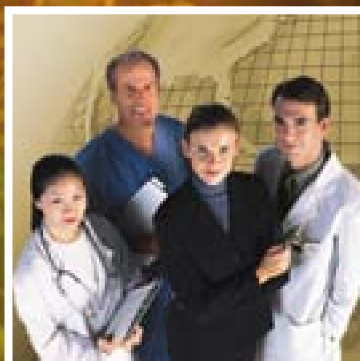
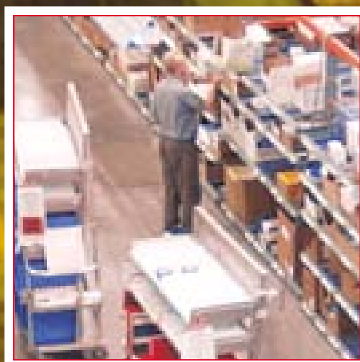
ONE **WORLD.** ONE **COMPANY.** ONE **TEAM.**





2003 Annual Report

ABOUTHENRY**SCHEIN**

Henry Schein, Inc., a FORTUNE 500® company, is the largest distributor of healthcare products and services to office-based healthcare practitioners in the combined North American and European markets. The Company's sales reached a record $3.4 billion in 2003.

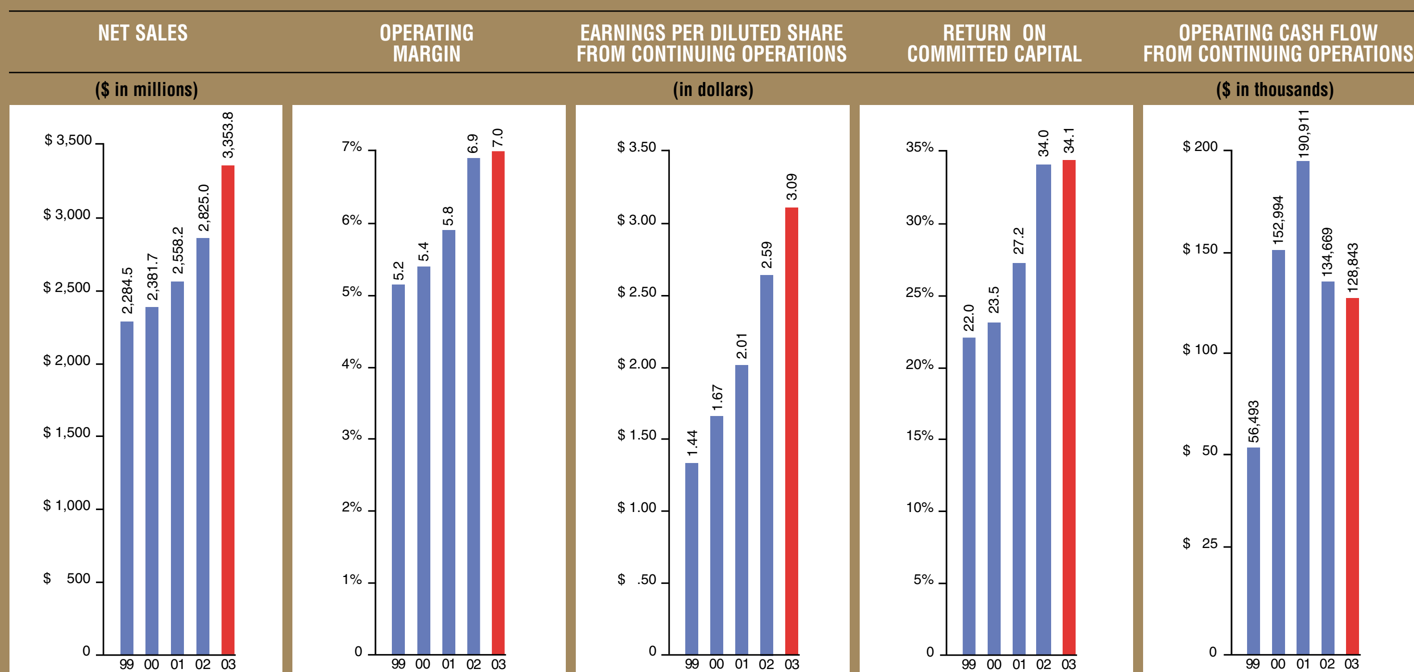
Recognized for its excellent customer service and highly competitive prices, Henry Schein's four business groups—Dental, Medical, International, and Technology—serve more than 425,000 customers worldwide. Its customers include:

- Approximately 75% of the estimated 135,000 U.S. and Canadian office-based dental practices and 15,000 dental laboratories;
- Over 45% of the estimated 230,000 U.S. office-based physician practices, as well as surgical centers and other alternate-care sites;
- Over 70% of the estimated 24,000 U.S. veterinary clinics;
- Approximately 170,000 office-based dental, medical, and veterinary practices overseas, primarily in Western Europe, Australia, and New Zealand; and
- Government and other institutions providing healthcare services.

Henry Schein operates through a centralized and automated distribution network that serves customers in more than 125 countries. The Company offers a comprehensive selection of over 90,000 national and Henry Schein private-brand products.

Henry Schein also offers a wide range of innovative value-added practice solutions, including such leading practice-management software systems as DENTRIX® and Easy Dental® for dental practices, and AVIMark® for veterinary clinics, which were installed in over 50,000 practices; and ArubA®, Henry Schein's electronic catalog and ordering system.

With headquarters in Melville, N.Y., Henry Schein employs nearly 8,000 people in 16 countries.



Note: Operating Margin and Earnings Per Diluted Share from Continuing Operations have been adjusted to exclude certain one-time items. See "Reconciliation of Certain Operating Results" on page 15. Return on Committed Capital represents operating income over average committed capital (committed capital equals inventory plus trade accounts receivables and net property, plant, and equipment less trade accounts payables).

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SHAREHOLDERSLETTER

To our Shareholders,

One world of healthcare customers is emerging, and Henry Schein is ideally positioned as one company to take advantage of the opportunity this presents, with nearly 8,000 Team Schein Members working together to serve a growing base of more than 425,000 customers.

One World – We are strategically positioned to serve dental, medical and veterinary office-based practitioners who have many shared needs. Many of these healthcare providers serve an increasingly affluent and insured patient base, are benefiting from significant demographic changes, and are using clinical and technological advances in healthcare. Regardless of their country, these practitioners share a common goal: to operate a practice that is as efficient and profitable as possible while providing a high quality of care.

One Company – As this global healthcare market emerges, there is a tremendous opportunity for us to meet the needs of office-based practitioners in multiple countries. Henry Schein has the strategic commitment and infrastructure to do so, and we have proven our success in the dental, medical and veterinary markets, both in the United States and abroad. Our international presence provides us with significant economies of scale. As such, we are uniquely positioned to add value to our customers through the sharing of best practices and operational efficiencies.

One Team – For one company to meet this challenge, all employees must work together seamlessly as a team. We have kept pace with our quickly changing world through internal growth and by successfully integrating a number of strategic acquisitions. Throughout this process, we retain our unique and powerful culture, with all Team Schein Members dedicated to delivering the best possible customer service.

One World. One Company. One Team. This was the opportunity we saw, and we made the most of it—posting record 2003 financial results, and for the first time, entering the FORTUNE 500® list of America's largest publicly traded companies.

FORTUNE is a registered trademark of FORTUNE Magazine, a division of Time Inc.

2003 FINANCIAL RESULTS AND HIGHLIGHTS

During 2003 we posted record net sales of $3.4 billion, an increase of 19% from 2002. In local currencies, our sales rose 15%, including 13% internal growth. Sales for our Dental Group in 2003 were a record $1.4 billion. This represents an 11% increase over 2002, or 10% in local currencies, of which 8% was internally generated. Our Medical Group posted record sales for 2003 of $1.3 billion, 22% higher than 2002, with internal growth accounting for 21%. For 2003, record International sales were $577 million, growing by 32% in U.S. dollars and 13% in local currencies over last year, with 7% internally generated. And last, Technology and Value-Added Services sales for 2003 were a record $74 million, a growth of 11% over 2002, substantially all of which was internally generated.

Net income from continuing operations for the year was $139.5 million, up 18% (20% on a comparable basis) compared with 2002, and earnings per diluted share from continuing operations were $3.10, up 18% (19% on a comparable basis) over the prior year.

In 2003 we achieved impressive growth and gained market share in each of our four business Groups, but these financial results are just part of the story in a year marked by progress across a number of initiatives.

Strategic acquisitions – We completed several strategic acquisitions in 2003, including Colonial Surgical, Hager Dental, American Medical Services and Damer & Cartwright. We also began the process of acquiring three of Europe's leading dental distributors—with our pending acquisitions of demedis GmbH, KRUGG S.p.A., and DentalMV GmbH (Muller & Weygandt).

Vaccines and injectables – This growing product category contributed to our success in 2003, as we shipped more than 20 million doses of influenza vaccine during the U.S. flu season. We also signed new agreements that added important products to our offering. For example, as part of our growing Henry Schein Rx Services, we now distribute Remicade, Centocor's intravenous infusion therapy for treating rheumatoid arthritis and Crohn's disease, to physician offices across the United States.

Corporate responsibility – Through broad-based programs supported by Henry Schein Cares, we demonstrated our commitment to corporate responsibility more clearly and strongly than ever before, including our continuing commitment to the American Dental Association's "Give Kids a Smile℠" Day and the Institute for Diversity in Leadership. In addition, in support of the U.S. Centers for Disease Control and Prevention's (CDC) national education campaign and immunization initiative, Henry Schein donated flu vaccine to CDC selected sites across the country.

Corporate governance – In 2003, we increased the size of our Board of Directors by adding two valuable new independent members: Louis W. Sullivan, M.D., former U.S. Secretary of Health and Human Services, and the founding Dean, Director, and President Emeritus of the Morehouse School of Medicine in Atlanta; and Margaret A. Hamburg, M.D., former Assistant Secretary for Planning and Evaluation, U.S. Department for Health and Human Services, and former Commissioner of Health for the City of New York.

OUR FUTURE LOOKS BRIGHT

2003 was a banner year for Henry Schein, but for a number of reasons I am confident that our best years are yet to come.

We serve attractive markets. The population of the geographies we serve is aging, and the market to serve their healthcare needs is growing.

We have powerful strengths to build upon. Henry Schein has unique sales and marketing expertise, a world-class centralized infrastructure, and a broad product offering at highly competitive prices. We are committed to providing superior customer service, and have a large user base of practice management software.

We have clear growth strategies. We are dedicated to further transitioning our business from being a pure distributor of products to becoming a provider of integrated products and services. To achieve this we will expand our offering of value-added products and services, and continue to further build customer loyalty by providing critical practice-enhancing tools. We will expand Privileges™, our highly successful customer loyalty program for dental customers, and offer a portfolio of exclusive and semi-exclusive products. We will also grow our customer base by increasing the number and productivity of our field sales consultants and by using our extensive customer database to focus our marketing efforts.

Another important growth strategy is to continue pursuing complementary initiatives to accelerate future growth in sales and operating income. To achieve this we will continue to develop our high-growth dental specialty business and implement our Henry Schein Rx Services plan, adding new vaccines, injectables and related services to our medical offering. In addition, we will continue to pursue strategic acquisitions, selectively capitalizing on consolidation opportunities to increase sales, and our force of field sales consultants, equipment sales specialists, and equipment service technicians. We will also seek acquisition opportunities that improve our product offering by providing us with greater expertise in a particular product category, enhancing our procurement leverage, or adding new product lines.

We have clear priorities to help reach our goals. To achieve success, we are committed to attracting, training and retaining highly qualified and motivated people. We will continue to gather and analyze information to help us better understand and serve our customers. And we will make investments in technology to expand our e-commerce and other systems capabilities as we institutionalize best-practices on a company-wide basis.

2003 was a banner year for Henry Schein... for a number of reasons I am confident that our best years are yet to come.

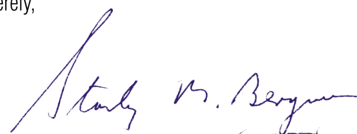
ONE WORLD, ONE COMPANY, ONE TEAM – HENRY SCHEIN

We are confident that our growth strategies will continue to support and enhance partnerships with our current and future customers, helping practitioners to improve their practice efficiency and profitability, while delivering the highest quality care.

Finally, we will work to further diversity within the healthcare industry, with the goal of increasing access to care as it affects professionals and their patients in underserved communities. As part of this commitment, we will endeavor to ensure that Team Schein reflects the cultural diversity of our customer base, and support programs that enhance this diversity, thereby helping our customers better serve their patients.

One world of customers looking to one company to serve their needs, and one team rising to meet this challenge. This is our vision for the future of Henry Schein.

Sincerely,



Stanley M. Bergman
Chairman, Chief Executive Officer and President

ONEWORLD.

Sullivan-Schein Representatives—including Field Sales Consultants, Design Professionals, Equipment Sales Specialists and Equipment Service Technicians—work together seamlessly with our dental customers to design, create and support aesthetically pleasing offices that optimize work flow and space utilization, maximize practice efficiency, and enable dental teams to focus on delivering the high quality care.

Henry Schein serves an increasingly diverse customer base of dentists, physicians, and veterinarians who seek to operate efficient and profitable practices as they deliver high quality healthcare.

> *The markets we serve are thriving, as an aging population uses more healthcare services each year.*

The markets we serve are thriving, as an aging population uses more healthcare services each year. For example, life expectancy in the United States is now 77.2 years, up from 75.4 years in 1990. And the population over 45 years old is expected to increase by 42% by 2020, and by 58% by 2030.

Practice trends also bode well for Henry Schein. Expenditures on dental services are expected to rise steadily. There is an increasing recognition of the correlation between oral health and overall well-being, and in many countries there is an increase in dental insurance coverage for patients and a greater emphasis on cosmetic dentistry. Dental pharmaceutical therapies and noninvasive diagnostic procedures are on the rise, and with fewer dentists to meet increasing demand, dental practice productivity will be more important.

In the medical arena, expenditures on physician and clinical services are also expected to increase. Procedures continue to migrate from acute-care settings to less costly physician offices and alternate-care sites. Technological advances are enhancing medical practices, and our customers are becoming more frequent prescribers and dispensers of specialty pharmaceutical products. In addition, there is continued growth in the use of injectables and diagnostic tests, and new vaccines for adults are being developed.

As a result, Henry Schein's future holds great promise. Throughout the years the healthcare market has shown growth in both strong and weak economic times. And because we work in highly fragmented markets, there are still opportunities for further industry consolidation and continued growth.

We are well positioned to capitalize on these trends, and provide our customers with an ever-increasing array of value-added products and services. Beyond the United States and Canada, we serve approximately 170,000 customers. We have operations in 14 countries outside of North America, primarily in Western Europe, Australia and New Zealand, and typically enjoy a leadership position in these countries. We also serve healthcare practitioners in 125 countries through Schein Direct™, which provides rapid door-to-door air package delivery.

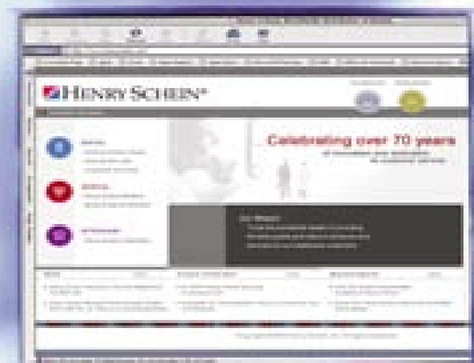
In a world that is progressively more complex and diverse, Henry Schein is there to meet the needs of our customers.

ONECOMPANY.

Henry Schein offers a comprehensive selection of over 90,000 products, including an array of over 8,000 Henry Schein private brand products. We update our product offerings regularly to meet our customers' changing needs.

Henry Schein is a model of one company that is strategically positioned to meet the needs of office-based practitioners in many countries around the world.

The core of our success lies in our strengths, beginning with a strong brand identity that is rooted in 72 years of healthcare distribution experience. We reach healthcare practitioners through the sales and marketing expertise of 1,550 field sales consultants, equipment sales specialists, and more than 875 telesales representatives. In 2003, we supported their efforts by delivering more than 31 million targeted direct marketing pieces to over 650,000 healthcare practitioners.



Our customers know they can order from Henry Schein 24/7 via telephone, fax, CD-ROM, and the Internet. In 2003, Henry Schein's Internet sales increased 63% over the previous year.

A steadfast commitment to superior customer service distinguishes Henry Schein from our competitors.

A steadfast commitment to superior customer service distinguishes Henry Schein from our competitors. Customers can order from us 24/7 via telephone, fax, CD-ROM and the Internet, and they are increasingly doing so: our Internet sales increased 63% during 2003 compared with 2002.

But order placement is just the beginning of customer satisfaction. We ship nearly nine million orders to our customers each year. In the U.S. and Canadian markets, 99% of our orders are shipped the same day the order is placed, are delivered within two days of placement, and are shipped with virtually 100% accuracy. In the countries we serve beyond the United States and Canada, our statistics for efficiency and accuracy are also impressive. To support our customers' dental equipment service needs, we have nearly 800 highly qualified dental Equipment Service Technicians operating out of 121 locations throughout the world.

In addition to offering in-office installation and repair services for large dental equipment, we also offer rapid turn-around services for dental handpieces and dental, medical and veterinary small equipment and sterilizers through our ProRepair® division. With operations across the United States and abroad, we believe ProRepair® is the leading handpiece and small equipment repair service to office-based practitioners in the world.

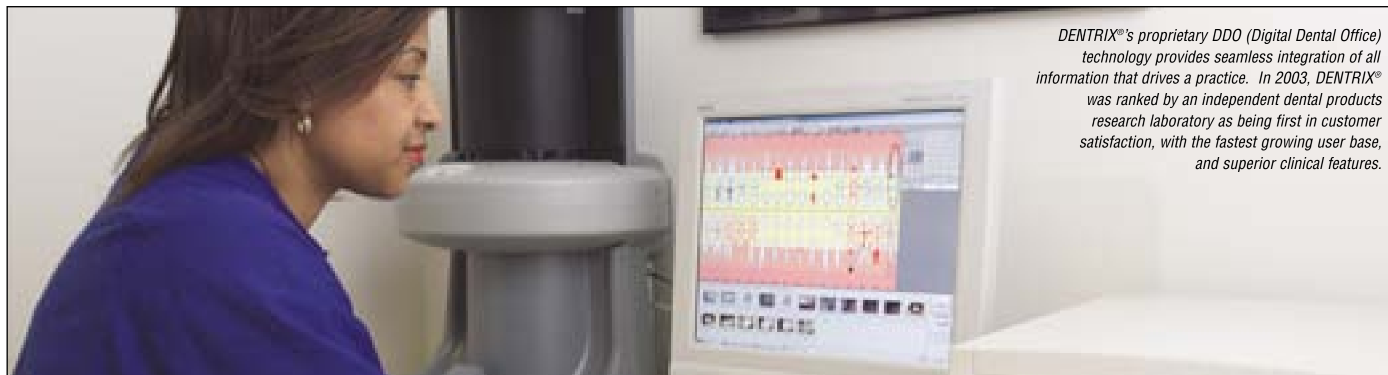
Henry Schein's centralized infrastructure and supply chain is another pillar of our superior customer service. We have more than 2.1 million square feet of distribution space at 15 strategically located distribution centers in North America, Europe and Australia. Important capital investments in this highly efficient infrastructure—in inventory management technology, special capabilities such as cold-chain distribution, and information technology— help ensure that we remain an industry leader.

We are a single source for virtually all of our customers' practice needs, with a broad offering of products and services at highly competitive prices. This includes more than 90,000 SKUs in North America, 75,000 SKUs in Europe and 8,000 Henry Schein private brand SKUs.

Another important strength is our large installed user base of practice-management software. More than 44,000 installed DENTRIX® and Easy Dental® systems and over 6,000 installed AVIMark® systems provide us with opportunities to cross-sell our core distribution offering, sell add-on products and services, and strengthen our customer relationships by providing critical tools for managing their businesses more efficiently and profitably. An independent dental products research laboratory has recognized DENTRIX® as being first in customer satisfaction, with the fastest growing user-base, and as having superior clinical features.

In addition, Henry Schein's Web site was recognized during 2003 as leading the industry in customer satisfaction.

By bringing these significant strengths to bear, Henry Schein has emerged as a company well positioned to meet the needs of office-based healthcare practitioners in many countries around the world.



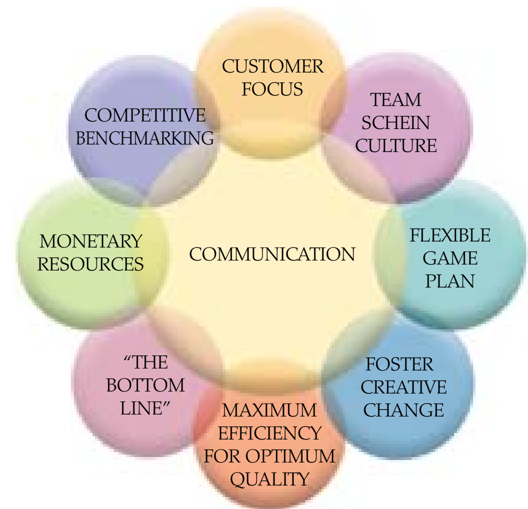
DENTRIX®'s proprietary DDO (Digital Dental Office) technology provides seamless integration of all information that drives a practice. In 2003, DENTRIX® was ranked by an independent dental products research laboratory as being first in customer satisfaction, with the fastest growing user base, and superior clinical features.

ONETEAM.

Throughout North America and in 14 other countries, nearly 8,000 dedicated individuals are working together as one team—Team Schein—to deliver the best possible customer service.

Team Schein Members contribute to and are influenced by the unique and powerful culture of Henry Schein, a values-based company that engenders an atmosphere of mutual respect and cooperation. Mutual responsibility, ethical behavior, creativity, and open communications are the guiding principles of Henry Schein. Each person is a spoke in the Team Schein "Wheel of Success," and the contribution of each Team Schein Member is valued as integral toward reaching our goals. And through a remarkable period of organic growth and strategic acquisitions, we have been able to retain this distinguishing culture.

Our commitment to corporate responsibility is put into action through Henry Schein Cares, which provides resources to help narrow the disparity in the delivery of healthcare information and services in underserved communities in the United States and abroad.



Mutual responsibility, ethical behavior, creativity, and open communications are the guiding principles of Henry Schein.

Part of the Team Schein culture is a commitment to education and training, as exemplified by our Dental Career Development programs and Sullivan-Schein University (SSU). Intensive sales training sessions, product demonstrations and training on proprietary sales tools equip our sales force with the knowledge they need to succeed. Our online learning tool includes over 60 vendor training and 30 career development modules that enable individuals to learn at their own pace. Graduates of our Career Development programs are now counseling dental practices on marketing, effective scheduling, practice management and problem solving.

Henry Schein is committed to enhancing diversity and inclusiveness within the healthcare industry, leading to improved access to care for people in underserved communities. To this end, we are a corporate sponsor of the American Dental Association's Diversity in Leadership initiative, and are working closely to create a diversity leadership institute for the dental profession. We recently partnered with the New York State Dental Association to host the first Diversity Meeting and Educational Seminar in New York. We provide financial and logistical support to the Hispanic Dental Association, Indian Health Services clinics, National Dental Association, Medical Education for South African Blacks and many other groups that enhance diversity in the healthcare professions. We also sponsor dozens of healthcare outreach programs within the United States and in developing countries.

Another aspect of Team Schein's culture is our commitment to corporate responsibility, which we put into action through Henry Schein Cares. The mission of Henry Schein Cares is to assist in narrowing the disparity of healthcare services and information in underserved communities, both in the United States and abroad, by providing resources to support the programs of community-based healthcare professionals and their organizations. We achieve this by making product donations and cash awards, supporting programs for the under-served, volunteering our time, delivering healthcare information, partnering with other organizations and enhancing the quality of life for Team Schein Members.

Through Henry Schein Cares, we donated influenza vaccine to expand the scope of two Centers for Disease Control and Prevention programs, vaccinating thousands of additional underserved people in 19 U.S. cities and the Mississippi Delta who might otherwise have gone unvaccinated. We also have served as the exclusive distributor of professional products for the American Dental Association's "Give Kids a Smile" Day for the past two years. In the program's second year, we recruited 51 vendor partners and helped over 35,000 dental team volunteers treat underserved children in the United States free of charge. On this day, an estimated one million children received care valued at approximately $100 million in "Give Kids a Smile" events nationwide.

Mutual respect, extensive experience, unwavering commitment, and a sense of caring and responsibility are just some of the hallmark qualities of Team Schein.

Among our many Henry Schein Cares activities in 2003 were the American Dental Association's "Give Kids a Smile" Day, which treated more than one million underserved children in the United States free of charge, and our annual Back-to-School Program, which provided underprivileged children with a backpack filled with school supplies and clothing for their first day of school.

DENTALGROUP

In 2003 the Dental Group recorded sales of $1.4 billion, 41% of total Company revenues, which represents growth of 11% over 2002, including 9% growth in consumable merchandise sales and 18% growth in equipment sales and service revenue.

The Dental Group includes Sullivan-Schein Dental in the United States, Henry Schein Arcona in Canada, and the Zahn Dental laboratory supply business, and has approximately 30% share of the estimated $4.4 billion U.S. and Canadian dental distribution market. We serve over 75% of the estimated 135,000 U.S. and Canadian dental practices, and approximately 15,000 dental laboratories. We are also a major supplier to large group practices, schools, government and other institutions.

The Group includes more than 900 field sales consultants (including equipment sales specialists), nearly 600 equipment service technicians, and 84 equipment sales and service centers. Counseling the Group from the dental practitioners' perspective is a Dental Advisory Board that includes many leaders of the profession.

We support dentists by offering more than 70,000 SKUs, including many Henry Schein exclusives, such as Oral CDx®, BriteSmile-To-Go™, Debacterol®, X-Rite's ShadeVision™, BruxGuard™, Norad®, Titan Instruments and Pentron® dental laboratory products.

We also provide dentists with several important technology-based value-added services, including our DENTRIX® and Easy Dental® practice-management software systems, financial services, continuing education and dental electronic claims processing. PRIVILEGES™, our highly successful and innovative customer loyalty program helps us attract, retain and reward customers, and provides us with a platform to introduce our other products to our customers. By the end of 2003, PRIVILEGES™ had enrolled more than 16,000 members, and these members are increasing their business with Henry Schein at a rate far above that of our average customer.

MEDICALGROUP

The Medical Group posted record sales of $1.3 billion in 2003, 22% higher than the previous year, representing 40% of total Company revenues.

Henry Schein's Medical Group serves over 45% of the estimated 230,000 U.S. office-based physician practices and has approximately 16% of the estimated $7.1 billion market. We offer over 30,000 SKUs to the physician marketplace through three primary brands: Henry Schein Medical, which offers a full portfolio of products and services to all 50 states through more than 230 telesales representatives; Caligor, with more than 350 field sales consultants in 41 states offering a similar portfolio of products and services; and General Injectables and Vaccines (GIV), whose more than 40 telesales representatives specialize in vaccines and other injectables and serve practitioners across the nation. This Group also ships over 25% of the U.S. doses for the Vaccine for Children's (VFC) program, and over 25% of the U.S. influenza vaccine supply to physicians.

During 2003, the Company also acquired Damer & Cartwright, a specialty distributor of pharmaceuticals focused on oncology, infertility, hepatitis, transplant and respiratory disease states, and American Medical Services, a distributor of oncology drugs.

The Medical Group also serves institutions, surgical centers, alternate-care facilities and acute-care facilities in the northeast United States, as well as over 70% of the estimated 24,000 U.S. veterinary clinics. Offering more than 40,000 SKUs to our veterinary customers, we are a primary vendor to VCA Antech, the largest provider of clinical petcare in the country.

We are a major supplier to the formulary plans of many professional groups, such as the American Medical Association and the American Society of Plastic Surgeons. Already a leading provider of vaccines, injectables and other pharmaceuticals with expertise in cold-chain distribution, we are uniquely positioned to take advantage of the trend toward increased use of vaccines and injectables in physicians offices and alternate-care settings.

The Medical Group receives the counsel of many leading medical professionals through its Medical Advisory Board, which provides valuable insights into practitioners' needs.

INTERNATIONALGROUP

In 2003 the International Group posted record sales of $577 million, 17% of total Company revenues, which represented 32% growth in U.S. dollars and 13% in local currencies from the previous year.

The year was highlighted by particular sales strength in France, Spain and Austria. The Group has an approximate 9% share of the Western European dental, medical and veterinary markets in which we operate.

The mission of the International Group is to provide best-in-class capabilities on a Pan-European basis, offering products and services to dental, medical and veterinary office-based practitioners. We offer more than 75,000 SKUs to our growing base of 170,000 customers located in 14 countries outside of North America, including Austria, Australia, Belgium, the Czech Republic, France, Germany, Iceland, Ireland, Israel, the Netherlands, New Zealand, Portugal, Spain and the United Kingdom. In addition, we serve healthcare practitioners in 125 countries through Schein Direct™, which provides rapid door-to-door air package delivery.

In 2003 the strategic acquisition of Hager Dental strengthened the Group's equipment sales and service presence in Germany and added over 40 field sales consultants. In addition, Henry Schein began the process of acquiring three of Europe's leading dental distributors—with our pending acquisitions of demedis GmbH, a leading full-service distributor of dental consumables and equipment in Germany, Austria and the Benelux countries, which will further our strategy to be a full-service, high-value provider of products and services to European dentists; KRUGG S.p.A., Italy's leading distributor of dental consumable products, which will provide us entrée into Europe's second-largest dental market and further our Pan-European strategy; and DentalMV GmbH (Muller & Weygandt), one of Europe's leading direct marketing distributors of dental consumable products, which will enhance our European direct marketing capabilities.

There is tremendous opportunity for Henry Schein's expansion in Europe. Nearly 45% of Western European dental practices are not active Henry Schein customers, and there is substantial opportunity in the Western European medical and veterinary markets. We are well positioned to help meet the needs of medical, dental and veterinary office-based practitioners in many countries around the world.

TECHNOLOGY&VALUE-ADDED SERVICESGROUP

In 2003 the Technology and Value-Added Services Group posted record sales of $74 million, growth of 11% from the previous year, which represented 2% of total Company revenues.

This Group provides leading software, technology and other value-added products and services to healthcare providers in the dental, medical and veterinary professions. We seek to provide practitioners with products and services that will improve practice efficiency and profitability while enabling our customers to deliver high quality care.

Approximately one-third of all U.S. dental practices use our DENTRIX® or Easy Dental® practice-management software. In 2003 DENTRIX was ranked by an independent dental products research laboratory as being first in customer satisfaction, with the fastest growing user base, and superior clinical features.

Through our Digital Dental Office initiative or "DDO", we offer customers a suite of technologically advanced products that seamlessly integrate imaging, clinical and financial applications for the dental office.

Our AVIMark® practice-management software has been installed in over 6,000 companion animal clinics, representing more than 25% of the veterinary clinics in the United States.

In addition, we provide an increasing number of value-added services to practitioners. We believe we are one of the dental industry's largest processors of electronic claims, with approximately 25 million processed in 2003. 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. Other services include Henry Schein's Continuing Education for Healthcare Professionals program, through which participants can access fully accredited courses on the latest healthcare technology in person, in print or online.

BOARDOFDIRECTORS

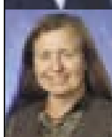
Stanley M. Bergman
Chairman, Chief Executive Officer and President

Barry J. Alperin (1) (2) (3)
Retired Vice Chairman, Hasbro, Inc.

Gerald A. Benjamin
Executive Vice President and Chief Administrative Officer

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

Margaret A. Hamburg, M.D. (4)
Former Assistant Secretary for Planning and Evaluation,
U.S. Department of Health and Human Services
and Former Commissioner of Health for the City of New York


Pamela Joseph
Director, MaNose Studios

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Retired Partner, Accenture

Philip A. Laskawy (1) (3) (4)
Retired Chairman, Ernst & Young

Norman S. Matthews (2) (4)
Former President, Federated Department Stores

Mark E. Mlotek
Executive Vice President, Business Development

Steven Paladino
Executive Vice President and Chief Financial Officer

Marvin H. Schein
Founder, Schein Dental Equipment Corp.

Irving Shafran, Esq.
Attorney at Law

Louis W. Sullivan, M.D. (3) (4)
Former U.S. Secretary of Health and Human Services
and Founding Dean, Director, and President Emeritus
of the Morehouse School of Medicine

EXECUTIVEOFFICERS

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

Stanley Komaroff, Esq.
Senior Advisor

Mark E. Mlotek
Executive Vice President, 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 Nominating and Governance Committee (4) Member Strategic Advisory Committee

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MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted through the NASDAQ National Market tier of the NASDAQ Stock Market under the symbol "HSIC". The following table sets forth, for the periods indicated, the high and low reported sales prices of our common stock as reported on the NASDAQ National Market System for each quarterly period in fiscal 2003 and 2002:

	High	Low
Fiscal 2003:		
1st Quarter	$46.60	$34.17
2nd Quarter	54.15	40.89
3rd Quarter	60.32	51.50
4th Quarter	70.00	55.34
Fiscal 2002:		
1st Quarter	$46.11	$35.34
2nd Quarter	50.59	43.10
3rd Quarter	54.98	39.00
4th Quarter	57.73	40.30

On March 2, 2004, there were approximately 636 holders of record of our common stock. On March 2, 2004, the last reported sales price was $73.97.

We maintain several stock incentive plans for the benefit of certain officers, directors and employees. Certain plans are subject to stockholder approval while other plans have been authorized solely by the Board of Directors. Descriptions of these plans are described in the notes to our consolidated financial statements. The following table summarizes information relating to the Plans as of December 27, 2003:

	Number of Common Shares to be Issued Upon Exercise of Outstanding Options and Rights	Weighted-Average Exercise Price of Outstanding Options	Number of Common Shares Available for Future Issuances
Plans Approved by Stockholders	4,208,706	$34.12	1,986,677
Plans Not Approved by Stockholders	25,000	40.82	—
Total	4,233,706	$34.16	1,986,677

Dividend Policy

We have not declared any cash dividends on our common stock during fiscal years 2003 or 2002. We currently do not anticipate declaring any cash dividends on our common stock in the foreseeable future. We intend to retain earnings to finance the expansion of our business and for general corporate purposes, including our stock repurchase program. Any declaration of dividends will be at the discretion of our 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. Our revolving credit agreement, as well as the agreements governing our Senior Notes, limit the distribution of dividends without the prior written consent of the lenders.

Reconciliation of Certain Operating Results

The following table sets forth, for the periods indicated, a reconciliation of Operating income and Net income, as reported to Adjusted operating income and Adjusted net income.

	Years ended				
	December 27, 2003	December 28, 2002	December 29, 2001	December 30, 2000	December 25, 1999
	(In thousands, except per share data)				
Operating income, as reported	$233,719	$197,003	$147,750	$112,589	$105,765
Adjustments:					
Merger, integration and restructuring (credits) costs	—	(734)	—	15,024	13,467
Adjusted operating income	233,719	196,269	147,750	127,613	119,232
Adjusted operating margin	7.0%	6.9%	5.8%	5.4%	5.2%
Net income, as reported	137,510	117,987	87,373	56,749	50,312
Adjustments, net of tax:					
Merger, integration and restructuring (credits) costs	—	(734)	—	9,855	9,484
Gains on real estate transactions	(454)	(890)	—	—	—
Loss on sale of Novocol	—	—	—	1,925	—
Loss on sale of UK Technology Business	—	—	—	1,618	—
Loss on sale of discontinued operation - PMA Bode	2,012	—	—	—	—
Adjusted net income	$139,068	$116,363	$ 87,373	$ 70,147	$ 59,796
Earnings per diluted share:					
As reported	$ 3.06	$ 2.63	$ 2.01	$ 1.35	$ 1.21
Adjusted	3.09	2.59	2.01	1.67	1.44
Weighted-average diluted common shares outstanding:	44,988	44,872	43,545	42,007	41,438

SELECTED FINANCIAL DATA

The following selected financial data, with respect to our financial position and results of operations for each of the five years in the period ended December 27, 2003, set forth below, has been derived from our consolidated financial statements. The selected financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements.

	Years ended				
	December 27, 2003	December 28, 2002	December 29, 2001	December 30, 2000	December 25, 1999
	(In thousands, except per share data)				
Statements of Operations Data:					
Net sales	$3,353,805	$2,825,001	$2,558,243	$2,381,721	$2,284,544
Gross profit	927,194	794,904	699,324	647,901	608,596
Selling, general and administrative expenses	693,475	598,635	551,574	520,288	489,364
Merger, integration and restructuring (credits) costs (1)	—	(734)	—	15,024	13,467
Operating income	233,719	197,003	147,750	112,589	105,765
Other expense, net	(7,943)	(6,574)	(7,399)	(16,055)	(15,982)
Income before taxes on income, minority interest, equity in earnings (losses) of affiliates and loss on sale of discontinued operation	225,776	190,429	140,351	96,534	89,783
Taxes on income from continuing operations	(84,378)	(70,510)	(51,930)	(36,150)	(35,589)
Minority interest in net income of subsidiaries	(2,807)	(2,591)	(1,462)	(1,757)	(1,690)
Equity in earnings (losses) of affiliates	931	659	414	(1,878)	(2,192)
Net income from continuing operations	139,522	117,987	87,373	56,749	50,312
Loss on sale of discontinued operation, net of tax (2)	(2,012)	—	—	—	—
Net income	$ 137,510	$ 117,987	$ 87,373	$ 56,749	$ 50,312
Net income from continuing operations per common share:					
Basic	$ 3.19	$ 2.71	$ 2.06	$ 1.38	$ 1.24
Diluted	3.10	2.63	2.01	1.35	1.21
Net income per common share:					
Basic	$ 3.15	$ 2.71	$ 2.06	$ 1.38	$ 1.24
Diluted	3.06	2.63	2.01	1.35	1.21
Weighted-average common shares outstanding:					
Basic	43,709	43,489	42,366	41,244	40,585
Diluted	44,988	44,872	43,545	42,007	41,438

	Years ended				
	December 27, 2003	December 28, 2002	December 29, 2001	December 30, 2000	December 25, 1999
	(In thousands, except selected operating data)				
Selected Operating Data (unaudited):					
Number of orders shipped	8,825,000	7,861,000	7,891,000	8,280,000	7,979,000
Average order size	$ 380	$ 359	$ 324	$ 288	$ 286
Net Sales by Market Data:					
Healthcare distribution (3):					
Dental (4)	$1,364,812	$1,227,273	$1,121,394	$1,087,073	$1,056,406
Medical (5)	1,338,084	1,093,956	982,569	851,301	767,258
International (6)	576,628	437,046	398,071	389,946	403,140
Total healthcare distribution	3,279,524	2,758,275	2,502,034	2,328,320	2,226,804
Technology (7)	74,281	66,726	56,209	53,401	57,740
Total	$3,353,805	$2,825,001	$2,558,243	$2,381,721	$2,284,544
Balance Sheet Data:					
Total assets	$1,819,370	$1,558,052	$1,385,428	$1,231,068	$1,204,102
Long-term debt	247,100	242,561	242,169	266,224	318,218
Minority interest	11,532	6,748	6,786	7,996	7,855
Stockholders' equity	1,004,118	861,217	680,457	579,060	517,867

(1) In 2002, we revised our original estimates of our anticipated merger, integration and restructuring costs. This change in estimates is attributable to facts and circumstances that arose subsequent to the original charges. As a result, we recorded additional expenses and reversed certain of our previously recorded expenses. Merger, integration and restructuring costs consisted primarily of investment banking, legal, accounting and advisory fees, severance costs and benefits, facility costs, write-offs of duplicate management information systems and other assets.

(2) In the third quarter of 2003, we sold PMA Bode GmbH, an x-ray film distribution business located in Germany, which was a component of our healthcare distribution business. Due to immateriality, we have not reflected the operating results of PMA Bode separately as a discontinued operation for any of the periods presented.

(3) Consists of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, surgical products, diagnostic tests, infection control products and vitamins.

(4) Consists of products sold in the United States and Canada.

(5) Consists of products sold in the United States' Medical and Veterinary markets.

(6) Consists of products sold in the Dental, Medical and Veterinary markets, primarily in Europe.

(7) Consists of practice management software and other value-added products and services, which are sold primarily to healthcare professionals in the United States and Canada.

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

Cautionary Note Regarding Forward-Looking Statements

Except for historical information contained herein, the statements in this report (including without limitation, statements indicating that we "expect", "estimate", "anticipate", or "believe" and all other statements concerning future financial results, product or service offerings or other events that have not yet occurred) are forward-looking statements that are made pursuant to the safe harbor provisions of applicable securities legislation and regulations. Forward-looking statements involve known and unknown factors, risks and uncertainties which may cause our actual results in future periods to differ materially from those expressed in any forward-looking statements. Those factors, risks and uncertainties include, but are not limited to, the factors described under "Risk Factors" discussed later in this Annual Report.

Executive-Level Overview

We are the largest distributor of healthcare products and services primarily to office-based healthcare practitioners in the combined North American and European markets with operations in the United States, Canada, the United Kingdom, the Netherlands, Belgium, Germany, France, Austria, Spain, Ireland, Portugal, Australia and New Zealand.

Our reportable segments are strategic business units that offer different products and services to the same customer base. We conduct our business through two segments: healthcare distribution and technology.

Our healthcare distribution segment, which is comprised of our dental, medical (including veterinary) and international business groups, distributes healthcare products (primarily consumable) and services primarily to office-based healthcare practitioners and professionals in the United States, Canada and international markets. Products, which are similar for each business group, are maintained and distributed from strategically located distribution centers.

Our technology segment consists primarily of our practice management software business and certain other value-added products and services that are distributed primarily to healthcare professionals in the United States and Canada. Most of the technology business, including members of its management, was acquired as a unit.

The following table summarizes the significant components of our operating results and cash flows for each of the three years ended December 27, 2003 (in thousands):

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Operating Results:			
Net sales	$3,353,805	$2,825,001	$2,558,243
Cost of sales	2,426,611	2,030,097	1,858,919
Gross profit	927,194	794,904	699,324
Operating expenses:			
Selling, general and administrative	693,475	598,635	551,574
Merger, integration and restructuring credits	—	(734)	—
Operating income	$ 233,719	$ 197,003	$ 147,750
Other expense, net	$ (7,943)	$ (6,574)	$ (7,399)
Net income from continuing operations	139,522	117,987	87,373
Loss on sale of discontinued operation, net of tax	(2,012)	—	—
Net income	137,510	117,987	87,373
Cash Flows:			
Net cash provided by operating activities from continuing operations	$ 128,843	$ 134,669	$ 190,911
Net cash used in investing activities	118,122	142,758	55,070
Net cash (used in) provided by financing activities	(48,375)	18,683	371

Industry Overview

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

Our operating results in recent years have been significantly impacted by strategies and transactions we undertook to expand our business, both domestically and internationally, in part, to address significant changes in the healthcare industry, including consolidation of healthcare distribution companies, potential healthcare reform, trends toward managed care, cuts in Medicare and collective purchasing arrangements.

Industry Consolidation

The office-based healthcare practitioner industry, in the geographic markets in which we operate, is highly fragmented and diverse. Encompassing the dental, medical and veterinary markets, this industry accounted for revenues of approximately $17 billion in 2003. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations comprised of between a few and a large number of practitioners who have combined or otherwise associated their practices.

Due in part to the inability of office-based healthcare practitioners to store and manage large quantities of supplies in their offices, the distribution of healthcare supplies and small equipment to office-based healthcare practitioners has traditionally been characterized by frequent, small quantity orders, and a need for rapid, reliable and substantially complete order fulfillment. The purchasing decision within an office-based healthcare practice is typically made by the practitioner or an administrative assistant, and supplies and small equipment are generally purchased from more than one distributor with one generally serving as the primary supplier.

We believe that consolidation within the supply industry serving office-based healthcare practitioners will continue to result in a number of distributors, particularly companies with limited financial and marketing resources, seeking to combine with larger companies that can provide opportunities for growth. This consolidation may also continue to result in distributors seeking to acquire companies that can enhance their current product offerings and expand the services they can offer or provide opportunities to serve a broader customer base.

Our trend with regard to acquisitions has been to expand our role as a provider of products to the healthcare industry. This trend has resulted in expansion into service areas, which (a) complement our existing operations, and (b) provide opportunities for us to develop synergies with, and thus strengthen, the acquired businesses.

We are currently awaiting regulatory approval for the acquisition of demedis, a leading full-service distributor of dental consumables and equipment in Germany, Austria, and the Benelux countries, and EDH, which includes KRUGG S.p.A., Italy's leading distributor of dental consumable products and DentalMV GmbH (otherwise know as Muller & Weygandt), one of Europe's leading direct marketing distributors of dental consumable products. These acquisitions will approximately double the net sales of our international operations (see Note 7 to our consolidated financial statements). Additionally, we have completed 22 acquisitions in the past five years, including 8 in 2003.

As industry consolidation continues, we believe that we are positioned to capitalize on this trend, as we believe we have the ability to support increased sales through our existing infrastructure. In the U.S. dental market, we estimate that there are currently over 300 smaller distributors holding approximately 40% of the market. In the U.S. medical market, we estimate that over 500 smaller distributors hold approximately 60% of the market, and in the European dental market, we estimate that over 200 competitors hold approximately 80% of the market.

As the healthcare industry continues to change, we continually evaluate possible candidates for merger or acquisition and intend to continue to seek opportunities to expand our role as a provider of products and services to the healthcare industry. There can be no assurance that we will be able to successfully pursue any such opportunity or consummate any such transaction, if pursued. If additional transactions are entered into or consummated, we would incur additional merger and acquisition related costs, and there can be no assurance that the integration efforts associated with any such transaction would be successful.

Aging Population and Other Market Influences

The healthcare products distribution industry continues to experience growth due to the aging population, increased healthcare awareness, the proliferation of medical technology and testing, new pharmacology treatments and expanded third-party insurance coverage. In addition, the physician market continues to benefit from the shift of procedures and diagnostic testing in hospitals to the alternate site, particularly physician offices, despite significantly lower pricing of hospital medical products. As the cosmetic surgery and elective procedure markets continue to grow, physicians are increasingly performing more of these procedures in their offices. The elder care market continues to benefit from the increasing growth rate of the population of elderly Americans.

The January 2000 U.S. Bureau of the Census estimates that the elderly population in America will more than double by the year 2040. In 2000, four million Americans were age 85 years and older, the segment of the population most in need of long-term care and elder care services. By the year 2040, that number is projected to more than triple to over 14 million. The population age 65 to 84 years is projected to more than double in the same time period.

As a result of these market dynamics, the annual expenditures for healthcare services continue to increase in the U.S. The Centers for Medicaid and Medicare Services (CMS), Office of the Actuary published "Health Spending Projections Through 2013" in 2004, indicating that total national healthcare spending reached $1.6 trillion in 2002, or 14.9% of the nation's gross domestic product. Healthcare spending is projected to reach $3.4 trillion in 2013, an estimated 18.4% of the gross domestic product, the benchmark measure for annual production of goods and services in the U.S.

Governmental Influences

The healthcare industry is subject to extensive government regulation, licensure, and operating compliance procedures. National healthcare reform has been the subject of a number of legislative initiatives by Congress. Additionally, government and private insurance programs fund a large portion of the total cost of medical care. During 1997, the Balanced Budget Act passed by Congress significantly reduced reimbursement rates for nursing homes and home healthcare providers, affecting spending levels and overall financial viability of these institutions.

The Medicare Prescription Drug, Improvement, and Modernization Act (the "Medicare Act") was passed by Congress and enacted by President Bush on December 8, 2003. The Medicare Act is the largest expansion of the Medicare program since its inception and provides participants with voluntary prescription drug benefits effective in 2006 with an interim drug discount card. The Medicare Act also includes provisions relating to medication management programs, generic substitution and provider reimbursement. Based upon current information, we believe the Medicare Act may create additional volume demand and provide incentives for additional utilization of generic drugs, both of which have potentially positive implications for our pharmaceutical distribution business.

Product Integrity

Certain pharmaceutical and medical-surgical product manufacturers and legislators are in discussions regarding the risks of counterfeit products in the supply chain and the manufacturers' concerns regarding the impact of secondary market distribution on counterfeiting. As a distributor of such products, we continue to work with our suppliers to help minimize the risks associated with counterfeit products in the supply chain and with potential litigation.

Results of Operations
2003 Compared to 2002

Net Sales

Net sales for 2003 and 2002 were as follows (in thousands):

	2003	% of Total	2002	% of Total
Healthcare distribution (1):				
Dental (2)	$1,364,812	40.7%	$1,227,273	43.4%
Medical (3)	1,338,084	39.9%	1,093,956	38.7%
International (4)	576,628	17.2%	437,046	15.5%
Total healthcare distribution	3,279,524	97.8%	2,758,275	97.6%
Technology (5)	74,281	2.2%	66,726	2.4%
Total	$3,353,805	100.0%	$2,825,001	100.0%

(1) Consists of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, surgical products, diagnostic tests, infection control products and vitamins.

(2) Consists of products sold in the United States and Canada.

(3) Consists of products sold in the United States' Medical and Veterinary markets.

(4) Consists of products sold in the Dental, Medical and Veterinary markets, primarily in Europe.

(5) Consists of practice management software and other value-added products and services, which are sold primarily to healthcare professionals in the United States and Canada.

For the year ended December 27, 2003, our net sales increased $528.8 million or 18.7% from the comparable prior year period. Of the increase in total net sales, $521.2 million or 98.6% resulted from an 18.9% increase in our healthcare distribution business. Of this increase, $137.5 million resulted from an 11.2% increase in our dental business, $244.1 million resulted from a 22.3% increase in our medical business and $139.6 million resulted from a 31.9% increase in our international business. The remaining increase in net sales of $7.6 million resulted from an 11.3% increase in our technology business.

The $137.5 million or 11.2% increase in dental net sales, consisted of an increase in dental consumable merchandise of $91.0 million or 9.4% and dental equipment of $46.5 million or 18.3%. The increase in dental net sales was primarily due to increased account penetration of existing customers driven by our Privileges loyalty program and an acquisition. Excluding the effects of the acquisition and exchange rates, net sales for the dental business increased $96.3 million or 7.9%. The $244.1 million or 22.3% increase in medical net sales was primarily due to increased sales to physicians' office and alternate care markets. The $139.6 million or 31.9% increase in international net sales was primarily due to an acquisition, favorable exchange rates and increased account penetration in France, Spain and Austria, partially offset by a divestiture. Excluding the effect of exchange rates, the acquisition and divestiture, net sales for the international market increased $31.6 million or 7.2%.

The increase in technology net sales of $7.6 million or 11.3% was primarily due to increased sales of value-added products including software products and related services, including the impact of our MarketOne marketing initiative. Under this initiative, certain technology and equipment products were sold directly to end-user customers beginning with the third quarter of 2002, rather than through resellers, which resulted in a higher growth rate for the technology business. Without this change, the technology business net sales would have increased by 8.0%.

Gross Profit

Gross profit and gross margins for 2003 and 2002 by segment and in total were as follows (in thousands):

	2003	Gross Margin %	2002	Gross Margin %
Healthcare distribution	$870,499	26.5%	$743,880	27.0%
Technology	56,695	76.3%	51,024	76.5%
Total	$927,194	27.6%	$794,904	28.1%

Gross profit increased $132.3 million or 16.6%, to $927.2 million for the year ended December 27, 2003 compared to the prior year period.

Healthcare distribution gross profit increased $126.6 million or 17.0% to $870.5 million for the year ended December 27, 2003 compared to the prior year period. Healthcare distribution gross profit margin decreased to 26.5% for the year ended December 27, 2003 from 27.0% for the comparable prior year period, primarily due to our medical business experiencing higher sales of lower margin injectable pharmaceutical products, partially offset by a change in sales mix in our dental business.

Technology gross profit increased $5.7 million or 11.1% to $56.7 million for the year ended December 27, 2003 compared to the prior year period. Technology gross profit margin decreased slightly to 76.3% for the year ended December 27, 2003 from 76.5% for the comparable prior year period, primarily due to changes in sales mix.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2003 and 2002 were as follows (in thousands):

	2003	% of Respective Net Sales	2002	% of Respective Net Sales
Healthcare distribution	$665,470	20.3%	$573,627	20.8%
Technology	28,005	37.7%	25,008	37.5%
Total	$693,475	20.7%	$598,635	21.2%

Selling, general and administrative expenses increased $94.8 million or 15.8% to $693.5 million for the year ended December 27, 2003 compared to the prior year period. As a percentage of sales, selling, general and administrative expenses decreased to 20.7% from 21.2% for the comparable prior year period. This decrease was primarily due to lower payroll and rent costs in our healthcare distribution business as a percentage of sales, realized through leveraging our infrastructure.

As a component of total selling, general and administrative expenses, selling and shipping expenses increased $67.4 million or 18.2% to $437.5 million for the year ended December 27, 2003 from $370.1 million for the prior year period. The increase was primarily due to expenses directly associated with supporting increased sales volume. As a percentage of net sales, selling and shipping expenses decreased slightly to 13.0% from 13.1% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $27.4 million or 12.0% to $256.0 million for the year ended December 27, 2003 from $228.5 million for the prior year period. As a percentage of net sales, general and administrative expenses decreased to 7.6% from 8.1% for the comparable prior year period primarily for the reasons stated above.

Other Expense, Net

Other expense, net increased $1.4 million to $7.9 million for the year ended December 27, 2003 compared to the prior year period. The net increase was primarily due to decreased interest income primarily due to lower cash and cash equivalents and marketable securities balances during 2003.

Income Taxes

For the year ended December 27, 2003, our effective tax rate was 37.4% compared to 37.2% for the prior year period. The difference between our effective tax rates and the federal statutory rates for both periods primarily relates to state income taxes.

Loss on Sale of Discontinued Operation

During the year ended December 27, 2003, we recognized a $2.0 million loss, net of tax, on the sale of a discontinued operation (See Note 7 to our consolidated financial statements).

Net Income

Net income increased $19.5 million or 16.5% to $137.5 million for the year ended December 27, 2003 compared to the prior year period. A real estate transaction gain of $454 thousand and a loss on sale of a discontinued operation of $2.0 million are included in 2003 net income. A real estate transaction gain of $890 thousand and a restructuring accrual reversal of $734 thousand are included in 2002 net income. The effect that such transactions had on diluted earnings per share was $(0.03) in 2003 and $0.04 in 2002.

2002 Compared to 2001

Net Sales

Net sales for 2002 and 2001 were as follows (in thousands):

	2002	% of Total	2001	% of Total
Healthcare distribution (1):				
Dental (2)	$1,227,273	43.4%	$1,121,394	43.8%
Medical (3)	1,093,956	38.7%	982,569	38.4%
International (4)	437,046	15.5%	398,071	15.6%
Total healthcare distribution	2,758,275	97.6%	2,502,034	97.8%
Technology (5)	66,726	2.4%	56,209	2.2%
Total	$2,825,001	100.0%	$2,558,243	100.0%

(1) Consists of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, surgical products, diagnostic tests, infection control products and vitamins.

(2) Consists of products sold in the United States and Canada.

(3) Consists of products sold in the United States' Medical and Veterinary markets.

(4) Consists of products sold in the Dental, Medical and Veterinary markets, primarily in Europe.

(5) Consists of practice management software and other value-added products and services, which are sold primarily to healthcare professionals in the United States and Canada.

For the year ended December 28, 2002, our net sales increased $266.8 million or 10.4% from the comparable prior year period. Of the increase in total net sales, $256.3 million or 96.1% resulted from a 10.2% increase in our healthcare distribution business. Of this increase, $105.9 million resulted from a 9.4% increase in our dental business, $111.4 million resulted from an 11.3% increase in our medical business and $39.0 million resulted from a 9.8% increase in our international business. The remaining increase in net sales of $10.5 million resulted from an 18.7% increase in our technology business.

The $105.9 million or 9.4% increase in dental net sales, consisted of an increase in dental consumable merchandise of $65.9 million or 7.3% and dental equipment of $40.0 million or 18.5%. The increase in dental net sales was primarily due to increased dental equipment sales and increased account penetration of existing customers driven by our Privileges loyalty program. The $111.4 million or 11.3% increase in medical net sales was primarily due to increased sales to physicians' office and alternate care markets. The $39.0 million or 9.8% increase in international net sales was primarily due to increased account penetration in France, United Kingdom and Australia and favorable exchange rates. Excluding the effect of the exchange rates, net sales for the international market increased $18.7 million or 4.7%.

The increase in technology net sales of $10.5 million or 18.7% was primarily due to increased sales of value-added products including software products and related services, including the impact of a new marketing initiative, MarketOne. Under this initiative, certain technology and equipment products were sold directly to end-user customers beginning with the third quarter of 2002, rather than through resellers, which resulted in a higher growth rate for the technology business. Without this change, the technology business net sales would have increased by 13.9%.

Gross Profit

Gross profit and gross margins for 2002 and 2001 by segment and in total were as follows (in thousands):

	2002	Gross Margin %	2001	Gross Margin %
Healthcare distribution	$743,880	27.0%	$659,092	26.3%
Technology	51,024	76.5%	40,232	71.6%
Total	$794,904	28.1%	$699,324	27.3%

Gross profit increased $95.6 million or 13.7% to $794.9 million for the year ended December 28, 2002 compared to the prior year period. Gross profit margin increased to 28.1% for the year ended December 28, 2002 from 27.3% for the comparable prior year period.

Healthcare distribution gross profit increased $84.8 million or 12.9% to $743.9 million for the year ended December 28, 2002 compared to the prior year period. Healthcare distribution gross profit margin increased to 27.0% for the year ended December 28, 2002 from 26.3% for the comparable prior year period, primarily due to changes in sales mix.

Technology gross profit increased $10.8 million or 26.8% to $51.0 million for the year ended December 28, 2002 compared to the prior year period. Technology gross profit margin increased to 76.5% for the year ended December 28, 2002 from 71.6% for the comparable prior year period, primarily due to changes in sales mix.

Selling, General and Administrative

Selling, general and administrative expenses for 2002 and 2001 by segment and in total were as follows (in thousands):

	2002	% of Respective Net Sales	2001	% of Respective Net Sales
Healthcare distribution	$573,627	20.8%	$530,755	21.2%
Technology	25,008	37.5%	20,819	37.0%
Total	$598,635	21.2%	$551,574	21.6%

Selling, general and administrative expenses increased $47.0 million or 8.5% to $598.6 million for the year ended December 28, 2002 compared to the prior year period. As a percentage of sales, selling, general and administrative expenses decreased to 21.2% from 21.6% for the comparable prior year period. This decrease was primarily due to lower rent costs in our healthcare distribution business as a percentage of sales, realized through leveraging our infrastructure.

As a component of total selling, general and administrative expenses, selling and shipping expenses increased $36.0 million or 10.8% to $370.1 million for the year ended December 28, 2002 from $334.1 million for the prior year period. The increase was primarily due to expenses directly associated with supporting increased sales volume. As a percentage of net sales, selling and shipping expenses remained constant at 13.1% compared to the prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $11.0 million or 5.1% to $228.5 million for the year ended December 28, 2002 from $217.5 million for the prior year period. As a percentage of net sales, general and administrative expenses decreased to 8.1% from 8.5% for the comparable prior year period. The decrease was primarily due to the elimination of goodwill amortization expense with the adoption of FAS 142.

Other Expense, Net

Other expense, net decreased by $825 thousand to $6.6 million for the year ended December 28, 2002 compared to the prior year period. The net decrease was primarily due to the favorable settlement of a real estate transaction.

Income Taxes

For the year ended December 28, 2002, our effective tax rate was 37.2% compared to 37.0% for the comparable prior year period. The difference between our effective tax rates and the federal statutory rates for both periods primarily relates to state income taxes.

Net Income

Net income increased $30.6 million or 35.0% to $118.0 million for the year ended December 28, 2002 compared to the prior year. A real estate transaction gain of $890 thousand, a restructuring accrual reversal of $734 thousand and the effect of the implementation of FAS 142 at the beginning of 2002 which ceased amortization of goodwill and indefinite-lived intangible assets of approximately $7.3 million are included in 2002 net income. The effect that such transactions had on diluted earnings per share was $0.20 in 2002.

Liquidity and Capital Resources

Our principal capital requirements include the funding of working capital needs, acquisitions, repurchases of common stock and capital expenditures resulting from increased sales and special inventory forward buy-in opportunities, pursuing growth opportunities and managing funding needs. Since sales tend to be strong during the fourth quarter and special inventory forward buy-in opportunities are most prevalent just before the end of the year, our working capital requirements have generally been higher from the end of the third quarter to the end of the first quarter of the following year.

We finance our business primarily through cash generated from our operations, revolving credit facilities, private placement loans and stock issuances. Our principal source of cash is derived from our operations. Our ability to generate sufficient cash flows from operations is dependent on the continued demand of our customers for our products and services. Given current operating, economic and industry conditions, we believe that demand for our products and services will remain consistent in the foreseeable future.

Net cash flow provided by operating activities from continuing operations was $128.8 million for the year ended December 27, 2003 compared to $134.7 million for the prior year period. This decrease was primarily due to increased trade receivable and inventory levels as of December 27, 2003 resulting from increased end of year sales and purchase activity for 2003 compared to 2002.

Net cash used in investing activities was $118.1 million for the year ended December 27, 2003 compared to $142.8 million for the prior year period. The decrease was primarily due to an increase in net proceeds received from the sale and maturity of marketable securities and a reduction in capital expenditures, partially offset by an increase in cash used for acquisitions. We expect to invest approximately between $35 million and $40 million during fiscal year 2004 in capital projects to modernize and expand our facilities, on computer infrastructure systems and to integrate operations.

Net cash used in financing activities was $48.4 million for the year ended December 27, 2003 compared to $18.7 million provided by financing activities for the comparable prior year period. The net change was primarily due to payments made to repurchase our common stock and a reduction in the proceeds received from the issuance of stock upon the exercise of stock options, partially offset by lower principal payments on long-term debt.

On March 12, 2003, we announced that our Board of Directors had authorized the repurchase of up to two million shares of our common stock, which represented approximately 4.5% of shares outstanding on the announcement date. During the year ended December 27, 2003, we repurchased and retired 1,335,000 shares at an average price of $46.26 per share.

The following table summarizes selected measures of liquidity and capital resources (in thousands):

	December 27, 2003	December 28, 2002
Cash and cash equivalents	$157,351	$200,651
Marketable securities, including non-current	14,496	55,185
Working capital	637,296	604,199
Debt, net of cash and cash equivalents and marketable securities (1)	84,565	—

(1) Debt includes bank credit lines and current and non-current portions of long-term debt, including Senior Notes and loans payable to banks and capital lease obligations.

Our cash and cash equivalents consist of bank balances and investments in money market funds. These investments have staggered maturity dates, none of which exceed three months, and have a high degree of liquidity since the securities are traded in public markets.

Our marketable securities consist of short and long-term debt securities classified as available for sale, including corporate bonds rated AAA by Moody's (or an equivalent rating) and commercial paper rated P-1 by Moody's (or an equivalent rating). The fair values of our marketable securities are determined by quoted market prices.

Our business requires a substantial investment in working capital that is susceptible to large variations during the year as a result of inventory purchase patterns and seasonal demands. Inventory purchase activity is a function of sales activity, special inventory forward buy-in opportunities, new customer build-up requirements and the desired level of investment inventory. Working capital has increased primarily as a result of our higher sales volume.

Our accounts receivable days sales outstanding improved to 46.4 days for the year ended December 27, 2003 from 48.2 days for the comparable prior year period primarily due to our continued focus on actively pursuing collection of aged receivables and tightening credit standards. Our inventory turns improved to 6.9 turns for the year ended December 27, 2003 from 6.6 turns for the prior year as a result of increased sales of higher turnover products. We anticipate future increases in our working capital requirements as a result of continued sales growth.

The following table shows our contractual obligations related to fixed and variable rate long-term debt, excluding interest, as well as lease obligations and inventory purchase commitments as of December 27, 2003 (See Notes 8 and 13 to our consolidated financial statements):

	Payments due by period (in thousands)				
	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
Contractual obligations:					
Inventory purchase commitments	$149,891	$129,440	$ —	$ —	$279,331
Long-term debt	2,622	24,362	42,316	178,715	248,015
Operating lease obligations	22,286	35,348	20,725	24,419	102,778
Capital lease obligations	631	943	376	388	2,338
Total	$175,430	$190,093	$63,417	$203,522	$632,462

In prior years, we completed private placement transactions under which we issued $130.0 million and $100.0 million in Senior Notes. The $130.0 million notes come due on June 30, 2009 and bear interest at a fixed 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 fixed rate of 6.66% per annum. Interest on both notes is payable semi-annually.

During the fourth quarter of 2003, we entered into agreements relating to the $230.0 million Senior Notes to exchange our fixed interest rates for variable interest rates. The weighted-average variable interest rate is 4.25%. This weighted-average variable interest rate is comprised of LIBOR, plus the spread, and resets on the interest due dates for the Senior Notes.

We have a Revolving Credit Facility of $200.0 million that is a four-year committed line scheduled to terminate in May 2006. There were no borrowings under this credit facility as of December 27, 2003. As of December 27, 2003, certain of our subsidiaries had revolving credit facilities, which had outstanding balances of $6.1 million, against aggregate borrowing limits of $32.6 million.

In connection with our pending acquisition of demedis and EDH for approximately 255 million euros, as previously discussed, after making a deposit on January 20, 2004 of 35 million euros, we will be paying approximately 220 million euros at closing. The remaining purchase price will be paid from existing cash resources and/or the proceeds of (i) a bridge loan and/or (ii) the issuance or sale in a public or private placement of equity interests or notes, debentures or other debt securities (or another debt financing) with a maturity in excess of one year (in any case, a "Permanent Financing"). We have obtained commitments for a $150.0 million bridge loan facility scheduled to mature on the six-month anniversary of the closing of the acquisition. The bridge loan will be unsecured, and will bear interest, at our option, at

LIBOR plus 0.925% or the prime rate. We intend to refinance the bridge loan by means of a Permanent Financing or, if a Permanent Financing can be arranged prior to the consummation of the Acquisition, we will pay the purchase price with the proceeds of such Permanent Financing. The acquisition is subject to standard closing conditions and regulatory approvals and is expected to close mid-year 2004.

Some holders of minority interests in entities we have acquired have the right at certain times to require us to acquire their interest at a price that approximates fair value pursuant to a formula price based on earnings of the entity. Additionally, some prior owners of acquired businesses are eligible to receive additional purchase price cash consideration if certain profitability targets are met. We have not accrued any liabilities that may arise from these transactions since the outcome of the contingency is not determinable beyond a reasonable doubt.

We finance our business to provide adequate funding for at least 12 months. Funding requirements are based on forecasted profitability and working capital needs, which, on occasion may change. Consequently, we may change our funding structure to reflect any new requirements.

We believe that our cash and cash equivalents, investments in short and long-term marketable securities, ability to access public and private debt and equity markets and availability of funds under our existing credit facilities will provide us with sufficient liquidity to meet our currently foreseeable short-term and long-term capital needs.

Seasonality and Other Factors Affecting Our Business

Our business is subject to seasonal and other quarterly influences. Net sales and operating profits are generally higher in the third and fourth quarters due to timing of seasonal product sales, software and equipment sales, year-end promotions and purchasing patterns of office-based healthcare practitioners and are generally lower in the first quarter primarily due 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, timing of sales, special promotional campaigns, fluctuations in exchange rates and adverse weather conditions.

E-Commerce

Traditional healthcare supply and distribution relationships are impacted by the advancement of electronic on-line commerce solutions. Our distribution business is characterized by rapid technological developments and is highly competitive. The rapid advancement of on-line commerce requires us to provide continuous improvement in performance, security, features and reliability of Internet content and technology, particularly in response to competitive offerings.

Through our proprietary technologically-based suite of products, we offer customers a variety of competitive alternatives. We believe that our tradition of reliable service coupled with our name recognition and large customer base built on solid customer relationships positions us well to participate in this growing aspect of the distribution business. We continue to explore ways and means to improve and expand our Internet presence and capabilities.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate estimates, including those related to sales allowance provisions, as described below, volume purchase rebates, income taxes, inventory and bad debt reserves and contingencies. We base our estimates on historical data, when available, experience, industry and market trends, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

We believe that the following critical accounting policies affect the significant estimates and judgments used in the preparation of our financial statements:

Revenue Recognition

We generate revenue from the sale of dental, medical and veterinary consumable products, as well as dental equipment, software products and services and other sources. Provisions for discounts, rebates to customers, customer returns and other adjustments are recorded based upon historical data and are provided for in the period in which the related sales are recognized.

Revenue derived from the sale of consumable products is recognized when products are shipped to customers. Such sales typically entail high-volume, low-dollar orders shipped utilizing third-party common carriers. We believe that the shipment date is the most appropriate point in time indicating the completion of the earnings process because we have no post-shipment obligations, the product price is fixed and determinable, collection of the resulting receivable is probable and product returns are reasonably estimable.

Revenue derived from the sale of dental equipment is recognized when products are delivered to customers. Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipment sales require minimal installation, which is completed at the time of delivery.

Revenue derived from the sale of software products is recognized when products are shipped to customers. Such software is generally installed by customers and does not require extensive training due to the nature of its design. Revenue derived from post-contract customer support for software, including annual support and/or training, is recognized ratably over the period in which the services are provided.

Revenue derived from other sources including freight charges, equipment repairs and financial services, is recognized when the related product revenue is recognized or when the services are provided.

Accounts Receivable and Reserves

The carrying amount of accounts receivable reflects a reserve representing our best estimate of the amounts that will not be collected. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our reserve, including historical data, experience, customer types, credit worthiness, and economic trends. From time to time, we may adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability.

Goodwill and Other Indefinite-Lived Intangible Assets

In accordance with Statement of Financial Accounting Standard ("FAS") No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. Such impairment tests require the comparison of the fair value and carrying value of reporting units. Measuring fair value of a reporting unit is generally based on valuation techniques using multiples of sales or earnings, unless supportable information is available for using a present value technique, such as estimates of future cash flows. We assess the potential impairment of goodwill and other indefinite-lived intangible assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Some factors we consider important which could trigger an interim impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- Significant negative industry or economic trends.

If we determine through the impairment review process that goodwill has been impaired, we record an impairment charge in our consolidated statement of income. Based on our 2003 impairment review process, we have not recorded any impairments during the year ended December 27, 2003.

Long-Lived Assets

Long-lived assets, other than goodwill and other indefinite-lived intangible assets, 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 such assets. Other definite-lived intangible assets are amortized over their estimated useful lives. Such definite-lived intangible assets primarily consist of non-compete agreements and customer relationships. When an impairment exists, the related assets are written down to fair value. We have not recorded any impairments during the year ended December 27, 2003.

Stock-Based Compensation

We account for stock option awards to employees under the intrinsic value-based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees". Under this method, no compensation expense is recorded provided the exercise price is equal to or greater than the quoted market price of the stock at the grant date.

We make pro forma disclosures of net income and earnings per share as if the fair value-based method of accounting (the alternative method of accounting for stock-based compensation) had been applied as required by FAS No. 123, "Accounting for Stock-Based Compensation". The fair value-based method requires us to make assumptions to determine expected risk-free interest rates, stock price volatility, dividend yield and weighted-average option life.

Recently Issued Accounting Standards

In December 2003, the FASB issued a revision to FAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement does not change the measurement or recognition aspects for pensions and other postretirement benefit plans; however, it does revise employers' disclosures to include more information about the plan assets, obligations to pay benefits and funding obligations. FAS 132, as revised, was effective for our 2003 consolidated financial statements. The adoption of FAS 132 did not have a material effect on our consolidated financial statements.

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." FAS No. 150 clarifies the definition of a liability as currently defined in FASB Concepts Statement No. 6, "Elements of Financial Statements," as well as other planned revisions. This statement requires a financial instrument that embodies an obligation of an issuer to be classified as a liability. In addition, the statement establishes standards for the initial and subsequent measurement of these financial instruments and disclosure requirements. FAS 150 was effective for financial instruments entered into or modified after May 31, 2003. For all instruments entered into or last modified prior to May 31, 2003, FAS 150 was effective at the beginning of our third quarter of 2003. The adoption of FAS 150 did not have a material effect on our financial position or results of operations.

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." FAS No. 149 amends FAS No. 133 for decisions made by the FASB's Derivatives Implementation Group, other FASB projects dealing with financial instruments, and in response to implementation issues raised in relation to the application of the definition of a derivative. This statement is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of FAS 149 did not have a material effect on our financial position or results of operations.

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" and in December 2003, a revised interpretation was issued (FIN No. 46(R)). In general, a variable interest entity ("VIE") is a corporation, partnership, trust, or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a VIE to be consolidated by a company if that company is designated as the primary beneficiary. Application of FIN 46 is required in financial statements of public entities that have interest in structures that are commonly referred to as special-purpose entities, or SPEs, for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of VIEs (i.e. non-SPEs) is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46 did not have a material effect on our financial position or results of operations.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." This statement amends FAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We adopted the disclosure provisions of this standard.

In November 2002, the FASB reached a consensus regarding EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. The guidance provided by EITF 00-21 is effective for contracts entered into on or after July 1, 2003. The adoption of EITF 00-21 did not have a material effect on our financial position or results of operations.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material effect on our financial position or results of operations.

In June 2002, the FASB issued FAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The principal difference between this Statement and EITF 94-3 relates to the Statement's requirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas under EITF 94-3, a liability was recognized at the date of an entity's commitment to an exit plan. This Statement is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of FAS 146 did not have a material effect on our financial position or results of operations.

In June 2001, the FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting requirements for retirement obligations associated with tangible long-lived assets. In May 2002, the FASB issued FAS No. 145, "Rescission of FASB Statements 4, 44, 64, Amendment to FASB Statement No. 13, and Technical Corrections as of April 2002." FAS 145 amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. FAS 143 and 145 were effective commencing April 1, 2003 and did not have a material effect on our financial position or results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are 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. We attempt to reduce these risks by utilizing interest rate swap agreements and foreign currency forward and swap contracts. These hedging activities provide only limited protection against interest rate and currency exchange risks. Factors that could impact the effectiveness of our programs include volatility of the interest rate and currency markets and availability of hedging instruments. All interest rate swap and currency contracts that we enter into are components of hedging programs and are entered into for the sole purpose of hedging an existing or anticipated interest rate and currency exposure, not for speculation.

Interest Rate Swaps

We have fixed rate Senior Notes of $130.0 million at 6.94% and $100.0 million at 6.66%. During the fourth quarter of 2003, we entered into interest rate swap agreements to exchange our fixed interest rates for variable interest rates payable on the $230.0 million Senior Notes. The variable rate is comprised of LIBOR plus the spreads and resets on the interest due dates for the Senior Notes. As a result of these interest rate swap agreements, as well as our existing variable rate credit lines and loan agreements, we are exposed to risk from changes in interest rates. A hypothetical 100 basis point increase in interest rates would increase our annual interest expense by approximately $2.4 million.

As of December 27, 2003, the fair value of our interest rate swap agreements recorded in other non-current assets was approximately $700 thousand, which represented the amount that would be earned upon unwinding the interest rate swap agreements based on market conditions at that time. Changes in the fair value of these interest rate swap agreements are reflected as an adjustment to the related assets with an offsetting adjustment to the carrying value of the $230.0 million notes as such hedges are deemed fully effective.

Foreign Exchange

The value of certain foreign currencies as compared to the U.S. dollar may affect our financial results. Fluctuations in exchange rates may positively or negatively affect our revenues, gross margins, operating expenses, and retained earnings, all of which are expressed in U.S. dollars. Where we deem it prudent, we engage in hedging programs, using primarily foreign currency forward and swap contracts, aimed at limiting the impact of foreign currency exchange rate fluctuations on earnings. We purchase short-term foreign currency forward and swap contracts to protect against currency exchange risks associated with long-term intercompany loans, due from our international subsidiaries and the payment of merchandise purchases to foreign vendors. We do not hedge the translation of foreign currency profits into U.S. dollars as we regard this as an accounting not an economic exposure.

As of December 27, 2003, we had outstanding foreign currency forward and swap contracts aggregating $105.5 million, of which $97.0 million related to intercompany debt and $8.5 million related to the purchase of merchandise from foreign vendors. The contracts hedge against currency fluctuations of British Pounds ($32.9 million), Euros ($61.7 million), Australian Dollars ($9.0 million), Swiss Francs ($1.4 million), Japanese Yen ($355 thousand), Swedish Krona ($82 thousand) and New Zealand Dollars ($82 thousand). As of December 27, 2003, the fair value of these contracts, calculated as the gross value of future U.S. dollar payments and receipts determined by quoted market prices was $114.9 million. These contracts expire through January 2005. For the year ended December 27, 2003, we recognized a loss relating to our foreign currency forward and swap contracts of $200 thousand.

Risk Factors

Stockholders and investors should carefully consider the risks described below and other information in this annual report. Our business, financial condition and operating results, and the trading price of our common stock could be adversely affected if any of these risks materialize.

- The healthcare products distribution industry is highly competitive, and we compete with numerous companies, including major manufacturers and distributors that have greater financial and other resources than us. Competitors could obtain exclusive rights to market particular products or manufacturers could increase their efforts to sell directly to end-users, thereby bypassing distributors like us. Consolidation among healthcare products distributors could result in existing competitors increasing their market position. In addition, unavailability of products, whether due to our inability to gain access to products or interruptions in supply of products from manufacturers, could adversely affect our operating results.
- In recent years, the healthcare industry has undergone significant change driven by various efforts to reduce costs, including the reduction of spending budgets by government and private insurance programs, such as Medicare, Medicaid and corporate health insurance plans; trends toward managed care; consolidation of healthcare distribution companies; electronic commerce; and collective purchasing arrangements among office-based healthcare practitioners. If we are unable to react effectively to these and other changes in the healthcare industry, our operating results could be adversely affected.
- Our technology segment, which primarily sells practice management software and other value-added products, depends upon continued product development, technical support and marketing. Failures in these and related areas could adversely affect our results of operations.
- Our business is subject to requirements under various local, state, federal and foreign governmental laws and regulations applicable to the manufacture and distribution of pharmaceuticals and medical devices, including the Federal Food, Drug, and Cosmetic Act, the Prescription Drug Marketing Act of 1987 and the Controlled Substances Act. There is no assurance that current or future government regulations will not adversely affect our business.
- Our business involves a risk of product liability and other claims in the ordinary course of business, and from time to time we are named as a defendant in cases as a result of our distribution of pharmaceutical and other healthcare products. We have insurance policies, including product liability insurance, and in many cases we have indemnification rights from manufacturers with respect to the products we distribute. There is no assurance that insurance coverage or manufacturers' indemnity will be available in all of the pending or any future cases brought against us, or that an unfavorable result in any such case will not adversely affect our financial condition or results of operations.
- Our business is dependent upon our ability to hire and retain qualified sales representatives, service specialists and other sales agents. Due to the relationships developed between our field sales representatives and their customers, upon the departure of a sales representative we face the risk of losing the representative's customers, especially if the representative becomes an employee of one of our competitors.
- Our business is subject to seasonal and other quarterly influences. Net sales and operating profits are generally higher in the third and fourth quarters due to timing of seasonal product sales, software and equipment sales, year-end promotions and purchasing patterns of office-based healthcare practitioners and are generally lower in the first quarter primarily due to the increased purchases in the prior quarter.
- Our international operations are subject to inherent risks, which could adversely affect our operating results. These risks include difficulties in opening and managing foreign offices and distribution centers; difficulties in establishing channels of distribution; fluctuations in the value of foreign currencies; longer payment cycles of foreign customers and difficulty in collecting receivables in foreign jurisdictions; import/export duties and quotas; and unexpected regulatory, economic and political changes in foreign markets.
- Our expansion through acquisitions and/or joint ventures could result in a loss of customers, diversion of management attention and increased demands on our operations, information systems and financial resources.
- We rely on third parties to ship products to our customers. Increases in shipping rates or interruptions of service could adversely affect our operating results.
- Changes in e-commerce could affect our business relationships and could require significant resources. The rapid advancement of on-line commerce requires us to provide continuous improvement in performance, security, features and reliability of Internet content and technology, particularly in response to competitive offerings.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

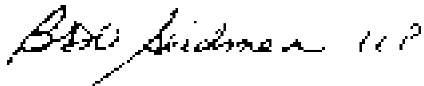
Board of Directors and Stockholders
Henry Schein, Inc.
Melville, New York

We have audited the accompanying consolidated balance sheets of Henry Schein, Inc. as of December 27, 2003 and December 28, 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 27, 2003. 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 consolidated financial position of Henry Schein, Inc. at December 27, 2003 and December 28, 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 27, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5, the Company changed its policy of accounting for goodwill in 2002 as required by Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets".



BDO SEIDMAN, LLP

New York, New York
February 24, 2004

HENRY SCHEIN, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	December 27, 2003	December 28, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 157,351	$ 200,651
Marketable securities	3,012	31,209
Accounts receivable, net of reserves of $43,203 and $36,200	467,085	368,263
Inventories	385,846	323,080
Deferred income taxes	30,559	29,919
Prepaid expenses and other	112,631	74,407
Total current assets	1,156,484	1,027,529
Property and equipment, net	154,205	142,532
Goodwill	398,888	302,687
Other intangibles, net	37,551	7,661
Investments and other	72,242	77,643
Total assets	$1,819,370	$1,558,052
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 278,163	$ 243,166
Bank credit lines	6,059	4,790
Current maturities of long-term debt	3,253	2,662
Accruals:		
Payroll and related expenses	68,214	53,954
Taxes	45,969	32,196
Other expenses	117,530	86,562
Total current liabilities	519,188	423,330
Long-term debt	247,100	242,561
Other liabilities	37,432	24,196
Minority interest	11,532	6,748
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 authorized, none outstanding	—	—
Common stock, $.01 par value, 120,000,000 authorized, 43,761,973 and 44,041,591 outstanding	438	440
Additional paid-in capital	445,118	436,554
Retained earnings	533,654	430,389
Treasury stock, at cost, 0 and 62,479 shares	—	(1,156)
Accumulated other comprehensive income (loss)	24,999	(4,794)
Deferred compensation	(91)	(216)
Total stockholders' equity	1,004,118	861,217
Total liabilities and stockholders' equity	$1,819,370	$1,558,052

See accompanying notes.

HENRY SCHEIN, INC
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Net sales	$3,353,805	$2,825,001	$2,558,243
Cost of sales	2,426,611	2,030,097	1,858,919
Gross profit	927,194	794,904	699,324
Operating expenses:			
Selling, general and administrative	693,475	598,635	551,574
Merger, integration and restructuring credits	—	(734)	—
Operating income	233,719	197,003	147,750
Other income (expense):			
Interest income	8,746	10,446	10,078
Interest expense	(18,311)	(17,960)	(17,324)
Other, net	1,622	940	(153)
Income before taxes on income, minority interest, equity in earnings of affiliates and loss on sale of discontinued operation	225,776	190,429	140,351
Taxes on income from continuing operations	(84,378)	(70,510)	(51,930)
Minority interest in net income of subsidiaries	(2,807)	(2,591)	(1,462)
Equity in earnings of affiliates	931	659	414
Net income from continuing operations	139,522	117,987	87,373
Loss on sale of discontinued operation, net of tax	(2,012)	—	—
Net income	$ 137,510	$ 117,987	$ 87,373
Net income from continuing operations per common share:			
Basic	$ 3.19	$ 2.71	$ 2.06
Diluted	$ 3.10	$ 2.63	$ 2.01
Loss on discontinued operation, net of tax per common share:			
Basic	$ (0.04)	$ —	$ —
Diluted	$ (0.04)	$ —	$ —
Net income per common share:			
Basic	$ 3.15	$ 2.71	$ 2.06
Diluted	$ 3.06	$ 2.63	$ 2.01
Weighted-average common shares outstanding:			
Basic	43,709	43,489	42,366
Diluted	44,988	44,872	43,545

See accompanying notes.

HENRY SCHEIN, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, except share and per share data)

	Common Stock $.01 Par Value		Additional	Retained	Treasury	Accumulated Other	Deferred	Total
	Shares	Amount	Paid-in Capital	Earnings	Stock	Comprehensive Income (Loss)	Compensation	Stockholders' Equity
Balance, December 30, 2000	41,946,284	$419	$373,413	$225,029	$(1,156)	$(18,179)	$(466)	$ 579,060
Net income	—	—	—	87,373	—	—	—	87,373
Foreign currency translation loss	—	—	—	—	—	(5,743)	—	(5,743)
Total comprehensive income	—	—	—	—	—	—	—	81,630
Stock issued to ESOP trust	61,997	1	2,224	—	—	—	—	2,225
Amortization of restricted stock	—	—	—	—	—	—	125	125
Stock issued upon exercise of stock options, including tax benefit of $3,262	736,923	7	17,410	—	—	—	—	17,417
Balance, December 29, 2001	42,745,204	427	393,047	312,402	(1,156)	(23,922)	(341)	680,457
Net income	—	—	—	117,987	—	—	—	117,987
Foreign currency translation gain	—	—	—	—	—	18,989	—	18,989
Net unrealized investment gain	—	—	—	—	—	139	—	139
Total comprehensive income	—	—	—	—	—	—	—	137,115
Stock issued to ESOP trust	24,859	—	1,340	—	—	—	—	1,340
Amortization of restricted stock	—	—	—	—	—	—	125	125
Stock issued upon exercise of stock options, including tax benefit of $8,058	1,271,528	13	42,167	—	—	—	—	42,180
Balance, December 28, 2002	44,041,591	440	436,554	430,389	(1,156)	(4,794)	(216)	861,217
Net income	—	—	—	137,510	—	—	—	137,510
Foreign currency translation gain	—	—	—	—	—	30,765	—	30,765
Net unrealized investment loss	—	—	—	—	—	(125)	—	(125)
Pension adjustment loss	—	—	—	—	—	(847)	—	(847)
Total comprehensive income	—	—	—	—	—	—	—	167,303
Stock issued to ESOP trust	39,786	—	2,300	—	—	—	—	2,300
Amortization of restricted stock	—	—	—	—	—	—	125	125
Retirement of treasury stock	(62,479)	—	(571)	(585)	1,156	—	—	—
Repurchase and retirement of common stock	(1,335,000)	(13)	(28,081)	(33,660)	—	—	—	(61,754)
Stock issued upon exercise of stock options, including tax benefit of $12,579	1,078,075	11	34,916	—	—	—	—	34,927
Balance, December 27, 2003	43,761,973	$438	$445,118	$533,654	$ —	$ 24,999	$ (91)	$1,004,118

See accompanying notes.

HENRY SCHEIN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Cash flows from operating activities of continuing operations:			
Net income	$137,510	$117,987	$ 87,373
Loss on sale of discontinued operation, net of tax	2,012	—	—
Net income from continuing operations	139,522	117,987	87,373
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	36,843	28,272	35,642
Provision for losses and allowances on trade receivables	6,548	8,962	8,850
Stock issued to ESOP trust	2,300	1,340	2,225
Provision for deferred income taxes	5,524	226	292
Undistributed earnings of affiliates	(931)	(659)	(414)
Minority interest in net income of subsidiaries	2,807	2,591	1,462
Other	2,005	145	7,067
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(69,543)	(6,714)	2,332
Inventories	(28,781)	(23,075)	(17,850)
Other current assets	(16,957)	(18,445)	8,808
Accounts payable and accruals	49,506	24,039	55,124
Net cash provided by operating activities of continuing operations	128,843	134,669	190,911
Cash flows from investing activities:			
Purchases of capital expenditures	(38,978)	(47,543)	(46,127)
Payments for business acquisitions, net of cash acquired	(118,180)	(36,224)	(8,588)
Purchases of marketable securities	(39,667)	(55,211)	—
Proceeds from sales of marketable securities	40,619	—	—
Proceeds from maturities of marketable securities	39,030	—	—
Other, including discontinued operation	(946)	(3,780)	(355)
Net cash used in investing activities	(118,122)	(142,758)	(55,070)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	—	—	10,166
Principal payments on long-term debt	(8,667)	(14,941)	(13,042)
Proceeds from issuance of stock upon exercise of stock options	22,348	34,122	14,155
Net (payments on) borrowing from banks	(180)	394	(10,752)
Payments for repurchases of common stock	(61,754)	—	—
Other	(122)	(892)	(156)
Net cash (used in) provided by financing activities	(48,375)	18,683	371
Net change in cash and cash equivalents	(37,654)	10,594	136,212
Effect of exchange rate changes on cash and cash equivalents	(5,646)	(3,310)	(1,207)
Cash and cash equivalents, beginning of year	200,651	193,367	58,362
Cash and cash equivalents, end of year	$157,351	$200,651	$193,367

See accompanying notes.

Note 1–Significant Accounting Policies

Nature of Operations

We distribute healthcare products and services primarily to office-based healthcare practitioners in the combined North American and European markets with operations in the United States, Canada, the United Kingdom, the Netherlands, Belgium, Germany, France, Austria, Spain, Ireland, Portugal, Australia and New Zealand. We sell products and services to customers in dental practices and dental laboratories, as well as physician practices, veterinary clinics, government and other institutions.

Principles of Consolidation

Our consolidated financial statements include the accounts of Henry Schein, Inc. and all of our wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions are eliminated in consolidation. Investments in unconsolidated affiliates, which are greater than or equal to 20% and less than or equal to 50% owned, are accounted for under the equity method. Certain prior period amounts have been reclassified to conform to the current period presentation.

Use of Estimates

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

We report our operations and cash flows on a 52-53 week basis ending on the last Saturday of December. Each of the three years ended December 27, 2003 consisted of 52 weeks.

Revenue Recognition

We generate revenue from the sale of dental, medical and veterinary consumable products, as well as dental equipment, software products and services and other sources. Provisions for discounts, rebates to customers, customer returns and other adjustments are recorded based upon historical data and are provided for in the period in which the related sales are recognized.

Revenue derived from the sale of consumable products is recognized when products are shipped to customers. Such sales typically entail high-volume, low-dollar orders shipped utilizing third-party common carriers. We believe that the shipment date is the most appropriate point in time indicating the completion of the earnings process because we have no post-shipment obligations, the product price is fixed and determinable, collection of the resulting receivable is probable and product returns are reasonably estimable.

Revenue derived from the sale of dental equipment is recognized when products are delivered to customers. Such sales typically entail scheduled deliveries of large equipment primarily by equipment service technicians. Some equipment sales require minimal installation, which is completed at the time of delivery.

Revenue derived from the sale of software products is recognized when products are shipped to customers. Such software is generally installed by customers and does not require extensive training due to the nature of its design. Revenue derived from post-contract customer support for software, including annual support and/or training, is recognized ratably over the period in which the services are provided.

Revenue derived from other sources including freight charges, equipment repairs and financial services, is recognized when the related product revenue is recognized or when the services are provided.

Note 1–Significant Accounting Policies (Continued)

Cash and Cash Equivalents

We consider all highly-liquid debt instruments and other short-term investments with an original maturity of three months or less to be cash equivalents. Book overdrafts representing outstanding checks in excess of funds on deposit, which are primarily related to payments for inventory, were classified as accounts payable. Such amounts were $0 and $27.0 million at December 27, 2003 and December 28, 2002.

Marketable Securities

Marketable securities are classified as available-for-sale and are recorded at fair value. The fair value of substantially all securities is determined by quoted market prices. Unrealized gains and losses, net of related taxes, are included as a separate component of stockholders' equity.

Accounts Receivable and Reserves

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects our best estimate of the amounts that will not be collected. The reserve for accounts receivable is comprised of allowance for doubtful accounts and sales returns. In addition to reviewing delinquent accounts receivable, we consider many factors in estimating our general allowance, including historical data, experience, customer types, credit worthiness and economic trends. From time to time, we may adjust our assumptions for anticipated changes in any of these or other factors expected to affect collectability.

Direct Shipping and Handling Costs

Freight and other direct shipping costs are included in cost of sales. Direct handling costs, which represent primarily direct compensation costs of employees who pick, pack and otherwise prepare, if necessary, merchandise for shipment to our customers are reflected in selling, general and administrative expenses. These costs were $25.7 million, $23.2 million and $21.2 million for each of the three years ended December 27, 2003.

Advertising and Promotional Costs

We generally expense advertising and promotional costs as incurred. Total advertising and promotional expenses were $18.6 million, $13.9 million and $14.3 million for each of the three years ended December 27, 2003.

Inventories

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

Note 1–Significant Accounting Policies (Continued)

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost. 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. 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	3-8

Capitalized software costs consist of costs to purchase and develop software. Costs incurred during the application development stage for software bought and further customized by outside vendors for our use and software developed by a vendor for our proprietary use have been capitalized. Costs incurred for our own personnel who are directly associated with software development are also capitalized.

Taxes on Income

We account 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 our financial statements or tax returns. In estimating future tax consequences, we generally consider 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. We file a consolidated United States Federal income tax return with our 80% or greater owned United States subsidiaries.

Foreign Currency Translation and Transactions

The financial position and results of operations of our 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 other comprehensive income (loss) account in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings.

Risk Management and Derivative Financial Instruments

We use derivative instruments to minimize our exposure to fluctuations in interest rates and foreign currency exchange rates. Our objective is to manage the impact that interest rate and foreign currency exchange rate fluctuations could have on recognized asset and liability fair values, earnings and cash flows. We do not enter into derivative instruments for speculative purposes. Our derivative instruments include interest rate swap agreements related to our long-term fixed rate debt; foreign currency forward and swap contracts related to intercompany loans and certain forecasted transactions with foreign vendors. We consider our net investments in foreign subsidiaries to be both long-term and strategic and consequently do not hedge such investments. Our risk management policy requires that derivative contracts used as hedges be effective at reducing the risks associated with the exposure being hedged and be designated as a hedge at the inception of the contract.

Our interest rate swap agreements are designated as fair value hedging instruments. The terms of the interest rate swap agreements are identical to the Senior Notes and consequently qualify for an assumption of no ineffectiveness under the provisions of Statement of Financial Accounting Standards ("FAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities". Both the interest rate swap agreements and the underlying Senior Notes are marked-to-market through earnings at the end of each period; however, since our interest rate swap agreements are deemed fully effective, these mark-to-market adjustments have no net impact on earnings.

Note 1–Significant Accounting Policies (Continued)

Our foreign currency forward and exchange contracts are designated as cash flow hedging instruments. These contracts are recorded at fair value on the balance sheet and all changes in fair value are deferred in accumulated other comprehensive income (loss) until the underlying transactions are recognized. Upon recognition, such gains or losses are recorded in operations as an adjustment to the carrying amounts of the underlying transactions in the period in which these transactions are recognized.

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 recorded as goodwill. Certain acquisitions provide for contingent consideration, primarily cash, to be paid in the event certain financial performance targets are satisfied over future periods. We have not accrued any liabilities that may arise from these transactions since the outcome of the contingencies are not determinable beyond a reasonable doubt.

Goodwill and Other Indefinite-Lived Intangible Assets

In accordance with FAS No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. Such impairment tests require the comparison of the fair value and carrying value of reporting units. Measuring fair value of a reporting unit is generally based on valuation techniques using multiples of sales or earnings, unless supportable information is available for using a present value technique, such as estimates of future cash flows. We assess the potential impairment of goodwill and other indefinite-lived intangible assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Some factors we consider important which could trigger an interim impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and
- Significant negative industry or economic trends.

If we determine through the impairment review process that goodwill has been impaired, we record an impairment charge in our consolidated statements of income. Based on our 2003 impairment review process, we have not recorded any impairments during the year ended December 27, 2003.

Long-Lived Assets

Long-lived assets, other than goodwill and other indefinite-lived intangible assets, 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 such assets. Other definite-lived intangible assets are amortized over their estimated useful lives. Such definite-lived intangible assets primarily consist of non-compete agreements, and customer relationships. When an impairment exists, the related assets are written down to fair value. We have not recorded any impairments during the year ended December 27, 2003.

Stock-Based Compensation

We account for stock option awards under the intrinsic value-based method of accounting prescribed by APB No. 25, "Accounting for Stock Issued to Employees". Under this method, no compensation expense is recorded provided the exercise price is equal to or greater than the quoted market price of the stock at the grant date.

We make pro forma disclosures of net income and earnings per share as if the fair value-based method of accounting (the alternative method of accounting for stock-based compensation) had been applied as required by FAS No. 123, "Accounting for Stock-Based Compensation". The fair value-based method requires us to make assumptions to determine expected risk-free interest rates, stock price volatility, dividend yield and weighted-average option life.

Note 1–Significant Accounting Policies (Continued)

Under the accounting provisions of FAS 123, our net income and net income per common share would have been adjusted to the pro forma amounts indicated in the table below. The following assumptions were used in determining the fair values: weighted-average risk-free interest rates of 3.0%, 4.0% and 4.7% for the years ended December 27, 2003, December 28, 2002 and December 29, 2001, stock price volatility of 45.0%, dividend yield of 0.0% and weighted-average expected option life of five years for each of the three years ended December 27, 2003.

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Net income as reported	$137,510	$117,987	$87,373
Deduct: Total tax affected stock-based compensation expense determined under fair value method	(7,413)	(5,725)	(5,782)
Pro forma net income	$130,097	$112,262	$81,591
Net income per common share, as reported:			
Basic	$ 3.15	$ 2.71	$ 2.06
Diluted	$ 3.06	$ 2.63	$ 2.01
Net income per common share, pro forma:			
Basic	$ 2.98	$ 2.58	$ 1.93
Diluted	$ 2.89	$ 2.50	$ 1.87

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is computed similarly to basic, except it reflects, in periods in which they have a dilutive effect, the effect of common shares issuable upon exercise of stock options using the treasury stock method.

Comprehensive Income

Comprehensive income includes certain 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. Our comprehensive income is primarily comprised of net income and foreign currency translation adjustments, but also includes unrealized gains (losses) on hedging activity and marketable securities and a pension adjustment loss in 2003.

New Accounting Pronouncements

In December 2003, the FASB issued a revision to FAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement does not change the measurement or recognition aspects for pensions and other postretirement benefit plans; however, it does revise employers' disclosures to include more information about the plan assets, obligations to pay benefits and funding obligations. FAS 132, as revised, was effective for our 2003 consolidated financial statements. The adoption of FAS 132 did not have a material effect on our consolidated financial statements.

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." FAS No. 150 clarifies the definition of a liability as currently defined in FASB Concepts Statement No. 6, "Elements of Financial Statements," as well as other planned revisions. This statement requires a financial instrument that embodies an obligation of an issuer to be classified as a liability. In addition, the statement establishes standards for the initial and subsequent measurement of these financial instruments and disclosure requirements. FAS 150 was effective for financial instruments entered into or modified after May 31, 2003. For all instruments entered into or last modified prior to May 31, 2003, FAS 150 was effective at the beginning of our third quarter of 2003. The adoption of FAS 150 did not have a material effect on our financial position or results of operations.

Note 1–Significant Accounting Policies (Continued)

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." FAS No. 149 amends FAS No. 133 for decisions made by the FASB's Derivatives Implementation Group, other FASB projects dealing with financial instruments, and in response to implementation issues raised in relation to the application of the definition of a derivative. This statement is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of FAS 149 did not have a material effect on our financial position or results of operations.

In January 2003, the FASB issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities" and in December 2003, a revised interpretation was issued (FIN No. 46(R)). In general, a variable interest entity ("VIE") is a corporation, partnership, trust, or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a VIE to be consolidated by a company if that company is designated as the primary beneficiary. Application of FIN 46 is required in financial statements of public entities that have interest in structures that are commonly referred to as special-purpose entities, or SPEs, for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of VIEs (i.e. non-SPEs) is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46 did not have a material effect on our financial position or results of operations.

In December 2002, the FASB issued FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." This statement amends FAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We adopted the disclosure provisions of this standard.

In November 2002, the FASB reached a consensus regarding EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. The guidance provided by EITF 00-21 is effective for contracts entered into on or after July 1, 2003. The adoption of EITF 00-21 did not have a material effect on our financial position or results of operations.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. FIN 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 did not have a material effect on our financial position or results of operations.

In June 2002, the FASB issued FAS 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The principal difference between this Statement and EITF 94-3 relates to the Statement's requirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, whereas under EITF 94-3, a liability was recognized at the date of an entity's commitment to an exit plan. This Statement is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of FAS 146 did not have a material effect on our financial position or results of operations.

In June 2001, the FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting requirements for retirement obligations associated with tangible long-lived assets. In May 2002, the FASB issued FAS No. 145, "Rescission of FASB Statements 4, 44, 64, Amendment to FASB Statement No. 13, and Technical Corrections as of April 2002." FAS 145 amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. FAS 143 and 145 were effective commencing April 1, 2003 and did not have a material effect on our financial position or results of operations.

Note 2–Earnings Per Share

A reconciliation of shares used in calculating basic and diluted earnings per common share follows:

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Basic	43,708,586	43,489,229	42,366,048
Effect of assumed conversion of stock options	1,279,162	1,382,965	1,179,061
Diluted	44,987,748	44,872,194	43,545,109

Weighted-average options to purchase 17,177, 30,322 and 1,142,556 shares of common stock at prices ranging from $52.51 to $68.83, $46.80 to $54.00 and $35.50 to $46.00 per share that were outstanding during 2003, 2002 and 2001 were excluded from the computation of diluted earnings per common share. In each of these periods, the options' exercise prices exceeded the average market price of our common stock.

Note 3–Investments in Marketable Securities

Investments in available-for-sale securities as of December 27, 2003 were as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Market Value
Debt Securities recorded at market, maturing within one year				
Municipal securities	$ 3,012	$ —	$ —	$ 3,012
Total short-term	3,012	—	—	3,012
Debt Securities recorded at market, maturing between one and three years				
U.S. government and agency securities	10,505	1	(22)	10,484
Municipal securities	1,000	—	—	1,000
Total long-term	11,505	1	(22)	11,484
Total investments in marketable securities	$14,517	$ 1	$ (22)	$14,496

Note 3–Investments in Marketable Securities (Continued)

Investments in available-for-sale securities as of December 28, 2002 were as follows:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Market Value
Debt Securities recorded at market, maturing within one year				
U.S. government and agency securities	$ 7,517	$ 68	$ —	$ 7,585
Municipal securities	14,512	4	—	14,516
Corporate notes and bonds	9,106	2	—	9,108
Total short-term	31,135	74	—	31,209
Debt Securities recorded at market, maturing between one and two years				
U.S. government and agency securities	15,911	64	—	15,975
Municipal securities	1,000	—	—	1,000
Corporate notes and bonds	7,000	1	—	7,001
Total long-term	23,911	65	—	23,976
Total investments in marketable securities	$55,046	$139	$ —	$55,185

We determine cost of investments on the specific identification basis. Proceeds from sales of available-for-sale securities were $40.6 million in 2003 and $0 in 2002. Gross realized gains were $114 and gross realized losses were $26 in 2003. There was no gains or losses on the sales of securities in 2002. The securities held on December 27, 2003 had contractual maturities of up to three years. The securities held on December 28, 2002 had contractual maturities of up to two years. Expected maturities of debt securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Note 4–Property and Equipment, Net

Property and equipment consisted of the following:

	December 27, 2003	December 28, 2002
Land	$ 7,754	$ 7,061
Buildings and leasehold improvements	64,410	62,724
Machinery and warehouse equipment	34,148	27,165
Furniture, fixtures and other	30,176	25,737
Computer equipment and software	150,193	121,364
	286,681	244,051
Less accumulated depreciation and amortization	(132,476)	(101,519)
Property and equipment, net	$154,205	$142,532

The net book value of equipment held under capital leases amounted to approximately $2.3 million and $930 as of December 27, 2003 and December 28, 2002. Depreciation expense for 2003, 2002 and 2001 was $33.6 million, $27.2 million and $22.6 million.

Note 5–Goodwill and Other Intangibles, Net

The changes in the carrying amount of goodwill for the year ended December 27, 2003 were as follows:

	Healthcare Distribution	Technology	Total
Balance as of December 28, 2002	$302,352	$ 335	$302,687
Adjustments to goodwill:			
Acquisitions	80,480	1,550	82,030
Divestiture	(2,358)	—	(2,358)
Foreign currency translation	17,621	—	17,621
Other	(1,092)	—	(1,092)
Balance as of December 27, 2003	$397,003	$1,885	$398,888

The acquisition costs incurred during the year ended December 27, 2003 related to eight acquisitions, contingent earnout payments relating to acquisitions made in prior years and increased ownership interests in consolidated subsidiaries.

With the adoption of FAS 142, we ceased amortization of goodwill as of December 30, 2001. The following table presents our results for all periods presented on a comparable basis applying the effects of the adoption of FAS 142 to the year ended December 29, 2001:

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Net income	$137,510	$117,987	$87,373
Add back goodwill amortization, net of tax	—	—	7,296
Adjusted net income	$137,510	$117,987	$94,669
Diluted net income per common share:			
Net income	$ 3.06	$ 2.63	$ 2.01
Add back goodwill amortization, net of tax	—	—	0.17
Adjusted diluted net income per common share	$ 3.06	$ 2.63	$ 2.18

Other intangible assets consisted of the following:

	December 27, 2003		December 28, 2002 (1)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Non-compete agreements	$18,869	$ (5,021)	$10,826	$ (3,549)
Trademarks and trade names	12,494	—	71	—
Customer relationships	11,547	(1,074)	—	—
Other	3,316	(2,580)	897	(584)
Total	$46,226	$ (8,675)	$11,794	$ (4,133)

(1) Reclassified to conform to current year presentation.

Note 5–Goodwill and Other Intangibles, Net (Continued)

Trademarks and trade names and customer relationships were primarily related to acquisitions made during the year ended December 27, 2003. Trademarks and trade names are deemed indefinite-lived intangible assets and are not amortized. Customer relationships are definite-lived intangible assets which are amortized on a straight-line basis over a weighted-average period of 5.3 years as of December 27, 2003.

Amortization of definite-lived intangible assets for the years ended December 27, 2003, December 28, 2002 and December 29, 2001 was $3.2 million, $1.1 million and $1.3 million. The annual amortization expense expected for the years 2004 through 2008 is $4.6 million, $3.5 million, $2.6 million, $1.9 million and $1.4 million.

Note 6–Investments and Other

Investments and other consisted of the following:

	December 27, 2003	December 28, 2002
Long-term note receivables (1)	$35,434	$39,566
Investments in long-term marketable securities	11,484	23,976
Deposit on long-term inventory purchase agreement	6,899	—
Investment in unconsolidated affiliates	5,538	4,728
Non-current deferred income tax asset	4,200	—
Other	8,687	9,373
	$72,242	$77,643

(1) Long-term note receivables carry interest rates ranging from 2.6% to 12.0% and are due in varying installments through 2020. Long-term note receivables include notes arising from the sale of certain businesses in prior years of approximately $19.7 million in 2003 and $22.5 million in 2002.

Note 7–Business Acquisitions and Divestiture

On January 8, 2004, we entered into agreements to purchase demedis GmbH ("demedis"), a leading full-service distributor of dental consumables and equipment in Germany, Austria, and the Benelux countries, and Euro Dental Holding GmbH ("EDH"), which includes KRUGG S.p.A., Italy's leading distributor of dental consumable products and DentalMV GmbH (otherwise know as Muller & Weygandt), one of Europe's leading direct marketing distributors of dental consumable products. Thirty-five million euros of the purchase price of approximately 255 million euros was paid on January 20, 2004. The remainder of the purchase price of approximately 220 million euros is payable in cash and due at closing.

During the year ended December 27, 2003, we acquired eight healthcare distribution businesses, which were not considered material on either an individual or aggregate basis. On May 28, 2003, we acquired all of the outstanding common stock of Hager Dental GmbH, a dental distributor of consumable supplies and equipment located in Germany. On June 2, 2003, we acquired the assets of Colonial Surgical Supply, Inc., a United States dental distributor of consumable supplies, primarily examination gloves. On November 17, 2003 we acquired Damer & Cartwright Pharmaceutical, Inc. and American Medical Services, Inc., specialty pharmaceutical distributors in the United States.

The 2002 reported net sales were over $50.0 million for Hager Dental, over $40.0 million for Colonial Surgical and over $100.0 million for Damer & Cartwright and American Medical Services. The acquisitions were accounted for under the purchase method of accounting and have been included in our consolidated financial statements from their respective acquisition dates.

On August 29, 2003, we sold PMA Bode GmbH, an x-ray film distribution business located in Germany, which was a component of our healthcare distribution business segment. PMA Bode generated annual net sales of approximately $31.0 million. The loss recorded on the sale of PMA Bode was approximately $2.0 million (net of $54 tax benefit) and is presented separately as a loss on sale of discontinued operation in our statements of income. Due to immateriality, we have not reflected the operating results of PMA Bode separately as a discontinued operation for any of the periods presented.

Note 7–Business Acquisitions and Divestiture (Continued)

During the year ended December 28, 2002, we purchased additional interests in three consolidated subsidiaries in Europe. These purchases were not considered material either individually or in the aggregate.

During the year ended December 29, 2001, we completed the acquisition of two healthcare distribution businesses, which included the purchase of the remaining 50% interest of an affiliate. Neither of these purchases was considered material either individually or in the aggregate. The two transactions were accounted for under the purchase method of accounting and have been included in the consolidated financial statements from their respective acquisition dates.

Note 8–Debt

Bank Credit Lines

We have a Revolving Credit Facility of $200.0 million that is a committed line scheduled to terminate in May 2006. The interest rate is based on LIBOR, or prime, as defined in the agreement, which were 1.1% and 4.0% at December 27, 2003. The agreement provides, among other things, that we maintain certain interest coverage and maximum leverage ratios, and contains restrictions relating to annual dividends in excess of $25.0 million, guarantees of subsidiary debt, investments in subsidiaries, mergers and acquisitions, liens, certain changes in ownership and employee and shareholder loans. There were no borrowings under this credit facility as of December 27, 2003.

As of December 27, 2003, certain of our subsidiaries had available various short-term bank credit lines totaling approximately $32.6 million expiring through October 2004. Borrowings of $6.1 million under these credit lines, bear interest at rates ranging from 2.8% to 6.5%, and were collateralized by accounts receivable, inventory and property and equipment with an aggregate net book value of $73.9 million at December 27, 2003.

In connection with our pending acquisition of demedis and EDH for approximately 255 million euros, as discussed in Note 7, we will be paying approximately 220 million euros at closing. The remaining purchase price will be paid from existing cash resources and/or the proceeds of (i) a bridge loan and/or (ii) the issuance or sale in a public or private placement of equity interests or notes, debentures or other debt securities (or another debt financing) with a maturity in excess of one year (in any case, a "Permanent Financing"). We have obtained commitments for a $150.0 million bridge loan facility scheduled to mature on the six-month anniversary of the closing of the acquisition. The bridge loan will be unsecured, and will bear interest, at our option, at LIBOR plus 0.925% or the prime rate. We intend to refinance the bridge loan by means of a Permanent Financing or, if a Permanent Financing can be arranged prior to the consummation of the Acquisition, we will pay the purchase price with the proceeds of such Permanent Financing. The acquisition is subject to standard closing conditions and regulatory approvals and is expected to close mid-year 2004.

Long-term debt

Long-term debt consisted of the following:

	As of December 27, 2003	As of December 28, 2002
Senior Notes	$230,741	$230,000
Notes payable to banks, interest rates ranging from 3.9% to 9.0%, payable in quarterly installments ranging from $5 to $102 through 2019	12,494	11,667
Various uncollateralized loans payable with interest, in varying installments through 2006	4,780	1,509
Capital lease obligations (see Note 13)	2,338	2,047
Total	250,353	245,223
Less current maturities	(3,253)	(2,662)
Total long-term debt	$247,100	$242,561

Note 8–Debt (Continued)

As of December 27, 2003, the aggregate amounts of long-term debt maturing in each of the next five years are as follows: 2004 - $3.3 million; 2005 - $3.3 million; 2006 - $22.0 million; 2007 - $21.9 million; 2008 - $20.8 million.

In prior years, we completed private placement transactions under which we issued $130.0 million and $100.0 million in Senior Notes. The $130.0 million notes mature on June 30, 2009 and bear interest at a rate of 6.94% per annum. Principal payments on the $100.0 million notes totaling $20.0 million annually are due starting September 25, 2006 and bear interest at a rate of 6.66% per annum. Interest on both notes is payable semi-annually.

During the year ended December 27, 2003, we entered into interest rate swap agreements relating to our $230.0 million Senior Notes to exchange our fixed interest rates for variable interest rates. The weighted-average variable interest rate was 4.25% as of December 27, 2003. This variable rate is comprised of LIBOR plus the spreads and resets on the interest due dates of the Senior Notes.

The agreement governing our Senior Notes provides, among other things, that we will maintain on a consolidated basis, certain leverage and priority debt ratios and a minimum net worth. The agreement also contains restrictions relating to transactions with affiliates, annual dividends, mergers and acquisitions and liens.

Note 9 – Taxes on Income

Taxes on income are based on income before taxes on income, minority interest, equity in earnings of affiliates and loss on sale of a discontinued operation were as follows:

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Domestic	$214,283	$186,134	$140,675
Foreign	11,493	4,295	(324)
Total	$225,776	$190,429	$140,351

The provision (benefit) for taxes on income from continuing operations was as follows:

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Current tax expense:			
U.S. Federal	$61,383	$59,254	$46,225
State and local	10,680	9,223	3,806
Foreign	6,791	1,807	1,607
Total current	78,854	70,284	51,638
Deferred tax expense (benefit):			
U.S. Federal	7,088	(1,196)	(162)
State and local	1,141	(151)	234
Foreign	(2,705)	1,573	220
Total deferred	5,524	226	292
Total provision	$84,378	$70,510	$51,930

Note 9– Taxes on Income (Continued)

The tax effects of temporary differences that give rise to our deferred tax asset (liability) were as follows:

	December 27, 2003	December 28, 2002
Current deferred tax assets:		
Inventory, premium coupon redemptions and accounts receivable valuation allowances	$17,021	$18,991
Uniform capitalization adjustments to inventories	4,365	3,473
Other accrued liabilities	9,173	7,455
Total current deferred tax asset	30,559	29,919
Non-current deferred tax asset (liability):		
Property and equipment	(18,980)	(14,590)
Provision for other long-term liabilities	(26,593)	(17,723)
Net operating loss carryforward	1,981	1,318
Net operating losses of foreign subsidiaries	15,552	11,221
Total non-current deferred tax liability	(28,040)	(19,774)
Valuation allowance for non-current deferred tax assets (1)	(698)	(1,842)
Net non-current deferred tax liability	(28,738)	(21,616)
Net deferred tax asset	$ 1,821	$ 8,303

(1) Primarily relates to operating losses of foreign subsidiaries.

The net deferred tax asset is realizable as we have sufficient taxable income in prior years to realize the tax benefit for deductible temporary differences. The non-current deferred tax liability is included in "Other liabilities" on the accompanying consolidated balance sheets.

As of December 27, 2003, we have domestic unconsolidated net operating loss carry forwards of $5.0 million, which are available to offset future federal taxable income through 2023. Foreign net operating losses totaled $43.5 million as of December 27, 2003. Such losses can be utilized against future foreign income and have an indefinite life.

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

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Income tax provision at federal statutory rate	$79,020	$66,652	$49,122
State income taxes, net of federal income tax effect	7,684	5,897	2,626
Change in valuation reserve and other	(2,326)	(2,039)	182
Total income tax provision	$84,378	$70,510	$51,930

Note 9–Taxes on Income (Continued)

Provision has not been made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries, which 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 us or a U.S. affiliate, or if we should sell our 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, we believe that foreign tax credits would substantially offset any U.S. tax liabilities. As of December 27, 2003, the cumulative amount of reinvested earnings was approximately $9.8 million.

Note 10–Financial Instruments and Concentrations of Credit Risk

Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash equivalents, trade receivables and short-term investments – Due to the short-term maturity of such instruments, the carrying amounts are a reasonable estimate of fair value.

Long-term investments and notes receivable – The fair values of long-term marketable securities are estimated based on quoted market prices for those investments. Such instruments are carried at fair value on the balance sheet. For investments in unconsolidated affiliates and notes receivable there are no quoted market prices available; however, we believe the carrying amounts are a reasonable estimate of fair value.

Long-term debt – The fair value of our long-term debt is estimated based on the quoted market prices for similar issues. The fair value of our long-term debt as of December 27, 2003 and December 28, 2002 was estimated at $250.4 million and $245.2 million.

Derivative instruments – The fair value of foreign currency forward contracts and interest rate swap agreements are estimated by obtaining quotes from brokers. Such instruments are carried at fair value on the balance sheet. The fair value of our foreign currency forward contracts as of December 27, 2003 and December 28, 2002 were estimated at $114.9 million and $78.0 million which approximated contract value. The fair value of our interest rate swap agreements as of December 27, 2003 were estimated at $1.6 million. The fair value of interest rate swap agreements are the estimated amounts we would pay or receive to terminate the agreements at the reporting date, taking into account current interest rates, market expectations for future interest rates and our current creditworthiness.

Concentrations of Credit Risk

Certain financial instruments potentially subject us to concentrations of credit risk. These financial instruments consist primarily of cash equivalents, trade receivables, short-term investments, long-term investments, notes receivable and derivative instruments. In all cases, our maximum exposure to loss from credit risk equals the gross fair value of the financial instruments. We continuously assess the need for reserves for such losses, which have historically been within our expectations. We do not require collateral or other security to support financial instruments subject to credit risk, except for long-term notes receivable.

With respect to our cash equivalents, short-term and long-term investments and derivative instruments, our credit risk is limited due to our counter-parties being high-credit quality financial institutions. As a risk management policy, we limit the amount of credit exposure by utilizing numerous different counter-parties.

With respect to our trade receivables, our credit risk is somewhat limited due to a relatively large customer base and its dispersion across different types of healthcare professionals and geographic areas. We do have some concentrations of credit risk associated with our sales to hospitals; however, such credit risks are somewhat mitigated by our method of monitoring credit-worthiness and collectability of larger accounts on a customer-by-customer basis. No single customer accounted for more than 1.3% of our net sales in 2003.

Our long-term note receivables represent strategic financing arrangements with certain industry affiliates and amounts owed to us from sales of certain businesses. Generally, these notes are secured by certain assets of the counter-party; however, in most cases our security is subordinate to other commercial financial institutions. While we have exposure to credit loss in the event of non-performance by these counter-parties, we conduct ongoing assessments of their financial and operational performance.

Note 11–Segment and Geographic Data

Our reportable segments are strategic business units that offer different products and services to the same customer base. We conduct our business through two segments: healthcare distribution and technology.

Our healthcare distribution segment, which is comprised of our dental, medical (including veterinary) and international business groups, distributes healthcare products (primarily consumable) and services primarily to office-based healthcare practitioners and professionals in the United States, Canada and international markets. Products, which are similar for each business group, are maintained and distributed from strategically located distribution centers.

Our technology segment consists primarily of our practice management software business and certain other value-added products and services that are distributed primarily to healthcare professionals in the United States and Canada. Most of the technology business, including members of its management, was acquired as a unit.

The following tables summarize information by business segment:

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Net Sales:			
Healthcare distribution (1):			
Dental (2)	$1,364,812	$1,227,273	$1,121,394
Medical (3)	1,338,084	1,093,956	982,569
International (4)	576,628	437,046	398,071
Total healthcare distribution	3,279,524	2,758,275	2,502,034
Technology (5)	74,281	66,726	56,209
Total	$3,353,805	$2,825,001	$2,558,243

(1) Consists of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, surgical products, diagnostic tests, infection control products and vitamins.

(2) Consists of products sold in the United States and Canada.

(3) Consists of products sold in the United States' Medical and Veterinary markets.

(4) Consists of products sold in Dental, Medical and Veterinary markets, primarily in Europe.

(5) Consists of practice management software and other value-added products and services, which are distributed primarily to healthcare professionals in the United States and Canada.

Note 11–Segment and Geographic Data (Continued)

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001 (1)
Operating Income:			
Healthcare distribution	$205,029	$170,987	$128,337
Technology	28,690	26,016	19,413
Total	$233,719	$197,003	$147,750
Interest Income:			
Healthcare distribution	$ 8,662	$ 10,354	$ 9,565
Technology	5,231	4,022	2,494
Total	$ 13,893	$ 14,376	$ 12,059
Interest Expense:			
Healthcare distribution	$ 18,311	$ 18,012	$ 18,814
Technology	5,147	3,878	491
Total	$ 23,458	$ 21,890	$ 19,305
Depreciation and Amortization:			
Healthcare distribution	$ 34,067	$ 25,978	$ 34,412
Technology	2,776	2,294	1,230
Total	$ 36,843	$ 28,272	$ 35,642
Capital Expenditures:			
Healthcare distribution	$ 37,485	$ 46,641	$ 45,428
Technology	1,493	902	699
Total	$ 38,978	$ 47,543	$ 46,127

	December 27, 2003	December 28, 2002	December 29, 2001 (1)
Total Assets:			
Healthcare distribution	$1,798,857	$1,533,529	$1,369,241
Technology	134,615	106,319	75,030
Total	$1,933,472	$1,639,848	$1,444,271

(1) Reclassified to conform to current year presentation.

Note 11–Segment and Geographic Data (Continued)

The following table reconciles segment totals to consolidated totals as of and for the years ended December 27, 2003, December 28, 2002 and December 29, 2001:

	2003	2002	2001 (1)
Total Assets:			
Total assets for reportable segments	$1,933,472	$1,639,848	$1,444,271
Receivables due from healthcare distribution segment	(113,629)	(80,855)	(57,685)
Receivables due from technology segment	(473)	(941)	(1,158)
Consolidated assets	$1,819,370	$1,558,052	$1,385,428
Interest Income:			
Total interest income for reportable segments	$ 13,893	$ 14,376	$ 12,059
Interest on receivables due from healthcare distribution segment	(5,147)	(3,878)	(1,737)
Interest on receivables due from technology segment	—	(52)	(244)
Consolidated interest income	$ 8,746	$ 10,446	$ 10,078
Interest Expense:			
Total interest expense for reportable segments	$ 23,458	$ 21,890	$ 19,305
Interest on payables due to healthcare distribution segment	—	(52)	(244)
Interest on payables due to technology segment	(5,147)	(3,878)	(1,737)
Consolidated interest expense	$ 18,311	$ 17,960	$ 17,324

(1) Reclassified to conform to current year presentation.

The following table presents information about us by geographic area as of, and for the three years ended December 27, 2003. Net sales by geographic area are based on the respective locations of our subsidiaries. No individual country, except for the United States, generated net sales greater than 10% of consolidated net sales. There were no material amounts of sales or transfers among geographic areas and there were no material amounts of United States export sales.

	2003		2002 (1)		2001 (1)	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
United States	$2,708,195	$403,629	$2,333,347	$318,323	$2,114,623	$292,281
Foreign	645,610	187,015	491,654	134,557	443,620	113,703
Consolidated Total	$3,353,805	$590,644	$2,825,001	$452,880	$2,558,243	$405,984

(1) Reclassified to conform to current year presentation.

Our subsidiary located in Germany had long-lived assets of $119.0 million, $85.2 million and $71.8 million as of December 27, 2003, December 28, 2002 and December 29, 2001.

Note 12–Stockholders' Equity

(a) Common Stock Purchase Rights

On November 30, 1998, our Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan"), and declared a dividend under the Rights Plan of one common stock purchase right (a "Right") on each outstanding share of our common stock. Until the occurrence of certain events, each share of common stock that is issued will also have attached to it a Right. The Rights provide, in substance, that should any person or group acquire 15% or more of our outstanding common stock after the date of adoption of the Rights Plan, each Right, other than Rights held by the acquiring person or group, would entitle its holder to purchase a certain number of shares of common stock for 50% of the then-current market value of the common stock. Unless a 15% acquisition has occurred, we may redeem the Rights at any time prior to the termination date of the Rights Plan. This Right to purchase the common stock at a discount will not be triggered by a person's or group's acquisition of 15% or more of the common stock pursuant to a tender or exchange offer which is for all outstanding shares at a price and on terms that the Board of Directors determines (prior to acquisition) to be adequate and in the stockholders' best interests. In addition, the Right will not be triggered by the positions of existing shareholders.

Certain business combinations involving an acquiring person or its affiliates will trigger an additional feature of the Rights. Each Right, other than Rights held by the acquiring person or group, will entitle its holder to purchase a certain number of shares of common stock of the acquiring person at a price equal to 50% of the market value of such shares at the time of exercise. Initially, the Rights will be attached to, and trade with, the certificates representing our outstanding shares of common stock and no separate certificates representing the Rights will be distributed. The Rights will become exercisable only if a person or group acquires, or commences a tender or exchange offer for, 15% or more of our common stock.

The Board of Directors may, at its option, redeem all but not less than all of the then outstanding Rights at a redemption price of $0.01 per Right at any time prior to the earlier of (a) any person or group acquiring 15% or more of our common stock or (b) the final expiration date of November 30, 2008.

(b) Stock Options

We established the 1994 Stock Option Plan (the "Plan") for the benefit of certain employees. As amended in June 2003, pursuant to this plan we may issue up to approximately 8,579,635 shares of our 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 our 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 vest evenly over three years from the date of grant; however shares exercised in the second and third year after the date of grant may not be sold until the third anniversary of the date of grant. Class B options expire on the tenth anniversary of the date of issuance, subject to acceleration upon termination of employment.

On May 8, 1996, our stockholders approved the 1996 Non-Employee Director Stock Option Plan. As amended in June 2003, pursuant to this plan we may grant options to each director who is not also an officer or employee, for up to 200,000 shares of our 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 2003, 2002 and 2001, 50,000, 40,000 and 12,000 options, were granted to certain non-employee directors at exercise prices equal to the market price on the date of grant.

Additionally, in 1997 as a result of our acquisition of Sullivan Dental Products, Inc. and Micro Bio-Medics, Inc., we assumed their respective stock option plans (the "Assumed Plans"). Options granted under the Assumed Plans of 1,218,000 and 1,117,000, which are convertible into our common stock, 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.

Note 12–Stockholders' Equity (Continued)

A summary of the status of our stock option plans, including the Assumed Plans, is presented below:

	Years ended					
	December 27, 2003		December 28, 2002		December 29, 2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,281,425	$29.20	4,646,271	$26.04	4,650,722	$24.59
Granted	1,096,050	40.30	1,017,850	41.37	883,600	28.73
Exercised	(1,078,075)	20.73	(1,271,528)	26.69	(736,923)	19.21
Forfeited	(65,694)	33.48	(111,168)	37.56	(151,128)	30.26
Outstanding at end of year	4,233,706	$34.16	4,281,425	$29.20	4,646,271	$26.04
Options exercisable at end of year	2,995,383	$31.55	3,183,593	$26.44	3,722,164	$26.53

The following table summarizes information about stock options outstanding at December 27, 2003:

			Options Outstanding			Options Exercisable	
			Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Range of Exercise Prices							
$4.21	to	$19.76	429,940	4.7	$13.80	429,940	$13.80
20.16	to	30.06	1,068,491	6.5	27.30	1,020,961	27.24
31.13	to	45.59	2,610,075	7.6	39.32	1,507,526	39.10
45.96	to	68.83	125,200	9.1	55.11	36,956	49.57
			4,233,706	7.1	34.16	2,995,383	31.55

(c) Employee Benefit Plans

401(k) Plan

We offer qualified, fully-funded 401(k) plans to substantially all our domestic full-time employees. As determined by our Board of Directors, matching contributions to these plans are equal to 100% of the participants' contributions up to 7% of their base compensation. Matching contributions include both cash and our common stock. Forfeitures attributable to participants whose employment terminates prior to becoming fully vested are used to reduce our matching contributions.

Assets of the 401(k) plans are held in self-directed accounts enabling participants to choose from various investment fund options. Matching contributions to these plans charged to operations during 2003, 2002 and 2001 amounted to $7.6 million, $5.3 million and $4.1 million.

Note 12–Stockholders' Equity (Continued)

Supplemental Executive Retirement Plan

We offer an unfunded, non-qualified supplemental executive retirement plan to eligible employees. This plan generally covers officers and certain highly-compensated employees after they have reached the maximum IRS allowed pre-tax 401(k) contribution limit. Our contributions to this plan are equal to the 401(k) employee-elected contribution percentage applied to base compensation for the portion of the year in which such employees are not eligible to make pre-tax contributions to the 401(k) plan. The increases in plan value that were charged to operations during 2003, 2002 and 2001 amounted to $839, $707 and $426.

Note 13–Commitments and Contingencies

Operating Leases

We lease facilities and equipment under non-cancelable operating leases expiring through 2016. We expect that in the normal course of business, leases will be renewed or replaced by other leases.

Future minimum annual rental payments under our non-cancelable operating leases as of December 27, 2003 were:

2004	$ 22,286
2005	20,027
2006	15,321
2007	11,770
2008	8,955
Thereafter	24,419
Total minimum operating lease payments	$102,778

Total rental expense for 2003, 2002 and 2001 was $26.9 million, $25.8 million, and $26.1 million.

Capital Leases

We lease certain equipment under capital leases. Future minimum annual lease payments under our capital leases together with the present value of the net minimum lease payments as of December 27, 2003 were:

2004	$ 718
2005	864
2006	273
2007	245
2008	206
Thereafter	411
Total minimum capital lease payments	2,717
Less: Amount representing interest at 5.0% to 11.3%	(379)
Total minimum capital lease payments	$2,338

Note 13–Commitments and Contingencies (Continued)

Purchase Commitments

In our healthcare distribution business, we sometimes enter into long-term purchase commitments to ensure the availability of products for distribution. Future minimum annual payments for inventory purchase commitments as of December 27, 2003 were:

2004	$149,891
2005	128,495
2006	945
2007	—
2008	—
Thereafter	—
Total minimum inventory purchase commitment payments	$279,331

Litigation

Our business involves a risk of product liability claims and other claims in the ordinary course of business, and from time to time we are named as a defendant in cases as a result of our distribution of pharmaceutical and other healthcare products. As a business practice, we generally obtain product indemnification from our suppliers for manufactured products.

We have various insurance policies, including product liability insurance, covering risks and in amounts we consider adequate. In many cases in which we have been sued in connection with products manufactured by others, the manufacturer provides us with indemnification. There can be no assurance that the insurance coverage we maintain is sufficient or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide us with adequate protection. In our opinion, all pending matters, including those described below, are covered by insurance or will not otherwise seriously harm our financial condition.

Product Liability Claims

As of December 27, 2003, we were a defendant in approximately 16 product liability cases. Of these cases, 11 involve claims made by healthcare workers who claim allergic reaction relating to exposure to latex gloves. In each of these cases, we acted as a distributor of brand name and/or "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 us pending product identification; however, we have impleaded or filed cross claims against those manufacturers in each case in which we are a defendant.

As of December 27, 2003, we had accrued our best estimate of potential losses relating to product liability claims for which we were able to determine a reasonable estimated loss. This accrued amount was not material to our financial position, results of operations or cash flows. Our method for determining estimated losses considers currently available facts, presently enacted laws and regulations and other external factors, including potential recoveries from third parties.

Texas Class Action

On January 27, 1998, in District Court in Travis County, Texas, we and one of our subsidiaries were named as defendants in a matter entitled "Shelly E. Stromboe and Jeanne Taylor, on Behalf of Themselves and all others Similarly Situated vs. Henry Schein, Inc., Easy Dental Systems, Inc. and Dentisoft, Inc.", Case No. 98-00886. The petition 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.

Note 13–Commitments and Contingencies (Continued)

In October 1999, the trial 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 approximately 5,000 Windows® customers and approximately 10,000 DOS customers were covered by the class action that was certified by the trial court. In November of 1999, we filed an interlocutory appeal of the trial 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 trial court's certification order. On January 5, 2001, we filed a Petition for Review in the Texas Supreme Court asking the Court to find that it had "conflicts jurisdiction" to permit review of the trial court's certification order. The Texas Supreme Court heard oral argument on February 6, 2002. On October 31, 2002, the Texas Supreme Court issued an opinion in the case holding that it had conflicts jurisdiction to review the decision of the Court of Appeals and the finding that the trial court's certification of the case as a class action was improper. The Texas Supreme Court further held that the judgment of the Court of Appeals, which affirmed the class certification order, must be reversed in its entirety. Upon reversal of the class certification order, the Texas Supreme Court remanded the case to the trial court for further proceedings consistent with its opinion.

On January 31, 2003, counsel for the class filed a Motion for Rehearing with the Texas Supreme Court seeking a reversal of the Supreme Court's earlier opinion reversing the class certification order. On May 8, 2003, the Texas Supreme Court denied the Motion for Rehearing, letting stand its opinion dated October 31, 2002, which decertified both sub-classes in their entirety. On August 29, 2003, class counsel filed amended papers seeking certification of an amended Windows® class and an amended DOS class. The only claim asserted for class certification by the Windows® class was for the alleged breach of the implied warranty of merchantability. The only claim asserted for class certification by the DOS class were claims for alleged violations of the Texas Unsolicited Goods Statute and the Federal Unordered Merchandise Act. Defendants filed motions for partial summary judgment as to the claims asserted on behalf of the Windows® Class and the DOS Class. A hearing on Defendants' Motions for Partial Summary Judgment and Plaintiffs' Amended Motion to Certify a Class was held on November 18-20, 2003. By Order dated December 10, 2003, the trial court (1) denied Defendants' Motion for Partial Summary Judgment on the Windows® Class claims; (2) granted Defendants' Motion for Partial Summary Judgment on the DOS Class claims. By granting summary judgment on the claims asserted on behalf of the DOS class, the DOS motion for class certification became moot because certain class claims asserted by the named class representatives for the DOS class were found to be without merit. By Order dated January 13, 2004, the trial court denied the amended motion for class certification filed by the Windows® Class in its entirety. The deadline for the Windows® Class to file an interlocutory appeal of the denial of the amended motion for class certification was February 2, 2004. No appeal was filed on or before that date. As a result of the favorable rulings obtained in the trial court, only certain individual claims asserted on behalf of the named plaintiffs remain pending in this case.

Purported Class Action in New Jersey

In February 2002, we were served with a summons and complaint in an action commenced in the Superior Court of New Jersey, Law Division, Morris County, entitled "West Morris Pediatrics, P.A. and Avenel-Iselin Medical Group, P.A. vs. Henry Schein, Inc., doing business as Caligor", Case No. MRS-L-421-02. The plaintiffs' complaint purports to be on behalf of a nationwide class, but there has been no court determination that the case may proceed as a class action. Plaintiffs seek to represent a class of all physicians, hospitals and other healthcare providers throughout New Jersey and across the United States. This complaint, as amended in August 2002, alleges, among other things, breach of oral contract, breach of implied covenant of good faith and fair dealing, violation of the New Jersey Consumer Fraud Act, unjust enrichment, conversion and promissory estoppel relating to sales of a vaccine product in the year 2001. We filed an answer in October 2002. Because the plaintiffs have not specified damages, it is not possible to determine the range of damages or other relief sought by the plaintiffs. We intend to vigorously defend ourselves against this claim, as well as all other claims, suits and complaints.

Employment, Consulting and Non-Compete Agreements

We have employment, consulting and non-compete agreements expiring through 2007, except for a lifetime consulting agreement with a former principal stockholder, which provides for current compensation of $308 per year, increasing $25 every fifth year with the next increase in 2007. The agreements provide for varying base aggregate annual payments of approximately $2.5 million, which decrease periodically to approximately $344. In addition, some agreements have provisions for incentive and additional compensation.

Note 14–Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Years ended		
	December 27, 2003	December 28, 2002	December 29, 2001
Interest	$16,595	$17,217	$17,541
Income taxes	58,405	63,196	37,222

During the year ended December 27, 2003, as part of $155.0 million in acquisitions, we assumed $36.8 million in liabilities resulting in net cash payments of $118.2 million. During the year ended December 28, 2002, we had no significant non-cash investing or financing activities. During the year ended December 29, 2001, as part of a $10.1 million acquisition, we assumed $1.5 million in liabilities resulting in a net cash payment of $8.6 million.

Note 15–Quarterly Information (Unaudited)

The following presents certain quarterly financial data:

	Quarters ended			
	March 29, 2003	June 28, 2003	September 27, 2003	December 27, 2003
Net sales	$737,997	$776,166	$892,718	$946,924
Gross profit	201,417	220,529	251,500	253,748
Operating income (2)	42,205	56,030	76,400	59,084
Net income from continuing operations (1) (2)	24,766	32,855	46,359	35,542
Net income (1) (2)	24,766	32,855	44,347	35,542
Net income from continuing operations per common share:				
Basic	$ 0.56	$ 0.76	$ 1.06	$ 0.81
Diluted (4)	0.55	0.74	1.03	0.79

	Quarters ended			
	March 30, 2002	June 29, 2002	September 28, 2002	December 28, 2002
Net sales	$647,093	$671,432	$759,073	$747,403
Gross profit	178,390	192,396	216,472	207,646
Operating income (3)	35,198	46,989	64,285	50,531
Net income (3)	19,730	28,066	39,228	30,963
Net income per common share:				
Basic	$ 0.46	$ 0.65	$ 0.90	$ 0.70
Diluted (4)	0.45	0.63	0.87	0.69

Note 15–Quarterly Information (Unaudited) (Continued)

(1) During the third quarter of 2003, we recognized a $2.0 million loss, net of tax, from the sale of a discontinued operation (see Note 7). The effect of this loss on discontinued operation was $(0.04) on basic and diluted earnings per share for the third quarter of 2003.

(2) In the first quarter of 2003, we recorded a $726 pre-tax ($454 after-tax) gain related to a real estate transaction. This gain was included in the "Other, net" line on the consolidated statements of income.

(3) In the third quarter of 2002, we recorded a $1.4 million pre-tax ($890 after-tax) gain related to a real estate transaction. This gain was included in the "Other, net" line on the consolidated statements of income. In addition, in the fourth quarter of 2002, we recorded a net credit of $734 related to a reversal of previously accrued merger, integration and restructuring costs.

(4) Diluted earnings per share calculations for each quarter include the effect of dilutive stock options, which are added to the quarter's weighted-average number of common shares outstanding for each period. As a result of this dilutive adjustment, as well as changes in the number of common shares outstanding from quarter to quarter, the sum of the quarters does not equal the full year diluted earnings per common share amount.

Our business is subject to seasonal and other quarterly influences. Net sales and operating profits are generally higher in the third and fourth quarters due to timing of seasonal product sales, software and equipment sales, year-end promotions and purchasing patterns of office-based healthcare practitioners and are generally lower in the first quarter primarily due 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, timing of sales, special promotional campaigns, fluctuations in exchange rates and adverse weather conditions.

CORPORATE HEADQUARTERS

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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 May 25, 2004 at 10 a.m. at The Mark New York, 25 East 77th Street, New York, NY 10021.

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.caligor.com; www.giv.com; www.dentrix.com; www.easydental.com; www.labnet.net; www.digitaldentaloffice.com; www.zahndental.com; www.studentdentist.com; and www.avimark.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 27, 2003, 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

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STOCK TRANSFER AGENT

For address changes, account consolidation, registration changes, and lost stock certificates, please contact:
Continental Stock Transfer & Trust Company
17 Battery Place
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.

CORPORATEMISSION

To be the worldwide leader

in providing the best quality

and value in products and services

for our healthcare customers.

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