UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 25, 2004

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

Commission file number 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**135 Duryea Road**
(State or other jurisdiction of incorporation or organization)	**Melville, New York**
	(Address of principal executive offices)
11-3136595	**11747**
(I.R.S. Employer Identification No.)	**(Zip Code)**

Registrant's telephone number, including area code: (631) 843-5500

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES: ☑ NO: o

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

YES: ☑ NO: o

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the NASDAQ National Market on June 26, 2004 was approximately $2,825,035,000.

As of March 1, 2005 there were 86,590,754 shares of registrant's Common Stock, par value $.01 per share, outstanding.

Documents Incorporated by Reference:

Portions of the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year (December 25, 2004) are incorporated by reference in Part III hereof.

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PART I

ITEM 1. Business

General

We are the largest distributor of healthcare products and services primarily to office-based healthcare practitioners in the combined North American and European markets. We serve more than 475,000 customers worldwide, including dental practices and laboratories, physician practices and veterinary clinics, as well as government and other institutions. We believe that we have a strong brand identity due to our more than 72 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ nearly 10,000 people and have operations in the United States, Canada, the United Kingdom, the Netherlands, Belgium, Germany, France, Austria, Portugal, Spain, the Czech Republic, Luxembourg, Italy, Ireland, Switzerland, Australia and New Zealand. We also have affiliates in Iceland and Israel.

We have established strategically located distribution centers to enable us to better serve our customers and increase our operating efficiency. This infrastructure, together with broad product and service offerings at competitive prices, and a strong commitment to customer service, enables us to be a single source of supply for our customers' needs. Our infrastructure also allows us to provide convenient ordering and rapid, accurate and complete order fulfillment.

We conduct our business through two segments: healthcare distribution and technology. These segments offer different products and services to the same customer base. The healthcare distribution segment consists of our dental, medical (including veterinary) and international groups. Products distributed consist of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection control products and vitamins.

Our dental group serves approximately 80% of the estimated 135,000 office-based dental practices in the combined United States and Canadian dental market. Based upon an estimated $4.7 billion combined United States and Canadian dental market, we estimate our share of this market was approximately 34% in 2004.

Our medical group serves approximately 50% of the estimated 250,000 office-based physician practices, as well as surgical centers and other alternate-care settings throughout the United States. We also serve over 70% of the estimated 27,000 veterinarian clinics in the United States. Based upon an estimated $7.4 billion combined market, we estimate our share of this market was approximately 19% in 2004.

Our international group serves approximately 210,000 practices in 17 countries outside of North America and is what we believe to be a leading Pan-European healthcare supplier serving office-based dental, medical, and veterinary practices. Based upon an estimated $7.4 billion Western and Central European combined dental, medical and veterinary market in which we operate, we estimate our share of this market was approximately 12% in 2004.

Our technology group provides software, technology, and other value-added services to healthcare providers, primarily in the United States and Canada. Our value-added practice solutions include practice management software systems for dental and medical practices and veterinary clinics. Our technology group offerings also include financial services and continuing education services for practitioners.

Industry

The healthcare products distribution industry as it relates to office-based healthcare practitioners is highly fragmented and diverse. This industry, which encompasses the dental, medical and veterinary markets, was estimated to produce revenues of approximately $19.5 billion in 2004 in the combined North American and Western and Central European markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations comprising anywhere from a few practitioners to 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 decisions within an office-based healthcare practice are typically made by the practitioner or an administrative assistant, and supplies and small equipment are generally purchased from more than one distributor, with one distributor generally serving as the primary supplier.

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 procedures and diagnostic testing shifting from hospitals to alternate-care sites, particularly physicians' offices. As the cosmetic surgery and elective procedure markets continue to grow, physicians are increasingly performing more of these procedures in their offices.

We believe that consolidation within the industry will continue to result in a number of distributors, particularly those 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 and service offerings or provide opportunities to serve a broader customer base.

Competition

The distribution and manufacture of healthcare supplies and equipment is highly competitive. Many of the healthcare distribution products we sell are available to our customers from a number of suppliers. In addition, our competitors could obtain exclusive rights from manufacturers to market particular products. Manufacturers could also seek to sell directly to end-users, and thereby eliminate or reduce the role of distributors, like us.

In the United States, we compete with other distributors, as well as several major manufacturers of dental, medical and veterinary products, primarily on the basis of price, breadth of product line, customer service and value-added products and services. In the sale of our dental products, our principal national competitor is Patterson Companies, Inc. (formerly Patterson Dental Company). In addition, we compete against a number of other distributors that operate on a national, regional and local level. Our principal competitors in the sale of medical products are PSS World Medical, Inc., the General Medical division of McKesson Corp. and the Allegiance division of Cardinal Health, Inc., which are national distributors. In the veterinary market, our two principal national competitors include The Butler Company and Burns Veterinary Supply, Inc. We also compete against a number of regional and local medical and veterinary distributors, as well as a number of manufacturers that sell directly to physicians and veterinarians. With regard to our practice management software, we compete against numerous other firms, including firms such as PracticeWorks, Inc., a subsidiary of the Eastman Kodak Company, which primarily targets dental practices, and IDEXX Laboratories, Inc., which serves veterinary practices. We compete in Canada substantially on the same basis as in the United States.

We also face significant competition internationally, where we compete on the basis of price and customer service against several large competitors, including the GACD Group, Pluradent AG & Co., Planmeca Oy, Omega Pharma NV and Bilricay, as well as a large number of dental product distributors and manufacturers in the United Kingdom, the Netherlands, Belgium, Germany, France, Austria, Ireland, Portugal and Spain.

Significant price reductions by our competitors could result in a similar reduction in our prices. Any of these competitive pressures may materially adversely affect operating results.

Competitive Strengths

We have more than 72 years of experience in distributing products to healthcare practitioners resulting in strong awareness of the “Henry Schein” name. Our competitive strengths include:

Direct sales and marketing expertise. Our sales and marketing efforts are designed to establish and solidify customer relationships through personal visits by field sales representatives and frequent direct marketing contact, emphasizing our broad product lines, competitive prices and ease of order placement. The key elements of our direct sales and marketing efforts are:

- *Field sales consultants*. We have approximately 2,000 field sales consultants, including equipment sales specialists, covering major North American and international markets. These consultants complement our direct marketing and telesales efforts and enable us to better market, service and support the sale of more sophisticated products and equipment.

- *Direct marketing*. During 2004, we distributed more than 34 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to existing and potential office-based healthcare customers.

- *Telesales*. We support our direct marketing effort with approximately 1,200 inbound and outbound telesales representatives, who facilitate order processing and generate new sales through direct and frequent contact with customers.

Broad product and service offerings at competitive prices. We offer a broad range of products and services to our customers, at competitive prices, in the following categories:

- *Consumable supplies and equipment*. We offer approximately 160,000 SKUs (including items not typically stocked) to our customers in North America. Of the SKUs offered in North America, approximately 70,000 are offered to our dental customers, approximately 90,000 to our medical customers and approximately 40,000 to our veterinary customers. We offer approximately 110,000 SKUs (including items not typically stocked) to our customers outside of North America.

- *Technology and other value-added products and services*. We sell practice management software systems to our dental, medical and veterinary customers. Our practice management software products provide practitioners with patient treatment history, billing, accounts receivable analyses and management, appointment calendars, electronic claims processing and word processing programs. As of December 25, 2004, more than 50,000 of our Dentrix®, Easy Dental® and our AVImark® (veterinary) software systems have been installed.

- *Repair services*. We have 158 equipment sales and service centers worldwide that provide a variety of repair services for our healthcare customers. Our technicians provide installation and repair services for dental handpieces; dental, medical and veterinary small equipment; table top sterilizers; and large equipment.

- *Financial services*. We offer our customers assistance in operating their practices by providing access to a number of financial services and products at rates that we believe are generally lower than what they would be able to secure independently.

Commitment to superior customer service. We maintain a strong commitment to providing superior customer service. We frequently monitor our customer service through customer surveys, focus groups and statistical reports. Our customer service policy primarily focuses on:

- *Exceptional order fulfillment*. We estimate that approximately 99% of items ordered in the United States and Canada are shipped without back ordering and are shipped on the same business day the order is received.

- *Streamlined ordering process*. Customers may place orders 24 hours a day, 7 days a week ("24/7") by mail, fax, telephone, e-mail and by using our computerized order entry systems, our 24/7 automated phone service and our Internet sites.

Integrated management information systems. Our information systems generally allow for centralized management of key functions, including accounts receivable, inventory, accounts payable, payroll, purchasing, sales, and order fulfillment. These systems allow us to manage our growth, deliver superior customer service, properly target customers, manage financial performance and monitor daily operational statistics.

Effective purchasing. We believe that effective purchasing is a key element to maintaining and enhancing our position as a low-cost provider of healthcare products. We continuously evaluate our purchase requirements and suppliers' offerings and prices in order to obtain products at the best possible cost. In 2004, our top 10 healthcare distribution vendors and our single largest vendor accounted for approximately 26% and 5% of our aggregate purchases.

Efficient distribution. We distribute our products from our strategically located distribution centers. We maintain optimal inventory levels in order to satisfy customer demand for prompt delivery and complete order fulfillment. These inventory levels are managed on a daily basis with the aid of our management information systems. Once an order is entered, it is electronically transmitted to the distribution center nearest the customer's location and a packing slip for the entire order is printed for order fulfillment.

Products

The following table sets forth the principal categories of products offered by our healthcare distribution and technology segments and certain top selling types of products in each category, with the percentage of consolidated net sales by year:

	2004	2003	2002 (1)
Healthcare Distribution			
Dental:			
Consumable dental products and small equipment (2)	39.9%	39.2%	40.5%
Large dental equipment (3)	13.8%	10.9%	10.2%
Dental laboratory products (4)	3.9%	2.6%	2.7%
Total dental	57.6%	52.7%	53.4%
Medical:			
Medical products (5)	36.2%	41.0%	40.3%
Veterinary products (6)	4.1%	4.1%	3.9%
Total medical	40.3%	45.1%	44.2%
Total Healthcare Distribution	97.9%	97.8%	97.6%
Technology			
Software and related products and other value-added products (7)	2.1%	2.2%	2.4%
Total	100.0%	100.0%	100.0%

(1) Reclassified to conform to current period presentation.

(2) Includes x-ray products, infection control, handpieces, preventatives, impression materials, composites and anesthetics

(3) Includes dental chairs, delivery units and lights, x-rays, equipment repair and high-tech equipment

(4) Includes teeth, dental implants, composites, gypsum, acrylics, articulators and abrasives

(5) Includes branded and generic pharmaceuticals, surgical products, diagnostic tests, vaccines, infection control products, x-ray products and vitamins

(6) Includes branded and generic pharmaceuticals, surgical products and dental products

(7) Includes software and related products and other value-added products, including financial products and continuing education

Business Strategy

Our objective is to continue to expand as a value-added distributor of healthcare products and services to office-based healthcare practitioners. To accomplish this, we will apply our competitive strengths in executing the following strategies:

- *Increase penetration of our existing customer base*. We intend to increase sales to our existing customer base and enhance our position as their primary vendor. In the North American dental market, total consumable sales per practitioner are estimated to be approximately $25,000, of which our average dental customer's sales are approximately $8,500 (or 34%) of those sales. In the U.S. medical market, total sales per practitioner are estimated to be approximately $12,000, of which our average U.S. medical customer's sales are approximately $4,000 (or 33%) of those sales. In the Western and Central European dental market, total sales per practitioner are estimated to be approximately $26,000, of which our average Western and Central European dental customer's sales are approximately $7,500 (or 29%) of those sales.

- *Increase the number of customers we serve*. This strategy includes increasing the number and productivity of field sales consultants, as well as using our customer database to focus our marketing efforts.

- *Leverage our value-added products and services*. We intend to increase cross-selling efforts for key product lines. In the dental business, we have significant cross-selling opportunities between our dental practice management software users and our dental distribution customers. In the medical business, we have opportunities to expand our vaccine, injectables and other pharmaceuticals sales to medical distribution customers, as well as cross-selling core products with these key products.

- *Pursue strategic acquisitions and joint ventures*. Since the beginning of 1999, we have acquired more than 25 companies engaged in businesses that are complementary to ours. Our acquisition strategy includes acquiring entities that will provide additional sales that will be channeled through our existing infrastructure, acquiring access to additional product lines, acquiring regional distributors with networks of field sales consultants and expanding internationally.

Markets Served

Demographic trends indicate that our markets are growing, as an aging U.S. population is increasingly using healthcare services. Between 2003 and 2010, the 45 and older population is expected to grow by approximately 16% and between 2003 and 2020, the 45 and older population is expected to grow by approximately 32%. This compares with expected total U.S. population growth rates of 7% between 2003 and 2010 and 16% between 2003 and 2020.

In the dental industry, there is predicted to be an attendant rise in oral healthcare expenditures as this segment of the population increases. Cosmetic dentistry is another growing aspect of dental practices as new technologies allow dentists to offer cosmetic solutions patients seek. At the same time, there is an increase in dental insurance coverage. Approximately 57% of the U.S. population now has some form of dental coverage, up from 47% in 1995.

We support our dental professionals through the many SKUs we offer, as well as through important value-added services, including practice management software, electronic claims processing, financial services and continuing education, all designed to help maximize a practitioner’s efficiency and profitability.

We believe our medical group is the fastest growing distributor among the major competitors in the physician and alternate-care markets. There continues to be a migration of procedures from acute-care settings to physicians’ offices, a trend that may provide additional opportunity for us. There is also the continuing use of vaccines, injectables and other pharmaceuticals in alternate-care settings. We believe we have established a leading position as a vaccine supplier to the office-based medical practitioner.

We believe our international group is a leading Pan-European healthcare supplier servicing office-based dental and medical practices. We are in the process of attempting to replicate our U.S. infrastructure in Europe. Additionally, we are expanding our dental full-service model throughout Europe and our medical offerings in countries where opportunities exist. Through our “Schein Direct” program, we can provide door-to-door air package delivery to practitioners in 125 countries around the world.

On June 18, 2004, we acquired all of the outstanding equity shares of Demedis GmbH (excluding its Austrian operations), which we believe to be a leading full-service distributor of dental consumables and equipment in Germany, Austria, and the Benelux countries; and Euro Dental Holding GmbH, which included KRUGG S.p.A., Italy’s leading distributor of dental consumable products, and DentalMV GmbH (otherwise known as Muller & Weygandt, or “M&W”). We refer to these entities collectively as the “Demedis Group.”

As part of our agreement with the German regulatory authorities, we agreed to divest M&W shortly after the consummation of the acquisition effected through exercising a put option back to the previous owners. On July 16, 2004, this divestiture was completed for EUR 50.0 million (or $62.2 million), including the

assumption of debt of approximately EUR 27.5 million (or $34.2 million), resulting in a reduction of the purchase price for the Demedis Group.

As part of the agreement to divest M&W, we were entitled to receive 50% of the net sale proceeds in excess of EUR 55.0 million in the event M&W was subsequently resold before June 18, 2005. On September 24, 2004, an agreement was signed to resell M&W for an amount that resulted in our realizing a share of the net sales proceeds equal to EUR 26.4 million (or $32.4 million), which we received in October 2004. This amount was treated as a further reduction of the purchase price for the Demedis Group.

The regulatory authorities are continuing their review of our pending acquisition of the Demedis Group's business in Austria, which operates under the Austrodent brand. Of the total purchase price for the Demedis Group, EUR 11.0 million (or $13.5 million) was attributable to Austrodent, which was included in other current assets as of December 25, 2004. In the event that we receive regulatory approval to acquire Austrodent, this amount will be reclassified based on the fair value of the assets and liabilities acquired through a purchase price allocation, with an increase to goodwill for any excess of purchase price over fair value. In the event that we do not receive regulatory approval to acquire Austrodent, we are entitled to receive the proceeds through a sale of Austrodent, net of selling costs, up to EUR 11.0 million. Any shortfall between the EUR 11.0 million and the proceeds received upon a subsequent sale of Austrodent will be recorded as an addition to goodwill of the Demedis Group.

We financed the acquisition of the Demedis Group primarily with cash on hand, with borrowings under our existing revolving credit facility and with proceeds from a bridge loan in the amount of $150.0 million. These borrowings were repaid in full with the net proceeds from the issuance of $240.0 million of long-term convertible debt on August 9, 2004.

The operating results of the Demedis Group, including M&W (which was accounted for using the equity method through the date of the divestiture) and excluding Austrodent, are included in the accompanying financial statements since the acquisition date of June 18, 2004.

Seasonality and Other Factors Affecting Our Business

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Net sales and operating profits generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products); purchasing patterns of office-based healthcare practitioners; and year-end promotions. Net sales and operating profits generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. Quarterly results may also be adversely affected by a variety of other factors, including:

- Costs of developing new applications and services;
- Costs related to acquisitions of technologies or businesses;
- The timing and amount of sales and marketing expenditures;
- General economic conditions, as well as those specific to the healthcare industry and related industries;
- The timing of the release of functions of our technology-related products and services; and
- Our success in establishing or maintaining business relationships.

Any change in one or more of these or other factors could cause our annual or quarterly operating results to fluctuate. If our operating results do not meet market expectations, our stock price may decline.

E-Commerce

Traditional healthcare supply and distribution relationships are being challenged by electronic on-line commerce solutions. Our distribution business is characterized by rapid technological developments and intense competition. The advancement of on-line commerce will require us to cost-effectively adapt to changing technologies, to enhance existing services and to develop and introduce a variety of new services to address changing demands of consumers and our customers on a timely basis, 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.

Governmental Regulations

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. Among the federal laws applicable to us are the Federal Food, Drug, and Cosmetic Act, the Prescription Drug Marketing Act of 1987 and the Controlled Substances Act.

The Federal Food, Drug, and Cosmetic Act generally regulates the introduction, manufacture, advertising, labeling, packaging, storage, handling, marketing and distribution of, and record keeping for, pharmaceuticals and medical devices shipped in interstate commerce.

The Prescription Drug Marketing Act of 1987, which amended the Federal Food, Drug, and Cosmetic Act, establishes certain requirements applicable to the wholesale distribution of prescription drugs, including the requirement that wholesale drug distributors be registered with the Secretary of Health and Human Services and be licensed by each state in which they conduct business in accordance with federally established guidelines on storage, handling and record maintenance.

Under the Controlled Substances Act, as a distributor of controlled substances, we are required to obtain a registration annually from the Attorney General in accordance with specified rules and regulations and are subject to inspection by the Drug Enforcement Administration acting on behalf of the Attorney General. We are required to maintain licenses and permits for the distribution of pharmaceutical products and medical devices under the laws of the states in which we operate. In addition, our dentist and physician customers are subject to significant governmental regulation. There can be no assurance that regulations that impact our business or customers' practices will not have a material adverse impact on our business.

We believe that we are in compliance with the foregoing laws and the regulations promulgated thereunder and possess all material permits and licenses required for the conduct of our business.

Proprietary Rights

We hold trademarks relating to the "Henry Schein" name and logo, as well as certain other trademarks. Pursuant to agreements executed in connection with our reorganization in 1994, both Henry Schein, Inc., and Schein Pharmaceutical, Inc. (which was acquired by Watson Pharmaceuticals, Inc. in 2000), a company engaged in the manufacture and distribution of multi-source pharmaceutical products, are entitled to use the "Schein" name in connection with their respective businesses, but Schein Pharmaceutical, Inc. is not entitled to use the name "Henry Schein". We intend to protect our trademarks to the fullest extent practicable.

Employees

As of December 25, 2004, we had approximately 9,600 full-time employees, including approximately 1,200 telesales representatives, 2,000 field sales consultants, including equipment sales specialists, 1,625 warehouse employees, 375 computer programmers and technicians, 925 management employees and 3,475 office, clerical and administrative employees. Approximately 310 or 3% of our employees were subject to collective bargaining agreements. We believe that our relations with our employees are good.

Available Information

We make available free of charge through our Internet website, www.henryschein.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

The above information is also available at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or obtainable by calling the SEC at (800) 732-0330. In addition, the SEC maintains an Internet site at http://www.sec.gov, where the above information can be viewed.

Our principal executive offices are located at 135 Duryea Road, Melville, New York 11747, and our telephone number is (631) 843-5500. Unless the context specifically requires otherwise, the terms the "Company," "Henry Schein," "we," "us" and "our" mean Henry Schein, Inc., a Delaware corporation, and its consolidated subsidiaries.

Executive Officers of the Registrant

The following table sets forth certain information regarding our executive officers:

Name	Age	Position
Stanley M. Bergman	55	Chairman, Chief Executive Officer, President and Director
Gerald A. Benjamin	52	Executive Vice President, Chief Administrative Officer and Director
James P. Breslawski	51	Executive Vice President, President — U.S. Dental and Director
Leonard A. David	56	Vice President — Human Resources and Special Counsel
Stanley Komaroff	70	Senior Advisor
Mark E. Mlotek	49	Executive Vice President — Corporate Business Development Group and Director
Steven Paladino	47	Executive Vice President, Chief Financial Officer and Director
Michael Racioppi	50	President — Medical Group
Michael Zack	52	Senior Vice President — International Group

Stanley M. Bergman has been Chairman, Chief Executive Officer and President since 1989 and a director of the Company since 1982. Mr. Bergman held the position of Executive Vice President of the Company and Schein Pharmaceutical, Inc. from 1985 to 1989 and Vice President of Finance and Administration of the Company from 1980 to 1985. Mr. Bergman is a certified public accountant.

Gerald A. Benjamin has been Executive Vice President and Chief Administrative Officer since February 2000. Prior to holding his current position, Mr. Benjamin was Senior Vice President of Administration and Customer Satisfaction since 1993, and has been a director of the Company since September 1994. Mr. Benjamin was Vice President of Distribution Operations of the Company from 1990 to 1992 and Director of Materials Management of the Company from 1988 to 1990.

James P. Breslawski has been Executive Vice President of the Company and President of U.S. Dental since 1990, with primary responsibility for the U.S. Dental Group, and a director of the Company since 1990. Between 1980 and 1990, Mr. Breslawski held various positions with the Company, including Chief Financial Officer, Vice President of Finance and Administration and Controller. Mr. Breslawski is a certified public accountant.

Leonard A. David has been Vice President of Human Resources and Special Counsel since January 1995. Mr. David held the office of Vice President, General Counsel and Secretary from 1990 to 1995 and practiced corporate and business law for eight years prior to joining the Company.

Stanley Komaroff has been Senior Advisor since December 2003. Prior to joining the company, Mr. Komaroff was a partner for 35 years in the law firm of Proskauer Rose LLP, counsel to the Company. He served as Chairman of that firm from 1991 to 1999.

Mark E. Mlotek has been Executive Vice President of Corporate Business Development since February 2004 and was Senior Vice President of Corporate Business Development Group since February 2000. Prior to that, Mr. Mlotek was Vice President, General Counsel and Secretary from 1994 to 1999, and became a director of the Company in September 1995. Prior to joining the Company, Mr. Mlotek was a partner in the law firm of Proskauer Rose LLP, counsel to the Company, specializing in mergers and acquisitions, corporate reorganizations and tax law from 1989 to 1994.

Steven Paladino has been Executive Vice President and Chief Financial Officer since February 2000. Prior to holding his current position, Mr. Paladino was Senior Vice President and Chief Financial Officer of the Company since 1993 and has been a director of the Company since 1992. From 1990 to 1992, Mr. Paladino served as Vice President and Treasurer and from 1987 to 1990 served as Corporate Controller of the Company. Before joining the Company, Mr. Paladino was employed as a public accountant for seven years, most recently with the international accounting firm of BDO Seidman, LLP. Mr. Paladino is a certified public accountant.

Michael Racioppi has been President of the Medical Group since February 2000 and Interim President since September 1999. Prior to holding his current position, Mr. Racioppi was Vice President of the Company since 1994, with primary responsibility for the Medical Division, the marketing and merchandising groups. Mr. Racioppi served as Vice President and as Senior Director, Corporate Merchandising from 1992 to 1994. Before joining the Company in 1992, Mr. Racioppi was employed by Ketchum Distributors, Inc. as the Vice President of Purchasing and Marketing.

Michael Zack has been Senior Vice President of the International Group and has been responsible for the International Group of the Company since 1989. Mr. Zack was employed by Polymer Technology (a subsidiary of Bausch & Lomb) as Vice President of International Operations from 1984 to 1989 and by Gruenenthal GmbH as Manager of International Subsidiaries from 1975 to 1984.

ITEM 2. Properties

We own or lease the following properties:

Property	Location	Own or Lease	Approximate Square Footage	Lease Expiration Date
Corporate Headquarters	Melville, NY	Own	105,000	N/A
Corporate Headquarters	Melville, NY	Lease	90,000	November 2005
Corporate Headquarters	Melville, NY(1)	Lease	185,000	July 2020
Office	Pelham, NY (2)	Lease	108,000	July 2007
Office and Distribution Center	West Allis, WI	Lease	106,000	October 2011
Distribution Center	Denver, PA	Lease	413,000	February 2013
Distribution Center	Indianapolis, IN	Own	287,000	N/A
Distribution Center	Indianapolis, IN	Lease	108,000	July 2006
Distribution Center	Grapevine, TX	Lease	176,000	July 2008
Distribution Center	Gallin, Germany	Own	172,000	N/A
Distribution Center	Secaucus, NJ	Lease	192,000	November 2008
Distribution Center	Jacksonville, FL	Lease	212,000	December 2009
Distribution Center	Niagra on the Lake, Canada	Lease	129,000	September 2016
Distribution Center	Sparks, NV	Lease	183,000	December 2006
Distribution Center	Gillingham, United Kingdom	Lease	85,000	April 2010

(1) This lease commences in May 2005.

(2) We are subletting 66,500 square feet of this facility through July 2007.

The properties listed in the table above are our principal properties primarily used in our healthcare distribution segment. We also lease distribution, office, showroom and sales space in other locations including the United States, Canada, France, Germany, the Netherlands, Belgium, Luxembourg, Spain, Austria, the Czech Republic, Italy, Ireland, Portugal, the United Kingdom, Australia and New Zealand.

We believe that our properties are in good condition, are well maintained and are suitable and adequate to carry on our business. We have additional operating capacity at certain distribution center facilities.

ITEM 3. Legal Proceedings

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 in amounts that 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.

As of December 25, 2004, we had accrued our best estimate of potential losses relating to product liability, class action and other claims that were probable to result in a liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, 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 probable recoveries from third parties. In addition, we believe that no amount of losses in excess of this accrued amount were reasonably estimable or reasonably possible to result in a liability.

Product Liability Claims

As of December 25, 2004, we were a defendant in approximately 38 product liability cases. Of these cases, three involve claims made by healthcare workers and/or their families 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 generally withhold indemnification of us pending product identification; however, we have impleaded or filed cross claims against those manufacturers in such cases.

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.

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. On October 31, 2002, the Texas Supreme Court, on appeal, found that the trial court's certification of the case as a class action was improper. The Texas Supreme Court remanded the case to the trial court for further proceedings consistent with its opinion.

The trial court ruled in our favor on remand. As a result, only certain individual claims asserted on behalf of the named plaintiffs remained pending in the case as of the end of 2004. Such claims were resolved in January 2005.

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 purported to be on behalf of a nationwide class of all physicians, hospitals and other healthcare providers throughout New Jersey and across the United States. The complaint, as amended in August 2002, alleged 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. In September 2004, the court denied class certification. As a result, only certain individual claims asserted on behalf of the two named plaintiffs remained pending in the case as of the end of 2004. Such claims were settled in January 2005.

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

No matters were submitted to a vote of our stockholders during the fourth quarter of fiscal 2004.

PART II

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

On January 31, 2005, we announced that our Board of Directors approved a two-for-one stock split effected in the form of a dividend. This stock split became effective on February 28, 2005 and has been retroactively reflected for all periods presented in this Form 10-K.

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 2004 and 2003:

	High	Low
Fiscal 2004:		
1st Quarter	$ 37.01	$ 32.96
2nd Quarter	39.72	30.99
3rd Quarter	34.01	29.92
4th Quarter	35.21	28.08
Fiscal 2003:		
1st Quarter	$ 23.30	$ 17.09
2nd Quarter	27.08	20.45
3rd Quarter	30.16	25.75
4th Quarter	35.00	27.67

On February 28, 2005, there were approximately 497 holders of record of our common stock and the last reported sales price was $36.17.

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 appear in the notes to our consolidated financial statements. The following table summarizes information relating to the Plans as of December 25, 2004:

	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	9,005,486	$ 22.14	5,281,602
Plans Not Approved by Stockholders	50,000	20.41	—
Total	9,055,486	$ 22.13	5,281,602

Purchases of Equity Securities by the Issuer

The following table summarizes repurchases of our common stock under our stock repurchase program during fiscal year ended December 25, 2004:

Fiscal Month	Total Number of Shares Purchased (1)	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under Our Programs (2)(3)
12/28/03 through 01/31/04	108,000	$ 34.80	1,222,000
02/1/04 through 02/28/04	147,000	34.95	1,075,000
02/29/04 through 03/27/04	261,800	34.86	813,200
03/28/04 through 04/24/04	—	—	813,200
04/25/04 through 05/29/04	688,200	34.74	125,000
05/30/04 through 06/26/04	125,000	32.28	3,096,454
06/27/04 through 07/31/04	320,000	31.13	2,683,734
08/1/04 through 08/28/04	470,000	31.34	2,407,216
08/29/04 through 09/25/04	120,000	30.37	2,352,758
09/26/04 through 10/30/04	228,810	30.33	2,047,289
10/31/04 through 11/27/04	30,000	32.45	1,963,396
11/28/04 through 12/25/04	—	—	1,885,022
Total	2,498,810	$ 32.90	

(1) All repurchases were executed in the open market under our existing publicly announced authorized programs.

(2) On March 12, 2003, we announced that our Board of Directors had authorized the repurchase of up to four million shares of our common stock, which represented approximately 4.5% of shares outstanding on the announcement date. Through the close of the second quarter of 2004, we had completed the repurchase of the entire four million shares under this initiative.

(3) On June 21, 2004, we announced that our Board of Directors had authorized a second share repurchase program. The new program allows us to repurchase up to $100 million in shares of our common stock, which represented approximately 3.5% of shares outstanding on the announcement date. Through the close of the fourth quarter of 2004, we had repurchased 1,168,810 shares under this initiative. The maximum number of shares that may yet be purchased under this program is determined at the end of each month based on the then closing price of our stock.

Dividend Policy

We have not declared any cash dividends on our common stock during fiscal years 2004 or 2003. 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 programs. 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, limits the distribution of dividends without the prior written consent of the lenders. Additionally, we are restricted as to the amounts of annual dividends (limited to the greater of $25.0 million or 40% of net income.)

ITEM 6. 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 25, 2004, set forth below, has been derived from, 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."

	Years ended				
	December 25, 2004	December 27, 2003	December 28, 2002	December 29, 2001	December 30, 2000
	(in thousands, except per share data)				
Statements of Operations Data:					
Net sales	$ 4,060,266	$ 3,353,805	$ 2,825,001	$ 2,558,243	$ 2,381,721
Gross profit	1,076,406	927,194	794,904	699,324	647,901
Selling, general and administrative expenses (1)	863,319	693,475	598,635	551,574	520,288
Merger, integration and restructuring (credits) costs (2)	—	—	(734)	—	15,024
Operating income	213,087	233,719	197,003	147,750	112,589
Other expense, net	(9,713)	(7,943)	(6,574)	(7,399)	(16,055)
Income before taxes, minority interest, equity in earnings (losses) of affiliates and loss on sale of discontinued operation	203,374	225,776	190,429	140,351	96,534
Taxes on income from continuing operations	(75,404)	(84,378)	(70,510)	(51,930)	(36,150)
Minority interest in net income of subsidiaries	(1,486)	(2,807)	(2,591)	(1,462)	(1,757)
Equity in earnings (losses) of affiliates	1,699	931	659	414	(1,878)
Net income from continuing operations	128,183	139,522	117,987	87,373	56,749
Loss on sale of discontinued operation, net of tax (3)	—	(2,012)	—	—	—
Net income	$ 128,183	$ 137,510	$ 117,987	$ 87,373	$ 56,749
Earnings from continuing operations per share:					
Basic	$ 1.47	$ 1.60	$ 1.36	$ 1.03	$ 0.69
Diluted	1.43	1.55	1.31	1.00	0.68
Earnings per share:					
Basic	$ 1.47	$ 1.57	$ 1.36	$ 1.03	$ 0.69
Diluted	1.43	1.53	1.31	1.00	0.68
Weighted-average common shares outstanding:					
Basic	87,253	87,417	86,978	84,732	82,488
Diluted	89,462	89,975	89,744	87,090	84,014

	Years ended				
	December 25, 2004	December 27, 2003	December 28, 2002	December 29, 2001	December 30, 2000
			(in thousands)		
Net Sales by Market Data:					
Healthcare Distribution (4):					
Dental (5)	$ 1,602,457	$ 1,364,812	$ 1,227,273	$ 1,121,394	$ 1,087,073
Medical (6)	1,446,060	1,338,084	1,093,956	982,569	851,301
International (7)	928,207	576,628	437,046	398,071	389,946
Total Healthcare Distribution	3,976,724	3,279,524	2,758,275	2,502,034	2,328,320
Technology (8)	83,542	74,281	66,726	56,209	53,401
Total	$ 4,060,266	$ 3,353,805	$ 2,825,001	$ 2,558,243	$ 2,381,721
Balance Sheet data:					
Total assets	$ 2,433,670	$ 1,819,370	$ 1,558,052	$ 1,385,428	$ 1,231,068
Long-term debt	525,682	247,100	242,561	242,169	266,224
Minority interest	12,438	11,532	6,748	6,786	7,996
Stockholders' equity	1,106,053	1,004,118	861,217	680,457	579,060

(1) Reflects a $13.2 million pre-tax ($8.4 million post-tax) one-time charge, recorded in the fourth quarter of 2004, related to the Fluvirin® contract with Chiron Corporation. This charge, which represented the write-off of a deferred expense associated with the 2005/2006 influenza season, occurred as a result of the significant uncertainty about whether Chiron will be able to provide Fluvirin® for the 2005/2006 influenza season. The effect that this charge had on earnings per share for the year ended December 25, 2004 was $(0.10).

(2) In 2002, we revised our original estimates of our 2000 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. This credit is included in selling, general and administrative expenses elsewhere in this Form 10-K.

(3) 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.

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

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

(6) Consists of products sold in the United States' medical and veterinary markets.

(7) Consists of products sold in the dental, medical and veterinary markets, primarily in Europe.

(8) 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.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

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 which, 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.

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; 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; our dependence on third parties for the manufacture and supply of our products; possible increases in the cost of shipping our products or other service trouble with our third-party shippers; risks from rapid technological change; and risks from potential increases in variable interest rates. 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.

Recent Developments

On October 5, 2004, Chiron Corporation announced that it would not supply Fluvirin® influenza vaccine to the U.S. market for the current influenza season as a result of action by the U.K. regulatory body, the Medicines and Healthcare Products Regulatory Agency (MHRA), to temporarily suspend its license to manufacture Fluvirin® influenza vaccine in Chiron's Liverpool, U.K. facility. On October 15, 2004, based on the U.S. Food and Drug Administration's (FDA) evaluation and inspection of Chiron's Liverpool, U.K. manufacturing facility, the FDA announced that none of the influenza vaccine manufactured by Chiron for the U.S. Market was safe for use. We are the primary distributor of Fluvirin® to the U.S. market and Chiron is currently our primary supplier of the influenza vaccine.

On December 2, 2004, we entered into a multi-year agreement terminating in 2014 with ID Biomedical Corporation to distribute ID Biomedical's Fluviral® influenza vaccine. The agreement will commence upon approval of Fluviral® by the FDA, which could be as early as 2005 if the FDA provides expedited approval of the ID Biomedical application, and will terminate in 2014. Once Fluviral® is approved by the FDA, ID Biomedical plans to manufacture up to an estimated 15 million doses for the U.S. market in 2005, and increase production to approximately 38 million doses by 2007. Similarly, we will increase the number of Fluviral® doses we purchase over that time, and by 2007 will have approximately 19 million doses per year available for distribution to our customers.

On March 2, 2005, Chiron announced that it received notice from the MHRA that the agency has lifted the license suspension for Chiron's Liverpool, U.K. manufacturing facility. The decision is conditioned on the understanding that Chiron's level of commitment to the completion of its remediation plan and ongoing improvements must continue. Chiron is required to provide the MHRA with regular weekly updates to ensure that progress on its various projects proceeds satisfactorily and the MHRA may conduct further inspections.

On March 2, 2005, the FDA announced that it has been working closely with the MHRA, including during inspections, as the agency evaluates Chiron's progress in correcting their manufacturing problems. The FDA plans to conduct a comprehensive inspection of Chiron's Liverpool, U.K. manufacturing facility to ensure that Chiron can produce a safe and effective vaccine once all critical stages of manufacturing are fully operational and needed corrective actions can be fully evaluated.

Given the significant uncertainty about whether Fluvirin® will be available for the 2005/2006 influenza season, in the fourth quarter of 2004, we recorded a pre-tax one-time charge of approximately $13.2 million related to our Fluvirin® contract. This charge represented the write-off of a deferred expense associated with the 2005/2006 influenza season.

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. We serve more than 475,000 customers worldwide, including dental practices and laboratories, physician practices and veterinary clinics,

as well as government and other institutions. We believe that we have a strong brand identity due to our more than 72 years of experience distributing healthcare products.

We are headquartered in Melville, New York, employ nearly 10,000 people and have operations in the United States, Canada, the United Kingdom, the Netherlands, Belgium, Germany, France, Austria, Portugal, Spain, the Czech Republic, Luxembourg, Italy, Ireland, Switzerland, Australia and New Zealand. We also have affiliates in Iceland and Israel.

We have established strategically located distribution centers to enable us to better serve our customers and increase our operating efficiency. This infrastructure, together with broad product and service offerings at competitive prices, and a strong commitment to customer service, enables us to be a single source of supply for our customers' needs. Our infrastructure also allows us to provide convenient ordering and rapid, accurate and complete order fulfillment.

We conduct our business through two segments: healthcare distribution and technology. These segments offer different products and services to the same customer base. The healthcare distribution segment consists of our dental, medical (including veterinary) and international groups. Products distributed consist of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection control products and vitamins.

Our dental group serves office-based dental practices in the combined United States and Canadian dental market. Our medical group serves office-based physician practices, as well as surgical centers and other alternate-care settings and veterinarian clinics throughout the United States. Our international group serves practices in 17 countries outside of North America and is what we believe to be a leading Pan-European healthcare supplier serving office-based dental, medical and veterinary practices.

Our technology group provides software, technology and other value-added services to healthcare providers, primarily in the United States and Canada. Our value-added practice solutions include practice management software systems for dental and medical practices and veterinary clinics. Our technology group offerings also include financial services and continuing education services for practitioners.

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 affected 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 healthcare products distribution industry, as it relates to office-based healthcare practitioners, is highly fragmented and diverse. This industry, which encompasses the dental, medical, and veterinary markets, was estimated to produce revenues of approximately $19.5 billion in 2004 in the combined North American and European markets. The industry ranges from sole practitioners working out of relatively small offices to group practices or service organizations comprising anywhere from a few practitioners to 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 industry will continue to result in a number of distributors, particularly those 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 and service offerings 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 and services to the healthcare industry. This trend has resulted in expansion into service areas, which complement our existing operations and provide opportunities for us to develop synergies with, and thus strengthen, the acquired businesses.

On June 18, 2004, we acquired all of the outstanding equity shares of the Demedis Group, excluding its Austrian operations. This acquisition approximately doubled the net sales of our international operations. Additionally, since the beginning of 1999, we have completed more than 25 acquisitions.

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 more than 300 smaller distributors holding approximately 40% of the market. In the U.S. medical market, we estimate that more than 500 smaller distributors hold approximately 50% of the market, and in the European dental market, we estimate that more than 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-care site, particularly physicians' offices. 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 segment 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 United States. 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 United States.

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. The Balanced Budget Act passed by Congress in 1997 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") 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 the pharmaceutical distribution portion of our business.

Product Integrity

Certain pharmaceutical and medical-surgical product manufacturers are in discussions with legislators about the risks of counterfeit products in the supply chain and 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 potential litigation.

Results of Operations

The following table summarizes the significant components of our operating results and cash flows for each of the three years ended December 25, 2004 (in thousands):

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Operating Results:			
Net sales	$ 4,060,266	$ 3,353,805	$ 2,825,001
Cost of sales	2,983,860	2,426,611	2,030,097
Gross profit	1,076,406	927,194	794,904
Operating expenses:			
Selling, general and administrative (1)	863,319	693,475	597,901
Operating income	$ 213,087	$ 233,719	$ 197,003
Other expense, net	$ (9,713)	$ (7,943)	$ (6,574)
Net income from continuing operations	128,183	139,522	117,987
Loss on sale of discontinued operation, net of tax	—	(2,012)	—
Net income	128,183	137,510	117,987
Cash Flows:			
Net cash provided by operating activities of continuing operations	$ 190,999	$ 128,843	$ 134,669
Net cash used in investing activities	(172,552)	(118,122)	(142,758)
Net cash provided by (used in) financing activities	26,370	(48,375)	18,683

(1) Reflects a $13.2 million pre-tax ($8.4 million post-tax) one-time charge, recorded in the fourth quarter of 2004, related to our Fluvirin® contract with Chiron Corporation. This charge, which represented the write-off of a deferred expense associated with the 2005/2006 influenza season, occurred as a result of the significant uncertainty about whether Chiron will be able to provide Fluvirin® for the 2005/2006 influenza season. The effect that this charge had on earnings per share for the year ended December 25, 2004 was $(0.10).

2004 Compared to 2003

Net Sales

Net sales for 2004 and 2003 were as follows (in thousands):

	2004	% of Total	2003	% of Total
Healthcare distribution (1):				
Dental (2)	$ 1,602,457	39.5%	$ 1,364,812	40.7%
Medical (3)	1,446,060	35.6%	1,338,084	39.9%
International (4)	928,207	22.8%	576,628	17.2%
Total healthcare distribution	3,976,724	97.9%	3,279,524	97.8%
Technology (5)	83,542	2.1%	74,281	2.2%
Total	$ 4,060,266	100.0%	$ 3,353,805	100.0%

(1) Consists of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, surgical products, diagnostic tests, vaccines, 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 providers in the United States and Canada.

The $706.5 million, or 21.1%, increase in net sales for the year ended December 25, 2004 includes increases of 19.0% local currency growth (7.5% internally generated primarily due to volume growth and 11.5% from acquisitions, net of a divestiture) and 2.1% related to foreign currency exchange.

The $237.6 million, or 17.4%, increase in dental net sales for the year ended December 25, 2004 includes increases of 16.9% local currency growth (14.1% internally generated primarily due to volume growth and 2.8% from acquisitions) and 0.5% related to foreign currency exchange. The 16.9% local currency growth was due to dental consumable merchandise sales growth of 16.0% (13.6% internal growth, of which 6.3% related to sales of the Colgate and Pentron product lines) and dental equipment and service sales growth of 20.1% (16.6% internal growth). We expect that the Colgate and Pentron product lines, introduced through distribution agreements executed in 2004, will continue to contribute to our overall increase in dental net sales.

The $108.0 million, or 8.1%, increase in medical net sales for the year ended December 25, 2004 includes increases of 1.0% internally generated and 7.1% from acquisitions (accounting for an increase of $96.8 million). Additionally, medical sales were affected by the absence of Fluvirin® influenza vaccines in 2004, as previously discussed.

The $351.6 million, or 61.0%, increase in international net sales for the year ended December 25, 2004 includes increases of 50.0% in local currencies (43.5% from acquisitions, net of a divestiture and 6.5% internally generated primarily due to volume growth) and 11.0% due to foreign currency exchange. The increase was primarily due to our acquisition of the Demedis Group.

The $9.3 million, or 12.5%, increase in technology net sales for the year ended December 25, 2004 includes increases of 10.4% internal growth, 1.9% acquisition growth and 0.2% due to foreign currency exchange. The increase was primarily due to growth of our value-added products, including software products and related services.

Gross Profit

Gross profit and gross margins for 2004 and 2003 by segment and in total were as follows (in thousands):

	2004	Gross Margin %	2003	Gross Margin %
Healthcare distribution	$ 1,014,478	25.5%	$ 870,499	26.5%
Technology	61,928	74.1%	56,695	76.3%
Total	$ 1,076,406	26.5%	$ 927,194	27.6%

Gross profit increased $149.2 million, or 16.1%, to $1.1 billion for the year ended December 25, 2004 compared to the prior year period. As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Additionally, we realize substantially higher gross margin percentages in our technology segment than in our healthcare distribution segment. These higher gross margins result from being both the developer and seller of software products combined with the nature of the software industry, in which developers realize higher gross margins to recover investments in research and development.

Healthcare distribution gross profit increased $144.0 million, or 16.5%, to $1.0 billion for the year ended December 25, 2004 compared to the prior year period. Healthcare distribution gross profit margin decreased to 25.5% for the year ended December 25, 2004 from 26.5% for the comparable prior year period, primarily due to the absence of Fluvirin® influenza vaccine in 2004 as previously discussed.

Technology gross profit increased $5.2 million, or 9.2%, to $61.9 million for the year ended December 25, 2004 compared to the prior year period. Technology gross profit margin decreased to 74.1% for the year ended December 25, 2004 from 76.3% for the comparable prior year period, primarily due to changes in sales mix and increased investment in support services.

Selling, General and Administrative

Selling, general and administrative expenses by segment and in total for 2004 and 2003 were as follows (in thousands):

	2004	% of Respective Net Sales	2003	% of Respective Net Sales
Healthcare distribution	$ 831,889	20.9%	$ 665,470	20.3%
Technology	31,430	37.6%	28,005	37.7%
Total	$ 863,319	21.3%	$ 693,475	20.7%

Selling, general and administrative expenses increased by $169.8 million, or 24.5%, to $863.3 million for the year ended December 25, 2004 compared to the prior year period. As a percentage of sales, selling, general and administrative expenses increased to 21.3% from 20.7% for the comparable prior year period. This increase of 0.6% was due to a $13.2 million charge related to Fluvirin®, as previously discussed (which accounted for 0.4% of the increase) and the overall growth in our business (which accounted for 0.2% of the increase).

As a component of total selling, general and administrative expenses, selling expenses increased $95.8 million, or 21.9%, to $533.3 million for the year ended December 25, 2004 from $437.5 million for the prior year period. The increase was primarily due to an increase in payroll expenses as a percentage of our net sales. As a percentage of net sales, selling expenses increased to 13.1% from 13.0% for the comparable prior year period.

As a component of total selling, general and administrative expenses, general and administrative expenses increased $74.0 million, or 28.9%, to $330.0 million for the year ended December 25, 2004 from $256.0 million for the prior year period. As a percentage of net sales, general and administrative expenses increased to 8.1% from 7.6% for the comparable prior year period primarily for the reasons stated above.

Other Expense, Net

Other expense, net for the years ended December 25, 2004 and December 27, 2003 was as follows (in thousands):

	December 25, 2004	December 27, 2003
Interest income	$ 8,034	$ 8,746
Interest expense	(18,115)	(18,311)
Other, net	368	1,622
Other expense, net	$ (9,713)	$ (7,943)

Other expense, net increased $1.8 million to $9.7 million for the year ended December 25, 2004 from the comparable prior year period. The $712 thousand decrease in interest income was primarily due to lower

invested surplus cash balances over the year. The $196 thousand decrease in interest expense was primarily due to a $5.0 million decrease related to the effect of interest rate swaps entered into during the fourth quarter of 2003, partially offset by a $4.8 million increase in interest expense (of which $3.5 million related to our financing of the Demedis Group acquisition) due to higher outstanding debt. Other, net decreased by $1.3 million, primarily due to a $726 thousand non-recurring real estate related gain and $517 thousand of foreign currency net gains recognized in the prior year.

Income Taxes

For the year ended December 25, 2004, our effective tax rate was 37.1% compared to 37.4% 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 decreased $9.3 million, or 6.8%, to $128.2 million for the year ended December 25, 2004 compared to the prior year period. A post-tax one-time charge of $8.4 million related to Chiron Fluvirin® was included in 2004 net income. A post-tax real estate transaction gain of $454 thousand and a net loss on sale of a discontinued operation of $2.0 million are included in 2003 net income. The effect that such transactions had on earnings per share was $(0.10) in 2004 and $(0.02) in 2003.

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, vaccines, 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.

The $528.8 million, or 18.7%, increase in net sales for the year ended December 27, 2003 includes increases of 15.5% local currency growth (13.0% internally generated primarily due to volume growth and 2.5 % from acquisitions, net of a divestiture) and 3.2% related to foreign currency exchange.

The $137.5 million, or 11.2%, increase in dental net sales for the year ended December 27, 2003 includes increases of 10.5%, local currency growth (7.9% internally generated primarily due to volume growth and 2.6% from acquisitions, net of a divestiture) and 0.7% related to foreign currency exchange. The 10.5% local currency growth was due to dental consumable merchandise sales growth of 8.7% and dental equipment and service sales growth of 17.4%.

The $244.1 million, or 22.3%, increase in medical net sales for the year ended December 27, 2003 includes increases of 21.0% internally generated primarily due to volume growth and 1.3% from acquisitions, net of a divestiture. The increase was primarily due to increased sales to physicians' offices and alternate-care markets (accounting for an increase of $217.5 million or 19.9%).

The $139.6 million, or 31.9%, increase in international net sales for the year ended December 27, 2003 includes increases of 12.9% in local currencies (7.2% internally generated primarily due to volume growth and 5.7% from acquisitions, net of a divestiture) and 19.0% due to foreign currency exchange.

The $7.6 million, or 11.3%, increase in technology net sales for the year ended December 27, 2003 includes increases of 11.1% internal growth and 0.2% acquisition growth. The increase was primarily due to growth in our electronic services business, including dental claims processing.

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%	$ 572,893	20.8%
Technology	28,005	37.7%	25,008	37.5%
Total	$ 693,475	20.7%	$ 597,901	21.2%

Selling, general and administrative expenses increased $95.6 million, or 16.0%, 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 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 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 $28.2 million, or 12.4%, to $256.0 million for the year ended December 27, 2003 from $227.8 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 for the years ended December 27, 2003 and December 28, 2002 was as follows (in thousands):

	December 27, 2003	December 28, 2002
Interest income	$ 8,746	$ 10,446
Interest expense	(18,311)	(17,960)
Other, net	1,622	940
Other expense, net	$ (7,943)	$ (6,574)

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 37.0% 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 post-tax real estate transaction gain of $454 thousand and a net loss on the sale of a discontinued operation of $2.0 million are included in 2003 net income. A post-tax 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 earnings per share was $(0.02) in 2003 and $0.02 in 2002.

Liquidity and Capital Resources

Our principal capital requirements include the funding of acquisitions and repayments of debt assumed in acquisitions, repurchases of common stock, working capital needs and capital expenditures. Working capital requirements generally result from increased sales, special inventory forward buy-in opportunities and payment terms for receivables and payables. Because sales tend to be stronger during the third and fourth quarters 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 sources of cash are from our operations and short-term and long-term debt financings. Our ability to generate sufficient cash flows from operations is dependent on the continued demand of our customers for, and supply by our vendors of, our products and services. Given current operating, economic and industry conditions, we believe that demand for our products and services will be consistent in the foreseeable future.

Net cash flow provided by operating activities was $191.0 million for the year ended December 25, 2004 compared to $128.8 million for the prior-year period. This net change of $62.2 million was due primarily to changes in the timing of cash receipts from customers and cash payments to vendors (accounting for an increase of $52.8 million).

Net cash used in investing activities was $172.6 million for the year ended December 25, 2004 compared to $118.1 million for the prior year period. The net change of $54.5 million was primarily due to payments for completed and pending business acquisitions, which accounted for $31.6 million. The remaining change was primarily due to a decrease of $26.1 million related to proceeds received from sales of marketable securities. We expect to invest approximately $50 million during fiscal year 2005 in capital projects to modernize and expand our facilities and computer systems infrastructure and to integrate certain operations.

Net cash provided by (used in) financing activities was $26.4 million for the year ended December 25, 2004 compared to $(48.4) million for the prior-year period. The net change of $74.8 million was primarily due to our issuance of long-term debt (accounting for an increase of $234.2 million, net of issuance costs), partially offset by repayments of the debt assumed in business acquisitions (accounting for a decrease of $135.7 million) and increased payments to repurchase our common stock (accounting for a decrease of $20.5 million).

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

	December 25, 2004	December 27, 2003
Cash and cash equivalents	$ 186,621	$ 157,351
Marketable securities, including non-current	—	14,496
Working capital	736,844	637,296
Bank credit lines	$ 5,969	$ 6,059
Current maturities of long-term debt	3,906	3,253
Long-term debt	525,682	247,100
Total debt	$ 535,557	$ 256,412

Our cash and cash equivalents consist of bank balances and investments in money market funds representing overnight investments with a high degree of liquidity.

Our business requires a substantial investment in working capital, which 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 and our desired level of inventory.

Our accounts receivable days sales outstanding improved to 46.0 days as of December 25, 2004 from 46.4 days as of December 27, 2003. Our inventory turns remained constant at 6.9 turns for the year ended December 25, 2004 compared to the prior year. We anticipate future increases in our working capital requirements as a result of continued sales growth.

The following table summarizes our contractual obligations related to fixed and variable rate long-term debt, including interest (assuming an average long-term variable rate of interest of 6.0%), as well as lease obligations and inventory purchase commitments as of December 25, 2004.

	Payments due by period (in thousands)				
	< 1 year	1 - 3 years	4 - 5 years	> 5 years	Total
Contractual obligations:					
Inventory purchase commitments	$ 54,278	$ 60,856	$ 16,000	$ 8,000	$ 139,134
Long-term debt, including interest	28,404	93,756	219,966	299,686	641,812
Operating lease obligations	40,350	54,157	33,523	61,991	190,021
Capital lease obligations, including interest	1,335	2,533	1,699	8,547	14,114
Interest rate swap agreements	—	1,474	3,430	274	5,178
Total	$ 124,367	$ 212,776	$ 274,618	$ 378,498	$ 990,259

As previously discussed in the ‘Recent Developments’ section, we have obligations to purchase influenza vaccine from Chiron Corporation and ID Biomedical Corporation. Given the uncertainties surrounding the pending FDA approval for both companies to distribute influenza vaccine in the U.S. for the 2005/2006 influenza season, we have excluded these purchase obligations from the above table.

Our purchase commitment under our agreement with Chiron Corporation would require us to pay $122.5 million in 2005 if they are able to meet their obligations under the agreement. Our purchase commitment under our agreement with ID Biomedical which terminates in 2014 would require us to pay an amount per dose based each year on the market price then prevailing. Under current market prices, this commitment would aggregate to approximately $45.0 million for 2005, increasing to approximately $113.0 million in 2007 and each year thereafter.

On August 9, 2004, we completed an issuance of $240.0 million of convertible debt. These notes are senior unsecured obligations bearing a fixed annual interest rate of 3.0% and are due to mature on August 15, 2034. Interest on the notes is payable on February 15 and August 15 of each year, which commenced on February 15, 2005. The notes are convertible into our common stock at a conversion ratio of 21.58 shares per one thousand dollars of principal amount of notes, which is the equivalent conversion price of $46.34 per share. Upon conversion, we are required to satisfy our conversion obligation with respect to the principal amount of the notes to be converted, in cash, with any remaining amount to be satisfied in shares of our common stock. We currently have sufficient availability of funds through our $200.0 million revolving credit facility along with cash on hand to fully satisfy the cash portion of our conversion obligation.

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. For the year ended December 25, 2004, the weighted-average variable interest rate was 5.05%. This weighted-average variable interest rate comprises LIBOR, plus a 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 expire in May 2006. We financed our acquisition of the Demedis Group with cash on hand, borrowings under our revolving credit facility and with proceeds from a bridge loan in the amount of $150.0 million. These borrowings were repaid in full as of December 25, 2004 with the net proceeds from our $240.0 million convertible debt issuance on August 9, 2004. As of December 25, 2004, there were $8.0 million of letters of credit provided to third parties and no borrowings outstanding under this revolving credit facility.

As of December 25, 2004, we had available various short-term bank credit lines of which $6.0 million was outstanding. Such credit lines bear interest at rates ranging from 3.0% to 6.25%, and were collateralized by accounts receivable, inventory and property and equipment with an aggregate net carrying value of $25.3 million at December 25, 2004.

On June 21, 2004, we announced that our Board of Directors had authorized a second common stock repurchase program. The new program allows us to repurchase up to $100 million in shares of our common stock, which represented approximately 3.5% of shares outstanding on the announcement date. As of December 25, 2004, we had repurchased $36.2 million or 1,168,810 shares under this initiative.

Some holders of minority interests in certain of our subsidiaries 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 as defined in the agreements. Additionally, some prior owners of such acquired subsidiaries 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 because 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, ability to access public and private debt markets and public equity markets, and available funds under existing credit facilities provide us with sufficient liquidity to meet our currently foreseeable short-term and long-term capital needs.

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. 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. However, by their nature, estimates are subject to various assumptions and uncertainties. Reported results are therefore sensitive to any changes in our assumptions, judgments and estimates, including the possibility of obtaining materially different results if different assumptions were to be applied.

We believe that the following critical accounting policies, which have been discussed with our audit committee, 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 contra-revenue 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 using 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 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 collectibility. Although making changes to our judgments, estimates and/or assumptions would affect our financial results, we believe the effect would not likely be material.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are not 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. Although making changes to our judgments, estimates and/or assumptions would affect our financial results, we believe the effect would not likely be material.

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:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of 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 or other indefinite-lived intangible assets have been impaired, we record an impairment charge in our consolidated statement of income. Based on our impairment review process, we have not recorded any material impairments during 2004, 2003 or 2002.

Long-Lived Assets

Long-lived assets, including definite-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 derived from assets. Definite-lived intangible assets primarily

consist of non-compete agreements, trademarks, trade names and customer relationships. When an impairment exists, the related assets are written down to fair value. We have not recorded any material impairments during 2004, 2003 or 2002.

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. If different assumptions were applied, the results would be different, however, such results would not affect our financial statements as this is a disclosure-only requirement.

Beginning in the third quarter of 2005, in connection with our adoption of FAS 123(R) (discussed below) stock-based compensation will be included in our results of operations. The method and assumptions used to determine the fair value of stock-based compensation under FAS 123(R) will be similar to those used under FAS 123. If different assumptions were applied, the results would be different; however, we believe such results would not have a material effect on our results of operations.

Recently Issued Accounting Standards

In December 2004, the FASB issued FAS No. 123(R), "Share-Based Payment." This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement changes the accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in FAS 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement is effective for interim and annual periods beginning after June 15, 2005 and applies to all outstanding and unvested stock-based payment awards at the date of adoption. We anticipate the adoption of FAS 123(R) will affect our results of operations to an extent similar to that as presented in our FAS 123 pro forma disclosure included in the accompanying audited financial statements.

In November 2004, the FASB issued FAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." This Statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that such items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The provisions of FAS 151 must be applied prospectively. We do not anticipate the adoption of FAS 151 to have a material effect on our financial position or results of operations.

FASB Staff Position ("FSP") No. 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), provides guidance under FAS No. 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax

expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS No. 109. We have not yet completed evaluating the impact of the repatriation provisions. Accordingly, as provided for in FSP 109-2, we have not adjusted our tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include changes in interest rates, as well as changes in foreign currency exchange rates as measured against the U.S. dollar and each other. We attempt to minimize these risks by using 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 influence 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 $2.8 million.

As of December 25, 2004, the fair value of our interest rate swap agreements recorded in other non-current liabilities was $1.4 million, which represented the amount that would be paid 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 non-current assets or liabilities 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 25, 2004, we had outstanding foreign currency forward and swap contracts aggregating $447.2 million, of which $440.2 million related to intercompany debt and $7.0 million related to the purchase of merchandise from foreign vendors. The contracts hedge against currency fluctuations of Euros ($371.5 million), British Pounds ($57.0 million), Australian Dollars ($11.1 million), Swedish Krona ($4.0 million), Swiss Francs ($2.8 million), Japanese Yen ($590.0 thousand) and New Zealand Dollars ($265 thousand). As of December 25, 2004, the gross amount of these contracts, calculated as the aggregate value of future U.S. dollar payments and receipts, determined by quoted market prices, was $448.4 million. These contracts expire through June 2005. For the year ended December 25, 2004, we recognized a loss relating to our foreign currency forward and swap contracts of $892 thousand.

Risk Factors

The healthcare products distribution industry is highly competitive and we may not be able to compete successfully.

We compete with numerous companies, including several major manufacturers and distributors. Some of our competitors have greater financial and other resources than we do, which could allow them to compete more successfully. Most of our products are available from several sources and our customers tend to have relationships with several distributors. Competitors could obtain exclusive rights to market particular products, which we would then be unable to market. Manufacturers could also increase their efforts to sell directly to end-users and by-pass distributors like us. Industry consolidation among healthcare products distributors, the unavailability of products, whether due to our inability to gain access to products or interruptions in supply from manufacturers, or the emergence of new competitors could also increase competition. In the future, we may be unable to compete successfully and competitive pressures may reduce our revenues.

The healthcare industry is experiencing changes which could adversely affect our business.

The healthcare industry is highly regulated and subject to changing political, economic and regulatory influences. 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; pressures relating to potential healthcare reform, trends toward managed care; consolidation of healthcare distribution companies; collective purchasing arrangements among office-based healthcare practitioners; and reimbursements to customers. If we are unable to react effectively to these and other changes in the healthcare industry, our operating results could be adversely affected. In addition, the enactment of any significant healthcare reforms could have a material adverse effect on our business.

We must comply with government regulations governing the distribution of pharmaceuticals and medical devices and additional regulations could negatively affect our business.

Our business is subject to requirements under various local, state, federal and international governmental laws and regulations applicable to the manufacture and distribution of pharmaceuticals and medical devices. Among the federal laws with which we must comply are the Controlled Substances Act and the Federal Food, Drug, and Cosmetic Act, including the Prescription Drug Marketing Act of 1987 and the Safe Medical Devices Act. Such laws:

- regulate the storage and distribution, labeling, handling, record keeping, manufacturing and advertising of drugs and medical devices;
- subject us to inspection by the Federal Food and Drug Administration and the Drug Enforcement Administration;
- regulate the transportation of certain of our products that are considered hazardous materials;

- require registration with the Federal Food and Drug Administration and the Drug Enforcement Administration;
- require us to coordinate returns of products that have been recalled and subject us to inspection of our recall procedures; and
- impose reporting requirements if a pharmaceutical or medical device causes serious illness, injury or death.

Our business is also subject to requirements of foreign governmental laws and regulations affecting our operations abroad.

The failure to comply with any of these regulations or the imposition of any additional regulations could negatively affect our business. There can be no assurance that current or future U.S. or foreign government regulations will not adversely affect our business.

Our international operations are subject to inherent risks, which could adversely affect our operating results.

International operations are subject to risks that may materially adversely affect our business, results of operations and financial condition. The risks that our international operations are subject to include:

- difficulties and costs relating to staffing and managing foreign operations;
- difficulties in establishing channels of distribution;
- fluctuations in the value of foreign currencies;
- longer payment cycles of foreign customers and difficulty of collecting receivables in foreign jurisdictions;
- repatriation of cash from our foreign operations to the United States;
- cumbersome regulatory requirements;
- unexpected difficulties in importing or exporting our products;
- imposition of import/export duties, quotas, sanctions or penalties; and
- unexpected regulatory, economic and political changes in foreign markets.

As a result of our acquisition of the Demedis Group, our foreign operations are significantly larger and, therefore, our exposure to the risks inherent in international operations has become greater.

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business is subject to seasonal and other quarterly fluctuations. Net sales and operating profits generally have been higher in the third and fourth quarters due to the timing of sales of seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based healthcare practitioners and year-end promotions. Net sales and operating profits generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. Quarterly results may also be adversely affected by a variety of other factors, including:

- costs of developing new applications and services;
- costs related to acquisitions of technologies or businesses;
- the timing and amount of sales and marketing expenditures;
- general economic conditions, as well as those specific to the healthcare industry and related industries;
- the timing of the release of functions of our technology-related products and services; and
- our success in establishing or maintaining business relationships.

Any change in one or more of these or other factors could cause our annual or quarterly operating results to fluctuate. If our operating results do not meet market expectations, our stock price may decline.

Because we do not manufacture the products we distribute, we are dependent upon third parties for the manufacture and supply of our products.

We obtain substantially all of our products from third-party suppliers. Generally, we do not have long-term contracts with our suppliers, committing them to supply products to us. Therefore, suppliers may not provide the products we need in the quantities we request. Because we do not control the actual production of the products we sell, we may be subject to delays caused by interruption in production based on conditions outside of our control. In the event that any of our third-party suppliers were to become unable or unwilling to continue to provide the products in required volumes, we would need to identify and obtain acceptable replacement sources on a timely basis. There is no guarantee that we will be able to obtain such alternative sources of supply on a timely basis, if at all. An extended interruption in the supply of our products, including the supply of our influenza vaccine and any other high sales volume product, would have an adverse effect on our results of operations, which most likely would adversely affect the value of our common stock.

Our expansion through acquisitions and joint ventures involves several risks.

We have expanded our domestic and international markets in part through acquisitions and joint ventures, and we expect to continue to make acquisitions and enter into joint ventures in the future. Such transactions involve numerous risks, including possible adverse effects on our operating results or the market price of our common stock. Some of our acquisitions and future acquisitions may also give rise to an obligation by us to make contingent payments or to satisfy certain repurchase obligations, which payments could have an adverse effect on our results of operations. In addition, integrating acquired businesses and joint ventures:

- may result in a loss of customers or product lines of the acquired businesses or joint ventures;
- requires significant management attention; and
- may place significant demands on our operations, information systems and financial resources.

There can be no assurance that our future acquisitions or joint ventures will be successful. Our ability to continue to successfully effect acquisitions and joint ventures will depend upon the following:

- the availability of suitable acquisition or joint venture candidates at acceptable prices;
- our ability to consummate such transactions, which could potentially be prohibited due to national or international antitrust regulations; and
- the availability of financing on acceptable terms, in the case of non-stock transactions.

We face inherent risk of exposure to product liability and other claims in the event that the use of the products we sell results in injury.

Our business involves a risk of product liability and other claims 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. Additionally, we own a majority interest in a company that manufactures dental implants and we are subject to the potential risk of product liability or other claims relating to the manufacture of products by that entity. One of the potential risks we face in the distribution of our products is liability resulting from counterfeit products infiltrating the supply chain. In addition, some of the products that we transport and sell are considered hazardous materials. The improper handling of such materials or accidents involving the transportation of such materials could subject us to liability. We have insurance policies, including product liability insurance, covering risks and in amounts we consider adequate. Additionally, in many cases we are covered by indemnification from the manufacturer of the product. However, we cannot assure you that the coverage maintained by us is sufficient to cover future claims, that it will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide adequate protection for us. A successful claim brought against us in excess of available insurance or indemnification, or any claim that results in significant adverse publicity against us, could harm our business.

Our technology segment depends upon continued product development, technical support and successful marketing.

Competition among companies supplying practice management software is intense and increasing. Our future sales of practice management software will depend on, among other factors:

- the effectiveness of our sales and marketing programs;
- our ability to enhance our products; and
- our ability to provide ongoing technical support.

We cannot be sure that we will be successful in introducing and marketing new software or software enhancements, or that such software will be released on time or accepted by the market. Our software products, like software products generally, may contain undetected errors or bugs when introduced or as new versions are released. We cannot be sure that future problems with post-release software errors or bugs will not occur. Any such defective software may result in increased expenses related to the software and could adversely affect our relationships with the customers using such software. We do not have any patents on our software, and rely upon copyright, trademark and trade secret laws, as well as contractual and common law protections. We cannot assure you that such legal protections will be available or enforceable to protect our software products.

Our revenues depend on our relationships with capable sales personnel as well as key customers, vendors and manufacturers of the products we distribute.

Our future operating results depend on our ability to maintain satisfactory relationships with qualified sales personnel as well as key customers, vendors and manufacturers. If we fail to maintain our existing relationships with such persons or fail to acquire relationships with such key persons in the future, our business may suffer.

Our future performance is materially dependent upon our senior management.

Our future success is substantially dependent upon the efforts and abilities of members of our existing senior management, particularly Stanley M. Bergman, Chairman, Chief Executive Officer and President, among others. The loss of the services of Mr. Bergman could have a material adverse effect on our business. We have an employment agreement with Mr. Bergman. We do not currently have “key man” life insurance

policies on any of our employees. Competition for senior management is intense, and we may not be successful in attracting and retaining key personnel.

Increases in the cost of shipping or service trouble with our third- party shippers could harm our business.

Shipping is a significant expense in the operation of our business. We ship almost all of our U.S. orders by United Parcel Service, Inc. and other delivery services, and typically bear the cost of shipment. Accordingly, any significant increase in shipping rates could have an adverse effect on our operating results. Similarly, strikes or other service interruptions by those shippers could cause our operating expenses to rise and adversely affect our ability to deliver products on a timely basis.

We may not be able to respond to technological change effectively.

Traditional healthcare supply and distribution relationships are being challenged by electronic on-line commerce solutions. Our distribution business is characterized by rapid technological developments and intense competition. The advancement of on-line commerce will require us to cost-effectively adapt to changing technologies, to enhance existing services and to develop and introduce a variety of new services to address changing demands of consumers and our clients on a timely basis, particularly in response to competitive offerings. Our inability to anticipate and effectively respond to changes on a timely basis could have an adverse effect on our business.

We are exposed to the risk of an increase in interest rates.

During the fourth quarter of 2003, we entered into interest rate swap agreements to exchange our fixed rate interest rates for variable interest rates payable on our $230 million senior notes. Our fixed interest rates on the senior notes were 6.94% and 6.66% for the $130 million and $100 million senior notes, respectively. 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 fluctuations in interest rates. For example, a hypothetical 100 basis points increase in interest rates would increase our annual interest expense by approximately $2.8 million.

Our acquisition of the Demedis Group may not result in the benefits and revenue growth we expect.

On June 18, 2004, we acquired the Demedis Group. We are in the process of integrating these companies and assimilating the operations, services, products and personnel of each company with our management policies, procedures and strategies. We cannot be sure that we will achieve the benefits of revenue growth that we expect from this acquisition or that we will not incur unforeseen additional costs or expenses in connection with this acquisition. To effectively manage our expected future growth, we must continue to successfully manage our integration of the Demedis Group and continue to improve our operational systems, internal procedures, accounts receivable and management, financial and operational controls. If we fail in any of these areas, our business could be adversely affected.

The market price for our common stock may be highly volatile.

The market price for our common stock may be highly volatile. A variety of factors may have a significant impact on the market price of our common stock, including:

- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- changes in our industry and competitors;
- our financial condition, results of operations and cash flows and prospects;

- any future issuances of our common stock, which may include primary offerings for cash, stock splits, issuances in connection with business acquisitions and the grant or exercise of stock options from time to time;

- general market and economic conditions; and

- any outbreak or escalation of hostilities.

In addition, the Nasdaq National Market can experience extreme price and volume fluctuations that can be unrelated or disproportionate to the operating performance of the companies listed on Nasdaq. Broad market and industry factors may negatively affect the market price of our common stock, regardless of actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against companies. This type of litigation, if instituted, could result in substantial costs and a diversion of management's attention and resources, which would harm our business.

Certain provisions in our governing documents and other documents to which we are a party may discourage third-party offers to acquire us that might otherwise result in our stockholders receiving a premium over the market price of their shares.

The provisions of our certificate of incorporation and by-laws may make it more difficult for a third party to acquire us, may discourage acquisition bids, and may limit the price that certain investors might be willing to pay in the future for shares of our common stock. These provisions, among other things:

- require the affirmative vote of the holders of at least 60% of the shares of common stock entitled to vote to approve a merger, consolidation, or a sale, lease, transfer or exchange of all or substantially all of our assets; and

- require the affirmative vote of the holders of at least 66 2/3% of our common stock entitled to vote to:

    - remove a director; and

    - to amend or repeal our by-laws, with certain limited exceptions.

In addition, the Henry Schein, Inc. 1994 Stock Incentive Plan, the Henry Schein, Inc. 1996 Non-Employee Director Stock Incentive Plan and the Henry Schein, Inc. 2001 Non-Employee Director Stock Option Plan provide for accelerated vesting of stock options upon a change in control, and certain agreements between us and our executive officers provide for increased severance payments if those executive officers are terminated without cause within two years after a change in control.

We also have a stockholder rights plan which could make it more difficult for a third party to acquire us if our Board of Directors does not determine that the acquisition proposal is adequate and in the stockholders' best interest.

ITEM 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS
HENRY SCHEIN, INC.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 25, 2004 and December 27, 2003, 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 25, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Henry Schein, Inc. at December 25, 2004 and December 27, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 25, 2004 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Henry Schein, Inc.'s internal control over financial reporting as of December 25, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2005 expressed an unqualified opinion.

/s/ BDO SEIDMAN, LLP

New York, New York
February 28, 2005

HENRY SCHEIN, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 25, 2004	December 27, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 186,621	$ 157,351
Accounts receivable, net of reserves of $44,852 and $43,203	554,666	467,085
Inventories	486,494	385,846
Deferred income taxes	28,795	30,559
Prepaid expenses and other	174,167	115,643
Total current assets	1,430,743	1,156,484
Property and equipment, net	176,103	154,205
Goodwill	627,215	398,888
Other intangibles, net	129,285	37,551
Investments and other	70,324	72,242
Total assets	$ 2,433,670	$ 1,819,370
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 367,213	$ 278,163
Bank credit lines	5,969	6,059
Current maturities of long-term debt	3,906	3,253
Accrued expenses:		
Payroll and related	89,431	68,214
Taxes	70,970	45,969
Other	156,410	117,530
Total current liabilities	693,899	519,188
Long-term debt	525,682	247,100
Deferred income taxes	66,599	32,938
Other liabilities	28,999	4,494
Minority interest	12,438	11,532
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none outstanding	—	—
Common stock, $.01 par value, 120,000,000 shares authorized, 86,650,428 and 87,523,946 outstanding	867	875
Additional paid-in capital	445,573	444,681
Retained earnings	615,265	533,654
Accumulated other comprehensive income	44,785	24,999
Deferred compensation	(437)	(91)
Total stockholders' equity	1,106,053	1,004,118
Total liabilities and stockholders' equity	$ 2,433,670	$ 1,819,370

See accompanying notes.

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

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Net sales	$ 4,060,266	$ 3,353,805	$ 2,825,001
Cost of sales	2,983,860	2,426,611	2,030,097
Gross profit	1,076,406	927,194	794,904
Operating expenses:			
Selling, general and administrative	863,319	693,475	597,901
Operating income	213,087	233,719	197,003
Other income (expense):			
Interest income	8,034	8,746	10,446
Interest expense	(18,115)	(18,311)	(17,960)
Other, net	368	1,622	940
Income before taxes, minority interest, equity in earnings of affiliates and loss on sale of discontinued operation	203,374	225,776	190,429
Taxes on income from continuing operations	(75,404)	(84,378)	(70,510)
Minority interest in net income of subsidiaries	(1,486)	(2,807)	(2,591)
Equity in earnings of affiliates	1,699	931	659
Net income from continuing operations	128,183	139,522	117,987
Loss on sale of discontinued operation, net of tax	—	(2,012)	—
Net income	$ 128,183	$ 137,510	$ 117,987
Earnings from continuing operations per share:			
Basic	$ 1.47	$ 1.60	$ 1.36
Diluted	$ 1.43	$ 1.55	$ 1.31
Loss on sale of discontinued operation, net of tax per share:			
Basic	$ —	$ (0.03)	$ —
Diluted	$ —	$ (0.02)	$ —
Earnings per share:			
Basic	$ 1.47	$ 1.57	$ 1.36
Diluted	$ 1.43	$ 1.53	$ 1.31
Weighted-average common shares outstanding:			
Basic	87,253	87,417	86,978
Diluted	89,462	89,975	89,744

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 Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Total Stockholders' Equity
	Shares	Amount						
Balance, December 29, 2001	85,490,408	$ 854	$ 392,620	$ 312,402	$ (1,156)	$ (23,922)	$ (341)	$ 680,457
Net income	—	—	—	117,987	—	—	—	117,987
Foreign currency translation gain	—	—	—	—	—	19,156	—	19,156
Unrealized loss from hedging activities, net of tax of $66	—	—	—	—	—	(167)	—	(167)
Net unrealized investment gain, net of tax of $(55)	—	—	—	—	—	139	—	139
Total comprehensive income								137,115
Stock issued to 401(k) plan	49,718	—	1,340	—	—	—	—	1,340
Amortization of restricted stock	—	—	—	—	—	—	125	125
Stock issued upon exercise of stock options, including tax benefit of $8,058	2,543,056	26	42,154	—	—	—	—	42,180
Balance, December 28, 2002	88,083,182	880	436,114	430,389	(1,156)	(4,794)	(216)	861,217
Net income	—	—	—	137,510	—	—	—	137,510
Foreign currency translation gain	—	—	—	—	—	31,482	—	31,482
Unrealized loss from hedging activities, net of tax of $267	—	—	—	—	—	(717)	—	(717)
Net unrealized investment loss, net of tax of $46	—	—	—	—	—	(125)	—	(125)
Pension adjustment loss, net of tax of $315	—	—	—	—	—	(847)	—	(847)
Total comprehensive income								167,303
Stock issued to 401(k) plan	79,572	1	2,299	—	—	—	—	2,300
Amortization of restricted stock	—	—	—	—	—	—	125	125
Retirement of treasury stock	(124,958)	(1)	(570)	(585)	1,156	—	—	—
Repurchase and retirement of common stock	(2,670,000)	(27)	(28,067)	(33,660)	—	—	—	(61,754)
Stock issued upon exercise of stock options, including tax benefit of $12,579	2,156,150	22	34,905	—	—	—	—	34,927
Balance, December 27, 2003	87,523,946	875	444,681	533,654	—	24,999	(91)	1,004,118
Net income	—	—	—	128,183	—	—	—	128,183
Foreign currency translation gain	—	—	—	—	—	21,719	—	21,719
Unrealized loss from hedging activities, net of tax of $660	—	—	—	—	—	(1,952)	—	(1,952)
Net unrealized investment gain, net of tax of $(6)	—	—	—	—	—	19	—	19
Total comprehensive income								147,969
Stock issued to 401(k) plan	89,320	1	2,804	—	—	—	—	2,805
Issuance of restricted stock	15,244	—	486	—	—	—	(486)	—
Amortization of restricted stock	—	—	—	—	—	—	140	140
Repurchase and retirement of common stock	(2,498,810)	(24)	(35,617)	(46,572)	—	—	—	(82,213)
Stock issued upon exercise of stock options, including tax benefit of $11,809	1,520,728	15	33,219	—	—	—	—	33,234
Balance, December 25, 2004	86,650,428	$ 867	$ 445,573	$ 615,265	$ —	$ 44,785	$ (437)	$ 1,106,053

See accompanying notes.

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

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Cash flows from operating activities of continuing operations:			
Net income	$ 128,183	$ 137,510	$ 117,987
Loss on sale of discontinued operation, net of tax	—	2,012	—
Net income from continuing operations	128,183	139,522	117,987
Adjustments to reconcile net income to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	51,326	36,843	28,272
Provision for losses on trade and other accounts receivable	3,820	6,548	8,962
Deferred income taxes	13,294	5,524	226
Stock issued to 401(k) plan	2,805	2,300	1,340
Undistributed earnings of affiliates	(1,699)	(931)	(659)
Minority interest in net income of subsidiaries	1,486	2,807	2,591
Other	1,519	2,005	145
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(35,075)	(69,543)	(6,714)
Inventories	(28,614)	(28,781)	(23,075)
Other current assets	(13,919)	(16,957)	(18,445)
Accounts payable and accrued expenses	67,873	49,506	24,039
Net cash provided by operating activities of continuing operations	190,999	128,843	134,669
Cash flows from investing activities:			
Purchases of fixed assets	(37,837)	(38,978)	(47,543)
Payments for business acquisitions, net of cash acquired	(132,375)	(118,180)	(36,224)
Payments related to pending business acquisitions	(17,439)	—	—
Purchases of marketable securities	—	(39,667)	(55,211)
Proceeds from sales of marketable securities	14,472	40,619	—
Proceeds from maturities of marketable securities	—	39,030	—
Other, including discontinued operation	627	(946)	(3,780)
Net cash used in investing activities	(172,552)	(118,122)	(142,758)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	240,000	—	—
Payments for debt issuance costs	(5,781)	—	—
Net (payments on) proceeds from bank borrowings	(7,339)	(180)	394
Repayment of debt assumed in business acquisitions	(135,718)	—	—
Principal payments on long-term debt	(3,359)	(8,667)	(14,941)
Proceeds from issuance of stock upon exercise of stock options	21,425	22,348	34,122
Payments for repurchases of common stock	(82,213)	(61,754)	—
Other	(645)	(122)	(892)
Net cash provided by (used in) financing activities	26,370	(48,375)	18,683
Net change in cash and cash equivalents	44,817	(37,654)	10,594
Effect of exchange rate changes on cash and cash equivalents	(15,547)	(5,646)	(3,310)
Cash and cash equivalents, beginning of year	157,351	200,651	193,367
Cash and cash equivalents, end of year	$ 186,621	$ 157,351	$ 200,651

See accompanying notes.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)

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, the Czech Republic, Luxembourg, Italy, Ireland, Switzerland, Portugal, Australia and New Zealand. We also have affiliates in Iceland and Israel. 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 and controlled 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 accounting principles generally accepted in the United States 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 25, 2004, December 27, 2003 and December 28, 2002 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 contra-revenue 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 using 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

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Note 1— Significant Accounting Policies— (Continued)

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 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.

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 of $32.7 million, representing outstanding checks in excess of funds on deposit primarily related to payments for inventory, were classified as accounts payable as of December 25, 2004.

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 collectibility.

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 $35.5 million, $25.7 million and $23.2 million for 2004, 2003 and 2002.

Advertising and Promotional Costs

We generally expense advertising and promotional costs as incurred. Total advertising and promotional expenses were $21.9 million, $18.6 million and $13.9 million for 2004, 2003 and 2002. Additionally, advertising and promotional costs incurred in connection with direct marketing, including product catalogs and printed material, are deferred and amortized on a straight-line basis over the period which is benefited, generally one year. As of December 25, 2004 and December 27, 2003, we had $3.4 million and $2.2 million of deferred direct marketing expenses included in other current assets.

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 method.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 1— Significant Accounting Policies— (Continued)

Property and Equipment and Depreciation and Amortization

Property and equipment are stated at cost, net of accumulated depreciation. 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 permanent improvements	40
Machinery and warehouse equipment	5-10
Furniture, fixtures and other	3-10
Computer equipment and software	3-10

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 are capitalized. Costs incurred for our own personnel who are directly associated with software development may also be 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 U.S. federal income tax return with our 80% or greater owned U.S. 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 accumulated other comprehensive income in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 1— Significant Accounting Policies— (Continued)

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 and 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 our 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.

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 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 our consolidated financial statements include their results of 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 because the outcome of the contingencies is not determinable beyond a reasonable doubt.

Goodwill and Other Indefinite-Lived Intangible Assets

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. Such impairment tests require a 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.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 1— Significant Accounting Policies— (Continued)

Some factors we consider important that could trigger an interim impairment review include:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of 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 indefinite-lived intangible assets have been impaired, we record an impairment charge in our consolidated statements of income. Based on our impairment review process, we have not recorded any impairments during 2004, 2003 or 2002.

Long-Lived Assets

Long-lived assets, including definite-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 derived from assets. Definite-lived intangible assets primarily consist of non-compete agreements, trademarks, trade names and customer relationships. When an impairment exists, the related assets are written down to fair value. We have not recorded any material impairments during 2004, 2003 or 2002.

Cost of Sales

The primary components of cost of sales include the cost of the product (net of purchase discounts, vendor chargebacks and rebates) and inbound and outbound freight charges. Costs related to purchasing, receiving, inspections, warehousing, internal inventory transfers and other costs of our distribution network are included in selling, general and administrative expense along with other operating costs.

As a result of different practices of categorizing costs associated with distribution networks throughout our industry, our gross margins may not necessarily be comparable to other distribution companies. Total distribution network costs were $58.3 million, $32.2 million and $28.1 million for 2004, 2003 and 2002.

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.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 1— Significant Accounting Policies— (Continued)

Under the accounting provisions of FAS 123, our net income and earnings per 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%, 3.0% and 4.0% for 2004, 2003 and 2002; stock price volatility of 30.0% for 2004 and 45.0% for 2003 and 2002; dividend yield of 0% and weighted-average expected option life of 5 years for 2004, 2003 and 2002.

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Net income as reported	$ 128,183	$ 137,510	$ 117,987
Deduct: Total tax affected stock-based compensation expense determined under fair value method	(8,761)	(7,413)	(5,725)
Pro forma net income	$ 119,422	$ 130,097	$ 112,262
Earnings per share, as reported:			
Basic	$ 1.47	$ 1.57	$ 1.36
Diluted	$ 1.43	$ 1.53	$ 1.31
Earnings per share, pro forma:			
Basic	$ 1.37	$ 1.49	$ 1.29
Diluted	$ 1.33	$ 1.45	$ 1.25

Beginning in the third quarter of 2005, in connection with our adoption of FAS 123(R); “Share-Based Payment” (discussed below in ‘New Accounting Pronouncements’), stock-based compensation will be included in our results of operations. The method and assumptions used to determine the fair value of stock-based compensation under FAS 123(R) will be similar to those used under FAS 123.

Comprehensive Income

Comprehensive income includes certain gains and losses that, under accounting principles generally accepted in the United States, 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.

Stock Split

On January 31, 2005, we announced that our Board of Directors approved a two-for-one stock split effected in the form of a dividend. This stock split became effective on February 28, 2005 and has been retroactively reflected for all periods presented in the accompanying financial statements and footnotes.

New Accounting Pronouncements

In December 2004, the FASB issued FAS No. 123(R), “Share-Based Payment.” This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. This Statement changes the accounting for

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 1— Significant Accounting Policies— (Continued)

transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in FAS 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement is effective for interim and annual periods beginning after June 15, 2005 and applies to all outstanding and unvested stock-based payment awards at the date of adoption. We anticipate the adoption of FAS 123(R) will affect our results of operations to an extent similar to that as presented in our FAS 123 pro forma disclosure above.

In November 2004, the FASB issued FAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." This Statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). This Statement requires that such items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The provisions of FAS 151 must be applied prospectively. We do not anticipate the adoption of FAS 151 to have a material effect on our financial position or results of operations.

FASB Staff Position ("FSP") No. 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"), provides guidance under FAS No. 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS No. 109. We have not yet completed evaluating the impact of the repatriation provisions. Accordingly, as provided for in FSP 109-2, we have not adjusted our tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 2—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 share is computed similarly to basic, except it reflects the effect of common shares issuable upon exercise of stock options using the treasury stock method in periods in which they have a dilutive effect. The dilutive effect of our convertible debt will be reflected in diluted earnings per share by application of the 'if converted' method. For the year ended December 25, 2004, diluted earnings per share does not include the effect of common shares issuable upon conversion of our convertible debt because the principal is required to be repaid in cash. If at any time, the debt is convertible at a premium as a result of the conditions of the debt, the amount in excess of the principal will be repaid in common shares.

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

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Basic	87,252,606	87,417,172	86,978,458
Effect of assumed exercise of stock options	2,208,960	2,558,324	2,765,930
Diluted	89,461,566	89,975,496	89,744,388

Weighted-average options to purchase 1,853,324, 34,354 and 60,644 shares of common stock at prices ranging from $34.42 to $38.50, $26.26 to $34.42 and $23.40 to $27.00 per share that were outstanding during 2004, 2003 and 2002 were excluded from the computation of diluted earnings per share. In each of these periods, the options' exercise prices exceeded the average market price of our common stock, thereby causing the effect of such options to be anti-dilutive.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 3—Investments in Marketable Securities

There were no investments in marketable securities as of December 25, 2004. Investments in marketable securities as of December 27, 2003, which were classified as available-for-sale, 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 two 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

We determine cost of investments on the specific identification basis. Gross realized gains were $114 and gross realized losses were $26 in 2003. The securities held on December 27, 2003 had contractual maturities of up to three years.

Note 4—Property and Equipment, Net

Property and equipment consisted of the following:

	December 25, 2004	December 27, 2003
Land	$ 7,935	$ 7,754
Buildings and improvements	44,592	39,195
Leasehold improvements	26,553	25,215
Machinery and warehouse equipment	50,687	34,148
Furniture, fixtures and other	36,620	30,176
Computer equipment and software	144,942	150,193
	311,329	286,681
Less accumulated depreciation and amortization	(135,226)	(132,476)
Property and equipment, net	$ 176,103	$ 154,205

The net carrying value of equipment held under capital leases amounted to approximately $13.1 million and $2.3 million as of December 25, 2004 and December 27, 2003. Property and equipment related depreciation and amortization expense for 2004, 2003 and 2002 was $41.2 million, $33.6 million and $27.2 million.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 5—Goodwill and Other Intangibles, Net

The changes in the carrying amount of goodwill for the year ended December 25, 2004 were as follows:

	Healthcare Distribution	Technology	Total
Balance as of December 27, 2003	$ 397,003	$ 1,885	$ 398,888
Adjustments to goodwill:			
Acquisitions	197,752	2,081	199,833
Foreign currency translation	28,494	—	28,494
Balance as of December 25, 2004	$ 623,249	$ 3,966	$ 627,215

The acquisition costs incurred during 2004 related to acquisitions and contingent earnout payments relating to acquisitions made in prior years.

Other intangible assets consisted of the following:

	As of December 25, 2004		As of December 27, 2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Non-compete agreements	$ 24,269	$ (5,496)	$ 18,869	$ (5,021)
Trademarks and trade names	32,565	(2,039)	12,494	(128)
Customer relationships	68,209	(5,226)	11,547	(1,074)
Other	21,224	(4,221)	3,316	(2,452)
Total	$ 146,267	$ (16,982)	$ 46,226	$ (8,675)

Non-compete agreements represent amounts paid primarily to key employees and prior owners of acquired businesses in exchange for placing restrictions on their ability to pose a competitive risk to us. Such amounts are amortized, on a straight-line basis over the respective non-compete period, which generally commences upon termination of employment or separation from us. The weighted-average non-compete period for agreements currently being amortized was approximately 11 years as of December 25, 2004.

Trademarks, trade names and customer relationships were established through business acquisitions. Certain trademarks and trade names, totaling $25.7 million and $8.1 million as of December 25, 2004 and December 27, 2003, are deemed indefinite-lived intangible assets and are not amortized. The remainder are deemed definite-lived and are amortized on a straight-line basis over a weighted-average period of approximately 2 years as of December 25, 2004. Customer relationships are definite-lived intangible assets that are amortized on a straight-line basis over a weighted-average period of approximately 10 years as of December 25, 2004.

Amortization of definite-lived intangible assets for 2004, 2003 and 2002 was $10.1 million, $3.2 million and $1.1 million. The annual amortization expense expected for the years 2005 through 2009 is $11.2 million, $10.5 million, $9.0 million, $7.1 million and $6.4 million.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Note 6—Investments and Other

Investments and other consisted of the following:

	December 25, 2004	December 27, 2003
Long-term notes receivable (1)	$ 36,184	$ 35,434
Long-term distribution agreement, net of amortization	5,243	—
Investments in long-term marketable securities	—	11,484
Deposit on long-term inventory purchase agreements	—	6,899
Investment in unconsolidated affiliates	6,378	5,538
Debt issuance costs, net of amortization	6,566	968
Non-current deferred state and local income tax asset	10,364	4,200
Other	5,589	7,719
Total	$ 70,324	$ 72,242

(1) Long-term notes receivable carry interest rates ranging from 3.7% to 12.0% and are due in varying installments through 2020. Of the total, approximately $18.8 million in 2004 and $19.7 million in 2003 relate to the sale of certain businesses in prior years.

Note 7—Business Acquisitions and Divestiture

On June 18, 2004, we acquired all of the outstanding equity shares of Demedis GmbH (excluding its Austrian operations), which we believe is a leading full-service distributor of dental consumables and equipment in Germany, Austria, and the Benelux countries; and Euro Dental Holding GmbH, which included KRUGG S.p.A., which we believe is Italy's leading distributor of dental consumable products, and DentalMV GmbH (otherwise known as Muller & Weygandt, or "M&W"). We refer to these entities collectively as the "Demedis Group."

As part of our agreement with the German regulatory authorities, we agreed to divest M&W shortly after the consummation of the acquisition, effected through exercising a put option back to the previous owners. On July 16, 2004, this divestiture was completed for EUR 50.0 million (or $62.2 million), including the assumption of debt of approximately EUR 27.5 million (or $34.2 million), resulting in a reduction of the purchase price for the Demedis Group.

As part of the agreement to divest M&W, we were entitled to receive 50% of the net sale proceeds in excess of EUR 55.0 million, in the event M&W was subsequently resold before June 18, 2005. On September 24, 2004, an agreement was signed to resell M&W for an amount that resulted in our realizing a share of the net sale proceeds equal to EUR 26.4 million (or $32.4 million), which we received in October 2004. This amount was treated as a further reduction of the purchase price for the Demedis Group.

The regulatory authorities are continuing their review of our pending acquisition of the Demedis Group's business in Austria, which operates under the Austrodent brand. Of the total purchase price for the Demedis Group, EUR 11.0 million (or $13.5 million) was attributable to Austrodent, which was included in other current assets as of December 25, 2004. In the event that we receive regulatory approval to acquire Austrodent, this amount will be reclassified based on the fair value of the assets and liabilities acquired through a purchase price allocation, with an increase to goodwill for any excess of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
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Note 7—Business Acquisitions and Divestiture — (Continued)

purchase price over fair value. In the event that we do not receive regulatory approval to acquire Austrodent, we are entitled to receive the proceeds through a sale of Austrodent, net of selling costs, up to EUR 11.0 million. Any shortfall between the EUR 11.0 million and the proceeds received upon a subsequent sale of Austrodent will be recorded as an addition to goodwill of the Demedis Group.

Excluding its Austrian operations and giving effect to the proceeds received from the divestiture and subsequent resale of M&W as discussed above, the cash paid for the Demedis Group was approximately EUR 51.8 million (or $62.9 million), including transaction costs. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, including goodwill established, at the date of acquisition. The amounts were based on our best estimates and third-party valuations (with respect to intangible assets):

	As of June 18, 2004
Current assets	$ 93,023
Property, plant, and equipment	7,438
Intangible assets	59,825
Goodwill	137,273
Total assets acquired	297,559
Current liabilities	61,043
Long-term debt assumed and repaid	133,680
Other liabilities, net	39,895
Total liabilities assumed	234,618
Net assets acquired	$ 62,941

Of the $59.8 million of acquired intangible assets, $43.2 million was assigned to customer relationships (with a weighted-average useful life of 10 years), $4.1 million was assigned to registered trademarks and trade names (with a weighted-average useful life of 2 years) and $12.5 million was assigned to registered trademarks and trade names that are not subject to amortization. Of the total amount of $137.3 million assigned to goodwill, none is expected to be deductible for tax purposes.

We financed the acquisition of the Demedis Group primarily with cash on hand, borrowings under our existing revolving credit facility and with proceeds from a bridge loan in the amount of $150.0 million. These borrowings were repaid in full with the net proceeds from the issuance of $240.0 million of long-term convertible debt on August 9, 2004 as discussed in Note 8.

The operating results of the Demedis Group, including M&W (which was accounted for using the equity method through the date of the divestiture) and excluding Austrodent, are included in the accompanying financial statements since the acquisition date of June 18, 2004. Assuming the acquisition of the Demedis Group occurred at the beginning of our fiscal year ended December 27, 2003, excluding the results of Austrodent and M&W, our pro forma net sales would have been approximately $4.2 billion and $3.7 billion for 2004 and 2003. These unaudited net sales amounts do not purport to be indicative of what our net sales would have been had the above transaction been completed at the beginning of our fiscal year ended December 27, 2003. The pro forma effect of the acquisition of the Demedis Group on our net income and earnings per share was not material.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 7—Business Acquisitions and Divestiture — (Continued)

In addition to the Demedis Group acquisition, we completed other acquisitions and made earn-out payments that resulted in recording additional goodwill during 2004. None of these transactions were material individually or in the aggregate. 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 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, net of tax, 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 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 plus 0.625%, which represents our spread based on our covenants at December 25, 2004. 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. As of December 25, 2004, there were $8.3 million of letters of credit provided to third parties and no borrowings outstanding under this credit facility.

As of December 25, 2004, we had available various short-term bank credit lines of which $6.0 million was outstanding. Such credit lines bear interest at rates ranging from 3.0% to 6.25%, and were collateralized by accounts receivable, inventory and property and equipment with an aggregate net carrying value of $25.3 million at December 25, 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 8—Debt — (Continued)

Long-term debt

Long-term debt consisted of the following:

	As of December 25, 2004	As of December 27, 2003
Senior Notes	$ 228,615	$ 230,741
Convertible Debt	240,000	—
Notes payable to banks, interest rates ranging from 4.0% to 6.7%, payable in quarterly installments ranging from $8 to $23 through 2019	12,742	12,494
Various uncollateralized loans payable with interest, in varying installments through 2006	35,216	4,780
Capital lease obligations (see Note 13)	13,015	2,338
Total	529,588	250,353
Less current maturities	(3,906)	(3,253)
Total long-term debt	$ 525,682	$ 247,100

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.

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 (limited to the greater of $25.0 million or 40% of net income), mergers and acquisitions and liens.

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 5.05% as of December 25, 2004. This variable rate is comprised of LIBOR plus a spread and resets on the interest due dates of the Senior Notes.

On August 9, 2004, we completed an issuance of $240.0 million of convertible debt. These notes are senior unsecured obligations bearing a fixed annual interest rate of 3.0% and are due to mature on August 15, 2034. Interest on the notes is payable on February 15 and August 15 of each year, beginning on February 15, 2005. The notes are convertible into our common stock at a conversion ratio of 21.58 shares per one thousand dollars of principal amount of notes, which is the equivalent conversion price of $46.34 per share, under the following circumstances:

- if the last price of our common stock is above 130% of the conversion price measured over a specified number of trading days;
- during the five business-day period following any 10 consecutive trading-day period in which the average of the trading prices for the notes for that 10 trading-day period was less than 98% of the average conversion value for the notes during that period;

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 8—Debt — (Continued)

- if the notes have been called for redemption; or
- upon the occurrence of a fundamental change or specified corporate transactions, as defined in the note agreement.

Upon conversion, we are required to satisfy our conversion obligation with respect to the principal amount of the notes to be converted, in cash, with any remaining amount to be satisfied in shares of our common stock. We will also pay contingent interest during any six-month interest period beginning August 15, 2010 if the average trading price of the notes is above specified levels. We may redeem some or all of the notes on or after August 20, 2010. The note holders may require us to purchase all or a portion of the notes on August 15, 2010, 2014, 2019, 2024 and 2029 or, subject to specified exceptions, upon a change of control event.

As of December 25, 2004, the aggregate amounts of long-term debt maturing in each of the next five years are as follows: 2005 — $3.9 million; 2006 — $24.8 million; 2007 — $22.3 million; 2008 — $21.9 million; 2009 — $160.4 million.

Note 9—Taxes on Income

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

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Domestic	$ 177,170	$ 214,283	$ 186,134
Foreign	26,204	11,493	4,295
Total	$ 203,374	$ 225,776	$ 190,429

The provisions for taxes on income from continuing operations were as follows:

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Current tax expense:			
U.S. Federal	$ 47,336	$ 61,383	$ 59,254
State and local	10,473	10,680	9,223
Foreign	4,301	6,791	1,807
Total current	62,110	78,854	70,284
Deferred tax expense (benefit):			
U.S. Federal	8,008	7,088	(1,196)
State and local	1,978	1,141	(151)
Foreign	3,308	(2,705)	1,573
Total deferred	13,294	5,524	226
Total provision	$ 75,404	$ 84,378	$ 70,510

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

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 25, 2004	December 27, 2003
Current deferred tax assets:		
Inventory, premium coupon redemptions and accounts receivable valuation allowances	$ 14,746	$ 17,021
Uniform capitalization adjustments to inventories	4,362	4,365
Other accrued liabilities	10,563	9,173
Total current deferred tax asset	29,671	30,559
Valuation allowances for current deferred tax assets	(1,856)	—
Net current deferred tax asset	27,815	30,559
Non-current deferred tax asset (liability):		
Property and equipment	(19,289)	(18,980)
Intangible assets	(58,480)	(26,593)
Net operating loss carryforward	4,168	1,981
Net operating losses of foreign subsidiaries	87,866	15,552
Total non-current deferred tax asset (liability)	14,265	(28,040)
Valuation allowance for non-current deferred tax assets (1)	(70,500)	(698)
Net non-current deferred tax liability	(56,235)	(28,738)
Net deferred tax asset (liability)	$ (28,420)	$ 1,821

(1) Primarily relates to operating losses of acquired foreign subsidiaries the benefits of which are uncertain. Any future reductions of such valuation allowances will be reflected as reductions of goodwill.

As of December 25, 2004, we have domestic unconsolidated net operating loss carryforwards of $10.3 million, which are available to offset future federal taxable income through 2024. Foreign net operating losses totaled $220.6 million as of December 25, 2004. Of such losses, $1.9 million can be utilized against future foreign income through 2011 and $218.7 million has an indefinite life.

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

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Income tax provision at federal statutory rate	$ 71,182	$ 79,020	$ 66,652
State income tax provision, net of federal income tax effect	8,094	7,684	5,897
Foreign income tax benefit and other	(3,872)	(2,326)	(2,039)
Total income tax provision	$ 75,404	$ 84,378	$ 70,510

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

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 9—Taxes on Income—(Continued)

foreign tax credits may substantially offset any U.S. tax liabilities. As of December 25, 2004, the cumulative amount of reinvested earnings was approximately $21.4 million.

Note 10—Financial Instruments and Concentrations of Credit Risk

Fair Values of 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 and trade receivables — 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 value of long-term marketable securities is estimated based on quoted market prices for those investments. Such instruments are carried at fair value on the balance sheet. There are no quoted market prices available for investments in unconsolidated affiliates and notes receivable; 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 quoted market prices for our traded debt and on market prices of similar issues for our private debt. The fair value of our long-term debt as of December 25, 2004 and December 27, 2003 was estimated at $540.2 million and $247.1 million.

Derivative instruments — The fair values 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 25, 2004 and December 27, 2003 was estimated at $(1.2) million and $(9.4) million which approximated contract value. The fair value of our interest rate swap agreements was estimated at $(1.4) million, representing the estimated amount we would pay to terminate the agreements as of December 25, 2004, which takes into account current interest rates, market expectations for future interest rates and our current creditworthiness.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 10—Financial Instruments and Concentrations of Credit Risk — (Continued)

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, 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 collectibility of larger accounts on a customer-by-customer basis. No single customer accounted for more than 1.1% of our net sales in 2004.

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

We conduct our business through two segments: healthcare distribution and technology. These segments offer different products and services to the same customer base. The healthcare distribution segment consists of our dental, medical (including veterinary) and international groups. Products distributed consist of consumable products, small equipment, laboratory products, large dental equipment, branded and generic pharmaceuticals, vaccines, surgical products, diagnostic tests, infection control products and vitamins.

Our dental group serves office-based dental practices in the combined United States and Canadian dental market. Our medical group serves office-based physician practices, as well as surgical centers and other alternate-care settings and veterinarian clinics throughout the United States. Our international group serves practices in 17 countries outside of North America and we believe it is a leading Pan-European healthcare supplier serving office-based dental, medical and veterinary practices.

Our technology group provides software, technology and other value-added services to healthcare providers, primarily in the United States and Canada. Our value-added practice solutions include practice management software systems for dental and medical practices and veterinary clinics. Our technology group offerings also include financial services and continuing education services for practitioners.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 11—Segment and Geographic Data — (Continued)

The following tables summarize information about our business segments:

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Net Sales:			
Healthcare distribution (1):			
Dental (2)	$ 1,602,457	$ 1,364,812	$ 1,227,273
Medical (3)	1,446,060	1,338,084	1,093,956
International (4)	928,207	576,628	437,046
Total healthcare distribution	3,976,724	3,279,524	2,758,275
Technology (5)	83,542	74,281	66,726
Total	$ 4,060,266	$ 3,353,805	$ 2,825,001

(1) 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.

(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 providers in the United States and Canada.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 11—Segment and Geographic Data — (Continued)

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Operating Income:			
Healthcare distribution	$ 182,589	$ 205,029	$ 170,987
Technology	30,498	28,690	26,016
Total	$ 213,087	$ 233,719	$ 197,003
Income before taxes, minority interest, equity in earnings of affiliates and loss on discontinued operation:			
Healthcare distribution	$ 165,977	$ 191,893	$ 160,515
Technology	37,397	33,883	29,914
Total	$ 203,374	$ 225,776	$ 190,429
Interest Income (including intercompany):			
Healthcare distribution	$ 8,026	$ 8,662	$ 10,354
Technology	6,903	5,231	4,022
Total	$ 14,929	$ 13,893	$ 14,376
Interest Expense (including intercompany):			
Healthcare distribution	$ 18,115	$ 18,311	$ 18,012
Technology	6,895	5,147	3,878
Total	$ 25,010	$ 23,458	$ 21,890
Depreciation and Amortization:			
Healthcare distribution	$ 48,824	$ 34,067	$ 25,978
Technology	2,502	2,776	2,294
Total	$ 51,326	$ 36,843	$ 28,272
Income Tax Expense:			
Healthcare distribution	$ 61,084	$ 71,284	$ 59,126
Technology	14,320	13,094	11,384
Total	$ 75,404	$ 84,378	$ 70,510
Capital Expenditures:			
Healthcare distribution	$ 35,293	$ 37,485	$ 46,641
Technology	2,544	1,493	902
Total	$ 37,837	$ 38,978	$ 47,543

	December 25, 2004	December 27, 2003	December 28, 2002
Total Assets (including intercompany):			
Healthcare distribution	$ 2,409,302	$ 1,798,857	$ 1,533,529
Technology	169,932	134,615	106,319
Total	$ 2,579,234	$ 1,933,472	$ 1,639,848

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 11—Segment and Geographic Data—(Continued)

The following table reconciles segment totals to consolidated totals as of and for the three years ended December 25, 2004:

	2004	2003	2002
Total Assets:			
Total assets for reportable segments	$ 2,579,234	$ 1,933,472	$ 1,639,848
Receivables due from healthcare distribution segment	(145,564)	(113,629)	(80,855)
Receivables due from technology segment	—	(473)	(941)
Consolidated assets	$ 2,433,670	$ 1,819,370	$ 1,558,052
Interest Income:			
Total interest income for reportable segments	$ 14,929	$ 13,893	$ 14,376
Interest on receivables due from healthcare distribution segment	(6,895)	(5,147)	(3,878)
Interest on receivables due from technology segment	—	—	(52)
Consolidated interest income	$ 8,034	$ 8,746	$ 10,446
Interest Expense:			
Total interest expense for reportable segments	$ 25,010	$ 23,458	$ 21,890
Interest on payables due to healthcare distribution segment	—	—	(52)
Interest on payables due to technology segment	(6,895)	(5,147)	(3,878)
Consolidated interest expense	$ 18,115	$ 18,311	$ 17,960

The following table sets forth our net sales by principal categories of products offered by our healthcare distribution and technology segments and certain top selling types of products in each category:

	2004	2003	2002
Healthcare Distribution			
Dental:			
Consumable dental products and small equipment (1)	$ 1,621,770	$ 1,314,194	$ 1,145,200
Large dental equipment (2)	560,317	365,565	288,150
Dental laboratory products (3)	158,350	87,199	76,275
Total dental	2,340,437	1,766,958	1,509,625
Medical:			
Medical products (4)	1,469,816	1,375,060	1,138,475
Veterinary products (5)	166,471	137,506	110,175
Total medical	1,636,287	1,512,566	1,248,650
Total Healthcare distribution	3,976,724	3,279,524	2,758,275
Technology			
Software and related products and other value-added products (6)	83,542	74,281	66,726
Total	$ 4,060,266	$ 3,353,805	$ 2,825,001

(1) Includes x-ray products, infection control, handpieces, preventatives, impression materials, composites and anesthetics

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 11—Segment and Geographic Data—(Continued)

(2) Includes dental chairs, delivery units and lights, x-rays, equipment repair and high-tech equipment

(3) Includes teeth, dental implants, composites, gypsum, acrylics, articulators and abrasives

(4) Includes branded and generic pharmaceuticals, surgical products, diagnostic tests, vaccines, infection control products, x-ray products and vitamins

(5) Includes branded and generic pharmaceuticals, surgical products and dental products

(6) Includes software and related products and other value-added products, including financial products and continuing education

The following table presents information about us by geographic area as of, and for the three years ended, December 25, 2004. Net sales by geographic area are based on the respective locations of our subsidiaries. No individual country, except for the United States and Germany, 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 export sales.

	2004		2003 (1)		2002 (1)	
	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets	Net Sales	Long-Lived Assets
United States	$ 3,050,153	$ 417,713	$ 2,708,195	$ 403,629	$ 2,333,347	$ 318,323
Germany	462,147	373,323	240,351	118,973	70,925	85,300
Other	547,966	141,567	405,259	68,042	420,729	49,257
Consolidated total	$ 4,060,266	$ 932,603	$ 3,353,805	$ 590,644	$ 2,825,001	$ 452,880

(1) Reclassified to conform to current year presentation.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

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

As previously discussed, on January 31, 2005, we announced that our Board of Directors approved a two-for-one stock split effected in the form of a dividend. This stock split became effective on February 28, 2005 and has been retroactively reflected for all periods presented in the accompanying financial statements and footnotes.

We established the 1994 Stock Option Plan (the "Plan") for the benefit of certain employees. As amended in May 2004, pursuant to this plan we may issue up to approximately 20,159,270 shares of our common stock. The Plan provides for two classes of options: Class A options and Class B options. A maximum of 475,794 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 475,794 common shares were issued to certain executive management at an exercise price of $2.11 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 issued prior to 2004 vest evenly over three years from the date of grant; however shares exercised in the second and third year after the

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 12—Stockholders' Equity—(Continued)

date of grant may not be sold until the third anniversary of the date of grant. Substantially all Class B options issued in 2004 vest evenly over four years; however shares exercised in the second and third years 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 May 2004, pursuant to this plan we may grant options to each director who is not also an officer or employee, for up to 800,000 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 2004, 2003 and 2002, 90,000, 100,000 and 80,000 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 2,436,000 and 2,234,000, 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.

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

	Years ended					
	December 25, 2004		December 27, 2003		December 28, 2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	8,467,412	$ 17.08	8,562,850	$ 14.60	9,292,542	$ 13.02
Granted	2,319,100	35.14	2,192,100	20.15	2,035,700	20.69
Exercised	(1,520,728)	14.09	(2,156,150)	10.37	(2,543,056)	13.35
Forfeited	(210,298)	19.97	(131,388)	16.74	(222,336)	18.78
Outstanding at end of year	9,055,486	22.13	8,467,412	17.08	8,562,850	14.60
Options exercisable at end of year	6,406,137	18.98	5,990,766	15.78	6,367,186	13.22

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 12—Stockholders' Equity—(Continued)

The following table summarizes information about stock options outstanding at December 25, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 5.91 to $ 9.88	633,252	3.6	$ 7.17	633,252	$ 7.17
10.08 to 15.03	1,191,548	5.2	13.36	1,191,548	13.36
16.10 to 22.80	4,673,386	6.8	19.70	3,793,416	19.72
22.98 to 38.50	2,557,300	9.1	34.34	787,920	33.41
	9,055,486	7.0	22.13	6,406,137	18.98

(c) Employee Benefit Plans

401(k) Plan

We offer qualified, 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 2004, 2003 and 2002 amounted to $10.3 million, $7.6 million and $5.3 million.

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 amounts charged to operations during 2004, 2003 and 2002 amounted to $566, $839 and $707.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 13—Commitments and Contingencies

Operating Leases

We lease facilities and equipment under non-cancelable operating leases expiring through 2020. 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 25, 2004 were:

2005	40,350
2006	31,469
2007	22,688
2008	18,436
2009	15,087
Thereafter	61,991
Total minimum operating lease payments	$ 190,021

Total rental expense for 2004, 2003 and 2002 was $33.9 million, $26.9 million, and $25.8 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 minimum capital lease payments as of December 25, 2004 were:

2005	1,335
2006	1,584
2007	949
2008	874
2009	825
Thereafter	8,547
Total minimum capital lease payments	14,114
Less: Amount representing interest at 5.2% to 10.0%	(1,099)
Total present value of minimum capital lease payments	$ 13,015

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

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 25, 2004 were:

2005	$	54,278
2006		30,003
2007		30,853
2008		8,000
2009		8,000
Thereafter		8,000
Total minimum inventory purchase commitment payments	$	139,134

We have obligations to purchase influenza vaccine from Chiron Corporation and ID Biomedical Corporation. Given the uncertainties surrounding the pending FDA approval for both companies to distribute influenza vaccine in the U.S. for the 2005/2006 influenza season, we have excluded these purchase obligations from the above table.

Our purchase commitment under our agreement with Chiron Corporation would require us to pay $122.5 million in 2005 if they are able to meet their obligations under the agreement. Our purchase commitment under our agreement with ID Biomedical which terminates in 2014 would require us to pay an amount per dose based each year on the market price then prevailing. Under current market prices, this commitment would aggregate to approximately $45.0 million for 2005, increasing to approximately $113.0 million in 2007 and each year thereafter.

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 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.

As of December 25, 2004, we had accrued our best estimate of potential losses relating to product liability, class action and other claims that were probable to result in a liability and for which we were able to reasonably estimate a loss. This accrued amount, as well as related expenses, 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 probable recoveries from third parties. In addition, we believe that no amount of losses in excess of this accrued amount were reasonably estimable or reasonably possible to result in a liability.

Product Liability Claims

As of December 25, 2004, we were a defendant in approximately 38 product liability cases. Of these cases, three involve claims made by healthcare workers and/or their families 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, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 13—Commitments and Contingencies — (Continued)

"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 generally withhold indemnification of us pending product identification; however, we have impleaded or filed cross claims against those manufacturers in such cases.

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.

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. On October 31, 2002, the Texas Supreme Court, on appeal, found that the trial court's certification of the case as a class action was improper. The Texas Supreme Court remanded the case to the trial court for further proceedings consistent with its opinion.

The trial court ruled in our favor on remand. As a result, only certain individual claims asserted on behalf of the named plaintiffs remained pending in the case as of the end of 2004. We settled such claims in January 2005 for an immaterial amount which we accrued as a liability as of December 25, 2004.

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 purported to be on behalf of a nationwide class of all physicians, hospitals and other healthcare providers throughout New Jersey and across the United States. The complaint, as amended in August 2002, alleged 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. In September 2004, the court denied class certification. As a result, only certain individual claims asserted on behalf of the two named plaintiffs remained pending in the case as of the end of 2004. We settled such claims in January 2005 for an immaterial amount which we accrued as a liability as of December 25, 2004.

Employment, Consulting and Non-Compete Agreements

We have employment, consulting and non-compete agreements expiring through 2009, 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 $5.8 million, which decrease periodically to approximately $831. In addition, some agreements have provisions for incentive and additional compensation.

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 14—Supplemental Cash Flow Information

Cash paid for interest and income taxes was:

	Years ended		
	December 25, 2004	December 27, 2003	December 28, 2002
Interest	$ 18,344	$ 16,595	$ 17,217
Income taxes	57,259	58,405	63,196

In connection with a 2004 acquisition, we assumed $35.7 million of debt, which remained outstanding as of December 25, 2004. 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.

Note 15—Quarterly Information (Unaudited)

The following presents certain quarterly financial data:

	Quarters ended			
	March 27, 2004	June 26, 2004	September 25, 2004	December 25, 2004
Net sales	$ 886,631	$ 945,690	$ 1,033,625	$ 1,194,320
Gross profit	230,827	251,715	274,028	319,836
Operating income (1)	46,300	63,585	53,155	50,047
Net income	28,393	38,736	31,504	29,550
Earnings per share:				
Basic	$ 0.32	$ 0.44	$ 0.36	$ 0.34
Diluted	0.31	0.43	0.35	0.33

	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	42,205	56,030	76,400	59,084
Net income from continuing operations (2)	24,766	32,855	46,359	35,542
Earnings from continuing operations per share:				
Basic	$ 0.28	$ 0.38	$ 0.53	$ 0.41
Diluted	0.27	0.37	0.52	0.39

(1) During the fourth quarter of 2004, we recorded a $13.2 million pre-tax ($8.4 million post-tax) one-time charge, included in selling, general and administrative expenses, related to our Fluvirin® contract with Chiron Corporation. This charge, which represented the write-off of a deferred expense associated with the 2005/2006 influenza season, occurred as a result of the significant uncertainty about whether Chiron will be able to provide Fluvirin® for the 2005/2006 influenza season. The effect that this charge had on earnings per share for the fourth quarter and full year ended December 25, 2004 was $(0.10).

HENRY SCHEIN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(In thousands, except share and per share data)

Note 15—Quarterly Information (Unaudited) — Continued

(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. The effect that this gain had on earnings per share for the first quarter 2003 and year ended December 27, 2003 was $0.01.

We experience fluctuations in quarterly earnings. As a result, we may fail to meet or exceed the expectations of securities analysts and investors, which could cause our stock price to decline.

Our business has been subject to seasonal and other quarterly fluctuations. Net sales and operating profits generally have been higher in the third and fourth quarters due to the timing of sales of software, equipment and seasonal products (including influenza vaccine, equipment and software products), purchasing patterns of office-based healthcare practitioners and year-end promotions. Net sales and operating profits generally have been lower in the first quarter, primarily due to increased sales in the prior two quarters. Quarterly results may also be adversely affected by a variety of other factors, including:

- costs of developing new applications and services;
- costs related to acquisitions of technologies or businesses;
- the timing and amount of sales and marketing expenditures;
- general economic conditions, as well as those specific to the healthcare industry and related industries;
- the timing of the release of functions of our technology-related products and services; and
- our success in establishing or maintaining business relationships.

Any change in one or more of these or other factors could cause our annual or quarterly operating results to fluctuate. If our operating results do not meet or exceed market expectations, our stock price may decline.

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

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report to ensure that all material information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO Framework"). Based on our evaluation under the COSO Framework, our management concluded that our internal control over financial reporting was effective as of December 25, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 25, 2004 has been audited by BDO Seidman, LLP, an independent registered certified public accounting firm, as stated in their attestation report, which is included herein.

Limitations of the Effectiveness of Internal Control

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Henry Schein, Inc. maintained effective internal control over financial reporting as of December 25, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Henry Schein Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Henry Schein, Inc. maintained effective internal control over financial reporting as of December 25, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, Henry Schein, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 25, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Henry Schein, Inc. as of December 25, 2004 and December 27, 2003 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 25, 2004, and our report dated February 28, 2005 expressed an unqualified opinion.

/s/ BDO Seidman, LLP

New York, New York
February 28, 2005

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Information required by this item regarding our directors and executive officers is hereby incorporated by reference to the Section "Election of Directors" from our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A, with respect to directors, and to the Section "Executive Officers of the Registrant" in Part I of this report, with respect to executive officers.

Information required by this item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is hereby incorporated by reference to the Section "Section 16(a) Beneficial Ownership Reporting Compliance" from our definitive 2005 Proxy Statement.

We have adopted a Code of Business Conduct and Ethics that applies to our Chief Executive Officer, Chief Financial Officer and Controller. Our Code of Business Conduct and Ethics is posted on our website, www.henryschein.com, under the "Corporate Information—Corporate Governance" caption. We intend to disclose on our website any amendment to, or waiver of, a provision of the Code of Business Conduct and Ethics that applies to our Chief Executive Officer, Chief Financial Officer or Controller.

ITEM 11. Executive Compensation

The information required by this item is hereby incorporated by reference to the Section entitled "Compensation of Executive Officers" from our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is hereby incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" from our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions

The information required by this item is hereby incorporated by reference to the Section entitled "Certain Relationships and Related Transactions" from our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is hereby incorporated by reference to the Sections entitled "Audit Fees," "Financial Information Systems Design and Implementation Fees," and "All Other Fees" from our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)

1. Financial Statements
   Our Consolidated Financial Statements filed as a part of this report are listed on the index on page 43.

2. Financial Statement Schedules
   Schedule II
   No other schedules are required.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Melville, State of New York, on March 4, 2005.

Henry Schein, Inc.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ STANLEY M. BERGMAN Stanley M. Bergman	Chairman, Chief Executive Officer, President and Director (principal executive officer)	March 4, 2005
/s/ STEVEN PALADINO Steven Paladino	Executive Vice President, Chief Financial Officer and Director (principal financial and accounting officer)	March 4, 2005
/s/ JAMES P. BRESLAWSKI James P. Breslawski	Director	March 4, 2005
/s/ GERALD A. BENJAMIN Gerald A. Bejamin	Director	March 4, 2005
/s/ MARK E. MLOTEK Mark E. Mlotek	Director	March 4, 2005
/s/ BARRY J. ALPERIN Barry J. Alperin	Director	March 4, 2005
/s/ MARGARET A. HAMBURG, MD Margaret A. Hamburg, MD	Director	March 4, 2005
/s/ PAMELA JOSEPH Pamela Joseph	Director	March 4, 2005
/s/ DONALD J. KABAT Donald J. Kabat	Director	March 4, 2005
/s/ PHILIP A. LASKAWY Philip A. Laskawy	Director	March 4, 2005
/s/ NORMAN S. MATTHEWS Norman S. Matthews	Director	March 4, 2005
/s/ MARVIN H. SCHEIN Marvin H. Schein	Director	March 4, 2005
/s/ IRVING SHAFRAN Irving Shafran	Director	March 4, 2005
/s/ LOUIS W. SULLIVAN, MD Louis W. Sullivan, MD	Director	March 4, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

The audits referred to in our report dated February 28, 2005 relating to the consolidated financial statements of Henry Schein, Inc., which is contained in Item 8 of the Form 10-K included the audit of the financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based upon our audits.

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

/s/ BDO SEIDMAN, LLP

New York, New York
February 28, 2005

Schedule II
Valuation and Qualifying Accounts

Description	Balance at beginning of period	Additions: Charged to statement of income	Additions: Charged to other accounts (1)	Deductions	Balance at end of period
Year ended December 25, 2004:					
Allowance for doubtful accounts, sales returns and other	$ 43,203	3,820	4,383	(6,554)	$ 44,852
Year ended December 27, 2003:					
Allowance for doubtful accounts, sales returns and other	$ 36,200	6,548	1,130	(675)	$ 43,203
Year ended December 28, 2002:					
Allowance for doubtful accounts, sales returns and other	$ 31,929	8,962	—	(4,691)	$ 36,200

(1) Relates to allowances arising from business acquisitions less allowances related to discontinued operations.

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

3.1 Form of Amended and Restated Articles of Incorporation.

3.2 Amendments dated November 12, 1997 to Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.3 to our Annual Report on Form 10-K for the fiscal year ended December 27, 1997).

3.3 Amendment dated June 16, 1998 to Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.3 to our Registration Statement on Form S-3, Reg. No. 333-59793).

3.4 Form of By-laws.

3.5 Amendments to Amended and Restated By-laws adopted July 15, 1997 (Incorporated by reference to Exhibit 3.3 to our Registration Statement on Form S-4, Reg. No. 33-36081).

4.1 Indenture by and between us and The Bank of New York, as trustee, dated as of August 9, 2004, including form of Note (Incorporated by reference to Exhibit 4.1 to our quarterly report on Form 10-Q for the fiscal quarter ended September 25, 2004 previously filed with the SEC).

4.2 Registration Rights Agreement dated as of August 9, 2004 among us, Lehman Brothers, Inc. and J.P. Morgan Securities Inc. as Initial Purchasers (Incorporated by reference to Exhibit 4.3 to our quarterly report of Form 10-Q for the fiscal quarter ended September 25, 2004 previously filed with the SEC).

10.1 Amended and Restated HSI Agreement (the “HSI Agreement”), effective as of February 16, 1994, among us, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated September 9, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, the Estate of Jacob M. Schein, the Trusts established by Articles Third and Fourth of the Will of Jacob M. Schein, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, the Trust established by Martin Sperber under Trust Agreement dated September 19, 1994, the Trust established by Stanley M. Bergman under Trust Agreement dated September 15, 1994, Pamela Schein, Pamela Joseph, Martin Sperber, Stanley M. Bergman, Steven Paladino and James P. Breslawski (collectively, the “HSI Parties”).

10.2 HSI Registration Rights Agreement dated September 30, 1994, among us, Pamela Schein, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated December 31, 1993, the Trust established by Marvin H. Schein under Trust Agreement dated September 19, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, Martin Sperber, the Trust established by Martin Sperber under Trust Agreement dated September 19, 1994, Stanley M. Bergman and the Trust.

10.3 Letter Agreement dated September 30, 1994 to us from Marvin H. Schein, Pamela Joseph, and Pamela Schein.

10.4 Release to the HSI Agreement dated September 30, 1994.

10.5 Separation Agreement dated as of September 30, 1994 by and between us, Schein Pharmaceutical, Inc. and Schein Holdings, Inc.

10.6 Restructuring Agreement dated September 30, 1994 among Schein Holdings, Inc., us, the Estate of Jacob M. Schein, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated December 31, 1993, the Trust established by Marvin H. Schein under Trust Agreement dated September 9, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, Pamela Schein, Pamela Joseph, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, the Trusts under Articles Third and Fourth of the Will of Jacob M. Schein; Stanley M. Bergman, the Trust established by Stanley M. Bergman under Trust Agreement dated September 15, 1994, Martin Sperber, the Trust established by Martin Sperber under Trust Agreement dated December 31, 1993, and the Trust established by Martin Sperber under Trust Agreement dated September 19, 1994.

10.7 Agreement and Plan of Corporate Separation and Reorganization dated as of September 30, 1994 among Schein Holdings, Inc., us, the Estate of Jacob M. Schein, Marvin H. Schein, the Trust established by Marvin H. Schein under Trust Agreement dated December 31, 1993, the Trust established by Marvin H. Schein under Trust Agreement dated September 9, 1994, the Charitable Trust established by Marvin H. Schein under Trust Agreement dated September 12, 1994, Pamela Schein, the Trust established Article Fourth of the Will of Jacob M. Schein for the benefit of Pamela Schein and her issue under Trust Agreement dated September 29, 1994, Pamela Joseph, the Trust established by Pamela Joseph under Trust Agreement dated February 9, 1994, the Trust established by Pamela Joseph under Trust Agreement dated September 28, 1994 and the Trusts under Articles Third and Fourth of the Will of Jacob M. Schein.

10.8 Henry Schein, Inc. 1994 Stock Incentive Plan, as amended and restated effective as of May 25, 2004 (Incorporated by reference from our definitive 2004 Proxy Statement on Schedule 14A filed on April 27, 2004).**

10.9 Henry Schein, Inc. Amendment and Restatement of the Supplemental Executive Retirement Plan. **

10.10 Consulting Agreement dated September 30, 1994 between us and Marvin H. Schein.**

10.11 Amended and Restated Stock Issuance Agreement dated as of December 24, 1992 between us and Stanley M. Bergman.**

10.12 Stock Issuance Agreements dated December 27, 1994 between us and various executive officers.**

10.13 Henry Schein, Inc. 1996 Non-Employee Director Stock Incentive Plan as amended effective as of May 25, 2004 (Incorporated by reference from our definitive 2004 Proxy Statement on Schedule 14A filed on April 27, 2004).**

10.14 Henry Schein, Inc. 2001 Non-Employee Director Stock Option Plan (Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2002).**

10.15 Employment Agreement dated March 7, 1997, between Bruce J. Haber and us (Incorporated by reference to our Registration Statement on Form S-4 (Registration No. 333-30615)).

10.16 Termination of Employment Agreement, dated March 7, 1997 as revised, between Bruce J. Haber and us (Incorporated by reference to Exhibit 10.92 to our Registration Statement on Form S-4 (Registration No. 333-30615)).

10.17 Lease Agreement dated December 23, 1997, between First Industrial Pennsylvania, L.P. and us (Incorporated by reference to Exhibit 10.103 to our Annual Report on Form 10-K for the fiscal year ended December 26, 1998).

10.18 Credit Agreement, dated as of May 2, 2002, among us, the several guarantors from time to time parties thereto, JPMorgan Chase Bank, as administrative agent, issuing lender, sole lead arranger and sole book runner, Fleet National Bank, as syndication agent, and the several lenders from time to time parties thereto (Incorporated by reference to Exhibit 10.35 to our Quarterly Report on Form 10-Q for the quarter ended March 30, 2002).

10.19 Henry Schein Management Team 2003 Performance Incentive Plan Summary (Incorporated by reference to Exhibit 10.27 to our Quarterly Report on Form 10-Q for the quarter ended March 29, 2003). **

10.20 Stock Purchase Agreement by and among us, New River Management Company, L.L.C., Chiron Corporation and Biological & Popular Culture Inc., dated as of December 8, 1998 (Incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K dated December 31, 1998).

10.21 Amendment No. 1, dated as of December 30, 1998, to the Stock Purchase Agreement by and among us, New River Management Company, L.L.C., Chiron Corporation and Biological & Popular Culture Inc., dated as of December 8, 1998 (Incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K dated December 31, 1998).

10.22 Rights Agreement dated as of November 30, 1998, between us, and Continental Stock Transfer and Trust Co. (Incorporated by reference to Exhibit to our Current Report on Form 8-K, dated November 30, 1998).

10.23 Form of the Note Purchase Agreements between our and the Purchasers listed on Schedule A thereto relating to an aggregate of $130,000,000 in principal amount of our 6.94% Senior Notes due June 30, 2009 (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 26, 1999).

10.24 Form of Amended and Restated Change in Control Agreements dated January 1, 2003 between us and Gerald Benjamin, James Breslawski, Leonard David, Larry Gibson, Mark Mlotek, Steven Paladino, Michael Racioppi and Michael Zack, respectively (Incorporated by reference to Exhibit 10.14 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2002).**

10.25 Employment Agreement dated as of January 1, 2003 between us and Stanley M. Bergman (Incorporated by reference to Exhibit 10.25 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2002).**

10.26 Form of Note Purchase Agreements between us and the Purchasers listed on Schedule A thereto relating to an aggregate of $100,000,000 in principal amount of our 6.66% Senior Notes due July 15, 2010 (Incorporated by reference to Exhibit 10.111 to our Quarterly Report on Form 10-Q for the quarter ended September 26, 1998).

10.27 Amendment No. 1 to Credit Agreement, dated as of May 1, 2003, among the Company, the several Guarantors from time to time parties thereto, JP Morgan Chase Bank, as administrative agent, issuing lender, sole lead arranger, and sole book runner, Fleet National Bank, as syndication agent, and the several lenders from time to time parties thereto (Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 28, 2003).

10.28 Letter Agreement dated October 10, 2003 between us and Stanley Komaroff (Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 27, 2003).**

10.29 Amendment No. 2 to Credit Agreement, dated as of January 6, 2004, among the Company, the several Guarantors from time to time parties thereto, JP Morgan Chase Bank, as administrative agent, issuing lender, sole lead arranger, and sole book runner, Fleet National Bank, as syndication agent, and the several lenders from time to time parties thereto.

10.30 Henry Schein, Inc. 2004 Employee Stock Purchase Plan effective as of May 25, 2004 (Incorporated by reference from our definitive 2004 Proxy Statement on Schedule 14A, filed on April 27, 2004).**

10.31 Distribution Agreement, dated as of December 2, 2004, by and between us and ID Biomedical Corporation. +

21.1 List of our Subsidiaries.

23.1 Consent of BDO Seidman, LLP. +

31.1 Certification of our Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +

31.2 Certification of our Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. +

32.1 Certification of our Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +

+ Filed herewith
**Indicates management contract or compensatory plan or agreement

EXHIBIT 10.31

Portions of this agreement have been omitted and separately filed with the SEC with a request for confidential treatment. The location of those omissions have been noted by [**].

DISTRIBUTION AGREEMENT
FOR FLUVIRAL™ (INFLUENZA VACCINE)

between

ID BIOMEDICAL CORPORATION

and

HENRY SCHEIN, INC.

TABLE OF CONTENTS

Portions of this agreement have been omitted and separately filed with the SEC with a request for confidential treatment. The location of those omissions have been noted by [**].

DISTRIBUTION AGREEMENT

This DISTRIBUTION AGREEMENT (together with the attachments and exhibits hereto, the "Agreement") is entered into as of December 2, 2004 (the "Effective Date") by and between **ID BIOMEDICAL CORPORATION**, a corporation organized and existing under the laws of the Company Act of British Columbia and having its principal office at 1630 Waterfront Centre, 200 Burrard Street, Vancouver, BC V6C 3L6 Canada ("IDB"), and **HENRY SCHEIN, INC.**, a corporation organized and existing under the laws of the State of Delaware, USA and having its principal office at 135 Duryea Road, Melville, NY 11747 USA ("HSI").

WHEREAS:

A. IDB develops and manufactures proprietary vaccines, including an injectable vaccine for the prevention of influenza virus infection in humans that is approved in Canada and under development for the U.S. market, and has all right, title and interest in the Product (as defined below); and

B. HSI is a leading distributor of vaccines in the Territory (as defined below), with expertise in sales, marketing and cold chain logistics, and desires to and has agreed to act as non-exclusive distributor of IDB for sales of Product in the Territory; and

C. IDB is willing to supply HSI with Product for resale in the Territory, and HSI is willing to purchase Product for resale in the Territory, on the terms and conditions of this Agreement.

Now, therefore, in consideration of the foregoing premises and the mutual covenants and undertakings set forth below, the Parties hereby agree as follows:

1. DEFINITIONS

1.1 "**Affiliate**" means, with respect to a Party, any corporation or other business entity that, directly or indirectly, is Controlled by, Controls or is under common Control with such Party, but only for so long as such relationship exists. "Control," as used in this Section 1.1, means having the power to direct, or cause the direction of, the management and policies of any entity, whether through ownership of voting securities, by contract, or otherwise.

1.2 "**Average Sell Price**" shall mean **[**]**

1.3 "**Commencement Date**" shall mean the date that IDB receives the initial Marketing Authorization from the Regulatory Authority required to market Product in the Territory in the first Flu Season, which shall in no event be later than April 1, 2008 or, if such initial Marketing Authorization is received prior to such date, then the Commencement Date shall be as provided in Section 7.2 below.

[**] - Confidential or proprietary information redacted.

1.4 "**Confidential Information**" shall mean any confidential or proprietary information (including, without limitation, know-how, trade secrets, and other confidential or proprietary information relating to Product research, development, manufacturing, marketing, sales and financial information related thereto), whether oral, visual or written, that is disclosed by one Party hereto (the "**Disclosing Party**") to the other (the "**Receiving Party**") in connection with this Agreement, including, without limitation, reports provided by HSI to IDB pursuant to Section 2.3 below.

1.5 "**Flu Season**" shall mean the period from approximately October 1 through March 31.

1.6 "**Intellectual Property**" shall mean any patent, copyright, trade secret, know-how, trademark, tradename, design right, moral rights or other intellectual property right related to the Product under the laws of any governmental authority, domestic or foreign, including all applications and registrations related to any of the foregoing.

1.7 "**Marketing Authorization**" shall mean the Biologics License Application (BLA) approved by the Regulatory Authority and required to distribute or to deliver for distribution Product lawfully in the Territory, together with any renewals and replacements thereof and amendments thereto.

1.8 "**Minimum Doses**" shall mean the number of doses of Product set forth in clause (i) of Paragraph 1 of Schedule 1 to this Agreement.

1.9 "**Minimum Percentage**" shall mean the percentage set forth in clause (ii) of Paragraph 1 of Schedule 1 to this Agreement.

1.10 "**Minimum Quantity**" shall mean the quantity of Product that the Parties have agreed shall be the minimum quantity to be purchased by HSI from IDB for each Flu Season, as specified in Paragraph 1 of Schedule 1 to this Agreement, as such Minimum Quantity may be modified from time to time in accordance with the terms of this Agreement; such Minimum Quantity shall be subject to IDB's annual influenza vaccine commitments and pandemic commitments to the Government of Canada during the Term (as provided in Section 3.2).

1.11 "**Net Sales Revenue**" shall mean **[**]**

1.12 "**Other Distributors**" shall mean sub-distributors, wholesalers and other resellers to which HSI may sell Product in accordance with Paragraph 3 of Schedule 1 to this Agreement.

1.13 "**Parties**" shall mean IDB and HSI, and "Party" shall mean either of them as the context indicates.

1.14 "**Product**" shall mean IDB's injectable influenza virus vaccine product **[**]**

1.15 "**Purchase Price**" shall mean the price to be paid by HSI to IDB for all doses of Product supplied to HSI under this Agreement, as set forth in Paragraph 2 of Schedule 1 to this Agreement.

[**] - Confidential or proprietary information redacted.

1.16 “**Regulatory Authority**” shall mean the United States Food and Drug Administration, an agency of the U.S. Department for Health and Human Services, and any successor agency thereto.

1.17 “**Shipping Point**” shall mean a single distribution center located in the continental United States to which Product shall be shipped under this Agreement, which single distribution center shall be nominated by HSI in its discretion from time to time, but not more than once for any given Flu Season.

1.18 “**Specifications**” shall mean the specifications provided in the Marketing Authorization, including, but not limited to, those specifications to ensure that the Product is and will continue to be safe, pure and potent, as such specifications may be modified from time to time in accordance with the terms of this Agreement or so as to comply with the requirements of the Regulatory Authority.

1.19 “**Term**” shall mean the duration of this Agreement as specified in Section 15.1.

1.20 “**Territory**” shall mean the United States of America, including all fifty (50) states and the District of Columbia, and all of its territories and possessions.

1.21 “**Third-Party Vaccine Products**” shall mean injectable influenza virus vaccine products, manufactured by or on behalf of any person or entity other than IDB or its Affiliates, **[**]**

1.22 “**Trademark(s)**” shall mean the trademark(s), trade names, service marks and logos identified in Schedule 2 to this Agreement, and such other trademark(s), trade names, service marks and logos as may be identified and indicated to HSI by IDB in writing from time to time during the Term.

1.23 “**Transfer Price**” shall have the meaning given in Paragraph 2(B) of Schedule 1 to this Agreement.

2. APPOINTMENT AND AUTHORITY OF DISTRIBUTOR

2.1 Subject to the terms and conditions of this Agreement, IDB hereby appoints HSI as its non-exclusive distributor for the resale of Product in the Territory, and HSI hereby agrees to act in that capacity beginning on the Commencement Date. HSI hereby agrees that **[**]**. HSI shall have the non-exclusive, non-assignable (except in accordance with Section 17 below), non-licensable and non-sublicensable right, after the Commencement Date and throughout the Term, to promote, sell, market and distribute Product to customers (either directly or through Affiliates or Other Distributors) in the Territory; provided, however, HSI shall not resell to Other Distributors more than the allowable maximum number of doses of Product specified in Paragraph 3 of Schedule 1. HSI may, on and after the Commencement Date, describe itself as a distributor of Product for IDB in the Territory but it shall not hold itself out as IDB’s agent or representative or as otherwise being authorized to bind IDB in any way. IDB hereby grants to each of HSI’s Affiliates and Other Distributors the rights granted to HSI in this Section 2.1 solely to the extent necessary to perform their obligations with respect to the Product.

[**] - Confidential or proprietary information redacted.

2.2 HSI shall actively promote, distribute and sell Product only within the Territory, and neither HSI nor its Affiliates or Other Distributors shall promote or solicit orders for Product or donate, sell, offer to sell or otherwise distribute Product outside the Territory, or where they ought reasonably to be aware that the ultimate destination for Product is outside the Territory. HSI and its Affiliates and Other Distributors and their respective employees and agents shall not promote Product for any indications not approved for such Product by the Regulatory Authority. HSI shall forward to IDB all inquiries relating to Product from customers or potential customers outside the Territory.

2.3 As Product distributor, HSI shall determine the prices and other terms and conditions under which it offers Product for sale and sells Product to customers within the Territory. On or prior to the Commencement Date, HSI shall provide IDB with a resale certificate in such form, and containing such information, as required by IDB. On a monthly basis during the Term, beginning after the Commencement Date, HSI shall provide a detailed written report to IDB, in a mutually agreeable format, describing **[**].** HSI shall deliver such reports to IDB in connection with the monthly meetings conducted pursuant to Section 6.3. Notwithstanding the foregoing, HSI shall not be required to identify names or addresses of customers of Product or Third-Party Vaccine Products and shall not be required to provide information which HSI is prohibited by contract or law from providing to third parties.

2.4 HSI shall not make any alterations or knowingly permit any alterations to be made to Product without IDB's express written consent, which consent may be withheld in IDB's sole discretion.

2.5 The Parties acknowledge and agree that IDB may sell Product to any United States governmental agency or body at any time between the Effective Date and the Commencement Date under a special procurement process to address influenza vaccine shortages or other immediate needs of the U.S. government, and such sales shall not be subject to the terms of this Agreement; provided, however, that IDB may indicate to the U.S. government a preference for distribution of some quantity of Product under such circumstances by and through HSI, although IDB shall not be deemed to be in breach of this Agreement or to have any liability to HSI, and HSI shall have no right to terminate this Agreement or exercise any other remedies against IDB, if IDB does not indicate such preference to the U.S. government or the U.S. government fails to distribute Product under such circumstances by or through HSI.

3. SUPPLY AND PURCHASE OF PRODUCT

3.1 Subject to Section 3.2 and Paragraph 2(C) of Schedule 1 to this Agreement, IDB agrees to use commercially reasonable efforts to develop, manufacture, apply for Marketing Authorization of, apply for the release of and deliver to HSI, on or before the delivery dates specified in Schedule 1, the Minimum Quantity of Product as a final, packaged product. HSI hereby commits to purchase the Minimum Quantity of Product provided by IDB to HSI for each Flu Season from and after the Commencement Date during the Term, for the Purchase Price described in Schedule 1, provided delivery and release of the Minimum Quantity occurs on or before **[**]** of such Flu Season. IDB agrees to notify HSI promptly of any delay in the manufacturing and shipping schedule, the cause of such delay and the anticipated extent of such delay, or in the event IDB is unable to manufacture (and the cause for such inability to

[**] - Confidential or proprietary information redacted.

manufacture) some or all of the Minimum Quantity of Product for any given Flu Season. Recognizing the difficulties involved in vaccine manufacturing, the Parties acknowledge and agree that IDB shall not be deemed to be in breach of this Agreement or to have any liability to HSI, and HSI shall have no right to terminate this Agreement under this Section 3.1 or exercise any other remedies against IDB, if IDB fails to manufacture any or all of the Minimum Quantity of Product for any given Flu Season provided that IDB has used commercially reasonable efforts to develop, manufacture, apply for Marketing Authorization of, apply for the release of and deliver to HSI, on or before the delivery dates specified in Schedule 1, the Minimum Quantity of Product as a final, packaged product. **[**]**

3.2 Notwithstanding anything to the contrary in this Agreement, HSI acknowledges and agrees that IDB's obligation to supply the Minimum Quantity of Product to HSI under this Agreement is subject to, and the Minimum Quantity shall be reduced by, IDB's contractual annual commitments to provide Product to the Government of Canada and additional contractual commitments to provide Product to the Government of Canada in the event of influenza pandemics in Canada, if any, which commitments shall have priority over IDB's commitments to HSI hereunder. Such commitments to the Government of Canada are described further on Schedule 3. The Parties agree that IDB shall not be deemed to be in breach of this Agreement or to have any liability to HSI, and HSI shall have no right to terminate this Agreement, in the event IDB is unable to supply HSI with the Minimum Quantity of Product because of such commitments to the Government of Canada. IDB shall keep HSI informed, in the monthly meetings described in Section 6.3, of the quantity (if any) of Product necessary to meet such commitments to the Government of Canada for a given Flu Season and the impact on the Minimum Quantity of Product available to HSI with respect to such Flu Season.

3.3 Except as otherwise specified in Section 3.4 below, IDB agrees that, with respect to the timing of shipment of a given quantity of Product into the Territory, IDB will allocate such quantity of Product among HSI and IDB's other distributors in the Territory on a pro rata basis, based on HSI's and each such other distributor's respective Minimum Percentage. Thus, IDB will supply HSI with a percentage of each lot of Product that is shipped into the Territory that is approximately equal to HSI's Minimum Percentage, subject to the overall Minimum Quantity limitations set forth in this Agreement.

3.4 HSI shall be granted a first right of refusal to acquire a percentage of increased production of Product as provided in this Section 3.4. **[**]**

3.5 All Product shall be packaged and labeled for sale and delivered by IDB to HSI in accordance with the regulations of the Regulatory Authority, such packaging indicating that the Product is manufactured by IDB and that the Trademarks are registered trademarks of IDB. Subject to compliance with applicable regulations of the Regulatory Authority, IDB may at any time withdraw the Product from the market or alter the Specifications as it deems necessary or appropriate and/or as may be required by the Regulatory Authority, including without limitation changes in design, production or packaging of Product.

3.6 IDB shall be responsible for exporting Product from any location in which IDB may manufacture or have manufactured Product and shall obtain any necessary export licenses required for such export. IDB shall be responsible for obtaining any necessary licenses or

[**] - Confidential or proprietary information redacted.

approvals of applicable regulatory agencies in the Territory required for the importation of Product into the Territory and for the payment of all duties, fees and charges required for such importation; provided, that, HSI shall be the importer of record of Product into the Territory and HSI shall cooperate with and assist IDB, upon IDB's written request and at IDB's expense, in obtaining approvals of regulatory agencies in the Territory required for the importation of Product into the Territory.

3.7 The Regulatory Authority's release of each lot of Product is necessary before HSI is allowed to distribute Product. The Parties recognize that the timing for obtaining Regulatory Authority release is uncertain. However, IDB shall use its commercially reasonable efforts to obtain the necessary Regulatory Authority releases as soon as reasonably possible each Flu Season and, to the extent reasonably possible, by **[**]** of each Flu Season after the Commencement Date for **[**]** of the Minimum Quantity and by **[**]** of each Flu Season after the Commencement Date for **[**]** of the Minimum Quantity; provided, that, if and to the extent that Product is not manufactured or available for release, or that some or all Regulatory Authority releases are not obtained, on or before either **[**]** in a given Flu Season after the Commencement Date, irrespective of the reason therefor, (i) IDB shall not be deemed to have breached any obligations under this Agreement or to be liable to HSI hereunder provided that IDB has used its commercially reasonable efforts to obtain the necessary Regulatory Authority releases as soon as reasonably possible each Flu Season, and (ii) notwithstanding the provisions of Section 10 below, if **[**]** of the Minimum Quantity of Product is not released by **[**]** in such Flu Season, HSI shall not be obligated to purchase the amount of Product that was not released by such date. Notwithstanding the foregoing, HSI may elect to purchase Product released after **[**]** (provided release is obtained by a date acceptable to HSI), in which case it shall notify IDB in writing of HSI's decision to acquire Product released after **[**]** within five (5) business days after **[**]** , which notice shall include the quantity of Product HSI desires to purchase and the acceptable post- **[**]** release date for such Product. If IDB reasonably believes such release date is achievable, IDB shall use its commercially reasonable efforts to obtain Product release by such date (or by such other date as the Parties may mutually agree in writing). HSI shall return to IDB (at IDB's expense) any Product not released by **[**]** that HSI decides not to purchase. HSI shall pay IDB the Purchase Price for all Product released by **[**]** , as well as all Product released after **[**]** that HSI elects to purchase, in accordance with the terms and conditions of this Agreement, with no right to return such Product to IDB (except only as set forth in Sections 5.2 and 5.3) even if HSI is unable to sell such Product.

3.8 IDB will provide HSI with a copy of IDB's key clinical development milestones for Product in the Territory (the "Milestones") promptly after execution of this Agreement, which Milestones shall be subject to modification by IDB from time to time. IDB will provide HSI with written reports regarding progress made with respect to the Milestones (as modified) as of June 30, 2005, December 31, 2005, and quarterly thereafter through December 31, 2006. HSI agrees that the Milestones and progress reports are being provided by IDB for informational purposes only, and that IDB shall not be deemed to be in breach of this Agreement or to have any liability to HSI, and HSI shall have no right to terminate this Agreement under this Section 3.8 or exercise any other remedies against IDB, in the event the development of Product does not proceed in accordance with the Milestones. HSI further agrees that the Milestones and all progress reports shall be considered Confidential Information of IDB under this Agreement.

[**] - Confidential or proprietary information redacted.

3.9 [**]

4. PURCHASE PRICE AND PAYMENT

4.1 HSI shall pay IDB the Purchase Price for the Minimum Quantity of Product, and all other Product supplied by IDB to HSI under this Agreement, as the Purchase Price is described and calculated in accordance with Paragraph 2 of Schedule 1.

4.2 IDB may invoice HSI at any time after Product has been delivered to the Shipping Point. Payment in full of the Transfer Price of all Product in each shipment shall be due and paid by HSI to IDB within thirty (30) days after the later of (i) the date of delivery of such Product to the Shipping Point or (ii) the date of release of such Product by the Regulatory Authority. Reconciliation and payment or credit of the final Purchase Price (the Transfer Price as adjusted in accordance with Paragraph 2(B) of Schedule 1) shall be made as provided in Paragraph 2(D) of Schedule 1. Should HSI fail to pay IDB any amount due IDB on or before the due date for payment, HSI shall pay IDB the full amount due plus interest on such unpaid amount from its original due date until the date IDB receives full payment, such interest to be at the rate specified in Paragraph 5 of Schedule 1. For the avoidance of doubt, in the event that Product is delivered to HSI and invoiced by IDB, but subsequently is properly rejected by HSI in accordance with Sections 5.2 and 5.3 of this Agreement, then HSI shall pay the full Transfer Price, but IDB shall give appropriate credit to HSI unless the rejected Product is replaced by IDB at IDB's expense in accordance with Section 5.3.

4.3 During the term of this Agreement and for a period of three (3) years thereafter, HSI and its Affiliates shall keep accurate books and records with respect to the sale and distribution of Product in accordance with U.S. generally accepted accounting principles ("GAAP") consistently applied and in sufficient detail to enable IDB to determine the correctness of all payments made to IDB hereunder. Upon written request by IDB, HSI shall permit an independent certified public account or IDB in-house auditor or accountant ("Accountant") (to be determined and selected by IDB and reasonably acceptable to HSI), to inspect HSI's books, records and facilities, and copy such books and records, to the extent such Accountant reasonably deems necessary or appropriate for the sole purposes of verifying the completeness and accuracy of the reports delivered and payments made under this Agreement and ascertaining HSI's compliance with its obligations under this Agreement. The Accountant's report based on such inspection shall be limited to a detailed report on those subjects. **[**]** HSI will pay IDB the amount of any such deficiency within thirty (30) days of the date of the invoice therefor, and shall pay interest at the rate specified in Paragraph 5 of Schedule 1 for any past due amounts.

5. DELIVERY OF PRODUCT

5.1 Subject to HSI's satisfaction of its importation obligations under Section 3.6, IDB agrees to deliver all Product ordered by HSI hereunder FOB Shipping Point.

5.2 All Product is shipped on a non-returnable basis except only as set forth in Sections 3.7 and 5.3 and except if there is a Product recall. HSI shall pay IDB the Purchase Price for all Product delivered to HSI and released by the Regulatory Authority even if HSI is unable

[**] - Confidential or proprietary information redacted.

to sell such Product, subject only to HSI's right to reject Product as provided below. Not later than **[**]** days after its receipt of each shipment of Product at the Shipping Point, and sooner if reasonably possible, HSI shall notify IDB as provided in Section 5.3 of any basis for rejecting any such Product (the only bases for rejection being as specified in Section 5.3). If HSI fails to give such notice to IDB within such period, then such Product shall be deemed to be finally accepted by HSI. Notwithstanding the foregoing, if HSI thereafter discovers a latent defect which could not readily be identified upon a reasonable inspection of Product at the time of delivery to the Shipping Point, and such latent defect constitutes a Defective Product (as defined in Section 11.4 below), HSI shall inform IDB of such Defective Product within five (5) business days of such discovery, and the provisions of Section 5.3 shall apply.

5.3 To reject Product, HSI shall, within the rejection period specified in Section 5.2, notify IDB of its rejection in writing, describing in detail the basis for such rejection (which must be either, and shall be limited to, (i) a Defective Product as defined in Section 11.4 below, or (ii) physical damage to Product in the course of shipment to HSI) and the amount of Product affected, and request a return authorization ("RA") number. IDB shall provide the RA number to HSI within **[**]** days after receipt of the request. Within **[**]** days after HSI's receipt of the RA number, HSI shall return to IDB the rejected Product, freight prepaid, with the RA number displayed on the outside of the carton. IDB reserves the right to refuse to accept any rejected Product that does not bear an RA number on the outside of the carton. As promptly as possible, and within **[**]** days after receipt of properly rejected Product if reasonably possible, IDB shall use commercially reasonable efforts to replace the Product, at its expense, as provided in Section 5.4. IDB shall pay the shipping charges back to HSI for properly rejected Product; otherwise, HSI shall be responsible for the shipping charges.

5.4 In the event HSI rejects any shipment of Product in accordance with Sections 5.2 and 5.3 or in the event of failure to obtain Product releases from the Regulatory Authority by **[**]** of a given Flu Season, then IDB shall use commercially reasonable efforts to provide, but shall not guarantee to provide, replacement Product, subject in all respects to IDB's commitments to the Government of Canada as provided in Section 3.2. In the event IDB does not supply replacement Product to HSI within a reasonable period (at least **[**]** days) and HSI notifies IDB in writing that it elects not to wait beyond such period for replacement Product, then IDB shall credit HSI for the amount, if any, previously paid by HSI for such rejected or unreleased Product, but IDB shall not be deemed to be in breach of this Agreement or to have any liability to HSI because it failed to supply replacement Product; provided, however, that if HSI has not yet paid for such rejected or unreleased Product and IDB fails to supply replacement Product, HSI shall have no obligation to pay for such rejected or unreleased Product. If IDB will not be able to supply replacement Product until after **[**]** of a given Flu Season, then HSI may elect, at its option, to accept such replacement Product after such date or to receive a credit for the amount, if any, previously paid by HSI for the rejected or unreleased Product, provided that HSI notifies IDB in writing of its election within five (5) business days after **[**]** . If HSI wrongfully rejects Product or wrongfully fails to take delivery of any shipment of Product, then IDB shall be entitled to invoice HSI for the Transfer Price and then the Purchase Price of such Product as set forth in Schedule 1, together with the cost of disposing of such Product, if applicable, and HSI shall pay such invoiced amount within thirty (30) days of the invoice date.

[**] - Confidential or proprietary information redacted.

5.5 Risk of loss of or damage to Product supplied by IDB to HSI shall pass to HSI at the time Product is delivered to the Shipping Point. If HSI properly rejects Product in accordance with Sections 5.2 and 5.3, then risk of loss of or damage to Product will pass back to IDB upon delivery by HSI to the first return carrier. Title to Product shall pass to HSI at the time Product is delivered to the Shipping Point. If any shipment of Product is delivered to the Shipping Point before such Product is released by the Regulatory Authority, HSI shall quarantine such Product, at its sole cost, until such Product is released. HSI shall have title to, and shall bear all responsibility and liability with respect to, all Product after it is delivered to the Shipping Point, including all Product in quarantine.

6. MARKETING OF PRODUCT

6.1 Notwithstanding anything to the contrary in this Agreement, HSI hereby agrees that **[**]**. Without limiting HSI's obligations under this Agreement, HSI may promote, sell and distribute Third-Party Vaccine Products provided that such promotion, sale and distribution are consistent with this Section 6.1 and HSI's other obligations under this Agreement. **[**]**

6.2 Without limiting its other obligations under this Agreement, HSI shall exercise commercially reasonable efforts to actively promote the use and sale of Product and the use of the Fluviral™ brand name (or other Trademark as may be indicated by IDB) throughout the Territory. In this context, "commercially reasonable efforts" means at least the quality and quantity of efforts that HSI does or would use to promote the use and sale, and expand the sale, of any influenza vaccine originated or sold by HSI that is distributed in substantially the same quantities as the quantities of Product contemplated in this Agreement (with at least the same level of advertising, promotion and sales support). IDB agrees to provide HSI with such technical and clinical data as HSI may reasonably require in order to promote, distribute and sell Product in the Territory, subject to the provisions of Section 9.

6.3 HSI and IDB shall convene by telephone, videoconference or in person, on a quarterly basis—and more frequently if reasonably requested by either Party— until the initial Marketing Authorization for Product is received and then monthly thereafter—and more frequently if reasonably requested by either Party—to discuss (as may be relevant at the time) regulatory developments affecting Product, HSI's marketing plan, strategy and marketing and sales efforts proposed for Product for a given Flu Season, IDB's Product supply issues, if any, IDB's Product commitments to the Government of Canada for a given Flu Season, as described in Section 3.2, and such other relevant issues as either Party may propose. **[**]** Each Party shall consider in good faith the views expressed by the other Party during such meetings.

6.4 HSI shall, and shall require its Affiliates and Other Distributors to, conduct all promotion, marketing, distribution and sale of Product, including, without limitation, handling, inventory and storage of Product, in compliance with all applicable laws and regulations and all applicable rules and requirements of IDB, including, without limitation, cold chain requirements for Product as set forth in the package insert for Product each Flu Season, as the same may be updated by IDB from time to time, and as otherwise may be required or reasonably prudent. When promoting, marketing and selling Product, HSI shall, and shall require its Affiliates and Other Distributors to: (i) provide IDB copies of all labels, promotion and marketing materials related to Product promptly upon IDB's request; (ii) make no false or misleading statements to

[**] - Confidential or proprietary information redacted.

customers or others regarding IDB or Product, or make any representations, warranties or guarantees with respect to Product other than those printed on the Product packaging or labeling expressly included in Product information, in each case as provided or approved by IDB in writing in advance and as permitted by law; (iii) comply with the procedures and requirements for adverse reaction reporting ("Adverse Reaction Reporting"), which Adverse Reaction Reporting shall be as required by applicable law or regulation and shall be mutually agreed upon in writing by the Parties as promptly as practicable following receipt of appropriate regulatory approval and Marketing Authorization for Product in the Territory (and prior to any distribution of Product by HSI pursuant to this Agreement). (Once finalized, the Adverse Reaction Reporting will be attached hereto as Schedule 4); (iv) in the event of a Product recall, perform such recall in accordance with Section 11.4 and the applicable Product recall procedure ("Product Recall Procedure"), subject to IDB's prior written agreement to the recall and HSI's ongoing consultation with IDB regarding the recall. (The Product Recall Procedure will be mutually agreed upon in writing by the Parties as promptly as practicable following receipt of appropriate regulatory approval and Marketing Authorization for Product in the Territory (and prior to any distribution of Product by HSI pursuant to this Agreement). (Once finalized, the Product Recall Procedure will be attached hereto as Schedule 5); and (v) communicate with the Regulatory Authority concerning Product only with IDB's prior written consent (and, if requested by IDB, IDB's participation in such communication). If the Regulatory Authority requests information from HSI regarding Product, HSI shall keep IDB fully informed of all such communications, provide IDB with copies of all such written communications, consult with IDB regarding responses thereto, and allow IDB, at its request, to control or to participate in formulating responses thereto (all in compliance with applicable laws and regulations).

7. REGULATORY COMPLIANCE

7.1 The Parties acknowledge that, as of the Effective Date of this Agreement, the Product has not received Marketing Authorization from the Regulatory Authority. IDB shall, at its expense, use commercially reasonable efforts to apply for, obtain and maintain in force the Marketing Authorization(s) required to permit the supply, distribution and resale of Product in the Territory in accordance with this Agreement. HSI shall give such reasonable assistance as IDB may require from time to time in pursuing such applications for the Marketing Authorization. IDB shall exercise commercially reasonable efforts to obtain the Marketing Authorization for Product in the Territory as soon as reasonably practicable, but in any event on or before April 1, 2008 for the 2008/2009 Flu Season and by **[**]** in subsequent Flu Seasons. For the avoidance of doubt, IDB gives no firm undertakings in relation to the grant of the Marketing Authorization by any date, or at all, and, except for HSI's right to terminate this Agreement as provided in Section 15.3.1, HSI shall have no claim against IDB arising out of any failure to obtain the grant or renewal of the Marketing Authorization.

7.2 If IDB receives the initial Marketing Authorization on or before [**], 2005, the Commencement Date shall be [**], 2005. If IDB receives the initial Marketing Authorization after [**], 2005, then HSI shall have no obligation to acquire Product for the 2005/2006 Flu Season provided, that, HSI may, by giving written notice to IDB within thirty (30) days after HSI receives written notice that such initial Marketing Authorization has been received, elect to acquire Product for the 2005/2006 Flu Season in which case the Commencement Date shall be the date in 2005 as mutually agreed upon in writing by the Parties. Unless the Parties have

[**] - Confidential or proprietary information redacted.

agreed upon such a 2005 Commencement Date, if IDB receives the initial Marketing Authorization after [**], 2005 but on or before [**], 2006, the Commencement Date shall be [**], 2006. If IDB receives the initial Marketing Authorization after [**], 2006, then HSI shall have no obligation to acquire Product for the 2006/2007 Flu Season provided, that, HSI may, by giving written notice to IDB within thirty (30) days after HSI receives written notice that such initial Marketing Authorization has been received, elect to acquire Product for the 2006/2007 Flu Season in which case the Commencement Date shall be the date in 2006 as mutually agreed upon in writing by the Parties. Unless the Parties have agreed upon such a 2006 Commencement Date, if IDB receives the initial Marketing Authorization after [**], 2006 but on or before [**], 2007, the Commencement Date shall be [**], 2007. If IDB receives the initial Marketing Authorization after [**], 2007, then HSI shall have no obligation to acquire Product for the 2007/2008 Flu Season provided, that, HSI may, by giving written notice to IDB within thirty (30) days after HSI receives written notice that such initial Marketing Authorization has been received, elect to acquire Product for the 2007/2008 Flu Season in which case the Commencement Date shall be the date in 2007 as mutually agreed upon in writing by the Parties. Unless the Parties have agreed upon such a 2007 Commencement Date or HSI has terminated this Agreement in accordance with Section 15.3.1 below, if IDB receives the initial Marketing Authorization after [**], 2007 but on or before [**], 2008, the Commencement Date shall be [**], 2008.

7.3 IDB shall have the right (without liability to HSI) to terminate its obligations to supply Product to HSI for any Flu Season upon notice to HSI if, as a result of any action taken by a Regulatory Authority or any other governmental authority, it becomes impossible or commercially impracticable for IDB to supply substantially all of the Minimum Quantity of Product for that Flu Season in accordance with the terms of this Agreement. In such event, subject to Section 15.3, this Agreement shall remain effective with respect to the supply of Product in subsequent Flu Seasons.

7.4 Unless the Regulatory Authority requires otherwise, the Marketing Authorization will be issued in the name of and held by IDB. HSI shall give IDB prompt written notice of all changes to the Marketing Authorization required by the Regulatory Authority of which it becomes aware. **[**]**

7.5 HSI shall, at its expense, obtain and maintain in full force and effect throughout the Term any and all licenses and approvals, other than the Marketing Authorization, necessary for the storage, marketing, distribution and sale of Product in the Territory, in full compliance with all applicable laws and regulations. HSI shall assume all responsibility for and shall comply with all applicable laws and regulations concerning the inventory, storage, use, promotion, distribution and sale of Products in the Territory and, correspondingly, for any damage, claim, liability, loss or expense which IDB may suffer or incur by reason of said inventory, use, promotion, distribution and sale, subject only to IDB's obligations under Section 12.1. HSI shall not use any advertisement or marketing material on, with respect to or relating to any Product unless such advertisement or marketing material has first been submitted to and approved by IDB in advance in writing.

[**] - Confidential or proprietary information redacted.

8. TRADEMARKS AND OTHER INTELLECTUAL PROPERTY

8.1 All IDB Trademarks and derivatives thereof relating to Product, and all technology and other Intellectual Property relating to Product and the goodwill associated therewith, are the sole and exclusive property of IDB and/or its Affiliates. IDB hereby grants HSI permission to use the Trademarks in the Territory for the limited purpose of HSI performing its rights and obligations under this Agreement during the Term. Products shall be promoted, sold and distributed only under the Trademarks. HSI shall ensure that each use of and reference to any of the Trademarks (by HSI, its Affiliates or other Distributors) is accompanied by a statement that it is a registered trademark of IDB. IDB may, in its sole discretion after consultation with HSI, modify or discontinue the use of any Trademark and/or use one or more additional or substitute marks or names, and HSI and its Affiliates and Other Distributors shall be obligated to do the same in connection with marketing and selling Product. All representations of IDB's Trademarks shall be exact copies of those used by IDB or, if not, shall first be submitted to IDB for approval, which approval shall not be unreasonably withheld or delayed. Upon written request, HSI shall give IDB copies of examples of such usage in order to assess compliance with this Section.

8.2 Neither HSI, its Affiliates, nor Other Distributors shall: (i) use the Trademarks in any way that might prejudice their distinctiveness or validity or the goodwill of IDB therein; (ii) use any Trademark in connection with the sale of any other product, or use any other trademark other than the Trademarks, in connection with Product; (iii) modify Product or its labeling or packaging or alter, obscure, or remove the Trademarks, indication of the source of origin, other means of identification or other markings used on or in relation to Product; or (iv) at any time during or after the term of this Agreement challenge or assist others to challenge the Trademarks or the registration thereof, or use or make any application for registration in the Territory of any trademarks or tradenames so resembling any trademark or tradename of IDB (including, without limitation, any Trademark) as to be likely to cause confusion or deception.

8.3 In the event HSI becomes aware of any infringement of, or threatened or suspected infringement of, or challenge to any Trademark or other Intellectual Property of IDB, HSI shall notify IDB immediately. IDB shall investigate any alleged violation and may take legal action as it deems appropriate to resolve the issue and to prevent others from infringing on its Intellectual Property rights within the Territory. At IDB's reasonable request, and at IDB's expense, HSI shall cooperate with and assist IDB in connection with any such infringement.

8.4 Except only for the limited rights as expressly permitted hereunder, and then only as necessary for the proper performance of HSI's obligations hereunder, HSI hereby acknowledges that it shall acquire no rights, express or implied, in respect of any of IDB's Intellectual Property, including the tradenames or trademarks of IDB (including but not limited to the Trademarks) or of the goodwill associated therewith and that all such rights and goodwill are, and shall remain, vested in IDB.

8.5 HSI will not do, nor will HSI allow or authorize its Affiliates, Other Distributors or anyone else to do, any act which would or might invalidate or be inconsistent with the Intellectual Property of IDB (including the Trademarks), and HSI shall not omit or allow or authorize anyone to omit to do any act which, by its omission, would have that effect.

[**] - Confidential or proprietary information redacted.

9. CONFIDENTIAL INFORMATION; PUBLICITY

9.1 Both Parties recognize and acknowledge that each will have access to Confidential Information of the other in connection with this Agreement. Other than as necessary to perform their obligations under this Agreement, and except as otherwise permitted in this Section 9, both Parties shall, during and after the Term keep all Confidential Information of the Disclosing Party confidential and not disclose any such Confidential Information to any Third Party without the express written consent of the Disclosing Party; and not use any Confidential Information of the Disclosing Party for any purpose other than the performance of the Receiving Party's obligations under this Agreement.

9.2 The Parties agree that the Confidential Information received from the Disclosing Party hereunder shall not be disclosed to any employee, officer, or director of the Receiving Party or to any of its Affiliates, except to those employees, officers, directors and Affiliates whose responsibilities require such disclosure for purposes of performing the Receiving Party's obligations under this Agreement; provided that such employees, officers, directors and Affiliates have entered into confidentiality agreements with provisions substantially similar to those set forth in this Section 9.

9.3 Confidential Information may be disclosed by a Receiving Party to the Regulatory Authority or other governmental authority only to the extent necessary for the purposes contemplated by this Agreement or as may be required by applicable law or regulation.

9.4 Each Party agrees to use the same degree of care concerning the other Party's Confidential Information as it uses to protect its own confidential and proprietary technical information (but no less than reasonable care) to prevent the unauthorized disclosure to any third party of the Confidential Information received from the Disclosing Party hereunder. Except as expressly provided in this Agreement, the Parties agree that they shall acquire no rights with respect to Confidential Information of the other Party received hereunder.

9.5 Confidential Information may be disclosed by a Receiving Party to a Third Party to the extent that: (i) it is at the Effective Date, or thereafter becomes, public knowledge through no act, omission or breach of this Agreement by the Receiving Party, its Affiliates or their respective employees, officers or directors (provided that in doing so such Receiving Party shall not disclose any Confidential Information which is not public knowledge); or (ii) it can be reasonably shown by the Receiving Party, by written records in the Receiving Party's possession prior to disclosure, to have been known to the Receiving Party prior to disclosure by the Disclosing Party; or (iii) such Confidential Information is required to be disclosed by law, governmental or regulatory request or legal process; or (iv) to the extent such Confidential Information is disclosed in connection with any legal or other dispute resolution proceedings between the Parties hereto.

9.6 The Receiving Party shall, within thirty (30) days following receipt of a request by the Disclosing Party or termination or expiration of this Agreement, return and deliver (or if so requested destroy and provide a certificate of destruction) to the Disclosing Party all copies of Confidential Information of the Disclosing Party in the Receiving Party's possession or under its control; provided that each Party may retain one copy of such information solely for (i) archival

[**] - Confidential or proprietary information redacted.

purposes, (ii) determination and reconciliation of the Parties' respective rights and obligations following such termination or expiration, or (iii) use in a dispute resolution procedure that may arise between the Parties.

9.7 Neither Party shall issue press releases or make public announcements relating to this Agreement without the other Party's prior written approval, which approval shall not be unreasonably withheld or delayed; provided, however, that nothing in this Section shall impair either Party's compliance with any requirements of the Securities and Exchange Commission or the national securities exchange or other stock market on which such Party's securities are traded. In connection with any filing by either Party of a copy of this Agreement with the Securities and Exchange Commission (or the national securities exchange or other stock market on which such Party's securities are traded), the filing Party shall endeavor to obtain confidential treatment of economic and trade secret information. Reasonably in advance of filing, the filing Party shall provide to the other Party a copy of the proposed filing and the Parties shall work cooperatively in good faith, taking into consideration the other Party's suggestions, regarding the information for which the filing Party will seek to obtain confidential treatment.

10. FORCE MAJEURE

10.1 Neither Party shall be under any liability to the other for failure or delay in the performance of any obligation hereunder or part thereof (other than obligations to pay money) to the extent and for the period that such performance is prevented by reason of Force Majeure (as defined below), provided that the Party claiming the benefit of this Section promptly begins, and thereafter diligently pursues, the cure of such Force Majeure and gives written notice of the Force Majeure to the other within thirty (30) days of the occurrence of the event of Force Majeure. For purposes of this Agreement, "Force Majeure" shall mean any cause preventing or obstructing the performance of this Agreement arising from or attributable to acts, events or circumstances beyond the reasonable control of, and not caused by the negligence of, the Party affected, including but not limited to epidemic of disease, Act of God, shortage of materials, war, acts of terrorism, strikes or labor disputes, accidents, fire, breakdown of machinery, acts of government or other legal authority (including any Regulatory Authority), riot or civil commotion. Notwithstanding the foregoing, in the event IDB fails to deliver to the Shipping Point the Minimum Quantity, as such Minimum Quantity may be adjusted as provided in this Agreement, for any given Flu Season due to an event of Force Majeure, HSI shall have the option to extend the Term for one additional Flu Season for each such Flu Season that the Minimum Quantity was not delivered, in which case, HSI shall notify IDB in writing of HSI's election to extend the Term within five (5) business days after the last day of such Flu Season for which the Minimum Quantity was not delivered.

10.2 If the performance of this Agreement shall be prevented for a period exceeding three (3) months from the date of notice given pursuant to Section 10.1 due to an event of Force Majeure, the Party receiving notice of an event of Force Majeure shall be entitled to terminate all obligations regarding the supply of Product in the affected Flu Season forthwith by giving written notice to the other. As regards the supply of Product for all other Flu Seasons during the Term, subject to Sections 15.3 and 15.4, this Agreement shall continue in full force and effect.

[**] - Confidential or proprietary information redacted.

11. WARRANTIES OF IDB AND HSI

11.1 IDB warrants that:

11.1.1 the Product supplied to HSI hereunder shall, at the time of delivery to the Shipping Point, conform in all material respects to the Specifications, including, without limitation, with respect to design of Product, and such Product will not, at the time of its delivery to the Shipping Point, be adulterated or misbranded within the meaning of the U.S. Food, Drug and Cosmetic Act, 21 U.S.C. §301 *et seq.*, as it may be amended from time to time;

11.1.2 to its actual knowledge as of the Effective Date, it has received no notice from any third party claiming that the manufacture, use or sale of Product will infringe any Intellectual Property rights of any third party;

11.1.3 subject to Sections 3.1 and 7.1, it shall manufacture Product in compliance with all applicable laws, rules and regulations, including the conditions of the Marketing Authorization, including current Good Manufacturing Practice;

11.1.4 it has taken, and during the Term will take, all commercially reasonable action (as provided in Section 8.3) against any third party claiming any rights to Product which would conflict with the rights granted to HSI hereunder.

11.1.5 title to Product will pass to HSI (as provided in Section 5.5) free and clear of all third party liens, claims, security interests, or other encumbrances;

11.1.6 it has the full right, power and authority, and has taken all corporate action necessary, to execute, deliver and perform this Agreement; and

11.1.7 its execution and delivery of this Agreement does not, and performance by it of its obligations hereunder will not, constitute a breach of, or conflict with, any agreement, order, judgment, decree or other arrangement, whether written or oral, to which it is a party or by which it is bound as of the Effective Date.

11.2 HSI warrants that:

11.2.1 its statements to IDB and calculations of the Average Sell Price, the Transfer Price and the final Purchase Price of all Product supplied by IDB each Flu Season under this Agreement, and all underlying data, as reported in accordance with Section 2.3 or otherwise to IDB, shall be accurate statements and calculations of those terms, determined in accordance with this Agreement (including in Schedule 1), and no discounts or other concessions directly or indirectly related to HSI's sales of other products to Other Distributors or to the same customers that purchase Product shall be applied to or used in the calculation of the Average Sell Price or to reduce Net Sales Revenue used in calculating the Average Sell Price, the Transfer Price or the Purchase Price;

[**] - Confidential or proprietary information redacted.

11.2.2 it shall comply fully at its expense with all applicable laws, rules and regulations in the Territory (including, without limitation, those of the Regulatory Authority) pertaining to the storage, handling, inventory, marketing, distribution and sale of Product, and shall market and sell Product only for the uses and applications set forth in, and in accordance with, the Marketing Authorization;

11.2.3 it has the full right, power and authority, and has taken all corporate action necessary, to execute, deliver and perform this Agreement; and

11.2.4 its execution and delivery of this Agreement does not, and performance by it of its obligations hereunder will not, constitute a breach of, or conflict with, any agreement, order, judgment, decree or other arrangement, whether written or oral, to which it is a party or by which it is bound as of the Effective Date.

11.3 EXCEPT FOR THE WARRANTIES EXPRESSLY SET FORTH IN SECTIONS 11.1 AND 11.2, NEITHER IDB NOR HSI MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS, IMPLIED OR OTHERWISE. WITHOUT LIMITING THE FOREGOING SENTENCE, IDB SPECIFICALLY DISCLAIMS, AND HSI EXPRESSLY WAIVES (i) ANY EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO PRODUCT, WHETHER USED ALONE OR IN CONNECTION WITH OTHER SUBSTANCES OR MATERIALS; AND (ii) ANY LIABILITY WITH RESPECT TO ANY PRODUCT THAT HAS BEEN ALTERED, MODIFIED OR TAMPERED WITH AFTER DELIVERY TO THE SHIPPING POINT; OR BEEN SUBJECTED TO MISUSE, NEGLIGENCE OR OTHERWISE DAMAGED AFTER DELIVERY TO THE SHIPPING POINT; OR, AFTER DELIVERY TO THE SHIPPING POINT, HAS BEEN STORED, HANDLED, OR USED IN A MANNER CONTRARY TO APPLICABLE LAWS OR REGULATIONS OR IDB'S INSTRUCTIONS; OR HAS EXCEEDED ITS STATED EXPIRATION DATE.

11.4 EXCEPT AS PROVIDED IN SECTION 12, HSI'S EXCLUSIVE REMEDY FOR BREACH OF ANY WARRANTY BY IDB UNDER SECTION 11.1.1 IS THE DELIVERY BY IDB, IN ACCORDANCE WITH SECTIONS 5.3 AND 5.4, OF ADDITIONAL QUANTITIES OF PRODUCT IN REPLACEMENT OF THE PRODUCT THAT, AT THE TIME OF DELIVERY TO THE SHIPPING POINT, WAS NOT IN COMPLIANCE WITH IDB'S WARRANTY IN SECTION 11.1.1 ("DEFECTIVE PRODUCT"), OR THE REFUND OF THE PURCHASE PRICE FOR SUCH DEFECTIVE PRODUCT, AT HSI'S OPTION. HSI shall have the right, which it must exercise in accordance with the provisions of (and subject to the limitations of) Sections 5.2 and 5.3, to return and demand the replacement of any such Defective Product to IDB. Provided that HSI gives IDB all assistance reasonably requested by IDB relating to any recall of Defective Product and is in material compliance with the Product Recall Procedures and the requirements of the Regulatory Authority and any other applicable legal requirements in connection therewith (to the extent such requirements are applicable to HSI), IDB shall reimburse to HSI the costs reasonably incurred by HSI directly in connection with the recall of Defective Product, including the replacement or destruction of such Defective Product. In all other circumstances, HSI, not IDB, shall bear the cost of any recall or

replacement of such Defective Product. With respect to any Product recall, the Parties shall follow the Product Recall Procedure to be set forth in Schedule 5 to this Agreement.

12. INDEMNIFICATION OBLIGATIONS OF IDB AND HSI

12.1 IDB shall indemnify, defend and hold HSI and its Affiliates, and their respective directors, officers, employees and agents ("HSI Indemnitees"), harmless from and against any and all claims, actions, causes of action, liabilities, losses, costs and expenses (including reasonable attorneys' fees) incurred thereby or caused thereto arising out of third-party claims (i.e., claims by parties other than an HSI Indemnitee) relating to Product to the extent that such claims arise out of or result from (i) any defect in Product at the time it was delivered to the Shipping Point, where such defect constitutes a breach of IDB's warranty under Section 11.1.1; (ii) the failure of IDB to provide disclosure of contraindications, adverse reactions or other information in Product packaging or labeling as required under applicable laws or regulations; (iii) any material breach of this Agreement by IDB (including, without limitation, material breach of its warranties hereunder); (iv) the labeling or packaging of Product by or on behalf of IDB; (v) the possession, distribution, sale and/or use of Product, including claims of bodily injury, death, property damage or similar third-party claims; or (vi) the negligence or willful misconduct of IDB; provided, that, IDB shall have no duty to indemnify, defend or hold harmless any HSI Indemnitee to the extent HSI, its Affiliates or Other Distributors caused or contributed to losses or claims (including claims of bodily injury, death, property damage or similar third-party claims), or to the extent HSI is obligated to indemnify IDB under Section 12.2; and provided, further, that, without diminishing IDB's obligations under this Section 12.1, nothing in this Section 12.1 shall create or imply liability for IDB under other sections of this Agreement where such liability is expressly disclaimed.

12.2 HSI shall indemnify, defend and hold IDB and its Affiliates, and their respective directors, officers, employees and agents ("IDB Indemnitees"), harmless from and against any and all claims, actions, causes of action, liabilities, losses, costs and expenses (including reasonable attorneys' fees) incurred thereby or caused thereto, arising out of third-party claims (i.e., claims by someone other than an IDB Indemnitee and including claims of bodily injury, death, property damage or similar third-party claims) relating to Product to the extent that such claims arise out of or result from (i) any material breach of this Agreement by HSI (including, without limitation, material breach of its warranties hereunder), (ii) any acts or omissions by or on behalf of HSI, its Affiliates or Other Distributors or their respective employees, agents or representatives, which are beyond the scope of HSI's authorization granted herein or are not in compliance with the obligations of HSI under this Agreement (including, without limitation, any use, sale or other disposition of Product or Trademarks in a manner recommended, proposed or represented by HSI which is contrary to or not in accordance with IDB's written recommendations, representations or authorization), or (iii) the negligence or willful misconduct of HSI; provided that HSI shall have no duty to indemnify, defend or hold harmless any IDB Indemnitee to the extent IDB is obligated to indemnify HSI under Section 12.1.

12.3 It shall be a condition of IDB or HSI, as the case may be (the "Indemnifying Party") being liable to the other Party (the "Indemnified Party") and its respective Indemnitees under the foregoing indemnity obligations that: (i) the Indemnified Party shall notify the Indemnifying Party in writing of any claim threatened or filed against it or against any of the

[**] - Confidential or proprietary information redacted.

Indemnified Party's Indemnitees promptly after learning of such claim; (ii) the Indemnifying Party, at its sole cost, shall have the opportunity to assume the direction and control the defense of such claim or proceeding with counsel of its choosing; (iii) the Indemnified Party shall cooperate fully with and provide reasonable assistance to the Indemnifying Party and its representatives and insurers in connection with such claim and (at the expense of the Indemnifying Party) the mitigation of losses, costs, expenses and liabilities in connection therewith; and (iv) neither the Indemnified Party nor its Indemnitee(s) shall compromise, settle or take any other material steps relating to such claim without the prior written approval of the Indemnifying Party (which shall not to be unreasonably withheld or delayed). The failure of the Indemnified Party to notify the Indemnifying Party in writing promptly after learning of any such claim or proceeding shall relieve the Indemnifying Party of any liability to the Indemnified Party under this Agreement if and solely to the extent the Indemnifying Party can demonstrate that such late notice is prejudicial to the ability of the Indemnifying Party to defend such action.

13. INSURANCE OBLIGATIONS OF IDB AND HSI

13.1 Each Party will, at its own expense, maintain, during the Term and for a period of not less than five (5) years following termination of this Agreement, insurance coverage insuring it against such of its liabilities arising under its indemnity obligations under this Agreement as are reasonably insurable, with limits of coverage not less than **[**]** per occurrence and **[**]** in the aggregate. Each Party shall also maintain at its expense such other insurance as may be required by governmental or statutory authorities (including, without limitation, the Regulatory Authority) in the Territory. HSI shall be named as an additional insured under the insurance policies maintained by IDB hereunder, and such policies shall provide for at least thirty (30) days' prior written notice to HSI in the event of cancellation or material reduction of coverage.

13.2 Each Party shall provide the other Party with a certificate of insurance confirming that such insurance coverage is in place, and confirming that the insurance premiums have been paid, such certificates to be provided on or before IDB's first delivery of Product to HSI under this Agreement and at such other times as a Party may reasonably request.

14. LIMITATION OF LIABILITY

EXCEPT IN CONNECTION WITH A PARTY'S WILLFUL MISCONDUCT, NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR INDIRECT, INCIDENTAL, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES INCLUDING, BUT NOT LIMITED TO, LOST PROFITS AND LOSS OF GOODWILL, ARISING FROM OR RELATING TO ANY BREACH OF THIS AGREEMENT (OR ANY DUTY OF COMMON LAW, AND WHETHER OR NOT OCCASIONED BY THE NEGLIGENCE OF A PARTY OR ITS AFFILIATES), REGARDLESS OF ANY NOTICE OF THE POSSIBILITY OF SUCH DAMAGES; PROVIDED THAT NOTHING IN THIS SECTION 14 IS INTENDED TO, OR DOES, LIMIT THE INDEMNIFICATION RIGHTS OR OBLIGATIONS OF EITHER PARTY UNDER SECTION 12; PROVIDED FURTHER THAT, FOR THE AVOIDANCE OF DOUBT, NOTHING IN THIS SECTION IS INTENDED TO, OR DOES, LIMIT HSI'S OBLIGATION UNDER THIS AGREEMENT TO PURCHASE THE MINIMUM QUANTITY OF PRODUCT FROM IDB AND PAY IDB THE PURCHASE PRICE THEREFOR DURING THE TERM OF

[**] - Confidential or proprietary information redacted.

THIS AGREEMENT. NOTHING IN THIS SECTION 14, HOWEVER, SHALL LIMIT EITHER PARTY'S RIGHT TO CLAIM DIRECT DAMAGES FROM THE OTHER PARTY.

15. TERM AND TERMINATION

15.1 This Agreement shall take effect on the Effective Date and, subject to earlier termination in accordance with all other relevant provisions hereof, shall continue through the conclusion of the 2014/2015 Flu Season regardless of the Commencement Date under Section 7.2, or such longer time as extended pursuant to Section 10.1 (the "Term"). The Parties may elect in writing to extend the term of this Agreement on mutually agreeable terms and conditions.

15.2 Without limiting any other rights of termination specified herein, either Party may terminate this Agreement by written notice to the other Party (the "Notified Party") (such termination being effective immediately on the Notified Party's receipt of such notice unless otherwise specified or agreed), if:

15.2.1 the Notified Party becomes bankrupt or the subject of procedures in bankruptcy, or under insolvency laws or for reorganization, receivership, liquidation or dissolution, and such procedures are not terminated within ninety (90) days; or

15.2.2 the Notified Party commits a material breach of any of the provisions of this Agreement and fails to remedy such breach within thirty (30) days of receipt of written notice from the non-breaching Party (or such longer period as the non-breaching Party may specify in such notice), such notice specifying the breach in detail and requiring it to be remedied (for the avoidance of doubt, a material breach of this Agreement by HSI includes, without limitation, HSI's failure to purchase the Minimum Quantity of Product for any given Flu Season which is available for purchase by HSI or to pay the Purchase Price therefor).

15.3 Without limiting any other rights of termination specified herein, HSI may terminate this Agreement by written notice to IDB (such termination being effective immediately on IDB's receipt of such notice unless otherwise specified or agreed), if:

15.3.1 IDB fails to obtain the initial Marketing Authorization by **[**]** ; provided, however, that HSI may exercise this right to terminate only until **[**]** ; or

15.3.2 the Marketing Authorization is suspended for one hundred fifty (150) days or more or is terminated; provided, however, that HSI may exercise this right to terminate only until the date that is thirty (30) days after the Marketing Authorization is so suspended (after 150 days) or terminated.

[**] - Confidential or proprietary information redacted.

15.4 Without limiting any other rights of termination specified herein, IDB may terminate this Agreement by written notice to HSI (such termination being effective immediately on HSI's receipt of such notice unless otherwise specified or agreed), if any of the licenses or approvals required to be maintained by HSI pursuant to Section 7.5 are suspended for one hundred fifty (150) days or more or are terminated; provided, however, that IDB may exercise this right to terminate only until the date that is thirty (30) days after it receives notice that such licenses or approvals are so suspended or terminated.

15.5 Upon the termination or expiration of this Agreement:

15.5.1 HSI shall promptly (within thirty (30) days unless otherwise agreed by IDB) send to IDB, or otherwise dispose of in accordance with IDB's directions, all samples of Product and all promotional, advertising and/or sales materials and technical information relating to Product in the possession or control of HSI, its Affiliates or Other Distributors;

15.5.2 HSI shall, and shall cause its Affiliates and Other Distributors to, immediately cease to promote, market, advertise, sell or distribute Product, except only as and to the extent permitted in Section 15.5.3 below;

15.5.3 Within three (3) months of termination, except for termination by IDB based on HSI's unremedied breach, HSI may sell stocks of Product supplied by IDB to HSI but not yet sold by HSI, subject to the applicable provisions of this Agreement, and shall dispose of all remaining Product on hand in accordance with IDB's directions and applicable laws and regulations;

15.5.4 HSI shall reasonably cooperate with IDB and any successor distributor appointed by IDB with a view to ensuring an orderly transfer of distribution responsibilities;

15.5.5 Within thirty (30) days after the termination or expiration of this Agreement, HSI shall furnish to IDB a complete, accurate and current accounting and report of all transactions subsequent to those shown in the last report to IDB provided in accordance with Section 2.3, and with such accounting and report shall pay to IDB any remaining amounts due under this Agreement; and

15.5.6 The Parties shall comply with Section 9.6 hereof relating to Confidential Information.

15.6 The termination or expiration of this Agreement shall be without prejudice to the rights and obligations of either Party accrued as of the date of such expiration or termination, in addition to any other remedies that a Party may have under applicable statutory or common law (subject to the terms, conditions and limitations of this Agreement). Each Parties' obligations under Sections 1, 4, 9, 11-16 and 18 (and, as applicable, the Schedules hereto), and such other sections which, by their context, are intended to survive, shall survive expiration or termination of this Agreement. Further, for the avoidance of doubt, HSI shall make all payments as are required in connection with Product delivered by IDB prior to termination of this Agreement, subject only to HSI's right to reject such Product in accordance with Sections 5.2 and 5.3.

[**] - Confidential or proprietary information redacted.

16. NOTICES

Any notice given under or in connection with this Agreement shall be in writing and sent by commercial courier or commercial overnight delivery service (e.g., FedEx, DHL) to the address(es) of the other Party specified below or such other address as that Party may from time to time specify in accordance with this Section. A notice shall be deemed delivered upon the date of its actual receipt.

IDB

Chief Executive Officer
ID Biomedical Corporation
1630 Waterfront Center
200 Burrard Street
Vancouver, BC V6C 3L6
Canada

With copy to:

Vice President Legal Affairs
ID Biomedical Corporation of Quebec
525 Cartier Boulevard West
Laval, Quebec
Canada

HSI

Michael Racioppi
President – Medical Group
Henry Schein, Inc.
135 Duryea Road
Melville, NY 11747
USA

With copy to:

General Counsel
Henry Schein, Inc.
135 Duryea Road
Melville, NY 11747
USA

17. ASSIGNMENT

Neither Party may assign this Agreement or any of its rights, duties or obligations hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed; provided that either Party may assign (i) any of its rights, duties or obligations hereunder to any of its Affiliates and (ii) this Agreement and its rights, duties and obligations hereunder to a successor entity in connection with the sale of all or substantially all of its assets or the merger, acquisition or other consolidation of such Party with or into another party, and the other Party's consent shall not be required hereunder in connection therewith. This Agreement shall be binding upon and inure to the benefit of the permitted assigns and successors in interest of the respective Parties.

18. GOVERNING LAW, JURISDICTION AND VENUE

This Agreement is governed by and shall be construed in accordance with the laws of the United States of America and the State of New York, without respect to their choice-of-law provisions. The Parties shall attempt in good faith to resolve any disputes in a voluntary, amicable and expeditious manner. In the event they are unable to resolve any such disputes in such manner, the Parties hereby submit to the exclusive jurisdiction of the state and federal courts located in the County or City of New York, USA, which shall be the sole and exclusive venue for the resolution of any disputes based on or arising out of this Agreement; provided that a Party may seek injunctive relief from any court of competent jurisdiction as necessary to

[**] - Confidential or proprietary information redacted.

protect its rights under this Agreement pending final resolution of a dispute before such courts in New York.

19. MISCELLANEOUS

19.1 **[**]**

19.2 Each Party acknowledges that in entering into this Agreement it does not do so on the basis of, and does not rely on, any representation, warranty or other provision except as expressly provided herein, and all conditions, warranties or other terms implied by statute or common law are hereby excluded to the fullest extent permitted by law.

19.3 All Schedules to this Agreement are hereby incorporated into this Agreement by reference. This Agreement and such Schedules constitute the entire Agreement between the Parties and supersede all previous communications, representations, agreements or understandings, whether oral or written, between the Parties with respect to the subject matter hereof.

19.4 Nothing contained in this Agreement shall or be deemed to constitute a partnership or a relationship of principal and agent, employer and employee or a joint venture between the Parties, and neither Party shall bind or conduct itself in a manner to suggest it has authority to bind the other in any way except as expressly permitted in this Agreement. The relationship of IDB and HSI established by this Agreement is that of independent contractors, and nothing contained in this Agreement shall be construed to give either Party the power to direct or control the day-to-day activities of the other. All sales and other agreements between HSI and HSI's customers are HSI's exclusive responsibility and shall have no effect on HSI's obligations under this Agreement.

19.5 To be effective, any amendment to or waiver of any provision of this Agreement must be made in writing and signed by a duly authorized representative of each Party. The failure on the part of either Party to exercise or enforce any right under this Agreement shall not be deemed to be a waiver of any such right or similar subsequent rights or operate to bar the exercise of enforcement thereof at anytime or times thereafter.

19.6 All dollar amounts set forth in this Agreement are U.S. Dollars.

19.7 If any court or other competent authority holds any provision of this Agreement to be void or unenforceable in whole or part, this Agreement shall continue to be valid as to the other provisions and the remainder of the affected provision.

19.8 This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

[Signatures on Next Page]

[**] - Confidential or proprietary information redacted.

IN WITNESS whereof this Agreement has been executed and delivered by the duly authorized representatives of the Parties as of the Effective Date first above written.

Signed for and on behalf of	Signed for and on behalf of
ID BIOMEDICAL CORPORATION	**HENRY SCHEIN, INC.**
Full Name	Full Name
Title	Title
Signature	Signature
Date	Date

[**] - Confidential or proprietary information redacted.

SCHEDULE 1

**MINIMUM QUANTITY; PURCHASE PRICE AND ADJUSTMENT;
RESALE TO OTHER DISTRIBUTORS; AND PAYMENT TERMS**

1. ORDER DETAILS*

*Beginning with respect to the first Flu Season commencing on or after the Commencement Date:

Total Minimum Quantity per Flu Season	**Delivery Date per Flu Season**
[**], the Minimum Quantity per Flu Season to be supplied by IDB and purchased by HSI shall be the lesser of (i) **[**]** doses of Product ("Minimum Doses") or (ii) **[**]** percent ("Minimum Percentage") of IDB's production capacity for Product for sale or distribution in the Territory for such Flu Season (after fulfilling commitments to the Government of Canada), **[**]**.	IDB will use commercially reasonable efforts to deliver and obtain releases for **[**]** of the Minimum Quantity by **[**]**, and for **[**]** of the Minimum Quantity by **[**]** as provided in Section 3.7 of the Agreement.

2. PRICES

(A) Purchase Price. Subject to Paragraphs 2(B) and 2(C) below, the Purchase Price to be paid by HSI to IDB for Product supplied under this Agreement shall be:

[**]

(B) Transfer Price and Subsequent Adjustment. HSI shall pay a Transfer Price (as defined below) to IDB for all doses of Product delivered by IDB to HSI and released by the Regulatory Authority for a given Flu Season. As used in this Agreement, "Transfer Price" shall mean

[**]

To determine the final Purchase Price due, such Transfer Price shall be subject to the following adjustments

[**]

(C) Minimum Purchase Price.

[**]

(D) Reconciliation by February 28.

[**] - Confidential or proprietary information redacted.

[**]

3. RESALE TO OTHER DISTRIBUTORS

HSI shall not in any one Flu Season resell Product to Other Distributors in an amount greater, in the aggregate, than the lesser of (i) **[**]** doses of Product or (ii) **[**]** percent of the total Product supplied by IDB to HSI for that Flu Season; **[**]** As a condition of any such sale by HSI to Other Distributors, **[**]**.

4. PAYMENT DETAILS

[**]

5. DEFAULT INTEREST RATE

[**]

[**] - Confidential or proprietary information redacted.

SCHEDULE 2

TRADEMARK(s)

Trademark	Territory	Registered No.
FLUVIRAL	Canada	

[**] - Confidential or proprietary information redacted.

SCHEDULE 3

COMMITMENTS TO GOVERNMENT OF CANADA

As described in Section 3.2, IDB has certain contractual commitments to the Government of Canada requiring IDB to provide (i) an annual supply of Product to the Government of Canada and (ii) a supply of Product in the event the Government of Canada declares an influenza pandemic. The Minimum Quantity of Product to be supplied by IDB to HSI under this Agreement is subject to IDB's commitments to the Government of Canada.

Other than in the case of a pandemic, the maximum amount of Product that IDB shall reserve for supply to the Canadian government is, and shall in no event be greater than, 12 million doses per Flu Season.

[**] - Confidential or proprietary information redacted.

SCHEDULE 4

ADVERSE REACTION REPORTING

[HSI and IDB shall mutually agree upon an adverse reaction reporting procedure, which shall be in accordance with all applicable laws and regulations, as promptly as practicable following receipt of appropriate Marketing Authorization for Product in the Territory]

[**] - Confidential or proprietary information redacted.

SCHEDULE 5

PRODUCT RECALL PROCEDURE

[HSI and IDB shall mutually agree upon a Product recall procedure, which shall be in accordance with all applicable laws and regulations, as promptly as practicable following receipt of Marketing Authorization for Product in the Territory]

[**] - Confidential or proprietary information redacted.

BDO Seidman, LLP
Accountants and Consultants

330 Madison Avenue
New York, New York 10017
Telephone: (212) 885-8000
Fax: (212) 697-1299

Henry Schein, Inc.
New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3/A dated January 15, 2005, Form S-3 dated February 28, 2001, June 21, 2001 and August 22, 2000 and the Registration Statements on Form S-8 dated January 14, 2004, July 2, 2002, April 19, 2000, November 10,1997, August 8, 1992 and June 7, 1996 of Henry Schein, Inc. of our reports dated February 28, 2005, relating to the consolidated financial statements, the effectiveness of Henry Schein, Inc.'s internal control over financial reporting and financial statement schedule, which appear in this Form 10-K.

/s/ BDO Seidman, LLP

New York, New York
March 4, 2005

Exhibit 31.1

CERTIFICATION

I, Stanley M. Bergman, certify that:

1. I have reviewed this annual report on Form 10-K of Henry Schein, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Dated: March 4, 2005

Exhibit 31.2

CERTIFICATION

I, Steven Paladino, certify that:

1. I have reviewed this annual report on Form 10-K of Henry Schein, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Steven Paladino
Steven Paladino
Executive Vice President and
Chief Financial Officer

Dated: March 4, 2005

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of Henry Schein, Inc. (the "Company") for the period ending December 25, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stanley M. Bergman, the Chairman, Chief Executive Officer and President of the Company, and I, Steven Paladino, Executive Vice President and Chief Financial Officer of the Company, do hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated March 4, 2005

/s/ Stanley M. Bergman

Stanley M. Bergman
Chairman, Chief Executive Officer and
President

Dated March 4, 2005

/s/ Steven Paladino

Steven Paladino
Executive Vice President and
Chief Financial Officer

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by §906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.