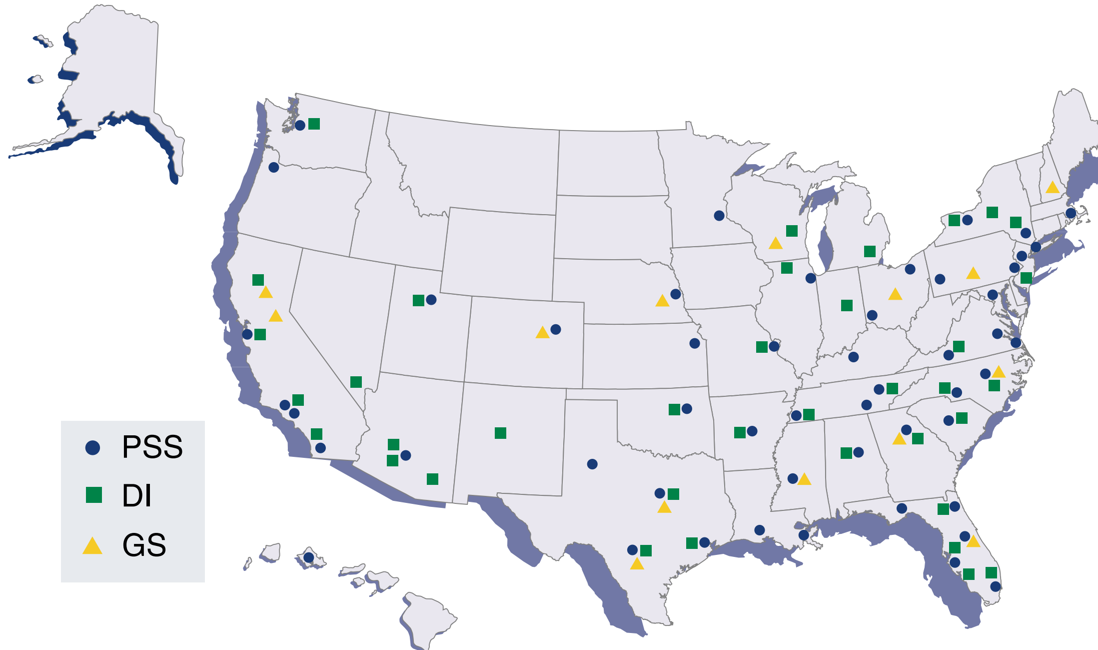
PSS World Medical, Inc.

Annual
Report
2000

PSS World Medical, Inc. At a Glance

PSS World Medical, Inc. is based on the foundation of customer satisfaction through the timely and efficient delivery of innovative service and products from the very routine to the most technologically advanced.



As of March 31, 2000, we serviced three distinct markets in the United States:

Physician Sales & Service is the leading medical equipment supply distributor to physician offices in the U.S. PSS has over 100,000 physician practice office customers served by 2,110 dedicated employees, including 735 sales representatives.

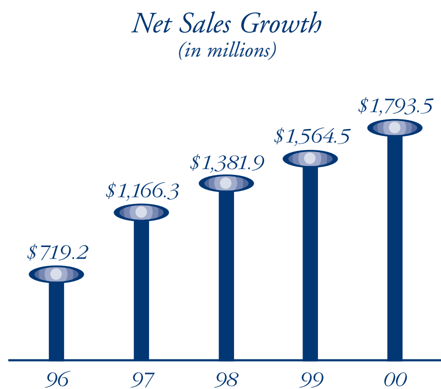
Diagnostic Imaging, Inc. is the leading imaging equipment and supply and service distributor in the U.S. DI has over 45,000 customer sites served by 1,982 dedicated employees including 230 sales representatives and 900 service engineers.

GULF SOUTH MEDICAL SUPPLY
A PSS/World Medical Company

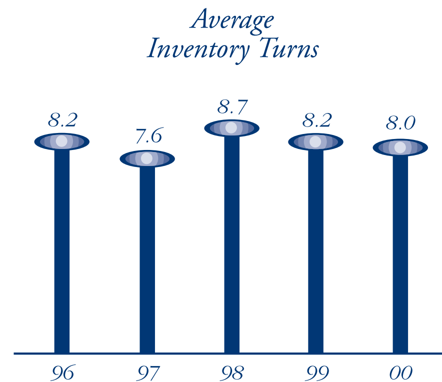
Gulf South Medical Supply, Inc. is a leading medical equipment and supply distributor in the U.S. GSMS has over 14,000 Long Term Care accounts served by 981 dedicated employees including 131 sales representatives.

2000 Highlights

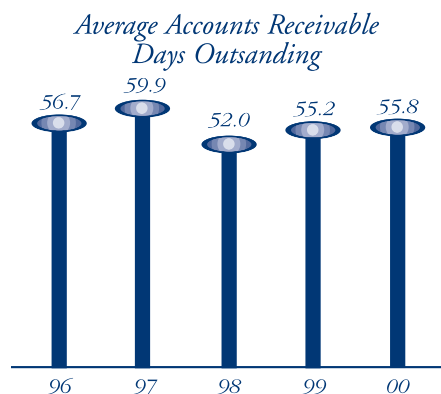
Net Sales Growth
(in millions)



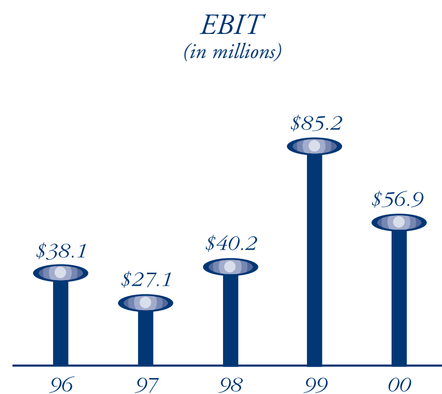
Average Inventory Turns



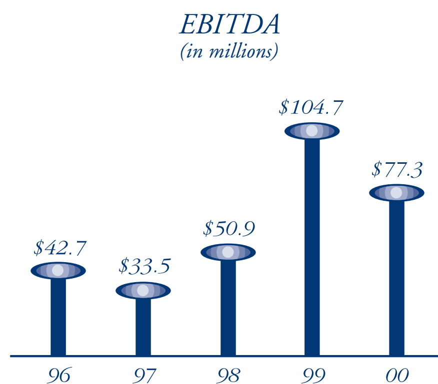
Average Accounts Receivable Days Outsanding



EBIT
(in millions)



EBITDA
(in millions)



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Selected Financial Data

The following selected financial data of the Company for fiscal years 1996 through 2000 have been derived from the Company's consolidated financial statements, which give retroactive effect to the mergers accounted for as pooling of interests. The fiscal 1998 and 1997 consolidated financial statements combine the December 31, 1997 and December 31, 1996 financial statements of Gulf South with the April 3, 1998 and March 28, 1997 financial statements of PSS, respectively. Effective April 4, 1998, Gulf South's fiscal year-end was changed to conform to the Company's year-end. As such, Gulf South's results of operations for the period January 1, 1998 to April 3, 1998 are not included in any of the periods presented in the accompanying consolidated statements of income. Accordingly, Gulf South's results of operations for the three months ended April 3, 1998 are reflected as an adjustment to shareholders' equity of the Company as of April 4, 1998. The Company's fiscal 1999 consolidated financial statements include the combined results of operations for the period from April 4, 1998 to April 2, 1999, of both PSS and Gulf South.

	Fiscal Year Ended				
	1996	1997	1998	1999	2000
	(Dollars in Thousands, Except Per Share Data)				
Income Statement Data:					
Net sales	$ 719,214	$1,166,286	$1,381,786	$1,564,505	$1,793,536
Gross profit	194,711	286,183	365,768	421,908	472,354
Selling and G&A expenses	159,578	269,136	333,689	348,055	427,645
Income before cumulative effect of accounting change	10,706	13,259	15,299	43,741	22,184
Cumulative effect of accounting change	--	--	--	--	(1,444)
Net income	10,706	13,259	15,299	43,741	20,740
Basic earnings per share:					
Income before accounting change	$0.19	$0.20	$0.22	$0.62	$0.31
Net income	$0.19	$0.20	$0.22	$0.62	$0.29
Diluted earnings per share:					
Income before accounting change	$0.19	$0.20	$0.22	$0.61	$0.31
Net income	$0.19	$0.20	$0.22	$0.61	$0.29
Weighted average shares outstanding					
Basic	55,813	66,207	69,575	70,548	70,966
Diluted	57,360	66,957	70,545	71,398	71,185
Balance Sheet Data:					
Working capital	$ 211,835	$ 267,754	$ 376,239	$ 355,277	$ 414,071
Total assets	351,553	510,376	686,737	743,381	873,417
Long-term liabilities	10,622	8,459	138,178	155,553	262,152
Total equity	242,091	350,397	380,060	416,560	439,627

	Fiscal Year Ended		
	1998	1999	2000
	(Dollars in thousands, except per share data)		
Other Financial Data:			
Income before provision for income taxes and cumulative effect of accounting change	$ 32,660	$ 73,681	$ 41,527
Plus: Interest Expense	7,517	11,522	15,457
EBIT (a)	40,177	85,203	56,984
Plus: Depreciation and amortization	10,691	19,498	20,288
EBITDA (b)	50,868	104,701	77,272
Unusual Charges Included in Continuing Operations (h)	32,007	10,303	7,741
Cash Paid For Unusual Charges Included in Continuing Operations	(24,476)	(29,134)	(20,414)
Adjusted EBITDA (c)	58,399	85,870	64,599
EBITDA Coverage (d)	6.8x	9.1x	5.0x
EBITDA Margin (e)	3.7%	6.7%	4.3%
Adjusted EBITDA Coverage (f)	7.8x	7.5x	4.2x
Adjusted EBITDA Margin (g)	4.2%	5.4%	3.6%
Cash provided by (used in) operating activities	$ 27,936	$ (18,704)	$ 16,971
Cash used in investing activities	(47,969)	(28,914)	(94,322)
Cash provided by financing activities	64,006	7,590	96,659

(a) EBIT represents income before income taxes plus interest expense.

(b) EBITDA represents EBIT plus depreciation and amortization. EBITDA is not a measure of performance or financial condition under generally accepted accounting principles ("GAAP"). EBITDA is not intended to represent cash flow from operations and should not be considered as an alternative measure to income from operations or net income computed in accordance with GAAP, as an indicator of the Company's operating performance, as an alternative to cash flow from operating activities, or as a measure of liquidity. In addition, EBITDA does not provide information regarding cash flows from investing and financing activities which are integral to assessing the effects on the Company's financial position and liquidity as well as understanding the Company's historical growth. The Company believes that EBITDA is a standard measure of liquidity commonly reported and widely used by analysts, investors, and other interested parties in the financial markets. However, not all companies calculate EBITDA using the same method and the EBITDA numbers set forth above may not be comparable to EBITDA reported by other companies.

(c) Adjusted EBITDA represents EBITDA plus unusual charges included in continuing operations less cash paid for unusual charges included in continuing operations.

(d) EBITDA coverage represents the ratio of EBITDA to interest expense.

(e) EBITDA margin represents the ratio of EBITDA to net sales.

(f) Adjusted EBITDA coverage represents the ratio of Adjusted EBITDA to interest expense.

(g) Adjusted EBITDA margin represents the ratio of Adjusted EBITDA to net sales.

(h) Unusual charges included in continuing operations primarily represent charges outlined in Note 4 to the accompanying consolidated financial statements. Fiscal 1999 excludes $5,379 of information systems accelerated depreciation. Fiscal 2000 is offset by $6,500 of class action lawsuit settlement income.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the consolidated financial condition and consolidated results of operations of PSS should be read in conjunction with the more detailed information contained in the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

All dollar amounts presented below are in thousands, except per share data.

COMPANY GROWTH

The Company has grown rapidly in recent years through mergers and acquisitions, same-center growth, and new-center development. The number of Company service centers has grown from two at the end of fiscal year 1984 to 101 as of March 31, 2000, including 51 Physician Supply Business service centers, 34 Imaging Business service centers, 14 Long-Term Care Business Service centers and 2 International Business service centers. In order of priority, the Company's growth has been accomplished primarily through: (i) acquiring local and regional Imaging Business medical products distributors; (ii) acquiring local and regional Physician Supply Business medical-products distributors; (iii) acquiring Gulf South Medical Supply, Inc. thereby forming the basis of the Company's Long-Term Care Business; (iv) increasing sales from existing service centers; and (v) increasing sales of diagnostic equipment.

The following table depicts the number of service centers, sales and service representatives and states served by the Company for the fiscal years indicated. See *Item 2. Properties* for a list of the Company's service centers.

	Fiscal Year Ended (2)				
	1996	1997	1998	1999	2000
Total Company:					
Sales representatives	813	924	957	1,118	1,122
Service Specialists	112	223	390	727	900
Service centers	90	103	111	110	101
States served	50	50	50	50	50
Physician Supply Business:					
Sales representatives	692	720	703	731	735
Service centers	64	61	61	56	51
States served	50	50	50	50	50
Imaging Business (1):					
Sales representatives	30	73	116	194	230
Service specialists	112	223	390	727	900
Service centers	8	21	25	37	34
States served	9	16	27	41	42
Long-Term Care Business:					
Sales representatives	91	107	110	170	131
Service centers	18	19	22	14	14
States served	50	50	50	50	50
International Business:					
Sales representatives	--	24	28	23	26
Service centers	--	2	3	3	2
Countries served	--	5	5	5	4

(1) All Imaging Business data for periods prior to November 1996 reflect pre-merger financial data of companies acquired through pooling-of-interests transactions.

(2) Excludes pre-acquisition data of companies acquired by PSS World Medical, Inc. unless otherwise noted.

ACQUISITION PROGRAM

The Company views the acquisition of medical product distributors as an integral part of its growth strategy. The Physician Supply Business has grown from one service center located in Jacksonville, Florida, in 1983 to 51 at the end of fiscal 2000. The Imaging Business and International Business began with acquisitions in fiscal year 1997 and have grown primarily through acquisitions to 34 and two service centers, respectively, to date. The Long-Term Care Business was developed through the acquisition of Gulf South Medical Supply, Inc. in March 1998 and has acquired four long-term care companies during fiscal years 1999 and 2000. Since fiscal 1995 the Company has accelerated its acquisition of medical products distributors both in number and in size of the operations acquired.

The following table sets forth the number of acquisitions of the Company and the prior revenues of the companies acquired for the periods indicated (in thousands):

	Fiscal Year Ended (1)				
	1996	1997	1998	1999	2000
Number of acquisitions	11	10	15	27	24
Prior year revenues for acquired companies˚(2)	$ 167,600	$ 241,700	$ 498,942	$ 294,428	$ 173,664

(1) Excludes pre-acquisition data of companies acquired by PSS World Medical, Inc.
(2) Reflects 12-month trailing revenues for companies prior to their acquisition by PSS World Medical, Inc. and is not necessarily reflective of actual revenues under continued operations following an acquisition.

OPERATING HIGHLIGHTS

The following tables set forth information regarding the Company's net sales by business and other operating trends for the periods indicated (in millions):

	Fiscal Year Ended		
	1998	1999	2000
Net Sales			
Physician Supply Business	$ 662.5	$ 677.4	$ 705.8
Imaging Business	409.7	524.8	700.8
Long-Term Care Business	287.6	342.4	362.5
International Business	22.0	19.9	24.4
Total Company	$1,381.8	$1,564.5	$1,793.5

	Fiscal Year Ended		
	1998	1999	2000
Percentage of Net Sales			
Physician Supply Business	48.0%	43.3%	39.4%
Imaging Business	29.7	33.5	39.1
Long-Term Care Business	20.8	21.9	20.2
International Business	1.5	1.3	1.3
Total Company	100.0%	100.0%	100.0%

	Fiscal Year Ended		
	1998	1999	2000
Gross Profit Trends			
Total Company	26.5%	27.0%	26.3%

	Fiscal Year Ended		
	1998	1999	2000
Income From Operations			
Physician Supply Business	$ 16.9	$ 42.7	$ 32.7
Imaging Business	6.5	16.3	20.3
Long-Term Care Business	14.0	17.2	(5.0)
International Business	(5.3)	(2.3)	(3.3)
Total company	$ 32.1	$ 73.9	$ 44.7

	Fiscal Year Ended	
	1999	2000
Operating Trends:		
Average Days Sales Outstanding	55.2	55.8
Average Inventory Turnover	8.2x	8.0x

Accounts receivable, net of allowances, were $284.4 million and $271.8˚million at March 31, 2000 and April˚2, 1999, respectively. Inventories were $178.0˚million and $153.6˚million and as of March 31, 2000 and April˚2, 1999, respectively.

The following table sets forth certain liquidity trends of the Company for the periods presented (in millions):

	Fiscal Year Ended	
	1999	2000
Liquidity Trends:		
Cash and Investments	$ 41.1	$ 60.4
Working Capital	355.3	414.1

RESULTS OF OPERATIONS

Fiscal 2000 was a challenging year for the Healthcare industry and specifically the Company. In addition, the fourth quarter was significantly difficult for several reasons. First, the Balanced Budget Act of 1996 and the implementation of its Prospective Payment System (PPS) financially impacted many segments of Healthcare, including many, if not all, of the customers, distributors and manufacturers in the Long Term Care industry.

The Company s Long-Term Care division distributes to approximately 10,000 customers representing approximately 1.0 million Long Term Care beds, of which a dozen customers representing approximately 1,600 homes and 190,000 Long-Term Care beds, or approximately 19%, filed for Chapter 11 or 7 bankruptcy protection in fiscal 2000. Several of the Long-Term Care division s largest customers resolved or disclosed their plans for unsecured creditors, including the Company, in the fourth quarter ending March 31, 2000. As a result, in the fourth quarter, the Long Term Care division recorded $8.0 million of specific customer receivable reserves and $1.5 million in general customer receivable reserves. In addition, the Imaging Business recorded $2.6 million of specific customer receivable reserves related to branch shutdowns where there was a discontinuation of the business relationships and related to computer integration where there was a loss of records.

In addition, during the third quarter, the Company s Long-Term Care Business customer receivables increased approximately $17.0 million due to its restructuring plan and the move of the collection efforts from Jackson, MS to Jacksonville, FL. In the fourth quarter, the Company estimated it incurred $600 of incremental interest expense and $500 of incremental labor and collection costs to restore collection effectiveness in Jacksonville, FL to the previous customer receivable levels. In addition, in response to the above referenced credit difficulties the Company placed approximately 3,800 Long-Term Care customers on credit hold, which is estimated to have reduced fourth quarter revenue by approximately $5.2 million and operating profit by approximately $1.0 million. The Company has subsequently been able to remove approximately 1,000 customers from credit hold due to customer payments.

Second, the Company s two most significant suppliers had manufacturing product recalls and production issues which materially disrupted availability of products to the Company s Physician and Imaging divisions.

The Physician division supplier, which represents approximately 17% of its revenues, had both an F.D.A. negotiated recall and a specific product line supplier recall. The Company estimates the impact to its fourth quarter was as follows:

	Revenues	Pre-tax Operating Profit
Estimated loss from recall of products	$ 11,378	$ 2,457
Estimate of equipment and medical supply loss due to the sales force and product specialists removed from their normal sales function to support the recall, replacement and transition function	6,522	1,583
Estimate of lost leasing fees,vendor incentives, rebates and other costs	--	2,641
Inventory reserve recorded for recalled reagents	--	1,000
	$ 17,900	$ 7,681

The Imaging division supplier which represents approximately 10% of its revenues had a manufacturing production related disruption that created a material back order of equipment and parts. The Company estimates that the impact on its fourth quarter of fiscal 2000 was as follows for the Imaging division:

	Revenues	Pre-tax Operating Profit
Estimated lost orders from unavailable equipment supply	$ 10,000	$ 1,800
Estimated lost orders from parts supply and related service labor	800	700
	$ 10,800	$ 2,500

Third, due to the poor stock performance of the Company and issues described above, the Company announced that it had hired Donaldson, Lufkin & Jenrette (DLJ) to assist the Company in evaluating various strategic alternatives. This announcement caused a significant distraction for the employees of the Company, of which the impact in the fourth quarter on revenues and operating profit cannot be sufficiently estimated by the Company. In addition, the Company had several items totaling $3.1 million which came to the attention of the Company in the fourth quarter which are a result of Y2K inventory buildup, branch shutdowns and reserves which the Company believes is not part of ongoing operations.

The Company also had unusual charges included in continuing operations for merger activity, restructuring activity and other special items (see Note 4, *Changes Included in General and Administrative Expenses*) in fiscal 2000 of $14,241 and in the fourth quarter of $5,915.

The table below sets forth for each of the fiscal years 1998 through 2000 certain financial information as a percentage of net sales. The following financial information includes the pre-acquisition financial information of companies acquired as poolings of interests. The fiscal 1998 consolidated financial statements combine the December˚31, 1997 financial statements of Gulf South with the April˚3, 1998 financial statements of PSS, respectively. Effective April˚4, 1998, Gulf South's fiscal year-end was changed to conform to the Company's year-end. As such, Gulf South's results of operations for the period January˚1, 1998 to April˚3, 1998 are not included in any of the periods presented in the accompanying consolidated statements of income. Accordingly, Gulf South's results of operations for the three months ended April˚3, 1998 are reflected as an adjustment to shareholders' equity of the Company as of April˚4, 1998. The Company's fiscal 1999 and 2000 consolidated financial statements include the combined results of operations for the periods from April˚4, 1998 to April˚2, 1999, and April 3, 1999 to March 31, 2000 of both PSS and Gulf South. Refer to *Note˚3, Gulf South's Results of Operations for the Three Months Ended April˚3, 1998,* in the accompanying consolidated financial statements for the results of Gulf South for the three months ended April˚3, 1998.

	Fiscal Year Ended		
	1998	**1999**	**2000**
Income Statement Data			
Net sales	100.0%	100.0%	100.0%
Gross profit ˚	26.5	27.0	26.3
General and administrative expenses	17.0	14.6	15.5
Selling expenses	7.1	7.6	8.4
Operating income	2.3	4.7	2.5
Net income	1.1	2.8	1.2

FISCAL YEAR ENDED MARCH 31, 2000 VERSUS FISCAL YEAR ENDED APRIL˚2, 1999

Net Sales. Net sales for fiscal year 2000 totaled $1.79˚billion, an increase of $229.0˚million, or 14.6%, over the fiscal year 1999 total of $1.56˚billion. The increase in sales can be attributed to (i)˚net sales from the acquisition of companies during fiscal year 1999 and 2000 accounted for as purchases; (ii)˚internal sales growth of centers operating at least two years; (iii)˚the Company's focus on diagnostic equipment sales; (iv)˚incremental sales generated in connection with exclusive and semi-exclusive vendor relationships; but (v) offset by sales lost from manufacturer recalls and supply issues

Gross Profit. Gross profit for fiscal year 2000 totaled $472.3˚million, an increase of $50.4˚million, or 12.0%, over the fiscal year 1999 total of $421.9˚million. The increase in gross profit dollars is primarily attributable to the sales growth described above. Gross profit as a percentage of net sales was 26.3% and 27.0% for fiscal years 2000 and 1999, respectively. Although there has been considerable gross margin pressure from competition and a consolidating customer base, as well as internal pressure from an increase of Imaging Business revenues at a lower margin, the Company has successfully maintained its overall gross margins. The slight decrease in gross margin as a percentage of sales is attributable to (i)˚an increase in the sales mix of higher margin diagnostic equipment and service, (ii)˚an increase in sales of higher margin private label supplies by all division, and (iii)˚the ability to negotiate lower product purchasing costs which resulted from increased purchasing volume subsequent to the Gulf South acquisition; (iv) offset by the expansion of imaging revenues with lower gross profit margins and loss of higher margin equipment in the fourth quarter due to product recall and supply issues.

During fiscal 2000, the Company experienced continued margin pressures in the Long-Term Care Business as a result of its large chain customers renegotiating prices due to the implementation of PPS. The Company expects this trend to continue in the Long-Term Care Business.

General and Administrative Expenses. General and administrative expenses for fiscal year 2000 totaled $277.6˚million, an increase of $49.0˚million, or 21.4%, from the fiscal year 1999 total of $228.6˚million. General and administrative expenses as a percentage of net sales, increased to 15.5% for fiscal year 2000 from 14.6% for fiscal year 1999. The increase in general and administrative expenses as a percentage of net sales was a result of (i)˚write-offs, reserves and costs associated with long-term care customer receivables, (ii)˚loss of revenues from manufacturer recalls and supply issues without loss of costs associated with servicing those products, (iii)˚integration of systems and branch shutdowns in the Imaging division, (iv)˚incremental costs associated with product recalls, replacement, transition and training of new product replacing old products without revenues for replacement products, or new products, and (v)costs and lack of focus associated with the Company s strategic alternatives process.

In addition to typical general and administrative expenses, this line includes charges related to merger activity, restructuring activity, and other special items. See Note 4, *Charges Included in General and Administrative Expenses,* to the consolidated financial statements for additional discussion.

Selling Expenses. Selling expenses for fiscal year 2000 totaled $150.1˚million, an increase of $30.7˚million, or 25.7%, over the fiscal year 1999 total of $119.4˚million. Selling expense as a percentage of net sales was approximately 8.4% and 7.6% for fiscal years 2000 and 1999, respectively. The increase in selling expense as a percentage of net sales increased as a result of (i)˚incremental commissions incurred on product recalls, replacement and transition without recognition of revenue, (ii)˚replacement of lost Long-Term Care chain business without commission costs by new regional accounts revenue that are commissioned, (iii)˚salaries of equipment representatives not leveraged with sales due to supply issues, and (iv) lack of focus and performance associated with the strategic alternative process.

Operating Income. Operating income for fiscal year 2000 totaled $44.7˚million, a decrease of $29.2˚million, or 39.5%, over the fiscal year 1999 total of $73.9˚million. As a percentage of net sales, operating income for fiscal year 2000 decreased to 2.5% from 4.7% for fiscal year 1999 as a result of the factors discussed above.

Interest Expense. Interest expense for fiscal year 2000 totaled $15.5˚million, an increase of $4.0 million, or 34.8%, over the fiscal year 1999 total of $11.5˚million. The increase in interest expense in fiscal 2000 over fiscal 1999 was due to (i) borrowings used in connection with acquisitions during fiscal 2000, (ii) inventory build up associated with product recalls and Y2K inventory overstock, (iii) cash used in connection with capital expenditures of which most was invested in new systems and e-commerce and (iv) increase in Long-Term Care Business customer receivables due to its restructuring of the collection efforts from Jackson, Mississippi to Jacksonville, Florida.

Interest and Investment Income. Interest and investment income for fiscal 2000 totaled $1.8 million, a decrease of $2.9˚million, or 61.7%, over the fiscal year 1999 total of $4.7˚million. The decrease primarily resulted from lower levels of invested capital due to the use of cash and investments to fund capital expenditures and business acquisitions during fiscal 2000.

Other Income. Other income for fiscal 2000 totaled $10.4˚million, an increase of $3.8˚million, or 57.6%, over the fiscal year 1999 total of $6.6 million. Other income consists of finance charges on customer accounts. Other income for fiscal year 2000 includes $6.5 million received related to a favorable medical x-ray film antitrust settlement claim.

Provision for Income Taxes. Provision for income taxes for fiscal year 2000 totaled $19.3˚million, a decrease of $10.6˚million, or 35.5 %, over the fiscal year 1999 total of $29.9˚million. This decrease primarily resulted from the decrease in taxable income due to the factors discussed above. The effective income tax rate was 46.6% in fiscal year 2000 versus 40.6% in fiscal 1999. The effective tax rate is generally higher than the Company's statutory rate due to the nondeductible nature of certain merger related costs and the impact of the Company's foreign subsidiary, both of which were higher in 2000 than 1999. In addition, the reduction of taxable income in 2000 resulted in the permanent items having a greater impact on the effective rate than in fiscal 1999.

Net Income. Net income for fiscal year 2000 totaled $20.7˚million, a decrease of $23.0˚million, or 52.6%, over the fiscal year 1999 total of $43.7 million. As a percentage of net sales, net income decreased to 1.2% for fiscal year 2000 from 2.8% for fiscal year 1999 due primarily to the factors described above. In addition, the Company has changed its method of accounting for equipment sales and contingent rebate income effective April 3, 1999. As such, during fiscal 2000 the Company recorded the cumulative effect of the change in accounting principle, which reduced net income for the year ended March 31, 2000 by $1.4 million ($2.4 pre-tax).

FISCAL YEAR ENDED APRIL˚2, 1999 VERSUS FISCAL YEAR ENDED APRIL˚3, 1998

Net Sales. Net sales for fiscal year 1999 totaled $1.56˚billion, an increase of $182.7˚million, or 13.2%, over the fiscal year 1998 total of $1.38˚billion. The increase in sales can be attributed to (i)˚net sales from the acquisition of companies during fiscal year 1998 and 1999 accounted for as purchases; (ii)˚internal sales growth of centers operating at least two years; (iii)˚the Company's focus on diagnostic equipment sales; and (iv)˚incremental sales generated in connection with exclusive and semi-exclusive vendor relationships.

Net sales contributed from acquisitions completed in fiscal 1999 totaled approximately $5.6˚million, $74.4˚million, and $8.4˚million for the Physician Supply, Imaging, and Long-Term Care Businesses, respectively. In addition, Physician Supply Business and Imaging Business acquisitions completed during fiscal 1998 provided approximately $7.0˚million and $27.9˚million, respectively, in additional incremental sales to fiscal 1999.

The Company experienced a sequential decline in fourth quarter net sales in its Long-Term Care Business due to the implementation of the PPS for reimbursement of Medicare patients in long-term care facilities.

Gross Profit. Gross profit for fiscal year 1999 totaled $421.9˚million, an increase of $56.1˚million, or 15.3%, over the fiscal year 1998 total of $365.8˚million. The increase in gross profit dollars is primarily attributable to the sales growth described above. Gross profit as a percentage of net sales was 27.0% and 26.5% for fiscal years 1999 and 1998, respectively. Although there has been considerable gross margin pressure from competition and a consolidating customer base, as well as internal pressure from an increase of Imaging Business revenues at a lower margin, the Company has successfully maintained its overall gross margins. The increase in gross margin as a percentage of sales is attributable to (i)˚an increase in the sales mix of higher margin diagnostic equipment and service, (ii)˚an increase in sales of higher margin private label medical supplies by the Physician Supply Business, and (iii)˚the ability to negotiate lower product purchasing costs which resulted from increased purchasing volume subsequent to the Gulf South acquisition. This is offset by the expansion of imaging revenues with lower gross profit margins. During fiscal 1999, the Company experienced margin pressures in the Long-Term Care Business as a result of its large chain customers renegotiating prices due to the implementation of PPS.

General and Administrative Expenses. General and administrative expenses for fiscal year 1999 totaled $228.6˚million, a decrease of $6.5˚million, or 2.8%, from the fiscal year 1998 total of $235.1˚million. General and administrative expenses as a percentage of net sales, decreased to 14.6% for fiscal year 1999 from 17.0% for fiscal year 1998. The decrease in general and administrative expenses as a percentage of net sales was a result of (i)˚a decrease in changes related to merger activity, restructuring activity, and other special items as discussed in Note 4 of the accompanying financial statements, (ii)˚the continued leveraging of fixed costs of mature service center operations, (iii)˚the elimination of below average performance centers during fiscal 1999, and (iv)˚the increased contribution by the Imaging Business which operates at lower general and administrative expenses as a percentage of sales.

In addition to typical general and administrative expenses, this line includes charges related to merger activity, restructuring activity, and other special items. See Note 4 for a more detailed discussion of such amounts.

Selling Expenses. Selling expenses for fiscal year 1999 totaled $119.4˚million, an increase of $20.8˚million, or 21.1%, over the fiscal year 1998 total of $98.6˚million. Selling expense as a percentage of net sales was approximately 7.6% and 7.1% for fiscal years 1999 and 1998, respectively. The Company utilizes a variable commission plan, which pays commissions based on gross profit as a percentage of net sales. In fiscal 1999, sales commissions as a percent of net sales increased due (i)˚to the addition of new sales representatives to increase or replace existing low performance sales representatives, (ii)˚acquisition of sales representatives at the Imaging Business that are in transition to the Company's commission plan, and (iii)˚the short-term impact of the Long-Term Care Business changing of its compensation plan for its sales representatives.

Operating Income. Operating income for fiscal year 1999 totaled $73.9˚million, an increase of $41.8˚million, or 130.2%, over the fiscal year 1998 total of $32.1˚million. As a percentage of net sales, operating income for fiscal year 1999 increased to 4.7% from 2.3% for fiscal year 1998. As discussed in the analysis of general and administrative expenses, 1998 operating results include higher levels of operating charges related to merger activity, restructuring costs and expenses, and other unusual items than 1999.

Interest Expense. Interest expense for fiscal year 1999 totaled $11.5˚million, an increase of $4.0˚million, or 53.3%, over the fiscal year 1998 total of $7.5˚million. The increase in interest expense in fiscal 1999 over the comparable prior year period primarily reflects interest on the $125.0˚million, 8.5% senior subordinated debt that was outstanding for a full 12 months during fiscal 1999 versus five months outstanding during fiscal 1998.

Interest and Investment Income. Interest and investment income for fiscal 1999 totaled $4.7˚million, a decrease of $0.5˚million, or 9.6%, over the fiscal year 1998 total of $5.2˚million.

Other Income. Other income for fiscal 1999 totaled $6.6˚million, an increase of $3.8˚million, or 135.7%, over the fiscal year 1998 total of $2.8˚million. Other income consists of finance charges on customer accounts and financing performance incentives. Other income for fiscal year 1999 includes a gain of $0.4˚million from the sale of property and equipment.

Provision for Income Taxes. Provision for income taxes for fiscal year 1999 totaled $29.9˚million, an increase of $12.5˚million, or 71.8%, over the fiscal year 1998 total of $17.4˚million. This increase primarily resulted from the increase in taxable income due to the factors discussed above. The effective income tax rate was 40.6% in fiscal year 1999 versus 53.2% in fiscal 1998. The effective tax rate is generally higher than the Company's statutory rate due to the nondeductible nature of certain merger related costs and the impact of the Company's foreign subsidiary, both of which were higher in 1998 than 1999.

Net Income. Net income for fiscal year 1999 totaled $43.7˚million, an increase of $28.4˚million, or 185.6%, over the fiscal year 1998 total of $15.3˚million. As a percentage of net sales, net income increased to 2.8% for fiscal year 1999 from 1.1% for fiscal year 1998 due primarily to the factors described above.

GULF SOUTH'S RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL˚3, 1998 AND MARCH˚31, 1997

The Company acquired Gulf South on March˚26, 1998 in a transaction accounted for under the pooling-of-interests method of accounting. The financial statements have been retroactively restated as if Gulf South and the Company had operated as one entity since inception. As discussed in *Note˚1, Background and Summary of Significant Accounting Policies*, due to the consolidation method of the Company and the differing year ends of PSS and Gulf South, Gulf South's results of operations for the period January˚1, 1998 to April˚3, 1998 are not reflected in the consolidated statements of operations for any periods presented. Rather they have been recorded as an adjustment to equity during the first quarter of fiscal 1999. Following is management's discussion and analysis of the financial condition and results of operations of Gulf South for the three months ended April˚3, 1998 as compared to the three months ended March˚31, 1997.

The following table summarizes Gulf South's results of operations for the three months ended April˚3, 1998 and the three months ended March˚31, 1997 (in thousands):

	Three Months Ended April˚3, 1998	Three Months Ended March˚31, 1997
		(Unaudited)
Net sales	$ 87,018	$ 64,609
Cost of goods sold	73,108	48,027
Gross profit	13,910	16,582
General and administrative expenses	31,721	11,223
Selling expenses	2,939	2,279
(Loss) income from operations	(20,750)	3,080
Other income, net	321	465
(Loss) income before provision for income taxes	(20,429)	3,545
(Benefit) provision for income taxes	(5,395)	1,260
Net (loss) income	$ (15,034)	$ 2,285

In connection with the merger with the Company, Gulf South recorded an allowance for obsolete inventory of $1.9 million, a charge of $5.6 million to cost of goods sold to reconcile Gulf South's financial statements to its underlying books and records, merger costs and expenses of $5.7 million, restructuring costs and expenses of $4.3 million, and other unusual items of $7.3 million during the three months ended April 3, 1998. The components of the $24.8 million of unusual charges are specifically addressed below under the captions *Gross Profit* and *General and Administrative Expenses* as well as *Note 3, Gulf South's Results of Operations for the Three Months Ended April 3, 1998,* and *Note 4, Charges Included in General and Administrative Expenses,* in the Notes to the Consolidated Financial Statements included herein.

Net Sales. Net sales for the three months ended April 3, 1998 totaled $87.0 million, an increase of $22.4 million or 34.7% over net sales of $64.6 million for the three months ended March 31, 1997. The increase in net sales was attributable to the addition of national chain customers and the acquisition of a medical supply company during the three months ended December 31, 1997 which contributed approximately $5.8 million during the three months ended April 3, 1998. The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of the acquired company are included from the date of acquisition.

Gross Profit. Gross profit for the three months ended April 3, 1998 totaled $13.9 million, a decrease of $2.7 million or 16.3% over the three months ended March 31, 1997 total of $16.6 million. Gross profit, as a percentage of net sales was 16.0% and 25.7% for the three months ended April 3, 1998 and March 31, 1997, respectively. The decrease in gross profit as a percentage of net sales is attributable to (i) an item to reconcile Gulf South's financial statements to its underlying books and records, as discussed below, (ii) an allowance for obsolete inventory charge, as discussed below, (iii) the increase in the portion of the customer base represented by national chain customers which produce lower gross profit as a percentage of sales but require lower distribution costs as a percentage of sales, and (iv) the lower gross profit percentage of the company acquired.

During the three months ended April 3, 1998, a $1.9 million allowance for obsolete inventory charge was recorded. This charge is directly related to a change of plans, uses, and disposition efforts which new Gulf South management had as compared to prior management. Gulf South previously disclosed in its fiscal 1996 Form 10-K that they had generally been able to return any unsold or obsolete inventory to the manufacturer, resulting in negligible inventory write-offs. Gulf South's prior management had a policy of keeping old or overstocked inventory on the warehouse shelf until the inventory could ultimately be sold. As such, this policy kept the inventory on the books with what was deemed to be an appropriate obsolescence reserve.

New management, on the other hand, determined that it was not cost effective, from an operational standpoint, to continue warehousing and financing such old or overstocked inventory. Also, the Company does not normally allow product with less than desirable box or labeling conditions to be shipped to its customers. As such, consistent with the operational policies at the Company's other divisions, management decided to dispose of certain inventories that did not meet the Company's dating, box condition, or labeling requirements, or in which excessive quantities existed.

This decision to significantly alter Gulf South's inventory retention and buying policies, and, therefore, to dispose of the related inventories resulted in a change in the ultimate valuation of the impacted inventories. This charge was recognized in the period in which management made the decision to dispose of the affected inventory, which was Gulf South's quarter ended April 3, 1998.

Additionally, during the quarter ending April 3, 1998, a $5.6 million charge was recorded to reconcile GSMS financial statements to its underlying books and records. Through a review of accounting records, management believes this charge is appropriately related to cost of goods sold.

General and Administrative Expenses. General and administrative expenses for the three months ended April 3, 1998 totaled $31.7 million, an increase of $20.5 million or 183.0% over the three months ended March 31, 1997 total of $11.2 million. As a percentage of net sales, general and administrative expenses were 36.5% and 17.4% for the three months ended April 3, 1998 and March 31, 1997, respectively. The increase in general and administrative expenses as a percentage of net sales is primarily attributable to (i) merger costs and expenses, (ii) restructuring costs and expenses, (iii) other unusual items, (iv) increased operating costs, (v) inefficiencies due to Gulf South's merger with the Company, and (vi) loss of efficiencies resulting from the process of integrating acquired distribution centers.

The following table summarizes the components of the charges included in general and administrative expenses as outlined in (i), (ii), and (iii) above (in thousands):

	Three Months Ended April 3, 1998
Direct transaction costs related to the merger	$ 5,656
Restructuring costs and expenses	4,281
Legal fees and settlements	2,700
Operational tax charge	2,772
Goodwill impairment charge	1,664
Other	273
Total charges included in general & administrative expenses	$ 17,346

Direct Transaction Costs Related to the Merger. Direct transaction costs primarily consist of professional fees, such as investment banking, legal, and accounting, for services rendered through the date of the merger. As of March 31, 2000, all direct transaction costs were paid. Due to subsequent negotiations and agreements between the Company and a service provider, actual costs paid were less than costs originally billed and recorded. As a result, approximately $777 of costs were reversed against general and administrative expenses during the quarter ended September 30, 1998.

Restructuring Costs and Expenses. In order to improve customer service, reduce costs, and improve productivity and asset utilization, the Company decided to realign and consolidate its operations with Gulf South. The restructuring costs and expenses, which directly relate to the merger with PSS World Medical, Inc., were recorded during the three months ended April 3, 1998. During this time period, management approved and committed to a plan to integrate and restructure the business of Gulf South.

The Company recorded restructuring costs and expenses for lease terminations costs, severance and benefits to terminate employees, facility closure, and other costs to complete the consolidation of the operations. The following table summarizes the components of the restructuring charge.

Lease termination costs	$ 977
Involuntary employee termination costs	1,879
Branch shutdown costs	885
Other exit costs	540
	$ 4,281

Legal Fees and Settlements. Gulf South recorded a $2,000 accrual for legal fees specifically related to class action lawsuits, which Gulf South, the Company, and certain present and former directors and officers were named as defendants. These lawsuits are further discussed in *Note 18, Commitments and Contingencies*. In addition, Gulf South recorded $700 in charges related to a customer supply agreement.

Operational Tax Charge. Gulf South recorded an operational tax charge of $9,492, of which $2,772 was recorded in the quarter ended April 3, 1998, for state and local, sales and use, and property taxes that are normally charged directly to the customer at no cost to the Company. Penalties and interest are included in the above charge as Gulf South did not timely remit payments to tax authorities. The Company reviewed all available information, including tax exemption notices received, and recorded charges to expense, during the period in which the tax noncompliance issues arose. See *Note 4, Charges Included in General and Administrative Expenses,* for more discussion related to this issue.

Goodwill Impairment Charges. The $1,664 goodwill impairment charge relates primarily to a prior Gulf South acquisition. During the quarter ended April 3, 1998, a dispute with the acquired company's prior owners and management resulted in the loss of key employees and all operational information related to the acquired customer base. This ultimately affected Gulf South's ability to conduct business related to this acquisition, and impacted Gulf South's ability to recover the value assigned to the goodwill asset.

Selling Expenses. Selling expenses for the three months ended April 3, 1998 totaled $2.9 million, an increase of $0.6 million or 26.1% over the three months ended March 31, 1997 total of $2.3 million. As a percentage of sales, selling expenses decreased to 3.4% for the three months ended April 3, 1998 from 3.5% for the three months ended March 31, 1997. The decrease in selling expense as a percentage of net sales is the result of the increase in the portion of the customer base represented by national chain customers on which Gulf South does not pay sales commissions.

(Loss) Income from Operations. Loss from operations for the three months ended April 3, 1998 totaled $(20.8) million, a decrease of $23.9 million or 771.0% over the three months ended March 31, 1997 income from operations of $3.1 million. Operating income decreased primarily due to (i) significant 1998 charges to cost of sales and general and administrative expenses, (ii) infrastructure investments made in connection with the strategic objectives of the Company, and (iii) the lower gross profit percentage of companies acquired, each discussed above.

Provision For Income Taxes. Gulf South recorded an income tax benefit for income taxes for the three months ended April 3, 1998, of $5.4 million compared to a tax provision of $1.3 million for the three months ended March 31, 1997. The 1998 benefit primarily resulted from the $25.1 million in unusual charges related to merger and restructuring costs, asset impairment charges, and other operating charges recorded during the three months ended April 3, 1998. The effective rate of Gulf South's tax benefit during 1998 was lower than the statutory rate, primarily due to the nondeductible nature of certain of Gulf South's direct transaction costs.

Net (Loss) Income. Net loss for the three months ended April 3, 1998 totaled $(15.0) million, a decrease of $17.3 million or 752.2% over the three months ended March 31, 1997 net income of $2.3 million. The decrease in net income is primarily attributable to the factors discussed in *Gross Profit* and *Charges Included in General and Administrative Expenses* above.

LIQUIDITY AND CAPITAL RESOURCES

As the Company's business grows, its cash and working capital requirements will also continue to increase as a result of the need to finance acquisitions and anticipated growth of the Company's operations. This growth will be funded through a combination of cash flow from operations, revolving credit borrowings and proceeds from any future public offerings.

Net cash provided by (used in) operating activities was $27.9 million, $(18.7) million, and $17.0 million, in fiscal years 1998, 1999, and 2000, respectively. The increase in operating cash flows during fiscal 2000 primarily resulted from increased collections of accounts receivable and reductions in cash payments in satisfaction of merger and restructuring costs.

Net cash used in investing activities was $48.0˚million, $28.9˚million, and $94.3˚million, in fiscal years 1998, 1999, and 2000, respectively. During fiscal 2000, the Company used approximately $68.2 million of cash for purchase business acquisitions and related non-compete payments for these acquisitions as well as acquisitions completed in prior fiscal years. In addition, approximately $20.0 million of the $27.2 million of capital expenditures relate to hardware purchases and software development costs for the Physician division s JD Edwards One World ERP system, completion of the Imaging division s JD Edwards World ERP systems, and e-commerce initiatives.

Net cash provided by financing activities was $64.0˚million, $7.6˚million, and $96.7˚million for fiscal years 1998, 1999, and 2000, respectively. During fiscal 2000, the Company borrowed a net of $97.8 million primarily from its senior secured revolving credit facility. These funds were used for purchase business acquisitions, related non-compete payments, and capital expenditures as discussed in cash flows from investing activities.

The Company had working capital of $414.1 million and $355.3˚million as of March 31, 2000 and April˚2, 1999, respectively. Accounts receivable, net of allowances, were $284.4˚million and $271.8˚million at March 31, 2000 and April˚2, 1999, respectively. The average number of days sales in accounts receivable outstanding was approximately 55.8 and 55.2 days for the years ended March 31, 2000 and April˚2, 1999, respectively. For the year ended March 31, 2000, the Company's Physician Supply, Imaging, and Long-Term Care Businesses had days sales in accounts receivable of approximately 53.0, 47.6, and 73.4 days, respectively.

Inventories were $178.0˚million and $153.6˚million as of March 31, 2000 and April˚2, 1999, respectively. The Company had annualized inventory turnover of 8.0x and 8.2x times for the years ended March 31, 2000 and April˚2, 1999. For the year ended March 31, 2000, the Company's Physician Supply, Imaging, and Long-Term Care Businesses had annualized inventory turnover of 7.5x, 8.4x, and 8.3x, respectively. Inventory financing historically has been achieved through negotiating extended payment terms from suppliers.

The Company has historically been able to finance its liquidity needs for expansion through lines of credit provided by banks and proceeds from the public and private offering of stock and debt. In May 1994, the Company completed an initial public offering of Common Stock resulting in proceeds of approximately $15.8˚million. In November 1995, the Company completed a secondary offering of Common Stock. The Company used approximately $58.2˚million and $26.9˚million of the total secondary offering net proceeds of $142.9˚million to repay Company debt and debt assumed through acquisitions in fiscal years 1996 and 1997, respectively. Management used the remaining proceeds in connection with acquisitions for the Imaging, Physician Supply, and International Businesses, and general corporate purposes, including capital expenditures during fiscal years 1997 and 1998.

On October˚7, 1997, the Company issued, in a private offering under Rule˚144A of the Securities Act of 1933, an aggregate principal amount of $125.0˚million of its 8.5% senior subordinated notes due in 2007 (the "Private Notes") with net proceeds to the Company of $119.5˚million after deducting offering costs. The Private Notes are unconditionally guaranteed on a senior subordinated basis by all of the Company's domestic subsidiaries. On February˚10, 1998, the Company closed its offer to exchange the Private Notes for senior subordinated notes (the "Notes") of the Company with substantially identical terms to the Private Notes (except that the Notes do not contain terms with respect to transfer restrictions). Interest on the Notes accrues from the date of original issuance and is payable semiannually on April˚1 and October˚1 of each year, commencing on April˚1, 1998, at a rate of 8.5% per annum. The semiannual payments of approximately $5.3˚million will be funded by the operating cash flow of the Company. No other principal payments on the Notes are required over the next five years. The Notes contain cross-covenants to the Company s senior revolving facility and certain restrictive covenants that, among other things, limit the Company's ability to incur additional indebtedness. Provided, however, that no event of default exist, additional indebtedness may be incurred if the Company maintains a consolidated fixed charge coverage ratio, after giving effect to such additional indebtedness, of greater than 2.0 to 1.0.

On February˚11, 1999, the Company entered into a $140.0˚million senior revolving credit facility with a syndicate of financial institutions with NationsBank, N.A. as principal agent. Borrowings under the credit facility are available for working capital, capital expenditures, and acquisitions, and are secured by the common stock and assets of the Company and its subsidiaries. The credit facility expires February˚10, 2004 and borrowings bear interest at certain floating rates selected by the Company at the time of borrowing. The credit facility contains certain affirmative and negative covenants, the most restrictive of which require maintenance of a maximum leverage ratio of 3.5 to 1.0, maintenance of consolidated net worth of $337.0˚million, and maintenance of a minimum fixed charge coverage ratio of 2.0 to 1.0. In addition, the covenants limit additional indebtedness and asset dispositions, require majority lender approval on acquisitions with a total purchase price greater than $75.0˚million, and restrict payments of dividends.

On October 20, 1999, the Company amended its $140.0˚million senior revolving credit facility to allow for repurchases of up to $50.0 million of the Company s common stock through October 31, 2000. In addition, the amendment modified the consolidated net worth maintenance covenant to reduce the $337.0˚million minimum compliance level by any repurchases made by the Company of its common stock.

As of March 31, 2000, the Company was not in compliance with the following covenants under the senior revolving credit facility: 1) consolidated fixed charge coverage ratio, 2) consolidated leverage ratio, and 3) annual capital expenditure limits. However, the Company obtained a waiver from the lending group for the period ended March 31, 2000. Management believes it is probable that the Company will meet these covenants in future periods, or that appropriate waivers will be obtained. As such, the related debt has been classified as non-current as of March 31, 2000.

As of March 31, 2000, the Company has not entered into any material working capital commitments that require funding. The Company believes that the expected cash flows from operations, available borrowing under the credit facility, and capital markets are sufficient to meet the Company's anticipated future requirements for working capital, capital expenditures, and acquisitions for the foreseeable future.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of December˚31, 1998, the Company did not hold any derivative financial or commodity instruments. The Company is subject to interest rate risk and certain foreign currency risk relating to its operations in Europe; however, the Company does not consider its exposure in such areas to be material. The Company's interest rate risk is related to its Senior Subordinated Notes, which bear interest at a fixed rate of 8.5%, and borrowings under its Credit Facility, which bear interest at variable rates, at the Company's option, at either the lender's base rate plus 0.25% (9.25% at March 31, 2000) or the LIBOR rate plus 1.25% (7.47% on 90 day LIBOR at March 31, 2000).

FORWARD LOOKING STATEMENTS

All statements contained herein that are not historical facts, including, but not limited to, statements regarding anticipated growth in revenue, gross margins and earnings, statements regarding the Company's current business strategy, the Company's projected sources and uses of cash, and the Company's plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause results to differ materially are the following: the availability of sufficient capital to finance the Company's business plans on terms satisfactory to the Company; competitive factors; the ability of the Company to adequately defend or reach a settlement of outstanding litigations and investigations involving the Company or its management; changes in labor, equipment and capital costs; changes in regulations affecting the Company's business; future acquisitions or strategic partnerships; general business and economic conditions; and other factors described from time to time in the Company's reports filed with the Securities and Exchange Commission. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

PSS WORLD MEDICAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2000 and April 2, 1999

(Dollars in Thousands, Except Per Share Data)

ASSETS

	2000	1999
Current Assets:		
Cash and cash equivalents	$ 60,414	$ 41,106
Marketable securities	4,328	3
Accounts receivable, net	284,441	271,781
Inventories, net	178,038	153,626
Employee advances	973	702
Prepaid expenses and other	57,515	59,327
Total current assets	585,709	526,545
Property and equipment, net	65,783	48,167
Other Assets:		
Intangibles, net	202,242	147,383
Other	19,683	21,286
Total assets	$ 873,417	$ 743,381

LIABILITIES AND SHAREHOLDERS' EQUITY

	2000	1999
Current Liabilities:		
Accounts payable	$ 124,448	$ 112,966
Accrued expenses	35,434	48,704
Current maturities of long-term debt and capital lease obligations	4,274	1,062
Other	7,482	8,536
Total current liabilities	171,638	171,268
Long-term debt and capital lease obligations, net of current portion	254,959	152,442
Other	7,193	3,111
Total liabilities	433,790	326,821
Commitments and contingencies (Notes 1, 2, 9, 14, 15, 16, 18, 19, and 20)		
Shareholders' Equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized, no shares issued and outstanding	--	--
Common stock, $.01 par value; 150,000,000 shares authorized, 71,077,236 and 70,796,024 shares issued and outstanding at March 31, 2000 and April 2, 1999, respectively	711	708
Additional paid-in capital	349,186	349,460
Retained earnings	90,951	70,211
Cumulative other comprehensive income	(390)	(1,177)
	440,458	419,202
Unearned ESOP shares	(831)	(2,642)
Total shareholders' equity	439,627	416,560
Total liabilities and shareholders' equity	$ 873,417	$ 743,381

The accompanying notes are an integral part of these balance sheets.

PSS WORLD MEDICAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended March 31, 2000, April 2, 1999, and April 3, 1998

(Dollars in Thousands, Except Per Share Data)

	2000	1999	1998
Net sales	$1,793,536	$1,564,505	$1,381,786
Cost of goods sold	1,321,182	1,142,597	1,016,018
Gross profit	472,354	421,908	365,768
General and administrative expenses	277,585	228,616	235,067
Selling expenses	150,060	119,439	98,622
Income from operations	44,709	73,853	32,079
Other income (expense):			
Interest expense	(15,457)	(11,522)	(7,517)
Interest and investment income	1,838	4,732	5,249
Other income	10,437	6,618	2,849
	(3,182)	(172)	581
Income before provision for income taxes and cumulative effect of accounting change	41,527	73,681	32,660
Provision for income taxes	19,343	29,940	17,361
Income before cumulative effect of accounting change	22,184	43,741	15,299
Cumulative effect of accounting change (Note 1)	(1,444)	--	--
Net Income	$ 20,740	$ 43,741	$ 15,299
Earnings per share - Basic:			
Income before cumulative effect of accounting change	$ 0.31	$ 0.62	$ 0.22
Cumulative effect of accounting change	$ (0.02)	--	--
Net Income	$ 0.29	$ 0.62	$ 0.22
Earnings per share - Diluted:			
Income before cumulative effect of accounting change	$ 0.31	$ 0.61	$ 0.22
Cumulative effect of accounting change	$ (0.02)	--	--
Net Income	$ 0.29	$ 0.61	$ 0.22

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

PSS WORLD MEDICAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED MARCH 31, 2000, APRIL 2, 1999, AND APRIL 3, 1998

(Dollars in Thousands, Except Per Share Data)

	Common Stock		Additional Paid-In	Retained	Cumulative Other Comprehensive	Unearned ESOP	
	Shares	Amount	Capital	Earnings	Income	Shares	Totals
Balance at March 28, 1997	68,632,102	$ 687	$ 323,909	$ 26,205	$ (93)	$ (4,999)	$ 345,709
Net income	--	--	--	15,299	--	--	15,299
Comprehensive income:							
Cumulative foreign currency translation adjustment	--	--	--	--	(1,203)	--	(1,203)
Total comprehensive income							14,096
Issuance of common stock	1,539,807	15	15,946	--	--	--	15,961
Employee benefits and other	--	--	2,132	--	--	2,162	4,294
Balance at April 3, 1998	70,171,909	702	341,987	41,504	(1,296)	(2,837)	380,060
Gulf South results of operations and issuance of common stock, January 1, 1998 to April 3, 1998 (Notes 1, 2, and 3)	202,685	2	2,594	(15,034)	--	--	(12,438)
Balance at April 4, 1998	70,374,594	704	344,581	26,470	(1,296)	(2,837)	367,622
Net income	--	--	--	43,741	--	--	43,741
Comprehensive income:							
Cumulative foreign currency translation adjustment	--	--	--	--	119	--	119
Total comprehensive income							43,860
Issuance of common stock	421,430	4	4,267	--	--	--	4,271
Employee benefits and other	--	--	612	--	--	195	807
Balance at April 2, 1999	70,796,024	708	349,460	70,211	(1,177)	(2,642)	416,560
Net income	--	--	--	20,740	--	--	20,740
Comprehensive income:							
Cumulative foreign currency translation adjustment	--	--	--	--	(939)	--	(939)
Change in unrealized gain on marketable security, net of tax	--	--	--	--	1,726	--	1,726
Total comprehensive income							21,527
Issuance of common stock	281,212	3	98	--	--	--	101
Employee benefits and other	--	--	(372)	--	--	1,811	1,439
Balance at March 31, 2000	71,077,236	$711	$349,186	$90,951	$(390)	$(831)	$439,627

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

PSS WORLD MEDICAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended March 31, 2000, April°2, 1999, and April°3, 1998

(Dollars in Thousands)

	2000	1999	1998
Cash Flows From Operating Activities:			
Net income	$20,740	$ 43,741	$ 15,299
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Cumulative effect of accounting change	1,444	--	--
Depreciation and amortization	20,288	19,498	10,691
Amortization of debt issuance costs	782	886	170
Provision for doubtful accounts	15,812	5,181	5,707
Provision (benefit) for deferred income taxes	11,878	10,901	(4,083)
Gain on sale of fixed assets	(871)	(836)	--
Deferred compensation expense	721	365	630
Unrealized loss on trading securities	--	288	3
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Accounts receivable, net	(23,041)	(43,848)	(16,339)
Inventories, net	5,597	1,275	(2,090)
Prepaid expenses and other current assets	8,656	(4,916)	(10,464)
Other assets	(8,855)	(2,265)	(2,486)
Accounts payable, accrued expenses, and other liabilities	(36,180)	(48,974)	30,898
Net cash provided by (used in) operating activities	16,971	(18,704)	27,936
Cash Flows From Investing Activities:			
Purchases of marketable securities	(1,500)	(50,813)	(318,166)
Proceeds from sales and maturities of marketable securities	--	125,098	309,628
Proceeds from sale of property and equipment	2,595	1,586	--
Capital expenditures	(27,182)	(24,774)	(10,519)
Purchases of businesses, net of cash acquired	(59,410)	(75,453)	(22,481)
Payments on noncompete agreements	(8,825)	(4,558)	(6,431)
Net cash used in investing activities	(94,322)	(28,914)	(47,969)
Cash Flows From Financing Activities:			
Proceeds from public debt offering, net of debt issuance costs	--	--	119,459
Proceeds from borrowings	175,797	24,000	4,349
Repayments of borrowings	(77,976)	(20,337)	(56,014)
Repayments on revolving line of credit	--	--	(5,000)
Principal payments under capital lease obligations	(325)	(366)	(306)
Proceeds from issuance of common stock	101	4,174	2,721
Other	(938)	119	(1,203)
Net cash provided by financing activities	96,659	7,590	64,006
Gulf South decrease in cash and cash equivalents for the three months ended April°3, 1999	--	(349)	--
Net increase (decrease) in cash and cash equivalents	19,308	(40,377)	43,973
Cash and cash equivalents, beginning of year	41,106	81,483	37,510
Cash and cash equivalents, end of year	$ 60,414	$ 41,106	$ 81,483
Supplemental Disclosures:			
Cash paid for:			
Interest	$ 14,260	$ 11,026	$ 5,195
Income taxes	$ 27,137	$ 18,192	$ 21,170

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

PSS WORLD MEDICAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000, APRIL 2, 1999 AND APRIL 3, 1998
(Dollars in Thousands, Except Per Share Data, Unless Otherwise Noted)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company and Nature of Business

Physician Sales & Service, Inc. was incorporated in 1983 in Jacksonville, Florida. On March 26, 1998, the corporate name of Physician Sales & Service, Inc. was changed to PSS World Medical, Inc. (the "Company" or "PSS").

The Company, through its Physician Sales & Service, Inc. division ("Physician Supply Business") is a distributor of medical supplies, equipment and pharmaceuticals to primary care and other office-based physicians in the United States. As of March 31, 2000, the Company operated 51 service centers distributing to over 100,000 physician office sites in all 50 states.

In November 1996, PSS established a new wholly-owned subsidiary, Diagnostic Imaging, Inc. (''DI'' or ''Imaging Business''). DI is a distributor of medical diagnostic imaging supplies, chemicals, equipment, and service to the acute and alternate care markets in the United States. As of March 31, 2000, DI operated 34 imaging division service centers distributing to approximately 45,000 customer sites in 42 states.

In March 1996, PSS established two new wholly-owned subsidiaries, WorldMed International, Inc. (''WorldMed Int'l'') and WorldMed, Inc. These subsidiaries were established to manage and develop PSS' European medical equipment and supply distribution market. As of March 31, 2000, the European operation included two service centers distributing to acute and alternate care sites in Belgium, Germany, France and Luxembourg.

In March 1998, the Company entered the long-term care market for the distribution of medical supplies and other products with its acquisition of Gulf South Medical Supply, Inc. ("Gulf South" or "Long-Term Care Business"). As of March 31, 2000, Gulf South, a wholly owned subsidiary of PSS, operated 14 long-term care distribution service centers serving over 14,000 long-term care accounts in all 50 states.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries using the year-ends discussed below. All intercompany accounts and transactions have been eliminated. Results of operations of companies acquired in purchase business transactions are included in the accompanying consolidated financial statements from the dates of acquisition.

Fiscal Year

The Company's fiscal year ends on the Friday closest to March 31 of each year. Prior to April 4, 1998, Gulf South's (which was acquired in a business combination accounted for as a pooling-of-interest, refer to Note 2, *Business Acquisitions*) year-end was December 31. The fiscal 1998 consolidated financial statements combine the December 31, 1997 financial statements of Gulf South with the April 3, 1998 financial statements of PSS. Effective April 4, 1998, Gulf South's fiscal year-end was changed to conform to the Company's year-end. As such, Gulf South's results of operations for the period January 1, 1998 to April 3, 1998 are not included in any of the periods presented in the accompanying consolidated statements of income. Accordingly, Gulf South's results of operations for the three months ended April 3, 1998 are reflected as an adjustment to shareholders' equity of the Company as of April 4, 1998. The Company's fiscal 1999 consolidated financial statements include the combined results of operations for the period from April 4, 1998 to April 2, 1999, of both PSS and Gulf South.

Fiscal years 2000, 1999, and 1998 consist of 52, 52, and 53 weeks, respectively.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management makes 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 as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, marketable securities, short-term trade receivables, and accounts payable approximate their fair values due to the short-term nature of these assets and liabilities. The fair value of the senior subordinated debt is estimated using quoted market prices. The carrying value of the Company's senior subordinated debt at March 31, 2000 and April 2, 1999 was $125,000 and the market value was $114,675 and $120,925, respectively. The carrying value of the Company's other long-term debt was $134,233 and $28,504, at March 31, 2000 and April 2, 1999, respectively, which approximates fair value.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash held at banks, short-term government obligations, commercial paper, and money market instruments. The Company invests its excess cash in high-grade investments and, therefore, bears minimal risk. These instruments have original maturity dates not exceeding three months.

Marketable Securities

The Company holds investments classified as trading securities and available-for-sale securities. Trading securities are reported at fair value, with unrealized holding gains or losses reported in earnings, and available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings but reported in other comprehensive income, net of the effect of income taxes, until sold. At the time of sale, any gains or losses are recognized as a component of operating results. Gains and losses are based on the specific identification method of determining cost.

Concentration of Credit Risk

The Company's trade accounts receivables are exposed to credit risk. Although the majority of the market served by the Company is comprised of numerous individual accounts, none of which is individually significant to the Company.

The Company's Gulf South subsidiary depends on a limited number of large customers, and Gulf South s customers have been experiencing significant financial difficulty since the advent of the Prospective Payment System (PPS) and their difficulties worsened in the fourth quarter of fiscal 2000. Approximately 34% and 38% of Gulf South's revenues for the years ended March 31, 2000 and April˚2, 1999, respectively, represented sales to its top five customers. Receivables for these five customers represented 31.6% of Gulf South s gross accounts receivable balance as of March 31, 2000, before reserves, and 34.0% of Gulf South s net accounts receivable, after reserves. The Company monitors the creditworthiness of its customers on an ongoing basis and provides reserves for estimated bad debt losses and sales returns.

The Company had allowances for doubtful accounts of approximately $10,839 and $6,918 as of March 31, 2000 and April˚2, 1999, respectively, of which $7,524 and $3,552, respectively, related to Gulf South. Provisions for doubtful accounts were approximately $15,812, $5,181, and $5,707, for fiscal years ended 2000, 1999, and 1998, respectively, of which $11,193, $2,485, and $4,422, respectively, related to Gulf South.

Inventories

Inventories are comprised principally of medical and related products and are stated at the lower of cost (first-in, first-out) or market. Market is defined as net realizable value. A companywide physical inventory observation is performed semiannually. Any inventory that is impaired for any reason is disposed of or written down to fair market value at this time. Management reviews all branch inventory valuations and makes further adjustment if necessary.

Slow moving inventory is tracked using a report that details items that have not moved in the last 60, 90, or 120 days and an appropriate reserve is established. Once slow moving inventory has been identified, the branches transfer inventory to other branches with a market for that inventory. If management determines the inventory is not saleable, the inventory is written off against the inventory obsolescence reserve.

The Company allows the customers to return products under its "no hassle customer guarantee," and customers are issued credit memos. The Company records an allowance for estimated sales returns and allowances at the end of each period. Sales returns and allowances are estimated based on past history.

Property and Equipment

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to 30 years. Leasehold improvements are amortized over the lease terms or the estimated useful lives, whichever is shorter. Gain or loss upon retirement or disposal of property and equipment is recorded in other income in the accompanying consolidated statements of income.

The Company evaluates the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

The DI division began implementing the JD Edwards OneWorld ERP System (the "JDE Project") in fiscal 1998 and is nearly complete as of March 31, 2000. During fiscal 1999, the Company began implementing the JDE Project at the PSS and GSMS divisions. The Company capitalizes the following costs associated with developing internal-use computer software: (i) external direct costs of materials and services consumed in developing or obtaining internal-use computer software; (ii) payroll and payroll-related costs for employees who are directly associated with and who devote time to the JDE Project, to the extent of the time spent directly on the project; and (iii) interest costs incurred while developing internal-use computer software.

Intangibles

Noncompete agreements are amortized on a straight-line basis over the lives of the agreements, which range from 3 to 15 years. The Company has classified as goodwill the cost in excess of the fair value of net identifiable assets purchased in business acquisitions that are accounted for as purchase transactions. Goodwill is being amortized over 15 to 30 years using the straight-line method.

The Company periodically evaluates intangible assets to determine if there is impairment. Based on these evaluations, there was an adjustment to the carrying value of certain intangible assets in fiscal year 1998 (refer to *Note˚4, Charges Included in General and Administrative Expenses*).

Self-Insurance Coverage

The Company has a self-funded program for employee & dependent health coverage. This program includes an administrator, a large provider network and stop loss reinsurance to cover individual claims in excess of $150 up to $2,000 per person as well as receiving coverage on an aggregate basis. Claims that have been incurred but not reported are recorded based on estimates of claims provided by the third party administrator and are included in the accrued expenses in the accompanying consolidated balance sheets.

Contingent Loss Accruals

In determining the accrual necessary for probable loss contingencies as defined by Statement of Financial Accounting Standards ("SFAS") No.˚5, Accounting for Contingencies, the Company includes estimates for professional fees, such as engineering, legal, accounting, and consulting, and other related costs to be incurred, unless such fees and related costs are not probable of being incurred or are not reasonably estimable.

Income Taxes

The Company uses the asset and liability method in accounting for income taxes. Deferred income taxes result primarily from the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Shareholders' Equity

The Company realizes an income tax benefit from the exercise or early disposition of certain stock options. This benefit results in a decrease in current income taxes payable and a direct increase in additional paid-in capital (refer to *Note˚10, Income Taxes*).

Other Comprehensive Income

Cumulative other comprehensive income and total comprehensive income has been separately disclosed in the accompanying consolidated statements of shareholders' equity.

Revenue Recognition

Revenue from the sale of products and equipment with no installation and training requirements, is recognized when products are shipped. Revenue from the sale of equipment with installation and training requirements is recognized when installation and training are complete. Revenue from service contracts are recognized ratably over the term of the contract.

The Company earns incentive rebates from its vendors if certain performance goals are achieved. Incentive rebate income is recognized in the accounting period in which the Company meets the performance measure.

Foreign Currency Translation

Financial statements for the Company's subsidiaries outside the United States are translated into U.S. dollars at year-end exchange rates for assets and liabilities and weighted average exchange rates for income and expenses. The resulting translation adjustments are recorded in the other comprehensive income component of shareholders' equity.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans using the intrinsic value method. The Company adopted the disclosure only provisions of SFAS No.˚123, *Accounting for Stock-Based Compensation*. In accordance with SFAS No.˚123, for footnote disclosure purposes only, the Company computes its earnings and earnings per share on a pro forma basis as if the fair value method had been applied.

Earnings Per Common Share

Basic and diluted earnings per common share are presented in accordance with SFAS No.˚128, *Earnings Per Share*. Basic earnings per common share is computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per common share includes the dilutive effect of stock options (refer to *Note˚11, Earnings Per Share*).

Statements of Cash Flows

The Company's noncash investing and financing activities were as follows:

	2000	1999	1998
Investing Activities:			
Business acquisitions:			
Fair value of assets acquired	$ 41,146	$ 56,815	$ 48,924
Liabilities assumed	41,604	39,930	32,684
Noncompetes issued	8,300	3,950	7,574
Capital lease obligations incurred	--	--	325
Financing Activities:			
Tax benefits related to stock option plans	194	759	1,505

Reclassification

Certain amounts for prior years have been reclassified to conform to the current year presentation.

Change in Accounting Principle

In December 1999, the Securities and Exchange Commission Staff ("SEC staff") issued Staff Accounting Bulletin No. 101, "Revenue Recognition ("SAB 101"), which provides additional guidance in applying generally accepted accounting principles for revenue recognition in consolidated financial statements. Areas of SAB 101 relevant to the Company include the timing of recognizing (1) contingent revenue and (2) revenue

derived from equipment sales that involve installation and training of the equipment occurring after shipment and transfer of title.

The Company sells equipment which falls into three broad categories: (1) equipment with no installation or training requirements, such as plug-and-play units, (2) equipment with basic installation requirements, and (3) equipment with complex installation and training requirements, such as large x-ray equipment. With the exception of type (1) equipment, most installations include a training component. Prior to the implementation of SAB 101, the Company's revenue recognition policy for type (1) and type (2) equipment was to recognize revenue at the time the customer took title of the product, generally at the time of shipment. The Company previously considered the related installation and training requirements to be perfunctory, as it had routinely met its installation and training obligations shortly after the ship date. Prior to the implementation of SAB 101, the Company's revenue recognition policy for type (3) equipment was to recognize revenue at the date installation was complete, but prior to the completion of training, as the Company considered the related training to be perfunctory.

The Company's interpretation of the requirements of SAB 101 results in changes to the Company's accounting policies for revenue recognition for equipment since the installation and training requirements are no longer considered perfunctory based on the customer's perspective. Revenue will be recognized for type (1) equipment sales on the date of shipment. Revenue will be recognized for type (2) and (3) equipment after the completion of installation and training.

The Company's pre- and post- SAB 101 equipment sales recognition policies are illustrated below:

	Point at which Company recognizes sale of equipment, by type		
	Type (1)	Type (2)	Type (3)
Pre SAB 101	When shipped	When shipped	After completion of installation
Under SAB 101	When shipped	After completion of installation and training	After completion of installation and training

The Company also participates in a variety of incentive rebate programs with its vendors in which the Company receives rebates once certain volume thresholds have been met. Prior to the adoption of SAB 101, the Company's incentive rebate recognition policy was to accrue for the estimated amount of rebate income earned during the period, using current financial information, historical experience, and projected results of the specific rebate program. Under SAB 101, no rebate income will be recognized until the period in which the performance measures are achieved.

As permitted, the Company has decided to early adopt SAB 101 for the fiscal year ended March 31, 2000. The Company has changed its method of accounting for equipment sales and contingent rebate income effective April 3, 1999. The cumulative effect of this accounting change reduced net income for the year ended March 31, 2000 by $1.4 million ($2.4 pre-tax). The cumulative after tax effect on both the basic and diluted earnings per share was a reduction of $0.02. The effect of SAB 101, before the cumulative effect, did not have a material impact on fiscal 2000, and would not have been material to fiscal 1999 or 1998. The quarterly information for fiscal 2000, presented in Note 17, have been presented as if the Company adopted SAB 101 with a cumulative catch up effective April 3, 1999.

Pending Recent Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No.˚133, "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No.˚137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement 133," which delays the effective date of SFAS No.˚133 to fiscal years beginning after June˚15, 2000. The Company plans to adopt the provisions of this statement in the first quarter of fiscal year 2002. The Company expects the impact of adopting SFAS No.˚133 will be immaterial.

2. BUSINESS ACQUISITIONS

On March 26, 1998, the Company completed its merger with Gulf South. The Company issued 28,810,747 shares of its common stock for all of the outstanding common stock of Gulf South, which was valued at $662.6 million at the time of merger. Each share of Gulf South common stock was exchanged for 1.75 shares of PSS common stock. In addition, outstanding Gulf South stock options were converted at the same exchange factor into stock options to purchase 2,206,461 shares of PSS common stock. This merger constituted a tax-free reorganization and has been accounted for as a pooling of interests.

On September 23, 1997, the Company acquired S&W in a merger pursuant to which the Company issued 1,737,458 shares of common stock to the former shareholders of S&W in exchange for all of the outstanding shares of capital stock of S&W valued at $26.0 million at the time of the merger. The merger constituted a tax-free reorganization and has been accounted for as a pooling of interests.

Other Pooled Entities

The Company merged with certain other medical supply and equipment distributors and imaging supply and equipment distributors in stock mergers accounted for under the pooling-of-interests method of accounting. Due to the aggregate impact of these individually immaterial pooling-of-interest transactions on the Company's prior period financial statements, the consolidated financial statements have been retroactively restated to include the pooling-of-interest transactions as if the companies had operated as one entity since inception, as shown below. The number of companies acquired and the number of shares of common stock issued are as follows:

	1999	1998
Number of acquisitions	2	4
Number of shares of common stock issued	608,000	490,000

The results of operations for the acquired companies through their respective acquisition dates and the combined amounts presented in the consolidated financial statements follow:

	Fiscal Year Ended April 2, 1999		
	Other Pooled Entities	PSS	Combined
Net sales	$51,643	$1,512,862	$1,564,505
Gross profit	4,914	416,994	421,908
Net income	(1,098)	44,839	43,741
Other changes in shareholders' equity	70	(11,828)	(11,758)

	Fiscal Year Ended April 3, 1998				
	Gulf South	S&W	Other Pooled Entities	PSS	Combined
Net sales	$287,582	$38,003	$92,722	$963,479	$1,381,786
Gross profit	73,685	8,756	14,598	268,729	365,768
Net income	9,861	(2,095)	581	6,952	15,299
Other changes in shareholders equity	753	2,790	(243)	15,752	19,052

Purchase Acquisitions

During fiscal 2000, the Company acquired certain assets and assumed certain liabilities of 6 medical supply and equipment distributors, 12 imaging supply and equipment distributors, and 2 long-term health care distributors.

In addition, the Company acquired the common stock of 4 imaging supply and equipment distributors. A summary of the details of the transactions follow:

	Fiscal Year		
	2000	**1999**	**1998**
Number of acquisitions	24	25	13
Issuance of shares of common stock	--	--	933,000
Total consideration	$ 101,014	$ 115,183	$ 35,739
Cash paid, net of cash acquired	59,410	75,453	22,481
Goodwill recorded	59,868	58,368	33,745
Noncompete payments	7,235	3,950	2,982

The operations of the acquired companies have been included in the Company's results of operations subsequent to the dates of acquisition. Supplemental unaudited pro forma information, assuming these acquisitions had been made at the beginning of the year in which the acquisition was made, and assuming the acquisitions were made at the beginning of the immediate preceding year, is included below. The unaudited pro forma selected financial data does not purport to represent what the Company's results of operation would actually have been had the transactions in fact occurred as of an earlier date or project the results for any future date or period.

	Fiscal Year		
	2000	**1999**	**1998**
Revenues	$1,869,138	$1,847,921	$1,589,261
Net Income	22,397	49,180	19,078
Earnings per share:			
Basic	$0.32	$0.70	$0.27
Diluted	$0.31	$0.69	$0.27

These acquisitions were accounted for under the purchase method of accounting, and accordingly, the assets of the acquired companies have been recorded at their estimated fair values at the dates of the acquisitions. The value of the common stock issued in connection with these purchases is generally determined based on an average market price of the shares over a ten-day period before a definitive agreement is signed and the proposed transaction is announced. The excess of the purchase price over the estimated fair value of the net identifiable assets acquired has been recorded as goodwill and is amortized over 15 to 30 years.

The accompanying consolidated financial statements reflect the preliminary allocation of the purchase price of the purchase acquisitions consummated in fiscal 2000. The allocation of the purchase price, performed using values and estimates available as of the date of the financial statements, has not been finalized due to certain pre-acquisition contingencies identified by the Company and the nature of the estimates required in the establishment of the Company's merger integration plans. Accordingly, goodwill associated with these acquisitions may increase or decrease in fiscal 2001.

Merger costs and expenses

During fiscal 2000 and 1999, the Company recorded approximately $595 and $545, respectively, of merger integration costs and expenses directly to goodwill as incurred as these costs were contemplated at the time of acquisition. In addition, during these fiscal years, the Company recorded approximately $489 and $493, respectively, of merger costs and expenses related to other acquisitions directly to goodwill for costs that were in excess of the original integration plan accrual estimated by management. Such merger costs and expenses are recorded directly to goodwill only if it is within one year from the date of the acquisition and such expenses were contemplated at the time of the acquisition. If merger costs and expenses are incurred subsequent to one year from the date of the acquisition, or were not contemplated at the time of the acquisition, such expenses are recorded in general and administrative expenses.

Reversal of excess accrued merger costs and expenses

During fiscal 2000 and 1999, the Company reversed approximately $767 and $1,343, respectively, of certain accrued merger costs and expenses that management determined to be unnecessary due to changes in integration plans or estimates. Management evaluates integration plans at each period end and determines if revisions to the accruals are appropriate. Such revisions to the original estimates are recorded directly to goodwill.

Deferred tax assets of acquired companies

During fiscal 1999, the Company reduced goodwill by $2,644, to reflect a true-up of the deferred tax assets and liabilities per the financial statements and the tax return, as a result of additional information received on the deductibility of certain pre-acquisition expenditures.

As a result of the above adjustments goodwill was increased by $317 during fiscal 2000 and reduced by $2,949 during fiscal 1999, excluding the original set-up of the plan. There were no such adjustments in fiscal 1998.

In addition, the terms of certain of the Company's recent acquisition agreements provide for additional consideration to be paid if the acquired entity's results of operations exceed certain targeted levels. Targeted levels are generally set above the historical experience of the acquired entity at the time of acquisition. Such additional consideration is to be paid in cash or with shares of the Company's common stock and is recorded when earned as additional purchase price. The maximum amount of remaining contingent consideration is approximately $13.5˚million (payable through fiscal 2001) and no earn-out payments have been made prior to March 31, 2000.

3. GULF SOUTH'S RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL˚3, 1998

As discussed in *Note˚1, Background and Summary of Significant Accounting Policies,* due to the Company's consolidation method and the differing year-ends of PSS and Gulf South, Gulf South's results of operations for the three months ended April˚3, 1998 are not reflected in the accompanying consolidated statements of income for any periods presented. Rather, the results of operations have been recorded as an adjustment to shareholders' equity during the first quarter of fiscal 1999. Therefore, the results of Gulf South's operations for the period January˚1, 1998 to April˚3, 1998 are summarized below for additional disclosure.

	Three Months Ended April 3, 1998
Net sales	$ 87,018
Cost of goods sold	73,108
Gross profit	13,910
General and administrative expenses	31,721
Selling expenses	2,939
Loss from operations	(20,750)
Other income, net	321
Loss before benefit for income taxes	(20,429)
Benefit for income taxes	5,395
Net loss	$ (15,034)

During the three months ended April 3, 1998, Gulf South recorded $24,825 of charges related to the disposition of reconciling items, merger and restructuring costs and expenses, goodwill impairment charge, and other operating charges. These charges are included in cost of goods sold and general and administrative expenses above. The following table summarizes the components of the $24,825 in charges.

	Three Months Ended April 3, 1998
Cost of goods sold:	
Reconciling items	5,590
Increase allowance for obsolete inventory	1,889
Total charges included in costs of goods sold	7,479
General and administrative expenses:	
Direct transaction costs related to the merger	5,656
Restructuring costs and expenses	4,281
Legal fees and settlements	2,700
Operational tax charge	2,772
Goodwill impairment charge	1,664
Other	273
Total charges included in general & administrative expenses	17,346
Total charges	$ 24,825

Cost of Goods Sold:

Reconciling Items

During the quarter ending April 3, 1998, a $5.6 million charge was recorded in general and administrative expenses. Through a review of accounting records, management believes this charge is appropriately related to cost of goods sold.

Increase Allowance for Obsolete Inventory

The charge relates directly to a change of plans, uses, and disposition efforts which new Gulf South management had as compared to prior management. This decision to significantly alter Gulf South's inventory retention and buying policies, and, therefore, to dispose of the related inventories, resulted in a change in the ultimate valuation of the impacted inventories. This charge was recognized in the period in which management made the decision to dispose of the affected inventory, which was Gulf South's quarter ended April 3, 1998.

General and Administrative Expenses:

Direct Transaction Costs Related to the Merger

Direct transaction costs primarily consist of professional fees, such as investment banking, legal, and accounting, for services rendered through the date of the merger. As of April 2, 1999, all direct transaction costs were paid. Due to subsequent negotiations and agreements between the Company and its service provider, actual costs paid were less than costs originally billed and recorded. As a result, approximately $777 of costs were reversed against general and administrative expenses during the quarter ended September 30, 1998.

Restructuring Costs and Expenses

In order to improve customer service, reduce costs, and improve productivity and asset utilization, the Company decided to realign and consolidate its operations with Gulf South. The restructuring costs and expenses, which directly relate to the merger with PSS, were recorded during the three months ended April 3, 1998. During this time period, management approved and committed to a plan to integrate and restructure the business of Gulf South.

The Company recorded restructuring costs and expenses for costs for lease terminations, severance and benefits to terminate employees, facility closure, and other costs to complete the consolidation of the operations. The following table summarizes the components of the restructuring charge.

Involuntary employee termination costs	$ 1,879
Lease termination costs	977
Branch shutdown costs	885
Other exit costs	540
	$ 4,281

Refer to *Note 5, Accrued Merger and Restructuring Costs and Expenses,* and *Note 17, Quarterly Results of Operations,* for a more detailed discussion regarding accrued restructuring costs and expenses.

Legal Fees and Settlements

Gulf South recorded a $2,000 accrual for legal fees specifically related to class action lawsuits, which Gulf South, the Company, and certain present and former directors and officers were named as defendants. These lawsuits are further discussed in *Note 18, Commitments and Contingencies*. In addition, Gulf South recorded $700 in charges related to a customer supply agreement.

Operational Tax Charge

Gulf South recorded an operational tax charge of $9,492, of which $2,772 was recorded in the quarter ended April 3, 1998, for state and local, sales and use, and property taxes that are normally charged directly to the customer at no cost to the Company. Penalties and interest are included in the above charge as Gulf South did not timely remit payments to tax authorities. The Company reviewed all available information, including tax exemption notices received, and recorded charges to expense during the period in which the tax noncompliance issues arose. See *Note 4, Charges Included in General and Administrative Expenses*, for a more detailed discussion related to this issue.

Goodwill Impairment Charge

The $1,664 goodwill impairment charge relates primarily to a prior Gulf South acquisition. During the quarter ended April 3, 1998, a dispute with the acquired company's prior owners and management resulted in the loss of key employees and all operational information related to the acquired customer base. This ultimately affected Gulf South's ability to conduct business related to this acquisition, and impacted Gulf South's ability to recover the value assigned to the goodwill asset.

4. CHARGES INCLUDED IN GENERAL AND ADMINISTRATIVE EXPENSES

In addition to typical general and administrative expenses, this line includes charges related to merger activity, restructuring activity, and other special items. The following table summarizes charges included in general and administrative expenses in the accompanying consolidated statements of income:

	2000	1999	1998
Merger costs and expenses	$ 1,700	$ 4,371	$ 14,066
Restructuring costs and expenses	13,245	4,922	3,691
Information systems accelerated depreciation	--	5,379	--
Goodwill impairment charges	517	--	5,807
Gulf South operational tax charge and professional fee accrual	(1,221)	--	5,986
Other charges	--	1,010	2,457
Total charges	$ 14,241	$ 15,682	$ 32,007

Merger Costs and Expenses

The Company's policy is to accrue merger costs and expenses at the commitment date of an integration plan if certain criteria under EITF˚94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity* ("EITF˚94-3") or 95-14, *Recognition of Liabilities in Anticipation of a Business Combination* ("EITF˚95-14"), are met. Merger costs and expenses recorded at the commitment date primarily include charges for direct transaction costs, involuntary employee termination costs, branch shut-down costs, lease termination costs, and other exit costs.

If the criteria described in EITF˚94-3 or EITF˚95-14 are not met, the Company records merger costs and expenses as incurred. Merger costs expensed as incurred include the following: (1)˚costs to pack and move inventory from one facility to another or within a facility in a consolidation of facilities, (2)˚relocation costs paid to employees in relation to an acquisition accounted for under the pooling-of-interests method of accounting, (3)˚systems or training costs to convert the acquired companies to the current existing information system, and (4)˚training costs related to conforming the acquired companies operational policies to that of the Company's operational policies. In addition, amounts incurred in excess of the original amount accrued at the commitment date are expensed as incurred.

Merger costs and expenses for fiscal 2000 include $2,300 of charges for merger costs expensed as incurred. In addition, during fiscal 2000, the Company reversed approximately $1,602 of merger costs and expenses into income, of which $1,437 related to accrued lease termination costs.

Effective February 1, 2000, the Board of Directors approved and adopted the PSS World Medical, Inc. Officer Retention Bonus Plan and the PSS World Medical, Inc. Corporate Office Employee Retention Bonus Plan (collectively the Retention Plans). As part of the Company s strategic alternatives process (see Note 20, *Subsequent Event*), management put these plans in place to retain certain officers and key employees during the transition period. The total costs related to these plans is approximately $10,110 of which $1,002, $4,805, $2,872, and $1,431 will be expensed in fiscal 2000, 2001, 2002, and 2003, respectively.

Merger costs and expenses for fiscal 1999 include $2,818 of charges recorded at the commitment date of an integration plan adopted by management and $2,481 of charges for merger costs expensed as incurred. In addition, during fiscal 1999, the Company reversed approximately $928 of merger costs and expenses into income, of which approximately $777 related to direct transaction costs (refer to *Note˚3, Gulf South's Results of Operations for the Three Months Ended April˚3, 1998*).

Merger costs and expenses for fiscal 1998 include $4,055 of charges recorded at the commitment date of an integration plan adopted by management and $10,011 of charges for merger costs expensed as incurred. The merger costs expensed as incurred primarily relate to direct transaction costs related to the merger with Gulf South.

Restructuring Costs and Expenses

Fiscal 2000 activity

During the quarter ended September 30, 1999, management approved and adopted a formal plan to restructure certain operations of Gulf South (Plan C), an additional component to the previously established Plans A and B. This restructuring plan identified five additional distribution centers and the Gulf South corporate facility as redundant or inadequate for future operations. As a result, these locations were closed and made permanently idle. Accordingly, the Company recorded restructuring costs and expenses of $4,967 at the commitment date of the restructuring plan adopted by management. Such costs include branch shutdown costs, lease termination costs, involuntary employee termination costs of $494, $2,915, and $1,558, respectively. Refer to *Note 5, Accrued Merger and Restructuring Costs and Expenses,* for further discussion regarding the restructuring plan.

Restructuring costs and expenses for the twelve months ended March 31, 2000 also included $9,213 of charges that were expensed as incurred and primarily relate to other exit costs. Other exit costs include costs to pack and move inventory, costs to set up new facilities, employee relocation costs, and other related facility closure costs. In addition, the company reversed $1,341 of restructuring costs into income, which related to over-accrual for lease termination costs, and involuntary employee termination costs.

During the three months ended March 31, 2000, management approved and adopted a formal plan to restructure the Imaging Business sales and service organization and the shut down of two facilities (Plan D). Accordingly, the Company recorded restructuring costs and expenses of $318 at the commitment date of the restructuring plan adopted by management. Refer to Note 5, *Accrued Merger and Restructuring Costs and Expenses*, for further discussion regarding the restructuring plan. Restructuring costs and expenses for the three months ended March 31, 2000 also included $88 of charges that were expensed as incurred and primarily relate to other exit costs. Other exit costs include costs to pack and move inventory, costs to set up new facilities, employee relocation costs, and other related facility closure costs.

Fiscal 1999 activity

During the quarter ended June 30, 1998, management approved and adopted Plan B, an additional Gulf South component to the 1998 restructuring plan or Plan A. This restructuring plan identified two additional distribution centers and two corporate offices to be merged with existing facilities and identified three executives to be involuntarily terminated. Accordingly, the Company recorded restructuring costs and expenses of $1,503 at the commitment date of the restructuring plan adopted by management. Such costs include branch shutdown costs, lease termination costs, involuntary employee termination costs of $281, $570, and $652, respectively.

The remaining $3,419 of restructuring costs recorded during fiscal 1999 represent charges expensed as incurred. Such costs include charges for training costs related to conforming the acquired companies operational policies to that of the Company's operational policies, direct transaction costs, involuntary employee termination costs, and other exit costs of $1,138, $227, $300, and $1,754, respectively. Other exit costs include costs to pack and move inventory, costs to set up new facilities, employee relocation costs, and other related facility closure costs.

Fiscal 1998 activity

During fiscal 1998, due to the impact of the Gulf South merger, the Company recorded restructuring costs and expenses of $3,691 related to the PSS and DI divisions (Plan A). See *Note 3, Gulf South's Results of Operations for the Three Months Ended April 3, 1998,* which discusses the charges recorded by the Gulf South division. Refer to *Note 5, Accrued Merger and Restructuring Costs and Expenses*, for a further discussion regarding the restructuring plan.

Information Systems Accelerated Depreciation

In connection with the Gulf South merger during fiscal 1998, management evaluated the adequacy of the combined companies' information systems. The Company concluded that its existing information systems were

not compatible with those of Gulf South's and not adequate to support the future internal growth of the combined companies and expected growth resulting from future acquisitions.

Pursuant to SFAS No.˚121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of* (SFAS No. 121), the Company evaluated the recoverability of the information system assets. Based on the Company's analysis, impairment did not exist at the division level; therefore, management reviewed the depreciation estimates in accordance with Accounting Principles Board ("APB") No.˚20, *Accounting Changes*.

Effective April˚4, 1998, the estimated useful lives of the PSS, DI, and GSMS division information systems were revised to 12 to 15 months, which was the original estimate of when the new systems implementation would be completed. The $5,379 charge represents the incremental fiscal 1999 impact on depreciation expense resulting from management's decision to replace its information systems.

Goodwill Impairment Charges

During fiscal 2000, the Imaging Business closed their Metro New York facility. The closure of this facility triggered an asset impairment as determined under SFAS No. 121. As a result, goodwill of $517 was written off during fiscal 2000.

During fiscal 1998, the Company determined that goodwill related to three foreign (World Med Int'l) acquired companies and one domestic (PSS division) acquired company, was not recoverable. As such, the goodwill of $5,807 related to the four entities was written-off during fiscal 1998.

Gulf South Operational Tax Charge and Professional Fee Accrual

The Company, in connection with the filing of its fiscal 1998 financial statements, restated for certain operational tax compliance issues in the financial statements of Gulf South for the years ended December˚31, 1997, 1996, and 1995. As such, Gulf South recorded operational charges of $3,067, $1,998, and $1,656 during fiscal 1998, 1997, and 1996, respectively, primarily related to state and local, sales and use, and property taxes that are normally charged directly to the customer at no cost to the Company. In addition, as explained in *Note˚3, Gulf South's Results of Operations for Three Months Ended April˚3, 1998*, $2,772 of such charges were recorded by Gulf South during the quarter ended April˚3, 1998. Interest is included in the above charges as Gulf South did not timely remit payments to tax authorities. The Company reviewed all available information, including tax exemption notices received, and recorded charges to expense during the period in which the tax noncompliance issues arose. During fiscal 2000, the Company performed an analysis of the estimated exposure based on the most recent available information and reversed $1,221 of the previously recorded operating tax charge reserve.

In addition, professional fees estimated to be incurred to resolve the tax issues of $2,919 for fiscal 1998 were recorded in the accompanying consolidated statements of income for the year ended April˚3, 1998.

Other Charges

During fiscal 1999, the Company incurred approximately $1,010 of costs related to acquisitions not consummated.

Other charges recorded in fiscal 1998 relate to the ESOP cost of an acquired company. S&W sponsored a leveraged employee stock ownership plan (''S&W ESOP'') that covered all employees with one year of service. The Company accounted for this ESOP in accordance with SOP˚93-6, *Employers Accounting for Employee Stock Ownership Plans*. Accordingly, the debt of the ESOP was recorded as debt of the Company, and the shares pledged as collateral were reported as unearned ESOP shares in the balance sheet. As shares were released from collateral, the Company reported compensation expense equal to the then current market price of the shares, and the shares became outstanding for the earnings-per-share (EPS) computation. During fiscal 1998, the Company released the remaining shares to the S&W ESOP participants. Accordingly, approximately $2,457 of related expenses were recognized in fiscal 1998.

5. ACCRUED MERGER AND RESTRUCTURING COSTS AND EXPENSES

Summary of Accrued Merger Costs and Expenses

In connection with the consummation of business combinations, management often develops formal plans to exit certain activities, involuntarily terminate employees, and relocate employees of the acquired companies. Management's plans to exit an activity often include identification of duplicate facilities for closure and identification of facilities for consolidation into other facilities.

Generally, completion of the integration plans will occur within one year from the date in which the plans were formalized and adopted by management. However, intervening events occurring prior to completion of the plan, such as subsequent acquisitions or system conversion issues, can significantly impact a plan that had been previously established. Such intervening events may cause modifications to the plans and are accounted for on a prospective basis. At the end of each quarter, management reevaluates its integration plans and adjusts previous estimates.

As part of the integration plans, certain costs are recognized at the date in which the plan is formalized and adopted by management (commitment date). These costs are generally related to employee terminations and relocation, lease terminations, and branch shutdown. In addition, there are certain costs that do not meet the criteria for accrual at the commitment date and are expensed as the plan is implemented (refer to *Note˚4, Charges Included in General and Administrative Expenses*). Involuntary employee termination costs are employee severance costs and termination benefits. Lease termination costs are lease cancellation fees and forfeited deposits. Branch shutdown costs include costs related to facility closure costs. Employee relocation costs are moving costs of employees of an acquired company in transactions accounted for under the purchase method of accounting.

Accrued merger costs and expenses, classified as accrued expenses in the accompanying consolidated balance sheets, were $1,089 and $4,084, at March 31, 2000 and April˚2, 1999, respectively. The discussion and rollforward of the accrued merger costs and expenses below summarize the significant and nonsignificant integration plans adopted by management for business combinations accounted for under the purchase method of accounting and pooling-of-interests method of accounting. Integration plans are considered to be significant if the charge recorded to establish the accrual is in excess of 5% of consolidated pretax income.

Significant Pooling-of-Interests Business Combination Plan

The Company formalized and adopted an integration plan in December 1997 to integrate the operations of S&W with the Imaging Business. The following accrued merger costs and expenses were recognized in the accompanying consolidated statements of operations at the commitment date. A summary of the merger activity related to the S&W merger is as follows:

	Involuntary Employee Termination Costs	Lease Termination Costs	Branch Shutdown Costs	Total
Balance at April˚3, 1998	$ 156	$ 540	$ 461	$ 1,157
Adjustments	--	--	--	--
Additions	--	--	--	--
Utilized	(2)	--	(350)	(352)
Balance at April˚2, 1999	154	540	111	805
Adjustments	(113)	(300)	--	(413)
Additions	--	--	--	--
Utilized	(41)	(138)	(111)	(290)
Balance at March 31, 2000	$ --	$ 102	$ --	$ 102

As of December 31, 1999, all of the employees have been terminated and all of the seven identified distribution facilities had been shut down. During the three months ended December 31, 1999, management determined that all costs related to the merger plan had been incurred except for lease termination costs for one location that will be paid through fiscal 2002. Therefore, an adjustment of $413 was recorded to reverse the over-accrual of involuntary employee termination costs and lease termination costs. Refer to Note 4, *Charges Included in General and Administrative Expenses*.

Nonsignificant Poolings-of-Interests Business Combination Plans

The following accrued merger costs and expenses were recognized in the accompanying consolidated statements of operations at the date in which the integration plan was formalized and adopted by management. A summary of the merger activity related to eight nonsignificant pooling-of-interests business combinations completed during fiscal 1998 through 2000, respectively, is as follows:

	Involuntary Employee Termination Costs	Lease Termination Costs	Branch Shutdown Costs	Total
Balance at April˚3, 1998	$ 165	$ 253	$ 518	$ 936
Adjustments	(144)	11	311	178
Additions	74	1,868	376	2,318
Utilized	(21)	(248)	(969)	(1,238)
Balance at April˚2, 1999	74	1,884	236	2,194
Adjustments	(52)	(1,113)	(24)	(1,189)
Additions	--	--	--	--
Utilized	(22)	(226)	(212)	(460)
Balance at March 31, 2000	$ --	$ 545	$ --	$ 545

The Imaging Business acquired Tristar Imaging Systems, Inc. in October 1998, and management formalized and adopted an integration plan in late fiscal 1999 to integrate the operations of the acquired company. Management determined that all costs related to the merger plan had been incurred except for lease termination costs of $545 for which payment will extend through fiscal 2007. Therefore an adjustment of $1,189 was made to reverse the over accrual of certain costs accrued for under the plan, the majority related to lease termination costs.

Significant Purchase Business Combination Plan

The Company formalized and adopted an integration plan in September 1997 to integrate the operations of General X-Ray, Inc. ("GXI") with the Imaging Business. The following accrued merger costs and expenses were recognized and additional goodwill was recorded at the commitment date. A summary of the GXI merger accruals is as follows (in thousands):

	Relocation Costs	Involuntary Employee Termination Costs	Lease Termination Costs	Branch Shutdown Costs	Total
Balance at April°3, 1998	$ 162	$ 197	$ 1,090	$ 785	$ 2,234
Adjustments	(125)	(85)	(883)	(32)	(1,125)
Additions	--	--	--	--	--
Utilized	(37)	(112)	(207)	(753)	(1,109)
Balance at April°2, 1999	$ --	$ --	$ --	$ --	$ --

The Company identified nine distribution facilities to be closed and all operations would be ceased due to duplicative functions. Relocation costs were recorded related to the transfer of approximately 15 GXI employees. Involuntary employee termination costs are costs for 19 employees, including severance and benefits, who represent duplicative functions as service and operations leaders, customer service representatives, and accounting personnel at locations where facilities would be combined. As of April°2, 1999, all employees have been terminated and relocated, and the plan has been completed.

Certain intervening events occurred that modified the execution of the GXI integration plan. Due to growth from a subsequent acquisition and improvement in the operating results for a distribution facility previously identified to be closed, certain merger accruals were not utilized. Therefore, an adjustment was recorded during the second quarter of fiscal 1999 to reverse $1,125 of excessive accruals against goodwill.

Nonsignificant Purchase Business Combination Plans

The following accrued merger costs and expenses were recognized and additional goodwill was recorded at the date in which the integration plans were formalized and adopted by management. A summary of the merger activity related to six nonsignificant purchase business combinations during fiscal 1998 through 2000 is as follows:

	Employee Relocation Costs	Involuntary Employee Termination Costs	Lease Termination Costs	Branch Shutdown Costs	Total
Balance at April°3, 1998	$ --	$ --	$ --	$ --	$ --
Additions from Gulf South subsidiary	--	102	100	250	452
Balance at April°4, 1998	--	102	100	250	452
Adjustments	--	(102)	(55)	(135)	(292)
Additions	155	556	423	496	1,630
Utilized	(38)	(11)	(58)	(598)	(705)
Balance at April°2, 1999	117	545	410	13	1,085
Adjustments	(86)	(434)	(145)	(9)	(674)
Additions	--	131	690	225	1,046
Utilized	(31)	(186)	(569)	(229)	(1,015)
Balance at March 31, 2000	$ --	$ 56	$ 386	$ --	$ 442

The Imaging Business acquired South Jersey X-Ray, Inc. in October 1998, and management formalized and adopted an integration plan during the three months ended June 30, 1999 to integrate the operations of the acquired company. Approximately $328 of the $442 accrued merger costs and expenses at March 31, 2000 relate to this integration plan. As of December 31, 1999, all locations have been shut down and all employees were terminated as a result of the plan. However, lease termination payments will extend through fiscal 2004. The remaining accrual of $114 relates to multiple merger plans that are immaterial.

During fiscal 2000, management determined that actual merger costs to be incurred were less than management s estimate recorded to establish the accrued merger costs and expenses. Therefore, an adjustment to reduce goodwill of $674 was recorded to eliminate the excessive accruals.

Summary of Accrued Restructuring Costs and Expenses

Primarily as a result of the impact of the Gulf South merger, in order to improve customer service, reduce costs, and improve productivity and asset utilization, the Company decided to realign and consolidate its operations. Accordingly, the Company began implementing a restructuring plan during the fourth quarter of fiscal 1998 which impacted all divisions ("Plan˚A"). Subsequently, the Company adopted a second restructuring plan during the first quarter of fiscal 1999 related to the Gulf South division ("Plan˚B") to further consolidate its operations.

The Company recorded a total accrual of $7,972 related to Plan˚A. Approximately $3,691 of the $7,972 total restructuring charge was related to the PSS and DI divisions and was recorded in the accompanying consolidated statement of operations for fiscal 1998. The additions from Gulf South represent restructuring costs and expenses of $4,281 recorded by Gulf South during the unconsolidated period January˚1 to April˚3, 1998. No amounts were utilized during this period. This charge is not included in the accompanying consolidated statements of operations; rather it is included in the retained earnings adjustment recorded on April˚4, 1998. Refer to *Note˚1, Background and Summary of Accounting Policies,* for a discussion regarding the different year-ends of Gulf South and the Company.

During fiscal 1999, the Company established an additional accrual of $1,503 related to Plan˚B. During the second and fourth quarters of fiscal 2000, the Company established accruals of $4,968 and $319 for Plan C and Plan D, respectively.

Accrued restructuring costs and expenses, classified as accrued expenses in the accompanying consolidated balance sheets, were $1,607 and $3,818˚million, at March 31, 2000 and April˚2, 1999, respectively. A summary of the restructuring plan activity is as follows:

	Involuntary Employee Termination Costs	**Lease Termination Costs**	**Branch Shutdown Costs**	**Other Exit Costs**	**Total**
Balance at April˚3, 1998	$ 1,570	$ 1,389	$ 627	$ 105	$ 3,691
Additions from Gulf South subsidiary	1,880	406	1,455	540	4,281
Balance at April˚4, 1998	3,450	1,795	2,082	645	7,972
Additions	652	570	281	--	1,503
Utilized	(2,500)	(1,045)	(1,467)	(645)	(5,657)
Balance at April˚2, 1999	1,602	1,320	896	--	3,818
Adjustments	(1,107)	(436)	(467)	--	(2,010)
Additions	3,233	1,559	494	--	5,286
Utilized	(3,352)	(1,586)	(549)	--	(5,487)
Balance at March 31, 2000	$ 376	$ 857	$ 374	$ --	$ 1,607

Plan˚A

As of December 31, 1999, all employees were terminated as a result of the plan and the related severance payments were made in the fourth quarter of fiscal 2000. As of December 31, 1999, all of the locations were merged into existing locations.

Plan˚B

As of December 31, 1999, all of the six locations had been shut down. As of September 30, 1999, all employees were terminated as a result of the plan and the related severance payments were made in the fourth quarter of fiscal 2000.

Plan C

During the second quarter of fiscal 2000, management evaluated the Company s overall cost structure and implemented cost reductions in order to meet internal profitability targets. In addition, management decided to improve its distribution model and relocate the corporate office for the GSMS division to Jacksonville, Florida where the corporate offices for the DI and PSS divisions exist. The Company began implementing the restructuring plan during the second quarter of fiscal 2000, which impacted all divisions (Plan C). The total number of employees to be terminated was 272. All employees have been terminated at March 31, 2000. Accrued restructuring costs and expenses related to Plan C were $1,208 at March 31, 2000, of which $668 relates to lease terminations, $166 to involuntary employee terminations, and $374 to branch shut down costs.

Plan D

During the second quarter of fiscal 2000, the Imaging Business management made a discretionary decision to change its business strategy and the way it operates to improve future operations. These changes include restructuring the Imaging Business sales force, terminating approximately 50 service engineers, and closure of two distribution centers. The total number of employees to be terminated are 87, of which 30 employees have been terminated at March 31, 2000. Accrued restructuring costs and expenses related to this plan were $210 at March 31, 2000, all relating to involuntary employee terminations.

During fiscal 2000, management determined that all costs associated with restructuring Plans A and B had been incurred with the exception of $189 of lease termination costs. Therefore an adjustment of $1,692 was recorded to reverse the over accrual of lease termination, involuntary employee termination, and branch shutdown costs related to Plans A and B. Management also determined that Plan C was over accrued and recorded an adjustment of $318 to reverse the over accrual of lease termination and involuntary employee termination costs related to Plan C. As of March 31, 2000, the Company had accrued $1,208 and $210 for restructuring Plans C and D, respectively.

6. MARKETABLE SECURITIES

Trading Securities	**Increase (Decrease) in Fair Value**	**Fair Value**
March 31, 2000:	$ --	$ 3
April 2, 1999:	(573)	3

Available-for-Sale Securities	**Cost**	**Unrealized Gain**	**Fair Value**
March 31, 2000	$ 1,500	$ 2,825	$ 4,325

The Company holds investments classified as trading securities and available-for-sale securities. Trading securities are to be reported at their fair value and unrealized holding gains or losses are reported in earnings. Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings but reported in equity and other comprehensive income (net of the effect of income taxes) until they are sold. At the time of the sales, any gains or losses are recognized as a component of operating results. Gains and losses are based on the specific identification method of determining cost.

7. PROPERTY AND EQUIPMENT

Property and equipment, stated at cost, are summarized as follows:

	2000	**1999**
Land	$ 1,184	$ 1,996
Building	2,547	4,186
Equipment	76,304	62,430
Furniture, fixtures, and leasehold improvements	23,695	12,233
	103,730	80,845
Accumulated depreciation	(37,947)	(32,678)
	$ 65,783	$ 48,167

Equipment includes equipment acquired under capital leases with a cost of $476 and $488 and related accumulated depreciation of $368 and $233 at March 31, 2000 and April˚2, 1999, respectively. Depreciation expense, included in general and administrative expenses in the accompanying consolidated statements of income, aggregated approximately $9,446, $12,209, and $5,629 for fiscal 2000, 1999, and 1998, respectively.

8. INTANGIBLES

Intangibles, stated at cost, consist of the following:

	2000	1999
Goodwill	$ 189,608	$ 134,196
Noncompete agreements and other	37,998	27,257
	227,606	161,453
Accumulated amortization	(25,364)	(14,070)
	$ 202,242	$ 147,383

Future minimum payments required under noncompete agreements at March 31, 2000 are as follows:

Fiscal Year:	
2001	$ 1,489
2002	823
2003	273
2004	64
2005	43
Thereafter	214
	$ 2,906

Amortization expense, included in general and administrative expenses in the accompanying consolidated statements of income, aggregated approximately $10,842, $7,289, and $5,062 for fiscal 2000, 1999, and 1998, respectively.

9. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations consist of the following:

	March 31, 2000	April˚2, 1999
Senior subordinated notes	$ 125,000	$ 125,000
Senior revolving credit	121,000	24,000
Capital lease obligations	171	496
Long-term debt of acquired companies	125	26
Notes Payable to owners of acquired companies	2,093	70
Other notes	10,844	3,912
	259,233	153,504
Less current maturities	(4,274)	(1,062)
	$ 254,959	$ 152,442

Senior Subordinated Notes

During October 1997, the Company issued 8.5% unsecured senior subordinated notes due in 2007 (the ''Notes'') in the amount of $125.0 million. Interest on the Notes accrues from the date of original issuance and is payable semi-annually on April˚1 and October˚1 of each year, commencing on April˚1, 1998, at a rate of 8.5% per annum. The Notes are subject to certain covenants, including cross covenants with the Company s senior revolving credit facility, restrictions on indebtedness, investments, payments of dividends, purchases of treasury stock, and sales of assets and maintaining a fixed charge coverage ratio of 2.0 to 1.0.

Senior Revolving Credit

The Company entered into a $140.0 million senior revolving credit facility with a syndicate of financial institutions with Bank of America, N.A. as principal agent in February 1999. Borrowings under the credit facility are available for working capital, capital expenditures, and acquisitions and are secured by the common

stock of the subsidiaries and assets of the Company and its subsidiaries. The credit facility expires February˚10, 2004 and borrowings bear interest at variable rates, at the Company's option, at either the lender's base rate or the LIBOR rate plus a variable spread based upon the Company s leverage ratio. At March 31, 2000, the weighted average interest rates under these borrowing options were 9.25% and 7.3%, respectively. The amount available under the credit facility at March 31, 2000 was $17.0 million, net of a $2 million stand-by letter of credit.

On October 20, 1999, the Company amended its $140.0 million senior revolving credit facility to allow for repurchases of up to $50.0 million of the Company s common stock through October 31, 2000. In addition, the amendment modified the consolidated net worth maintenance covenant to reduce the $337.0˚million minimum compliance level by any repurchases made by the Company of its common stock.

The credit facility contains certain affirmative and negative covenants, the most restrictive of which require maintenance of a maximum leverage ratio of 3.5˚to˚1.0, maintenance of consolidated net worth of $337.0˚million, and maintenance of a minimum fixed charge coverage ratio of 2.0˚to˚1.0. In addition, the covenants limit additional indebtedness and asset dispositions, require majority lender approval on acquisitions with a total purchase price greater than $75,000, and restrict payments of dividends.

As of March 31, 2000, the Company was not in compliance with the following covenants under the senior revolving credit facility: 1) consolidated fixed charge coverage ratio, 2) consolidated leverage ratio, and 3) annual capital expenditure limits. However, the Company obtained a waiver from these covenants from the lending group for the period ended March 31, 2000. Management believes it is probable that the Company will meet these covenants in future periods, or that appropriate waivers will be obtained. As such, the related debt has been classified as non-current as of March 31, 2000.

Capital Lease Obligations

As of March 31, 2000, future minimum payments, by fiscal year and in the aggregate, required under capital leases are approximately as follows:

Fiscal Year:	
2001	$ 99
2002	64
2003	32
Net minimum lease payments	195
Less amount representing interest	(24)
Present value of net minimum lease payments under capital leases	171
Less amounts due in one year	(83)
Amounts due after one year	$ 88

Notes Payable to Owners of Acquired Companies

Notes payable to owners of acquired companies consists of holdback agreements or notes payable that are paid to the previous owners after certain contingencies are met, such as collection of all acquired accounts receivable and the sale of acquired inventory. These notes payable are due within one year of the acquisition.

Other Notes

At March 31, 2000, other notes consist of various debt maintained by WorldMed Int'l, including a working capital line of credit, a mortgage on facilities in Leuven, Belgium, and debt to acquire certain international business service centers. Interest rates on the related notes range from 4.9% to 6.2%, respectively.

As of March 31, 2000, future minimum payments of long-term debt, excluding capital lease obligations, are approximately as follows:

Fiscal Year:	
2001	$ 4,191
2002	1,613
2003	1,556
2004	122,438
2005	1,085
Thereafter	128,179
Total	$ 259,062

10. INCOME TAXES

The provisions for income taxes are detailed below:

	2000	1999	1998
Current tax provision:			
Federal	$ 6,410	$ 16,253	$ 17,928
State	1,055	2,786	3,516
Total current	7,465	19,039	21,444
Deferred tax provision (benefit):			
Federal	10,140	9,306	(3,486)
State	1,738	1,595	(597)
Total deferred	11,878	10,901	(4,083)
Total income tax provision	$ 19,343	$ 29,940	$ 17,361

The difference between income tax computed at the federal statutory rate and the actual tax provision is shown below:

	2000	1999	1998
Income before provision for taxes and cumulative effect of accounting change	$ 41,527	$ 73,681	$ 32,660
Tax provision at the 35% statutory rate	14,534	25,788	11,431
Increase (decrease) in taxes:			
State income tax, net of federal benefit	1,847	2,847	1,886
Effect of foreign subsidiary	574	310	2,179
Merger costs and expenses	153	(250)	1,958
Goodwill amortization	1,103	969	512
Meals and entertainment	438	454	207
Nontaxable interest income	(80)	(374)	(688)
Income of S˚corporations	--	68	(287)
Officer life insurance	478	(3)	151
Other, net	296	131	12
Total increase in taxes	4,809	4,152	5,930
Total income tax provision	$ 19,343	$ 29,940	$ 17,361
Effective tax rate	46.6%	40.6%	53.2%

Deferred income taxes for fiscal 2000 and 1999 reflect the impact of temporary differences between the financial statement and tax bases of assets and liabilities. The tax effect of temporary differences which create deferred tax assets and liabilities at March 31, 2000 and April˚2, 1999 are detailed below:

	2000	1999
Deferred tax assets:		
Allowance for doubtful accounts and sales returns	$ 6,117	$ 5,277
Merger, restructuring and other nonrecurring costs and expenses	2,574	4,402
Accrued expenses	2,276	2,046
Net operating loss carryforwards	1,156	3,380
Operational tax reserve	3,332	3,983
Inventory uniform cost capitalization	1,934	1,536
Reserve for inventory obsolescence	1,208	1,273
Accrued professional fees	949	1,014
Excess of book depreciation and amortization over tax depreciation and amortization	1,030	581
Deferred compensation	2,724	826
Other	428	1,282
Gross deferred tax assets	$ 23,728	$ 25,600
Deferred tax liabilities:		
Available for sale marketable security	(1,099)	--
Software development	(6,820)	(107)
Gross deferred tax liabilities	(7,919)	(107)
Net deferred tax assets	$ 15,809	$ 25,493

As of March 31, 2000, net current deferred tax assets, net non-current deferred tax assets, and net deferred tax liabilities of $16,461, $3,463, and $4,115 are included in prepaid expenses, other assets, and other long-term liabilities, respectively, in the accompanying balance sheets. As of April 2, 1999, net deferred tax assets of $19,909 and $5,584 are included in prepaid expenses and other assets, respectively, in the accompanying balance sheets.

The income tax benefits related to the exercise or early disposition of certain stock options and stock contribution to the ESOP reduce taxes currently payable and are credited directly to additional paid-in capital. Such amounts were $194, $759, and $1,505 for fiscal 2000, 1999, and 1998, respectively.

At March 31, 2000, the Company had net operating loss carryforwards for income tax purposes arising from mergers of approximately $2,972 which expire from 2001 to 2020. The utilization of the net operating loss carryforwards is subject to limitation in certain years.

All deferred tax assets as of March 31, 2000 and April˚2, 1999 are considered to be realizable due to the projected future taxable income. Therefore, no valuation allowance has been recorded as of March 31, 2000 and April˚2, 1999.

11. EARNINGS PER SHARE

In accordance with SFAS No.˚128, Earnings Per Share, the calculation of basic net earnings per common share and diluted earnings per common share is presented below (share amounts in thousands, except per share data):

	2000	1999	1998
Net income (loss)	$ 20,740	$ 43,741	$ 15,299
Earnings per share:			
Basic	$0.29	$0.62	$0.22
Diluted	$0.29	$0.61	$0.22
Weighted average shares outstanding:			
Common shares	70,966	70,548	69,575
Assumed exercise of stock options	219	850	970
Diluted shares outstanding	71,185	71,398	70,545

12. RELATED-PARTY TRANSACTION

During fiscal 1998, the Company loaned its Chairman of the Board and Chief Executive Officer $3,000 to consolidate debt incurred in relation to certain real estate activities, as well as to provide the cash needed to pay-off personal debt. During fiscal 2000, the principal amount of the loan increased approximately $249. The loan is unsecured, bears interest at the applicable federal rate for long-term obligations (6.25% and 5.74% at March 31, 2000 and April˚2, 1999, respectively), and is due September 2007. No principal payments are required and interest payments are due at least annually. The note terms provide for forgiveness of the debt in the event of a change in control. The outstanding principal, included in other assets in the accompanying consolidated balance sheets, at March 31, 2000 and April˚2, 1999 was approximately $2,985 and $2,736, respectively. Accrued interest was approximately $151 and $146 at March 31, 2000 and April˚2, 1999, respectively. Interest income, included in interest and investment income in the accompanying consolidated statements of income for fiscal 2000 and 1999 was approximately $168 and $165, respectively. Principal payments for fiscal 2000 and 1999 were approximately $0 and $564, respectively. Interest payments for fiscal 2000 and 1999 were approximately $163 and $65, respectively.

13. STOCK-BASED COMPENSATION PLANS

Broad-Based Employee Stock Plan

Under the Company's Broad-Based Employee Stock Plan, 800,000 shares of the Company's common stock are reserved for sale to nonofficer employees. Grants under this plan are in the form of nonqualified stock options or restricted stock. Options may be granted at prices not less than the fair market value of the common stock on the date such option is granted and are exercisable five years from the date of grant. Any option may be exercisable no later than ten years from the date of grant. According to Rule˚144, unregistered stock options must be held for a minimum of two years subsequent to the date of exercise prior to selling the common stock.

Information regarding this plan is summarized below (share amounts in thousands):

	Shares	Weighted Average Price
Balance, April˚3, 1998	--	$ --
Granted	453	9.73
Exercised	--	--
Forfeited	--	--
Balance, April˚2, 1999	453	$ 9.73
Granted	40	8.69
Exercised	--	--
Forfeited	(33)	9.03
Balance, March 31, 2000	460	$ 9.35

The weighted-average per share fair value of options granted was $3.92 and $4.36 in fiscal 2000 and 1999, respectively. As of March 31, 2000, the range of exercise prices was $8.69 to $10.66 and the weighted-average remaining contractual life of outstanding options was 5.7 years. Approximately 340,000 shares of common stock are available for issuance under the plan.

1999 Long-Term Incentive Plan

On June 21, 1999, the Company adopted the 1999 Long-Term Incentive Plan (the 1999 LTIP). Under the 1999 LTIP, 2,270,000 shares of the Company's Common Stock are reserved for issuance to employees, officers and directors. The Compensation Committee of the Board of Directors has discretion to make grants under this plan in the form of incentive stock options, nonqualified stock options, stock appreciation rights, performance units, restricted stock awards, dividend quivalents, restricted stock, or other stock-based awards.

Information regarding this plan is summarized below (share amounts in thousands):

	Shares	Weighted Average Price
Balance, April 2, 1999	--	$ --
Granted	575	9.00
Exercised	--	--
Forfeited	--	--
Balance, March 31, 2000	575	$ 9.00

The weighted-average per share fair value of options granted was $4.31 in fiscal 2000. As of March 31, 2000, the range of exercise prices was $8.69 to $10.66 and the weighted-average remaining contractual life of outstanding options was 9.4 years. Approximately 1,695,000 shares of common stock are available for issuance under the plan.

Incentive Stock Option Plan

Under the Company's qualified 1986 Incentive Stock Option Plan, 6,570,000 shares of the Company's common stock are reserved for sale to officers and key employees. Options may be granted at prices not less than fair market value at the date of grant and are exercisable during periods of up to five years from that date. The exercisability of the options is not subject to future performance.

Information regarding this plan is summarized below (share amounts in thousands):

	Shares	Weighted Average Price
Balance, March 28, 1997	364	$ 3.05
Granted	--	--
Exercised	(248)	2.77
Forfeited	(3)	2.10
Balance, April 3, 1998	113	3.67
Granted	--	--
Exercised	(110)	3.67
Forfeited	(3)	3.67
Balance, April 2, 1999	--	$ --

All options are fully vested at the date of grant; therefore, all outstanding options at the end of each period are exercisable. As of March 31, 2000, there were no remaining outstanding options. This plan has expired and will require shareholder vote to renew this plan and issue any of the approximate 1,180,502 shares of common stock that remain in the plan.

Long-Term Stock Plan

In March 1994, the Company adopted the 1994 Long-Term Stock Plan under which the Compensation Committee of the Board of Directors has discretion to grant nonqualified stock options and restricted stock to any employee of the Company. A total of 2,190,000 shares of the Company's common stock have been reserved for issuance under this plan. The exercise price of options granted under this plan may not be less than the fair market value of the Company's common stock on the date of grant.

Information regarding the stock option component of this plan is summarized below (share amounts in thousands):

	Shares	Weighted Average Price
Balance, March 28, 1997	802	$ 16.52
Granted	898	14.53
Exercised	(112)	13.20
Forfeited	(43)	14.89
Balance, April 3, 1998	1,545	16.19
Granted	476	13.27
Exercised	(66)	13.76
Forfeited	(5)	16.78
Balance, April 2, 1999	1,950	14.80
Granted	--	--
Exercised	--	--
Forfeited	--	--
Balance, March 31, 2000	1,950	$ 14.80

All options are fully vested at the date of grant; therefore, all outstanding options at the end of each period are exercisable. The weighted-average per share fair value of options granted was $6.84 and $5.60 in fiscal 1999 and 1998, respectively. As of March 31, 2000, the range of exercise prices was $5.29 to $28.86 and the weighted-average remaining contractual life of outstanding options was 6.1 years. As of March 31, 2000, there were no remaining shares available for grant under this plan, and the Company does not intend to issue any more options under this plan.

1994 Long-Term Incentive Plan

In March 1994, the Company adopted the 1994 Long-Term Incentive Plan which provides officers with performance awards, consisting of cash or registered shares of common stock, or a combination thereof, based primarily upon the Company's total shareholder return as ranked against the companies comprising the NASDAQ Composite Index over a three-year period. The maximum payable under this plan to an eligible employee, whether in the form of cash or common stock, may not exceed $1 million per fiscal year.

The plan also provides for nonqualified stock options or restricted stock to be granted at the full discretion of the Compensation Committee. The exercise price of options granted under this plan may not be less than the fair market value of the Company's common stock on the date of grant, and accordingly, no compensation expense is recorded on the date the stock options are granted. The aggregate number of shares of common stock, including shares reserved for issuance pursuant to the exercise of options, which may be granted or issued may not exceed 730,000 shares.

No cash or restricted stock was issued during fiscal 2000, 1999, and 1998.

Information regarding the stock option component of the plan is summarized below (share amounts in thousands):

	Shares	Weighted Average Price
Balance, March 28, 1997	321	$16.78
Granted	97	16.92
Exercised	--	--
Forfeited	--	--
Balance, April 3, 1998	418	15.90
Granted	--	--
Exercised	--	--
Forfeited	--	--
Balance, April 2, 1999	418	14.83
Granted	--	--
Exercised	--	--
Forfeited	--	--
Balance, March 31, 2000	418	$14.83

All options are fully vested at the date of grant; therefore, all outstanding options at the end of each period are exercisable. The weighted-average per share fair value of options granted was $5.72 and $11.08 in fiscal 1998 and 1997, respectively. As of March 31, 2000, the range of exercise prices was $14.75 to $14.88 and the weighted-average remaining contractual life of outstanding options was 5.9 years. As of March 31, 2000, there were approximately 7,000 shares available for grant under this plan.

Directors' Stock Plan

In March 1994, the Company adopted the Directors' Stock Plan under which non-employee directors receive an annual grant of an option to purchase shares of the Company's common stock. During fiscal 1999, the Plan was amended to increase the number of option grants from 1,500 to 3,000 and to increase the number of shares available for grant. A total of 400,000 shares of the Company's common stock have been reserved for issuance under this plan. The exercise price of options granted under this plan may not be less than the fair market value of the Company's common stock on the date of grant.

Information regarding the stock option component of this plan is summarized below (share amounts in thousands):

	Shares	Weighted Average Price
Balance, March 28, 1997	74	$13.44
Granted	50	14.75
Exercised	--	--
Forfeited	--	--
Balance, April 3, 1998	124	15.70
Granted	135	13.71
Exercised	(6)	5.48
Forfeited	(1)	5.48
Balance, April 2, 1999	252	13.69
Granted	72	9.17
Exercised	(4)	5.48
Forfeited	--	--
Balance, March 31, 2000	320	$12.78

All options are fully vested at the date of grant; therefore, all outstanding options at the end of each period are exercisable. The weighted-average per share fair value of options granted was $5.25, $7.37, and $5.72 in fiscal years 2000, 1999, and 1998, respectively. As of March 31, 2000, the range of exercise prices was $5.48 to $15.81 and the weighted-average remaining contractual life of outstanding options was 7.8 years. At March 31, 2000, approximately 62,000 shares were available for grant under this plan.

Gulf South's Stock Option Plans

Under Gulf South's Stock Option Plans of 1997 and 1992, 850,000 and 1,300,000 shares, respectively, of common stock have been reserved for grant to key management personnel and to members of the former Board of Directors. The options granted have ten-year terms with vesting periods of either three or five years from either the date of grant or the first employment anniversary date. At March 31, 2000, approximately 851,000 and 1,191,000 shares were available for grant under the 1997 and 1992 plans, respectively. However, shareholder approval must be received for any of the remaining shares to be issued under this plan.

A summary of the Gulf South's stock option activity and related information is as follows (share amounts in thousands):

	Shares	**Weighted Average Price**
Balance, December˚31, 1997	1,635	$10.39
Granted	788	19.89
Exercised	(203)	13.02
Forfeited	(13)	12.07
Balance, April˚3, 1998	2,207	13.55
Granted	--	--
Exercised	(239)	11.46
Forfeited	(24)	17.07
Balance, April˚2, 1999	1,944	13.77
Granted	--	--
Exercised	(220)	10.52
Forfeited	(950)	15.32
Balance, March 31, 2000	774	$12.77

All options are fully vested at the date of grant; therefore, all outstanding options at the end of each period are exercisable. The weighted-average fair values of options granted during calendar year 1997 was $5.83. As of March 31, 2000, the range of exercise prices for the 1992 plan was $4.57 to $28.00 and the weighted-average remaining contractual life of outstanding options was 6.0 years. As of March 31, 2000, the range of exercise prices for the 1997 plan was $4.71 to $19.71 and the weighted-average remaining contractual life of outstanding options plan was 7.5 years.

The Company granted warrants for 787,500 shares of its common stock on January˚2, 1997 at an exercise price of $14.80 in connection with the purchase of Gateway. All of the warrants were exercisable upon the date of grant and expire January˚2, 2002.

Unregistered Stock Options

During fiscal 1999, the Company issued approximately 255,000 unregistered stock options to non-officer employees. During fiscal 2000, 90,000 of these options were cancelled leaving 165,000 outstanding as of March 31, 2000. The exercise price of options granted was $13.00, which was equal to the fair market value of the Company's common stock on the date of grant.

Fair Value of Stock Options

Under SFAS No.˚123, pro forma information regarding net income and earnings per share has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value of stock options granted has been estimated using a Black-Scholes option pricing model.

The fair value of PSS' stock options (Broad-Based Employee Stock Plan, Incentive Stock Option Plan, Long-Term Stock Plan, Long-Term Incentive Plan, and Directors' Stock Plan) granted during fiscal 2000, 1999, and 1998 have been estimated based on the following weighted average assumptions: risk-free interest rates ranging from 5.75% to 6.6%, expected option life ranging from 2.5 to 7.5 years; expected volatility of 60.0%,

56.0%, and 55.0%, respectively; and no expected dividend yield. Using these assumptions, the estimated fair values of options granted for fiscal 2000, 1999, and 1998 were approximately $2,842, $9,091, and $4,814, respectively, and such amounts would be included in compensation expense.

The fair value of Gulf South's stock options granted during fiscal 1998 have been estimated based on the following weighted average assumptions: risk-free interest rates of 6.0%, expected option life of three years; expected volatility of 65.2%, and no expected dividend yield. Using these assumptions, the estimated fair values of options granted for fiscal 1998 were approximately $1,568, and such amounts would be included in compensation expense.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Pro forma net income and net income per share for the fiscal years ended 2000, 1999, and 1998, assuming the Company had accounted for the plans under the fair value approach, are as follows (in thousands, except per share data):

	2000	1999	1998
Net income:			
As reported	$ 20,740	$ 43,741	$ 15,299
Pro forma	19,035	38,287	11,470
Earnings per share:			
As reported:			
Basic	$0.29	$0.62	$0.22
Diluted	$0.29	$0.61	$0.22
Pro forma:			
Basic	$0.27	$0.54	$0.16
Diluted	$0.27	$0.54	$0.16

Because the fair value method of accounting has not been applied to options granted prior to March˚31, 1996, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

14. EMPLOYEE BENEFIT PLANS

The Company sponsors an employee stock ownership plan (''PSS ESOP'') available to all employees with at least one year of service. Employees can invest their contributions in various mutual funds as well as the common stock of the Company. Employer contributions are invested in the common stock of the Company.

A company acquired in fiscal 1999 sponsored a leveraged employee stock ownership plan ('Tristar ESOP''). The Tristar ESOP was merged into the PSS ESOP effective August 6, 1999 and the note payable to a third party was replaced with financing from the holding company. As a result of the merger, the PSS ESOP became a leveraged ESOP. In addition, subsequent to the merger, a supplemental matching contribution is made to all employees who elect to have their salary deferrals invested in the common stock of the Company. The supplemental match for fiscal 2000 was $234. The Company accounts for the PSS ESOP in accordance with SOP˚93-6. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the balance sheet. As shares are released from collateral, the Company reports compensation expense equal to the then current market price of the shares, and the shares become outstanding for the earnings-per-share (EPS) computation.

The PSS ESOP owned approximately 1,606,000 and 2,123,000 shares of the Company's common stock at March 31, 2000 and 1999, respectively. Company contributions to the plan, excluding the supplemental match, were approximately $1,417, $123, and $134 for fiscal 2000, 1999, and 1998, respectively, and are made at the discretion of the Company.

The following presents the PSS ESOP share activity:

	2000	1999	1998
Allocated shares	89,496	76,972	25,934
Shares released for allocation	28,201	12,524	51,038
Shares committed to be released	65,657	--	--
Unreleased shares	46,374	140,232	152,756
Total ESOP shares	229,728	229,728	229,728
Fair value of unreleased shares	$ 314	$ 1,224	$ 3,437

Approximately 29,600 shares of common stock are held in escrow. The escrow shares will be settled in fiscal 2001. Approximately $690, $221, and $824, of related expense was recognized in fiscal 2000, 1999, and 1998, respectively.

S&W sponsored a leveraged employee stock ownership plan (''S&W ESOP'') that covered all employees with one year of service. The Company accounted for this ESOP in accordance with SOP˚93-6. Accordingly, the debt of the ESOP was recorded as debt of the Company, and the shares pledged as collateral were reported as

unearned ESOP shares in the balance sheet. As shares were released from collateral, the Company reported compensation expense equal to the then current market price of the shares, and the shares became outstanding for the earnings-per-share (EPS) computation.

The S&W ESOP shares were as follows:

	1998
Allocated shares	398,727
Shares released for allocation	162,769
Unreleased shares	--
Total ESOP shares	561,496
Fair value of unreleased shares	$ --

During fiscal 1998, the Company released the remaining shares to the S&W ESOP participants, and it is management's intention to terminate this plan. Accordingly, approximately $2.5˚million of related expensewas recognized in fiscal 1998.

The Company also has an employee stock purchase plan available to employees with at least one year of service. The plan allows eligible employees to purchase company stock over-the-counter through payroll deductions.

PSS Deferred Compensation Program

The Company offers a deferred compensation program (the Program) to qualified executives, management, and salespeople. The program, which is an unfunded plan, includes a deferred compensation plan and a stock option program. The Company has purchased life insurance as a means to finance the benefits that become payable under the plan.

Under the deferred compensation plan, participants can elect to defer up to 100% of their total compensation. The Company will make a matching contribution of up to 10% to 15% of the participant s deferral. The match contribution ranges from 25% to 125% of the participant s deferral. Participants are guaranteed to earn interest, their deferral amount and the Company match at a rate declared annually by the Board of Directors (5.13% for the plan years ended March˚31, 2000 and 1999, respectively). The interest rate shall never be less than the 90-day U.S. Treasury Bill rate.

Under the stock option plan, participants are granted stock options to purchase common stock of the Company. The number of stock options granted is a function of the participant's annual deferral amount plus the Company match. The grant price of the option is determined annually to reflect an exercise price which allows the annual deferral amount to be supplemented by the growth of the PSS stock in excess of the declared interest rate projected to compound for four years. Thus, the option price is not less than the fair market value of the common stock on the date such option is granted.

Participant contributions are always 100% vested. The Company match and the stock options vest as follows:

# of Years in the plan	Vesting %
Less than 4 years	0%
4 years	20%
5 years	40%
6 years	60%
7 years	80%
8 years	100%
Death or disability	100%

After the options are 100% vested, participants can exercise up to 25% of vested options in any calendar year.

At age 60, or age 55 with 10 years of participation in the Program, the retirement benefit is distributed to participants in five equal annual installments. The retirement benefit is distributed in a lump sum upon death and over five years upon disability. In the event of termination of employment, 100% of the participant s vested balance will be distributed in five equal installments.

During fiscal 2000 and 1999, the Company matched approximately $864 and $638, respectively, of employee deferrals. At March 31, 2000 and April˚2, 1999, approximately $4,696 and $2,497, respectively, is recorded in other long-term assets in the accompanying consolidated balance sheets. In addition, $5,561 and $2,490, respectively, of deferred compensation is included in other long-term liabilities in the accompanying consolidated balance sheets.

15. OPERATING LEASE COMMITMENTS

The Company leases various facilities and equipment under operating leases which expire at various dates through 2009. Certain lease commitments provide that the Company pay taxes, insurance, and maintenance expenses related to the leased assets.

Rent expense approximated $26,949, $19,905, and $19,019 for fiscal 2000, 1999, and 1998, respectively. As of March 31, 2000, future minimum payments, by fiscal year and in the aggregate, required under noncancelable operating leases are as follows:

Fiscal Year:	
2001	$ 20,595
2002	18,596
2003	12,588
2004	7,779
2005	4,031
Thereafter	3,658
Total	$ 67,247

16. SEGMENT INFORMATION

The Company has adopted SFAS No.˚131, *Disclosure About Segments of an Enterprise and Related Information*, which establishes the way public companies report information about segments. SFAS No.˚131 requires segment reporting in interim periods and disclosures regarding products and services, geographic areas, and major customers.

The Company's reportable segments are strategic businesses that offer different products and services to different segments of the health care industry, and are based upon how management regularly evaluates the Company. These segments are managed separately because of different customers and products. See *Note˚1, Background and Summary of Significant Accounting Policies*, for descriptive information about the Company's business segments. International business and other follow the accounting policies of the segments described in the summary of significant accounting policies. The Company primarily evaluates the operating performance of its segments based on net sales and income from operations.

The following table presents financial information about the Company's business segments (in thousands):

	2000	1999	1998
NET SALES:			
Physician Supply Business	$ 705,818	$ 677,353	$ 662,543
Imaging Business	700,798	524,823	409,660
Long-Term Care Business	362,559	342,405	287,582
Other (a)	24,361	19,924	22,001
Total net sales	$1,793,536	$1,564,505	$1,381,786
CHARGES INCLUDED IN GENERAL & ADMINISTRATIVE EXPENSE:			
Physician Supply Business	$ 1,768	$ 3,358	$ 14,964
Imaging Business	5,769	7,981	9,576
Long-Term Care Business	4,660	3,008	3,232
Other (a)	2,044	1,335	4,235
Total charges included in general & administrative expenses:	$ 14,241	$ 15,682	$ 32,007
INCOME FROM OPERATIONS:			
Physician Supply Business	$ 32,681	$ 42,727	$ 16,871
Imaging Business	20,297	16,305	6,486
Long-Term Care Business	(4,990)	17,186	14,032
Other (a)	(3,279)	(2,365)	(5,310)
Total income from operations	$ 44,709	$ 73,853	$ 32,079
DEPRECIATION:			
Physician Supply Business	$ 4,393	$ 6,844	$ 3,287
Imaging Business	3,127	3,614	1,010
Long-Term Care Business	1,698	1,429	934
Other (a)	228	322	398
Total depreciation	$ 9,446	$ 12,209	$ 5,629
AMORTIZATION OF INTANGIBLE AND OTHER ASSETS:			
Physician Supply Business	$ 1,932	$ 2,067	$ 2,274
Imaging Business	6,327	3,460	1,545
Long-Term Care Business	2,223	1,762	1,243
Other (a)	1,142	886	170
Total amortization of intangible assets	$ 11,624	$ 8,175	$ 5,232
PROVISION FOR DOUBTFUL ACCOUNTS:			
Physician Supply Business	$ 1,241	$ 1,627	$ 605
Imaging Business	3,378	846	539
Long-Term Care Business	11,193	2,485	4,422
Other (a)	--	223	141
Total provision for doubtful accounts	$ 15,812	$ 5,181	$ 5,707
CAPITAL EXPENDITURES:			
Physician Supply Business	$ 13,031	$ 15,149	$ 4,468
Imaging Business	6,838	6,735	4,565
Long-Term Care Business	4,631	2,890	1,659
Other (a)	2,682	--	(173)
Total capital expenditures	$ 27,182	$ 24,774	$ 10,519

	2000	1999	1998
ASSETS:			
Physician Supply Business	$ 243,020	$ 236,452	$ 320,216
Imaging Business	346,073	277,250	158,698
Long-Term Care Business	182,024	174,868	191,789
Other (a)	102,300	54,811	16,034
Total assets	$ 873,417	$ 743,381	$ 686,737

(a) Other includes the holding company and the international subsidiaries.

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table presents summarized unaudited quarterly results of operations for the Company for fiscal years 1999 and 2000. The Company believes all necessary adjustments have been included in the amounts stated below to present fairly the following selected information when read in conjunction with the consolidated financial statements of the Company. Future quarterly operating results may fluctuate depending on a number of factors, including the timing of acquisitions of service centers, the timing of the opening of start-up service centers, and changes in customer's buying patterns of supplies, diagnostic equipment and pharmaceuticals. Results of operations for any particular quarter are not necessarily indicative of results of operations for a full year or any other quarter.

The results of operations for quarter ended March 31, 2000 differ significantly from the quarters ended June 30, September 30, and December 31, 1999 primarily as a result of the following. First, the long-term care business in general has faced significant financial pressure due to PPS, resulting in bankruptcy of certain long-term care providers. During the fourth quarter, several of GSMS' largest customers resolved or disclosed their plans for unsecured creditors, including the Company, at terms unfavorable to the Company. As a result, GSMS has i) recorded bad debt charges of approximately $9.5 million during the quarter ended March 31, 2000, ii) renegotiated contracts with customers that decreased both sales prices and gross profit, iii) restructured facilities to more efficiently distribute products, and iv) renegotiated product costs with vendors to mitigate the impact on gross profit resulting from customer negotiations. Overall, this has reduced the profitability of the long-term care business. Second, the Company's two most significant equipment suppliers had manufacturing product recalls and production issues that materially disrupted availability of products and therefore, impacted net sales.

In addition, as discussed in Note 1, during the fourth quarter the Company adopted SAB 101, effective April 3, 1999. The impact of this accounting change on fiscal 2000 is shown below.

(In Thousands, Except Per Share Data)	Fiscal Year 1999				Fiscal Year 2000			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
As Previously Reported								
Net sales	$367,562	$387,366	$399,547	$410,030	$436,719	$452,240	$462,093	$443,433
Gross profit	97,198	104,901	109,685	110,124	115,271	122,852	124,052	112,027
Income (loss) before provision for income taxes and cumulative effect of accounting change	8,868	13,307	13,822	7,744	20,898	24,663	20,811	(23,014)
Income (loss) before cumulative effect of accounting change	--	--	--	--	12,310	14,789	11,926	(15,720)
Cumulative effect of accounting change	--	--	--	--	--	--	--	--
Net income (loss)	8,868	13,307	13,822	7,744	12,310	14,789	11,926	(15,720)
Earnings per share — Basic:								
Income (loss) before cumulative effect of accounting change	$0.13	$0.19	$0.20	$0.11	$0.17	$0.21	$0.17	$(0.22)
Net income (loss)	$0.13	$0.19	$0.20	$0.11	$0.17	$0.21	$0.17	$(0.22)
Earnings per share — Diluted:								
Income (loss) before cumulative effect of accounting change	$0.12	$0.19	$0.19	$0.11	$0.17	$0.21	$0.17	$(0.22)
Net income	$0.12	$0.19	$0.19	$0.11	$0.17	$0.21	$0.17	$(0.22)

(In Thousands, Except Per Share Data)	Fiscal Year 2000			
	Q1	Q2	Q3	Q4
Adjustments				
Net sales	$ 282	$ (1,239)	$ 8	$ --
Gross profit	(1,036)	(788)	(24)	--
Loss before provision for income taxes and cumulative effect of accounting change	(1,020)	(801)	(10)	--
Loss before cumulative effect of accounting change	(625)	(490)	(6)	--
Cumulative effect of accounting change	(1,444)	--	--	--
Net Loss	(2,069)	(490)	(6)	--
Earnings per share — Basic:				
Loss before cumulative effect of accounting change	$(0.01)	$(0.01)	--	--
Net Loss	$(0.03)	$(0.01)	--	--
Earnings per share — Diluted:				
Loss before cumulative effect of accounting change	$(0.01)	$(0.01)	--	--
Net Loss	$(0.03)	$(0.01)	--	--

(In Thousands, Except Per Share Data)	Fiscal Year 2000			
	Q1	Q2	Q3	Q4
Final Adjusted (to reflect SAB 101)				
Net sales	$437,001	$451,001	$462,101	$443,433
Gross profit	114,235	122,064	124,028	112,027
Income (loss) before provision for income taxes and cumulative effect of accounting change	19,878	23,862	20,801	(23,014)
Income (loss) before cumulative effect of accounting change	11,685	14,299	11,920	(15,720)
Cumulative effect of accounting change	(1,444)	--	--	--
Net income (loss)	10,241	14,299	11,920	(15,720)
Earnings per share — Basic:				
Income (loss) before cumulative effect of accounting change	$0.16	$0.20	$0.17	$(0.22)
Net income (loss)	$0.14	$0.20	$0.17	$(0.22)

	Fiscal Year 2000			
	Q1	Q2	Q3	Q4
Earnings per share — Diluted:				
Income (loss) before cumulative effect of accounting change...........	$0.16	$0.20	$0.17	$(0.22)
Net income	$0.14	$0.20	$0.17	$(0.22)

18. COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with certain executive officers which provide that in the event of their termination or resignation, under certain conditions, the Company may be required to continue salary payments and provide insurance for a period ranging from 12 to 36 months for the Chief Executive Officer and from 3 to 12 months for other executives and to repurchase a portion or all of the shares of common stock held by the executives upon their demand at the fair market value at the time of repurchase. The period of salary and insurance continuation and the level of stock repurchases are based on the conditions of the termination or resignation.

During fiscal 2000, the Board of Directors approved and adopted the PSS World Medical, Inc. Officer Retention Bonus Plan and the PSS World Medical, Inc. Corporate Office Employee Retention Bonus Plan. Refer to Note 4, *Charges included in General and Administrative Expenses* for further discussion.

During the second quarter of fiscal year 2000, the Company received approximately $6.5 million relating to a favorable medical x-ray film antitrust settlement claim. The amount is classified as other income in the accompanying consolidated statement of income.

PSS and certain of its current officers and directors were named as defendants in a purported securities class action lawsuit filed on or about May˚28, 1998. The allegations are based upon a decline in the PSS stock price following announcements by PSS in May 1998 regarding the Gulf South merger, which resulted in earnings below analyst's expectations. The Company believes that the allegations contained in the complaints are without merit and intends to defend vigorously against the claims. However, the lawsuits are in early stages, and there can be no assurances that this litigation will ultimately be resolved on terms that are favorable to the Company.

Although the Company does not manufacture products, the distribution of medical supplies and equipment entails inherent risks of product liability. The Company has not experienced any significant product liability claims and maintains product liability insurance coverage. In addition, the Company is party to various legal and administrative proceedings and claims arising in the normal course of business. While any litigation contains an element of uncertainty, management believes that the outcome of any proceedings or claims which are pending or known to be threatened will not have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

On September 30, 1999, DI entered into a three year distributorship agreement with an imaging supply vendor. The agreement stipulates that, among other things, in the event of termination of the agreement due to a change in control of DI, the Company will pay liquidated damages to the vendor in the amount of the lesser of $6 million or $250,000 times the number of months remaining under the agreement.

19. ABBOTT LABORATORIES DISTRIBUTION AGREEMENT

On March˚27, 1995, the Company signed a Distribution Agreement with Abbott Laboratories providing for the exclusive distribution of certain Abbott diagnostic products. The Abbott Agreement, effective April˚1, 1995, has a five-year term, although it may be terminated earlier if the Company fails to meet certain performance objectives. Simultaneous with the closing of the Abbott Agreement, Abbott purchased 825,000 unregistered, restricted shares of PSS common stock. A three-year irrevocable proxy to the PSS Board of Directors and a perpetual stand still agreement were provided by Abbott in the Stock Purchase Agreement.

The original 5 year agreement provides for an annual one year evergreen provision. Since neither Abbott nor the Company notified the other of a termination, the agreement extended for another year. The Company and Abbott are negotiating a new 5 year agreement and have agreed to operating terms and objectives for the evergreen year 6.

20. SUBSEQUENT EVENT

The Company entered into an Agreement and Plan of Merger dated June 21, 2000 with Fisher Scientific International, Inc. (Fisher), pursuant to which PSS and Fisher will combine business operations and PSS will become a wholly owned subsidiary of Fisher. The merger is subject to various conditions, including approval of the shareholders of PSS and Fisher, filings with and compliance with securities and antitrust laws, the financial and operating performance of PSS and certain other matters.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To PSS World Medical, Inc.:

We have audited the accompanying consolidated balance sheets of PSS World Medical, Inc. (a Florida corporation) and subsidiaries as of March 31, 2000 and April˚2, 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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.

As explained in Note 1 to the financial statements, effective April 3, 1999, the Company changed certain of its accounting principles for revenue recognition as a result of the adoption of Staff Accounting Bulletin No. 101, Revenue Recognition .

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PSS World Medical, Inc. and subsidiaries as of March 31, 2000 and April˚2, 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN˚LLP

Jacksonville, Florida
June˚21, 2000

Directors and Officers

PSS World Medical, Inc. Fiscal Year 2001 Board of Directors

Hugh M. Brown
Chairman and Chief Executive Officer
BAMSI, Inc.

T. O'Neal Douglas
Retired Chairman
American Heritage
Life Insurance Company

Melvin L. Hecktman
President
Hecktman Management

Clark A. Johnson
Retired Chairman
Pier 1 Imports

Delores P. Kesler
Chairman and Chief Executive Officer
Adium

Charles "Red" Scott
Chairman and Chief Executive Officer
The Executive Committee

David A. Smith
President and
Chief Financial Officer
PSS World Medical, Inc.

Donna C.E. Williamson
Managing Director
ABN Amro Private Equity

PSS World Medical, Inc. Fiscal Year 2001 Officers

PSS World Medical, Inc.

David A. Smith,
President and
Chief Financial Officer

John F. Sasen, Sr.,
Executive Vice President,
Vendor Relations

Kevin P. English,
Vice President and
Controller

David Ramsey,
Chief Information Officer

Jeff Anthony,
Senior Vice President,
Corporate Development

Don Wilmoth,
Vice President,
Material Management

Brian Finley,
Chief Technology Officer

Physician Sales & Service

Douglas J. Harper,
President

John F. Sasen, Sr.,
Vice President, Marketing

Eric Miller,
Vice President, Finance

Jim Boyd,
Senior Vice President,
Capital Equipment Division

Scott Helfrich,
Vice President, Sales and Marketing

Bob McCart,
Vice President, National Accounts

Harlan Mason,
Vice President, Operations

Joe Matacia,
Vice President, Field Operations

Eddie Dienes,
Senior Vice President,
Mid-America Region

Jay Monaco,
Vice President, Western Region

Ric Duncan,
Vice President, Northern Region

Tom Fitzgerald,
Vice President, Southern Region

Joanie Dent
Vice President,
Operations – Mid-America

Jim Evans,
Vice President, Operations – Western

Harry Zuckerman,
Vice President, Operations – Northern

Nick Stark
Vice President, Operations – Southern

Diagnostic Imaging, Inc.

Kirk A. Zambetti,
President

Chris O'Brien
Vice President, Finance

Ken Kuiper,
Vice President, National Accounts

Tom Bronson,
Vice President, National Sales

Thomas Crowley,
Vice President, Marketing

Mike Bronson,
Vice President, National Operations

John Bills,
Vice President, National Service

Ron Cronin,
Vice President, Sales – Eastern

Bob Bedwell,
Vice President, Sales – Central

Ed Beard,
Vice President, Operations – Eastern

John Gorbutt,
Vice President, Operations – Central

Robert Freeden,
Vice President, Operations – Western

Derrell Murphy
Vice President, Service – Eastern

Van Brower
Vice President, Service – Central

Gulf South Medical Supply, Inc.

Gary Coreless,
President

Tim Gentz,
Vice President, Finance

Tony Oglesby,
Vice President,
Sales and Marketing

Brad Hilton,
Vice President, Operations

Bill Andreassen,
Vice President, Systems

Tim Renz
Vice President, Marketing

Jeff Glassick
Vice President, Sales – Eastern

Galyn Cross
Vice President, Sales – Western

Richard King
Vice President, Operations – Western

Corporate Information

Independent Auditors
Arthur Andersen LLP
Jacksonville, Florida

Legal Council
Alston & Bird LLP
Atlanta, Georgia

Registrar and Transfer Agent
First Union National Bank
1525 West W.T. Harris Boulevard
3C3
Charlotte, North Carolina
28288-1153

Corporate Secretary
David A. Smith

Corporate Headquarters
PSS World Medical, Inc.
4345 Southpoint Boulevard
Jacksonville, Florida 32216
(904) 332-3000
Website: www.pssd.com

Form 10-K Report
A copy of the Company's Annual Report on Form 10-K for fiscal year ended March 31, 2000 is available to each shareholder upon request. Shareholders may obtain an additional copy of this report, without charge, by writing:

David A. Smith,
PSS World Medical, Inc.
4345 Southpoint Boulevard
Jacksonville, Florida 32216

Common Stock
Shares of the Company's Common Stock are traded on the Nasdaq Stock Market (National Market) under the symbol "PSSI". The following table shows the quarterly range of high and low closing sales prices of the company's Common Stock during the periods indicated:

Fiscal Year 1999:	High	Low
June 30, 1998	24.13	12.06
September 30, 1998	20.50	14.13
December 31, 1998	23.25	15.63
April 2, 1999	23.00	8.81

Fiscal Year 2000:	High	Low
June 30, 1999	12.75	8.78
September 30, 1999	11.94	8.41
December 31, 1999	11.38	6.53
March 31, 2000	10.88	6.22

Fiscal Year 2001:	High	Low
June 30, 2000	10.31	6.29

As of August 25, 2000 there were approximately 1,400 holders of record and approximately 17,000 beneficial holders of the Company's stock. Since inception, the Company has neither declared nor paid cash dividends on the Common Stock. PSS World Medical expects that earnings will be retained for the growth and development of the Company's business. Accordingly, PSS World Medical does not anticipate that any dividends will be declared on the Common Stock for the foreseeable future.

Shareholder Records
Correspondence concerning PSS World Medical share holdings or changes of address should be directed to the transfer agent.

Duplicate Mailings
When a shareholder owns shares in more than one account or when several shareholders live at the same address, they may receive multiple copies of annual and quarterly reports. To eliminate multiple mailings, please write to the transfer agent.

PSS World Medical, Inc.
4345 Southpoint Boulevard
Jacksonville, FL 32216