administrative" expenses.

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 and cash flows on a 52-53 week basis ending on the last Saturday of December. The fiscal year ended December 30, 2000 consisted of 53 weeks. The fiscal years ended December 25, 1999 and December 26, 1998 consisted of 52 weeks.

Revenue Recognition

Sales are recorded when products are shipped or services are rendered to customers, as the Company generally has no significant post delivery obligations, the product price is fixed and determinable, collection of the resulting receivable is probable and product returns are reasonably estimable. Revenues derived from post contract customer support for practice management software is deferred and recognized ratably over the period in which the support is to be provided, generally one-year. Revenues from freight charged to customers are recognized when products are shipped. Provisions for discounts, rebates to customers, customer returns and other adjustments are provided for in the period the related sales are recorded.

Direct Handling Fees

Direct handling fees, which represent primarily direct compensation costs of employees who pick, pack and otherwise prepare, if necessary, merchandise for shipment to the Company's customers are reflected in "Selling, general and administrative" expenses. These costs were approximately $17,700, $15,700 and $15,000 for the years ended 2000, 1999 and 1998, respectively.

Inventories

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

Property and Equipment and Depreciation and Amortization

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

	Years
Buildings and improvements	40
Machinery and warehouse equipment	5-10
Furniture, fixtures and other	3-10
Computer equipment and software	5-8

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

Taxes on Income

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

Statement of Cash Flows

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

has determined that the effect of foreign exchange rate changes on cash flows was not material for the year ended December 26, 1998.

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 accumulated comprehensive loss account in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings, except for certain hedging transactions (see *New Accounting Pronouncements*).

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 until the transaction is completed.

In order to manage interest rate exposure, the Company has entered into interest rate swap and cap agreements to exchange variable rate debt into fixed rate debt without the exchange of the underlying principal amounts. Net payments or receipts under the agreements are recorded as adjustments to interest expense.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount reported for bank credit lines and long-term debt approximates fair value because certain of the underlying instruments are at variable rates, which are repriced frequently. The remaining portion of long-term debt approximates fair value because the interest approximates current market rates for financial instruments with similar maturities and terms.

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. 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 and adjust the acquisition price for such amounts when it becomes probable that targets will be met.

Long-Lived Assets

Long-lived assets, such as goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. In connection with certain acquisitions, the Company determined in 1999 and 1998, respectively, that certain long-lived assets had been impaired (see Note 6). No impairment losses have been deemed necessary for the year ended December 30, 2000.

Stock-Based Compensation

The Company accounts for its stock option awards to employees 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 No. 123 ("FAS 123"), "Accounting for Stock-Based Compensation."

Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of common shares issuable upon exercise of stock options.

Comprehensive Income

Comprehensive income refers to revenues, expenses, gains and losses that, under generally accepted accounting principles, are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's comprehensive income is comprised of foreign currency translation adjustments.

Reclassifications

Certain amounts as previously reported have been reclassified to conform to current year classifications (See *Principles of Consolidation*).

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("FAS 133"), "Accounting for Derivative Instruments and Hedging Activities." FAS 133 is required for transactions entered into by the Company after December 30, 2000. FAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are

recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of the hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings.

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138 ("FAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities" which amended FAS 133. The amendments in FAS 138 address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign currency denominated assets and liabilities, and intercompany derivatives.

Effective December 31, 2000, the Company will adopt FAS 133 and FAS 138. The initial impact of adoption on the Company's financial statements will be recorded in the first quarter of 2001 and will not be material. The ongoing effect of adoption on the Company's consolidated financial statements will be determined each quarter by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the end of each period.

2• Earnings Per Share

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

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Basic	**41,244**	40,585	39,305
Effect of assumed conversion of employee stock options	**763**	853	2,244
Diluted	**42,007**	41,438	41,549

Options to purchase approximately 3,011,000, 2,485,000 and 772,000 shares of common stock at prices ranging from $19.73 to $46.00, $24.56 to $46.00 and $39.88 to $46.00 per share were outstanding during portions of 2000, 1999, and 1998, respectively, but were not included in the computation of diluted earnings per share for each of the respective years because the options' exercise prices exceeded the fair market value of the Company's common stock.

3• Property and Equipment, Net

Major classes of property and equipment consist of the following:

	December 30, 2000	December 25, 1999
Land	**$ 1,257**	$ 1,257
Buildings and leasehold improvements	**42,744**	37,543
Machinery and warehouse equipment	**21,909**	24,117
Furniture, fixtures and other	**24,888**	25,430
Computer equipment and software	**76,999**	58,982
	167,797	147,329
Less accumulated depreciation and amortization	**73,134**	60,702
Net property and equipment	**$ 94,663**	$ 86,627

The net book value of equipment held under capital leases amounted to approximately $2,165 and $2,541 as of December 30, 2000 and December 25, 1999, respectively (See Note 14(b)).

4• Goodwill and Other Intangibles, Net

Goodwill and other intangibles consist of the following:

	Estimated Lives	December 30, 2000	December 25, 1999
Goodwill	30 years	**$319,625**	$314,353
Other	3-5 years	**16,812**	12,116
		336,437	326,469
Less accumulated amortization		**44,419**	31,356
		$292,018	$295,113

Goodwill represents the excess of the purchase price of acquisitions over the fair value of identifiable net assets acquired. During 2000, the increase in goodwill was primarily due to additional purchase price consideration for a prior year acquisition. Other intangibles include covenants not-to-compete, computer programming costs, customer lists and deferred acquisition costs.

5• Investments and Other

Investments and other consist of:

	December 30, 2000	December 25, 1999
Investments in unconsolidated affiliates	**$ 4,791**	$12,852
Long-term notes receivables[1]	**39,028**	19,770
Other	**12,164**	10,931
	$55,983	$43,553

(1) Long-term notes receivables include various notes due arising from the sale of certain businesses of approximately $21,700.

The Company's investments are predominately 50% owned unconsolidated affiliates consisting of various companies involved in the healthcare distribution business. In the fourth quarter of fiscal 2000, the Company sold its 50% interest in HS Pharmaceutical Inc. ("HS Pharmaceutical"), a manufacturer and distributor of generic pharmaceuticals, which resulted in a non-

recurring net loss of $1,925 which is included in "Equity in earnings (losses) of affiliates."

As of December 30, 2000, the Company's investments in unconsolidated affiliates were $1,933 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 earnings (losses) of affiliates. As of December 30, 2000, approximately $2,706 of the Company's retained earnings represented undistributed earnings of affiliates. Combined financial data for substantially all of these companies are as follows:

	December 30, 2000	December 25, 1999
Current assets	$30,789	$46,233
Total assets	33,563	71,619
Liabilities	28,451	56,154
Stockholders' equity	5,112	15,465

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Net sales	$86,536	$112,746	$114,788
Operating income (loss)	2,559	(3,530)	2,589
Net income (loss)	860	(5,230)	541

6• Business Acquisitions

During the year ended December 30, 2000, the Company completed the acquisition of two healthcare distribution and one technology business, none of which were considered material either individually or in the aggregate. Of the three completed acquisitions, two were accounted for under the purchase method of accounting and the remaining acquisition was accounted for under the pooling of interests method of accounting. The Company issued 465,480 shares of its Common Stock, with an aggregate value of approximately $7,900 in connection with the pooling transaction. The transactions completed under the purchase method of accounting have been included in the consolidated financial statements from their respective acquisition dates. The pooling transaction was not material and accordingly prior period financial statements have not been restated. Results of the acquired company have been included in the consolidated financial statements from the beginning of the second quarter of 2000.

In 1999, the Company completed the acquisition of eight healthcare distribution and one technology business, the most significant of which were transactions accounted for under the purchase method of accounting; General Injectables and Vaccines, Inc. ("GIV") through the purchase of all of the outstanding common stock of Biological and Popular Culture, Inc. (on December 30, 1998) a leading independent direct marketer of vaccines and other injectables to office based practitioners throughout the United States; and the Heiland Group GmbH ("Heiland") (on December 31, 1998), the largest direct marketer of healthcare supplies to the medical, dental, and veterinarian office-based practitioners, in Germany.

GIV and Heiland had 1998 net sales of approximately $120,000 and $130,000, respectively. The purchase price and resultant goodwill, which is being amortized over 30 years, for these acquisitions was approximately $65,000 and $47,400, and $60,400 and $55,800, respectively (see Note 9 (a)). The acquisition agreements for GIV and Heiland provide for additional cash consideration of up to $20,000 per year through 2004, not to exceed $75,000 in total, and $3,900 per year through 2001, respectively to be paid if certain sales and profitability targets are met. The GIV acquisition agreement also provided for additional cash consideration of $4,125 based upon sales of new products, as defined; of which $1,238 was paid during fiscal 2000.

Additionally, during 1999, the Company acquired six other companies, which had total sales in 1998 of approximately $74,000, that were accounted for under the purchase method of accounting. Results of operations of the business acquisitions accounted for under the purchase method of accounting have been included in the financial statements commencing with the acquisition dates. The total purchase price of the six companies acquired was approximately, $11,800 and the resulting goodwill of $8,266 is being amortized over 30 years. The Company also acquired one company, which is being accounted for under the pooling of interests method of accounting, which was not material. In connection with this acquisition, the Company issued 189,833 shares of its Common Stock with an aggregate market value of $6,400. The pooling transaction was not material and accordingly prior period financial statements have not been restated. Results of the pooling transaction acquisition have been included in the consolidated financial statements from the beginning of the quarter in which the acquisition occurred.

In 1998, the Company completed the acquisition of five healthcare distribution businesses, the most significant of which was a transaction accounted for under the pooling of interests method of accounting, H. Meer Dental Supply Co., Inc, ("Meer") a distributor of consumable dental supplies. The historical financial statements were restated to give retroactive effect to the Meer transaction.

Pursuant to the respective merger agreement for Meer, which was completed on August 14, 1998, the Company issued approximately 2,974,000 shares of its Common Stock with aggregate market values (on their respective closing dates) of approximately $132,700. Prior to its acquisition by the Company, Meer elected to be taxed as an S Corporation under the Internal Revenue Code. Accordingly, the current taxable income or loss of Meer was attributable to its shareholders. Since its acquisition, Meer has been taxed as a regular corporation. For the year ended December 26, 1998, pro forma adjustments have been made to the restated statements of operations to

reflect the income tax provisions and recoveries that would have been provided for had Meer been subject to income taxes in prior years.

Additionally, during 1998, the Company acquired four other businesses with aggregate net sales for 1997 of approximately $85,000, three of which were accounted for under the pooling of interests method of accounting, with the remaining acquisition of a 50.1% ownership interest being accounted for under the purchase method of accounting. The total amount of cash paid (for the purchased business) and the value of the Company's Common Stock issued in connection with three of these acquisitions was approximately $6,800 and approximately $18,400, respectively. In connection with one of the pooling acquisitions, the Company issued shares of a subsidiary, with rights equivalent to those of the Company's Common Stock, which are exchangeable into 603,500 shares of the Company's Common Stock, at each shareholders' option, and had an aggregate value of approximately $24,000. In connection with the other two pooling acquisitions, the Company issued approximately 347,000 and 121,000 shares of its Common Stock. The three pooling transactions were not material individually or in the aggregate, and their results were included in the consolidated financial statements from the beginning of the quarter in which the acquisitions occurred. Results of operations of the business acquisition accounted for under the purchase method of accounting have been included in the consolidated financial statements commencing with the acquisition date.

Summarized unaudited pro forma results of operations for the acquisitions completed during fiscal 2000 and 1999, which were accounted for under the purchase method of accounting, are not presented as the impact of reflecting the Company's results of operations which assumed the acquisitions occurred as of the beginning of fiscal 2000 and 1999, respectively, is not material.

The Company incurred certain direct costs in connection with the aforementioned acquisitions accounted for under the pooling of interests method of accounting and the integration of these and certain other acquired businesses into the Company's infrastructure. These costs, which have been classified as merger and integration costs are as follows:

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Direct transaction / merger costs (1)	$585	$ 4,032	$ 7,100
Integration costs:			
Severance and other direct costs	—	3,437	12,366
Costs associated with the closure of distribution centers (2)	—	5,583	15,400
Long-lived asset write-off and impairment (3)	—	415	13,500
Signing bonuses (4)	—	—	8,300
Total integration costs	—	9,435	49,566
Total merger and integration costs	$585	$13,467	$56,666

(1) Primarily investment banking and professional fees, including $3,533 related to Meer in 1999 (primarily legal fees resulting from the acquisition).
(2) Primarily rent and consulting fees.
(3) Consists of write-offs of duplicate management information systems, other assets and goodwill of $3,724 in 1998.
(4) Signing bonuses and stay pay packages to sales force and certain senior management directly related to the mergers.

The following table shows the activity in the merger and integration accruals:

	Balance at Beginning of Year	Provision	Payments	Applied Against Long-Lived Assets(1)	Adjustments to Reflect Actual Cost	Balance at End of Year
Year ended December 26, 1998:						
Severance and other direct costs	$ 6,871	$12,366	$(11,294)	$ —	$ —	$ 7,943
Direct transaction and other integration costs	10,185	44,300	(31,185)	(9,251)	—	14,049
	$17,056	$56,666	$(42,479)	$(9,251)	$ —	$21,992
Year ended December 25, 1999:						
Severance and other direct costs	$ 7,943	$ 4,721	$ (9,686)	$ —	$(1,284)	$ 1,694
Direct transaction and other integration costs	14,049	8,340	(9,156)	(6,524)	1,690	8,399
	$21,992	$13,061	$(18,842)	$(6,524)	$ 406	$10,093
Year ended December 30, 2000:						
Severance and other direct costs	$ 1,694	$ —	$ (947)	$ —	$ —	$ 747
Direct transaction and other integration costs	8,399	585	(4,844)	—	—	4,140
	$10,093	$ 585	$ (5,791)	$ —	$ —	$ 4,887

(1) To reflect specific write-offs relating to amounts previously provided.

As a result of the acquisitions and integration of these and certain other businesses into the Company's infrastructure, 870 employees were terminated though December 30, 2000. Of the 870 terminated employees, 502 received severance payments during 1998, 206 received severance during 1999, 37 received severance during 2000 and 11 were owed severance at December 30, 2000.

7• Plan of Restructuring

On August 1, 2000, the Company announced a comprehensive restructuring plan designed to improve customer service and increase profitability by maximizing the efficiency of the Company's infrastructure. In addition to closing or downsizing certain facilities, this world-wide initiative included the elimination of approximately 300 positions, including open positions, or about 5% of the total workforce, throughout all levels within the organization.

For the year ended December 30, 2000, the Company has incurred one-time restructuring costs of approximately $14,439 ($9,270 after taxes), consisting of employee severance pay and benefits, facility closing costs, representing primarily lease termination and asset write-off costs, and outside professional and consulting fees directly related to the restructuring plan.

The following table shows amounts expensed and paid for restructuring costs that were incurred and accrued in 2000:

	Provision	Payments	Balance at December 30, 2000
Severance costs [1]	$ 7,198	$3,191	**$4,007**
Facility closing costs [2]	4,406	722	**3,684**
Other professional and consulting costs	2,835	1,678	**1,157**
	$14,439	$5,591	**$8,848**

(1) Represents salaries and related benefits for employees separated from the Company.
(2) Represents costs associated with the closing of certain equipment branches (primarily lease termination costs) and property and equipment write-offs.

For the year ended December 30, 2000, 284 employees separated from the Company and received severance, and 104 were owed severance pay and benefits at December 30, 2000. These employees were from nearly all functional areas of the Company's operations.

8• Bank Credit Lines

At December 30, 2000, certain subsidiaries of the Company had available various short-term bank credit lines totaling approximately $52,343, expiring through June 2004. Borrowings of $4,390 under these credit lines, bear interest rates ranging from 4.25% to 8.0%, and were collateralized by accounts receivable, inventory and property and equipment with an aggregate net book value of $74,642 at December 30, 2000.

9• Long-Term Debt

Long-term debt consists of:

	December 30, 2000	December 25, 1999
Private Placement Loans [a]	**$230,000**	$230,000
Borrowings under Revolving Credit Agreement [b]	**10,660**	53,664
Notes payable for business acquisitions [c]	**1,984**	2,436
Notes payable to banks, interest at 5.98% to 7.00%, payable in quarterly installments ranging from $59 to $62 through 2019, semi-annual installments of $952 through 2003 and a lump sum payment of $5,709 on January 1, 2002 secured by inventory and accounts receivable in the amount of $32,579 at December 30, 2000	**21,517**	25,208
Various loans payable with interest, in varying installments through 2007, uncollateralized	**5,682**	7,338
Capital lease obligations in various installments through fiscal 2010; interest at 6.0% to 10.0% or varies with prime rate (see Note 14 b)	**2,460**	3,451
Total	**272,303**	322,097
Less current maturities	**6,079**	3,879
Total long-term debt	**$266,224**	$318,218

(a) Private Placement Loans

On June 30, 1999, the Company completed a private placement transaction under which it issued $130,000 in Senior Notes, the proceeds of which were used for the permanent financing of its acquisitions of GIV and Heiland, as well as repaying and retiring a portion of four uncommitted bank lines. The notes come due on June 30, 2009 and bear interest at a rate of 6.94% per annum. Interest is payable semi-annually.

On September 25, 1998, the Company completed a private placement transaction under which it issued $100,000 in Senior Notes, the proceeds of which were used to pay down amounts owed under its revolving credit facility. Principal payments totaling $20,000 are due annually starting September 25, 2006 through 2010. The notes bear interest at a rate of 6.66% per annum. Interest is payable semi-annually.

(b) Revolving Credit Agreement

On August 15, 1997, the Company entered into an amended revolving credit agreement which, among other things, increased the maximum available borrowings to $150,000 from $100,000 and extended the term of the agreement to August 15, 2002. The interest rate on any borrowings under the agreement is based on prime, or LIBOR, as defined in the agreement, which were 9.50%, and 6.40%, respectively, at December 30, 2000. The borrowings outstanding at December 30, 2000 bear an interest rate of 7.07%. The agreement provides for a sliding scale fee ranging from 0.1% to 0.3%, based upon certain financial ratios, on any unused portion of the commitment. The agreement also provides, among other things, that the Company 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.

(c) Notes Payable for Business Acquisitions

In May 1997, a subsidiary of the Company entered into a term loan for $8,299 to acquire the remaining minority interests of a foreign subsidiary. The loan is denominated in British Pounds, and interest is payable quarterly at 5.5%. In 1998, the Company paid $4,478 and the remaining amount due was paid during 1999.

In October 1997, the Company entered into a Netherlands Guilder (NLG) loan in the amount of 6.5 million NLG. The loan serves to hedge the repayment of an intercompany loan in the same amount, denominated in NLG, due from a Dutch subsidiary. The NLG loan calls for periodic payments and a balloon payment of 4.1 million NLG in January 2002. Interest is payable quarterly at a rate of 5.28% per annum, plus a margin. The agreement also provides for the same financial covenants and restrictions as the revolving credit agreement.

As of December 30, 2000, the aggregate amounts of long-term debt maturing in each of the next five years are as follows: 2001—$6,079; 2002—$13,010; 2003—$12,591; 2004—$1,011; 2005—$934.

10• Taxes on Income

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

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Domestic	$102,777	$84,877	$31,959
Foreign	(6,243)	4,906	4,055
Total	$ 96,534	$89,783	$36,014

The provision for taxes on income was as follows:

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Current tax expense:			
U.S. Federal	$33,989	$28,137	$15,339
State and local	2,882	5,579	1,412
Foreign	614	1,860	3,389
Total current	37,485	35,576	20,140
Deferred tax expense (benefit):			
U.S. Federal	(1,046)	954	657
State and local	90	(1,338)	304
Foreign	(379)	397	(776)
Total deferred	(1,335)	13	185
Total provision	$36,150	$35,589	$20,325

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

	December 30, 2000	December 25, 1999
Current deferred tax assets:		
Inventory, premium coupon redemptions and accounts receivable valuation allowances	$ 11,824	$ 8,062
Uniform capitalization adjustments to inventories	3,750	3,979
Other accrued liabilities	5,427	3,479
Total current deferred tax asset	21,001	15,520
Non-current deferred tax asset (liability):		
Property and equipment	(8,459)	(4,659)
Provision for other long-term liabilities	(3,001)	(2,769)
Net operating loss carryforward	156	91
Net operating losses of foreign subsidiaries	2,863	3,672
Total non-current deferred tax liability	(8,441)	(3,665)
Valuation allowance for non-current deferred tax assets	(2,686)	(3,697)
Net non-current deferred tax liabilities	(11,127)	(7,362)
Net deferred tax asset	$ 9,874	$ 8,158

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

At December 30, 2000, the Company has net operating loss carryforwards for Federal income tax purposes of $389, which are available to offset future Federal taxable income through 2010. Foreign net operating losses totaled $8,009 at December 30, 2000. Such losses can be utilized against future foreign income. These losses expire between 2001 and 2006, with $1,500 expiring in 2001.

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

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Provision at Federal statutory rate	$33,785	$31,425	$12,741
State income taxes, net of Federal income tax effect	1,874	2,757	1,109
Net foreign losses for which no tax benefits are available	1,009	196	386
Foreign income taxed at other than the Federal statutory rate	448	38	17
Reduction in valuation allowance	(1,011)	—	—
Deferred tax benefit arising from termination of S Corporation election of an acquired company	—	—	(2,000)
Tax effect of S Corporation	—	—	(579)
Non-deductible merger and integration costs	205	1,329	8,814
Other	(160)	(156)	(163)
Income tax provision	$36,150	$35,589	$20,325

Provision has not been made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries. Those earnings have been and will continue to be reinvested. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were loaned to the Company or a U.S. affiliate, or if the Company should sell its stock in the foreign subsidiaries. It is not practicable to determine the amount of additional tax, if any, that might be payable on the foreign earnings; however, the Company believes that foreign tax credits would substantially offset any U.S. tax. At December 30, 2000, the cumulative amount of reinvested earnings was approximately $3,951.

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, interest rate swaps and an interest rate cap, with major financial institutions.

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

As of December 30, 2000, the Company had outstanding foreign currency forward contracts aggregating $57,996 of which $51,203 related to intercompany debt and $6,793 related to the purchase and sale of merchandise from foreign vendors. The contracts hedge against currency fluctuations of Australian dollars ($391), Canadian dollars ($13,930), Deutsche Mark ($11,974), Euro ($65), French Francs ($9,166) British Pounds ($14,235), Netherland Guilders ($2,517), Swiss Francs ($686), Belgium Francs ($1,982) and Spanish Pesetas ($3,050). At December 30, 2000, the Company had net deferred gains from foreign currency forward contracts of $416. The contracts expire at various dates through 2001.

As of December 30, 2000, the Company had approximately $17,800 outstanding in interest rate swaps. These swaps are used to convert $13,000 of floating rate debt relating to the Company's revolving credit agreement and $4,800 relating to a Deutsche Mark floating rate debt of DM10,000, 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 7.2% for the variable LIBOR rate on $13,000 and a 5.3% interest rate for the variable EURIBOR Deutsche Mark loan of the Company's debt. The swaps expire in December 2003, December 2004 and April 2005, respectively. Under the interest rate environment during the year ended December 30, 2000, the Company's interest rate swap agreements resulted in additional interest expense of approximately $118. In addition, the Company has an interest rate cap of 5.5% on a Deutsche Mark floating rate debt of DM6,250 (approximately $3,000).

(b) Concentrations of Credit Risk

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables and short-term cash investments. The Company places its short-term cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to a large customer base and its dispersion across different types of healthcare professionals and geographic areas. The Company maintains an allowance for losses based on the expected collectability of all receivables.

12• Segment and Geographic Data

The Company has two reportable segments: healthcare distribution and technology. The healthcare distribution segment, which is comprised of the Company's dental, medical, veterinary and international business groups, distributes healthcare products (primarily consumable) and services to office-based healthcare practitioners and professionals in the combined North American, European and Pacific Rim markets. Products, which are similar for each business group, are maintained and distributed from strategically located distribution centers in North America, Europe and the Pacific Rim. The technology segment consists primarily of the Company's practice management software business and certain other value-added products and services which are distributed primarily to healthcare professionals in the North American market.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on operating income.

The Company's reportable segments are strategic business units that offer different products and services, albeit to the same customer base. Most of the technology business was acquired as a unit, and the management at the time of acquisition was retained. The following table presents information about the Company's business segments:

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Net Sales:			
Healthcare distribution [(1)]:			
Dental	**$1,073,889**	$1,047,259	$1,085,717
Medical	**794,880**	715,210	515,276
Veterinary	**56,421**	52,050	48,492
International [(2)]	**389,946**	403,137	230,792
Total healthcare distribution	**2,315,136**	2,217,656	1,880,277
Technology [(3)]	**66,585**	66,888	42,574
	$2,381,721	$2,284,544	$1,922,851

(1) Consists of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, surgical products, diagnostic tests, infection control and vitamins.
(2) Consists of products sold in Dental, Medical and Veterinary groups in European and Pacific Rim markets.
(3) Consists of practice management software and other value-added products and services.

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Operating Income:			
Healthcare distribution (includes merger and integration and restructuring costs of $14,081, $13,467 and $55,688, respectively)	**$ 88,872**	$ 80,467	$24,183
Technology (includes merger and integration and restructuring costs of $943, $0 and $978, respectively)	**23,717**	25,298	15,347
Total	**$112,589**	$105,765	$39,530
Interest Income:			
Healthcare distribution	**$ 5,231**	$ 7,811	$ 6,198
Technology	**4,424**	1,534	1,373
Total	**$ 9,655**	$ 9,345	$ 7,571
Interest Expense:			
Healthcare distribution	**$ 22,611**	$ 24,785	$12,585
Technology	**1,174**	376	72
Total	**$ 23,785**	$ 25,161	$12,657

	December 30, 2000	December 25, 1999	December 26, 1998
Total Assets:			
Healthcare distribution	**$1,188,098**	$1,134,312	$935,573
Technology	**97,058**	110,563	42,371
Total	**$1,285,156**	$1,244,875	$977,944
Depreciation and Amortization:			
Healthcare distribution	**$ 32,465**	$ 26,355	$ 19,341
Technology	**1,297**	1,918	643
Total	**$ 33,762**	$ 28,273	$ 19,984
Capital Expenditures:			
Healthcare distribution	**$ 28,344**	$ 32,639	$ 32,664
Technology	**1,399**	1,910	857
Total	**$ 29,743**	$ 34,549	$ 33,521

The following table reconciles segment totals to consolidated totals as of, and for the years ended December 30, 2000, December 25, 1999 and December 26, 1998:

	December 30, 2000	December 25, 1999	December 26, 1998
Total Assets:			
Total assets for reportable segments	**$1,285,156**	$1,244,875	$977,944
Receivables due from healthcare distribution segment	**(46,494)**	(36,593)	(13,742)
Receivables due from technology segment	**(7,594)**	(4,180)	(2,162)
Consolidated total assets	**$1,231,068**	$1,204,102	$962,040
Interest Income:			
Total interest income for reportable segments	**$ 9,655**	$ 9,345	$ 7,571
Interest on receivables due from healthcare distribution segment	**(2,887)**	(1,369)	(566)
Interest on receivables due from technology segment	**(489)**	(199)	(41)
Total consolidated interest income	**$ 6,279**	$ 7,777	$ 6,964
Interest Expense:			
Total interest expense for reportable segments	**$ 23,785**	$ 25,161	$ 12,657
Interest on payables due to healthcare distribution segment	**(489)**	(199)	(41)
Interest on payables due to technology segment	**(2,887)**	(1,369)	(566)
Total consolidated interest expense	**$ 20,409**	$ 23,593	$ 12,050

The following table presents information about the Company by geographic area as of, and for the years ended December 30, 2000, December 25, 1999 and December 26, 1998. There were no material amounts of sales or transfers among geographic areas and there were no material amounts of United States export sales.

	2000		1999		1998	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
North America	$2,010,398	$271,188	$1,899,188	$249,524	$1,711,945	$174,917
Europe	340,520	108,902	356,868	124,664	200,240	34,021
Pacific Rim	30,803	6,591	28,488	7,552	10,666	7,136
Consolidated Total	$2,381,721	$386,681	$2,284,544	$381,740	$1,922,851	$216,074

The Company's subsidiary located in Germany had long-lived assets of $77,995, $88,050 and $4,952 at December 30, 2000, December 25, 1999 and December 26, 1998, respectively.

13• Employee Benefit Plans

(a) Stock Compensation Plans

The Company established the 1994 Stock Option Plan for the benefit of certain employees. As amended in May 1999, pursuant to this plan the Company may issue up to approximately 5,180,000 shares of its Common Stock. The Plan provides for two classes of options: Class A options and Class B options. A maximum of 237,897 shares of Common Stock may be covered by Class A options. Both incentive and non-qualified 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 Company's initial public offering which was on November 3, 1995. The exercise price of all Class B options issued has been equal to the market price on the date of grant and accordingly no compensation cost has been recognized. Substantially all Class B options become exercisable 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, 1999 and 1998, 13,000, and 3,000 options, respectively, were granted to certain non-employee directors at exercise prices, which were equal to the market price on the date of grant. There were no options granted to non-employee directors during 2000.

Additionally, in 1997 as a result of the Company's acquisition of Sullivan Dental Products Inc. and Micro Bio-Medics, Inc., the Company assumed their respective stock option plans (the "Assumed Plans"). Options granted under the Assumed Plans are exercisable for up to ten years from the date of grant at prices not less than the fair market value of the respective acquirees' common stock at the date of grant, on a converted basis.

A summary of the status of the Company's two fixed stock option plans and the Assumed Plans, and the related transactions for the years ended December 30, 2000, December 25, 1999, and December 26, 1998 is presented below:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	5,439,340	$23.53	4,434,173	$25.89	4,134,577	$18.19
Granted	93,500	14.77	1,447,935	17.35	1,339,362	39.01
Exercised	(591,245)	11.00	(226,304)	36.22	(971,175)	10.95
Forfeited	(290,873)	29.39	(216,464)	36.76	(68,591)	30.80
Outstanding at end of year	4,650,722	$24.59	5,439,340	$23.53	4,434,173	$25.89
Options exercisable at year end	3,708,213	$25.98	3,593,439	$23.62	2,725,828	$19.63
Weighted-average fair value of options granted during the year		$ 8.85		$ 9.85		$17.17

The following table summarizes information about stock options outstanding at December 30, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.21 to $ 9.97	167,889	1.2	$ 4.56	167,889	$ 4.56
$10.89 to $16.00	1,312,187	5.7	$13.19	799,263	$13.85
$16.13 to $27.00	1,477,706	6.5	$22.39	1,190,587	$22.51
$29.00 to $46.00	1,692,940	7.0	$37.32	1,550,474	$37.21
	4,650,722	6.0	$24.59	3,708,213	$25.98

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 FAS 123, and has been determined as if the Company and its acquired subsidiaries had accounted for its employee stock options under the fair value method of FAS 123. The weighted average fair value of options granted during 2000, 1999 and 1998 was $8.85, $9.85 and $17.17, 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 2000, 1999 and 1998, risk-free interest rates of 6.3% for 2000, 5.6% for 1999 and 5.5% for 1998; volatility factor of the expected market price of the Company's Common Stock of 45.1% for 2000, 45.8% for 1999 and 30% for 1998, assumed dividend yield of 0% for all years and a weighted-average expected life of the option of 10 years.

Under the accounting provisions of FAS 123, the Company's net income and income per common share for the years ended December 30, 2000, December 25, 1999 and December 26, 1998 would have been adjusted to the pro forma amounts indicated below:

	2000	1999	1998
Net income	**$48,630**	$43,012	$9,615
Net income per common share:			
Basic	**$ 1.18**	$ 1.06	$ 0.24
Diluted	**$ 1.16**	$ 1.04	$ 0.23
Net income, reflecting special adjustments (1)			$7,036
Net income, per common share to reflect special adjustments (1):			
Basic			$ 0.18
Diluted			$ 0.17

(1) Special adjustments include proforma adjustments for income tax provisions and benefits on previously untaxed losses of Meer.

(b) Profit Sharing Plans

Prior to April 1, 1998, the Company had qualified contributory and noncontributory 401(k) and profit sharing plans, respectively, for eligible employees. As of April 1, 1998, the Company's profit sharing plan was merged into its 401(k) plan. Assets of the profit sharing plan are now held in self-directed accounts within the 401(k) plan. Contributions to the plans, which were determined by the Board of Directors and charged to operations during 2000, 1999 and 1998, amounted to $7,305, $6,517, and $6,033, 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 supplemented the Company's Profit Sharing Plan. Charges to operations related to this plan were $2,537, $2,283 and $1,400 for 2000, 1999 and 1998, respectively. Under this plan, the Company issued 121,253, 101,233 and 34,720 shares of the Company's Common Stock to the trust in 2000, 1999 and 1998, to satisfy the 1999, 1998 and 1997 contribution, respectively. The Company expects to fund the 2000 accrued contribution in 2001 with shares of the Company's Common Stock. As of April 1, 1998 the Company's ESOP was merged into its 401(k) plan. Shares of the Company's Common Stock are held in trust by the 401(k) plan.

(d) Supplemental Executive Retirement Plan

In 1994, the Company instituted an unfunded non-qualified supplemental executive retirement plan for eligible employees. The increase in value which was charged to operations, was $360, $617 and $283 for 2000, 1999 and 1998, respectively.

14• Commitments and Contingencies

(a) Operating Leases

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

Future minimum annual rental payments under the noncancelable leases at December 30, 2000 are as follows:

2001	$ 20,447
2002	17,646
2003	14,894
2004	13,642
2005	12,963
Thereafter	26,032
Total minimum lease payments	$105,624

Total rental expense for 2000, 1999 and 1998 was $29,730, $25,798, and $19,130, respectively.

(b) Capital Leases

The Company leases certain equipment under capital leases. The following is a schedule by years of approximate future minimum lease payments under the capitalized leases together with the present value of the net minimum lease payments at December 30, 2000:

2001	$ 971
2002	549
2003	381
2004	250
2005	145
Thereafter	877
Total minimum lease payments	3,173
Less: Amount representing interest at 6.0% to 10.0%	(713)
	$2,460

(c) Litigation

The manufacture or distribution of certain products by the Company involves a risk of product liability claims, and from time to time the Company is named as a defendant in products liability cases as a result of its distribution of pharmaceutical and other healthcare products. As of the end of fiscal 2000, the Company was named a defendant in approximately 68 such cases. Of these product liability claims, 52 involve claims made by healthcare workers who claim allergic reaction relating to exposure to latex gloves. In each of these cases, the Company acted as a distributor of both brand name and "Henry Schein" private brand latex gloves, which were manufactured by third parties. To date, discovery in these cases has generally been limited to product identification issues. The manufacturers in these cases have withheld indemnification of the Company pending product identification; however, the Company is taking steps to implead those manufacturers into each case in which the Company is a defendant. The Company is also a named defendant in nine lawsuits involving the sale of phentermine and fenfluramin. Plaintiffs in the cases allege injuries from the combined use of the drugs known as "Phen/fen." The Company expects to obtain indemnification from the manufacturers of these products, although this is dependent upon, among other things, the financial viability of the manufacturer and their insurers.

In addition, the Company is subject to other claims, suits and complaints arising in the course of the Company business. In Texas District Court, Travis County, the Company and one of its subsidiaries are defendants in a matter entitled Shelly E. Stromboe & Jeanne N. Taylor, on Behalf of Themselves and All Other Similarly Situated vs. Henry Schein, Inc., Easy Dental Systems, Inc. and Dentisoft, Inc., Case No. 98-00886. This complaint alleges among other things, negligence, breach of contract, fraud and violations of certain Texas commercial statutes involving the sale of certain practice management software products sold prior to 1998 under the Easy Dental® name. In October 1999, the Court, on motion, certified both a Windows® Sub-Class and a DOS Sub-Class to proceed as a class action pursuant to Tex. R.Civ. P.42. It is estimated that 5,000 Windows® customers and 15,000 DOS customers could be covered by the judge's ruling. In November of 1999, the Company filed an interlocutory appeal of the District Court's determination to the Texas Court of Appeals on the issue of whether this case was properly certified as a class action. On September 14, 2000, the Court of Appeals affirmed the District Court's certification order. On January 5, 2001, the Company filed a Petition for Review in the Texas Supreme Court asking this court to find "conflicts jurisdiction" to permit review of the District Court's certification order, which appeal is now pending. During the appeal of the class certification, a trial on the merits is stayed. The Company intends to vigorously defend itself against this claim, as well as all other claims, suits and complaints.

The Company has various insurance policies, including product liability insurance, covering risks and in amounts it considers adequate. In many cases the Company is provided by indemnification by the manufacturer of the product. There can be no assurance that the coverage maintained by the Company is sufficient or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide adequate protection for the Company. In the opinion of the Company, all pending matters are covered by insurance or will not otherwise have a material adverse effect on the Company's financial condition.

(d) Employment, Consulting and Noncompete Agreements

The Company has employment, consulting and noncompete agreements expiring through 2006 (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 $4,721 per year which decrease periodically to approximately $866 per year. In addition, some agreements have provisions for incentive and additional compensation.

15• Supplemental Cash Flow Information

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

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Interest	$19,810	$19,528	$10,047
Income taxes	$28,219	$23,266	$15,420

Years Ended	December 30, 2000	December 25, 1999	December 26, 1998
Fair value of assets acquired, excluding cash	$6,838	$239,278	$22,725
Less liabilities assumed and created upon acquisition	—	106,726	8,842
Net cash paid	$6,838	$132,552	$13,883

16• Quarterly Information (Unaudited)

The following presents certain unaudited quarterly financial data:

Quarters Ended	March 25, 2000	June 24, 2000	September 23, 2000	December 30, 2000
Net Sales	$554,139	$568,631	$603,319	$655,632
Gross profit	149,116	158,815	161,951	178,019
Operating income	23,477	30,982	28,944	29,186
Net income	11,398	16,381	16,238	12,732
Net income per share:				
Basic	$ 0.28	$ 0.40	$ 0.39	$ 0.31
Diluted	$ 0.28	$ 0.39	$ 0.39	$ 0.30

Quarters Ended	March 27, 1999	June 26, 1999	September 25, 1999	December 25, 1999
Net Sales	$536,561	$559,438	$578,591	$609,954
Gross profit	144,243	152,962	152,083	159,308
Operating income	21,445	26,778	26,519	31,023
Net income	9,913	13,337	11,523	15,539
Net income per share:				
Basic	$ 0.25	$ 0.33	$ 0.28	$ 0.38
Diluted	$ 0.24	$ 0.32	$ 0.28	$ 0.38

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 and equipment, 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 2000, the Company recorded non-recurring losses on business disposals relating to the sale of certain practice management software systems and sale of its 50% interest in dental anesthetic manufacturer, HS Pharmaceutical of approximately $1,600 and $1,900, respectively. Restructuring charges of approximately $5,400 and $9,100 were recorded in the third and fourth quarter of 2000, respectively. Merger and integration charges of approximately $600, $2,200, $5,300, and $6,000 were recorded in the first quarter of 2000 and the first, second and third quarters of 1999, respectively.

To conform to the fourth quarter and full year presentation, certain amounts recorded in the first, second and third quarters of 2000 and all quarters in 1999 have been reclassified as described in Note 1. Diluted earnings per share calculations for each quarter include the effect of stock options, when dilutive to the quarter's average number of shares outstanding for each period, and therefore the sum of the quarters may not necessarily be equal to the full year earnings per share amount.

Corporate Information

Corporate Headquarters

Henry Schein, Inc.
135 Duryea Road
Melville, N.Y. 11747
(631) 843-5500

Common Stock

Henry Schein common stock trades on
The Nasdaq Stock Market® under the symbol HSIC.

Annual Shareholders Meeting

Our Annual Meeting of Shareholders will be held on Wednesday, June 6, 2001, at 10 a.m., at the Huntington Hilton, Melville, N.Y. 11747.

Henry Schein on the Internet

For more information about Henry Schein and its products and services, go to www.henryschein.com. Other Company Web sites include: www.sullivanschein.com; www.studentdentist.com; www.dentrix.com; www.easydental.com; www.labnet.net; www.ident.com; www.caligor.com

Shareholder Reports and Investor Inquiries

For shareholder inquiries, including requests for quarterly and annual reports, contact our Investor Relations department at (631) 843-5611/5562, or e-mail your request to investor@henryschein.com. Printed materials can also be requested through the Company's Web site.

Form 10-K

A copy of the Company's annual report on Form 10-K for the fiscal year ended December 30, 2000, is available without charge to shareholders upon request to the Company's Investor Relations department. The report is also available on the Company's Web site.

Independent Auditors

BDO Seidman, LLP
330 Madison Avenue
New York, N.Y. 10017

Legal Counsel

Proskauer Rose, LLP
1585 Broadway
New York, N.Y. 10036

Stock Transfer Agent

For address changes, account consolidation,
registration changes, and lost stock certificates, please contact:
Continental Stock Transfer & Trust Company
2 Broadway
New York, N.Y. 10004
(212) 509-4000

This Annual Report contains forward-looking statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere. The Company's results may differ materially from those expressed in or indicated by such forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements.

On The Cover
Team Schein Members (left to right): Gus Bravo, International Telesales Representative; Julio Paulino, Dental Equipment Service Technician; Betty Jonson, Dental Field Sales Consultant; Vincent Valenti, Dental Equipment Sales Specialist; Pepsi Parker, Medical Telesales Representative; Andrea Whittles, Dental Equipment Service Hub Manager; Paul Jaeger, Veterinary Telesales Representative

Corporate Mission:
To be the worldwide leader in providing the best quality and value in products and services for our healthcare customers.

Corporate Charter:

To Our Customers

We provide the best quality and value in products and services, helping them, as business partners, to:

- Deliver quality healthcare to their patients;
- Efficiently operate and grow their practices; and
- Increase their financial return and financial security.

To Our Shareholders and Venture Partners

We are responsible for achieving continued growth and profitability, resulting in an excellent return on investment.

To Team Schein

We will continue to foster an entrepreneurial environment, while offering exciting opportunities for personal and professional growth, and treating each individual with respect and dignity.

To Our Suppliers

We will together strive to create an environment that enables us to grow our respective businesses in the spirit of partnership, each making a fair profit.

Henry Schein, Inc.
135 Duryea Road
Melville, New York 11747
U.S.A.
(631) 843-5500
www.henryschein.com