



 HENRY SCHEIN®

Celebrating 10 Years of Excellence and Growth  
as a Publicly-Traded Company

ANNUAL REPORT ▲ 2005

## ABOUT HENRY SCHEIN



Henry Schein, a FORTUNE 500® company, is the largest distributor of healthcare products and services to office-based practitioners in the combined North American and European markets. The Company's sales reached a record \$4.6 billion in 2005.

The Company provides innovative solutions for healthcare professionals, and is recognized for its excellent customer service and highly competitive prices. Henry Schein's four business groups—Dental, Medical/Veterinary, International, and Technology—serve more than 500,000 customers worldwide, including:

- ▲ Approximately 80% of the estimated 135,000 U.S. and Canadian office-based dental practices and 15,000 dental laboratories;
- ▲ Approximately 45% of the estimated 250,000 U.S. office-based physician practices, as well as surgical centers and other alternate-care sites;
- ▲ Over 70% of the estimated 26,000 U.S. veterinary clinics;
- ▲ Approximately 230,000 office-based dental, medical and veterinary practices outside North America, primarily in Europe, Australia, and New Zealand; and
- ▲ Government and other institutions providing healthcare services.

The Company operates through a centralized and automated distribution network, which provides customers in more than 200 countries with a comprehensive selection of more than 70,000 national and Henry Schein private-brand products in stock, as well as over 100,000 additional products available to our customers as special order items.

Henry Schein also offers a wide range of innovative value-added practice solutions for healthcare professionals, such as ARUBA®, the Company's electronic catalog and ordering system. Its leading practice-management software solutions, including DENTRIX® and Easy Dental® for dental practices and AVImark® for veterinary clinics, have been installed in more than 50,000 practices.

Henry Schein was named "Most Admired" in the "Wholesalers: Health Care" industry in the FORTUNE 2006 list of America's Most Admired Companies. In addition to its top overall ranking, the Company led the industry in use of corporate assets, quality of management and long-term investment, as well as being ranked first in social responsibility for the second consecutive year.

Headquartered in Melville, N.Y., Henry Schein employs nearly 11,000 people, and has operations in 19 countries. For more information, visit the Henry Schein Web site at [www.henryschein.com](http://www.henryschein.com).

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*About the cover: On November 30, 2005, Henry Schein, Inc. celebrated its 10th anniversary as a publicly-traded company by opening the NASDAQ® Stock Market. Before the opening, Henry Schein thanked its key constituents – customers, vendor partners, investors, and Team Schein Members, and reaffirmed its ongoing commitment to social responsibility.*



TO OUR STOCKHOLDERS,



## 2005 was another record year...

...for Henry Schein—one that culminated in our opening the NASDAQ® Stock Market for trading on November 30th to celebrate Henry Schein's tenth anniversary as a publicly-traded company.

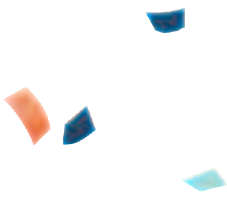
During the past decade, we have built a strong record of success by capitalizing on trends influencing the markets we serve and committing ourselves to meeting our customers' needs. As an integrated products and services company, Henry Schein is ideally positioned to serve the emerging global market of dental, medical, and veterinary office-based practitioners who have similar needs across geographic borders. Our markets are being fueled by a generation of baby boomers who are educated, affluent,

and willing to spend more to stay healthy and look good as they age. As awareness of the correlation between oral health and overall well-being increases, dental expenditures have risen, driven by greater demand for cosmetic dentistry, wider dental insurance coverage, and a growing use of dental pharmaceuticals. Similarly, medical expenditures have increased as procedures migrate from acute-care settings to physician's offices and alternate-care settings, and as the use of vaccines and other pharmaceuticals continues to grow. And with increasing expenditures to care for a growing pet population, the veterinary companion animal market remains strong.

As we have taken advantage of these opportunities, our net sales have grown at a 10-year compound annual growth rate (CAGR) of more than 22%, rising from \$616 million in 1995 to \$4.6 billion in 2005. This drove

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**Henry Schein is ideally positioned  
to serve the emerging global  
market of dental, medical and  
veterinary office-based  
practitioners.**



increases in our income from continuing operations (\$9 million to \$162 million, a 33% CAGR) and earnings from continuing operations per diluted share (\$0.35 to \$1.82, a 18% CAGR), which drove our market capitalization from \$400 million at our initial public offering to nearly \$4 billion at the end of 2005 (a 25% CAGR). This 1995 financial data excludes special management compensation and does not reflect subsequent restatements for pooling of interest transactions.

During the past decade, the countries where we have operations grew from 8 to 19, as the number of customers we serve increased from 200,000 to more than 500,000. To serve these customers, Team Schein grew from 2,600 members to nearly 11,000.

Our Company's 10 years of success is a result of the spirit of partnership with our customers. Each customer has an individual set of needs that we strive to meet every day, and the power of this customer partnership can be seen in our strong financial performance.

### **Financial and operational successes**

We posted record net sales of \$4.6 billion in 2005, an increase of 18.9% over the prior year, including 8.4% internal growth in local currencies. Our operating margin expanded by 68 basis points over 2004 while income from continuing operations and earnings per diluted share from continuing operations both increased by 30%. Each of our four business units posted market share gains for the year, with sales of \$1.9 billion for Dental, \$1.4 billion for Medical, \$1.3 billion for International, and \$88.2 million for Technology and Value-Added Services.

The financial success of our units was supported by our operational achievements for the year. Approximately 99% of items ordered in the U.S. and Canada are shipped without back ordering and are shipped on the same business day the order is received. We successfully implemented global corporate programs in human resources, information technology, inventory management, distribution, and other key operational



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**Our Company's 10 years of success is a result of the spirit of partnership with which we approach each of our 500,000 customer relationships.**



areas. And we generated better working capital management through improved turns in inventory and days sales outstanding for accounts receivable.

### **Expansion and growth**

The year was marked by new responsibilities for proven Company leaders. After 25 years of service to the Company



James Breslawski

with increasing responsibilities, James Breslawski became Henry Schein's President and Chief Operating Officer. Michael Zack, who has overseen Henry Schein's international expansion and growth

to nearly one-third of overall sales in his 17 years with the Company, recently was promoted to President of the International Group. These promotions underscored the depth of our core executive management team and were just two of many well-deserved Team Schein professional advancements. We also welcomed Paul Brons, a former member of the Board of Management of Akzo Nobel NV, to the Henry Schein Board of Directors.

As we focused on our growth strategy of pursuing strategic acquisitions and joint ventures, Henry Schein continued to expand around the world, welcoming more than 1,000 new Team Schein Members to our Company during 2005. We created the leader in Canada's expanding market for dental merchandise and equipment—Henry Schein Ash Arcona—through our acquisition of Ash Temple Ltd.

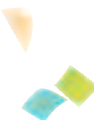
On the other side of the globe, we firmly established our Company as the leading dental distributor in Australia and New Zealand by acquiring Halas Dental Ltd. and Shalfoon Bros. Ltd. We further advanced our Pan-European strategy during the year, and by the end of the year we had completed our newly expanded global headquarters in Melville, New York.

### **Social responsibility**

Henry Schein distinguished itself in the area of social responsibility during 2005 through numerous Henry Schein Cares activities. We used our core competencies to help aid disaster relief by shipping medical supplies to

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Henry Schein Cares activities.**





help victims of the devastating tsunami in Asia, mobilizing help to the victims of Hurricanes Katrina and Rita in the U.S., and equipping medical teams deployed by the Disaster Resource Network to treat victims of the catastrophic earthquake that struck Pakistan. We also supported initiatives directly benefiting children, such as Give Kids a Smile, the annual American Dental Association's program that provides free dental treatment to more than one million underserved children; and our Back-To-School® and Holiday Cheer programs, which helped needy children in our communities return to school with new outfits and school supplies and provided gifts to make the holiday season more memorable.

Our work in social responsibility during 2005, as well as other facets of our business, was widely recognized. As Henry Schein ascended to #445 on the FORTUNE 500 list of America's largest companies as ranked by sales, our Company was ranked first in the "Wholesalers: Health Care" industry in the FORTUNE 2006 list of America's Most Admired Companies.

For all of these reasons, 2005 was a milestone year in our Company's 74-year history, but a milestone is only a marker on a much longer road that we continue to travel. I am convinced that the road Henry Schein is traveling with our customers, vendor partners, investors, and Team Schein Members stretches well into an increasingly brighter future, and that our best and most rewarding years are yet to come.

On behalf of our Board of Directors and my Team Schein colleagues, I thank you for your continued support.

Sincerely,

A handwritten signature in blue ink that reads 'Stanley M. Bergman'.

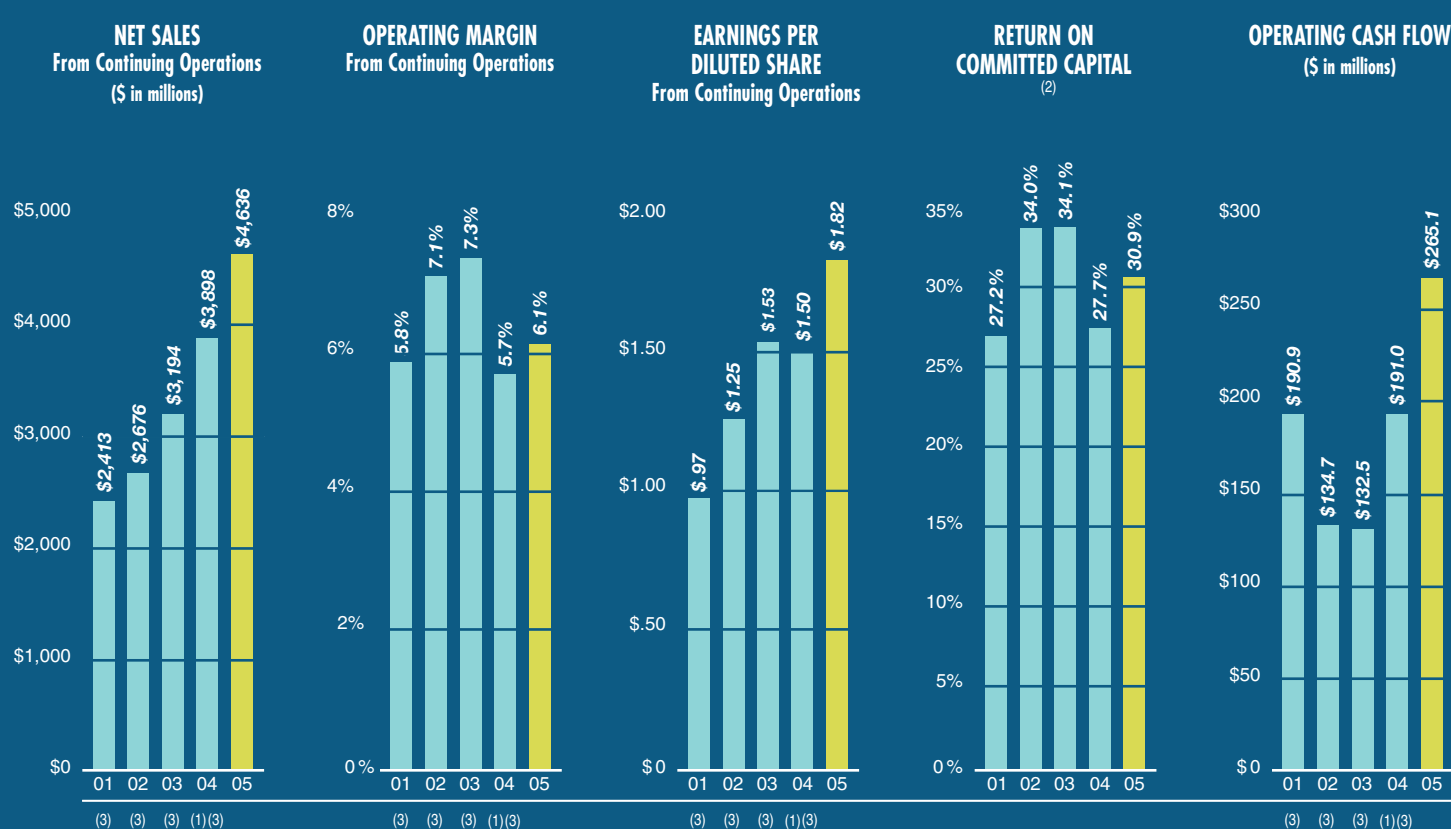
Stanley M. Bergman  
*Chairman and Chief Executive Officer*

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**Our best and most rewarding  
years are yet to come.**



## 2005 Financial Highlights



### NOTES:

Operating Margin and Earnings from Continuing Operations Per Diluted Share have been adjusted to exclude certain one-time items. Refer to Non-GAAP Disclosures on page 17. Additionally, refer to our annual consolidated financial statements for a complete presentation of our Consolidated Statements of Cash Flows.

(1) During 2004, we recorded a non-recurring \$13.2 million pre-tax (\$8.4 million post-tax) charge related to the Fluvirin® contract with Chiron Corporation. The effect that this charge had on earnings per share for the year ended December 25, 2004 was \$(0.10).

(2) 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).

(3) Adjusted to reflect the effects of discontinued operations.

# Henry Schein is the largest distributor of healthcare products and services to office-based practitioners in the combined North American and European markets.

We believe we also are the world's leading value-added dental distributor and the only Pan-European distributor in the office-based healthcare products industry.

Henry Schein partners with our 500,000 customers around the world to improve practice efficiency and productivity, enabling our customers to focus on delivering the highest quality of care to their patients. Nearly 11,000 Team Schein Members operating in 19 countries are committed to providing the best possible service to our customers, which include dental practices and laboratories, physician practices and veterinary clinics, as well as government and other institutions providing healthcare services.

Service to our customers is enhanced through our world-class centralized, leveragable infrastructure, which includes 2.7 million square feet of space in distribution centers strategically located throughout North America, Europe, Australia, and New Zealand. We efficiently and accurately shipped over 10 million customer orders in 2005. In the United States and Canada, 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. And through Schein Direct, we provide rapid door-to-door air package delivery to healthcare practitioners in more than 200 countries.

To further enhance our customer service, we invest in leading technology to manage all facets of our Company. We employ state-of-the-art "cold-chain" distribution capabilities to ensure the integrity of heat-sensitive products in the U.S.; we are a leading provider of vaccines to office-based practitioners, and in 2005 we shipped nearly 60% of the doses for the U.S. federal government's Vaccines for Children program.

Our customers also benefit from our unique marketing approach, which combines 2,200 field sales consultants and equipment sales specialists; 1,300 telesales representatives; 155 independent software sales representatives; and more than 700 equipment service technicians—all supported by more than 34 million targeted direct-marketing pieces annually.





*Main:* With 2.7 million square feet of distribution space in North America, Europe, Australia, and New Zealand, Henry Schein efficiently and accurately shipped over 10 million orders during 2005.  
*Inset left, right and bottom:* Henry Schein brings a spirit of partnership to each of our 500,000 customer relationships around the world. In addition to field sales consultants, our customers are served by equipment sales specialists, telesales representatives, independent software sales representatives, and equipment service technicians, and customers receive direct-marketing materials that are targeted specifically for their practices.

## What We Provide

We offer a comprehensive selection of more than 70,000 national and Henry Schein private-brand products in stock, as well as over 100,000 additional products available to our customers as special-order items.

This array of products includes dental, medical and veterinary consumables; equipment; Henry Schein private-brand products; and a growing number of important product exclusives, such as the Camlog™ dental implant system; Colgate® Oral Care Products; DEXIS® digital radiography products; BruxGuard™; Pentron® Laboratory Products; and ShadeVision™.

Henry Schein also is a leading supplier of vaccines, injectables, and other pharmaceuticals to physicians and alternate-care sites through our Medical Group, as well as our Veterinary Group. We offer formulary plans to organizations such as the American Medical Association, the American Society of Plastic Surgeons, the American Academy of Dermatology, and the American Academy of Ophthalmology, providing members with a selection of commonly used products at discounted rates.

Our dental, medical, and veterinary customers are turning to technology tools to increase practice efficiency and support the delivery of quality healthcare. Our practice management software products provide practitioners with patient treatment history, billing, accounts receivable management, appointment calendars, electronic claims capability, and much more. As the foundation for a digital dental office, our DENTRIX® product provides seamless integration of digital X-ray, intraoral imaging, and other tools to enhance patient treatment. We believe that DENTRIX® is the industry's leading dental practice management software in the U.S., with the fastest growing user base and superior clinical features, and it has once again been ranked by an independent dental products research organization as highest in customer satisfaction. More than 50,000 practice-management software solutions are currently in use, including DENTRIX® and Easy Dental® for dental practices, LabNet for dental laboratories, and AVImark® for veterinary

clinics. In addition, we recently began offering electronic medical records software solutions to our medical customers.

Our commitment to customer-based technology is further seen in our Dental Resource Center (DRC), a revolutionary Web site we launched late in 2005 that brings together all the information dentists need to grow their practices in comprehensive 3-D multimedia modules. With online continuing education, dental equipment manuals, industry updates and hundreds of product tutorials, the DRC is a powerful tool for today's practicing dentist.

Our customers also turn to us for a wide array of value-added services including handpiece and small equipment repair service through ProRepair® as well as repair services for other equipment through COMPLETEcare. We also offer office design services and continuing education for healthcare professionals. Technology drives many of the services we offer: we processed more than 33 million electronic health claims in 2005; our Information Technology Solutions provide computer hardware, integration and support services; and through our ARUBA® Web-based electronic catalog and ordering system and other options, our customers can order from us 24/7. Our Financial Services offering enables our customers to lease and finance equipment, offer patient-financing options, provide electronic credit card processing, and access credit facilities. And to enhance customer loyalty, we offer Privileges™, which now provides more than 21,000 customers in the U.S., and a growing number of customers outside the U.S., with priority service, guaranteed response time for emergency repairs, free extended warranties, and preferred pricing, as well as gift certificates and redeemable reward points.



**Main:** Digital radiography solutions, such as the DENTRIX ImageRAYi, produce an image in seconds. Patient safety, a considerable savings in time, and a savings in the cost of developing chemicals makes the switch to digital attractive to any practice. **Inset Left:** Henry Schein provides customers with a comprehensive selection of more than 70,000 national and Henry Schein private-brand products in stock, as well as over 100,000 additional products available as special-order items. **Inset right:** Henry Schein is a leading supplier of vaccines, injectables, and other pharmaceuticals to physicians and alternate-care sites. **Inset bottom:** To help our veterinary customers deliver the best-quality care as they enhance practice efficiency and success, Henry Schein provides a broad offering of products and services at competitive prices.

## What Sets Us Apart

We believe our Company's greatest asset is Team Schein, which includes nearly 11,000 members who have built a unique corporate culture that focuses on delivering the best possible service to our customers.

Our culture is defined by our values, including mutual responsibility, ethical behavior, creativity and open communication. We recognize that each Team Schein Member is a vital spoke in the Team Schein "Wheel of Success," and that each person is as important as the next. We also believe in ongoing sales force education and training to make each interaction as productive as possible for our customers. And we are committed to enhancing diversity and cultural competency throughout our Company to better serve our changing customer base.

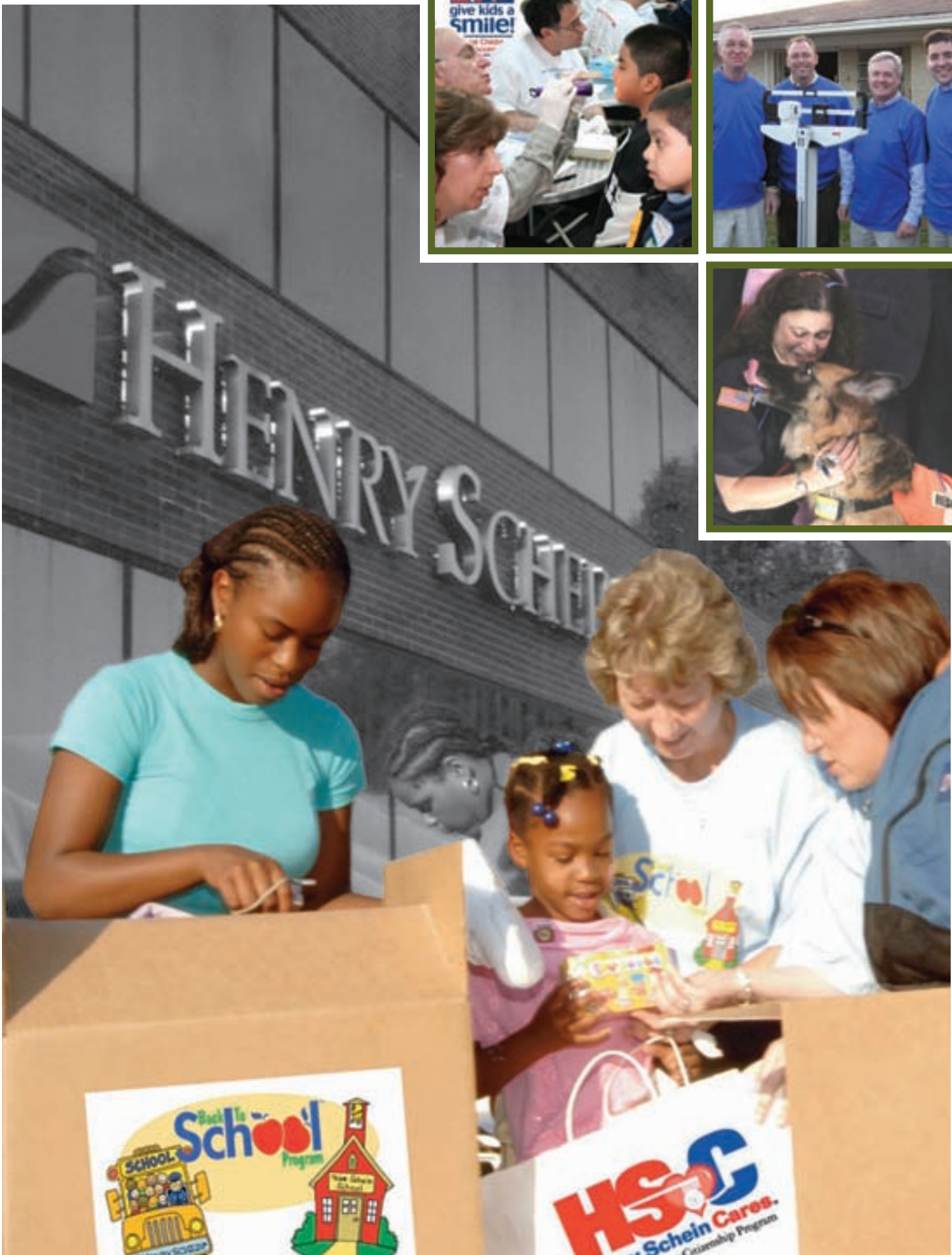
Our Team Schein Culture includes a commitment to social responsibility, which we put into action through Henry Schein Cares, our global corporate citizenship program. The mission of Henry Schein Cares is to assist in narrowing the disparity in the delivery of healthcare services and information in underserved communities, both in the United States and abroad, by providing resources to support the programs of community-based health professionals and their organizations.

Through Henry Schein Cares, we address issues of importance to our customers. For example, through a four-year collaboration with the American Dental Association (ADA), we have served as exclusive distributor of professional products for the annual Give Kids a Smile program. With the support of more than 50

of our manufacturing partners, we furnish nearly 40,000 dental volunteers with the supplies they need to treat more than one million underserved children on a single day.

We also use our core competencies to help address disaster relief, as we did following the catastrophic Asian tsunamis and the devastating earthquake in Pakistan. When Hurricanes Katrina and Rita struck the U.S. Gulf Coast, we activated our disaster relief hotline for our customers and shipped dental, medical, and veterinary supplies to state health departments in the affected areas. We worked closely with government officials, relief agencies and industry partner associations, stored relief products and vaccines in our distribution centers, and established a program to match, dollar-for-dollar, disaster relief contributions made by Team Schein Members. In partnership with the ADA, we also dispatched Tomorrow's Dental Office Today—a mobile, technology-driven dental resource—to Mississippi to enable dental professionals to provide emergency dental treatment for area residents.

Henry Schein Cares programs give back to our local communities as well. We help children return to the classroom with new outfits and backpacks filled with school supplies, and provide gifts to less fortunate children through our Back-To-School and Holiday Cheer initiatives.



*Main:* Henry Schein's annual Back-To-School program has now helped more than 3,100 children in six states where we have operations return to the classroom with new outfits and backpacks filled with school supplies. *Inset left:* For the third consecutive year, Henry Schein served as exclusive distributor of professional products for the ADA's Give Kids a Smile program, through which more than one million underserved children receive free oral healthcare diagnosis and treatment on a single day. *Inset right:* Team Schein Members helped stock the shelves of Coastal Family Health Center in Biloxi, Miss., a Henry Schein Cares project that was featured on ABC's Extreme Makeover: Home Edition. *Inset bottom:* In 2005, support from Henry Schein Cares helped rescue dogs, including Lara, lend their expertise to search and rescue operations.

## At-A-Glance



### Dental

Sales: \$1.9 billion  
% of total Company sales: 41%



### Medical (Including Veterinary)

Sales: \$1.4 billion  
% of total Company sales: 30%



### International

Sales: \$1.3 billion  
% of total Company sales: 27%



### Technology & Value-Added Services

Sales: \$88 million  
% of total Company sales: 2%

**Dental Customers:** Serves approximately 80% of the estimated 135,000 U.S. and Canadian office-based dental practices and 15,000 dental laboratories; has approximately 38% share of the estimated \$5 billion U.S. and Canadian dental distribution market.

**Dental Market Dynamics:** Dental service expenditures are expected to increase 6% in each of the next 5 years driven by a number of factors, including an increase in the percentage of the U.S. population with dental insurance coverage. Those with dental insurance visit the dentist more often and have more procedures performed. There also is greater emphasis on cosmetic dentistry, and a growing awareness of the correlation between oral health and overall well-being. In addition, there is a growing use of dentistry in pharmaceutical therapies and diagnostic procedures. As demand for dental procedures increases, there are fewer practicing dentists. Therefore, greater practice productivity is required. This trend is a strong driver for dental equipment and technology sales as dental practices are looking to expand their capacity.

**Medical Customers:** Serves approximately 45% of the estimated 250,000 U.S. office-based physician practices, as well as surgical centers, and other alternate-care sites; has approximately 17% of the estimated \$8 billion medical distribution market.

**Medical Market Dynamics:** Demand for physician and clinical services are expected to increase over 6% in each of the next 5 years. A variety of tests, screenings, and other elective and surgical procedures traditionally done in hospitals or acute-care settings are now being performed in less expensive in-office or alternate-care settings. It is estimated that 63% of all surgeries are now outpatient procedures. In addition, there is continued growth in the use of vaccines, injectables, and other pharmaceuticals in the alternate-care setting.

**Veterinary Customers:** Serves over 70% of the estimated 26,000 U.S. veterinary clinics.

**Veterinary Market Dynamics:** It is estimated that the companion animal market (which is comprised primarily of dogs and cats) is approximately \$2–3 billion and growing at 6–7% annually. This growth is due to favorable demographics, including the growing number of U.S. households (1.2 million new households each year), a higher proportion of households who own pets (60% today versus 56% in 1988), a growing pet population (142 million cats and dogs in 2003 versus 107 million in 1989) and increasing annual expenditures per pet (8% growth in annual spending per pet for veterinary services). As a result of the combination of an increase in the use of advanced technology in companion animal treatments and the willingness of pet owners to spend money on preventative and wellness programs for their pets due to strong emotional connections, the companion animal segment is poised to continue growing.

- ▲ Sales of \$4.6 billion
- ▲ Nearly 11,000 Team Schein Members
- ▲ More than 500,000 customers
- ▲ Operations in 19 countries
- ▲ More than 170,000 products available
- ▲ More than 50,000 practice management software systems installed
- ▲ 33 million health insurance claims processed electronically
- ▲ 99% customer order fulfillment rate
- ▲ Over 10 million customer orders shipped

**International Customers:** Serves approximately 230,000 office-based dental, medical, and veterinary practices in 17 countries outside of the United States and Canada, including: Austria, Australia, Belgium, the Czech Republic, France, Germany, Iceland, Ireland, Israel, Italy, Luxembourg, the Netherlands, New Zealand, Portugal, Spain, Switzerland, and the United Kingdom. In addition, practitioners in over 200 countries are served through Schein Direct<sup>®</sup>, which provides door-to-door air package delivery service. The Company currently holds approximately 20% share of the estimated \$5 billion European dental distribution market; and approximately 5% share of the estimated European medical and veterinary distribution market.

**International Market Dynamics:** Practitioners around the globe have similar needs and face many of the same challenges as they look to operate efficient and profitable practices, while providing a high quality of patient care. Henry Schein is uniquely positioned to serve these practitioners and take a leadership role in the European dental, medical, and veterinary distribution markets, estimated to be growing at approximately 5% annually, by continuing to develop an infrastructure based on its state-of-the-art U.S. model. The Company will continue to explore expansion opportunities abroad in countries where it currently has a presence, as well as potential expansion into new markets.

**Technology Customers:** Serves dental and medical practices, and veterinary clinics. More than 50,000 proprietary software systems are installed, including DENTRIX<sup>®</sup> and Easy Dental<sup>®</sup> for dental practices; LabNet for dental laboratories; AVImark<sup>®</sup> for veterinary clinics; and EMR solutions for physician practices. These software solutions provide practitioners with an array of clinical and practice management features, including patient treatment history, billing, accounts receivable management, appointment calendars, electronic claims processing, and much more. Other Value-Added Services offered by Henry Schein include an array of financial services and continuing education programs for healthcare professionals.

**Technology Market Dynamics:** There is opportunity to cross-sell a number of additional products through relationships with practice management software customers. These products include core consumables; equipment and services; high-tech products that interface with practice management software, such as digital X-ray and intraoral imaging; and other add-on products and services, such as e-claims, statement processing, and continuing education. At Henry Schein we are truly committed to providing customers with the tools needed to manage more efficient practices. In an independent survey, DENTRIX software was ranked number one in customer satisfaction with superior clinical features, and was deemed to be the fastest growing in the marketplace.

## 10 Years of Excellence and Growth as a Publicly-Traded Company

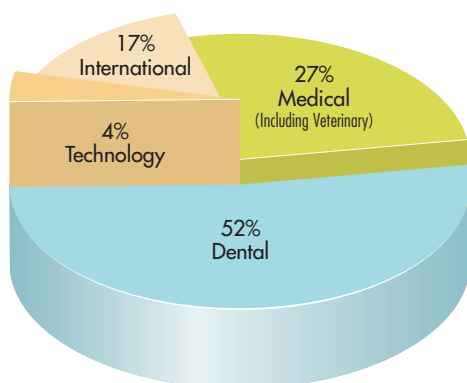
FINANCIAL GROWTH SINCE GOING PUBLIC			
From Continuing Operations			
(\$ in millions, except per share data)			
	1995	2005	Compound Annual Growth Rate (Except Operating Margin)
Sales	\$616	\$4,636	22%
Operating Income	\$20*	\$281	30%
Operating Margin	3.2%*	6.1%	290 bp
Net Income	\$9*	\$162	33%
Diluted EPS	\$0.35*	\$1.82	18%
Stock Price	\$8	\$43.64	19%
Market Capitalization	\$400	\$3,800	25%

\*Refer to Non-GAAP Disclosures on page 17.

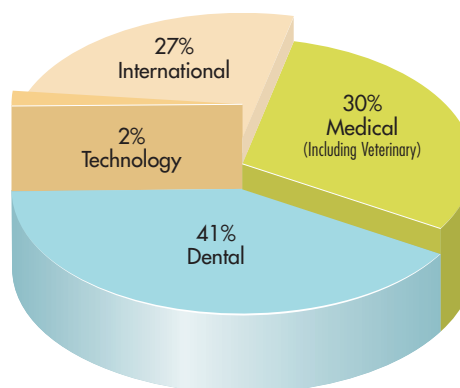
### NET SALES BY MARKET SHARE SINCE GOING PUBLIC

From Continuing Operations

1995 Worldwide Sales:  
\$616 million



2005 Worldwide Sales:  
\$4.6 billion



#### CAGR: 1995–2005

Dental	20%
Medical (Including Veterinary)	26%
International	28%
Technology	13%
Worldwide	22%



HENRY SCHEIN INC.



## Selected Financial Data

The following selected financial data, with respect to our financial position and results of operations for each of the five years, set forth below, has been derived from, and should be read in conjunction with and is qualified in its entirety by reference to, our consolidated financial statements and notes thereto. The selected financial data presented below should also be read in conjunction with ITEM 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and ITEM 8, "Financial Statements and Supplementary Data" in the accompanying Form 10-K.

	Years ended				
	December 31, 2005	December 25, 2004 <sup>(1)</sup>	December 27, 2003 <sup>(1)</sup>	December 28, 2002 <sup>(1)</sup>	December 29, 2001 <sup>(1)</sup>
(in thousands, except per share data)					
<b>Income Statement Data:</b>					
Net sales	\$4,635,929	\$3,898,485	\$3,194,031	\$2,675,645	\$2,413,050
Gross profit	1,316,936	1,054,465	908,163	771,538	680,919
Selling, general and administrative expenses <sup>(2)</sup>	1,035,848	844,715	675,867	581,685	537,878
Operating income	281,088	209,750	232,296	189,853	143,041
Other expense, net	(16,534)	(11,121)	(8,973)	(6,933)	(7,640)
Income from continuing operations before taxes, minority interest and equity in earnings of affiliates	264,554	198,629	223,323	182,920	135,401
Income taxes from continuing operations	(97,002)	(73,506)	(83,373)	(67,281)	(49,925)
Minority interest in net income of subsidiaries	(5,991)	(1,486)	(2,807)	(2,591)	(1,462)
Equity in earnings of affiliates	827	1,699	931	659	414
Income from continuing operations	162,388	125,336	138,074	113,707	84,428
Income (loss) from discontinued operations, net of tax	(11,062)	2,847	(564)	4,280	2,945
Net income	\$ 151,326	\$ 128,183	\$ 137,510	\$ 117,987	\$ 87,373
Earnings from continuing operations per share:					
Basic	\$ 1.87	\$ 1.44	\$ 1.58	\$ 1.31	\$ 1.00
Diluted	1.82	1.40	1.53	1.27	0.97
Earnings (loss) from discontinued operations per share:					
Basic	\$ (0.13)	\$ 0.03	\$ (0.01)	\$ 0.05	\$ 0.03
Diluted	(0.12)	0.03	0.00	0.04	0.03
Earnings per share:					
Basic	\$ 1.74	\$ 1.47	\$ 1.57	\$ 1.36	\$ 1.03
Diluted	1.70	1.43	1.53	1.31	1.00
Weighted-average common shares outstanding:					
Basic	87,006	87,253	87,417	86,978	84,732
Diluted	89,187	89,462	89,975	89,744	87,090
<b>Net Sales by Market Data:</b>					
Healthcare Distribution <sup>(3)</sup>					
Dental <sup>(4)</sup>	\$1,896,643	\$1,602,457	\$1,364,812	\$1,227,273	\$1,121,394
Medical <sup>(5)</sup>	1,394,121	1,284,279	1,178,310	944,600	837,376
International <sup>(6)</sup>	1,256,910	928,207	576,628	437,046	398,071
Total Healthcare Distribution	4,547,674	3,814,943	3,119,750	2,608,919	2,356,841
Technology <sup>(7)</sup>	88,255	83,542	74,281	66,726	56,209
Total	\$4,635,929	\$3,898,485	\$3,194,031	\$2,675,645	\$2,413,050

	As of				
	December 31, 2005	December 25, 2004	December 27, 2003	December 28, 2002	December 29, 2001
(in thousands)					
<b>Balance Sheet Data:</b>					
Total assets	\$2,583,120	\$2,433,670	\$1,819,370	\$1,558,052	\$1,385,428
Long-term debt	489,520	525,682	247,100	242,561	242,169
Minority interest	12,353	12,438	11,532	6,748	6,786
Stockholders' equity	1,229,544	1,106,053	1,004,118	861,217	680,457

## Non-GAAP Disclosures

The following table sets forth, for the periods indicated, a reconciliation of operating income and income from continuing operations adjusted to reflect the effects of discontinued operations, as reported to adjusted operating income and adjusted income from continuing operations. The diluted earnings from continuing operations per share and weighted-average common shares outstanding information reflects a two-for-one stock split effected in the form of a dividend that became effective on February 28, 2005.

	Years ended			December 30, 1995
	December 25, 2004	December 27, 2003	December 28, 2002	
	(in thousands, except per share data)			
Operating income (loss), as reported	\$ 209,750	\$ 232,296	\$ 189,853	\$ (1,036)
Adjustments:				
Merger, integration, and restructuring credits	-	-	(734)	-
Special management compensation costs	-	-	-	20,797
One-time charge related to influenza vaccine contract	13,246	-	-	-
Adjusted operating income	222,996	232,296	189,119	19,761
Adjusted operating margin	5.7%	7.3%	7.1%	3.2%
Income (loss) from continuing operations, as reported	125,336	138,074	113,707	(10,216)
Adjustments, net of tax:				
Merger, integration, and restructuring credits	-	-	(734)	-
Special management compensation costs	-	-	-	19,623
Gains on real estate transactions	-	(454)	(890)	-
One-time charge related to influenza vaccine contract	8,358	-	-	-
Adjusted income from continuing operations	\$ 133,694	\$ 137,620	\$ 112,083	\$ 9,407
Diluted earnings (loss) from continuing operations per share:				
As reported	\$ 1.40	\$ 1.53	\$ 1.27	\$ (0.38)
Adjusted	1.50	1.53	1.25	0.35
Diluted weighted-average common shares outstanding:	89,462	89,975	89,744	26,894

### NOTES FOR SELECTED FINANCIAL DATA:

- (1) Adjusted to reflect the effects of discontinued operations.
- (2) During 2004, we recorded a non-recurring \$13.2 million pre-tax (\$8.4 million post-tax) charge related to the Fluvirin<sup>®</sup> contract with Chiron Corporation. The effect that this charge had on earnings per share for the year ended December 25, 2004 was \$(0.10).
- (3) Consists of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, vaccines, 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 providers in the United States and Canada.

### USE OF NON-GAAP MEASURES:

The above information includes financial measures that are not calculated and presented in accordance with accounting principles generally accepted in the United States ("GAAP"). The above table reconciles operating income, income from continuing operations and diluted earnings (loss) from continuing operations per share, our most directly comparable measure calculated and presented in accordance with GAAP, to comparable amounts as adjusted to eliminate the effect of one-time items.

We eliminated the effect of such one-time items to assist in evaluating the underlying operational performance of our business, excluding such one-time items, over the periods presented. We believe that this presentation is appropriate and facilitates such an evaluation by us, investors and analysts. These measures should be considered supplemental to, and not a substitute for or superior to, financial measures calculated in accordance with GAAP.

## Board of Directors



*Top row l to r:  
Mark E. Mlotek, Marvin H. Schein,  
Paul Brons, Margaret A. Hamburg,  
Steven Paladino, Philip Laskawy,  
Gerald A. Benjamin,  
Norman Matthews  
Bottom row l to r:  
Pamela Joseph\*,  
James P. Breslawski,  
Louis W. Sullivan,  
Stanley Bergman, Barry Alperin,  
Donald Kabat*

**Stanley M. Bergman**  
*Chairman and Chief Executive Officer*

**Barry Alperin** <sup>(1) (2) (3)</sup>  
*Retired Vice Chairman, Hasbro, Inc.*

**Gerald A. Benjamin**  
*Executive Vice President and Chief Administrative Officer*

**James P. Breslawski**  
*President and Chief Operating Officer*

**Paul Brons** <sup>(4)</sup>  
*Former Member, Board of Management, Akzo Nobel N.V.*

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

**Donald Kabat** <sup>(1) (2)</sup>  
*Retired Partner, Accenture*

**Philip Laskawy** <sup>(1) (3) (4)</sup>  
*Retired Chairman, Ernst & Young*

**Norman Matthews** <sup>(2) (4)</sup>  
*Former President, Federated Department Stores*

**Mark E. Mlotek**  
*Executive Vice President, Corporate Business Development Group*

**Steven Paladino**  
*Executive Vice President and Chief Financial Officer*

**Marvin H. Schein**  
*Founder, Schein Dental Equipment Corp.*

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

- (1) Member Audit Committee
- (2) Member Compensation Committee
- (3) Member Nominating and Governance Committee
- (4) Member Strategic Advisory Committee

\* Pamela Joseph  
*Director, MaNose Studios, Emeritus as of May 2005*  
  
*Missing from photo: Irving Shafran, Esq.,  
Attorney at Law, Emeritus as of May 2005*

## Executive Officers



**Stanley M. Bergman**  
*Chairman and Chief Executive Officer*



**James P. Breslawski**  
*President and Chief Operating Officer*



**Gerald A. Benjamin**  
*Executive Vice President and Chief Administrative Officer*



**Leonard A. David**  
*Senior Vice President and Chief Compliance Officer*



**Stanley Komaroff, Esq.**  
*Senior Advisor*



**Mark E. Mlotek**  
*Executive Vice President,  
Corporate Business Development Group*



**Steven Paladino**  
*Executive Vice President and Chief Financial Officer*



**Michael Racioppi**  
*President, Medical Group*



**Michael Zack**  
*President, International Group*

*Top row l to r:*  
 Margaret A. Hamburg, Martin Sperber,  
 Marilyn Hughes Gaston,  
 Louis W. Sullivan, Herbert J. Conrad,  
 Charles N. Aswad  
*Bottom row l to r:*  
 Norman Matthews, Glenna M. Crooks,  
 Jeffrey A. Gelfand, Janet E. McElhaney,



### Medical Advisory Board

**Charles N. Aswad, M.D.**

*Executive Vice President, CEO, Medical Society of the State of New York, Emeritus*

**Herbert J. Conrad**

*Former Chairman, Board of Directors, Gen Vec, Inc.; former President, Pharmaceuticals Division, Hoffmann-LaRoche, Inc.*

**Glenna Crooks, M.D.**

*President and CEO, Strategic Health Policy International*

**Marilyn Hughes Gaston, M.D.**

*Former Assistant Surgeon General and Director, Bureau of Primary Health Care, U.S. Public Health Service; Co-Director, Gaston & Porter Health Improvement Center*

**Jeffrey A. Gelfand, M.D.**

*Senior Advisor, International Medical Affairs, Partners HealthCare System; Director, CIMIT Program (Center for Integration of Medicine and Innovative Technology International); Professor of Medicine, Tufts University School of Medicine*

**Margaret A. Hamburg, M.D.**

*Former Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services; Former Commissioner of Health for the City of New York; Member, Henry Schein, Inc. Board of Directors*

**Norman Matthews**

*Former President, Federated Department Stores; Member, Henry Schein, Inc. Board of Directors*

**Janet E. McElhaney, M.D.**

*Associate Professor of Medicine, Center for Immunotherapy of Cancer and Infectious Diseases, University of Connecticut School of Medicine; Allan M. McGavin Chair in Research Geriatrics, University of British Columbia*

**Martin Sperber**

*Former Chairman and CEO, Schein Pharmaceutical; Chancellor, Arnold & Marie Schwartz College of Pharmacy; Member, Board of Trustees, Long Island University*

**Louis W. Sullivan, M.D.**

*Former U.S. Secretary of Health and Human Services; Founding Dean, Director, and President Emeritus of the Morehouse School of Medicine; Member, Henry Schein, Inc. Board of Directors*

*Top row l to r:*  
 Greg Chadwick, L. Jackson Brown,  
 Lawrence Meskin,  
 Raul Garcia, Charles Babbush,



### Oral Health Advisory Board

**Charles Babbash, DDS, MScD**

*Director, Dental Implant Center, Cleveland, Ohio; Clinical Professor of Oral and Maxillofacial Surgery, and Director of Dental Implant Research, Case Western Reserve University, School of Dentistry*

**L. Jackson Brown, DDS, PhD**

*Associate Executive Director, Health Policy Resources Center, American Dental Association*

**Greg Chadwick, DDS, MS**

*Private Practice; Former President, American Dental Association*

**Raul Garcia, DMD, MMedSc**

*Professor and Chairman, Department of Health Policy & Health Services Research, Boston University School of Dental Medicine*

**Lawrence Meskin, DDS, PhD**

*Professor and Director of Continuing Education, University of Colorado, School of Dentistry; past Dean and former Editor, Journal of the American Dental Association*

## Corporate Information

### 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 18, 2006, 9:00 a.m., EDT, at the Melville Marriott Long Island, 1350 Old Walt Whitman Road, Melville, New York 11747.

### HENRY SCHEIN ON THE INTERNET

For more information about Henry Schein and its products and services, go to [www.henryschein.com](http://www.henryschein.com). Other Company Web sites include: [www.sullivanschein.com](http://www.sullivanschein.com); [www.caligor.com](http://www.caligor.com); [www.giv.com](http://www.giv.com); [www.dentrix.com](http://www.dentrix.com); [www.easydental.com](http://www.easydental.com); [www.labnet.com](http://www.labnet.com); [www.digitaldentaloffice.com](http://www.digitaldentaloffice.com); [www.zahndental.com](http://www.zahndental.com); [www.studentdentist.com](http://www.studentdentist.com); and [www.avimark.com](http://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](mailto: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 31, 2005, is available without charge to shareholders upon request to the Company's Investor Relations department. The report also is available on the Company's Web site.

### INDEPENDENT AUDITORS

BDO Seidman, LLP  
330 Madison Avenue  
New York, New York 10017

### LEGAL COUNSEL

Proskauer Rose, LLP  
1585 Broadway  
New York, New York 10036

### STOCK TRANSFER AGENT

For address changes, account cancellation, registration changes and lost stock certificates, please contact:  
Continental Stock Transfer & Trust Company  
17 Battery Place  
New York, New York 10004  
(212) 509-4000

In accordance with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, we provide the following cautionary remarks regarding important factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied herein. All forward-looking statements made by us are subject to risks and uncertainties and are not guarantees of future performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements are identified by the use of such terms as "may," "could," "expect," "intend," "believe," "plan," "estimate," "forecast," "project," "anticipate" or other comparable terms. A full discussion of our operations and financial condition, including factors that may affect our business and future prospects, is contained in documents we have filed with the U.S. Securities and Exchange Commission (SEC) and will be contained in all subsequent periodic filings we make with the SEC. These documents identify in detail important risk factors that could cause our actual performance to differ materially from current expectations.

Risk factors and uncertainties that could cause actual results to differ materially from current and historical results include, but are not limited to: competitive factors; changes in the healthcare industry; changes in government regulations that affect us; financial risks associated with our international operations; fluctuations in quarterly earnings; our dependence on third parties for the manufacture and supply of our products; transitional challenges associated with acquisitions; regulatory and litigation risks; the dependence on our continued product development, technical support and successful marketing in the technology segment; our dependence upon sales personnel and key customers; our dependence on our senior management; possible increases in the cost of shipping our products or other service trouble with our third-party shippers; risks from rapid technological change; risks from potential increases in variable interest rates; financial risks associated with acquisitions; possible volatility of the market price of our common stock; certain provisions in our governing documents that may discourage third-party acquisitions of us; and changes in tax legislation that affect us. The order in which these factors appear should not be construed to indicate their relative importance or priority.

We caution that these factors may not be exhaustive and that many of these factors are beyond our ability to control or predict. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. We undertake no duty and have no obligation to update forward-looking statements.



## CORPORATE MISSION

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

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