

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 28, 1996

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 Commission file number 0-27078

HENRY SCHEIN, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

11-3136595

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

135 Duryea Road  
Melville, New York

11747

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (516) 843-5500

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. YES:  NO:

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

The aggregate market value of the registrant's voting stock held by  
non-affiliates of the registrant, computed by reference to the closing sales  
price as quoted on the NASDAQ National Market on March 21, 1997 was  
approximately \$369,341,068.

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

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement filed pursuant to  
Regulation 14A not later than 120 days after the end of the fiscal year  
(December 28, 1996) are incorporated by reference in Part III hereof.

TABLE OF CONTENTS

	Page Number
	-----
PART I	
ITEM 1. Business	1
ITEM 2. Properties	13
ITEM 3. Legal Proceedings	14
ITEM 4. Submission of Matters to a Vote of Security Holders	14
PART II	
ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters	15
ITEM 6. Selected Financial Data	16
ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
ITEM 8. Financial Statements and Supplementary Data	26
ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	57
PART III	

ITEM 10. Directors and Executive Officers of the Registrant	57
ITEM 11. Executive Compensation	57
ITEM 12. Security Ownership of Certain Beneficial Owners and Management	57
ITEM 13. Certain Relationships and Related Transactions	57

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	58
Financial Statement Schedules	60
Exhibit Index	73

## PART I

### ITEM 1. Business

#### Recent Developments

Since December 28, 1996, the Company has acquired (i) in a pooling-of-interests transaction, all of the outstanding common stock of Dentrax Dental Systems, Inc., a leading provider of clinically-based dental practice management systems, with 1996 net sales of approximately \$10.3 million, and (ii) in a purchase transaction, the business of Smith Holden, Inc., the longest operating dental supply company in the United States, with 1996 net sales of approximately \$14.2 million. Additionally, on March 7, 1997, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Micro Bio-Medics, Inc. (Nasdaq:MBMI) will merge into a wholly-owned subsidiary of the Company. As a result of the transaction, which has been approved by the Boards of Directors of MBMI and the Company, outstanding shares of MBMI's common stock will be exchanged at a fixed rate of 0.62 of a share of the Company's Common Stock for each outstanding 1.0 share of MBMI. Each of the members of MBMI's Board of Directors has granted to the Company a proxy to vote their shares of MBMI common stock in favor of the Merger Agreement and an option, exercisable under certain circumstances, to acquire their shares for the consideration that they would have received under the Merger Agreement in respect of those shares.

MBMI distributes medical supplies to physicians and hospitals in the New York metropolitan area, as well as to healthcare professionals in sports medicine, emergency medicine, school health, industrial safety, government and laboratory markets nationwide. MBMI had net sales of approximately \$150.0 million and earnings of approximately \$1.7 million for its fiscal year ended November 30, 1996. Upon completion of the acquisition, the Company believes that it will become North America's largest distributor of healthcare products to office-based healthcare practitioners and a leading provider of healthcare products and services to the U.S. physician market.

The completion of the transaction is subject to the satisfaction of customary closing conditions, including, among others, MBMI shareholder approval, and Hart-Scott-Rodino waiting periods. The transaction is expected to be completed by mid-1997 although no assurances can be given in this regard. For a more complete description of the terms of the Merger Agreement and other related agreements entered into in connection with the Merger Agreement, reference is made to the Exhibits to this Form 10-K. The Company intends to file a Registration Statement on Form S-4 with the Securities and Exchange Commission with respect to the securities to be issued in connection with the Merger Agreement.

#### General

The Company is the largest direct marketer of healthcare products and services to office-based healthcare practitioners in the combined North American and European markets. The Company has operations in the United States, Canada, the United Kingdom, the Netherlands, Belgium, Germany, France, the Republic of Ireland and Spain. The Company sells products and services to over 230,000 customers, primarily dental practices and dental laboratories, as well as physician practices, veterinary clinics and institutions. In 1996, the Company sold products to over 65% of the estimated 100,000 dental practices in the United States. The Company believes that there is strong awareness of the "Henry Schein" name among

office-based healthcare practitioners due to its more than 60 years of experience in distributing healthcare products. Through its comprehensive catalogs and other direct sales and marketing programs, the Company offers its customers a broad product selection of both branded and private brand products which include approximately 50,000 stock keeping units ("SKUs") in North America and approximately 40,000 SKUs in Europe at published prices that the Company believes are below those of many of its competitors. The Company also offers various value-added products and services, such as practice management software. As of December 28, 1996, the Company had sold over 18,000 dental practice management software systems, more than any of its competitors. On February 28, 1997, the Company acquired all of the outstanding common stock of Dentrax Dental Systems, Inc., a leading provider of clinically-based dental practice management systems, with 1996 net sales of approximately \$10.3 million and a 3,500 installed user base.

During 1996, the Company distributed over 9.0 million pieces of direct marketing materials (such as catalogs, flyers and order stuffers) to approximately 500,000 office-based healthcare practitioners. The Company supports its direct marketing efforts with approximately 450 telesales representatives who facilitate order processing and generate sales through direct and frequent contact with customers and with over 300 field sales consultants. The Company utilizes database segmentation techniques to more effectively market its products and services to customers. In recent years, the Company has continued to expand its management information systems and has established strategically located distribution centers in the United States and Europe to enable it to better serve its customers and increase its operating efficiency. The Company believes that these investments, coupled with its broad product offerings, enable the Company to provide its customers with a single source of supply for substantially all their healthcare product needs and provide them with convenient ordering and rapid, accurate and complete order fulfillment. The Company estimates that approximately 99% of all orders in the United States and Canada received before 7:00 p.m. and 4:00 p.m., respectively, are shipped on the same day the order is received and approximately 90% of orders are received by the customer within two days of placing the order. In addition, the Company estimates that approximately 99% of all items ordered in the United States and Canada are shipped without back ordering.

#### Acquisition and Joint Venture Strategies

The Company believes that there has been consolidation among healthcare products distributors serving office-based healthcare practitioners and that this consolidation will continue to create opportunities for the Company to expand through acquisitions and joint ventures. In recent years, the Company has acquired or entered into joint ventures with a number of companies engaged in businesses that are complementary to those of the Company. The Company's acquisition and joint venture strategies include acquiring additional sales that will be channelled through the Company's existing infrastructure, acquiring access to additional product lines, acquiring regional distributors with networks of field sales consultants and international expansion. The Company has entered into or completed seventeen acquisitions during the year ended December 28, 1996. The businesses acquired included 10 dental and three medical companies, a veterinary supply distributor and three international dental companies, with aggregate net sales in their last fiscal year ends of approximately \$104.0 million, all of which were accounted for as purchase transactions. Of these, fifteen were for majority ownership (100% in nine of the transactions). In 1995, the Company acquired the distribution business of The Veratex Corporation, a national direct marketer of dental, medical and veterinary products, and Schein Dental Equipment Corp., a distributor and manufacturer of large dental equipment. The Company also completed the majority acquisition of 11 other companies and a 50% acquisition of one other company during 1995.

## Corporate Structure Background

The Company was formed on December 23, 1992 as a wholly-owned subsidiary of Schein Holdings, Inc. ("Holdings"). At that time, Holdings conducted the business in which the Company is now engaged and, in addition, owned 100% of the outstanding capital stock of Schein Pharmaceutical, Inc. ("Pharmaceutical"), a company engaged in the manufacture and distribution of multi-source pharmaceutical products. In December 1992, Holdings separated the Company's business from Pharmaceutical by transferring to the Company all of the assets (including Holdings' 50% interest in HS Pharmaceutical, Inc., a manufacturer and distributor of generic pharmaceuticals ("HS Pharmaceutical")) and liabilities of the healthcare distribution business now conducted by the Company. The Company did not assume any other liabilities of Holdings, including the liabilities associated with Pharmaceutical's business. In February 1994, the Company, Holdings and their stockholders entered into a number of reorganization agreements, and in September 1994, pursuant to such agreements, all of the Company's common stock, par value \$.01 per share ("Common Stock"), held by Holdings was distributed to certain of the current stockholders of the Company (the "Reorganization").

On November 8, 1995, the Company completed an initial public offering of its Common Stock, and on June 21, 1996, the Company completed a follow-on offering of its Common Stock. Proceeds from these offerings to the Company, after expenses, were approximately \$72.5 million and \$124.1 million, respectively. The proceeds enabled the Company to pay off certain indebtedness, with the remaining proceeds available for general corporate purposes, including subsequent acquisitions.

## Customers

The Company serves over 230,000 customers worldwide in the dental, medical and veterinary markets. The Company's dental customers include office-based dental practices, dental laboratories, universities, institutions, governmental agencies and large group and corporate accounts; medical customers include office-based physician practices, podiatrists, renal dialysis centers, surgery centers, institutions and governmental agencies; and the Company's veterinary products are sold primarily to office-based veterinarians serving primarily small animals.

The Company believes that its customers generally order from two or more suppliers for their healthcare product needs, and often use one supplier as their primary resource. The Company believes that its customers generally have larger order sizes and order more frequently from their primary suppliers. The Company estimates that it serves as a primary supplier to less than 10% of its total customer base, and believes it has an opportunity to increase sales by increasing its level of business with those customers for which it serves as a secondary supplier.

Over the past several years the Company has expanded its customer base to include larger purchasing organizations, including certain dental laboratories, institutions, government agencies, renal dialysis centers and surgery centers. More recently, as cost-containment pressures have resulted in increased demand for low-cost products and value-added services, the Company has targeted specific groups of practices under common ownership, institutions, and professional groups. For example, the Company has an exclusive direct marketing agreement with an American Medical Association ("AMA") sponsored service and a veterinarian sponsored service, pursuant to which member practitioners have access to the services' lower priced products. In 1996, the AMA-sponsored service and the veterinarian-sponsored purchasing service accounted for net sales of over \$27.4 million. These services, government institutions and agencies, and other large or collective purchasers, require low-cost pricing and detailed product and usage information and reporting. The Company believes it is well situated to meet the needs of these customers, given its broad, low-cost

product offerings and its management information systems. No single customer accounted for more than 4.7% of net sales in 1996.

#### Sales and Marketing

The Company's sales and marketing efforts, which are designed to establish and solidify customer relationships through frequent direct marketing contact, emphasize the Company's broad product lines, competitive prices and ease of order placement. In addition, the Company's marketing efforts involve personal interaction with field sales consultants in certain locations. The key elements of the Company's program in the United States are:

- o Direct Marketing. During 1996, the Company distributed over 9.0 million pieces of direct marketing material, including catalogs, flyers, order stuffers and other promotional materials to approximately 500,000 office-based healthcare practitioners. The Company's principal U.S. dental catalog, which is issued semi-annually, contains an average of over 300 pages and includes approximately 20,000 SKUs. The number of catalogs and other material received by each customer depends upon the market they serve as well as their purchasing history. The Company's catalogs include detailed descriptions and specifications of both branded and private brand products and are utilized by healthcare practitioners as a reference source. By evaluating its customers' purchasing patterns, area of specialty, past product selections and other criteria, the Company identifies customers who may respond better to specific promotions or products. To facilitate its direct marketing activities, the Company maintains an in-house advertising department which performs many creative services, which the Company believes streamlines the production process, provides greater flexibility and creativity in catalog production, and results in cost savings.

- o Telesales. The Company supports its direct marketing with over 450 inbound and outbound telesales representatives who facilitate order processing and generate new sales through direct and frequent contact with customers. Inbound telesales representatives are responsible for assisting customers in purchasing decisions as well as answering product pricing and availability questions. In addition to assisting customers, inbound telesales representatives also market complementary or promotional products. The Company's telesales representatives utilize on-line computer terminals to enter customer orders and to access information about products, product availability, pricing, promotions and customer buying history.

The Company utilizes outbound telesales representatives and programs to better market its services to those customer accounts identified by the Company as either being high volume or high order frequency accounts. The Company's U.S. dental outbound telesales representatives accounted for approximately \$101.6 million of the Company's net sales in 1996. The Company has approximately 100 medical and veterinary telesales representatives who make outbound calls in addition to handling inbound telesales. Outbound telesales representatives strive to manage long-term relationships with these customers through frequent and/or regularly scheduled phone contact and personalized service.

The Company's telesales representatives generally participate in an initial two-week training course designed to familiarize the sales representative with the Company's products, services and systems. In addition, generally all telesales representatives attend periodic training sessions and special sales programs and receive incentives, including monthly commissions.

o Field Sales Consultants. In 1992, the Company initiated its field sales consultant program and now has over 300 field sales consultants covering certain of its major North American and European markets. The field sales consultants concentrate on attracting new customers and increasing sales to customers who do not currently order a high percentage of their total product needs from the Company. This strategy is designed to complement the Company's direct marketing and telesales strategies and to enable the Company to better market, service and support the sale of more sophisticated products and equipment. Once a field sales consultant has established a relationship with a customer, the representative encourages the customer to use the Company's automated ordering process or its telesales representatives for its day-to-day needs. This simplifies the ordering process for the customer and increases the effectiveness of the field sales consultant.

#### Customer Service

A principal element of the Company's customer service approach is to offer an order entry process that is convenient, easy and flexible. Customers typically place orders with one of the Company's experienced telesales representatives. Orders may also be placed 24-hours a day by fax, mail, PROTONE(R) (the Company's 24-hour automated phone service) or its computerized order entry system. The Company has developed an enhanced Windows(R)-based version of its computerized order entry system, known as Aruba(R), which was introduced at the end of 1995.

The Company focuses on providing rapid and accurate order fulfillment and high fill rates. The Company estimates that approximately 99% of all items ordered in the United States and Canada are shipped without back ordering, and that approximately 99% of all orders in the United States and Canada received before 7:00 p.m. and 4:00 p.m. respectively, are shipped on the same day the order is received. In addition, because the Company seeks to service a customer's entire order from the distribution center nearest the customer's facility, approximately 90% of orders are received within two days of placing the order. The Company continually monitors its customer service through customer surveys, focus groups and daily statistical reports. The Company maintains a liberal return policy to better assure customer satisfaction with its products.

Products

The following chart sets forth the principal categories of products offered by the Company and certain top selling types of products in each category, with the percentage of 1996 net sales in parenthesis:

Dental Products (69.5%)		
Consumable Dental Products and Small Equipment (57.5%)	Dental Laboratory Products (5.1%)	Large Dental Equipment (6.9%)
X-Ray Products; Infection Control; Handpieces; Preventatives; Impression Materials; Composites; and Anesthetics	Teeth; Composites; Gypsum; Acrylics; Articulators; and Abrasives	Dental Chairs, Units and Lights; X-Rays; and Equipment Repair
Medical Products (23.4%)	Veterinary Products (4.4%)	Value-Added Products and Services (2.7%)
Branded and Generic Pharmaceuticals; Surgical Products; Diagnostic Tests; Infection Control; and Vitamins	Branded and Generic Pharmaceuticals; Surgical Products; and Dental Products	Software and Related Products; Financial Products; and other value-added products

The percentage of 1995 and 1994 net sales was as follows: consumable dental products and small equipment, 59.3% and 61.8%, respectively; dental laboratory products, 5.8% and 6.6%, respectively; large dental equipment, 2.2% and 3.6%, respectively; medical products, 23.5% and 20.1%, respectively; veterinary products, 4.9% and 5.7%, respectively; and value-added products and services, 4.3% and 2.2%, respectively.

Consumable Supplies and Equipment

The Company offers approximately 50,000 SKUs to its customers in North America, of which approximately 40,000 SKUs are offered to its dental customers, approximately 14,000 are offered to its medical customers and approximately 17,000 are offered to its veterinary customers. Over 16% of the Company's products are offered to all three types of the Company's customers in North America. The Company offers approximately 40,000 SKUs to its customers in Europe. Approximately 4,000 of the Company's SKUs accounted for 80% of the Company's sales in the United States in 1996. Approximately 15% of the Company's net sales in 1996 were from sales of products offered under the Henry Schein private brand (i.e., products manufactured by various third parties and HS Pharmaceutical for distribution by the Company under the Henry Schein(R) brand). The Company believes that the Henry Schein private brand line of over 5,000 SKUs offered in the United States and Canada is one of the most extensive in the industry. The Company also distributes certain generic pharmaceuticals manufactured by HS Pharmaceutical, a 50%- owned company, and manufactures and distributes certain large dental equipment through Schein Dental Equipment Corp. ("Schein Dental Equipment"), a distributor and manufacturer of large dental equipment which was owned 73.7% by Marvin H. Schein, a director and principal stockholder of the Company prior to its acquisition by the Company. The Company updates its product offerings regularly to meet its customers' changing needs.



## Value-Added Products and Services

In an effort to promote customer loyalty, the Company offers certain value-added products and services. These products and services include the following:

- o Practice Management Software. The Company sells practice management software systems to its dental and veterinary customers. The Company has sold over 18,000 of its Easy Dental(R) Plus software systems as of the end of fiscal 1996, and over 2,400 of its AVImark(R) veterinary software systems. In December 1995, the Company released its new Windows(R) version of Easy Dental(R) Plus and has since sold or converted over 4,800 such systems by the end of 1996. The Company's practice management software provides practitioners with patient treatment history, billing and accounts receivable analysis and management, an appointment calendar, electronic claims processing and word processing programs, and the Company provides technical support and conversion services from other software. In addition, the Easy Dental(R) Plus software allows the customer to connect with the Company's order entry management systems. On February 28, 1997, the Company acquired all of the outstanding common stock of Dentrix Dental Systems, Inc., which had net sales for 1996 of approximately \$10.3 million and has an approximate 3,500 installed user base. The Dentrix system is one of the most comprehensive clinically-based dental practice management software package in the United States. The Dentrix premium software product complements Easy Dental (R) Plus , the Company's high-value practice management system. The Company believes the combined software products offering enhances its ability to provide its customers with the widest array of system solutions to help manage their practices. With this acquisition, the Company now has an installed user base of approximately 21,000.

- o Financial Services. The Company has begun to offer its customers assistance in managing their practices by providing access to a number of financial services and products at rates which the Company believes are lower than what they would be able to secure independently. The patient financing program provides the Company's customers a method for reducing receivables and improving cash flow by providing patients access to financing. The Company facilitates the processing of credit applications, payments to its customers and electronic bankcard processing and offers electronic insurance claims submission services for faster, cheaper processing of patient reimbursements, all through a third-party provider for a transaction fee. The Company does not assume any financial obligation to its customers or their patients in these programs.

- o Equipment Repair and Installation. The Company offers a repair service, ProRepair(R), which provides one to two-day turnaround for handpieces and certain small equipment. The Company also provides in-office installation and repair services for large equipment in certain markets in North America and Europe. In accordance with its plan to expand its repair service business and sales of large dental equipment in connection with its acquisition of Schein Dental Equipment, in 1996 the Company opened 15 new equipment sales and service centers in North America and four in Europe, with a total of 35 centers open at the end of 1996.

## Information Systems

The Company's management information systems generally allow for centralized management of key functions, including inventory and accounts receivable management, purchasing, sales and distribution. A key attribute of the Company's management information systems is the daily operating control reports which allow managers throughout the Company to share information and monitor daily progress relating to sales activity, gross profit, credit and returns, inventory levels, stock balancing, unshipped orders, order fulfillment and other operational statistics. In the United States, the Company is in the process of expanding and upgrading its order processing information system and, during February 1997 completed the upgrading of its accounts receivable information system. Additionally, worldwide, the Company is in the process of installing an integrated information system for its large dental equipment sales and service functions. Such a system will centralize the tracking of customers' equipment orders as well as spare parts inventories and repair services.

## Distribution

The Company distributes its products in the United States and Canada primarily from its strategically located distribution centers in the Eastern, Central, and Western United States. The Company maintains significant inventory levels of certain products in order to satisfy customer demand for prompt delivery and complete order fulfillment of their product needs. These inventory levels are managed on a daily basis with the aid of the Company's sophisticated purchasing and stock status management information systems. The Company's European distribution centers include locations in the United Kingdom, France, The Netherlands, Germany and Spain. Once a customer's 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. The Company's automated freight manifesting and laser bar code scanning facilitates the speed of the order fulfillment. The Company currently ships almost all of its orders in the United States by United Parcel Service. In certain areas of the United States, the Company delivers its orders via contract carriers.

## Purchasing

The Company believes that effective purchasing is a key element to maintaining and enhancing its position as a low-cost provider of healthcare products. The Company frequently evaluates its purchase requirements and suppliers' offerings and prices in order to obtain products at the best possible cost. The Company believes that its ability to make high volume purchases has enabled it to obtain favorable pricing and terms from its suppliers. The Company obtains its products for its North American distribution centers from over 1,200 suppliers of name brand products; in addition, the Company has established relationships with numerous local vendors to obtain products for its European distribution centers. In 1996, the Company's top 10 vendors and the Company's single largest vendor, accounted for approximately 28.2% and 9.7%, respectively, of the Company's aggregate purchases.

## Competition

The distribution and manufacture of healthcare supplies and equipment is intensely competitive. Many of the products the Company sells are available to the Company's customers from a number of suppliers. In addition, competitors of the Company could obtain exclusive rights from manufacturers to market particular products. Manufacturers could also seek to sell directly to end-users, and thereby eliminate the role of distributors, such as the Company. Significant price reductions by the Company's competitors could result in a similar reduction in the Company's prices as a consequence of its policy of matching its competitors' lowest advertised prices. Any of these competitive pressures may materially adversely affect operating results.

In the United States, the Company competes 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 services and products. In the sale of its dental products, the Company's two principal national competitors are Patterson Dental Co. and Sullivan Dental Products, Inc. In addition, the Company competes against a large number of other distributors that operate on a national, regional and local level. The Company's largest competitors in the sale of medical products are General Medical Corp. and Physician's Sales and Service, Inc., which are national distributors. In the veterinary product market, the Company's two principal national competitors include The Butler Company and Burns Veterinary Supply. The Company also competes against a large number of small local and regional veterinary distributors, as well as a number of manufacturers that sell direct to veterinarians whose practices are directed primarily to small animals. With regard to the Company's practice management software, the Company competes against a fragmented group of competitors, none of which currently have a significant share of the market. The Company believes that it competes in Canada substantially on the same basis as in the United States.

The Company also faces intense competition in its international markets, where the Company competes on the basis of price and customer service against a large number of dental product distributors and manufacturers in the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland and Spain. The Company has several large competitors in these markets, including ORBIS and the GACD Group.

## Governmental Regulation

The Company's 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 with which the Company must comply are the Federal Food, Drug, and Cosmetic Act, the Prescription Drug Marketing Act of 1987, and the Controlled Substances Act. It is possible that the Company may be prevented from selling manufactured products if the Company (including its 50%-owned company, HS Pharmaceutical, which distributes and manufactures generic pharmaceuticals) were to receive an adverse report following an inspection by the Food and Drug Administration (the "FDA") or the Drug Enforcement Administration, or if a competitor were to receive prior approval of new products from the FDA. A violation of a law by HS Pharmaceutical could cause its operations to be suspended. A suspension could have an adverse effect on the Company's equity in earnings of affiliates and could cause the Company to seek alternative sources of products manufactured by HS Pharmaceutical, possibly at higher prices than currently paid by the Company.

The Federal Food, Drug, and Cosmetic Act generally regulates the introduction, manufacture, advertising, labeling, packaging, storage, handling, marketing and distribution of, and recordkeeping 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 or 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, the Company, as a distributor of controlled substances, is required to obtain annually a registration from the Attorney General in accordance with specified rules and regulations and is subject to inspection by the Drug Enforcement Administration acting on behalf of the Attorney General. The Company is required to maintain licenses and permits for the distribution of pharmaceutical products and medical devices under the laws of the states in which it operates. In addition, the Company's dentist and physician customers are subject to significant governmental regulation. There can be no assurance that regulations that impact dentists' or physicians' practices will not have a material adverse impact on the Company's business.

The Company believes that it is in substantial compliance with all of the foregoing laws and the regulations promulgated thereunder and possesses all material permits and licenses required for the conduct of its business.

#### Proprietary Rights

The Company holds trademarks relating to the "Henry Schein" name and logo, as well as certain other trademarks. Pursuant to certain agreements executed in connection with the reorganization of the Company, both the Company and Schein Pharmaceutical, Inc. 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." The Company intends to protect its trademarks to the fullest extent practicable.

#### Employees

As of December 28, 1996, the Company had more than 3,200 full-time employees in North America and Europe, including approximately 450 telesales representatives, 300 field sales consultants, 1,000 warehouse employees, 120 computer programmers and technicians, 350 management employees and 980 office, clerical and administrative employees. None of the Company's employees are represented by a collective bargaining agreement. The Company believes that its relations with its employees are excellent.

#### Seasonality

The Company's business has been subject to seasonal and other quarterly influences. Net sales and operating profits have been generally higher in the fourth quarter due to the timing of sales of software, year-end promotions and purchasing patterns of office-based healthcare practitioners and have been generally lower in the first quarter due primarily to the increased purchases in the prior quarter. Quarterly results also may be materially affected by a variety of other factors, including the timing of acquisitions and related costs, the release of software enhancements, timing of purchases, special promotional campaigns, fluctuations in exchange rates associated with international operations and adverse weather conditions.

#### Disclosure Regarding Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Certain information in Items 1, 2, 3, 7 and 8 of this Form 10-K include information that is forward looking, such as the Company's opportunities to increase sales through, among other things, acquisitions; its exposure to fluctuations in foreign currencies; its anticipated liquidity and capital requirements; and the results of legal proceedings. The matters referred to in forward looking statements could be affected by the risks and uncertainties involved in the Company's business. These risks and uncertainties include, but are not limited to, the effect of economic and market conditions, the impact of the consolidation of healthcare practitioners, the impact of healthcare reform, opportunities for acquisitions and the Company's ability to effectively integrate acquired companies, the acceptance and quality of software products, acceptance and ability to manage operations in foreign markets, possible disruptions in the Company's computer systems or telephone systems, possible increases in shipping rates or interruptions in shipping service, the level and volatility of interest rates and currency values, the impact of current or pending legislation and regulation, as well as certain other risks described above in this Item under "Competition" and "Government Regulation," and below in Item 3 in "Legal Proceedings" and in Item 7 in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this Form 10-K.

The Company's principal executive offices are located at 135 Duryea Road, Melville, New York 11747, and its telephone number is 516-843-5500. As used in this Report, the term the "Company" refers to Henry Schein, Inc., a Delaware corporation, and its subsidiaries, 50%-owned companies and predecessor, unless otherwise stated.

Executive Officers of the Registrant

The following table sets forth certain information regarding the executive officers of the Company.

Name	Age	Position
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Corporate		
Stanley M. Bergman....	47	Chairman, Chief Executive Officer and President
James P. Breslawski...	43	Executive Vice President
Gerald A. Benjamin....	44	Senior Vice President-- Administration and Customer Satisfaction
Leonard A. David.....	48	Vice President--Human Resources and Special Counsel
Diane Forrest.....	50	Senior Vice President--Information Services and Chief Information Officer
Stephen R. LaHood.....	49	Senior Vice President--Distribution Services
Mark E. Mlotek.....	41	Vice President, General Counsel and Secretary
Steven Paladino.....	39	Senior Vice President and Chief Financial Officer
Business Units		
Jeffrey P. Gasparini..	41	Senior Vice President--Medical Group
Ian G. Rosmarin.....	46	President--Professional Services Group
Larry M. Gibson.....	50	President--Practice Management Technologies Division
James W. Stahly.....	48	President--North American Dental Group
Michael Zack.....	44	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.

James P. Breslawski has been Executive Vice President of the Company since 1990, with primary responsibility for the North American Dental Group, the Veterinary Group and corporate creative services, 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.

Gerald A. Benjamin has been Senior Vice President of Administration and Customer Satisfaction since 1993, including responsibility for the worldwide human resource function, and has been a director of the Company since September 1994. Prior to holding his current position, 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. Before joining the Company, Mr. Benjamin was employed for 13 years in various management positions at Estee Lauder, where his last position was Director of Materials Planning and Control.

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. Mr. David has been a director of the Company since September 1994.

Diane Forrest joined the Company in 1994 as Senior Vice President of Information Services and Chief Information Officer. Prior to joining the Company, Ms. Forrest was employed by Tambrands Inc. as Vice President of Information Services from 1987 to 1994, KPMG Peat Marwick as Senior Manager in the management consulting division from 1982 to 1987 and Nabisco Brands, Inc. as Corporate Manager of Manufacturing Systems from 1978 to 1982.

Stephen R. LaHood joined the Company in 1992 as Senior Vice President of Distribution Services and is also responsible for purchasing. Prior to joining the Company, Mr. LaHood was employed by Lex/Schweber Electronics Inc. as Vice President of Operations and Quality from 1988 to 1991. Mr. LaHood also spent ten years at Johnson & Johnson Products, Inc., where his last position was Manager of Corporate Business Planning and thereafter, seven years at Schering-Plough Corporation where his last position was Senior Director of Manufacturing Operations.

Mark E. Mlotek joined the Company in December 1994 as Vice President, General Counsel and Secretary 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 Goetz & Mendelsohn LLP, counsel to the Company, specializing in mergers and acquisitions, corporate reorganizations and tax law from 1989 to 1994.

Steven Paladino has been 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 and most recently was with the international accounting firm of BDO Seidman, LLP. Mr. Paladino is a certified public accountant.

Jeffrey P. Gasparini joined the Company in February 1996 as Senior Vice President of the Medical Group. Prior to joining the Company, Mr. Gasparini was employed by General Medical Corp. from 1982 to 1996, where his last position was Corporate Vice President, Operations and member of the Executive Board.

Ian G. Rosmarin joined the Company in 1992 as General Manager of the Canadian Division and in 1993 was named to his current position of President of the Professional Service Group of the Company. Prior to joining the Company, Mr. Rosmarin was President of Rosmarin Management and Investment Corporation for 13 years. Mr. Rosmarin is a Canadian Chartered Accountant.

Larry M. Gibson joined the Company as President of the Practice Management Technologies Division on February 24, 1997 concurrent with the acquisition of Dentrax Dental Systems, Inc. Before joining the Company, Mr. Gibson was founder, Chairman and CEO of Dentrax, started in 1980. Prior to his employment with Dentrax, Mr. Gibson was employed by Weidner Communication Systems from 1978.

James W. Stahly joined the Company in 1994 as President of the North American Dental Group of the Company. Before joining the Company, Mr. Stahly was employed by Fox Meyer Corporation for seven years where his last position was Senior Vice President -- Hospital and Alternate Care Sales. Prior to his employment with Fox Meyer, Mr. Stahly spent 16 years at McKesson Drug Company.

Michael Zack 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

The Company owns or leases the following properties:

Property	Location	Own or Lease	Approximate Square Footage	Lease Expiration Date
Corporate Headquarters.....	Eastern United States	Lease	100,000	December 2005
Distribution Center..	Eastern United States	Own	173,000	N/A
Distribution Center..	Central United States	Lease	225,000	December 1999
Distribution Center..	Western United States	Lease	115,500	June 2002
Distribution Center..	United Kingdom	Lease	85,000	August 2005
Manufacturing Facilities.....	Western United States	Own	75,000	N/A

The Company also leases warehouse, office, showroom and sales space in other locations in the United States, Canada, France, Germany, the Republic of Ireland, The Netherlands, Spain and the United Kingdom. Two 50%-owned companies also lease space in the United States and Canada.

The Company believes that its properties are generally in good condition, are well maintained, and are generally suitable and adequate to carry on the Company's business.

The Company has additional operating capacity at its listed facilities.

### ITEM 3. Legal Proceedings

The manufacture or distribution of certain products by the Company involves a risk of product liability claims, and from time to time the Company is named as a defendant in products liability cases as a result of its distribution of pharmaceutical and other healthcare products. As of December 28, 1996, the Company was named a defendant in 12 such cases. The Company believes it is adequately covered by insurance in all these cases, subject to certain self retention limits, and that none of the currently pending cases should have a material adverse effect on the Company.

The Company has various insurance policies, including product liability insurance covering risks and in amounts it considers adequate. In many cases the Company is covered by indemnification from the manufacturer of the product. There can be no assurance that the coverage maintained by the Company is sufficient to cover all future claims or will be available in adequate amounts or at a reasonable cost, or that indemnification agreements will provide adequate protection for the Company.

As part of the Company's effort to expand its field sales force, the Company frequently hires field sales consultants with experience in the office-based healthcare practitioner industry. The Company's hiring practices have from time to time resulted in litigation instituted by former employers of the field sales consultants hired by the Company. On October 19, 1995, an action was filed against the Company by H. Meer Dental Supply Co., Inc. ("Meer") in the United States District Court for the Eastern District of Michigan, Southern Division. The complaint alleged unfair competition, predatory pricing or anticompetitive conduct and, through the hiring of Meer sales representatives, improper interference with Meer's relationships with its employees and customers and misappropriation of trade secrets. The lawsuit sought unspecified damages and an injunction against the Company. In November 1996, the Company entered into a settlement of the action brought by Meer, which contains a limited provision for mutual non-solicitation but permits employment of the other's employees consistent with the Company's need to employ experienced sales and service representatives. The settlement did not involve the payment of any money. There are two additional litigations that similarly allege improper interference with employee and customer relationships. The plaintiffs in these actions seek unspecified damages, and one of the plaintiffs also seeks an injunction against the Company. The Company intends to vigorously defend these litigations. The Company believes that neither of these actions will have a material adverse effect on the Company.

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

None.



PART II

ITEM 5. Market for Registrant's Common Equity and Related  
Stockholder Matters

The following table sets forth for the periods indicated the high and low reported sales prices of the Common Stock on the NASDAQ National Market System from November 3, 1995, the date of the commencement of the Company's Initial Public Offering (the "IPO"), through March 21, 1997.

	High ----	Low ---
Fiscal 1995:		
4th Quarter (from November 3, 1995)	\$29-1/2	\$20-3/8
Fiscal 1996:		
1st Quarter	\$30-3/4	\$23-1/2
2nd Quarter	\$43-1/2	\$27-1/2
3rd Quarter	\$40-1/4	\$31-1/4
4th Quarter	\$41-1/4	\$32-3/4
Fiscal 1997:		
1st Quarter (through March 21, 1997)	\$27	\$25-1/2

The Company's Common Stock is quoted through the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol "HSIC." On March 21, 1997, there were approximately 136 holders of record of the Common Stock. On March 21, 1997, the last reported sales price was \$26-5/8.

Dividend Policy

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

Issuance of Unregistered Securities

On July 10, 1996 and November 1, 1996, the Company completed the 100% acquisition of two companies and issued, in partial consideration for one acquisition and in full consideration for another acquisition, 37,197 and 117,986 shares, respectively, of its Common Stock, with an aggregate value of approximately \$5.4 million. These transactions were completed without registration under the Securities Act in reliance upon exemptions provided by Section 4(2) of the Securities Act.

ITEM 6. Selected Financial Data

The following selected financial data with respect to the Company's financial position and its results of operations for each of the five years in the period ended December 28, 1996 set forth below has been derived from the audited consolidated financial statements of the Company. The selected financial data presented below should be read in conjunction with the Consolidated Financial Statements and related notes thereto in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7. The Selected Operating Data, Net Sales By Market Data and Balance Sheet Data presented below have not been audited.

	Years Ended				
	December 28, 1996	December 30, 1995	December 31, 1994	December 25, 1993	December 26, 1992
(in thousands, except per share and selected operating data)					
<b>Statement of Operations Data:</b>					
Net sales .....	\$ 829,962	\$ 616,209	\$ 486,610	\$ 415,710	\$ 362,925
Cost of sales .....	584,738	425,625	343,922	294,693	257,226
Gross profit .....	245,224	190,584	142,688	121,017	105,699
Selling, general and administrative expenses ...	215,561	170,823	128,560	109,574	96,287
Special management compensation(1) .....	--	20,797	21,596	617	5,283
Special contingent consideration(2) .....	--	--	--	3,216	--
Special professional fees(3) .....	--	--	2,007	2,224	2,227
Operating income (loss) .....	29,663	(1,036)	(9,475)	5,386	1,902
Interest income .....	2,456	475	251	856	1,210
Interest expense .....	(3,421)	(5,833)	(3,756)	(3,216)	(2,953)
Other income (expense) - net	636	276	541	(634)	255
Income (loss) before taxes on income (recovery), minority interest and equity in earnings of affiliates .....	29,334	(6,118)	(12,439)	2,392	414
Taxes on income (recovery) ..	11,343	5,126	(1,630)	1,351	622
Minority interest in net (loss) of subsidiaries income .....	246	509	561	318	(249)
Equity in earnings of affiliates .....	1,595	1,537	494	1,296	514
Income (loss) before cumulative effect of accounting change .....	19,340	(10,216)	(10,876)	2,019	555
Cumulative effect of accounting change .....	--	--	--	1,891	--
Net income (loss) .....	\$ 19,340	(\$ 10,216)	(\$ 10,876)	\$ 3,910	\$ 555
Net income per common share .	\$ .93				
Average shares outstanding ..	20,724				

	Years Ended				
	December 28, 1996	December 30, 1995	December 31, 1994	December 25, 1993	December 26, 1992
(in thousands, except per share and selected operating data)					
<b>Pro Forma Income Data (4):</b>					
Pro forma operating income .....		\$ 19,761	\$ 14,128		
Pro forma net income .....		\$ 9,407	\$ 6,978		
Pro forma net income per common share .....		\$ .70	\$ .58		
Pro forma average shares outstanding .....		13,447	12,127		
<b>Selected Operating Data:</b>					
Number of orders shipped .....	3,078,000	2,629,000	2,274,000	2,044,000	1,824,000
Average order size .....	\$ 270	\$ 234	\$ 214	\$ 203	\$ 199
<b>Net Sales by Market Data (5):</b>					
Dental(6) .....	\$ 435,643	\$ 327,697	\$ 274,337	\$ 253,223	\$ 234,655
Medical .....	191,186	125,565	89,789	71,021	51,923
Veterinary .....	35,329	29,330	27,872	24,312	19,481
Technology(7) .....	20,805	25,914	10,685	7,738	5,825
International(8) .....	146,999	107,703	83,927	59,416	51,041
	\$ 829,962	\$ 616,209	\$ 486,610	\$ 415,710	\$ 362,925
	=====	=====	=====	=====	=====
<b>Balance Sheet Data</b> (at period end):					
Working capital .....	\$ 204,755	\$ 103,899	\$ 76,392	\$ 74,125	\$ 28,276
Total assets .....	463,936	296,867	190,020	160,793	137,957
Total debt .....	39,746	43,049	61,138	56,567	41,373
Redeemable stock (9) .....	--	--	14,745	--	--
Minority interest .....	5,289	4,547	1,823	1,051	411
Stockholders' equity .....	291,762	142,851	39,567	43,897	40,117

(1) Includes: (a) for 1995, non-cash special management compensation charges of \$17.5 million arising from final mark-to-market adjustments (reflecting an increase in estimated market value from 1994 to the initial public offering price of \$16.00 per share) for stock grants made to an executive officer of the Company in 1992 and other stock issuances made to certain other senior management of the Company (because of certain repurchase features which expired with the initial public offering), an approximate \$2.8 million non-cash special management compensation charge (also based on the initial public offering price of \$16.00 per share) relating to compensatory options granted in 1995, and a cash payment of \$0.5 million for additional income taxes resulting from such stock issuances; (b) for 1994, non-cash special management compensation arising from accelerated amortization of deferred compensation arising from the 1992 stock grants to an executive officer of the Company of \$17.3 million, which included a 1994 mark-to-market adjustment (because of the repurchase features referred to above) of \$9.1 million, due to the resolution, with the closing of the Reorganization, of certain contingencies surrounding the issuance of the stock grants, non-cash special management compensation charges of \$1.6 million (net of prior accruals of approximately \$1.9 million under an executive incentive plan) arising from stock issuances to certain other senior management of the Company, valued at \$3.5 million, and cash payments for income taxes of approximately \$2.4 million resulting from these stock issuances and \$0.3 million for additional income taxes resulting from the 1992 stock grants; (c) for 1993, non-cash special management compensation charges of \$0.6 million in amortization of deferred compensation arising from the 1992 stock grants; and (d) for

1992, cash payments of \$5.3 million for income taxes resulting from stock grants made to an executive officer of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -Overview" in Item 7 herein.

- (2) Includes \$0.7 million paid in connection with an acquisition and \$2.5 million resulting from the buyout of employees' rights to future income contained in their employment agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 herein.
- (3) Includes special professional fees incurred by the Company in connection with the Reorganization. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 herein.
- (4) Reflects the pro forma elimination of special charges incurred in 1995 and 1994 for special management compensation of \$20.8 million and \$21.6 million, respectively, and special professional fees incurred in 1994 of \$2.0 million, arising from the Reorganization, and the related tax effects of \$1.2 million and \$5.8 million for 1995 and 1994, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 herein.
- (5) Restated to conform with 1996 presentation.
- (6) Dental consists of the Company's dental business in the United States and Canada.
- (7) Technology consists of the Company's practice management software business and certain other value-added products and services.
- (8) International consists of the Company's business (substantially all dental) outside the United States and Canada, primarily Europe.
- (9) Redeemable stock includes stock issued for compensation which was subject to repurchase by the Company at fair market value in the event of termination of employment of the holder of such shares, as well as shares purchased by the trust for the Company's ESOP and allocable to the ESOP participants. With the completion of the Company's initial public offering, the stock issued for compensation and the ESOP Common Stock were no longer subject to repurchase. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 herein.

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

The following discussion and analysis of the Company's consolidated financial condition and consolidated result of operations should be read in conjunction with the Company's consolidated financial statements and notes thereto in Item 8 herein.

### Overview

The Company's results of operations in recent years have been significantly impacted by strategies and transactions undertaken by the Company to expand its business, both domestically and internationally, in part to address significant changes in the healthcare industry, including potential national healthcare reform, trends toward managed care, cuts in Medicare, consolidation of healthcare distribution companies and collective purchasing arrangements. The Company's results of operations in recent years have also been impacted by the Reorganization.

From 1992 through 1994, the Company was a party to a series of transactions leading to the Reorganization that resulted in, among other things, the Company being separated from Holdings and the distribution of shares of the Common Stock of the Company to its then current stockholders. In December 1992, an executive officer of the Company received certain stock grants in the Company and Schein Pharmaceutical, Inc. valued at approximately \$6.2 million and \$2.6 million, respectively, and cash of approximately \$5.3 million to pay income taxes on the stock grants received. These stock grants were subject to the occurrence of certain future events, including the fulfillment of the employment term by the executive officer. Accordingly, these stock grants, totaling \$8.8 million, were treated as deferred compensation while the cash payments were charged to earnings as special management compensation in the year ended December 26, 1992. During 1993, the Company amortized the deferred compensation relating to stock grants by the Company to the executive officer resulting in a charge to earnings of \$0.6 million. In 1994, the contingencies relating to the stock granted to the executive officer were eliminated, such that these shares became fully vested. Accordingly, deferred compensation of \$8.8 million, less the 1993 amortization of \$0.6 million, plus a mark-to-market adjustment (because of certain repurchase features) of approximately \$9.1 million, along with a \$0.3 million cash payment for income taxes relating to the 1992 stock grants, was expensed in 1994 as special management compensation.

In addition, in connection with the Reorganization, certain senior management of the Company were issued shares of Common Stock of the Company in 1994 and 1995 to extinguish an obligation under a pre-existing long-term incentive plan and to provide them with an ownership interest in the Company. In connection with the issuance of the shares, a cash payment for income taxes relating to such stock issuances of approximately \$2.4 million was paid. This cash bonus, plus \$3.5 million, the fair value of the related stock issued, net of amounts accrued under the long-term incentive plan of approximately \$1.9 million, resulted in an additional special management compensation charge to the Company of approximately \$4.0 million in 1994. Charges to earnings for the year ended 1995 related to a mark-to-market adjustment (because of certain repurchase features) for stock grants made to an executive officer of the Company and the stock issuances of the other senior management of approximately \$17.5 million and cash payments of \$0.5 million for income taxes related to the stock issuances.

Additionally, the Company has granted certain employees options for shares of the Company's Common Stock, which became exercisable upon the Company's initial public offering on November 3, 1995, at which time substantially all such options vested. Non-recurring special compensation charges for the options

issued to employees recorded in the fourth quarter of 1995 amounted to approximately \$2.8 million. In addition, the Company recorded an approximate \$1.1 million related tax benefit.

Special charges for special management compensation and special professional fees incurred in connection with the Reorganization aggregated \$20.8 million and \$23.6 million for 1995 and 1994, respectively.

#### Results of Operations

The following table sets forth for the periods indicated the percentage of net sales by market of the Company and the percentage change in such items for the years ended 1996, 1995 and 1994.

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

(1) Restated to conform to 1996 presentation.

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

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

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

#### 1996 Compared to 1995

Net sales increased \$213.8 million, or 34.7%, to \$830.0 million in 1996 from \$616.2 million in 1995. Of the \$213.8 million increase, approximately \$107.9 million represented a 32.9% increase in the Company's dental business, \$65.6 million represented a 52.3% increase in its medical business, \$39.3 million represented a 36.5% increase in its international business and \$6.0 million represented a 20.5% increase in the Company's veterinary business, offset by a \$5.1 million, or 19.7% decrease in its technology business. The dental net sales increase was primarily the result of the Company's continued emphasis on its integrated sales and marketing approach (which coordinates the efforts of its field sales consultants with its direct marketing and telesales personnel), expansion into the U.S. market for large dental equipment and

acquisitions. Of the approximately \$65.6 million increase in medical net sales, approximately \$20.9 million, or 31.9%, represents incremental net sales to renal dialysis centers, with the effects of acquisitions and increased outbound telesales activity primarily accounting for the balance of the increase in medical net sales. In the international market, the increase in net sales was due to acquisitions, primarily in France, and increased account penetration in Germany and the United Kingdom. Unfavorable exchange rate translation adjustments resulted in a net sales decrease of approximately \$4.4 million dollars. Had net sales for the International market been translated at the same exchange rates in effect during 1995, net sales would have increased by an additional 4.1%. In the veterinary market, the increase in net sales was due to the full year impact of new product lines introduced in the fourth quarter of 1995, increased account penetration and continued volume growth to customers of a veterinary-sponsored purchasing service. As anticipated, net sales in the Company's technology group was below last year's sales volume levels due to unusually high sales volume in the fourth quarter of 1995 related to the introductory launch, at that time, of the Company's Easy Dental (R) Plus Windows (R) based product.

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

Selling, general and administrative expenses increased by \$44.8 million, or 26.2%, to \$215.6 million in 1996 from \$170.8 million in 1995. Selling and shipping expenses increased by \$37.8 million, or 33.6%, to \$150.3 million in 1996 from \$112.5 million in 1995. As a percentage of net sales, selling and shipping expenses decreased 0.2% to 18.1% in 1996 from 18.3% in 1995. The decrease in selling and shipping expenses as a percentage of net sales was primarily due to reductions in sales promotions offered by the Company's technology group in conjunction with the introductory promotion of Easy Dental(R) Plus for Windows(R) version which occurred during 1995. These introductory promotional expenses represented 0.6% of net sales in 1995. Excluding these expenses from 1995, selling and shipping expenses, as a percentage of net sales, would have been 0.4% higher than last year. This increase was due primarily to various promotional programs and incremental field sales and marketing personnel. General and administrative expenses increased \$7.0 million, or 12.0%, to \$65.3 million in 1996 from \$58.3 million in 1995, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses decreased 1.6% to 7.9% in 1996 from 9.5% in 1995 due primarily to the relatively fixed nature of general and administrative expenses when compared to the 34.7% increase in sales volume for the same period.

Net interest expenses decreased \$4.4 million to \$1.0 million in 1996 from \$5.4 million in 1995. This decrease primarily resulted from the use of the proceeds of the Company's follow-on offering in June 1996 to reduce debt and an increase in interest income arising from the temporary investment of proceeds in excess of debt and imputed interest income arising from non-interest bearing extended payment term sales, offset in part by an increase in average interest rates.

For 1996, the Company's provision for taxes was \$11.3 million, while the pre-tax income was \$29.3 million. The difference between the Company's effective tax rate of 38.6% and the Federal statutory rate relates primarily to state income taxes offset by tax-exempt interest on municipal securities. In 1995, the Company's provision for taxes was \$5.1 million, while the pre-tax loss was \$6.1 million. The difference between the tax provision and the amount that would have been recoverable by applying the statutory rate to pre-tax loss was attributable substantially to the non-deductibility for income tax purposes of the \$17.5

million appreciation in the value of the stock issued to an executive officer and other senior management of the Company. On a pro forma basis, excluding special charges, taxes on income for 1995 were \$6.3 million, resulting in an effective tax rate of 42.9%. The difference between the pro forma effective tax rate and the Federal statutory rate relates primarily to state income taxes and currently non-deductible net operating losses of certain foreign subsidiaries, primarily in France, which are not included in the Company's consolidated tax return.

#### 1995 Compared to 1994

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

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



Selling, general and administrative expenses increased by \$42.2 million, or 32.8%, to \$170.8 million in 1995 from \$128.6 million in 1994. Selling and shipping expenses increased by \$34.8 million, or 44.8%, to \$112.5 million in 1995 from \$77.7 million in 1994. As a percentage of net sales, selling and shipping expenses increased 2.4% to 18.3% in 1995 from 15.9% in 1994. The increase in selling and shipping expenses as a percentage of net sales was primarily due to substantial sales promotions offered by the Company's technology group in conjunction with the promotion of Easy Dental(R) Plus software and the new Windows(R) version released in December 1995, which accounted for approximately 0.9% of the 2.4% increase in selling and shipping expenses as a percentage of net sales. The balance of the increase was due primarily to various promotional programs and incremental field sales and marketing personnel. General and administrative expenses increased \$7.4 million, or 14.5%, to \$58.3 million in 1995 from \$50.9 million in 1994, primarily as a result of acquisitions. As a percentage of net sales, general and administrative expenses decreased 1.0% to 9.5% in 1995 from 10.5% in 1994 due primarily to the relatively fixed nature of general and administrative expenses when compared to the 26.6% increase in sales volume for the same period.

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

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

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

#### Inflation

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

#### Risk Management

The Company has operations in the United States, Canada, the United Kingdom, The Netherlands, Belgium, Germany, France, the Republic of Ireland and Spain. Each of the Company's operations endeavors to protect its margins by using foreign currency forward contracts to hedge the estimated foreign currency payments to foreign vendors. The total U.S. dollar equivalent of all foreign currency forward contracts hedging vendor payments was \$5.0 million as of the 1996 fiscal year end.

The Company considers its investment in foreign operations to be both long-term and strategic. As a result, the Company does not hedge the long-term translation exposure to its balance sheet. The Company experienced a negative translation adjustment of \$0.5 million in 1996 and a positive translation adjustment of \$0.3 million in 1995, which adjustments were reflected in the balance sheet as an adjustment to stockholders' equity. The cumulative translation adjustment at the end of 1996 showed a net negative translation adjustment of \$0.6 million.

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

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

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

#### Liquidity and Capital Resources

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

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

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

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

A balloon payment of approximately \$3.5 million is due on October 31, 1997 under a term loan associated with a foreign acquisition. In addition, with respect to certain acquisitions and joint ventures, holders of minority interests in the acquired entities or ventures have the right at certain times to require the Company to acquire their interest at either fair market value or a formula price based on earnings of the entity.

The Company's cash and cash equivalents as of December 28, 1996 of \$41.7 million consist of bank balances and investments in short-term tax exempt securities rated AAA by Moody's (or an equivalent rating). These investments have staggered maturity dates, none of which exceed three months, and have a high degree of liquidity as the securities are actively traded in public markets.

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

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

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

The Company believes that its cash and cash equivalents of \$41.7 million as of December 28, 1996, its anticipated cash flow from operations, its ability to access public debt and equity markets and the availability of funds under its existing credit agreements will provide it with liquidity sufficient to meet its currently foreseeable capital needs.

ITEM 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

HENRY SCHEIN, INC. AND SUBSIDIARIES	Page Number
Report of Independent Certified Public Accountants.....	27
Consolidated Financial Statements:	
Balance Sheets as of December 28, 1996 and December 30, 1995.....	28
Statements of Operations for the years ended December 28, 1996, December 30, 1995 and December 31, 1994 .....	29
Statements of Stockholders' Equity for the years ended December 28, 1996, December 30, 1995 and December 31, 1994 .....	30
Statements of Cash Flows for the years ended December 28, 1996, December 30, 1995 and December 31, 1994 .....	31
Notes to Consolidated Financial Statements .....	32-56
Schedule, years ended December 28, 1996, December 30, 1995 and December 31, 1994	
II - Valuation and Qualifying Accounts .....	72
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 CERTIFIED PUBLIC ACCOUNTANTS

Henry Schein, Inc.  
Melville, New York

We have audited the accompanying consolidated balance sheets of Henry Schein, Inc. and Subsidiaries as of December 28, 1996 and December 30, 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 28, 1996. We have also audited the financial statement schedule listed in the accompanying index. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

BDO SEIDMAN, LLP

New York, New York  
March 7, 1997

HENRY SCHEIN, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

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

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)

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

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(in thousands, except share data)

	Common Stock \$.01 Par Value		Additional Paid-in Capital	Retained Earnings	Treasury Stock
	Shares	Amount			
Balance, December 25, 1993	11,390,544	\$ 114	\$ 11,225	\$ 41,390	\$ --
Net loss	--	--	--	(10,876)	--
Deemed dividend	--	--	--	(552)	--
Adjustment resulting from revaluation of stock issued for special compensation (including \$4,897 attributable to stock of former parent)	--	--	9,104	--	--
Stock issued and issuable, in part, to settle accrued liability under long-term executive incentive compensation plan	489,456	5	3,460	--	--
Recognition of deferred compensation	--	--	--	--	--
Stock issued to ESOP trust	128,257	1	899	--	--
Reclassification of redeemable stock issued as special compensation and to ESOP trust	(2,084,398)	(21)	(14,724)	--	--
Foreign currency translation adjustment	--	--	--	--	--
Balance, December 31, 1994	9,923,859	99	9,964	29,962	--
Net loss	--	--	--	(10,216)	--
Shares issued for acquisition	1,260,416	13	6,500	--	--
Stock issued in initial public offering	5,090,000	51	72,417	--	--
Reclassification of redeemable stock issued as special compensation and to ESOP trust upon closing of initial public offering	2,084,398	20	32,180	--	--
Issuance of compensatory stock options	--	--	2,805	--	--
Purchase of treasury stock (51,679 shares)	--	--	--	--	(769)
Foreign currency translation adjustment	--	--	--	--	--
Balance, December 30, 1995	18,358,673	183	123,866	19,746	(769)
Net income	--	--	--	19,340	--
Shares issued for acquisitions	155,183	2	5,424	--	--
Stock issued in follow-on offering	3,734,375	37	124,070	--	--
Stock issued to ESOP trust	24,210	--	820	--	--
Purchase of treasury stock (8,850 shares)	--	--	--	--	(321)
Foreign currency translation adjustment	--	--	--	--	--
Balance, December 28, 1996	22,272,441	\$ 222	\$ 254,180	\$ 39,086	\$ (1,090)
	-----	-----	-----	-----	-----
		Foreign Currency Translation Adjustment	Deferred Compen- sation	Total Stockholders' Equity	
		-----	-----	-----	
Balance, December 25, 1993	\$ (635)	\$ (8,197)	\$ 43,897		
Net loss	--	--	(10,876)		
Deemed dividend	--	--	(552)		
Adjustment resulting from revaluation of stock issued for special compensation (including \$4,897 attributable to stock of former parent)	--	(9,104)	--		
Stock issued and issuable, in part, to settle accrued liability under long-term executive incentive compensation plan	--	--	3,465		
Recognition of deferred compensation	--	17,301	17,301		
Stock issued to ESOP trust	--	--	900		
Reclassification of redeemable stock issued as special compensation and to ESOP trust	--	--	(14,745)		
Foreign currency translation adjustment	177	--	177		
Balance, December 31, 1994	(458)	--	39,567		
Net loss	--	--	(10,216)		
Shares issued for acquisition	--	--	6,513		
Stock issued in initial public offering	--	--	72,468		
Reclassification of redeemable stock issued as special compensation and to ESOP trust upon closing of initial public offering	--	--	32,200		
Issuance of compensatory stock options	--	--	2,805		
Purchase of treasury stock (51,679 shares)	--	--	(769)		
Foreign currency translation adjustment	283	--	283		
Balance, December 30, 1995	(175)	--	142,851		
Net income	--	--	19,340		
Shares issued for acquisitions	--	--	5,426		
Stock issued in follow-on offering	--	--	124,107		
Stock issued to ESOP trust	--	--	820		
Purchase of treasury stock (8,850 shares)	--	--	(321)		
Foreign currency translation adjustment	(461)	--	(461)		
Balance, December 28, 1996	\$ (636)	\$ --	\$ 291,762		
	=====	=====	=====		

See accompanying notes to consolidated financial statements



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

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

See accompanying notes to consolidated financial statements.

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Henry Schein, Inc. and all of its wholly-owned and majority-owned subsidiaries (the "Company"). Investments in unconsolidated affiliates which are 50% or less owned are accounted for under the equity method. All material intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

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

Fiscal Year

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

Revenue Recognition

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

Inventories

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES--(Continued)

Property and Equipment and Depreciation and Amortization

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

	Years
	-----
Buildings and improvements	40
Machinery and warehouse equipment	5 - 10
Furniture, fixtures and other	3 - 10
Computer equipment and software	5 - 7

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

Taxes on Income

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

Premium Coupon Program

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

Statement of Cash Flows

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

Foreign Currency Translation and Transactions

The financial position and results of operations of the Company's foreign subsidiaries are determined using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation adjustment account in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings, except for certain hedging transactions (see below).

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

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES--(Continued)

Financial Instruments

The Company uses forward exchange contracts to hedge certain firm commitments denominated in foreign currencies. Gains and losses on these positions are deferred and included in the basis of the transaction when it is completed.

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

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount reported for long-term debt approximates fair value because the underlying instruments are at variable rates which are repriced frequently.

Acquisitions

The net assets of businesses purchased are recorded at their fair value at the acquisition date and the consolidated financial statements include their operations from that date. Any excess of acquisition costs over the fair value of identifiable net assets acquired is included in goodwill and is amortized on a straight-line basis over periods not exceeding 30 years.

Long-Lived Assets

Long-lived assets, such as goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. No impairment losses have been necessary through December 28, 1996.

Stock-Based Compensation

The Company accounts for its stock option awards under the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company makes pro forma disclosures of net income and earnings per share as if the fair value based method of accounting had been applied as required by Statement of Financial Accounting Standards ("SFAS") 123, "Accounting for Stock-Based Compensation."

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES--(Continued)

Earnings Per Share

(a) Historical

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

(b) Pro Forma Net Income Per Share

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

(c) Supplemental Earnings Per Share

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

NOTE 2--REORGANIZATION

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

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

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

NOTE 2 --REORGANIZATION--(Continued)

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

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

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

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

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

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

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

## NOTE 2 -- REORGANIZATION --(Continued)

The shares issued to the executive officer and the senior management of HSI were subject to repurchase by HSI at fair market value in the event employment was terminated for any reason or an initial public offering of HSI's stock did not occur by December 31, 1999. The repurchase feature was eliminated upon the closing of the initial public offering. Special management compensation for the year ended December 30, 1995 includes a \$17,484 charge to operations to reflect the appreciation in the market value of stock grants and issuances based on the initial public offering price of \$16.00 per share and a cash payment of approximately \$508 to cover income taxes related to those stock grants and issuances.

In addition, special management compensation for the year ended December 30, 1995 includes a charge of \$2,805 to reflect the excess of the initial public offering price over the exercise price of Class A options issued to certain executive management in May 1995 (see Note 14(a)).

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

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

## NOTE 3--OTHER CURRENT ASSETS

Other current assets consist of the following:

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 4--PROPERTY AND EQUIPMENT--NET

Major classes of property and equipment consist of the following:

	December 28, 1996	December 30, 1995
	-----	-----
Land .....	\$ 1,445	\$ 1,718
Buildings and leasehold improvements .....	24,726	23,288
Machinery and warehouse equipment ..	14,937	10,509
Furniture, fixtures and other .....	14,585	12,165
Computer equipment and software ....	20,914	15,937
	-----	-----
	76,607	63,617
Less accumulated depreciation and amortization .....	39,453	33,904
	-----	-----
Net property and equipment .....	\$37,154	\$29,713
	=====	=====

NOTE 5--GOODWILL AND OTHER INTANGIBLES--NET

Goodwill and other intangibles consist of the following:

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

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



HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 6--INVESTMENTS AND OTHER

Investments and other consist of:

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

The Company's investments are predominately 50% owned unconsolidated affiliates consisting of various companies involved in the healthcare distribution business and HS Pharmaceutical, Inc., which manufactures generic pharmaceuticals. As of December 28, 1996, the Company's investments in unconsolidated affiliates were \$2,859 more than the Company's proportionate share of the underlying equity of these affiliates. This amount, which has been treated as goodwill, is being amortized over 30 years and charged to equity in the operating results of these companies. As of December 28, 1996, approximately \$6,632 of the Company's retained earnings represented undistributed earnings of affiliates. Combined financial data for substantially all of these companies is as follows:

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

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

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

## NOTE 7--BUSINESS ACQUISITIONS

The Company acquired 34 healthcare distribution businesses between 1994 and 1996, including, on July 7, 1995, the distribution business of The Veratex Corporation ("Veratex"), a national direct marketer of medical, dental and veterinary products, and on July 10, 1996, Scientific Supply Company, Inc., a regional distributor of medical supplies. The total amount of cash paid and promissory notes issued for these acquisitions was approximately \$33,423, \$22,710 and \$2,660, for 1996, 1995 and 1994, respectively. The Company also issued 155,183 shares of common stock in 1996 in connection with two of its acquisitions and 1,260,416 shares of common stock in connection with one of its 1995 acquisitions, of which approximately 928,700 shares were issued to a stockholder of the Company. These acquisitions have been accounted for under the purchase method, except one from an affiliate which involves carryover of predecessor basis with respect to the affiliate's proportionate share of net assets. Operations of these businesses have been included in the consolidated financial statements from their acquisition dates.

Certain acquisitions provide for contingent consideration in the event certain financial targets are satisfied.

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

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

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

Since December 28, 1996, the Company has acquired (i) in a pooling-of-interests transaction, all of the outstanding common stock of Dentrax Dental Systems, Inc., a leading provider of clinically-based dental practice management systems, with 1996 net sales of approximately \$10.3 million, and (ii) in a purchase transaction, the business of Smith Holden, Inc., the longest operating dental supply company in the United States, with 1996 net sales of approximately \$14.2 million.

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 7--BUSINESS ACQUISITIONS--(Continued)

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

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Net sales .....	\$840,122	\$623,302	\$ 490,734
Net income (loss) .....	21,236	(9,333)	(10,371)
Pro forma net income, reflecting adjustment in 1995 and 1994 to exclude special management compensation and professional fees .....	21,236	10,290	7,483
Pro forma net income per common share .....	\$ 0.98	\$ 0.71	\$ 0.57

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 8--BANK CREDIT LINES

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

NOTE 9--LONG-TERM DEBT

Long-term debt consists of:

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 9--LONG-TERM DEBT--(Continued)

(a) Revolving Credit Agreement

On January 31, 1997, the Company entered into an amended revolving credit agreement which, among other things, increased the maximum borrowings to \$100 million from \$65 million, extended the term of the agreement to January 30, 2002 and reduced the interest rate charged to the Company. The interest rate on any borrowings under the agreement is based on prime or LIBOR as defined in the agreement, which were 8.25% and 5.69%, respectively, at December 28, 1996. The borrowings outstanding at December 28, 1996 were at interest rates ranging from 6.3% to 8.25%. The agreement provides for a sliding scale fee ranging from .1% to .3%, based upon certain financial ratios, on any unused portion of the commitment. The agreement also provides, among other things, that HSI will maintain, on a consolidated basis, as defined, a minimum tangible net worth, current, cash flow, and interest coverage ratios, a maximum leverage ratio, and contains restrictions relating to annual dividends in excess of \$500, guarantees of subsidiary debt, investments in subsidiaries, mergers and acquisitions, liens, capital expenditures, certain changes in ownership and employee and shareholder loans.

(b) Notes Payable for Business Acquisitions

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

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 10--TAXES ON INCOME (RECOVERY)

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

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

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

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

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

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

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

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

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

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

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

Provision has not been made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries. Those earnings have been and will continue to be reinvested. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were loaned to the Company or a U.S. affiliate, or if the Company should sell its stock in the foreign subsidiaries. It is not practicable to determine the amount of additional tax, if any, that might be payable on the foreign earnings; however, the Company believes that foreign tax credits would substantially offset any U.S. tax. At December 28, 1996, the cumulative amount of reinvested earnings was approximately \$2,078.



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

NOTE 11-- FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATIONS

(a) Financial Instruments

To reduce its exposure to fluctuations in foreign currencies and interest rates, the Company is party to foreign currency forward contracts and interest rate swaps with major financial institutions.

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

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

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

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

(b) Concentrations of Credit Risk

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

The Company places its short-term cash investments with high credit quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to a large customer base and its dispersion across different types of healthcare professionals and geographic areas. The Company maintains an allowance for losses based on the expected collectability of all receivables. Included in Accounts Receivable and LongTerm Receivables at December 28, 1996 is \$18,355 and \$7,785, respectively, related to Easy Dental(R) Plus software sales with non-interest bearing extended payment terms. Total unamortized discounts at December 28, 1996 amounted to \$1,487 based on an imputed interest rate of 8.25%. Included in interest income for the year ended December 28, 1996 was approximately \$998 of imputed interest relating to these non-interest bearing extended payment term receivables. Imputed interest relating to these receivables was not material for 1995 and 1994.

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

NOTE 12--RELATED PARTY TRANSACTIONS

(a) In the ordinary course of business, the Company purchases pharmaceutical products from certain unconsolidated affiliates. Net purchases from these affiliates amounted to \$15,037, \$8,730 and \$12,055 in 1996, 1995 and 1994, respectively. Included in Accounts Payable at December 28, 1996 and December 30, 1995 were \$1,523 and \$1,591, respectively, for amounts due to these affiliates for purchases made from them.

(b) The Company also shares certain services with these and other unconsolidated affiliates which are charged to the affiliates at cost. The Company charged these affiliates \$602, \$891 and \$1,691 during 1996, 1995 and 1994, respectively, for these services. In addition, sales (at cost) to unconsolidated affiliates were \$5,832, \$3,784 and \$3,160 in 1996, 1995 and 1994, respectively.

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

(d) A subsidiary of the Company leases its primary operating facility from an officer of the subsidiary. Rent expense attributed to this facility amounted to \$209 for 1996 and 1995.

(e) During 1994, a subsidiary of the Company entered into a sales service agreement with an entity ("Salesco") owned by an officer of the subsidiary. Under the terms of this agreement the subsidiary is required to reimburse Salesco for all reasonable expenses incurred in connection with the services it provides to the subsidiary and pay a fee to Salesco based upon a formula applied to its pre-tax profit. Amounts paid during 1996, 1995 and 1994 under this agreement were not material.

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

## HENRY SCHEIN, INC. AND SUBSIDIARIES

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

## NOTE 13--SEGMENT AND GEOGRAPHIC DATA

The Company is engaged principally in one line of business, the distribution of healthcare products to healthcare practitioners and professionals. The following table presents information about the Company by geographic area. There were no material amounts of sales or transfers among geographic areas and there were no material amounts of United States export sales.

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

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

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

NOTE 14--EMPLOYEE BENEFIT PLANS

(a) Stock Compensation Plan

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

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

The Class A and Class B options are exercisable up to the tenth anniversary of the date of issuance, subject to acceleration upon termination of employment.

On May 8, 1996, the Company's stockholders approved the 1996 Non-Employee Director Stock Option Plan, under which the Company may grant options to each director who is not also an officer or employee of the Company for up to 50,000 shares of the Company's Common Stock. The exercise price and term, not to exceed 10 years, of each option is determined by the plan committee at the time of the grant. During 1996, 10,000 options were granted to certain non-employee directors at an exercise price of \$29.00 per share which was equal to the market price on the date of grant.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related Interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. The weighted average fair value of options granted during 1996 and 1995 was \$14.75 and \$10.00, respectively. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1996 and 1995; risk-free interest rates of 6% for both years; volatility factor of the expected market price of the Company's common stock of 30% for both years; and a weighted-average expected life of the option of 10 years.

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 14--EMPLOYEE BENEFIT PLANS--(Continued)

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

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

-----  
(1) Special management compensation in 1995 includes the value of Class A options which became exercisable upon the closing of the Initial Public Offering.

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

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 14--EMPLOYEE BENEFIT PLANS--(Continued)

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

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

(b) Profit Sharing Plans

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

(c) Employee Stock Ownership Plan (ESOP)

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

(d) Supplemental Executive Retirement Plan

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

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 15--COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

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

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

1997.....	\$ 9,704
1998.....	8,760
1999.....	7,469
2000.....	5,968
2001.....	4,666
Thereafter.....	11,769
	-----
Total minimum lease payments.....	\$48,336
	=====

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

(b) Litigation

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

(c) Employment, Consulting and Noncompete Agreements

The Company has employment, consulting and noncompete agreements expiring through 2002 (except for a lifetime consulting agreement with a principal stockholder which provides for initial compensation of \$283 per year, increasing \$25 every fifth year beginning in 2002). The agreements provide for varying base aggregate annual payments of approximately \$4,106 per year which decrease periodically to approximately \$1,366 per year. In addition, some agreements have provisions for incentive and additional compensation.

HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 16--SUPPLEMENTAL CASH FLOW INFORMATION

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

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Interest.....	\$3,708	\$6,124	\$3,132
Income taxes.....	8,988	5,540	2,451

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

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

In 1995, the Company entered into a note payable of \$2,400 in connection with one of its acquisitions.



HENRY SCHEIN, INC. AND SUBSIDIARIES

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

NOTE 17--OTHER INCOME (EXPENSE)-NET

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

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

NOTE 18--QUARTERLY INFORMATION (Unaudited)

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

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

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

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

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

The Company's business is subject to seasonal and other quarterly influences. Net sales and operating profits are generally higher in the fourth quarter due to timing of sales of software, year-end promotions and purchasing patterns of office-based healthcare practitioners and are generally lower in the first quarter due primarily to the increased purchases in the prior quarter. Quarterly results also may be materially affected by a variety of other factors, including the timing of acquisitions and related costs, the release of software enhancements, timing of purchases, special promotional campaigns, fluctuations in exchange rates associated with international operations and adverse weather conditions. In the fourth quarter of 1996 the Company made adjustments, primarily relating to changes in estimated accruals. The aggregate effect of such adjustments increased net income in the fourth quarter by approximately \$2,400.

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

## NOTE 19 -- SUBSEQUENT EVENTS

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

MBMI distributes medical supplies to physicians and hospitals in the New York metropolitan area, as well as to healthcare professionals in sports medicine, emergency medicine, school health, industrial safety, government and laboratory markets nationwide. MBMI had net sales of approximately \$150.0 million and earnings of approximately \$1.7 million for its fiscal year ended November 30, 1996. The completion of the transaction is subject to the satisfaction of customary closing conditions, including, among others, MBMI shareholder approval and Hart-Scott-Rodino waiting periods.

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

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

The information set forth under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K and the information set forth under the caption "Election of Directors" in the Company's definitive 1997 Proxy Statement to be filed pursuant to Regulation 14A is incorporated herein by reference.

ITEM 11. Executive Compensation

The information required by this item is hereby incorporated by reference from the Company's definitive 1997 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 from the Company's definitive 1997 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 from the Company's definitive 1997 Proxy Statement to be filed pursuant to Regulation 14A.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. Financial Statements

The Consolidated Financial Statements of the Company filed as a part of this report are listed on the index on page 26.

2. Financial Statement Schedules

(i) HS PHARMACEUTICAL, INC. AND SUBSIDIARIES	Page Number -----
Report of Independent Certified Public Accountants.....	60
Consolidated Financial Statements:	
Balance Sheets as of December 28, 1996 and December 30, 1995.....	61
Statements of Income and Retained Earnings for the years ended December 28, 1996, December 30, 1995 and December 31, 1994 .....	62
Statements of Cash Flows for the years ended December 28, 1996, December 30, 1995 and December 31, 1994 .....	63
Notes to Consolidated Financial Statements .....	64-71
(ii) Valuation and Qualifying Accounts .....	72

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.

(b) Reports on Form 8-K

During the fourth quarter of 1996, there were no reports filed on Form 8-K.

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 28, 1997.

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, and President (principal executive officer)	March 28, 1997
/s/ Steven Paladino ----- Steven Paladino	Senior Vice President, Chief Financial Officer and Director (principal financial and accounting officer)	March 28, 1997
/s/ James P. Breslawski ----- James P. Breslawski	Director	March 28, 1997
/s/ Gerald A. Benjamin ----- Gerald A. Benjamin	Director	March 28, 1997
/s/ Leonard A. David ----- Leonard A. David	Director	March 28, 1997
/s/ Mark E. Mlotek ----- Mark E. Mlotek	Director	March 28, 1997
/s/ Barry Alperin ----- Barry Alperin	Director	March 28, 1997
/s/ Pamela Joseph ----- Pamela Joseph	Director	March 28, 1997
/s/ Donald J. Kabat ----- Donald J. Kabat	Director	March 28, 1997
/s/ Marvin H. Schein ----- Marvin H. Schein	Director	March 28, 1997
/s/ Irving Shafran ----- Irving Shafran	Director	March 28, 1997

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

HS Pharmaceutical, Inc.

We have audited the accompanying consolidated balance sheets of HS Pharmaceutical, Inc. and Subsidiaries as of December 28, 1996 and December 30, 1995 and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 28, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HS Pharmaceutical, Inc. and Subsidiaries at December 28, 1996 and December 30, 1995 and the results of their operations and their cash flows for each of the three years in the period ended December 28, 1996, in conformity with generally accepted accounting principles.

BDO SEIDMAN, LLP

New York, New York  
February 5, 1997

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	December 28, 1996	December 30, 1995
	-----	-----
<b>ASSETS</b>		
Current:		
Cash	\$ 291,738	\$ ---
Accounts receivable, less allowance for doubtful accounts of \$172,196 and \$95,703.....	9,214,519	7,062,447
Inventories.....	5,138,874	4,258,660
Advances to affiliates.....	668,568	543,925
Prepaid expenses and other.....	819,254	565,845
Total current assets	16,132,953	12,430,877
Property and equipment, net.....	4,200,088	3,539,376
Goodwill and other intangibles, less accumulated amortization of \$300,789 and \$201,479 .....	2,507,055	165,439
Advances and notes to affiliates.....	1,114,074	1,076,723
Deposits and other assets.....	67,966	5,786
	-----	-----
	\$24,022,136	\$17,218,201
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Bank overdraft.....	\$1,057,570	\$ 324,875
Revolving credit agreement.....	1,106,000	---
Accounts payable and accrued expenses.....	4,865,854	4,266,631
Income taxes payable.....	543,592	480,684
Current portion of long-term debt.....	1,536,428	834,700
Total current liabilities	9,109,444	5,906,890
Long-term debt, less current portion.....	2,997,788	2,195,980
Deferred income taxes.....	191,500	152,000
Total liabilities	12,298,732	8,254,870
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock--no par value, shares authorized 200; issued and outstanding 20.....	40,100	40,100
Additional paid-in capital.....	342,745	342,745
Retained earnings.....	11,340,559	8,580,486
Total stockholders' equity.....	11,723,404	8,963,331
	-----	-----
	\$24,022,136	\$17,218,201
	=====	=====

See accompanying notes to consolidated financial statements.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Net sales.....	\$30,305,702	\$28,123,977	\$24,500,962
Cost of sales.....	18,507,815	17,467,680	15,925,685
Gross profit.....	11,797,887	10,656,297	8,575,277
Operating expenses:			
Selling, general and administrative.	6,995,028	6,157,515	5,615,183
Operating income.....	4,802,859	4,498,782	2,960,094
Other income (expense):			
Interest expense, net.....	(577,712)	(500,293)	(395,159)
Foreign exchange remeasurement gain (loss).....	(43,599)	(10,163)	47,543
Other .....	166,431	147,387	---
Income before taxes on income....	4,347,979	4,135,713	2,612,478
Taxes on income.....	1,587,906	1,368,131	1,004,000
Net income.....	2,760,073	2,767,582	1,608,478
Retained earnings, beginning of year...	8,580,486	5,812,904	4,204,426
Retained earnings, end of year.....	\$11,340,559	\$ 8,580,486	\$ 5,812,904

See accompanying notes to consolidated financial statements.



HS PHARMACEUTICAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Cash flows from operating activities:			
Net income.....	\$2,760,073	\$2,767,582	\$1,608,478
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	597,184	425,861	469,763
Provision for losses on accounts receivable.....	55,682	15,000	38,843
Provision for obsolete inventories.....	112,677	---	---
Provision for deferred income taxes.....	39,500	81,000	16,000
Other .....	---	5,000	25,000
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable.....	(1,761,616)	180,067	(1,821,447)
Increase in inventories.....	(323,245)	(1,199,165)	(33,420)
(Increase) decrease in advances to affiliates.....	(161,994)	(381,170)	156,123
Increase in prepaid expenses and other.....	(239,287)	(138,634)	(212,711)
(Increase) decrease in deposits and other.....	(58,608)	263,270	(258,071)
Increase in accounts payable and accrued expenses....	178,650	415,386	940,230
Increase (decrease) in income taxes payable.....	62,908	339,870	(1,763,056)
Net cash provided by (used in) operating activities.....	1,261,924	2,774,067	(834,268)
Cash flows from investing activities:			
Capital expenditures.....	(662,725)	(369,978)	(1,156,332)
Business acquisition, net of cash acquired.....	(800,000)	---	---
Net cash (used) in investing activities.....	(1,462,725)	(369,978)	(1,156,332)
Cash flows from financing activities:			
Increase (decrease) in bank overdraft.....	131,904	(575,847)	(309,837)
Credit line borrowings, net.....	1,106,000	(1,000,000)	1,000,000
Proceeds from long-term debt.....	217,816	---	1,792,020
Principal payments on long-term debt.....	(963,181)	(828,242)	(491,583)
Net cash provided by (used in) financing activities.....	492,539	(2,404,089)	1,990,600
Net increase in cash.....	291,738	---	---
Cash, beginning of year.....	---	---	---
Cash, end of year.....	\$ 291,738	\$ ---	\$ ---
Supplemental cash flow information:			
Interest paid.....	\$ 802,331	\$ 608,216	\$ 387,101
Taxes paid.....	\$1,535,744	\$ 996,520	\$2,836,776
Business acquisitions			
Fair value of assets acquired, excluding cash.....	\$4,070,265	\$ ---	---
Less liabilities assumed and created upon acquisition .....	3,270,265	---	---
	\$ 800,000	\$ ---	\$ ---

See accompanying notes to consolidated financial statements.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF ACCOUNTING POLICIES

Description of Business

HS Pharmaceutical, Inc. and Subsidiaries (the "Company") manufactures and distributes pharmaceutical products and sells other accessory products to dental, medical and veterinary distributors worldwide.

Principles of Consolidation

The consolidated financial statements include the accounts of HS Pharmaceutical, Inc. and all of its wholly-owned subsidiaries. All material intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

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

Fiscal Year

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

Inventories

Inventories are valued at the lower of cost or market value. Manufactured inventories of raw materials, work-in-progress and finished goods are valued using standard costing methods, which approximate the first-in, first-out ("FIFO") method. The cost of inventory purchased for resale is determined by the FIFO method.

NOTE 1--SUMMARY OF ACCOUNTING POLICIES--(Continued)

Property and Equipment and Depreciation and Amortization

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

	Years -----
Buildings and improvements.....	40
Machinery and warehouse equipment.	5 - 10
Computer hardware.....	5
Capital lease equipment.....	5 - 10

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

Goodwill

Goodwill represents the excess of costs over the fair value of assets acquired and is amortized using the straight-line method over a life of 30 years.

Intangibles

Intangibles consist of costs incurred in connection with obtaining abbreviated new drug applications, investigational new drug exemptions and licenses, permits and approvals relating to the manufacture and sale of pharmaceutical products. These costs are being amortized using the straight-line method over their estimated useful lives which is expected to be 20 years.

Taxes on Income

Deferred income taxes are recognized for the tax consequences of temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities.

Statement of Cash Flows

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

Foreign Currency Remeasurement

Monetary assets and liabilities denominated in foreign currency have been remeasured into the functional currency (the U.S. dollar) at the year-end rate of exchange (U.S. \$1 = Canadian \$1.35, \$1.35 and \$1.40 at December 28, 1996, December 30, 1995 and December 31, 1994, respectively). Non-monetary items are remeasured at historical rates. Revenue and expenses are remeasured based on the average monthly rate. Foreign exchange remeasurement gains and losses are included in the determination of net income for the year.

Long-Lived Assets

Long-lived assets, such as goodwill and property and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. No impairment losses have been necessary through December 28, 1996.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2--INVENTORIES

Inventories consist of the following:

	December 28, 1996	December 30, 1995
	-----	-----
Raw materials.....	\$1,969,239	\$1,110,857
Work-in-progress.....	38,259	136,062
Finished goods.....	3,131,376	3,011,741
	-----	-----
	\$5,138,874	\$4,258,660
	=====	=====

NOTE 3--PROPERTY AND EQUIPMENT, NET

Major classes of property and equipment consist of the following:

	December 28, 1996	December 30, 1995
	-----	-----
Land.....	\$ 23,474	\$ 23,474
Building.....	1,335,465	1,331,400
Machinery and equipment.....	7,414,138	5,552,819
Computer hardware.....	318,481	281,645
Capital lease equipment.....	277,545	359,658
Leasehold improvements.....	261,823	199,519
	-----	-----
	9,630,926	7,748,515
Less accumulated depreciation and amortization.....	5,430,840	4,209,139
	-----	-----
Net property and equipment.....	\$4,200,086	\$3,539,376
	=====	=====

NOTE 4--BANK OVERDRAFT AND REVOLVING CREDIT AGREEMENT

The bank overdraft and revolving credit agreements are due on demand and bear interest at the U.S. prime rate, the Canadian prime rate and LIBOR plus 3/4%, respectively. These facilities are secured by a general assignment of accounts receivable, a general security agreement on all machinery and equipment, a \$2,500,000 demand debenture on building and land, a postponement of claim, and a guarantee bond.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5--BUSINESS ACQUISITIONS

On March 15, 1996, the Company acquired substantially all of the net assets of a manufacturer and distributor of private label dental products. The acquisition was accounted for as a purchase and, accordingly, the results of the acquiree are included in the consolidated financial statements from January 1, 1996, the effective date of the agreement. The aggregate purchase price is estimated at \$2,850,000, the maximum contingent amount which is based upon future revenues attained. The purchase price, which was financed through available cash resources and a note payable to the seller in the amount of \$1,793,874 (See Note 6), has been allocated to the net assets acquired based upon their respective fair market values.

The excess of the acquisition costs over the fair value of the identifiable net assets acquired of \$2,440,926 has been recorded as goodwill.

NOTE 6--LONG-TERM DEBT

Long-term debt consists of the following:

	December 28, 1996	December 30, 1995
	-----	-----
Unsecured acquisition note payable over 5 years with annual payments ranging from \$250,000 to \$500,000, including interest at 6%, due March 15, 2000.....	\$1,793,874	\$ ---
Term loans payable in monthly installments maturing at varying dates from August 1997 through February 2000, with interest at Canadian prime plus 0.25%.....	1,723,462	1,877,901
Notes payable bearing interest at prime, payable in annual installments of \$191,885 principal, plus interest, due March 31, 2001.....	959,424	1,151,308
Capital lease obligations .....	57,456	1,471
	-----	-----
	4,534,216	3,030,680
Less: Current portion.....	1,536,428	834,700
	-----	-----
	\$2,997,788	\$2,195,980
	=====	=====

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6--LONG-TERM DEBT--(Continued)

Principal payments on long-term debt mature as follows:

Year ----	Amount -----
1997.....	\$1,536,428
1998.....	797,684
1999.....	873,479
2000.....	663,048
2001.....	663,577
	-----
	\$4,534,216
	=====

NOTE 7--RELATED PARTY TRANSACTIONS

(a) Certain services of a 50% shareholder are provided to the Company at the shareholder's cost. Total charges from this shareholder were approximately \$160,000, \$83,000 and \$109,000 for 1996, 1995 and 1994, respectively. At December 28, 1996 and December 30, 1995, "Advances to affiliates" includes net amounts due (to) from this shareholder of approximately \$1,113,000 and (\$390,000), respectively, and "Accounts payable and accrued expenses" includes amounts due to this shareholder of approximately \$900,000 and \$927,000, respectively.

In March 1991, the Company entered into an agreement with this same shareholder to supply products at prices and quantities as defined in the agreement. Sales to this same shareholder (including sales under this agreement) accounted for approximately 26%, 22% and 24% of the Company's sales for 1996, 1995 and 1994, respectively. Included in "Accounts receivable" at December 28, 1996 and December 30, 1995 were approximately \$1,680,000 and \$1,356,000, respectively, for amounts due from this shareholder.

(b) In March 1991, the other 50% shareholder of the Company granted the Company a ten-year license to use certain of their trademarks. Royalties of \$75,000 annually are required under the terms of the agreement and were paid in 1996, 1995 and 1994.

In the ordinary course of business, the Company sells products to this same shareholder. Net sales to this shareholder amounted to approximately \$1,090,000, \$608,000 and \$1,167,000 for 1996, 1995 and 1994, respectively. Included in "Accounts receivable" at December 28, 1996 and December 30, 1995 were approximately \$271,000 and \$88,000, respectively, for amounts due from this shareholder.

In addition, the Company also purchases pharmaceutical products from this shareholder. Net purchases from this shareholder amounted to approximately \$1,080,000, \$4,434,000 and \$3,773,000 for 1996, 1995 and 1994, respectively. Included in "Accounts payable and accrued expenses" at December 28, 1996 were approximately \$5,549,000 and \$974,000 respectively, for amounts due to this shareholder.

(c) Interest expense related to accounts payable and accrued expenses owing to the above shareholders amounted to approximately \$65,000, \$51,000 and \$65,000 for 1996, 1995 and 1994, respectively.

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7--RELATED PARTY TRANSACTIONS--(Continued)

(d) An affiliated company supplies a new product line to the Company. Included in "Advances to affiliates" are net amounts due from this affiliate of approximately \$1,225,000 and \$974,000 at December 28, 1996 and December 30, 1995, respectively. Included in net advances is a note receivable of approximately \$823,000 at December 28, 1996. Principal on this note is due in various annual installments beginning in 1997 through 2005, with an interest rate to be determined annually.

NOTE 8--COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Company leases facilities and equipment under noncancelable operating leases expiring through 2005. Total rental expense for 1996, 1995 and 1994 was approximately \$ 416,000 , \$163,000 and \$153,000, respectively. At December 28, 1996, future minimum annual rental payments under these leases are as follows:

Year ----	Amount -----
1997.....	\$ 383,135
1998.....	378,153
1999.....	311,725
2000.....	200,554
2001.....	198,400
Thereafter.....	2,929,500
	-----
	\$4,401,467
	=====

(b) Litigation

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

NOTE 9 -TAXES ON INCOME

Taxes on income are based on income before taxes as follows:

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
	-----	-----	-----
Domestic.....	\$2,233,668	\$2,500,916	\$1,193,905
Foreign.....	2,114,311	1,634,797	1,418,573
	-----	-----	-----
Total income before taxes on income.	\$4,347,979	\$4,135,713	\$2,612,478
	=====	=====	=====

HS PHARMACEUTICAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - TAXES ON INCOME -- (Continued)

The provisions for taxes on income was as follows:

	Years Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Current tax expense:			
U.S. Federal.....	\$ 748,423	\$ 764,670	\$ 382,000
State and local.....	139,925	26,801	124,000
Foreign.....	660,058	495,660	482,000
Total current.....	1,548,406	1,287,131	988,000
Deferred tax expense:			
Foreign.....	39,500	81,000	16,000
Total provision.....	\$1,587,906	\$1,368,131	\$1,004,000

The deferred tax liability arises from temporary differences relating to depreciation and amortization.

The Company's effective tax rate approximates the U.S. Federal statutory rate.

NOTE 10--MAJOR CUSTOMERS AND EXPORT SALES

Sales to two unaffiliated customers accounted for approximately 38%, 25% and 25% of net sales in 1996, 1995 and 1994, respectively.

NOTE 11--EMPLOYEE BENEFIT PLAN

Effective January 1, 1992, the Company adopted a 401(k) profit sharing plan to provide retirement benefits for eligible employees. Matching contributions by the Company, which were determined by the board of directors, were approximately \$41,000, \$39,000 and \$36,000 for 1996, 1995 and 1994, respectively.

In addition, the Company maintains a defined contribution plan for eligible employees. Contributions to this plan, which were determined by the board of directors, were approximately \$92,000, \$92,000 and \$97,000 for 1996, 1995 and 1994, respectively.



HS PHARMACEUTICAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12--FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATIONS

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables and temporary cash investments. The carrying value of financial instruments approximated fair value as of December 28, 1996 because of the short maturity of these instruments.

Concentrations of credit risk with respect to trade receivables are limited due to a large customer base and its dispersion across different geographic areas. The Company maintains an allowance for losses based on the expected collectability of all receivables.

HENRY SCHEIN, INC.

Schedule II  
Valuation and Qualifying Accounts

Column A ----- Description -----	Column B ----- Balance at beginning of period -----	Column C ----- Add ----- Charged to costs and expenses -----	Column D ----- Deductions -----	Column E ----- Balance at end of period -----
Year ended December 31, 1994				
Allowance for doubtful accounts .....	\$2,015	\$ 246	\$ --	\$2,261
Other accounts receivable allowances(1) .....	1,243	815	--	2,058
	<u>\$3,258</u>	<u>\$ 1,061</u>	<u>\$ --</u>	<u>\$4,319</u>
	=====	=====	=====	=====
Year ended December 30, 1995				
Allowance for doubtful accounts .....	\$2,261	\$ 253	\$ --	\$2,514
Other accounts receivable allowances(1) .....	2,058	1,763	--	3,821
	<u>\$4,319</u>	<u>\$ 2,016</u>	<u>\$ --</u>	<u>\$6,335</u>
	=====	=====	=====	=====
Year ended December 28, 1996				
Allowance for doubtful accounts .....	\$2,514	\$ 1,402	\$ --	\$3,916
Other accounts receivable allowances(1) .....	3,821	--	(432)	3,389
	<u>\$6,335</u>	<u>\$ 1,402</u>	<u>\$ (432)</u>	<u>\$7,305</u>
	=====	=====	=====	=====

(1) Primarily allowance for sales returns.

## EXHIBIT INDEX

Exhibit No. -----	Description -----	Page No. -----
	Unless otherwise indicated, exhibits are incorporated by reference to the correspondingly numbered exhibits in the Company's Registration Statement on Form S-1 (Commission File No. 33-96528)	
3.1	Form of Amended and Restated Articles of Incorporation	
3.2	Form of Bylaws	
9.1	Voting Trust Agreement dated September 30, 1994, as amended, among the Company, the Estate of Jacob M. Schein, the Trusts under 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, management stockholders and Stanley M. Bergman, as voting trustee	
9.2	Agreements dated December 27, 1994 among the Company, various executive officers and Stanley M. Bergman, as voting trustee	
9.3	Agreements dated as of May 1, 1995 among the Company, various executive officers and Stanley M. Bergman, as voting trustee	
10.1	Amended and Restated HSI Agreement (the "HSI Agreement"), effective as of February 16, 1994, among the Company, 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 the Company, 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 established by Stanley M. Bergman under Trust Agreement dated September 15, 1994	
10.3	Letter Agreement dated September 30, 1994 to the Company from Marvin H. Schein, Pamela Joseph and Pamela Schein	
10.4	Release to the HSI Agreement dated September 30, 1994	

Exhibit No.	Description	Page No.
-----	-----	-----
10.5	Separation Agreement dated as of September 30, 1994 by and between the Company, Schein Pharmaceutical, Inc. and Schein Holdings, Inc.	
10.6	Restructuring Agreement dated September 30, 1994 among Schein Holdings, Inc., the Company, 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., the Company, 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 Option Plan, as amended and restated effective as of July 1, 1995**	
10.9	Henry Schein, Inc. Amendment and Restatement of the Supplemental Executive Retirement Plan**	
10.10	Henry Schein, Inc. Summary Executive Incentive Plan**	
10.11	Consulting Agreement dated September 30, 1994 between the Company and Marvin H. Schein**	
10.12	Employment Agreement dated as of January 1, 1992 between the Company and Stanley M. Bergman**	
10.13	Amended and Restated Stock Issuance Agreement dated as of December 24, 1992 between the Company and Stanley M. Bergman**	
10.14	Stock Issuance Agreements dated December 27, 1994 between the Company and various executive officers**	
10.15	Agreement and Plan of Merger dated as of September 1, 1995, among Henry Schein, Inc., Schein Dental Equipment Corp., Marvin Schein and others	
10.16	Stock Purchase Agreement dated August 25, 1995, by Henry Schein, Inc., PRN Medical, Inc. and its shareholders, and Florida Doctor Supply, Inc. and its shareholders	
10.17	Restated Standard Indemnity Agreement dated February 8, 1993, as amended January 25, 1993, by and between Showa Denko America, Inc. and the Company	

Exhibit No.	Description	Page No.
-----	-----	-----
10.18	Guaranty Agreement by and between Showa Denko K.K. and the Company, relating to the Restated Standard Indemnity Agreement dated February 8, 1993, as amended January 25, 1993, by and between Showa Denko America, Inc. and the Company	
10.19	Stock Issuance Agreements dated as of May 1, 1995 between the Company and executive officers	
10.20	Agreement of Purchase and Sale of Assets dated February 28, 1996 by and among the Company, Benton Dental, Inc. and Modern Dental Concepts, Inc.+	
10.21	Credit Agreement dated as of December 8, 1994 between the Company and The Chase Manhattan Bank, N.A.	
10.22	Loan Agreement dated May 5, 1995 by and between the Company and New York State Urban Development Corporation	
10.23	Term Loan Agreement dated as of November 15, 1993 between Henry Schein Europe, Inc. and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.	
10.24	Corporate Guarantee dated November 15, 1993 by the Company, Zahn Dental Co., Inc. Zahn Dental (Florida), Inc., Zahn Dental (Mass), Inc., Tri- State Medical Supply, Inc. and Zahn Holdings, Inc. with respect to the Term Loan dated as of November 15, 1993 between Henry Schein Europe, Inc. and Cooperatieve Centrale Raiffeisen-Boerenleenbank, B.A.	
10.25	Joint and Several Guarantee dated February 7, 1995 by the Company in favor of Banque Nationale de Paris	
10.26	Joint and Several Guarantee dated February 7, 1995 by the Company in favor of Banque Francaise du Commerce Exterieur	
10.27	Guarantee dated March 1, 1996 by the Company in favor of Deutsche Bank AG+	
10.28	Lease Agreement dated December 22, 1995 by and between Dugan Realty, L.L.C. and the Company+	
10.29	Commercial Guaranty dated August 1, 1994 by the Company in favor of the Mid-City National Bank	
10.30	Discretionary Line of Credit dated August 18, 1995 between PNC Bank, Delaware and one of the Company's 50% owned companies	
10.31	Discretionary Line of Credit Demand Note dated August 18, 1995 in favor of one of the Company's 50% owned companies	
10.32	Loan Agreement dated March 30, 1992 between the Royal Bank of Scotland plc, Henry Schein U.K. Holdings Limited and BDG U.K. Holdings Limited	
10.33	Loan Agreement dated January 28, 1994 between the Royal Bank of Scotland plc, Henry Schein U.K. Holdings Limited and Dental Express (Supplies) Limited	
10.34	Credit Agreement dated June 5, 1995 among Canadian Imperial Bank of Commerce and one of the Company's 50% owned companies	
10.35	Master Lease Agreement dated as of February 28, 1991 between General Electric Capital Corporation and the Company	
10.36	Master Lease Agreement dated December 2, 1994 between Chase Equipment Leasing, Inc. and the Company	
10.37	Software License Agreement dated as of June 20, 1995 between the Company and XcelleNet, Inc.	
10.38	Software License Agreement dated as of October 31, 1994, as amended, between J.D. Edwards & Company	

Exhibit No.	Description	Page No.
10.39	Software Update Agreement dated as of October 31, 1994, as amended, between J.D. Edwards & Company	
10.40	Software Services Agreement dated as of October 31, 1994, as amended, between J.D. Edwards & Company	
10.41	Lease dated December 3, 1990 between WRC Properties, Inc. and the Company	
10.42	Lease dated March 2, 1992 between Vista Distribution Center, Inc. and the Company	
10.43	Lease dated as of September 30, 1993, as amended October 14, 1993 and May 23, 1995, by and between Broad Hollow Realty Co. and the Company	
10.44	Lease dated April 27, 1995 by Lyndean Investments Limited to Kent Dental Limited and Henry Schein U.K. Holdings Limited	
10.45	Lease dated October 23, 1994 between Georg and Pia Netzhammer and Henry-Schein Dentina GmbH (English translation and original version)	
10.46	Lease dated January 11, 1995 between Lyndean Investments Limited, Kent Dental Limited and Henry Schein U.K. Holdings Limited	
10.47	Stock Purchase Agreement dated as of August 18, 1995 among the Company, the Mark Family Partnership and others	
10.48	Group Purchasing Program Agreement dated March 31, 1994, as amended June 26, 1995, by and between AMA Resources, Inc. and the Company	
10.49	Hospital Supply Purchase Agreement dated as of November 10, 1994 between Veterinary Centers of America, Inc. and the Company	
10.50	Award of Contract to the Company dated April 14, 1995 by Department of the Army	
10.51	Sales Agent Agreement dated March 1, 1995 by and between Merck & Co., Inc. and the Company	
10.52	Supply Agreement dated March 20, 1991	
10.53	Shareholders' Agreement dated March 20, 1991	
10.54	Non-Negotiable Promissory Note dated March 20, 1991 from the Company to N-Tech	
10.55	Guaranty dated March 20, 1991 by the Company and others in favor of N-Tech, Inc.	
10.56	Demand Debenture dated December 20, 1988 from one of the Company's 50% owned companies to Canadian Imperial Bank of Commerce	
10.57	Pledge Agreement dated December 20, 1988 of one of the Company's 50% owned companies to Canadian Imperial Bank of Commerce	
10.58	Shareholders' Agreement dated as of December 1, 1990 by and among the shareholders of Henry Schein Espana, S.A.	
10.59	Shareholders' Agreement dated as of April 1, 1991 between the shareholders of Schein-Dentina, B.V. (English translation)	
10.60	Put and Call Option Agreement dated August 29, 1991 between Schein International (Europe) Inc. and the shareholders of Henry Schein U.K. Holdings Limited	
10.61	Deed of Guarantee dated August 29, 1991 between Henry Schein, Inc. and the shareholders of Henry Schein U.K. Holdings Limited	
10.62	Stock Purchase Agreement dated November 1, 1992 among SSN Healthcare Supply, Inc., the Company, Tri-State Medical Supply, Inc. and a shareholder	
10.63	Stock Purchase and Shareholders' Agreement dated March 19, 1993 by and among S.A. Hospithera and Henry Schein Europe, Inc.	

Exhibit No.	Description	Page No.
-----	-----	-----
10.64	Agreement dated March 19, 1993 by and among S.A. Hospithera N.V., Henry Schein Europe Inc., and S.A. Henry Schein Hospithera N.V.	
10.65	Supply Agreement dated as of March 15, 1993 between Henry Schein B.V. and S.A. Henry Schein Hospithera N.V.	
10.66	Put and Call Option Agreement dated July 1, 1993 between P.W. White Holdings Limited and Henry Schein Europe Inc.	
10.67	Shareholders' Agreement dated July 1, 1993 between the shareholders of Henry Schein UK Holdings Ltd.	
10.68	Consortium Agreement dated July 1, 1993 between the shareholders of Henry Schein UK Holdings Ltd.	
10.69	Guarantee dated July 1, 1993 between the Company and P.W. White Holdings Limited	
10.70	Restructuring Agreement dated July 30, 1993 by and among the Company, Dental Plan, Inc., and certain of its employees	
10.71	Share Purchase Agreement dated as of November 17, 1993 by and among Henry Schein B.V. and Johannes Cornelis van den Braak	
10.72	Asset Purchase and Business Development Agreement dated May 23, 1994 among the Company, Chicago Medical Equipment Company, and its principal stockholder, Universal Footcare Holdings Corp., Universal Footcare Products, Inc. and Universal Footcare Sales Co., L.L.C.	
10.73	Sales Service Agreement dated as of August 1, 1994 between Universal Footcare Products, Inc. and Universal Footcare Sales Co., L.L.C.	
10.74	Unanimous Shareholders Agreement dated August 4, 1994 among Henry Schein Canada Inc., the Company, 972704 Ontario Inc. and its shareholders, and Consolidated Dental Ltd.	
10.75	Share Purchase Agreement dated June 27, 1994 by and between the shareholders of Henry Schein France S.A.	
10.76	Shareholders Agreement dated January 1, 1995 among SSN Healthcare Supply, Inc., South Jersey Medical Supply Co., Inc., South Jersey Surgical Supply Co., Inc., and its shareholders	
10.77	Shareholders Agreement dated as of January 24, 1995 by and among the shareholders of Dentisoft, Inc.	
10.78	Purchase Agreement dated as of June 14, 1995 among The Veratex Corporation, the Company and HSI Michigan Corp.	
10.79	Form of Henry Schein, Inc. Non-Employee Director Stock Option Plan +**	
10.80	Supply Agreement made as of July 7, 1995 between Tidi Products, Inc. and the Company	
10.81	Agreement Subject to Conditions Precedent dated July 21, 1995 between Henry Schein Europe Inc., Henry Schein France S.A., Gerard Ifker, Didier Cochet, Frederic Ladet, Jean-Hugues Lelievre and Christophe Morales (English Translation)	
10.82	Put and Call Option Agreement dated June 9, 1995 between William Roger Killiner and Henry Schein U.K. Holdings Limited	
10.83	Put and Call Option Agreement dated June 9, 1995 between Anthony Alan Anderson and Henry Schein U.K. Holdings Limited.	
10.84	Agreement of Purchase and Sale of Assets dated as of July 1, 1995 by and among Precision Dental Specialties, Inc. and its shareholders, PDS Acquisition Corp., and the Company	
10.85	Shareholders Agreement dated as of July 1, 1995 by and among Precision Dental Specialties, Inc. and its shareholders, PDS Acquisition Corp., and the Company	
10.86	Agreement dated January 1, 1995 between Henry Schein (UK) Holdings Ltd. and The Royal Bank of Scotland plc	

Exhibit No.	Description	Page No.
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10.87	Agreement dated March 4, 1993 between Henry Schein (UK) Holdings Ltd. and The Royal Bank of Scotland plc	
10.88	Loan Agreement dated November 16, 1993 between Henry Schein B.V. and others and Crediet-en-Effectenbank N.V. (English translation and original version)	
10.89	Multicurrency Credit Policy between Henry Schein Espana, S.A. and others and Banco Popular Espanol, S.A. (English translation and original version)	
10.90	Amended and Restated Credit Agreement (the "Amended Credit Agreement") dated as of July 5, 1995 among the Company, The Chase Manhattan Bank, N.A., Natwest Bank, N.A., Cooperatieve Centrale Raiffeisen Boerenleenbank, B.A. "Rabobank Nederland", New York Branch and European American Bank (previously Exhibit 10.20 to the Company's Registration Statement on Form S-1 (Commission File No. 33-96528))	
10.91	First Amendment to the Amended Credit Agreement dated December 15, 1995 among the Company, The Chase Manhattan Bank, N.A., Natwest Bank, N.A., Cooperatieve Centrale Raiffeisen Boerenleenbank, B.A. "Rabobank Nederland", New York Branch and European American Bank+	
10.92	Agreement and Plan of Merger dated March 7, 1997 between the Company and Micro Bio-Medics, Inc.	
11.1	Statement re: computation of per share income (loss)+	
21.1	List of Subsidiaries of the Registrant	
23.1	Consent of BDO Seidman, LLP+	
27.1	Financial Data Schedules+	

- -----  
+ Filed herewith

\*\* Indicates management contract or compensatory plan or arrangement.



## AGREEMENT AND PLAN OF MERGER

by and among

HENRY SCHEIN, INC.,

HSI ACQUISITION CORP.

and

MICRO BIO-MEDICS, INC.

Dated March 7, 1997

## TABLE OF CONTENTS

ARTICLE I	THE MERGER.....	1
Section 1.1	The Merger.....	1
Section 1.2.	Effective Time of the Merger.....	2
Section 1.3.	Closing.....	2
ARTICLE II	THE SURVIVING CORPORATION.....	2
Section 2.1	Certificate of Incorporation.....	2
Section 2.2	By-Laws.....	2
Section 2.3	Directors and Officers of Surviving Corporation.....	2
ARTICLE III	CONVERSION OF SHARES.....	3
Section 3.1	Exchange Ratio.....	3
Section 3.2	Exchange of Company Common Stock; Procedures.....	4
Section 3.3	Dividends; Transfer Taxes; Escheat.....	4
Section 3.4	No Fractional Securities.....	5
Section 3.5	Closing of Company Transfer Books.....	5
Section 3.6	Further Assurances.....	5
ARTICLE IV	REPRESENTATIONS AND WARRANTIES OF THE COMPANY.....	6
Section 4.1	Organization.....	6
Section 4.2	Capitalization.....	6
Section 4.3	Company Subsidiaries.....	7
Section 4.4	Authority Relative to this Agreement.....	7
Section 4.5	Consents and Approvals; No Violations.....	8
Section 4.6	Reports and Financial Statements.....	8
Section 4.7	Absence of Certain Changes or Events; Material Contracts.....	9
Section 4.8	Litigation.....	9
Section 4.9	Absence of Undisclosed Liabilities.....	9
Section 4.10	No Default.....	9
Section 4.11	Taxes.....	10
Section 4.12	Title to Properties; Encumbrances.....	11
Section 4.13	Intellectual Property.....	11
Section 4.14	Compliance with Applicable Law.....	12
Section 4.15	Information in Disclosure Documents and Registration Statement.....	12
Section 4.16	Employee Benefit Plans; ERISA.....	13
Section 4.17	Environmental Laws and Regulations.....	14
Section 4.18	Vote Required.....	15
Section 4.19	Opinion of Financial Advisor.....	15
Section 4.20	Accounting Matters.....	15
Section 4.21	NYBCL Section 912.....	15
Section 4.22	Labor Matters.....	15

Section 4.23	Affiliate Transactions.....	16
Section 4.24	Brokers.....	16
Section 4.25	Tax Matters.....	16
ARTICLE V	REPRESENTATIONS AND WARRANTIES OF PARENT.....	16
Section 5.1	Organization.....	16
Section 5.2	Capitalization.....	17
Section 5.3	Authority Relative to this Agreement.....	17
Section 5.4	Consents and Approvals No Violations.....	18
Section 5.5	Reports and Financial Statements.....	18
Section 5.6	Absence of Certain Changes or Events; Material Contracts.....	18
Section 5.7	Information in Disclosure Documents and Registration Statement.....	19
[Section 5.8	Absence of Undisclosed Liabilities.....	19
[Section 5.9	Brokers.....	19
[Section 5.10	Opinion of Financial Advisor.....	19
[Section 5.11	Accounting Matters.....	20
[Section 5.12	Tax Matters.....	20
Section 5.13	Brokers.....	20
ARTICLE VI	CONDUCT OF BUSINESS PENDING THE MERGER.....	20
Section 6.1	Conduct of Business by the Company Pending the Merger.....	20
Section 6.2	Conduct of Business by Parent Pending the Merger.....	22
Section 6.3	Conduct of Business of Sub.....	22
ARTICLE VII	ADDITIONAL AGREEMENTS.....	22
Section 7.1	Access and Information.....	22
Section 7.2	No Solicitation.....	23
Section 7.3	Registration Statement.....	24
Section 7.4	Proxy Statements; Stockholder Approval.....	24
Section 7.5	Compliance with the Securities Act.....	25
Section 7.6	Reasonable Best Efforts.....	25
Section 7.7	Proxy and Option Agreement.....	26
Section 7.8	Company Stock Options.....	26
Section 7.9	Public Announcements.....	27
Section 7.10	Expenses.....	27
Section 7.11	Listing Application.....	27
Section 7.12	Supplemental Disclosure.....	27
Section 7.13	Letters of Accountants.....	27

ARTICLE VIII	CONDITIONS TO CONSUMMATION OF THE MERGER.....	28
Section 8.1	Conditions to Each Party's Obligation to Effect the Merger.....	28
Section 8.2	Conditions to Obligations of Parent and Sub to Effect the Merger.....	29
Section 8.3	Conditions to Obligation of the Company to Effect the Merger.....	30
ARTICLE IX	TERMINATION.....	31
Section 9.1	Termination.....	31
Section 9.2	Effect of Termination.....	32
ARTICLE X	GENERAL PROVISIONS.....	33
Section 10.1	Amendment and Modification.....	33
Section 10.2	Waiver.....	33
Section 10.3	Survivability; Investigations.....	34
Section 10.4	Notices.....	34
Section 10.5	Descriptive Headings; Interpretation.....	35
Section 10.6	Entire Agreement; Assignment.....	35
Section 10.7	Governing Law.....	35
Section 10.8	Severability.....	35
Section 10.9	Counterparts.....	35

## SCHEDULES

Schedule 4.2(b)	Rights to Acquire Capital Stock
Schedule 4.2(c)	Vesting and Modification of Company Stock Options
Schedule 4.3	Subsidiaries of the Company
Schedule 4.5	No Violations
Schedule 4.6	Accounting Changes
Schedule 4.7	Absence of Certain Changes
Schedule 4.9	Undisclosed Liabilities
Schedule 4.10	No Defaults
Schedule 4.11	Taxes
Schedule 4.12	Liens
Schedule 4.13(a)	Intellectual Property
Schedule 4.14	Compliance with Applicable Laws
Schedule 4.16	Employee Benefit Plans
Schedule 4.17(a)	Compliance with Environmental Laws and Regulations
Schedule 4.17(b)	Asbestos; Underground Storage, Etc.
Schedule 4.17(c)	Certain Communications and Requests for Information; Remediation
Schedule 4.23	Affiliate Transactions
Schedule 5.1	Subsidiaries of Parent
Schedule 5.4	No Violations (Parent)
Schedule 5.5	Accounting Changes (Parent)
Schedule 5.8	Undisclosed Liabilities (Parent)
Schedule 5.9	Compliance with Applicable Laws (Parent)
Schedule 6.1	Conduct of Business
Schedule 6.2(d)	Changes to Parent's Capitalization
Schedule 8.2(h)	Required Governmental Approvals

EXHIBITS

Exhibit A Proxy and Option Agreement  
Exhibit B Affiliate Agreement  
Exhibit C Opinion of Otterbourg, Steindler, Houston & Rosen, P.C.  
Exhibit D Opinion of Proskauer Rose Goetz & Mendelsohn LLP

## AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER dated March 7, 1997, by and among Henry Schein, Inc., a Delaware corporation ("Parent"), HSI Acquisition Corp., a New York corporation and wholly-owned subsidiary of Parent ("Sub"), and Micro Bio-Medics, Inc., a New York corporation (the "Company").

The Boards of Directors of Parent and Sub and the Company deem it advisable and in the best interests of their respective stockholders that Parent acquire the Company pursuant to the terms and conditions of this Agreement, and, in furtherance of such acquisition, such Boards of Directors have unanimously approved the merger of Sub with and into the Company in accordance with the terms of this Agreement and the New York Business Corporation Law (the "NYBCL").

Concurrently with the execution and delivery of this Agreement and as a condition and inducement to Parent's willingness to enter into this Agreement, certain holders of shares of the Common Stock, par value \$.03 per share, of the Company (the "Company Common Stock") are entering into an agreement with Parent and Sub in the form attached hereto as Exhibit A (the "Proxy and Option Agreement") granting Parent the right to vote such shares of the Company Common Stock and granting Parent an option to purchase such shares of the Company Common Stock in accordance with the terms set forth in the Proxy and Option Agreement.

For federal income tax purposes, it is intended that the Merger (as defined in Section 1.1) shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

For accounting purposes, it is intended that the Merger shall be accounted for as a pooling of interests.

In consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows: ARTICLE I

### THE MERGER

Section 1.1 The Merger. In accordance with the provisions of this Agreement and the NYBCL, at the Effective Time (as defined in Section 1.2), Sub shall be merged with and into the Company (the "Merger"), the separate existence of Sub shall thereupon cease, and the Company shall be the surviving corporation in the Merger (sometimes hereinafter called the "Surviving Corporation") and shall continue its corporate existence under the laws of the State of New York. The Merger shall have the effects set forth in Section 906 of the NYBCL.

Section 1.2. Effective Time of the Merger. The Merger shall become effective at the time of filing of, or at such later time specified in, a properly executed Certificate of Merger, in the form required by and executed in accordance with the NYBCL, filed with the Secretary of State of the State of New York in accordance with the provisions of Section 904 of the NYBCL. Such filing shall be made as soon as practicable after the Closing (as defined in Section 1.3). When used in this Agreement, the term "Effective Time" shall mean the date and time at which the Merger shall become effective.

Section 1.3. Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Proskauer Rose Goetz & Mendelsohn LLP, 1585 Broadway, New York, New York, at 10:00 a.m., on the day on which all of the conditions set forth in Article VIII are satisfied or waived or on such other date and at such other time and place as Parent and the Company shall agree (such date, the "Closing Date").

## ARTICLE II

### THE SURVIVING CORPORATION

Section 2.1 Certificate of Incorporation. The Certificate of Incorporation of Sub in effect at the Effective Time shall be the Certificate of Incorporation of the Surviving Corporation until amended in accordance with applicable law, except that the name of the Surviving Corporation shall be "Micro Bio-Medics, Inc."

Section 2.2 By-Laws. The By-Laws of Sub as in effect at the Effective Time shall be the By-Laws of the Surviving Corporation until amended in accordance with applicable law.

Section 2.3 Directors and Officers of Surviving Corporation.

(a) The directors of Sub at the Effective Time shall be the initial directors of the Surviving Corporation and shall hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the Certificate of Incorporation or By-Laws of the Surviving Corporation or as otherwise provided by law.

(b) The officers of the Company at the Effective Time shall be the initial officers of the Surviving Corporation and shall hold office from the Effective Time until their respective successors are duly elected or appointed and qualified in the manner provided in the Certificate of Incorporation or By-Laws of the Surviving Corporation, or as otherwise provided by law.

### ARTICLE III

#### CONVERSION OF SHARES

Section 3.1 Exchange Ratio. At the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof:

(a) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares to be canceled in accordance with Section 3.1(b) and other than shares of Company Common Stock as to which appraisal rights shall have been duly demanded under the NYBCL ("Dissenting Shares")) shall be converted into the right to receive 0.62 (the "Exchange Ratio") of a share of the Common Stock, par value \$.01 per share, of Parent (the "Parent Common Stock"), payable upon the surrender of the certificate formerly representing such share of Company Common Stock.

(b) All shares of Company Common Stock that are held by the Company as treasury shares shall be canceled and retired and cease to exist, and no securities of Parent or other consideration shall be delivered in exchange therefor.

(c) Each share of Common Stock, par value \$.01 per share, of Sub ("Sub Common Stock") issued and outstanding immediately prior to the Effective Time shall be converted into and become one fully paid and nonassessable share of Common Stock, par value \$.03 per share, of the Surviving Corporation.

(d) Each outstanding option to purchase Company Common Stock set forth on Schedule 4.2(b) (each, a "Company Stock Option") and each warrant to purchase Company Common Stock set forth on Schedule 4.2(b) (each, a "Company Warrant") shall be assumed by Parent as more specifically provided in Section 7.8.

(e) The holders of Dissenting Shares, if any, shall be entitled to payment by the Surviving Corporation of the appraised value of such shares to the extent permitted by and in accordance with the provisions of Section 623 of the NYBCL; provided, however, that (i) if any holder of the Dissenting Shares shall, under the circumstances permitted by the NYBCL, subsequently deliver a written withdrawal of such holder's demand for appraisal of such shares, or (ii) if any holder fails to establish such holder's entitlement to rights to payment as provided in such Section 623, or (iii) if neither any holder of Dissenting Shares nor the Surviving Corporation has filed a petition demanding a determination of the value of all Dissenting Shares within the time provided in such Section 623, such holder or holders (as the case may be) shall forfeit such right to payment for such shares and such shares shall thereupon be deemed to have been converted into Parent Common Stock pursuant to Section 3.1(a) as of the Effective Time. The Surviving Corporation shall be solely responsible for, and shall pay out of its own funds, any amounts which become due and payable to holders of Dissenting Shares, and such amounts shall not be paid directly or indirectly by Parent.



Section 3.2 Exchange of Company Common Stock; Procedures.

(a) Prior to the Closing Date, Parent shall designate a bank or trust company reasonably acceptable to the Company to act as Exchange Agent hereunder (the "Exchange Agent"). As soon as practicable after the Effective Time, Parent shall deposit with or for the account of the Exchange Agent stock certificates representing the number of shares of Parent Common Stock issuable pursuant to Section 3.1 in exchange for outstanding shares of Company Common Stock, which shares of Parent Common Stock shall be deemed to have been issued at the Effective Time.

(b) As soon as practicable after the Effective Time, Parent shall cause the Exchange Agent to mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the "Certificates") that were converted pursuant to Section 3.1 into the right to receive shares of Parent Common Stock (i) a form of letter of transmittal specifying that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent and (ii) instructions for use in surrendering such Certificates in exchange for certificates representing shares of Parent Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor (x) a certificate representing that number of whole shares of Parent Common Stock which such holder has the right to receive pursuant to the provisions of this Article III and (y) cash in lieu of any fractional shares of Parent Common Stock to which such holder is entitled pursuant to Section 3.4, after giving effect to any required tax withholdings, and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, a certificate representing the proper number of shares of Parent Common Stock may be issued to a transferee if the Certificate representing such Company Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer, and by evidence that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 3.2(b), each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender a certificate representing shares of Parent Common Stock and cash in lieu of any fractional shares of Parent Common Stock as contemplated by this Article III.

Section 3.3 Dividends; Transfer Taxes; Escheat. No dividends or distributions that are declared on shares of Parent Common Stock will be paid to persons entitled to receive certificates representing shares of Parent Common Stock until such persons surrender their Certificates. Upon such surrender, there shall be paid, to the person in whose name the certificates representing such shares of Parent Common Stock shall be issued, any dividends or distributions with respect to such shares of Parent Common Stock which have a record date after the Effective Time and shall have become payable between the Effective Time and the time of such surrender. In no event shall the person entitled to receive such dividends or distributions be entitled to receive interest thereon. Promptly following the date which is six months after the Effective Time, the Exchange Agent shall deliver to the Surviving Corporation all cash, certificates and other documents in its possession relating to the transactions described in this

Agreement, and any holders of Company Common Stock who have not theretofore complied with this Article III shall look thereafter only to the Surviving Corporation for the shares of Parent Common Stock, any dividends or distributions thereon, and any cash in lieu of fractional shares thereof to which they are entitled pursuant to this Article III. Notwithstanding the foregoing, neither the Exchange Agent nor any party hereto shall be liable to a holder of Company Common Stock for any shares of Parent Common Stock, any dividends or distributions thereon or any cash in lieu of fractional shares thereof delivered to a public official pursuant to applicable abandoned property, escheat or similar laws upon the lapse of the applicable time periods provided for therein.

Section 3.4 No Fractional Securities. No certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates, and such fractional interests shall not entitle the owner thereof to vote or to any rights of a security holder. In lieu of any such fractional securities, each holder of Company Common Stock who would otherwise have been entitled to a fraction of a share of Parent Common Stock upon surrender of such holder's Certificates will be entitled to receive, and Parent will timely provide (or cause to be provided) to the Exchange Agent sufficient funds to make, a cash payment (without interest) determined by multiplying (i) the fractional interest to which such holder would otherwise be entitled (after taking into account all shares of Company Common Stock then held of record by such holder) and (ii) the average of the per share closing prices for Parent Common Stock on the Nasdaq National Market ("Nasdaq") for the five trading days immediately preceding the Effective Time. It is understood (i) that the payment of cash in lieu of fractional shares of Parent Common Stock is solely for the purpose of avoiding the expense and inconvenience to Parent of issuing fractional shares and does not represent separately bargained-for consideration and (ii) that no holder of Company Common Stock will receive cash in lieu of fractional shares of Parent Common Stock in an amount greater than the value of one full share of Parent Common Stock.

Section 3.5 Closing of Company Transfer Books. At the Effective Time, the stock transfer books of the Company shall be closed and no transfer of shares of Company Common Stock shall thereafter be made on such stock transfer books. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be canceled and exchanged as provided in this Article III.

Section 3.6 Further Assurances. If, at any time after the Effective Time, the Surviving Corporation shall consider or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Corporation its right, title or interest in, to or under any of the rights, properties or assets of either of Sub or the Company acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the officers of the Surviving Corporation shall be authorized to execute and deliver, in the name and on behalf of each of Sub and the Company or otherwise, all such deeds, bills of sale, assignments and assurances and to take and do, in such names and on such behave or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect

or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Corporation or otherwise to carry out the purposes of this Agreement.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and Sub as follows:

Section 4.1 Organization. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and has the corporate power to carry on its business as it is now being conducted or presently proposed to be conducted. The Company is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned or held under lease or the nature of its activities makes such qualification necessary, except where the failure to be so qualified will not have a material adverse effect, individually or in the aggregate, on the financial condition, results of operations, business, assets, liabilities, prospects or properties of the Company and its Subsidiaries (as defined below) taken as a whole, or the ability of the Company to consummate the Merger and the other transactions contemplated by this Agreement (a "Company Material Adverse Effect"). As used in this Agreement, the term "Subsidiary" means, with respect to any party, any corporation or other organization, whether incorporated or unincorporated, of which (x) such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interest in such partnership) or (y) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party and/or one or more of its Subsidiaries.

Section 4.2 Capitalization.

(a) The authorized capital stock of the Company consists of 20,000,000 shares of Company Common Stock and 1,000,000 shares of Preferred Stock, par value \$1.00 per share, of the Company (the "Company Preferred Stock"). As of the date hereof, (i) 5,072,848 shares of Company Common Stock are issued and outstanding, (ii) no shares of Company Preferred Stock are issued and outstanding, (iii) Company Stock Options to acquire 1,842,668 shares of Company Common Stock are outstanding under all stock option plans of the Company or otherwise, (iv) Company Warrants to acquire 106,420 shares of Company Common Stock are outstanding, and (v) 2,524,090 shares of Company Common Stock are reserved for issuance pursuant to the Company Stock Options, the Company Warrants and all other Rights (as hereinafter defined) to purchase or otherwise receive capital stock or other securities of the Company. All of the issued and outstanding shares of Company Common Stock are validly issued, fully paid and nonassessable.

(b) Except as set forth on Schedule 4.2(b), (i) there is no outstanding right, subscription, warrant, call, option or other agreement or arrangement (including, without limitation, pursuant to any employee benefit plan) of any kind (collectively, "Rights") to purchase or otherwise to receive from the Company or any of its Subsidiaries, any of the outstanding authorized but unissued or treasury shares of the capital stock or any other security of the Company or any of its Subsidiaries or to require the Company or any of its Subsidiaries to purchase any such security, (ii) there is no outstanding security of any kind convertible into or exchangeable for such capital stock, and (iii) there is no voting trust or other agreement or understanding to which the Company or any of its Subsidiaries is a party or is bound with respect to the voting of the capital stock of the Company or any of its Subsidiaries. The conversion of the Company Stock Options provided for in Section 7.8 of this Agreement is in accordance with the respective terms of the Company Stock Options and the plans under which they were issued.

(c) Since December 1, 1995, except as set forth on Schedule 4.2(c), the Company has not in any manner accelerated or provided for the acceleration of the vesting or exercisability of, or otherwise modified the terms and conditions applicable to, any of the Company Stock Options, whether set forth in the governing stock option plans of the Company, a stock option grant, award or other agreement or otherwise. Except as set forth on Schedule 4.2(c), none of the awards, grants or other agreements pursuant to which Company Stock Options were issued have provisions which accelerate the vesting or right to exercise such options upon the execution of this Agreement (including the documents attached as Exhibits hereto), the consummation of the transactions contemplated hereby (or thereby) or any other "change of control" events.

Section 4.3 Company Subsidiaries. Schedule 4.3 contains a complete and accurate list of all Subsidiaries of the Company. Each Subsidiary of the Company that is a corporation is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. Each Subsidiary of the Company that is a partnership is duly formed and validly existing under the laws of its jurisdiction of formation. Each Subsidiary of the Company has the corporate power or the partnership power, as the case may be, to carry on its business as it is now being conducted or presently proposed to be conducted. Each Subsidiary of the Company is duly qualified as a foreign corporation or a foreign partnership, as the case may be, authorized to do business, and is in good standing, in each jurisdiction where the character of its properties owned or held under lease or the nature of its activities makes such qualification necessary, except where the failure to be so qualified will not have a Company Material Adverse Effect. All of the outstanding shares of capital stock of the Subsidiaries of the Company that are corporations are validly issued, fully paid and nonassessable, except to the extent provided in Section 630 of the NYBCL. All of the outstanding shares of capital stock of, or other ownership interests in, each Subsidiary of the Company are owned by the Company or a Subsidiary of the Company, in each case, except as set forth in the Company SEC Reports (as hereinafter defined), free and clear of any liens, pledges, security interests, claims, charges or other encumbrances of any kind whatsoever ("Liens").

Section 4.4 Authority Relative to this Agreement. The Company has the requisite corporate power and authority to execute and deliver this Agreement and to consummate

the transactions contemplated hereby. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated on its part hereby have been duly authorized by the Company's Board of Directors and, except for the approval of its stockholders to be sought at the stockholders meeting contemplated by Section 7.4(a) with respect to this Agreement, no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or for the Company to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

Section 4.5 Consents and Approvals; No Violations. Neither the execution, delivery and performance of this Agreement by the Company, nor the consummation by the Company of the transactions contemplated hereby, will (i) conflict with or result in any breach of any provisions of the charter, by-laws or other organizational documents of the Company or any of its Subsidiaries, (ii) require a filing with, or a permit, authorization, consent or approval of, any federal, state, local or foreign court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority or administrative agency or commission (a "Governmental Entity"), except in connection with or in order to comply with the applicable provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), the Securities Act of 1933, as amended (the "Securities Act"), the Securities Exchange Act of 1934, as amended (the "Exchange Act"), state securities or "blue sky" laws, the By-Laws of the National Association of Securities Dealers (the "NASD"), the filing and recordation of a Certificate of Merger as required by the NYBCL, and filing with the New York Board of Pharmacy and with the New York State Department of Social Services (as required by 18 NYCRR Section 502.5(b)), (iii) except as set forth on Schedule 4.5, result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of a Lien on any property or asset of the Company or any of its Subsidiaries pursuant to, any of the terms, conditions or provisions of any material note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation (each, a "Contract") to which the Company or any of its Subsidiaries is a party or by which any of them or any of their properties or assets may be bound or (iv) violate any material law, order, writ, injunction, decree, statute, rule or regulation of any Governmental Entity applicable to the Company, any of its Subsidiaries or any of their properties or assets.

Section 4.6 Reports and Financial Statements. The Company has timely filed all reports required to be filed with the Securities and Exchange Commission (the "SEC") pursuant to the Exchange Act or the Securities Act since December 1, 1993 (collectively, the "Company SEC Reports"), and has previously made available to Parent true and complete copies of all such Company SEC Reports. Such Company SEC Reports, as of their respective dates, complied in all material respects with the applicable requirements of the Securities Act and the Exchange Act, as the case may be, and none of such Company SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company SEC Reports have been

prepared in accordance with generally accepted accounting principles ("GAAP") consistently applied throughout the periods indicated (except as otherwise noted therein) and fairly present the consolidated financial position of the Company and its consolidated Subsidiaries as at the dates thereof and the consolidated results of operations and cash flows of the Company and its consolidated Subsidiaries for each of the periods then ended, except that in the case of the unaudited consolidated financial statements included in any Form 10-Q, the presentation and disclosures conform with the applicable rules of the Exchange Act, but include all adjustments necessary to conform to GAAP requirements with respect to interim financial statements. Except as set forth on Schedule 4.6, since December 1, 1993, there has been no change in any of the significant accounting (including tax accounting) policies, practices or procedures of the Company or any of its consolidated Subsidiaries.

Section 4.7 Absence of Certain Changes or Events; Material Contracts. Except as set forth on Schedule 4.7 or in the Company SEC Reports, since December 1, 1995, (i) neither the Company nor any of its Subsidiaries has conducted its business and operations other than in the ordinary course of business and consistent with past practices or taken any actions that, if it had been in effect, would have violated or been inconsistent with the provisions of Section 6.1 and (ii) there has not been any fact, event, circumstance or change affecting or relating to the Company or any of its Subsidiaries which has had or is reasonably likely to have a Company Material Adverse Effect. Except as set forth on Schedule 4.7, the transactions contemplated by this Agreement will not constitute a change of control under or require the consent from or the giving of notice to a third party pursuant to the terms, conditions or provisions of any material Contract to which Parent or any of its Subsidiaries is a party, or require any payment to be made under any Contract to which the Parent or any of its Subsidiaries is a party.

Section 4.8 Litigation. Except for litigation disclosed in the notes to the financial statements included in the Company's Annual Report to Stockholders for the year ended November 30, 1995 or in the Company SEC Reports filed subsequent thereto, there is no suit, action, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries, the outcome of which, in the reasonable judgment of the Company, is likely to have a Company Material Adverse Effect; nor is there any judgment, decree, injunction, ruling or order of any Governmental Entity outstanding against the Company or any of its Subsidiaries having, or which is reasonably likely to have, a Company Material Adverse Effect.

Section 4.9 Absence of Undisclosed Liabilities. Except for liabilities or obligations which are accrued or reserved against in the Company's financial statements (or reflected in the notes thereto) included in the Company SEC Reports or which were incurred after August 31, 1996 in the ordinary course of business and consistent with past practice, and except as set forth on Schedule 4.9, none of the Company and its Subsidiaries has any liabilities or obligations (whether absolute, accrued, contingent or otherwise) of a nature required by GAAP to be reflected in a consolidated balance sheet (or reflected in the notes thereto) or which would reasonably be expected to have a Company Material Adverse Effect.

Section 4.10 No Default. Except as set forth on Schedule 4.10, neither the Company nor any Subsidiary of the Company is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its charter, by-laws or comparable organizational documents, (ii) any material Contract to which the Company or any of its Subsidiaries is a party or by which they or any of their properties or assets may be bound, or (iii) any material order, writ, injunction or decree, or any material statute, rule or regulation, of any Governmental Entity applicable to the Company or any of its Subsidiaries.

Section 4.11 Taxes.

(a) The Company has heretofore delivered or made available to Parent true, correct and complete copies of the consolidated federal, state, local and foreign income, franchise sales and other Tax Returns (as hereinafter defined) filed by the Company and the Company Subsidiaries for each of the Company's years ended November 30, 1995, 1994, 1993, 1992 and 1991 inclusive. Except as set forth on Schedule 4.11, the Company has duly filed, and each Subsidiary has duly filed, all material federal, state, local and foreign income, franchise, sales and other Tax Returns required to be filed by the Company or any of its Subsidiaries. All such Tax Returns are true, correct and complete, in all material respects, and the Company and its Subsidiaries have paid all Taxes (as hereinafter defined) shown on such Tax Returns and have made adequate provision for payment of all accrued but unpaid material Taxes anticipated in respect of all periods since the periods covered by such Tax Returns. Except as set forth on Schedule 4.11, all material deficiencies assessed as a result of any examination of Tax Returns of the Company or any of its Subsidiaries by federal, state, local or foreign tax authorities have been paid or reserved on the financial statements of the Company in accordance with GAAP consistently applied, and true, correct and complete copies of all revenue agent's reports, "30-day letters," or "90-day letters" or similar written statements proposing or asserting any Tax deficiency against the Company or any of its Subsidiaries for any open year have been heretofore delivered to Parent. The Company has heretofore delivered or will make available to Parent true, correct and complete copies of all written tax-sharing agreements and written descriptions of all such unwritten agreement or arrangements to which the Company or any of its Subsidiaries is a party. Except as set forth in Schedule 4.11, no material issue has been raised during the past five years by any federal, state, local or foreign taxing authority which, if raised with regard to any subsequent period, could reasonably be expected to result in a proposed material deficiency for any such subsequent period. Except as disclosed in Schedule 4.11 hereof, neither the Company nor any of its Subsidiaries has granted any extension or waiver of the statutory period of limitations applicable to any claim for any material Taxes. Schedule 4.11 lists the consolidated federal income tax returns of the Company and its Subsidiaries that have been examined by and settled with the Internal Revenue Service (the "Service"). Except as set forth in Schedule 4.11, (i) no consent has been filed under Section 341(f) of the Code with respect to any of the Company or the Subsidiaries of the Company; (ii) neither the Company nor any of the Subsidiaries of the Company has participated in, or cooperated with, an international boycott within the meaning of Section 999 of the Code; and (iii) neither the Company nor any of the Subsidiaries of the Company has issued or assumed any corporate acquisition indebtedness, as defined in Section 279(b) of the Code. The Company and each Subsidiary of the Company have complied (and until the Effective

Time will comply) in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes (including, without limitation, withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or similar provisions under any foreign laws) and have, within the time and in the manner prescribed by law, withheld from employee wages and paid over to the proper governmental authorities all amounts required to be so withheld and paid over under all applicable laws.

(b) For purposes of this Agreement, the term "Taxes" shall mean all taxes, charges, fees, levies, duties, imposts or other assessments, including, without limitation, income, gross receipts, excise, property, sales, use, transfer, gains, license, payroll, withholding, capital stock and franchise taxes, imposed by the United States, or any state, local or foreign government or subdivision or agency thereof, including any interest, penalties or additions thereto. For purposes of this Agreement, the term "Tax Return" shall mean any report, return or other information or document required to be supplied to a taxing authority in connection with Taxes.

Section 4.12 Title to Properties; Encumbrances. Except as described in the following sentence, each of the Company and its Subsidiaries has good, valid and marketable title to, or a valid leasehold interest in, all of its material properties and assets (real, personal and mixed, tangible and intangible), including, without limitation, all the properties and assets reflected in the consolidated balance sheet of the Company and its Subsidiaries as of August 31, 1996 included in the Company's Quarterly Report on Form 10-Q for the period ended on such date (except for properties and assets disposed of in the ordinary course of business and consistent with past practices since August 31, 1996. None of such properties or assets are subject to any Liens (whether absolute, accrued, contingent or otherwise), except (i) as specifically set forth in the Company SEC Reports; (ii) Liens for taxes, assessments or other governmental charges not delinquent or being contested in good faith and by appropriate proceedings and with respect to which proper reserves have been taken by the Company or its Subsidiaries and have been duly reflected on their books and records and, with respect to reserves taken on or prior to August 31, 1996, the financial statements of the Company ("Proper Reserves"); (iii) deposits or pledges to secure obligations under workmen's compensation, social security or similar laws, or under unemployment insurance as to which the Company and its Subsidiaries are not in default; (iv) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the ordinary course of business of the Company or its Subsidiaries; (v) judgment Liens listed on Schedule 4.12 that have been stayed or bonded and mechanics', workmen's, materialmen's or other like liens with respect to obligations which are not due or which are being contested in good faith by the Company or its Subsidiaries and as to which they have taken Proper Reserves; and (vi) minor imperfections of title and encumbrances, if any, which are not substantial in amount, do not materially detract from the value of the property or assets subject thereto and do not materially impair the operations of any of the Company and its Subsidiaries.

#### Section 4.13 Intellectual Property.

(a) Except as set forth on Schedule 4.13(a), the Company and its Subsidiaries are the sole and exclusive owners of all material patents, patent applications, patent rights,



trademarks, trademark rights, trade names, trade name rights, copyrights, service marks and registrations for and applications for registration of trademarks, service marks and copyrights, and are the sole and exclusive owners of, or have an irrevocable, royalty free right to use, all material technology and know-how, trade secrets, rights in computer software and other proprietary rights and information and all technical and user manuals and documentation made or used in connection with any of the foregoing, in each case used or held for use in connection with the businesses of the Company or any of its Subsidiaries as currently conducted (collectively, the "Intellectual Property"), free and clear of all Liens except as set forth on Schedule 4.13(a) and except minor imperfections of title and encumbrances, if any, which are not substantial in amount, do not materially detract from the value of the Intellectual Property subject thereto and do not impair in any material respect the operations of any of the Company and its Subsidiaries.

(b) All outstanding registrations and applications for Intellectual Property (i) are valid, subsisting, in proper form and enforceable, and have been duly maintained, including the submission of all necessary filings and fees in accordance with the legal and administrative requirements of the appropriate jurisdictions and (ii) have not lapsed, expired or been abandoned, and no application or registration therefor is the subject of any pending, or, to the knowledge of the Company, threatened legal or governmental proceeding before any registration authority in any jurisdiction.

(c) To the knowledge of the Company, there are no conflicts with or infringements of any Intellectual Property by any third party. The conduct of the businesses of the Company and its Subsidiaries as currently conducted (collectively, the "Business") does not conflict with or infringe in any way any proprietary right of any third party, which conflict or infringement would have a Company Material Adverse Effect, and there is no claim, suit, action or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries (i) alleging any such conflict or infringement with any third party's proprietary rights, or (ii) challenging the ownership, use, validity or enforceability of the Intellectual Property.

Section 4.14 Compliance with Applicable Law. Except as set forth on Schedule 4.14 or as disclosed in the Company SEC Reports, (i) the Company and its Subsidiaries hold, and are in compliance with the terms of, all material permits, licenses, exemptions, orders and approvals of all Governmental Entities necessary for the current and presently proposed conduct of their respective businesses ("Company Permits"), (ii) no fact exists or event has occurred, and no action or proceeding is pending or, to the Company's knowledge, threatened, that has a reasonable possibility of resulting in a revocation, nonrenewal, termination, suspension or other material impairment of any material Company Permits, (iii) the businesses of the Company and its Subsidiaries are not being conducted in violation, in any material respect, of any material applicable law, ordinance, regulation, judgment, decree or order of any Governmental Entity ("Applicable Law"), and (iv) to the knowledge of the Company, (x) no investigation or review by any Governmental Entity with respect to the Company or its Subsidiaries is pending or threatened or has been undertaken within the past six years, and (y) no Governmental Entity has indicated an intention to conduct the same.

Section 4.15 Information in Disclosure Documents and Registration Statement. None of the information to be supplied by the Company for inclusion in (i) the Registration Statement to be filed with the SEC by Parent on Form S-4 under the Securities Act for the purpose of registering the shares of Parent Common Stock to be issued in connection with the Merger (the "Registration Statement") or (ii) the proxy statement to be distributed in connection with the Company's meeting of stockholders to vote upon this Agreement (the "Proxy Statement") will, in the case of the Registration Statement, at the time it becomes effective and at the Effective Time, or, in the case of the Proxy Statement or any amendments thereof or supplements thereto, at the time of the mailing of the Proxy Statement and any amendments or supplements thereto, and at the time of the meeting of stockholders of the Company to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the applicable provisions of the Exchange Act, and the rules and regulations promulgated thereunder, except that no representation is made by the Company with respect to statements made therein based on information supplied by Parent or its representatives for inclusion in the Proxy Statement or with respect to information concerning Parent or any of its Subsidiaries incorporated by reference in the Proxy Statement.

Section 4.16 Employee Benefit Plans; ERISA.

(a) Schedule 4.16 hereto sets forth a true and complete list of each material employee benefit plan, arrangement or agreement that is maintained, or was maintained at any time during the five (5) calendar years preceding the date of this Agreement (the "Company Plans"), by the Company or by any trade or business, whether or not incorporated (a "Company ERISA Affiliate"), which together with the Company would be deemed a "single employer" within the meaning of Section 4001 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(b) Each of the Company Plans that is subject to ERISA is and has been in compliance with ERISA and the Code in all material respects; each of the Company Plans intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified; no Company Plan has an accumulated or waived funding deficiency within the meaning of Section 412 of the Code; neither the Company nor any Company ERISA Affiliate has incurred, directly or indirectly, any material liability (including any material contingent liability) to or on account of a Company Plan pursuant to Title IV of ERISA; no proceedings have been instituted to terminate any Company Plan that is subject to Title IV of ERISA; no "reportable event," as such term is defined in Section 4043(b) of ERISA, has occurred with respect to any Company Plan; and no condition exists that presents a material risk to the Company or any Company ERISA Affiliate of incurring a liability to or on account of a Company Plan pursuant to Title IV of ERISA.

(c) The current value of the assets of each of the Company Plans that are subject to Title IV of ERISA, based upon the actuarial assumptions (to the extent reasonable) presently used by the Company Plans, exceeds the present value of the accrued benefits under each such Company Plan; no Company Plan is a multiemployer plan (within the meaning of Section

4001(a)(3) of ERISA) and no Company Plan is a multiple employer plan as defined in Section 413 of the Code; and all material contributions or other amounts payable by the Company as of the Effective Time with respect to each Company Plan in respect of current or prior plan years have been either paid or accrued on the balance sheet of the Company. To the knowledge of the Company, there are no material pending, threatened or anticipated claims (other than routine claims for benefits) by, on behalf of or against any of the Company Plans or any trusts related thereto.

(d) Neither the Company nor any Company ERISA Affiliate, nor any Company Plan, nor any trust created thereunder, nor any trustee or administrator thereof has engaged in a transaction in connection with which the Company or any Company ERISA Affiliate, any Company Plan, any such trust, or any trustee or administrator thereof, or any party dealing with any Company Plan or any such trust could be subject to either a material civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a material tax imposed pursuant to Section 4975 or 4976 of the Code. No Company Plan provides death or medical benefits (whether or not insured), with respect to current or former employees of the Company or any Company ERISA Affiliate beyond their retirement or other termination of service other than (i) coverage mandated by applicable law or (ii) death benefits under any "employee pension plan," as that term is defined in Section 3(2) of ERISA).

Section 4.17 Environmental Laws and Regulations. (a) Except as set forth on Schedule 4.17(a): (i) the Company and its Subsidiaries are and have been, in all material respects, in compliance with, and there are no outstanding allegations by any person or entity that the Company or its Subsidiaries has not been in compliance with, all material applicable laws, rules, regulations, common law, ordinances, decrees, orders or other binding legal requirements relating to pollution (including the treatment, storage and disposal of wastes and the remediation of releases and threatened releases of materials), the preservation of the environment, and the exposure to materials in the environment or work place ("Environmental Laws") and (ii) the Company and its Subsidiaries currently hold all material permits, licenses, registrations and other governmental authorizations (including exemptions, waivers, and the like) and financial assurance required under Environmental Laws for the Company and its Subsidiaries to operate their businesses as currently conducted.

(b) Except as set forth on Schedule 4.17(b), to the knowledge of the Company (and without special investigation for purposes hereof) (i) there is no friable asbestos-containing material in or on any real property currently owned, leased or operated by the Company or its Subsidiaries and (ii) there are and have been no underground storage tanks (whether or not required to be registered under any applicable law), dumps, landfills, lagoons, surface impoundments, injection wells or other land disposal units in or on any property currently owned, leased or operated by the Company or its Subsidiaries.

(c) Except as set forth on Schedule 4.17(c), (i) neither the Company nor its Subsidiaries has received (x) any written communication from any person stating or alleging that any of them may be a potentially responsible party under any Environmental Law (including, without limitation, the Federal Comprehensive Environmental Response, Compensation, and

Liability Act of 1980, as amended) with respect to any actual or alleged environmental contamination or (y) any request for information under any Environmental Law from any Governmental Entity with respect to any actual or alleged material environmental contamination; and (ii) none of the Company, its Subsidiaries or any Governmental Entity is conducting or has conducted (or, to the knowledge of the Company, is threatening to conduct) any environmental remediation or investigation.

Section 4.18 Vote Required. The affirmative vote of the holders of two-thirds of the outstanding shares of the Company Common Stock are the only votes of the holders of any class or series of the Company's capital stock necessary to approve the Merger. The Board of Directors of the Company, at a meeting duly called and held on March 7, 1997, unanimously (i) approved this Agreement and the Proxy and Option Agreement, (ii) determined that the transactions contemplated hereby and thereby are fair to and in the best interests of the holders of Company Common Stock and (iii) determined to recommend this Agreement, the Merger and the other transactions contemplated hereby to such holders for approval and adoption. The resolutions of the Company's Board of Directors taking the actions described in the preceding sentence have not been rescinded, withdrawn, amended or otherwise modified, remain in full force and effect, and constitute the only action of such Board of Directors with respect to the Merger or the other transactions contemplated by this Agreement.

Section 4.19 Opinion of Financial Advisor. The Company has received the opinion of Houlihan, Lokey, Howard & Zukin, Inc., dated March 7, 1997, substantially to the effect that the consideration to be received in the Merger by the holders of Company Common Stock is fair to such holders from a financial point of view, a copy of which opinion has been delivered to Parent.

Section 4.20 Accounting Matters. None of the Company, any of its Subsidiaries or any of their respective directors, officers or stockholders has taken any action which would prevent the accounting for the Merger as a pooling of interests in accordance with Accounting Principles Board Opinion No. 16, the interpretative releases pursuant thereto and the pronouncements of the SEC.

Section 4.21 NYBCL Section 912. Prior to the date hereof, the Board of Directors of the Company has approved this Agreement and the Proxy and Option Agreement, and the Merger and the other transactions contemplated hereby and thereby, and such approval is sufficient to render inapplicable to the Merger and any of such other transactions the provisions of Section 912 of the NYBCL.

Section 4.22 Labor Matters. Neither the Company nor any of its Subsidiaries is a party to, or bound by, any collective bargaining agreement, contract or other understanding with a labor union or labor organization and, to the knowledge of the Company, there is no activity involving any employees of the Company or its Subsidiaries seeking to certify a collective bargaining unit or engaging in any other organizational activity.

Section 4.23 Affiliate Transactions. Except as set forth in Schedule 4.23 or as disclosed in the Company SEC Reports, there are no Contracts or other transactions between the Company or any of its Subsidiaries, on the one hand, and any (i) officer or director of the Company or any of its Subsidiaries, (ii) record or beneficial owner of five percent or more of the voting securities of the Company or (iii) affiliate (as such term is defined in Regulation 12b-2 promulgated under the Exchange Act) of any such officer, director or beneficial owner, on the other hand.

Section 4.24 Brokers. Except for its financial advisors, Houlihan, Lokey, Howard & Zukin, Inc., Bangert, Dawes, Reade, Davis & Thom, Incorporated, and Royce Investment Group, Inc. no broker, finder or financial advisor is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company, and the Company has delivered to the Parent true, complete and correct copies of (or, in the case of any oral agreement or arrangement, a true, complete and correct summary of) each agreement or arrangement pursuant to which either of such advisors is entitled to any such fee or commission.

Section 4.25 Tax Matters. The Company knows of no fact or circumstance which is reasonably likely to cause the Merger to be treated other than as a tax-free reorganization under Section 368(a) of the Code.

Section 4.26 Accounts Receivable. All of the accounts and notes receivable of the Company and its Subsidiaries set forth on the books and records of the Company or to be incurred after the date hereof (in each case net of the applicable reserves reflected or, with respect to future accounts and notes receivable, to be reflected on the books and records of the Company and in the financial statements included in the Company's SEC reports): (i) represent or will represent sales actually made or to be made in the ordinary course of business for goods or services delivered or rendered to unaffiliated customers in bona fide arm's length transactions, (ii) constitute or will constitute valid claims, and (iii) are, or upon incurrence will be, good and collectible, in each case at the aggregate recorded amounts thereof without right of recourse, defense, deduction, return of goods, counterclaim, or offset and have been or will be collected in the ordinary course of business and consistent with past experience.

Section 4.27 Inventory. All inventory of the Company and its Subsidiaries is (net of the applicable reserves reflected on the books and records of the Company and in the financial statements included in the Company's SEC reports) of merchantable quality, free of defects in workmanship or design and is usable and salable at normal profit margins and in accordance with historical sales practices in the ordinary course of the business of the Company and its Subsidiaries. The Inventory (net of such reserves) does not include any items which are obsolete, damaged, excessive, below standard quality or slow moving (i.e., items that are for discontinued or expected to be discontinued product lines, or items that have not been used or sold within 12 months prior to the date hereof).

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent represents and warrants to the Company as follows:

Section 5.1 Organization. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power to carry on its business as it is now being conducted or presently proposed to be conducted. Parent is duly qualified as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned or held under lease or the nature of its activities make such qualification necessary, except where the failure to be so qualified will not have a material adverse effect individually or in the aggregate, on the financial condition, results of operations, business, assets, liabilities, prospects or properties of Parent and its Subsidiaries taken as a whole or on the ability of Parent to consummate the Merger and the other transactions contemplated by this Agreement (a "Parent Material Adverse Effect"). Sub is a corporation duly organized, validly existing and in good standing under the laws of the State of New York. Sub has not engaged in any business (other than in connection with this Agreement and the transactions contemplated hereby) since the date of its incorporation. Schedule 5.1 contains a complete and accurate list of all Subsidiaries of Parent.

Section 5.2 Capitalization.

(a) The authorized capital stock of Parent consists of 60,000,000 shares of Parent Common Stock and 1,000,000 shares of Preferred Stock, par value \$.01 per share, of Parent ("Parent Preferred Stock"). As of the date hereof, (i) approximated 23,282,000 shares of Parent Common Stock are issued and outstanding, (ii) no shares of Parent Preferred Stock are issued and outstanding, (iii) options to acquire approximately 800,000 shares of Parent Common Stock (the "Parent Stock Options") are outstanding under all stock option plans of Parent, and (iv) approximately 800,000 shares of Parent Common Stock are reserved for issuance pursuant to the Parent Stock Options and all other Rights to purchase or otherwise receive capital stock or other securities of Parent. All of the outstanding shares of capital stock of Parent are, and the shares of Parent Common Stock issuable in exchange for shares of Company Common Stock at the Effective Time in accordance with this Agreement will be, when so issued, duly authorized, validly issued, fully paid and nonassessable.

(b) The authorized capital stock of Sub consists of 1,000 shares of Sub Common Stock, of which 1,000 shares, as of the date hereof, were issued and outstanding. All of such outstanding shares are owned by Parent, and are validly issued, fully paid and nonassessable.

(c) Except as disclosed in this Section 5.2, (i) there are no outstanding Rights to purchase or otherwise to receive from Parent or Sub any of the outstanding authorized but unissued or treasury shares of the capital stock or any other security of Parent or Sub, (ii) there is no outstanding security of any kind convertible into or exchangeable for such capital stock, and

(iii) there is no voting trust or other agreement or understanding to which Parent or Sub is a party or is bound with respect to the voting of the capital stock of Parent or Sub.

(d) Parent and its subsidiaries do not beneficially own any shares of the Company's voting stock and, to Parent's knowledge, none of its affiliates or associates (as such terms are defined in Section 912 of the NYBCL) beneficially own any shares of the Company's voting stock.

Section 5.3 Authority Relative to this Agreement. Each of Parent and Sub has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by each of Parent and Sub and the consummation by Parent and Sub of the transactions contemplated on its part hereby have been duly authorized by their respective Boards of Directors, and by Parent as the sole stockholder of Sub, and no other corporate proceedings on the part of Parent or Sub are necessary to authorize this Agreement or for Parent and Sub to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each of Parent and Sub and constitutes a valid and binding agreement of each of Parent and Sub, enforceable against Parent and Sub in accordance with its terms.

Section 5.4 Consents and Approvals No Violations. Neither the execution, delivery and performance of this Agreement by Parent or Sub, nor the consummation by Parent or Sub of the transactions contemplated hereby will (i) conflict with or result in any breach of any provisions of the Certificate of Incorporation or By-Laws of Parent or of Sub, (ii) require a filing with, or a permit, authorization, consent or approval of, any Governmental Entity except in connection with or in order to comply with the applicable provisions of the HSR Act, the Securities Act, the Exchange Act, state securities or "blue sky" laws, the By-Laws of the NASD, and the filing and recordation of a Certificate of Merger as required by the NYBCL, (iii) except as set forth on Schedule 5.4 hereto, result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of a Lien on any property or asset of Parent or any of its Subsidiaries pursuant to, any of the terms, conditions or provisions of any material Contract to which Parent or Sub is a party or by which either of them or any of their properties or assets may be bound or (iv) violate any material law, order, writ, injunction, decree, statute, rule or regulation of any Governmental Entity applicable to Parent, Sub or any of their properties or assets.

Section 5.5 Reports and Financial Statements. Parent has timely filed all reports required to be filed with the SEC pursuant to the Exchange Act or the Securities Act since November 3, 1995 (collectively, the "Parent SEC Reports"), and has previously made available to the Company true and complete copies of all such Parent SEC Reports. Such Parent SEC Reports, as of their respective dates, complied in all material respects with the applicable requirements of the Securities Act and the Exchange Act, as the case may be, and none of such SEC Reports contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of Parent

included in the Parent SEC Reports have been prepared in accordance with GAAP consistently applied throughout the periods indicated (except as otherwise noted therein) and fairly present the consolidated financial position of Parent and its consolidated Subsidiaries as at the dates thereof and the consolidated results of operations and cash flows of Parent and its consolidated Subsidiaries for each of the periods then ended, except that in the case of the unaudited consolidated financial statements included in any Form 10-Q, the presentation and disclosures conform with the applicable rules of the Exchange Act, but include all adjustments necessary to conform to GAAP requirements with respect to interim financial statements. Since December 31, 1995, there has been no change in any of the significant accounting (including tax accounting) policies, practices or procedures of the Parent or, except as set forth on Schedule 5.5, any of its consolidated Subsidiaries.

Section 5.6 Absence of Certain Changes or Events; Material Contracts. Except as set forth in the Parent SEC Reports, since September 29, 1996, (i) Parent has not conducted its business and operations other than in the ordinary course of business and consistent with past practices or taken any of the actions set forth in Section 6.2(b) and (ii) there has not been any fact, event, circumstance or change affecting or relating to Parent and its Subsidiaries which has had or is reasonably likely to have a Parent Material Adverse Effect.

Section 5.7 Information in Disclosure Documents and Registration Statement. None of the information to be supplied by Parent or Sub for inclusion in (i) the Registration Statement or (ii) the Proxy Statement will in the case of the Registration Statement, at the time it becomes effective and at the Effective Time, or, in the case of the Proxy Statement or any amendments thereof or supplements thereto, at the time of the mailing of the Proxy Statement and any amendments or supplements thereto, and at the time of the meeting of stockholders of the Company to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Registration Statement will comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act, and the rules and regulations promulgated thereunder, except that no representation is made by Parent with respect to statements made therein based on information supplied by the Company or its respective representatives for inclusion in the Registration Statement or the Proxy Statement or with respect to information concerning the Company or any of its Subsidiaries incorporated by reference in the Registration Statement or the Proxy Statement.

Section 5.8 Absence of Undisclosed Liabilities. Except for liabilities or obligations which are accrued or reserved against in Parent's consolidated financial statements (or reflected in the notes thereto) included in the Company SEC Reports or which were incurred after September 30, 1996 in the ordinary course of business and consistent with past practice, and except as set forth on Schedule 5.8, none of Parent and its Subsidiaries has any liabilities or obligations (whether absolute, accrued, contingent or otherwise) of a nature required by GAAP to be reflected in a consolidated balance sheet (or reflected in the notes thereto) or which would have a Parent Material Adverse Effect.



Section 5.9 Compliance with Applicable Law. Except as set forth on Schedule 5.9 or as disclosed in the Parent SEC Reports, (i) the Parent and its Subsidiaries hold, and are in compliance with the terms of, all material permits, licenses, exemptions, orders and approvals of all Governmental Entities necessary for the current and presently proposed conduct of their respective businesses ("Parent Permits"), (ii) no fact exists or event has occurred, and no action or proceeding is pending or, to Parent's knowledge, threatened, that has a reasonable possibility of resulting in a revocation, nonrenewal, termination, suspension or other material impairment of any material Parent Permits, (iii) the businesses of Parent and its Subsidiaries are not being conducted in violation of Applicable Law, and (iv) to the knowledge of Parent, (x) no investigation or review by any Governmental Entity with respect to Parent or its Subsidiaries is pending or threatened and (y) no Governmental Entity has indicated an intention to conduct the same.

Section 5.10 Litigation. Except for litigation disclosed in the notes to the financial statements included in Parent's Annual Report to Stockholders for the year ended December 31, 1995 or in Parent SEC Reports filed subsequent thereto, there is no suit, action, proceeding or investigation pending or, to the knowledge of Parent, threatened against or affecting Parent or any of its Subsidiaries, the outcome of which, in the reasonable judgment of Parent, is likely to have a Parent Material Adverse Effect; nor is there any judgment, decree, injunction, ruling or order of any Governmental Entity outstanding against Parent or any of its Subsidiaries having, or which is reasonably likely to have, a Parent Material Adverse Effect.

Section 5.11 Opinion of Financial Advisor. Parent has received the opinion of Tanner & Co., Inc., dated March 7, 1997, substantially to the effect that the consideration to be received in the Merger by the holders of Company Common Stock is fair to the holders of Parent Common Stock from a financial point of view, a copy of which opinion has been delivered to the Company.

Section 5.12 Accounting Matters. None of the Parent, any of its Subsidiaries or any of their respective directors, officers or stockholders has taken any action which would prevent the accounting for the Merger as a pooling of interests in accordance with Accounting Principles Board Opinion No. 16, the interpretative releases pursuant thereto and the pronouncements of the SEC.

Section 5.13 Tax Matters. Parent knows of no fact or circumstance which is reasonably likely to cause the Merger to be treated other than as a tax-free reorganization under Section 368(a) of the Code.

Section 5.14 Brokers. Except for its financial advisor, Tanner & Co., Inc., no broker, finder or financial advisor is entitled to any brokerage finder's or other fee or commission in connection with the Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Parent or Sub.

Section 5.15 No Default. Neither Parent nor any Subsidiary of Parent is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its charter, by-laws or

comparable organizational documents, (ii) any material Contract to which Parent or any of its Subsidiaries is a party or by which they or any of their properties or assets may be bound, or (iii) any material order, writ, injunction or decree, or any material statute, rule or regulation, of any Governmental Entity applicable to Parent or any of its Subsidiaries.

## ARTICLE VI

### CONDUCT OF BUSINESS PENDING THE MERGER

Section 6.1 Conduct of Business by the Company Pending the Merger. From the date of this Agreement until the earlier of the Effective Time or the termination of this Agreement, unless Parent shall otherwise agree in writing, or as otherwise expressly contemplated by this Agreement:

(a) the Company shall conduct, and cause each of its Subsidiaries to conduct, its business only in the ordinary and usual course consistent with past practice, and the Company shall use, and cause each of its Subsidiaries to use, its reasonable efforts to preserve intact the present business organization, keep available the services of its present officers and key employees, and preserve the goodwill of those having business relationships with it;

(b) the Company shall not, nor shall it permit any of its Subsidiaries to, (i) amend its charter, bylaws or other organizational documents, (ii) split, combine or reclassify any shares of its outstanding capital stock, (iii) declare, set aside or pay any dividend or other distribution payable in cash, stock or property, or (iv) directly or indirectly redeem or otherwise acquire any shares of its capital stock or shares of the capital stock of any of its Subsidiaries;

(c) the Company shall not, nor shall it permit any of its Subsidiaries to, (i) authorize for issuance, issue or sell or agree to issue or sell any shares of, or Rights to acquire or convertible into any shares of, its capital stock or shares of the capital stock of any of its Subsidiaries (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise), except for the issuance of shares of Company Common Stock upon the exercise of Company Stock Options outstanding on the date of this Agreement, or amend any outstanding Company Stock Option, Company Warrant or other Right, except that the Company may amend the terms of the Company Stock Options set forth on Schedule 4.2(b) under the heading "1987 Plan" to provide that the holders thereof may exercise such options prior to their expiration dates regardless of whether such holders are then serving as directors of the Company; (ii) merge or consolidate with another entity; (iii) acquire or purchase an equity interest in or a substantial portion of the assets of another corporation, partnership or other business organization (except for such potential acquisitions, and on substantially such terms, as have been described in a letter executed and delivered by the Company and Parent simultaneously with the execution and delivery of this Agreement and provided that the Company keeps Parent informed as to the status of all negotiations with respect thereto (including any termination of such negotiations) and gives Parent prior notice of the consummation of any such

acquisition and the signing of any agreement with respect thereto) or otherwise acquire any assets outside the ordinary and usual course of business and consistent with past practice or otherwise enter into any material contract, commitment or transaction outside the ordinary and usual course of business consistent with past practice; (iv) sell, lease, license, waive, release, transfer, encumber or otherwise dispose of any of its assets outside the ordinary and usual course of business and consistent with past practice; (v) incur, assume or prepay any material indebtedness or any other material liabilities other than in the ordinary course of business and consistent with past practice; (vi) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person other than a Subsidiary of the Company or customers, in each case in the ordinary course of business and consistent with past practice; (vii) make, extend or modify in any material respect any loans, advances or capital contributions to, or investments in, any other person, other than to Subsidiaries of the Company or loans to employees of the Company or any of its Subsidiaries, in an aggregate amount not exceeding \$25,000, for such reasons, and on such terms and conditions, as are consistent with past practice; (viii) authorize or make capital expenditures in excess of the respective amounts set forth on Schedule 6.1 hereto; (ix) permit any insurance policy naming the Company or any Subsidiary of the Company as a beneficiary or a loss payee to be canceled or terminated other than in the ordinary course of business; or (x) enter into any contract, agreement, commitment or arrangement with respect to any of the foregoing;

(d) the Company shall not, nor shall it permit its Subsidiaries to, (i) adopt, enter into, terminate or amend (except as may be required by Applicable Law) any Company Plan or other arrangement for the current or future benefit or welfare of any director, officer or current or former employee, (ii) increase in any manner the compensation or fringe benefits of, or pay any bonus to, any director, officer or employee (except for normal increases in compensation in the ordinary course of business consistent with past practice and accrued and unpaid bonuses in respect of the Company's fiscal year ended November 30, 1996 that are consistent with past practice and have been properly accrued and reflected on the Company's books and records, or (iii) take any action to fund or in any other way secure, or to accelerate or otherwise remove restrictions with respect to, the payment of compensation or benefits under any employee plan, agreement, contract, arrangement or other Company Plan (including the Company Stock Options);

(e) the Company shall not, nor shall it permit its Subsidiaries to, take any action with respect to, or make any material change in, its accounting or tax policies or procedures, except as required by law or to comply with GAAP; and

(f) the Company shall not (i) take any action or allow any action to be taken by any of its Subsidiaries or affiliates which would jeopardize the treatment of Parent's acquisition of the Company as a pooling of interests for accounting purposes; or (ii) take any action which would jeopardize qualification of the Merger as a reorganization within the meaning of Section 368(a) of the Code.

Section 6.2 Conduct of Business by Parent Pending the Merger. From the date of this Agreement until the earlier of the Effective Time or the termination of this Agreement,

unless the Company shall otherwise agree in writing, or as otherwise expressly contemplated by this Agreement:

(a) Parent shall conduct its business and the business of its Subsidiaries in a manner designed, in the good faith judgment of its Board of Directors, to enhance the long-term value of the Parent Common Stock and the business prospects of Parent and its Subsidiaries;

(b) Parent shall not (i) split, combine or reclassify any shares of its outstanding capital stock; or (ii) declare, set aside or pay any dividend or other distribution payable in cash, stock or property;

(c) Parent shall not authorize for issuance, issue or sell or agree to issue or sell any shares of, or Rights to acquire or convertible into any shares of, its capital stock, except for (i) the issuance of shares of Parent Common Stock (x) upon the exercise of Parent Stock Options or other Rights outstanding on the date of this Agreement or (y) upon the exercise of Rights described in the immediately following clause (ii), (ii) the issuance of Rights pursuant to existing employee benefit plans or arrangements in a manner consistent with past practice, and (iii) the issuance of shares of Parent Common Stock in connection with arms' length acquisitions with non-affiliates; and

(d) Except as described on Schedule 6.2(d), Parent shall not, nor shall it permit any of its Subsidiaries to, (i) amend its charter, bylaws or other organizational documents, (ii) split, combine or reclassify any shares of its outstanding capital stock, or (iii) directly or indirectly redeem or otherwise acquire any shares of its capital stock or shares of the capital stock of any of its Subsidiaries.

Section 6.3 Conduct of Business of Sub. During the period from the date of this Agreement to the Effective Time, Sub shall not engage in any activities of any nature except as provided in or contemplated by this Agreement. It is understood that Sub was formed by Parent solely for the purpose of effecting the Merger, and that Sub will have no material assets and no material liabilities prior to the Merger. Parent shall cause Sub to perform its obligations under this Agreement.

#### ARTICLE VII

##### ADDITIONAL AGREEMENTS

Section 7.1 Access and Information. Each of the Company and Parent shall (and shall cause its Subsidiaries and its and their respective officers, directors, employees, auditors and agents to) afford to the other and to the other's officers, employees, financial advisors, legal counsel, accountants, consultants and other representatives reasonable access, during normal business hours throughout the period from the date hereof until the earlier of the Effective Time and the termination of this Agreement, to all of its books and records and its properties, plants and personnel and, during such period, each shall furnish promptly to the other a copy of each report,

schedule and other document filed or received by it pursuant to the requirements of federal securities laws, provided that no investigation pursuant to this Section 7.1 shall affect any representations or warranties made herein or the conditions to the obligations of the respective parties to consummate the Merger. Unless otherwise required by law, each of Parent and the Company agrees that it (and its respective Subsidiaries and its and their respective representatives) shall hold in confidence all non-public information so acquired in accordance with the terms of the confidentiality agreement between Parent and the Company executed in November 1996 (the "Confidentiality Agreement").

#### Section 7.2 No Solicitation.

(a) Prior to the Effective Time, the Company agrees that neither it, any of its Subsidiaries or its affiliates, nor any of the respective directors, officers, employees, affiliates, agents or representatives of the foregoing (including, without limitation, any investment banker, attorney or accountant retained by the Company or any of its Subsidiaries) will, directly or indirectly, solicit, initiate, facilitate or encourage (including by way of furnishing or disclosing non-public information) any inquiries or the making of any proposal with respect to or which may reasonably be expected to lead to, any merger, consolidation or other business combination involving the Company or any Subsidiary of the Company (other than any acquisition by the Company permitted under Section 6.1(c)) or the acquisition of all or any significant assets or capital stock of the Company or any Subsidiary of the Company taken as a whole (an "Acquisition Transaction") or negotiate, explore or otherwise engage in discussions with any corporation, partnership, person, other entity or group (as defined in Section 13(d)(2) of the Exchange Act) (other than Parent and its representatives) in furtherance of such inquiries or with respect to any Acquisition Transaction, or endorse any Acquisition Transaction, or enter into any agreement, arrangement or understanding with respect to any such Acquisition Transaction or which would require it to abandon, terminate or fail to consummate the Merger or any other transaction contemplated by this Agreement; provided, however, that the Company may, in response to an unsolicited written proposal from a third party, furnish information to and engage in discussions with such third party, in each case only if the Board of Directors of the Company determines in good faith by a majority vote, after consultation with its financial advisor, Houlihan, Lokey, Howard & Zukin, Inc., and after reviewing the advice of outside counsel to the Company, that such action is reasonably likely to be required by the fiduciary duties of the Board of Directors and, prior to taking such action, the Company (i) provides reasonable notice to Parent to the effect that it is taking such action and (ii) receives from such corporation, partnership, person or other entity or group (and delivers to Parent) an executed confidentiality agreement in reasonably customary form. The Company agrees that as of the date hereof, it, its Subsidiaries and affiliates, and the respective directors, officers, employees, agents and representatives of the foregoing, shall immediately cease and cause to be terminated any existing activities, discussions or negotiations with any person (other than Parent and its representatives) conducted heretofore with respect to any Acquisition Transaction. The Company agrees to immediately advise Parent in writing of any inquiries or proposals (or desire to make a proposal) received by (or indicated to), any such information requested from, or any such negotiations or discussions sought to be initiated or continued with, any of it, its Subsidiaries or affiliates, or any of the respective directors, officers, employees, agents or representatives of the foregoing, in each case from a corporation,

partnership, person or other entity or group (other than Parent and its representatives) with respect to an Acquisition Transaction, and the terms thereof, including the identity of such third party, and to update on an ongoing basis or upon Parent's request, the status thereof, as well as any actions taken or other developments pursuant to this Section 7.2(a). Notwithstanding anything in the foregoing provisions of the Section 7.2(a) to the contrary: (i) the Company shall not disclose any information received by it or any of its directors, officers, employees, agents or representatives pursuant to the Confidentiality Agreement or any other confidentiality or other similar agreement between the Company and Parent to any person in violation of such agreement and (ii) the Company shall not be obligated to disclose to Parent any confidential information provided to the Company by any third party in violation of any confidentiality agreement between the Company and such third party provided for in this Section 7.2.

(b) Except as set forth in this Section 7.2(b), the Board of Directors of the Company shall not (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to the Parent or the Sub, the approval or recommendation by the Board of Directors of this Agreement or the Merger, (ii) approve or recommend, or propose to approve or recommend, any Acquisition Transaction or (iii) cause the Company to enter into any agreement with respect to any Acquisition Transaction. Notwithstanding the foregoing, in the event that prior to the Effective Time the Board of Directors of the Company determines in good faith by a majority vote, after consultation with its financial advisor, Houlihan, Lokey, Howard & Zukin, Inc., and after reviewing the advice of outside counsel to the Company, that such action is reasonably likely to be required by the fiduciary duties of the Board of Directors, the Board of Directors of the Company may withdraw or modify its approval or recommendation of this Agreement and the Merger, approve or recommend an Acquisition Transaction or cause the Company to enter into an agreement with respect to an Acquisition Transaction, provided, in each case, that such Board determines in its good faith reasonable judgment, by a majority vote after consultation with its financial advisor and after reviewing the advice of outside counsel to the Company, that the Acquisition Transaction is more favorable to the stockholders of the Company than the Merger. The Company shall provide reasonable prior notice to the Parent or the Sub to the effect that it is taking such action.

Section 7.3 Registration Statement. As promptly as practicable, Parent and the Company shall in consultation with each other prepare and file with the SEC the Proxy Statement and Parent in consultation with the Company shall prepare and file with the SEC the Registration Statement. Each of Parent and the Company shall use its reasonable best efforts to have the Registration Statement declared effective as soon as practicable. Parent shall also use its reasonable best efforts to take any action required to be taken under state securities or "blue sky" laws in connection with the issuance of the shares of Parent Common Stock pursuant to this Agreement in the Merger. The Company shall furnish Parent with all information concerning the Company and the holders of its capital stock and shall take such other action as Parent may reasonably request in connection with the Registration Statement and the issuance of shares of Parent Common Stock, and Parent shall furnish the Company with all information concerning Parent and the holders of its capital stock and shall take such other action as the Company may reasonably request in connection with the Proxy Statement. If at any time prior to the Effective Time any event or circumstance relating to Parent, any Subsidiary of Parent, the Company, any

Subsidiary of the Company, or their respective officers or directors, should be discovered by such party which should be set forth in an amendment or a supplement to the Registration Statement or Proxy Statement, such party shall promptly inform the other thereof and take appropriate action in respect thereof.

Section 7.4 Proxy Statements; Stockholder Approval.

(a) The Company, acting through its Board of Directors, shall, subject to and in accordance with applicable law and its Certificate of Incorporation and By-Laws, promptly and duly call, give notice of and, as soon as practicable following the date upon which the Registration Statement becomes effective, hold a meeting of the holders of Company Common Stock for the purpose of voting to approve and adopt this Agreement and the transactions contemplated hereby, and, except as otherwise provided in Section 7.2(b), (i) recommend approval and adoption of this Agreement and the transactions contemplated hereby, by the stockholders of the Company and include in the Proxy Statement such recommendation and (ii) take all reasonable and lawful action to solicit and obtain such approval.

(b) The Company, as promptly as practicable, shall cause the definitive Proxy Statement to be mailed to its stockholders.

(c) At or prior to the Closing, the Company shall deliver to Parent a certificate of its Secretary setting forth the voting results from its stockholder meeting.

Section 7.5 Compliance with the Securities Act.

(a) At least 10 days prior to the Effective Time, the Company shall cause to be delivered to Parent a list identifying all persons who were at the record date for its stockholders' meeting convened in accordance with Section 7.4 hereof, "affiliates" of the Company, as that term is used in paragraphs (c) and (d) of Rule 145 under the Securities Act (the "Affiliates").

(b) The Company shall use its reasonable best efforts to cause each person who is identified as one of its Affiliates in its list referred to in Section 7.5(a) above to deliver to Parent (with a copy to the Company), at least 10 days prior to the Effective Time, a written agreement, in the form attached hereto as Exhibit B (the "Affiliate Agreement").

(c) If any Affiliate of the Company refuses to provide an Affiliate Agreement, Parent may place appropriate legends on the certificates evidencing the shares of Parent Common Stock to be received by such Affiliate pursuant to the terms of this Agreement and to issue appropriate stop transfer instructions to the transfer agent for shares of Parent Common Stock to the effect that the shares of Parent Common Stock received by such Affiliate pursuant to this Agreement only may be sold, transferred or otherwise conveyed (i) pursuant to an effective registration statement under the Securities Act, (ii) in compliance with Rule 145 promulgated under the Securities Act, or (iii) pursuant to another exemption under the Securities Act.

Section 7.6 Reasonable Best Efforts. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use its reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement, including, without limitation, the obtaining of all necessary waivers, consents and approvals and the effecting of all necessary registrations and filings. Without limiting the generality of the foregoing, as promptly as practicable, the Company, Parent and Sub shall make all filings and submissions under the HSR Act as may be reasonably required to be made in connection with this Agreement and the transactions contemplated hereby. Subject to the Confidentiality Agreement, the Company will furnish to Parent and Sub, and Parent and Sub will furnish to the Company, such information and assistance as the other may reasonably request in connection with the preparation of any such filings or submissions. Subject to the Confidentiality Agreement, the Company will provide Parent and Sub, and Parent and Sub will provide the Company, with copies of all material written correspondence, filings and communications (or memoranda setting forth the substance thereof) between such party or any of its representatives and any Governmental Entity, with respect to the obtaining of any waivers, consent or approvals and the making of any registrations or filings, in each case that is necessary to consummate the Merger and the other transactions contemplated hereby. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers or directors of Parent and the Surviving Corporation shall take all such necessary action.

Section 7.7 Proxy and Option Agreement. Concurrently herewith, and as an essential inducement for Parent's entering into this Agreement, Parent and Sub are entering into the Proxy and Option Agreement with certain holders of Company Common Stock with respect to all such shares of Company Common Stock held by such holders.

Section 7.8 Company Stock Options. To the extent permitted by the respective terms of the Company Stock Options and the plans under which they were issued and the respective terms of the Company Stock Warrants, at the Effective Time, each of the Company Stock Options (and, solely with respect to such options, the applicable option plans pursuant to which such options were issued) and each of the Company Warrants which is outstanding immediately prior to the Effective Time and listed on Schedule 4.2(b) shall be assumed by Parent on the terms set forth herein and converted automatically into an option or a warrant, as the case may be, to purchase shares of Parent Common Stock (each, a "Converted Option" or a "Converted Warrant", as the case may be) in an amount and at an exercise price determined as provided below:

(a) The number of shares of Parent Common Stock to be subject to a Converted Option or a Converted Warrant shall be equal to the product of the number of shares of Company Common Stock remaining subject (as of immediately prior to the Effective Time) to the original option or warrant and the Exchange Ratio, provided that any fractional shares of Parent Common Stock resulting from such multiplication shall be rounded down to the nearest share; and



(b) The exercise price per share of Parent Common Stock under a Converted Option or a Converted Warrant shall be equal to the exercise price per share of Company Common Stock under the original option or warrant divided by the Exchange Ratio, provided that such exercise price shall be rounded down to the nearest cent.

The adjustment provided herein with respect to any options which are "incentive stock options" (as defined in Section 422 of the Code) shall be modified to the extent required to comply with Section 424(a) of the Code and the applicable Treasury Regulations. After the Effective Time, each Converted Option shall be exercisable and shall vest upon the same terms and conditions as were applicable to the related Company Stock Option immediately prior to the Effective Time, except that all references to the Company shall be deemed to be references to Parent. Parent shall file with the SEC a registration statement on Form S-8 (or other appropriate form) and shall take any action required to be taken under state securities "blue sky" laws for purposes of registering all shares of Parent Common Stock issuable after the Effective Time upon exercise of the Converted Options, and use all reasonable efforts to have such registration statement (or a successor or replacement registration statement) become effective with respect thereto as promptly as practicable after the Effective Time and to remain in effect while any of the Converted Options remain exercisable. Parent shall reserve for issuance in connection with the exercise of Converted Options such number of shares of Parent Common Stock as shall be required to be issued upon such exercise.

Section 7.9 Public Announcements. Each of Parent, Sub and the Company agrees that it will not issue any press release or otherwise make any public statement with respect to this Agreement (including the Exhibits hereto) or the transactions contemplated hereby (or thereby) without the prior consent of the other party, which consent shall not be unreasonably withheld or delayed; provided, however, that such disclosure can be made without obtaining such prior consent if (i) the disclosure is required by law or by obligations imposed pursuant to any listing agreement with any national securities exchange or quotation system and (ii) the party making such disclosure has first used its reasonable best efforts to consult with (but not obtain the consent of) the other party about the form and substance of such disclosure.

Section 7.10 Expenses. Except as otherwise set forth in Section 9.2(b), whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement (including the Exhibits hereto) and the transactions contemplated hereby (and thereby) shall be paid by the party incurring such expenses, except that (i) the filing fee in connection with filings under the HSR Act, (ii) the expenses incurred in connection with printing the Registration Statement and the Proxy Statement and (iii) the filing fee with the SEC relating to the Registration Statement or the Proxy Statement will be shared equally by Parent and the Company.

Section 7.11 Listing Application. Parent will use its reasonable best efforts to cause the shares of Parent Common Stock to be issued pursuant to this Agreement in the Merger (as well as the shares of Parent Common Stock issuable after the Effective Time upon exercise of the Parent Options) to be listed for quotation and trading on the Nasdaq National Market.

Section 7.12 Supplemental Disclosure. The Company shall give prompt notice to Parent, and Parent shall give prompt notice to the Company, of (i) the occurrence, or non-occurrence, of any event the occurrence, or non-occurrence, of which would be likely to cause (x) any representation or warranty contained in this Agreement to be untrue or inaccurate or (y) any covenant, condition or agreement contained in this Agreement not to be complied with or satisfied and (ii) any failure of the Company or Parent, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 7.12 shall not have any effect for the purpose of determining the satisfaction of the conditions set forth in Article VIII of this Agreement or otherwise limit or affect the remedies available hereunder to any party.

Section 7.13 Letters of Accountants.

(a) Parent shall use all reasonable efforts to cause to be delivered to the Company a letter of BDO Seidman, LLP, Parent's independent auditors, dated a date within two business days before the date on which the Registration Statement shall become effective and addressed to the Company, in form and substance reasonably satisfactory to the Company and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the Registration Statement, which letter shall be brought down to a date within two business days prior to the Effective Time.

(b) The Company shall use all reasonable best efforts to cause to be delivered to Parent a letter of Miller, Ellin & Company, the Company's independent auditors, dated a date within two business days before the date on which the Registration State shall become effective and addressed to Parent, in form and substance reasonably satisfactory to Parent and customary in scope and substance for letters delivered by independent public accountants in connection with registration statements similar to the Registration Statement, which letter shall be brought down to a date within two business days prior to the Effective Time.

Section 7.14 Recruitment. Prior to the Effective Time, and, if this Agreement is terminated by the Company pursuant to Section 9.1(e)(i) or 9.1(e)(ii), prior to the first anniversary of the date of such termination, neither Parent nor any of its Subsidiaries shall hire or solicit the employment of any employee of the Company or any of its Subsidiaries. Prior to the Effective Time and, if this Agreement is terminated by Parent pursuant to Section 9.1(d)(i) or 9.1(d)(ii) prior to the first anniversary of such termination, neither the Company nor any of its Subsidiaries shall hire or solicit the employment of any employee of Parent or any of its Subsidiaries. If this Agreement terminates without the Merger being consummated except as provided in the preceding sentences of this Section 7.14, neither Parent nor its Subsidiaries, on the one hand, nor the Company nor its Subsidiaries, on the other, will hire or solicit the employment of any employee of any of the others, for a period of six months from the date of such termination.

Section 7.15 Indemnification.

(a) For a period of six years after the Effective Time, Parent shall, and shall cause the Surviving Corporation to, indemnify, defend and hold harmless the present and former directors, officers, employees and agents of the Company and its Subsidiaries (each, an "Indemnified Party") against any and all losses, costs, damages, claims and liabilities (including reasonable attorneys' fees) arising out of the Indemnified Party's service or services as a director, officer, employee or agent of the Company or, if at the Company's request, of another corporation, partnership, joint venture, trust or other enterprise occurring at or prior to the Effective Time (including the transactions contemplated by or related to this Agreement) to the fullest extent permitted under New York Law and the Company's Articles of Incorporation and Bylaws as in effect on the date hereof, including provisions relating to advances of expenses incurred in the defense of any litigation, action, claim or proceeding and whether or not Parent or Surviving Corporation is insured against any such matter. Without limiting the foregoing, in any case in which approval by the Surviving Corporation is required to effectuate any indemnification and subject to the applicable requirements of the NYBCL, the Surviving Corporation shall direct, at the election of the Indemnified Party, that the determination of any such approval shall be made by independent counsel selected by the Surviving Corporation and reasonably acceptable to the Indemnified Party.

(b) The Surviving Corporation or the Parent shall maintain in effect (for at least six years from the Effective Time in the case of claims made policies) directors' and officers' liability insurance policies providing coverage in an aggregate amount of at least \$10,000,000 and with a carrier(s) having a Best rating at least equal to the Best rating of the current carrier(s) covering directors and officers of the Company serving as of or after December 1, 1990 with respect to claims arising from occurrences prior to or at the Effective Time (including the transactions contemplated by or related to this Agreement).

(c) If Parent or the Surviving Corporation or any successors or assigns shall transfer all or substantially all of its assets to any person or entity, then and in each case, proper provision shall be made so that the assigns of Parent or the Surviving Corporation shall assume the obligations set forth in this Section 7.15.

(d) The provisions of this Section 7.15 are intended to be for the benefit of and shall be enforceable by, each Indemnified Party and his or her respective heirs and representatives.

ARTICLE VIII

CONDITIONS TO CONSUMMATION OF THE MERGER

Section 8.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) HSR Approval. Any waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated, and no action shall have been instituted by the Department of Justice or Federal Trade Commission challenging or seeking to enjoin the consummation of this transaction, which action shall have not been withdrawn or terminated.

(b) Stockholder Approvals. This Agreement and the transactions contemplated hereby shall have been approved and adopted by the requisite vote (as described in Section 4.18) of the stockholders of the Company, in accordance with applicable law.

(c) Nasdaq Listing. The shares of Parent Common Stock issuable to the holders of Company Common Stock pursuant to this Agreement in the Merger shall have been authorized for listing on the Nasdaq National Market, upon official notice of issuance.

(d) Registration Statement. The Registration Statement shall have become effective under the Securities Act and shall not be the subject of any stop order or proceeding by the SEC seeking a stop order.

(e) No Order. No Governmental Entity (including a federal or state court) of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which materially restricts, prevents or prohibits consummation of the Merger or any transaction contemplated by this Agreement; provided, however, that the parties shall use their reasonable best efforts to cause any such decree, judgment, injunction or other order to be vacated or lifted.

(f) Approvals. Other than the filing of Merger documents in accordance with the NYBCL, all authorizations, consents, waivers, orders or approvals of, or declarations or filings with, or expirations of waiting periods imposed by, any Governmental Entity the failure of which to obtain, make or occur would, individually or in the aggregate, have a material adverse effect at or after the Effective Time on Parent and its Subsidiaries including the Surviving Corporation and its Subsidiaries, shall have been obtained, been filed or have occurred. Parent shall have received all state securities or "blue sky" permits and other authorizations necessary to issue the shares of Parent Common Stock pursuant to this Agreement in the Merger.

(g) Litigation. No preliminary or permanent injunction or other order shall have been issued by any court or by any governmental or regulatory agency, body or authority which enjoins, restrains or prohibits the transactions contemplated hereby, including the consummation of the Merger or has the effect of making the Merger illegal and which is in effect at the Effective Time (each party agreeing to use its best efforts to have any such injunction or order lifted).

(h) Statutes. No statute, rule, regulation, executive order, decree or order of any kind shall have been enacted, entered, promulgated or enforced by any court or governmental authority which prohibits the consummation of the Merger or has the effect of making the Merger illegal.

(i) Market Events. There shall not have occurred and be continuing any general suspension or limitation of trading in Parent Common Stock (exclusive, however, of any temporary suspension pending an ensuing public announcement) or in securities generally on Nasdaq.

(j) Tax Opinion. The Company shall have received the opinion of Cummings & Lockwood, counsel to the Company, which opinion shall be reasonably satisfactory to Parent, to the effect that the Merger will be treated for United States federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, which opinion shall be dated on or about the date that is two business days prior to the date the Proxy Statement is first mailed to stockholders of the Company and shall have not have been withdrawn or modified in any material respect. Such opinion may be based, as to the matters of fact set forth in such certificates, on certificates of officers of the Company and Parent and of other appropriate persons that are provided to Parent.

Section 8.2 Conditions to Obligations of Parent and Sub to Effect the Merger. The obligations of Parent and Sub to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following additional conditions, unless waived in writing by Parent:

(a) Representations and Warranties. (i) The aggregate effect of all inaccuracies in the representations and warranties of the Company set forth in this Agreement does not and would not reasonably be expected to have a Company Material Adverse Effect and (ii) the representations and warranties of the Company that are qualified with reference to a Company Material Adverse Effect or materiality shall, subject to such qualification, be true and correct and the representations and warranties that are not so qualified shall be true and correct in all material respects, in each case as of the date hereof, and, except to the extent such representations and warranties speak as of an earlier date, as of the Effective Time as though made at and as of the Effective Time, and Parent shall have received a certificate signed on behalf of the Company by the chief executive officer or the chief financial officer of the Company to such effect.

(b) Performance of Obligations of the Company. Each of the Company and its Subsidiaries shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and Parent shall have received a certificate signed on behalf of the Company by the chief executive officer or the chief financial officer of the Company to such effect.

(c) Affiliate Agreements. Parent shall have received the Affiliate Agreements from each of the Affiliates of the Company, as contemplated in Section 7.5.

(d) "Pooling Letter." Parent shall have received from BDO Seidman, LLP a letter, dated the Closing Date and addressed to Parent, to the effect that, subject to customary qualifications, the Merger qualifies for pooling of interests treatment for financial reporting purposes in accordance with GAAP, and Parent shall have received from the Company, with the consent of Miller, Ellin & Company, a copy of a letter, dated the Closing Date, of Miller, Ellin & Company addressed to the Company to the effect that, subject to customary qualifications, the Merger qualifies for pooling of interests for financial reporting purposes in accordance with GAAP.

(e) Letters of Resignation. Parent and Sub shall have received letters of resignation addressed to the Company from the members of the Company's board of directors, which resignations shall be effective as of the Effective Time.

(f) Dissenting Shares. The aggregate number of shares of Company Common Stock into which all Dissenting Shares are convertible shall not constitute more than 9% of the number of shares of Company Common Stock outstanding as of immediately prior to the Effective Time (calculated assuming no dilution).

(g) Legal Opinion. Parent shall have received opinions, dated the Closing Date, of Otterbourg, Steindler, Houston & Rosen, P.C. and Lester Morse, P.C. substantially to the effect set forth in Exhibit C hereto, subject to assumptions, qualifications and limitations reasonably satisfactory to Parent, which opinions shall be reasonably satisfactory to Parent.

(h) The Company's 1996 Directors' Retirement Plan shall have terminated and neither the Company, Parent nor any of their respective Subsidiaries shall have any liability or obligation to any person arising under or in respect of such plan.

Section 8.3 Conditions to Obligation of the Company to Effect the Merger. The obligation of the Company to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following additional conditions:

(a) Representations and Warranties. (i) The aggregate effect of all inaccuracies in the representations and warranties of Parent set forth in this Agreement does not and will not have a Parent Material Adverse Effect and (ii) the representations and warranties of Parent contained in this Agreement that are qualified with reference to a Parent Material

Adverse Effect or materiality shall be true and correct and the representations and warranties that are not so qualified shall be true and correct in all material respects as of the date hereof, and, except to the extent such representations and warranties speak as of an earlier date, as of the Effective Time as though made on and as of the Effective Time, and the Company shall have received a certificate signed on behalf of Parent by the chief executive officer or the chief financial officer of Parent to such effect.

(b) Performance of Obligations of Parent and Sub. Each of Parent and Sub shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and the Company shall have received a certificate signed on behalf of Parent by the chief executive officer or the chief financial officer of Parent to such effect.

(c) Legal Opinion. The Company shall have received an opinion, dated the Closing Date, of Proskauer Rose Goetz & Mendelsohn LLP, reasonably satisfactory to the Company, substantially to the effect set forth in Exhibit D hereto.

#### ARTICLE IX

#### TERMINATION

Section 9.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval by the stockholders of the Company:

(a) by mutual consent of Parent and the Company;

(b) by either Parent or the Company, if (i) the Merger shall not have been consummated before September 30, 1997, or (ii) the approval of the stockholders of the Company required by Section 4.18 shall not have been obtained at a meeting duly convened therefor or any adjournment thereof (unless, in the case of any such termination pursuant to this Section 9.1(b), the failure to so consummate the Merger by such date or to obtain such stockholder approval shall have been caused by the action or failure to act of the party (or its Subsidiaries) seeking to terminate this Agreement, which action or failure to act constitutes a breach of this Agreement);

(c) by either Parent or the Company, if any permanent injunction or action by any Governmental Entity of competent jurisdiction preventing the consummation of the Merger shall have become final and nonappealable; provided, however, that the party seeking to terminate this Agreement pursuant to this Section 9.1(c) shall have used all reasonable efforts to remove such injunction or overturn such action;

(d) by Parent, if (i) there has been a breach of any representations or warranties of the Company set forth herein the effect of which, individually or together with all other

such breaches, is a Company Material Adverse Effect, (ii) there has been a breach in any material respect of any of the covenants or agreements set forth in this Agreement on the part of the Company, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by Parent to the Company, (iii) the Board of Directors of the Company (x) withdraws or amends or modifies in a manner materially adverse to Parent or Sub its recommendation or approval in respect of this Agreement or the Merger, (y) makes any recommendation with respect to an Acquisition Transaction (including making no recommendation or stating an inability to make a recommendation), other than a recommendation to reject such Acquisition Transaction, or (z) takes any action that would be prohibited by Section 7.2, (iv) any corporation, partnership, person or other entity or group ("Acquiring Person") other than Parent, or any affiliate or Subsidiary of Parent, shall have become the beneficial owner of more than 20% of the outstanding voting equity of the Company (either on a primary or a fully diluted basis); provided, however that "Acquiring Person" shall not include any corporation, partnership, person, other entity or group which beneficially owns as of the date hereof (either on a primary or a fully diluted basis) more than 20% of the outstanding voting equity of the Company (either on a primary or a fully diluted basis) and which has not after the date hereof increased such ownership percentage by more than an additional 1% of the outstanding voting equity of the Company (either on a primary or a fully diluted basis), or (v) any other Acquisition Transaction shall have occurred with any Acquiring Person other than Parent, or any affiliate or Subsidiary of Parent;

(e) by the Company, if (i) there has been a breach of any representations or warranties of Parent set forth herein the effect of which, individually or together with all other such breaches, is a Parent Material Adverse Effect, (ii) there has been a breach in any material respect of any of the covenants or agreements set forth in this Agreement on the part of Parent, which breach is not curable or, if curable, is not cured within 30 days after written notice of such breach is given by the Company to Parent or (iii) such termination is necessary to allow the Company to enter into an Acquisition Transaction in accordance with Section 7.2(b); and

(f) by Parent, if the meeting of stockholders of the Company to vote upon this Agreement is canceled or is otherwise not held prior to August 31, 1997 except as a result of a judgment, injunction, order or decree of any competent authority or events or circumstances beyond the reasonable control of the Company.

#### Section 9.2 Effect of Termination.

(a) In the event of termination of this Agreement pursuant to this Article IX, the Merger shall be deemed abandoned and this Agreement shall forthwith become void, without liability on the part of any party hereto, except as provided in this Section 9.2, Section 7.1, Section 7.10 and Section 7.14.

(b) If (x) Parent shall have terminated this Agreement pursuant to Sections 9.1(d)(iii), 9.1(d)(iv) or 9.1(d)(v) or (y) either (1) Parent or the Company shall have terminated



this Agreement pursuant to Section 9.1(b) or (2) Parent shall have terminated this Agreement pursuant to Section 9.1(d)(i), 9.1(d)(ii) or 9.1(f) and, prior to or within one (1) year after any termination described in this clause (y), the Company (or any of its Subsidiaries) shall have directly or indirectly entered into a definitive agreement for, or shall have consummated, an Acquisition Transaction or (z) the Company shall have terminated this Agreement pursuant to Section 9.1(e)(iii), then, in any of such cases, the Company shall pay Parent (A) a termination fee of five million dollars (\$5,000,000), plus (B) an amount equal to Parent's actual, documented out-of-pocket expenses incurred in connection with this Agreement and the transactions contemplated hereby, including, without limitation, legal, professional and service fees and expenses; provided, however, that any liquidated damage amounts previously paid by the Company to Parent pursuant to Section 9.2(c) shall be credited against the termination fee payable under this Section 9.2(b); provided further, however, that no amounts paid in respect of expenses pursuant to Section 9.2(c) shall be credited against any additional expenses covered hereunder and not previously paid under Section 9.2(c). Any fees or amounts payable under this Section 9.2(b) shall be paid in same day funds no later than: (i) two business days after a termination described in clause (x) of this Section 9.2(b); (ii) concurrently with or prior to the entering into of the definitive agreement for, or the consummation of, such Acquisition Transaction, in the case of a termination described in clause (y) of this Section 9.2(b); or (iii) concurrently with or prior to a termination described in clause (z) of this Section 9.2(b).

(c) If Parent shall have terminated this Agreement pursuant to Sections 9.1(d)(i), 9.1(d)(ii) or 9.1(f), then, in any of such cases, the Company shall pay to Parent as liquidated damages and not as a penalty, three million dollars (\$3,000,000). Such liquidated damage amount shall be payable no later than two business days after such termination.

(d) If the Company shall have terminated this Agreement pursuant to Section 9.1(e)(i) or 9.1(e)(ii), then, in either such case, Parent shall pay to the Company as liquidated damages and not as a penalty, three million dollars (\$3,000,000). Such liquidated damage amount shall be payable no later than two business days after such termination.

#### ARTICLE X

##### GENERAL PROVISIONS

Section 10.1 Amendment and Modification. At any time prior to the Effective Time, this Agreement may be amended, modified or supplemented only by written agreement (referring specifically to this Agreement) of Parent, Sub and the Company with respect to any of the terms contained herein; provided, however, that after any approval and adoption of this Agreement by the stockholders of the Company, no such amendment, modification or supplementation shall be made which under applicable law requires the approval of such stockholders, without the further approval of such stockholders.

Section 10.2 Waiver. At any time prior to the Effective Time, Parent and Sub, on the one hand, and the Company, on the other hand, may (i) extend the time for the performance

of any of the obligations or other acts of the other, (ii) waive any inaccuracies in the representations and warranties of the other contained herein or in any documents delivered pursuant hereto and (iii) waive compliance by the other with any of the agreements or conditions contained herein which may legally be waived. Any such extension or waiver shall be valid only if set forth in an instrument in writing specifically referring to this Agreement and signed on behalf of such party.

Section 10.3 Survivability; Investigations. The respective representations and warranties of Parent and the Company contained herein or in any certificates or other documents delivered prior to or as of the Effective Time (i) shall not be deemed waived or otherwise affected by any investigation made by any party hereto and (ii) shall not survive beyond the Effective Time. The covenants and agreements of the parties hereto (including the Surviving Corporation after the Merger) shall survive the Effective Time without limitation (except for those which, by their terms, contemplate a shorter survival period).

Section 10.4 Notices. All notices and other communications hereunder shall be in writing and shall be delivered personally or by next-day courier or telecopied with confirmation of receipt, to the parties at the addresses specified below (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof. Any such notice shall be effective upon receipt, if personally delivered or telecopied, or one day after delivery to a courier for next-day delivery.

(a) If to Parent or Sub, to:

Henry Schein, Inc.  
135 Duryea Road  
Melville, New York 11747  
Fax: (516) 843-5675

Attention: Mark E. Mlotek, Esq.

with a copy to:

Proskauer Rose Goetz & Mendelsohn LLP  
1585 Broadway  
New York, New York 10036  
Fax: (212) 969-2900

Attention: Robert A. Cantone

(b) if to the Company, to:

Micro Bio-Medics, Inc.  
864 Pelham Parkway  
Pelham Manor, New York 10803  
Fax: (914) 738-9538

Attention: Bruce J. Haber, Esq.

with a copy to:

Otterbourg, Steindler, Houston & Rosen, P.C.  
230 Park Avenue  
New York, New York 10169  
Fax: (212) 682-6104

Attention: Donald N. Gellert, Esq.

Section 10.5 Descriptive Headings; Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. References in this Agreement to Sections, Schedules, Exhibits or Articles mean a Section, Schedule, Exhibit or Article of this Agreement unless otherwise indicated. The term "person" shall mean and include an individual, a partnership, a joint venture, a limited liability company, a corporation, a trust, a Governmental Entity or an unincorporated organization.

Section 10.6 Entire Agreement; Assignment. This Agreement (including the Schedules and other documents and instruments referred to herein), together with the Proxy and Option Agreement and the Confidentiality Agreement, constitute the entire agreement, and supersede all other prior agreements and understandings, both written and oral, among the parties or any of them, with respect to the subject matter hereof. This Agreement is not intended to confer upon any person not a party hereto any rights or remedies hereunder. This Agreement shall not be assigned by operation of law or otherwise; provided that Parent or Sub may assign its rights and obligations hereunder to a direct or indirect subsidiary of Parent, but no such assignment shall relieve Parent or Sub, as the case may be, of its obligations hereunder.

Section 10.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the provisions thereof relating to conflicts of law, except to the extent relating to matters governed by the General Corporation Law of the State of Delaware.

Section 10.8 Severability. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect against a party hereto, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby and such invalidity, illegality or unenforceability shall only apply as to such party in the specific jurisdiction where such judgment shall be made.

Section 10.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

IN WITNESS WHEREFORE, each of Parent, Sub and the Company has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the date first above written.

HENRY SCHEIN, INC.

By: /s/ Mark Mlotek  
-----  
Name:  
Title:

MICRO BIO-MEDICS, INC.

By: /s/ Bruce Haber  
-----  
Name:  
Title:

HSI ACQUISITION CORP.

By: /s/ Mark Mlotek  
-----  
Name:  
Title:

AFFILIATE AGREEMENT

AGREEMENT dated March 7, 1997, between Henry Schein, Inc., a Delaware corporation ("Parent"), and the undersigned stockholder (the "Affiliate") of Micro Bio- Medics, Inc., a New York corporation (the "Company").

In order to induce Parent to consummate that certain Agreement and Plan of Merger, dated the date hereof (the "Merger Agreement"), by and among Parent, Manor Acquisition Corp., a New York corporation and wholly owned subsidiary of Parent, and the Company, and in consideration of the agreements contained herein and in the Merger Agreement;

The parties hereto agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Act" shall mean the Securities Act of 1933, as amended.

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Act.

"Person" shall mean an individual, corporation, partnership, limited liability company, trust or other entity or organization.

"Transfer" shall mean to transfer, sell, assign, pledge, hypothecate, convey or otherwise dispose of.

2. Rule 145. The Affiliate shall hold the Parent Common Stock (as such term is defined in the Merger Agreement) that he or she receives pursuant to the Merger Agreement subject to all applicable provisions of the Act and the rules and regulations promulgated by the Commission thereunder and shall not make an illegal "distribution" (within the meaning of the Act and Rule 145 promulgated thereunder) of such Parent Common Stock. Without limiting the generality of the foregoing, the Affiliate:

(a) shall not sell any Parent Common Stock until after the publication of financial statements reflecting the combined operating results of Parent and the Company for a period of not less than 30 days from and after the Effective Time (as such term is defined in the Merger Agreement);

(b) shall not transfer any Parent Common Stock unless (i) the transfer is being made in accordance with the provisions of Rule 145 (as it

may be amended from time to time) and such Affiliate shall have delivered written notice to Parent substantially in the forms annexed hereto and made a part hereof as Annex A and Annex B, (subject to any appropriate amendments thereto as a result of any amendments to Rule 145), (ii) Parent shall have been furnished with an opinion of counsel, in form and substance reasonably satisfactory to Parent's counsel, that registration under the Act is not required in respect of such transfer or (iii) a registration statement covering the shares proposed to be transferred and the proposed transfer thereof has been filed by Parent with the Commission and has become effective under the Act; and

(c) shall consent to the imposition of a legend on the Parent Common Stock to be received by such Affiliate in connection with the merger contemplated by the Merger Agreement to the effect that such Parent Common Stock may not be sold except in compliance with the Act.

3. Successors and Assigns; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties and their respective heirs, personal representatives, successors and permitted assigns. Except as otherwise herein provided, no party shall assign such party's rights or obligations hereunder without the other party's prior written consent.

4. Notices. All notices and other communications hereunder shall be in writing and shall be delivered personally or by next-day courier or telecopied with confirmation of receipt, to the parties at the addresses specified below (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof. Any such notice shall be effective upon receipt, if personally delivered or telecopied, or one day after delivery to a courier for next-day delivery.

(a) If to Parent, to:

Henry Schein, Inc.  
135 Duryea Road  
Melville, New York 11747

Attention: Mark E. Mlotek

with a copy to:

Proskauer Rose Goetz & Mendelsohn LLP  
1585 Broadway  
New York, New York 10036

Attention: Robert A. Cantone, Esq.

(b) if to the Affiliate, to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Injunctive Relief; Remedies Cumulative. (a) Parent, on the one hand, and the Affiliate, on the other hand, acknowledge that the other party will be irreparably harmed and that there will be no adequate remedy at law for a violation of any of the covenants or agreements of such party that are contained in this Agreement. It is accordingly agreed that, in addition to any other remedies that may be available to the non-breaching party upon the breach by any other party of such covenants and agreements, the non-breaching party shall have the right to obtain injunctive relief to restrain any breach or threatened breach of such covenants or agreements or otherwise to obtain specific performance of any of such covenants or agreements.

(b) No remedy conferred upon or reserved to any party herein is intended to be exclusive of any other remedy, and every remedy shall be cumulative and in addition to every other remedy herein or now or hereafter existing at law, in equity or by statute.

6. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the provisions thereof relating to conflicts of law.

7. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

8. Effect of Partial Invalidity. Whenever possible, each provision of this Agreement shall be construed in such a manner as to be effective and valid under applicable law. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect against a party hereto, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby and such invalidity, illegality or unenforceability shall only apply as to such party in the specific jurisdiction where such judgment shall be made.

IN WITNESS WHEREOF, this Agreement has been executed by the parties as of the date first above written.

HENRY SCHEIN, INC.

By: \_\_\_\_\_

Name:

Title:

AFFILIATE:

\_\_\_\_\_

\_\_\_\_\_

[Please Print Name]



Henry Schein, Inc.  
135 Duryea Road  
Melville, New York 11747  
Attention: Mark E. Mlotek, Esq.

Ladies and Gentlemen:

I propose to sell \_\_\_\_\_ shares (the "Shares") of Parent Common Stock that I received in connection with the business combination of Parent and MBM. I propose to effect such sale through \_\_\_\_\_, my broker, in accordance with the requirements relating to sales by "affiliates" under Rule 145 under the Securities Act of 1933, as amended.

To induce you to remove the restrictive legend from the stock certificate(s) representing such Shares, I hereby represent and warrant as follows:

1. It is my bona fide intention to sell the Shares within 90 days from the date hereof. If for some reason all of the Shares have not been sold within such 90 day period, I will send to Parent the stock certificate evidencing the balance of the Shares which were not sold in order that a restrictive legend may be placed thereon. The Shares are presently evidenced by stock certificate no.(s) \_\_\_\_\_, which stock certificate (s) represent(s) an aggregate of \_\_\_\_\_ shares of Parent Common Stock. I understand that to the extent such certificate(s) represent(s) a greater number of shares of Parent Common Stock than those proposed to be sold, a new stock certificate for the balance of such shares of Parent Common Stock will be sent to me with the same restrictive legend as is presently affixed to my certificate(s).

2. As of the date of this letter and as of the time of any sale of the Shares for my account, the aggregate number of shares of Parent Common Stock sold during the preceding three months for my account and for the account of any person whose sales are required by Rule 144 under the Securities Act of 1933, as amended, to be aggregated with my sales have not and will not exceed the greater of: (a) 1% of the outstanding Parent Common Stock, or (b) the average weekly reported volume of trading in Parent Common Stock on all securities exchanges or quotation systems during the four calendar weeks preceding the date of sale of such Shares.

3. During the past three months I have not and during the next three months I will not, alone or in conjunction with others, sell any Parent Common Stock

under circumstances which could jeopardize the exemption from registration available under Rule 145 and Rule 144.

4. I have not solicited or arranged for the solicitation of, and I will not solicit or arrange for the solicitation of, orders to buy the Shares in anticipation of or in connection with such proposed sale.

5. I have not made, and will not make, any payment in connection with the offering or sale of the Shares to any person other than the payment of the usual and customary broker's commission to \_\_\_\_\_.

Very truly yours,

A-2

Henry Schein, Inc.  
135 Duryea Road  
Melville, New York 11747  
Attention: Mark E. Mlotek, Esq.

Ladies and Gentlemen:

We have been asked to sell \_\_\_\_\_ shares (the "Shares") of Parent Common Stock owned by \_\_\_\_\_ ("Seller"). We understand that the Seller is an "affiliate" within the meaning of Rule 145 promulgated under the Securities Act of 1933, as amended, and that sales by him of the Shares must comply with certain provisions of Rule 144 under such Act.

To induce you to remove the restrictive legend from the stock certificate evidencing the Shares so that they may be transferred pursuant to Rules 144 and 145, we hereby represent and warrant as follows:

1. We have made reasonable inquiry as required by paragraph (g)(3) of Rule 144 and, based upon such inquiry, we are not aware of circumstances indicating that the Seller is an underwriter with respect to the Shares or that the transaction is part of a distribution of the Shares.

2. The Shares for which we are acting as broker will be sold by us in "brokers' transactions" as defined in paragraph (g) of Rule 144.

3. Neither the Seller nor we have solicited or arranged nor will we solicit or arrange for the solicitation of orders to buy the Shares (except as permitted by Rule 144) nor have we received nor will we receive any payment in connection with the sale of the Shares other than usual and customary brokerage commissions.

Very truly yours,

B-1

## OPTION AND PROXY AGREEMENT

OPTION AND PROXY AGREEMENT dated as of March 7, 1997, by and among Henry Schein, Inc., a Delaware corporation ("Parent"), and the persons listed on Schedule A hereto (collectively, the "Shareholders" and each a "Shareholder"), each a shareholder of Micro Bio-Medics, Inc. a New York corporation (the "Company").

Contemporaneously with the execution of this Agreement, the Company, Parent and HSI Acquisition Corp., a New York corporation and wholly-owned subsidiary of Parent ("Sub"), are entering into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which it is contemplated that Sub will be merged with and into the Company (the "Merger") and the holders of the Company's Common Stock, par value \$.03 per share (the "Company Common Stock"), will be entitled to receive shares of Parent's Common Stock, par value \$.01 per share ("Parent Common Stock"), for such shares of Company Common Stock.

Parent, as a condition to its willingness to enter into the Merger Agreement, has required the Shareholders to grant Parent an option and an irrevocable proxy with respect to all of the shares of Company Common Stock owned by the Shareholders (except as expressly noted below), together with any additional shares of Company Common Stock hereafter acquired by the Shareholders (pursuant to Section 10, by exercise of options or warrants, by conversion of debentures or otherwise and including any Additional Shares (as defined below) acquired by such Shareholder) (such specified number of shares, and any additional shares when and if acquired, being referred to as the "Shares") on the terms and conditions hereinafter set forth.

The parties hereto agree as follows:

1. Grant of Option.

(a) Each Shareholder hereby grants to Parent an option (collectively, the "Options") to purchase all but not less than all of that Shareholder's Shares (exclusive of those Shares beneficially owned by Deane Reade that are currently held in pension plans and approximately 20,000 shares currently held in Deane Reade margin accounts subject to the terms thereof (the "Excluded Reade Shares"). Except as otherwise provided in Section 1(b), the consideration for the purchase of such Shareholder's Shares shall be the issuance to such Shareholder of the number of shares of Parent Common Stock that such Shareholder would have been entitled to receive by virtue of the Merger had the Effective Time (as defined in the Merger Agreement) occurred at the time of the exercise of the Options.

(b) Each Shareholder hereby agrees to exercise all options, warrants or other rights to acquire any Shares, and to convert or exchange any securities or other rights that are convertible into or exchangeable for Shares, whether now owned or hereafter acquired by

such Shareholder (collectively, "Rights"), in connection with any exercise by Parent of the Options in order to permit the acquisition by Parent of the Shares receivable upon such exercise, conversion or exchange (the "Additional Shares") pursuant to the exercise of the Options. To the extent that a Shareholder is obligated to pay any consideration in connection with the exercise, conversion or exchange of such Shareholder's Rights (the "Rights Consideration"), such Rights Consideration shall be paid in such form as is permitted under the Rights as Parent shall direct. If payment of the Rights Consideration is to be made in cash, Parent shall fund such payment; if payment of a Shareholder's Rights Consideration may be made by delivery of shares of Company Common Stock, at Parent's direction such Shareholder shall deliver that number of shares owned by him or her in payment (or partial payment, as the case may be) of the Rights. If any Right is to be exercised by means of a "cashless exercise," the Shareholder exercising such Right shall cause the net number of shares from such cashless exercise to be issued and delivered to Parent. In the event that Parent funds any Rights Consideration payment on behalf of any Shareholder (i) the number of shares of Parent Common Stock to be issued by Parent in respect of the Additional Shares that were acquired pursuant to the payment of such Rights Consideration shall be reduced by that number of shares (rounded to the nearest whole share) as is equal to the quotient obtained by dividing the aggregate amount of Rights Consideration so paid by Parent by the closing sales prices of the Parent Common Stock on the last trading date prior to the exercise of the Options; and (ii) if the funding of the Rights Consideration payment on behalf of such Shareholder subjects such Shareholder to income tax in respect of such payment, the Parent shall pay to such Shareholder the amount of such income tax, provided such Shareholder shall cooperate with Parent (at Parent's expense) in disputing the imposition of such income tax; and provided further, that if Parent determines in good faith that there is a basis for disputing all or any amount of the income tax imposed, Parent shall be entitled to direct any such dispute, but shall indemnify the Executive against any additional income tax for which he or she may become liable as a result.

(c) Each Shareholder agrees not to acquire any Right that provides, whether contingent or otherwise, for any reduction in the amount of the Rights Consideration payable upon the exercise, conversion or exchange of such Right, whether or not such reduction is contingent or fixed as to occurrence or amount, and shall immediately decline in writing any such Right that may be granted to him or her.

2. Exercise of Option. The Options, in each case, shall be exercisable, in whole, but not in part, by Parent as follows:

(a) If the Merger Agreement is terminated by Parent pursuant to Sections 9.1(d)(iii), 9.1(d)(iv) or 9.1(d)(v) of the Merger Agreement, or by the Company pursuant to Section 9.1(e)(iii) of the Merger Agreement, then Parent may exercise the Options at any time during the six month period beginning on the date of such termination, provided, however, that if the Company is the terminating party, Parent's right to exercise the Options shall commence on the earlier of Parent's receipt of notice of such termination and such time as knowledge of such termination becomes publicly available.

(b) If (i) the Merger Agreement is terminated by Parent pursuant to Sections 9.1(d)(i), 9.1(d)(ii) or 9.1(f) of the Merger Agreement, or by either Parent or the Company pursuant to Section 9.1(b), and the Company (or any of its Subsidiaries shall have, directly or indirectly, entered into a definitive agreement for, or shall have consummated, an Acquisition Transaction, as that term is defined in the Merger Agreement, within one year of such termination, then Parent may exercise the Options during the period beginning on the earlier of the date on which Parent first receives notice of the occurrence of the event triggering HSI's right to exercise the Options and the date on which such event becomes publicly known and (except as otherwise provided below) ending on the date three business days after the date that the Acquisition Transaction (or any successive Acquisition Transaction or any other Acquisition Transaction made in response thereto) occurs.

At any time when Parent wishes to exercise the Options, Parent shall give written notice (the "Notice") to the Shareholders specifying a place and a date not less than two nor more than 20 business days from the date of the Notice for the closing of such purchase (the "Closing"); provided, however, that such date may be extended to the extent necessary to comply with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and applicable regulations thereunder. The date on which the Parent gives the Notice shall be deemed to be the date on which the Options are exercised. Each Shareholder agrees to the use his or her reasonable best efforts (subject to any applicable fiduciary duties) to give Parent at least five business days prior written notice of the occurrence of any event triggering Parent's right to exercise the Options.

3. Payment and delivery of Certificate(s). At the Closing hereunder:

(a) Parent will deliver to the Shareholders the shares of Parent Common Stock to be issued in consideration for the Shares being purchased upon exercise of the Options as provided in Section 1; and

(b) the Shareholders will deliver to Parent against receipt of the shares of Parent Common Stock as provided in Section 3(a), a certificate or certificates representing the number of Shares so purchased by Parent duly endorsed or with executed blank stock powers attached, in either event with signature guaranteed such that registered ownership of the Shares may be registered for transfer on the books of the Company.

4. Irrevocable Proxy. Each Shareholder hereby irrevocably constitutes and appoints Parent or any designee of Parent the lawful agent, attorney and proxy of such Shareholder during the term of this Agreement, to vote all of his, her or its Shares (excluding the Excluded Reade Shares") and Additional Shares and, in the case of Bruce Haber, all shares of Company Common Stock owned by Andrew D. Stone that he has an irrevocable proxy to vote (the "Stone Shares") at any meeting or in connection with any written consent of the Company's shareholders (a) in favor of the Merger, (b) in favor of the Merger Agreement, as such may be modified or amended from time to time, (c) against any Acquisition Transaction (other than the Merger) or other merger, sale, or other business combination between the Company and any

other person or entity or any other action which would make it impractical for Parent to effect a merger or other business combination of the Company with Parent or Sub, and (d) against any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Company under the Merger Agreement or which would result in any of the Company's obligations under the Merger Agreement not being fulfilled. This proxy shall not authorize Parent to vote the Shares of the Stone Shares on any matters other than those specified above which may be presented to the Company's shareholders at any meeting or in connection with any written consent of the Company's shareholders. This power of attorney is irrevocable, is granted in consideration of Parent entering into the Merger Agreement and is coupled with an interest sufficient in law to support an irrevocable power. This appointment shall revoke all prior attorneys and proxies appointed by any Shareholder at any time with respect to the Shares or the Stone Shares and the matters set forth in clauses (a) through (d) above and no subsequent attorneys or proxies will be appointed by such Shareholder, or be effective, with respect thereto.

5. Representations and Warranties of the Shareholders. Each Shareholder represents and warrants to Parent as follows:

(a) Ownership of Shares and Rights. That Shareholder is the sole beneficial owner of the number of Rights set forth as being granted to that Shareholder on Schedule A. The Rights set forth opposite that Shareholder's name on Schedule A constitute all the Rights owned beneficially or of record by that Shareholder. The Shares owned by that Shareholder are validly issued, fully paid and nonassessable and such Shares (excluding the Excluded Redeemable Shares) and/or the Rights set forth opposite that Shareholder's name on Schedule A, are held by that Shareholder, or by a nominee or custodian for the benefit of that Shareholder, free and clear of all liens, claims, security interests, agreements and other encumbrances, except for encumbrances arising under this Agreement.

(b) Power; Binding Agreement. That Shareholder has the legal capacity to enter into and perform all of that Shareholder's obligations under this Agreement. The execution, delivery and performance of this Agreement by that Shareholder will not violate any other agreement to which that Shareholder is a party, including, without limitation, any voting agreement, shareholders agreement or voting trust. This Agreement has been duly and validly executed and delivered by that Shareholder and constitutes a valid and binding obligation of that Shareholder, enforceable against that Shareholder in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject to general principles of equity. If that Shareholder is married and that Shareholder's Shares constitute community property, this Agreement has been duly authorized, executed and delivered by, and constitutes a valid and binding obligation of, that Shareholder's spouse, enforceable against that spouse in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject to general principles of equity.

(c) Consents and Approvals; No Violation. Neither the execution and delivery of this Agreement by that Shareholder nor the consummation of the transactions contemplated by this Agreement will: (i) require any consent, approval, authorization or permit of, or filing with or notification to, any person or entity or any governmental or regulatory authority, except in connection with the HSR Act or pursuant to the Securities Exchange Act of 1934; (ii) conflict with, result in a breach of, or result in a default (or give rise to a right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, license, agreement or other instrument or obligation to which that Shareholder is a party or by which that Shareholder or any of that Shareholder's assets may be bound; or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to that Shareholder or by which any of that Shareholder's assets are bound.

(d) Brokers. No broker, finder or other investment banker is entitled to any broker's, finder's or other similar fee or commission in connection with this Agreement or the transactions contemplated by this Agreement based upon agreements made by or on behalf of that Shareholder.

6. Representations and Warranties of Parent. Parent represents and warrants to each Shareholder that:

(a) Power; Binding Agreement. Parent has the corporate power and authority to enter into and perform all its obligations under this Agreement. The execution, delivery and performance of this Agreement by Parent will not violate any other agreement to which Parent is a party. This Agreement has been duly and validly authorized, executed and delivered by Parent and constitutes a valid and binding obligation of Parent, enforceable against Parent in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject to general principles of equity.

(b) Consents and Approvals; No Violation. Neither the execution and delivery of this Agreement by Parent nor the consummation by Parent of the transactions contemplated by this Agreement will: (i) require any consent, approval, authorization or permit of, or filing with or notification to, any person or entity or any governmental or regulatory authority, except in connection with the HSR Act or pursuant to the Securities Exchange Act of 1934; (ii) conflict with, result in a breach of, or result in a default (or give rise to a right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, license, agreement or other instrument or obligation to which Parent is a party or by which Parent or any of its assets may be bound; or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Parent or by which any of its assets are bound.

(c) Brokers. No broker, finder or other investment banker is entitled to any broker's, finder's or other similar fee or commission in connection with this Agreement or the transactions contemplated by this Agreement based upon agreements made by or on behalf of Parent.



7. Additional Covenants of the Shareholders. Each Shareholder hereby covenants and agrees that:

(a) that Shareholder will not enter into any transaction, take any action, or by inaction permit any event to occur that would (i) result in any of the representations or warranties of such Shareholder herein contained not being true and correct at and as of the time immediately after the occurrence of such transaction, action or event; or (ii) have the effect of preventing or disabling that Shareholder from performing that Shareholder's obligations under this Agreement;

(b) that Shareholder will not grant any proxies or powers of attorney with respect to any shares, deposit any Shares into a voting trust or enter into a voting agreement with respect to such Shares; provided, however, that the Shareholders may grant proxies to third parties provided that such proxies are expressly made subject to the terms of this Agreement;

(c) until the termination of this Agreement, such Shareholder will at all times use his, her or its best efforts in his, her or its capacity as a shareholder of the Company to prevent the Company from taking any action in violation of the Merger Agreement;

(d) from and after the date hereof until the termination of this Agreement, other than under the circumstances contemplated by Section 10 hereof, the Shares will not be sold, transferred, pledged, hypothecated, transferred by gift, or otherwise disposed of in any manner whatsoever without notifying Parent in advance and obtaining and delivering to Parent any evidence that Parent may reasonably request to evidence the transferee's agreement to be bound by this Agreement; provided, however, that in the event of such Shareholder's death during the term of this Agreement, the Shares and Rights may be transferred in accordance with the Shareholder's last will and testament, or if none, in accordance with the applicable laws of intestate succession, in either of which cases, the Shares shall remain subject in all respects to the terms of this Agreement; and

(e) the Shareholder will execute and deliver any additional documents reasonably necessary or desirable, in the opinion of Parent's or the Company's counsel, to evidence the irrevocable proxy granted in Section 4 with respect to the Shares or otherwise implement and effect the provisions of this Agreement.

8. No Solicitation. No Shareholder shall, in that Shareholder's capacity as such, directly or indirectly, (a) solicit, initiate, facilitate or encourage (including by way of furnishing or disclosing non-public information) any inquiries or the making of any proposal with respect to any Acquisition Transaction, (b) negotiate, explore or otherwise engage in discussion with any person (other than Parent and its representatives) with respect to any Acquisition Transaction, (c) agree to or endorse an Acquisition Transaction with any person (other than Parent or Sub) or any agreement, arrangement or understanding with respect to any such Acquisition Transaction or which would require the Company to abandon, terminate or fail to consummate the Merger or any other transaction contemplated by this Agreement, or (d)

authorize or permit any person or entity acting on behalf of that Shareholder to do any of the foregoing. If any Shareholder receives any inquiry or proposal regarding any Acquisition Transaction, that Shareholder shall promptly inform Parent of that inquiry or proposal.

9. Legending of Certificates; Nominee Shares. Each Shareholder agrees to submit to Parent contemporaneously with or promptly following execution of this Agreement (or promptly following receipt of any additional certificates representing any additional Shares) all certificates representing the Shares so that Parent may note thereon a legend referring to the option and proxy granted to it by this Agreement. If any of the Shares beneficially owned by a Shareholder are held of record by a brokerage firm in "street name" or in the name of any other nominee (a "Nominee," and, as to such Shares, "Nominee Shares"), the Shareholder agrees that, upon written notice by Parent requesting it, such Shareholder will within five days of the giving of such notice execute and deliver to Parent a limited power of attorney in such form as shall be reasonably satisfactory to Parent enabling Parent to require the Nominee to grant to Parent an option and irrevocable proxy to the same effect as Sections 1, 2 and 4 hereof with respect to the Nominee Shares held by such Nominee and to submit to Parent the certificates representing such Nominee Shares for notation of the above-referenced legend thereon.

10. Adjustments to Prevent Dilution, Etc. In the event of a stock dividend or distribution, or any change in Company Common Stock by reason of any stock dividend, split-up, recapitalization, combination, exchange of shares or the like, the term "Shares" shall be deemed to refer to and include the Shares as well as all such stock dividends and distributions and any shares into which or for which any or all of the Shares may be changed or exchanged.

11. Shareholder Capacity. No person executing this Agreement who is or becomes during the term of this Agreement a director of the Company makes any agreement in his or her capacity as a director. Each Shareholder is executing and delivering this Agreement solely in that Shareholder's capacity as the record and beneficial owner of that Shareholder's Shares. Notwithstanding anything to the contrary in this Agreement, no action or inaction by a Shareholder in his capacity as a director, officer, or employee of the Company shall be deemed to contravene Section 8, as long as the action or inaction does not contravene Section 7.2 of the Merger Agreement.

12. Termination. This Agreement shall terminate on the earlier of (i) the Effective Time of the Merger, (ii) the termination of the last period of time during which Parent could have exercised the Options pursuant to Section 2; provided, however, that the appointment of Parent or any designee of Parent as agent, attorney and proxy pursuant to Section 4 hereof, and any proxy or other instrument executed pursuant thereto, shall in any event automatically terminate upon the termination of the Merger Agreement. Notwithstanding the foregoing, in the event that Parent is at any time prohibited from exercising the Options as a result of any actions by the Federal Trade Commission or the Department of Justice in connection with the HSR Act, then this Agreement shall not terminate until (i) the earlier of 30 days from the date such prohibition is removed by the Federal Trade Commission or the Department of Justice, or (ii) six months after the date Parent's right to exercise the Options would otherwise have terminated.

13. Miscellaneous.

(a) No Waiver. The failure of any party to exercise any right, power or remedy under this Agreement or otherwise available in respect of this Agreement at law or in equity, or to insist upon compliance by any other party with that party's obligations under this Agreement, shall not constitute a waiver of any right to exercise any such or other right, power or remedy or to demand such compliance.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be delivered personally or by next-day courier or telecopied with confirmation of receipt, to the parties at the addresses specified below (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof). Any such notice shall be effective upon receipt, if personally delivered or telecopied, or one day after delivery to a courier for next-day delivery.

(i) If to Parent, to:

Henry Schein, Inc.  
135 Duryea Road  
Melville, New York 11747  
Attn: Mark E. Mlotek, Esq.

with a copy to:

Proskauer Rose Goetz & Mendelsohn LLP  
1585 Broadway  
New York, New York 10036  
Attention: Robert A. Cantone, Esq.

(ii) if to a Shareholder, to:

c/o Bruce Haber  
Micro Bio-Medics  
846 Pelham Manor  
New York, NY 10803

with a copy to:

Otterbourg, Steindler, Houston & Rosen  
230 Park Avenue  
New York, New York 10169  
Fax: (212) 682-6104  
Attention: Donald N. Gellert, Esq.

(c) Descriptive Headings; Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in way the meaning or interpretation of this Agreement. References in this Agreement to Sections and Schedules mean a Section or Schedule of this Agreement unless otherwise indicated. The terms "beneficially own" and "beneficial owner" with respect to any securities shall have the same meaning as in, and shall be determined in accordance with, Rule 13d-3 under the Securities Exchange Act of 1934.

(d) Entire Agreement; Assignment. This Agreement (including the schedule and other documents and instruments referred to herein), together with the Merger Agreement, constitute the entire agreement and supersede all other prior agreements and understandings, both written and oral, among the parties or any of them, with respect to the subject matter hereof. Except as otherwise expressly provided herein, this Agreement is not intended to confer upon any person not a party hereto any rights or remedies hereunder. Except as otherwise expressly provided herein, this Agreement shall not be assigned by operation of law or otherwise; provided that Parent or Sub may assign its rights and obligations hereunder to a direct or indirect subsidiary of Parent, but no such assignment shall relieve Parent or Sub, as the case may be, of its obligations hereunder.

(e) Liability After Transfer. Each Shareholder agrees that, notwithstanding any transfer of that Shareholder's Shares in accordance with Section 7(d), that Shareholder shall remain liable for his or her performance of all obligations under this Agreement.

(f) Injunctive Relief; Remedies Cumulative.

(i) Parent, on the one hand, and the Shareholders, on the other hand, acknowledge that the other party will be irreparably harmed and that there will be no

adequate remedy at law for a violation of any of the covenants or agreements of such party that are contained in this Agreement. It is accordingly agreed that, in addition to any other remedies that may be available to the non-breaching party upon the breach by any other party of such covenants and agreements, the non-breaching party shall have the right to obtain injunctive relief to restrain any breach or threatened breach of such covenants or agreements or otherwise to obtain specific performance of any of such covenants or agreements.

(ii) No remedy conferred upon or reserved to any party herein is intended to be exclusive of any other remedy and every remedy shall be cumulative and in addition to every other remedy herein or now or hereafter existing at law, in equity or by statute.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the provisions thereof relating to conflicts of laws.

(h) Effect of Partial Invalidity. Whenever possible, each provision of this Agreement shall be construed in such a manner as to be effective and valid under applicable law. If any provision of this Agreement or the application thereof to any party or circumstance shall be prohibited by or invalid under applicable law, such provisions shall be ineffective to the extent of such prohibition without invalidating the remainder of such provision or any other provisions of this Agreement or the application of such provision to the other party or other circumstances.

(i) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

IN WITNESS WHEREOF, this Agreement has been executed by the parties as of the date first above written.

THE SHAREHOLDERS:

\_\_\_\_\_  
BRUCE HABER

\_\_\_\_\_  
MARVIN CALIGOR

\_\_\_\_\_  
RENEE STEINBERG

\_\_\_\_\_  
DEANE READE

HENRY SCHEIN, INC.

By: \_\_\_\_\_  
Authorized Officer

[Form of Opinion of counsel to the Company]

1. The Company is a corporation validly existing and in good standing under the laws of the State of New York. Each Subsidiary of the Company set forth on Schedule A hereto is a corporation validly existing and in good standing under the laws of its jurisdiction of incorporation.

2. The authorized capital stock of the Company consists of 20,000,000 shares of Company Common Stock and 1,000,000 shares of Company Preferred Stock. As of the date hereof, (i) \_\_\_\_\_ shares of Company Common Stock are issued and outstanding, (ii) no shares of Company Preferred Stock are issued and outstanding, (iii) to our knowledge, Company Stock Options to acquire \_\_\_\_\_ shares of Company Common Stock are outstanding under all stock option plans of the Company or otherwise, (iv) to our knowledge, Company Warrants to acquire \_\_\_\_\_ shares of Company Common Stock are outstanding, and (v) to our knowledge, \_\_\_\_\_ shares of Company Common Stock are reserved for issuance pursuant to the Company Stock Options, the Company Warrants and all other Rights to purchase or otherwise receive capital stock or other securities of the Company. All of the issued and outstanding shares of Company Common Stock are validly issued, fully paid and nonassessable. All of the issued and outstanding shares of capital stock of the Subsidiaries of the Company are validly issued, fully paid and nonassessable and are owned by the Company or a Subsidiary of the Company.

3. The Company and each Subsidiary of the Company has all requisite corporate power and authority to own, lease and operate its respective properties and to carry on its respective businesses as now being conducted.

4. The Company is duly qualified or licensed to do business and is in good standing as a foreign corporation in the States of [ ]. Each Subsidiary of the Company is duly qualified or licensed to do business and is in good standing as a foreign corporation in the respective jurisdictions set forth opposite such Subsidiary's name on Schedule A hereto.

5. The Company has all necessary corporate power and authority to execute and deliver the Agreement, to perform its obligations thereunder, and to consummate the transactions contemplated thereby. The execution, delivery and performance of the Agreement and the consummation by the Company of the transactions contemplated thereby have been authorized by all necessary corporate action on the part of the Company. Upon the filing of the Certificate of Merger with the Department of State of New York, all steps required to be taken by the Company under the laws of the State of New York to effect the Merger of SUB with and into the Company shall have been duly and properly taken.

6. The Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company enforceable in accordance with its terms, except to the extent that enforceability may be subject to applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, reorganization, moratorium and similar laws presently or hereafter in effect affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in a proceeding in law or in equity).

7. The execution, delivery and performance of the Agreement by the Company and the consummation by the Company of the transactions contemplated thereby will not result in a violation by the Company of any provision of the Company's certificate of incorporation, as amended, or by-laws.

8. Except for the filing of the Certificate of Merger in New York, we have no knowledge of any consent or approvals by New York or Federal governmental authorities which are required in connection with the consummation by the Company of the transactions contemplated by the Agreement which have not been obtained.

9. We have no knowledge of any action, suit, proceeding or investigation which is pending or threatened which questions the validity of the Agreement or any action taken or to be taken by the Company in connection with the Agreement.

We have participated in the preparation of the Proxy Statement and the Registration Statement and meetings with members of management of the Company and its independent certified public accountants relating to the disclosure contained in the Proxy Statement and the Registration Statement as it pertains to the Company. Although we are not passing upon and do not assume any responsibility for the accuracy, completeness or fullness of the information relating to the Company contained in the Proxy Statement the Registration Statement, nothing has come to our attention that has caused us to believe that at the date such materials were mailed to the shareholders of the Company and/or filed with the Commission, as applicable, and at the Closing Date, the information relating to the Company in the Proxy Statement or the Registration Statement contained any misstatement of a material fact or omission of



a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that no statement is made with respect to any financial statements or schedules, or other financial or statistical data contained therein).

The opinions set forth herein are limited to the matters set forth in this letter, and no other opinion should be inferred beyond the opinions expressly stated.

Very truly yours,

By: \_\_\_\_\_  
A Member of the Firm

[Form of Opinion of counsel to the Parent]

1. Parent is a corporation validly existing and in good standing under the laws of the State of Delaware. Sub is a corporation duly formed, validly existing and in good standing under the laws of the State of New York.

2. The authorized capital stock of Parent consists of 60,000,000 shares of Parent Common Stock and 1,000,000 shares of Parent Preferred Stock. As of the date hereof, (i) \_\_\_\_\_ shares of Parent Common Stock are issued and outstanding, (ii) no shares of Parent Preferred Stock are issued and outstanding, (iii) to our knowledge, options to acquire \_\_\_\_\_ shares of Parent Common Stock (the "Parent stock Options") are outstanding under all stock option plans of Parent, and (iv) to our knowledge, \_\_\_\_\_ shares of Parent Common Stock are reserved for issuance pursuant to the Parent Stock Options and all other Rights to purchase or otherwise receive capital stock or other securities of Parent. All of the outstanding shares of Parent Common Stock are duly authorized, validly issued, fully paid and nonassessable and all of the shares of Parent Common Stock to be issued upon consummation of the Merger (the "Merger Shares") are duly authorized and, when issued in accordance with the Agreement, will be validly issued, fully paid and nonassessable.

3. The authorized capital stock of Sub consists of 1,000 shares of Sub Common Stock, of which 1,000 shares, as of the date hereof, are issued and outstanding. All of such outstanding shares are owned of record and, to our knowledge, beneficially by Parent, and are validly issued, fully paid and nonassessable.

4. The Parent has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted.

5. The issuance of the Merger Shares in accordance with the Merger Agreement has been registered under the Securities Act of 1933 and is either registered or exempt from registration under all applicable state securities or blue sky laws.

6. Each of Parent and Sub has all necessary corporate power and authority to execute and deliver the Agreement, to perform its obligations thereunder, and to consummate the transactions contemplated thereby. The execution, delivery and performance of the Agreement and the consummation by Parent and Sub of the transactions contemplated thereby have been authorized by all necessary corporate action on the part of each of Parent and Sub. Upon the filing of the Certificate of Merger with the Department of State of New York, all steps required to be taken by Parent and Sub under the laws of the State of New York to effect the Merger of SUB with and into the Company shall have been duly and properly taken.

7. The Agreement has been duly executed and delivered by each of Parent and Sub and constitutes the valid and binding obligation of each of Parent and Sub enforceable in accordance with its terms, except to the extent that enforceability may be subject to applicable bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, reorganization, moratorium and similar laws presently or hereafter in effect affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether enforcement is sought in a proceeding in law or in equity).

8. The execution, delivery and performance of the Agreement by each of Parent and Sub and the consummation by each of Parent and Sub of the transactions contemplated thereby will not result in a violation of any provision of their respective certificates of incorporation (as amended, in the case of Parent) or by-laws.

9. Except for the filing of the Certificate of Merger in New York, we have no knowledge of any consent or approval which is required in connection with the consummation by Parent and Sub of the transactions contemplated by the Agreement which have not been obtained.

10. We have no knowledge of any action, suit, proceeding or investigation which is pending or threatened which questions the validity of the Agreement or any action taken or to be taken by Parent or Sub in connection with the Agreement.

We have participated in the preparation of the Proxy Statement and the Registration Statement and meetings with members of management of Parent and its independent certified public accountants relating to the disclosure contained in the Proxy Statement and the Registration Statement as it pertains to Parent or Sub. Although we are not passing upon and do not assume any responsibility for the accuracy, completeness or fullness of the information relating to Parent or Sub contained in the Proxy Statement or the Registration Statement, nothing has come to our attention that has caused us to believe that at the date such materials were mailed to the shareholders of the Company, and/or filed with the Commission, as applicable, and at the Closing Date, the information relating to Parent or Sub in the Proxy Statement or the Registration Statement contained any misstatement of a material fact or omission of

a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that no statement is made with respect to any financial statements or schedules, or other financial or statistical data contained therein).

## HENRY SCHEIN, INC. AND SUBSIDIARIES

## COMPUTATION OF PRO FORMA EARNINGS PER SHARE

	Three Months Ended		Twelve Months Ended	
	December 28, 1996	December 30, 1995	December 28, 1996	December 30, 1995
Pro forma net income per consolidated statements of operations (in thousands)	\$ 7,372	\$ 4,312	\$ 19,340	\$ 9,407
Pro forma weighted average common shares outstanding:				
Shares outstanding at December 25, 1993	11,390,544	11,390,544	11,390,544	11,390,544
1994 issuances:				
Shares issued, in part, to extinguish liability under long-term executive incentive compensation plan	489,456	489,456	489,456	489,456
Shares issued to ESOP trust in 12/94	128,257	128,257	128,257	128,257
Stock options granted and to be granted in 1995 at an exercise price of \$4.21 per share (1)	221,397	237,897	221,397	237,897
IPO Options (Class B)	408,400	263,486	408,400	65,871
1995 issuances:				
IPO Shares	5,090,000	3,244,176	5,090,000	811,044
Shares issued as of September 1, 1995 in connection with one of the Acquisitions	1,260,416	1,227,478	1,260,416	410,749
	18,988,470	16,981,294	18,988,470	13,533,818
Less: Treasury stock	(59,275)	----	(55,401)	----
	18,929,195	16,981,294	18,933,069	13,533,818
1996 issuances:				
Secondary Offering Shares	3,734,375	----	1,959,521	----
Shares issued to ESOP trust on August 9, 1996	24,210	----	9,378	----
Shares issued on July 10, 1996 in connection with one of the Acquisitions	37,197	----	17,577	----
Additional Class B Options	42,800	----	42,800	----
Stock options granted pursuant to the 1996 Non-Employee Director Stock Option Plan	10,000	----	7,802	----
Shares issued on November 1, 1996 in connection with one of the Acquisitions	75,200	----	18,800	----
	22,852,977	16,981,294	20,988,947	13,533,818
Less assumed repurchase of shares under treasury stock method based on an average price of \$34.129 per share (2):				
Stock options----221,397 shares				
x \$4.21				
\$932,081 / \$34.129	(24,820)(4)	(42,313)(3)	(27,311)(5)	(42,313)(3)
Non-Employee Stock options----10,000 shares				
x \$29.00				
\$290,000 / \$34.129	(7,722)(4)	----	(6,630)(5)	----
IPO options----403,200 shares				
x \$16.00				
\$6,451,200 / \$34.129	(171,785)(4)	(178,106)	(189,024)(5)	(44,526)
New options----35,000 shares				
x \$29.50				
\$1,032,500 / \$34.129	(27,494)(4)	----	(30,253)(5)	----
New options----10,000 shares				
x \$31.00				
\$310,000 / \$34.129	(8,255)(4)	----	(9,083)(5)	----
New options----3,000 shares				
x \$36.25				
\$108,750 / \$34.129	(3,000)(4)	----	(3,000)(5)	----
Pro forma weighted average common shares outstanding	22,609,901	16,760,875	20,723,646	13,446,979
Pro forma net income per common share	\$ 0.33	\$ 0.26	\$ 0.93	\$ 0.70

(1) Considered "cheap stock" and treated outstanding since January 1, 1995.

(2) The treasury stock method was not used for the shares issued to settle the long-term incentive plan liability and the compensatory portion of the stock options granted because the related special compensation charges

have been/will be excluded from pro forma net income and, therefore, were not assumed to be proceeds.

- (3) Computed using IPO value per share of \$16.00 for 237,897 stock options.
- (4) Computed using the average closing value per share for the three months ended December 28, 1996 of \$37.554
- (5) Computed using the average closing value per share for the twelve months ended December 28, 1996 of \$34.129

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Henry Schein, Inc.  
Melville, NY

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

BDO Seidman, LLP

New York, New York  
March 28, 1997

The schedule contains summary financial information extracted from the consolidated financial statements and is qualified in its entirety by reference to such financial statements.

1,000

	12-MOS	
	DEC-28-1996	
	DEC-31-1995	
	DEC-28-1996	41,673
		0
		140,197
		(3,916)
		126,632
	344,356	76,607
		39,453
		463,936
139,601		27,284
	0	0
		222
		291,540
463,936		829,962
	829,962	584,738
		584,738
	215,561	
	1,402	
	3,421	
	29,334	
	11,343	
19,340		0
	0	0
		19,340
		0.93
		0.93

(varies from B/S (B/S has all allowances)  
includes current maturities