FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. 0000950144-96-008344

FILER

PHYSICIAN SALES & SERVICE INC /FL/
CIK:**920527**| IRS No.: **592280364** | State of Incorp.:**FL** | Fiscal Year End: **0329**
Type: **10-Q** | Act: **34** | File No.: **000-23832** | Film No.: **96665803**
SIC: **5047** Medical, dental & hospital equipment & supplies

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9042961406

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended SEPTEMBER 30, 1996

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

For the transition period from ---------- to ---------------

Commission File Number 0-23832

PHYSICIAN SALES & SERVICE, INC.

(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C>

FLORIDA	59-2280364
(State or other jurisdiction of incorporation)	(IRS employer identification number)
7800 Belfort Parkway, Suite 250 Jacksonville, Florida	32256
(Address of principal executive offices)	(Zip code)

</TABLE>

Registrant's telephone number (904) 281-0011

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 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.

[X] Yes [ ] No

As of November 13, 1996 a total of 35,209,164 shares of common stock, par value $.01 per share, of the registrant were outstanding.

PHYSICIAN SALES & SERVICE, INC. & SUBSIDIARIES
SEPTEMBER 30, 1996

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<TABLE>
<CAPTION>

</TABLE>

PHYSICIAN SALES & SERVICE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>
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	SEPTEMBER 30, 1996	MARCH 29, 1996
	(UNAUDITED)	*
<C>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 71,214,056	$ 86,332,758
Accounts receivable, net	109,646,492	92,060,750
Inventories	56,580,379	52,270,694
Prepaid expenses and other	9,860,537	10,665,017
Total current assets	247,301,464	241,329,219
Property and equipment, net	16,634,790	14,486,092
Other Assets:		
Intangibles, net	14,945,458	13,884,322
Other	5,077,726	1,374,148
Total assets	$ 283,959,438	$ 271,073,781
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 67,181,359	$ 57,638,770
Accrued expenses	14,882,792	8,939,122
Other	4,538,520	2,806,048
Total current liabilities	86,602,671	69,383,940
Long-Term Liabilities	2,823,725	4,043,085
Total liabilities	89,426,396	73,427,025
Shareholders' Equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.01 par value; 60,000,000 shares authorized, 35,198,660 and 34,528,814 shares issued and outstanding at September 30, 1996 and March 29, 1996, respectively	351,987	345,288
Additional paid-in capital	203,841,355	200,124,412
Retained deficit	(9,656,586)	(2,822,944)
Foreign currency translation	(3,714)	-
Total shareholders' equity	194,533,042	197,646,756
Total liabilities and shareholders' equity	$ 283,959,438	$ 271,073,781

</TABLE>

* Condensed from audited financial statements.
The accompanying notes are an integral part of these condensed consolidated statements.

PHYSICIAN SALES & SERVICE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
<C>	<C>	<C>	<C>	<C>
Net Sales	$161,911,534	$119,671,789	$301,614,085	$224,982,268
Cost of Goods Sold	117,057,334	85,348,639	216,839,735	158,829,942
Gross Profit	44,854,200	34,323,150	84,774,350	66,152,326
General and Administrative Expenses	24,751,556	19,610,378	47,608,713	37,798,168
Selling Expenses	14,828,938	10,853,089	28,333,887	21,719,685
Merger Costs and Expenses	-	12,094,816	6,934,000	12,094,816
Income (Loss) From Operations	5,273,706	(8,235,133)	1,897,750	(5,460,343)
Other Income (Expense):				
Interest income (expense)	522,512	(938,646)	1,050,665	(1,966,322)
Other income	247,970	279,400	652,245	553,694
	770,482	(659,246)	1,702,910	(1,412,628)
Income (Loss) Before (Provision) Benefit for Income Taxes	6,044,188	(8,894,379)	3,600,660	(6,872,971)
Income Tax (Provision) Benefit	(2,260,000)	1,518,000	(1,730,000)	669,450
Net Income (Loss)	$ 3,784,188	$ (7,376,379)	$ 1,870,660	$ (6,203,521)
Net Income (Loss) Per Common and Common Equivalent Share	$ 0.11	$ (0.30)	$ 0.05	$ (0.25)
Weighted average number of shares outstanding	35,731,000	24,725,000	35,656,000	24,588,000

</TABLE>

The accompanying notes are an integral part of these condensed consolidated statements.

PHYSICIAN SALES & SERVICE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>

	SIX MONTHS ENDED	
	SEPTEMBER 30, 1996	SEPTEMBER 30, 1995
<S>	<C>	<C>
Cash Flows From Operating Activities:		
Net income (loss)	$ 1,870,660	$(6,203,521)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,154,456	2,017,383
Merger costs and expenses	6,469,506	3,854,057
Foreign currency translation	(3,714)	-
Changes in operating assets and liabilities, net of effects from business acquisitions:		
Increase in accounts receivable	(6,595,371)	(19,645,022)
Increase in inventories	(74,181)	(9,185,654)
Decrease (increase) in prepaid expenses and other current assets	1,393,297	(5,493,568)
(Increase) decrease in other assets	(4,225,390)	98,981
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(112,953)	17,984,087
Net cash provided by (used in) operating activities	876,310	(16,573,257)
Cash Flows From Investing Activities:		
Capital expenditures	(2,671,432)	(1,820,763)

Payment for purchases of net assets from business acquisitions	(5,083,487)	(581,364)
Payments on noncompete agreements	(744,472)	(365,758)
Net cash used in investing activities	(8,499,391)	(2,767,885)
Cash Flows From Financing Activities:		
Net (repayments) proceeds of long-term debt	(9,072,028)	17,690,162
Net proceeds from issuance of common stock	1,576,407	1,292,409
Net cash (used in) provided by financing activities	(7,495,621)	18,982,571
Net decrease in cash and cash equivalents	(15,118,702)	(358,571)
Cash and cash equivalents, beginning of period	86,332,758	1,151,210
Cash and cash equivalents, end of period	$ 71,214,056	$ 792,639

</TABLE>
The accompanying notes are an integral part of these condensed consolidated statements.

PHYSICIAN SALES & SERVICE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated financial statements of Physician Sales & Service, Inc. ("PSS") or ("the Company") reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods indicated. The adjustments include the retroactive adjustment to reflect a three-for-one stock split effective September 22, 1995 and give effect to the merger with Taylor Medical Incorporated ("Taylor") effective August 21, 1995, accounted for as a pooling-of-interests.

The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and related notes in the Company's 1996 Annual Report to Shareholders. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the Securities and Exchange Commission rules and regulations.

The results of operations for the interim periods covered by this report may not necessarily be indicative of operating results for the full fiscal year. Certain items have been reclassified to conform to the current year presentation.

NOTE 2 - BUSINESS ACQUISITIONS

During the three months ended September 30, 1996, the Company acquired certain assets of a medical equipment and supply distribution company located in Brussels, Belgium for approximately U.S. $1.2 million, in a transaction accounted for as a purchase. The assets acquired consist primarily of accounts receivable, inventory, and other assets. The purchase price paid consisted of $0.5 million in cash and the assumption of accounts payable and accrued liabilities of $0.9 million. The excess of the purchase price paid over the fair market value of tangible net assets acquired of approximately $0.2 million has been recorded as goodwill.

In September 1996, the Company signed an agreement to merge with Diagnostic Imaging, Inc. ("DII") of Jacksonville, Florida. DII distributes radiology and imaging equipment, chemicals and supplies, and provides technical service to the acute and alternate site markets through 13 locations in 5 southeastern states. The agreement, as contemplated, is a stock-for-stock transaction, to be accounted for as a pooling-of-interests. The Company has received antitrust clearance. The consummation of the merger is subject to other customary closing conditions.

PHYSICIAN SALES & SERVICE, INC. AND SUBSIDIARIES

GENERAL

The Company was incorporated in 1983 in Jacksonville, Florida. Since its inception, the Company has achieved significant growth in the number of service center locations, geographic areas of operation, net sales, and profitability. The number of Company service centers has grown from two located in Florida at the end of fiscal 1984 to 61 service centers located throughout the United States distributing to approximately 92,000 office sites in all 50 states and one service center located in Belgium. During fiscal years 1992 through 1996, PSS's net sales grew at a compound annual rate of 40.5%, excluding the retroactive effect of Taylor net sales. Giving retroactive effect to the merger with Taylor, the Company's net sales grew at a compound rate of 28.2% during that same period.

WorldMed International, Inc. was recently established by the Company to manage and develop the international medical supply and equipment distribution, consolidation, and growth opportunities. During the three months ended June 30, 1996, the Company acquired Deckers, a Belgian based medical equipment and supply distributor to hospitals and physician offices in Belgium, Germany, and France, through WorldMed International. Prior to the acquisition, Decker's last 12 months' sales were approximately U.S. $15.5 million. During the three months ended September 30, 1996, the Company acquired the assets of another Belgian based medical equipment and supply distributor with last 12 month's revenues approximating U.S. $3.5 million. The Company's international market objective is to pursue acquisition opportunities throughout the European medical equipment and supply distribution market through its WorldMed International subsidiary.

WorldMed, Inc. was recently formed to serve as a platform for the Company to acquire multimarket medical distributors in the United States without disrupting the physician office focus of PSS. In September 1996, the Company signed an agreement to merge with DII of Jacksonville, Florida. DII distributes radiology and imaging equipment, chemicals and supplies, and provides technical service to the acute and alternate site markets through 13 locations in 5 southeastern states. Prior to the acquisition, DII's last twelve months' revenues approximated $55.0 million. The Company's objective is to pursue acquisition opportunities within the radiology and imaging distribution market which will position the consolidated Company to gain market share within this market and expand the product offerings to the physician office market currently serviced by PSS. The Company anticipates the DII transaction to close by the end of November 1996.

While the Company's objectives have been expanded to include international expansion into the European medical equipment and supply market and to pursue multimarket medical distribution opportunities, such as radiology and imaging distribution, within the United States, the Company's primary objective is to be capable of servicing the medical equipment and supply needs of every office-based physician in the United States. To achieve this objective and expand profitability, PSS intends to (i) continue its efforts to acquire local and regional medical supply distributors to office-based physicians in select U.S. markets; (ii) increase sales of existing service centers by adding additional sales representatives and providing superior service, competitive pricing, and a broad product line which includes sophisticated diagnostic equipment marketed by PSS on an exclusive and semi-exclusive basis; (iii) continue expanding operating margins by increasing sales force productivity, focusing on growth through acquisitions rather than start-ups which initially entail significant losses, reducing product costs through volume purchase arrangements, leveraging fixed distribution costs, and improving operational efficiencies through system enhancements; and (iv) opening new service centers in select markets where acquisition opportunities are not available.

This filing contains forward-looking information that is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected.

RESULTS OF OPERATIONS

The following is management's discussion and analysis of the results of operations for the three and six months ended September 30, 1996 and 1995:

THREE AND SIX MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

NET SALES. Net sales for the three months ended September 30, 1996 totaled $161.9 million, an increase of $42.2 million or 35.3% over net sales of $119.7 million for the three months ended September 30, 1995. Net sales for the six months ended September 30, 1996 totaled $301.6 million, an increase of $76.6 million or 34.1% over net sales of $225.0 million for the six months ended September 30, 1995. In order of contribution to the increase, net sales increased as the result of (i) internal sales growth of centers operating at least two years, (ii) incremental sales generated in connection with the Distribution Agreement with Abbott Laboratories ("Abbott Agreement") and (iii) net sales of centers acquired during the first six months of fiscal 1997.

The Company's service centers operating for at least 24 consecutive months generated same center sales growth of 20.5% for the three months ended September 30, 1996. The sales growth resulted from the continued development of PSS's sales force, further market penetration, increased emphasis on diagnostic equipment and supplies, and expansion of existing territories served by individual service centers.

GROSS PROFIT. Gross profit for the three months ended September 30, 1996 totaled $44.8 million, an increase of $10.5 million or 30.7% over the three months ended September 30, 1995 total of $34.3 million. Gross profit for the six months ended September 30, 1996 totaled $84.8 million, an increase of $18.6 million or 28.2% over the six months ended September 30, 1995 total of $66.2 million. Gross profit as a percentage of net sales decreased to 27.7% and 28.1% for the three and six months ended September 30, 1996 from 28.7% and 29.4% for the three and six months ended September 30, 1995. The decrease in gross profit percentage is attributable to the following factors: (i) penetration by the Company into larger physician group practices that require more competitive pricing but entail lower selling and servicing costs, (ii) lower margins on diagnostic products distributed under the Abbott Agreement, (iii) lower margins produced by the U.S. companies acquired in the first quarter as compared to the overall Company's historical gross profit, and (iv) lower margins on sales of diagnostic equipment by a greater number of the Company's sales force not yet fully exposed to the Company's comprehensive and consultative sales approach to diagnostic equipment sales. The Company is currently in the second year of a five year exclusive distributorship agreement with Abbott Laboratories. For the three and six months ended September 30, 1996, the Company sold approximately $26.4 million and $53.7 million of Abbott product with a gross profit percentage of 19.3% and 18.4%. The Abbott sales negatively impacted the Company's gross profit percentages by 1.6% and 2.1% of net sales for the three and six months ended September 30, 1996. Margins under the Abbott Agreement are scheduled to increase annually based on achievement by the Company of certain performance goals as stipulated therein.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses for the three months ended September 30, 1996 totaled $24.7 million, an increase of $5.1 million or 26.1% over the three months ended September 30, 1995 total of $19.6 million. General and administrative expenses for the six months ended September 30, 1996 totaled $47.6 million, an increase of $9.8 million or 25.9% over the six months ended September 30, 1995 total of $37.8 million. As a percentage of sales, general and administrative expenses decreased to 15.3% and 15.8% for the three and six months ended September 30, 1996 from 16.4% and 16.8% for the three and six months ended September 30, 1995. The decrease in general and administrative expenses as a percentage of net sales was a result of the improved leveraging by PSS of its existing service centers' fixed general and administrative expenses through increased sales volume and through the successful integration of its acquired service centers into existing branches. The decrease in general and administrative expenses was accomplished despite the following investments made during the past two quarters. The Company has focused on increasing diagnostic equipment and managed care sales as a percentage of total net sales. Since inception, the Company has maintained a comprehensive and consultative sales approach with an emphasis on diagnostic products, which includes sophisticated diagnostic equipment and supplies related to the use of such equipment. However, since the acquisition of Taylor, the Company experienced a decline in the percentage of sales represented by equipment. In order to increase the sales of equipment, the Company has created a diagnostic team to train and educate newly hired or acquired sales representatives. As a result, the Company has expanded its diagnostic products sales to 21.3% of total net sales for the three months ended September 30, 1996 as compared to 16.8% of total net sales for the three months ended September 30, 1995. Sales of diagnostic equipment, while generally lower in gross margin than supplies, require the reordering of diagnostic reagents which generally yield higher margins. In addition, through the development of its national accounts team, the Company has increased its emphasis on national customer accounts, including large physician group practices, physician practice management companies, physician-hospital organizations, physician management service organizations and group purchasing organizations. Finally, the Company has allocated resources to develop newly acquired sales representatives and operational personnel to help them become well-versed in PSS's broad product offerings, innovative distribution systems, and focus on superior customer service to continually improve customer satisfaction and productivity.

SELLING EXPENSES. Selling expenses for the three months ended September 30, 1996 totaled $14.8 million, an increase of $4.0 million or 36.7% over the three months ended September 30, 1995 total of $10.8 million. Selling expenses for the six months ended September 30, 1996 totaled $28.3 million, an increase of $6.6 million or 30.5% over the six months ended September 30, 1995 total of $21.7 million. As a percentage of sales, selling expenses remained constant at 9.1% for the three months ended September 30, 1996 as compared to September 30, 1995. As a percentage of sales, selling expenses decreased to 9.4% for the six months ended September 30, 1996 from 9.7% for the six months ended September 30, 1995. The decrease in selling expense as a percentage of net sales is due to improved leveraging of existing service centers' fixed selling expenses, such as salaries paid to sales representatives during the conversion period from a guaranteed salary to a commission compensation arrangement and the leveraging of fixed sales management salaries.

MERGER COSTS AND EXPENSES. During the three months ended September 30, 1996, the Company recorded no merger costs and expenses. During the six months ended September 30, 1996, the Company recorded non-recurring merger costs and expenses of approximately $6.9 million associated with the mergers of PSS and three medical supply and equipment distributors. Such costs included direct merger costs primarily consisting of investment banking, legal, accounting and filing fees as well as consolidation costs from the closing of duplicate service center locations, realigning regional and corporate functions, consolidating information systems and reducing personnel.

For the three and six months ended September 30, 1995, the Company recorded merger costs and expenses of approximately $12.1 million associated with the merger of PSS and Taylor.

OPERATING INCOME (LOSS). The Company recorded operating income of $5.3 million for the three months ended September 30, 1996 as compared to an operating loss of $8.2 million for the three months ended September 30, 1995. The Company recorded operating income of $1.9 million for the six months ended September 30, 1996 as compared to an operating loss of $5.5 million for the six months ended September 30, 1995. The operating results for the six months ended September 30, 1996 include non-recurring merger costs and expenses related to the merger of PSS and three medical supply and equipment distributors of approximately $6.9 million. The operating results for the three and six months ended September 30, 1995 include non-recurring merger costs and expenses related to the merger of PSS and Taylor of approximately $12.1 million. Excluding the effect of these non-recurring costs, operating income for the six months ended September 30, 1996 would have increased $2.2 million or 33.2% to $8.8 million for the six months ended September 30, 1996 from operating income of $6.6 million for the six months ended September 30, 1995.

INTEREST INCOME (EXPENSE). The Company recorded interest income of approximately $0.5 million and $1.0 million during the three and six months ended September 30, 1996 from short term investments. At September 30, 1996 the investments primarily consisted of government securities and municipal issues with a weighted average, taxable equivalent interest rate of approximately 5.9%. There was no interest expense for the three or six months ended September 30, 1996, as compared to interest expense of $0.9 million and $2.0 million for the three and six months ended September 30, 1995. The decrease in interest expense resulted from use of a portion of the proceeds from a public equity offering during the three months ended December 31, 1995 to repay all outstanding bank debt.

OTHER INCOME. The Company's other income totaled $0.3 million, for the three months ended September 30, 1996 and 1995. The Company's other income for the six months ended September 30, 1996 totaled $0.7 million, an increase of $0.1 million or 17.8% over the six months ended September 30, 1995 total of $0.6 million. Other income for the three and six months ended September 30, 1996 and 1995 primarily represents finance charges on customer accounts.

(PROVISION) BENEFIT FOR INCOME TAXES. The income tax provision totaled $2.3 million for the three months ended September 30, 1996 as compared to a benefit for income taxes of $1.5 million for the three months ended September 30, 1995. The income tax provision totaled $1.7 million for the six months ended September 30, 1996 as compared to a benefit for income taxes of $0.7 million for the six months ended September 30, 1995. The income tax (provision) benefit computation is affected by the non-deductible nature of certain non-recurring merger costs and expenses in the period in which they were incurred.

NET INCOME (LOSS). Net income totaled $3.8 million for the three months ended September 30, 1996 as compared to a net loss of $7.4 million for the three months ended September 30, 1995. Net income totaled $1.9 million for the six months ended September 30, 1996 as compared to a net loss of $6.2 million for the six months ended September 30, 1995. The net income (loss) for the six months ended September 30, 1996 and 1995 include non-recurring merger costs and expenses of approximately $6.9 million and $12.1 million, respectively. The following table shows net income (loss) and earnings (loss) per share for the six months ended September 30, 1996 as compared to the six months ended September 30, 1995 as reported and the pro-forma effect on net income and earnings per share excluding these non-recurring merger costs and expenses and the related tax benefits.

<TABLE>

	Pro-forma excluding merger costs and expenses Six Months Ended		As reported Six Months Ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
<S>	<C>	<C>	<C>	<C>
Net income (loss) (in thousands)	$6,571	$3,029	$1,871	$(6,204)
Net income (loss) per share	$ 0.18	$ 0.12	$ 0.05	$ (0.25)

</TABLE>

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $160.7 million and $171.9 million as of September 30, 1996 and March 29, 1996, respectively. The decrease in working capital was primarily attributable to the acquisitions of medical supply and equipment distributors during the first two quarters of fiscal 1997.

Net cash provided by operating activities was $0.9 million for the six months ended September 30, 1996 compared to net cash used in operating activities of $16.6 million for the six months ended September 30, 1995. For the six months ended September 30, 1996, a portion of the growth in accounts receivable and inventories was funded by stock through the pooling transaction and thus did not require the use of cash. For the six months ended September 30, 1995, these funds were utilized principally to fund the growth in the Company's accounts receivable and inventories from new service centers and continued growth in existing service centers and to consolidate the closing of duplicate service center locations, realigning regional and corporate functions, consolidating information systems and reducing personnel in conjunction with the Taylor merger. Net cash used in investing activities was $8.5 million and $2.8 million during the six months ended September 30, 1996 and September 30, 1995 respectively. The net cash used in investing activities for the six months ended September 30, 1996 consisted primarily of capital expenditures and the payment for purchases of net assets from business acquisitions. The net cash used in financing activities of $7.5 million for the six months ended September 30, 1996 consisted primarily of debt repayment of $9.0 million assumed in connection with business acquisitions offset by proceeds from the issuance of common stock of $1.5 million.

Accounts receivable (net of allowances) were $109.6 million and $92.1 million as of September 30, 1996 and March 29, 1996, respectively. The average number of days sales in accounts receivable was approximately 58 days as of September 30, 1996 and as of March 29, 1996. Inventories were $56.6 million and $52.3 million as of September 30, 1996 and March 29, 1996, respectively. The Company had inventory turnover of 8.6 times as of September 30, 1996 and 8.0 times as of March 29, 1996.

The Company has historically financed its liquidity needs for expansion through lines of credit provided by banks and the private and public offering of stock. The Company has an unused credit line of $60 million on its credit facility for capital and expansion requirements. Inventory financing has historically been achieved through negotiating extended payment terms from suppliers. The Company believes that its current cash and cash equivalent balances combined with the expected cash flows from operations, bank borrowing, capital markets, and vendor credit will be sufficient to fund its liquidity needs for its existing operations and for service center expansion for at least the next two years.

PART II
OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION
<S>	<C>
3.1	Amended and Restated Articles of Incorporation dated March 15, 1994. (1)
3.2	Amended and Restated Bylaws dated March 15, 1994. (1)
10.1	Financing and Security Agreement between the Company and NationsBank of Georgia, N.A., (as successor to NCNB National Bank of Florida), dated as of September 26, 1991, as amended.(2)
10.2	Registration Rights Agreement between the Company and Tullis-Dickerson Capital Focus, L.P., dated as of March 16, 1994. (2)
10.3	Employment Contract, as amended, for Patrick C. Kelly. (2)
10.4	Incentive Stock Option Plan dated May 14, 1986. (2)
10.5	Shareholders Agreement dated March 26, 1986, between the Company, the Charthouse Co., Underwood, Santioni and Dunaway.(2)
10.6	Shareholders Agreement dated April 10, 1986, between the Company and Clyde Young. (2)
10.7	Shareholders Agreement between the Company and John D. Barrow.(2)
10.8	Amended and Restated Directors Stock Plan. (7)
10.9	Amended and Restated 1994 Long Term Incentive Plan. (7)
10.10	Amended and Restated 1994 Long Term Stock Plan. (7)
10.11	1994 Employee Stock Purchase Plan. (3)
10.12	1994 Amended Incentive Stock Option Plan. (2)
10.13	Amended and Restated Loan and Security Agreement between the Company and NationsBank of Georgia, N.A. dated December 21, 1994. (4)
10.14	Distributorship Agreement between Abbott Laboratories and Physician Sales & Service, Inc. (Portions omitted as

confidential - Separately filed with Commission). (5)

10.15	Stock Purchase Agreement between Abbott Laboratories and Physician Sales & Service, Inc. (5)
10.16	Intentionally Omitted
10.17	Third Amended and Restated Agreement and Plan of Merger By and Among Taylor Medical, Inc. and Physician Sales & Service, Inc. (including exhibits thereto) (6)

</TABLE>

PART II
OTHER INFORMATION
(CONTINUED)

(A) EXHIBITS

EXHIBIT NO.	DESCRIPTION
21.1	Subsidiaries of the registrant. (6)
27	Financial Data Schedule (for SEC use only).

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(1) Incorporated by Reference to the Company's Registration Statement on Form S-3, Registration No. 33-97524
(2) Incorporated by Reference to the Company's Registration Statement on Form S-1 No. 33-76580.
(3) Incorporated by Reference to the Company's Registration Statement on Form S-8, filed October 7, 1994.
(4) Incorporated by Reference to the Company's Report on Form 10-Q for the quarterly period ended December 31, 1994.
(5) Incorporated by Reference to the Company's Report on Form 10-K for the fiscal year ended March 30, 1995.
(6) Incorporated by Reference to the Company's Report on Form 10-K for the fiscal year ended March 29, 1996.
(7) Incorporated by Reference to the Company's Report on Form 10-Q for the quarterly period ended June 30, 1996.

(B) REPORTS ON FORM 8-K

None.

OTHER INFORMATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on November 13, 1996.

PHYSICIAN SALES & SERVICE, INC.

/s/ David A. Smith

David A. Smith
Executive Vice President and Chief Financial Officer

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