

OWENS & MINOR INC/VA/  
Form 10-Q  
November 02, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2012**

**OR**

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

**For the transition period from            to**

**Commission file number 1-9810**

**Owens & Minor, Inc.**

**(Exact name of Registrant as specified in its charter)**

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

<b>Virginia</b> (State or other jurisdiction of incorporation or organization)	<b>54-1701843</b> (I.R.S. Employer Identification No.)
<b>9120 Lockwood Boulevard, Mechanicsville, Virginia</b> (Address of principal executive offices)	<b>23116</b> (Zip Code)
<b>Post Office Box 27626, Richmond, Virginia</b> (Mailing address of principal executive offices)	<b>23261-7626</b> (Zip Code)
<b>Registrant's telephone number, including area code (804) 723-7000</b>	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of larger accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Owens & Minor, Inc.'s common stock outstanding as of October 26, 2012, was 63,397,422 shares.

---

**Table of Contents**

**Owens & Minor, Inc. and Subsidiaries**

**Index**

	<b>Page</b>
<b><u>Part I. Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Income Three and Nine Months Ended September 30, 2012 and 2011</u>	3
<u>Consolidated Statements of Comprehensive Income Three and Nine Months Ended September 30, 2012 and 2011</u>	4
<u>Consolidated Balance Sheets September 30, 2012 and December 31, 2011</u>	5
<u>Consolidated Statements of Cash Flows Nine Months Ended September 30, 2012 and 2011</u>	6
<u>Consolidated Statements of Changes in Equity Nine Months Ended September 30, 2012 and 2011</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
<b><u>Part II. Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
Item 2. <u>Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	30
Item 6. <u>Exhibits</u>	31

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****Owens & Minor, Inc. and Subsidiaries****Consolidated Statements of Income***(unaudited)*

<i>(in thousands, except per share data)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net revenue	\$ 2,179,895	\$ 2,176,759	\$ 6,583,221	\$ 6,432,022
Cost of goods sold	1,951,772	1,960,077	5,929,341	5,788,499
Gross margin	228,123	216,682	653,880	643,523
Selling, general, and administrative expenses	165,320	152,825	471,179	460,119
Acquisition-related and exit and realignment charges	7,831	351	8,448	351
Depreciation and amortization	10,090	8,463	27,184	25,479
Other operating income, net	(1,781)	(3,422)	(4,643)	(2,927)
Operating earnings	46,663	58,465	151,712	160,501
Interest expense, net	3,066	3,426	9,975	10,163
Income before income taxes	43,597	55,039	141,737	150,338
Income tax provision	19,000	21,687	57,667	59,082
Net income	\$ 24,597	\$ 33,352	\$ 84,070	\$ 91,256
Net income per common share:				
Basic	\$ 0.39	\$ 0.53	\$ 1.33	\$ 1.44
Diluted	\$ 0.39	\$ 0.53	\$ 1.33	\$ 1.44
Cash dividends per common share	\$ 0.22	\$ 0.20	\$ 0.66	\$ 0.60

See accompanying notes to consolidated financial statements.

**Table of Contents****Owens & Minor, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income***(unaudited)*

<i>(in thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 24,597	\$ 33,352	\$ 84,070	\$ 91,256
Other comprehensive income, net of tax:				
Currency translation adjustments	1,927		1,927	
Amounts recognized in net periodic benefit cost (net of income tax expense - \$93 and \$410 in 2012 and \$85 and \$256 in 2011)	146	133	642	400
Amounts recognized in interest expense, net (net of income tax benefit- \$8 and \$24 in 2012 and 2011)	(14)	(12)	(38)	(37)
Other comprehensive income	2,059	121	2,531	363
Comprehensive income	\$ 26,656	\$ 33,473	\$ 86,601	\$ 91,619

See accompanying notes to consolidated financial statements.

**Table of Contents****Owens & Minor, Inc. and Subsidiaries****Consolidated Balance Sheets***(unaudited)*

<i>(in thousands, except per share data)</i>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 79,667	\$ 135,938
Accounts and notes receivable, net of allowances of \$16,228 and \$15,622	582,994	506,758
Merchandise inventories	776,898	806,366
Other current assets	211,967	76,763
<b>Total current assets</b>	<b>1,651,526</b>	<b>1,525,825</b>
Property and equipment, net of accumulated depreciation of \$113,137 and \$102,904	176,035	108,061
Goodwill, net	285,363	248,498
Intangible assets, net	44,540	22,142
Other assets, net	64,285	42,289
<b>Total assets</b>	<b>\$ 2,221,749</b>	<b>\$ 1,946,815</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 642,123	\$ 575,793
Accrued payroll and related liabilities	18,033	20,668
Deferred income taxes	36,982	42,296
Other current liabilities	252,131	93,608
<b>Total current liabilities</b>	<b>949,269</b>	<b>732,365</b>
Long-term debt, excluding current portion	214,795	212,681
Deferred income taxes	31,311	21,894
Other liabilities	66,312	60,658
<b>Total liabilities</b>	<b>1,261,687</b>	<b>1,027,598</b>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
<b>Owens &amp; Minor, Inc. shareholders equity:</b>		
Preferred stock, par value \$100 per share, authorized - 10,000 shares, Series A Participating Cumulative Preferred Stock; none issued		
Common stock, par value \$2 per share; authorized - 200,000 shares; issued and outstanding - 63,380 shares and 63,449 shares	126,762	126,900
Paid-in capital	185,695	179,052
Retained earnings	651,438	619,629
Accumulated other comprehensive loss	(4,963)	(7,494)
<b>Total Owens &amp; Minor, Inc. shareholders equity</b>	<b>958,932</b>	<b>918,087</b>
Noncontrolling interest	1,130	1,130
<b>Total equity</b>	<b>960,062</b>	<b>919,217</b>

<b>Total liabilities and equity</b>	\$ 2,221,749	\$ 1,946,815
-------------------------------------	--------------	--------------

See accompanying notes to consolidated financial statements.

**Table of Contents****Owens & Minor, Inc. and Subsidiaries****Consolidated Statements of Cash Flows***(unaudited)*

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities:</b>		
Net income	\$ 84,070	\$ 91,256
Adjustments to reconcile net income to cash provided by operating activities of continuing operations:		
Depreciation and amortization	27,184	25,479
Provision for LIFO reserve	5,223	11,265
Share-based compensation expense	4,844	4,335
Deferred income tax expense	1,098	908
Provision for losses on accounts and notes receivable	414	1,107
Pension contributions		(543)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(7,886)	(36,598)
Merchandise inventories	40,078	(52,141)
Accounts payable	32,467	81,188
Net change in other assets and liabilities	(16,355)	(18,465)
Other, net	(773)	335
<b>Cash provided by operating activities of continuing operations</b>	<b>170,364</b>	<b>108,126</b>
<b>Investing activities:</b>		
Acquisition, net of cash acquired	(149,910)	
Additions to computer software and intangible assets	(19,934)	(8,035)
Additions to property and equipment	(7,890)	(16,846)
Proceeds from sale of property and equipment	3,237	46
<b>Cash used for investing activities of continuing operations</b>	<b>(174,497)</b>	<b>(24,835)</b>
<b>Financing activities:</b>		
Cash dividends paid	(41,791)	(38,156)
Repurchases of common stock	(11,250)	(16,124)
Financing costs paid	(1,303)	
Proceeds from termination of interest rate swap		4,005
Excess tax benefits related to share-based compensation	1,223	1,977
Proceeds from exercise of stock options	4,114	7,937
Other, net	(4,444)	(5,127)
<b>Cash used for financing activities of continuing operations</b>	<b>(53,451)</b>	<b>(45,488)</b>
<b>Discontinued operations:</b>		
Operating cash flows		(164)
<b>Net cash used for discontinued operations</b>		<b>(164)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,313</b>	
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(56,271)</b>	<b>37,639</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>135,938</b>	<b>159,213</b>



<b>Cash and cash equivalents at end of period</b>	\$ 79,667	\$ 196,852
---	-----------	------------

**Supplemental disclosure of cash flow information:**

Income taxes paid, net	\$ 50,114	\$ 53,356
Interest paid	\$ 7,549	\$ 7,220

See accompanying notes to consolidated financial statements.

**Table of Contents****Owens & Minor, Inc. and Subsidiaries****Consolidated Statements of Changes in Equity***(unaudited)*

<i>(in thousands, except per share data)</i>	Owens & Minor, Inc. Shareholders Equity						Total Equity
	Common Shares Outstanding	Common Stock (\$2 par value)	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	
Balance December 31, 2010	63,433	\$ 126,867	\$ 165,447	\$ 570,320	\$ (5,116)	\$	\$ 857,518
Net income				91,256			91,256
Other comprehensive income					363		363
Comprehensive income							91,619
Dividends declared (\$0.60 per share)				(38,156)			(38,156)
Shares repurchased and retired	(524)	(1,048)		(15,076)			(16,124)
Share-based compensation expense, exercises and other	515	1,029	11,093				12,122
Balance September 30, 2011	63,424	\$ 126,848	\$ 176,540	\$ 608,344	\$ (4,753)	\$	\$ 906,979
Balance December 31, 2011	63,449	\$ 126,900	\$ 179,052	\$ 619,629	\$ (7,494)	\$ 1,130	\$ 919,217
Net income				84,070			84,070
Other comprehensive income					2,531		2,531
Comprehensive income							86,601
Dividends declared (\$0.66 per share)				(41,791)			(41,791)
Shares repurchased and retired	(390)	(780)		(10,470)			(11,250)
Share-based compensation expense, exercises and other	321	642	6,643				7,285
Balance September 30, 2012	63,380	\$ 126,762	\$ 185,695	\$ 651,438	\$ (4,963)	\$ 1,130	\$ 960,062

See accompanying notes to consolidated financial statements.

**Table of Contents****Owens & Minor, Inc. and Subsidiaries****Notes to Consolidated Financial Statements***(unaudited)**(in thousands, unless otherwise indicated)***1. Basis of Presentation and Use of Estimates***Basis of Presentation*

The accompanying unaudited consolidated financial statements include the accounts of Owens & Minor, Inc. and the subsidiaries it controls (we, us, or our) and contain all adjustments (which are comprised only of normal recurring accruals and use of estimates) necessary to conform with U.S. generally accepted accounting principles (GAAP). For the consolidated subsidiary in which our ownership is less than 100%, the outside stockholder's interest is presented as a noncontrolling interest. All significant intercompany accounts and transactions have been eliminated. The results of operations for interim periods are not necessarily indicative of the results expected for the full year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires us to make assumptions and estimates that affect reported amounts and related disclosures. Actual results may differ from these estimates.

**2. Acquisition**

On August 31, 2012, we acquired from Celesio AG (Celesio) all of the voting interests of certain subsidiaries comprising the majority of Celesio's healthcare third-party logistics business known as the Movianto Group (the acquired portion is referred to herein as Movianto) for consideration of approximately \$157 million (€125 million), net of cash acquired and including debt assumed of \$2.1 million (primarily capitalized lease obligations) and a remaining working capital adjustment due of \$5.3 million. As a result of the acquisition of Movianto, we have entered into third-party logistics for the pharmaceutical and medical device industries in the European market with an existing platform that also expands our ability to serve our U.S.-based customers globally.

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon our preliminary estimate of their fair values at the date of acquisition, with certain exceptions permitted under GAAP. The purchase price exceeded the preliminary fair value of the net tangible and identifiable intangible assets by \$36 million, which was allocated to goodwill. The following table presents the preliminary estimated fair value of the assets acquired and liabilities assumed recognized as of the acquisition date.

	<b>Recognized as of August 31, 2012</b>
Assets acquired:	
Current assets	\$ 219,810
Property and equipment	72,778
Goodwill	35,990
Intangible assets	24,278
Other noncurrent assets	12,109
<b>Total assets</b>	<b>364,965</b>

## Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

Liabilities assumed:	
Current liabilities	197,742
Noncurrent liabilities	9,915
<b>Total liabilities</b>	<b>207,657</b>
Fair value of net assets acquired, net of cash	\$ 157,308

We are amortizing the fair value of acquired intangible assets, primarily customer relationships, over their remaining weighted average useful lives of 6 years.

## **Table of Contents**

Goodwill of \$36.0 million arising from the acquisition consists largely of expected opportunities to provide additional services to existing manufacturer customers and to expand our third-party logistics services globally. All of the goodwill was assigned to our International segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The allocation of the purchase price to the fair value of identifiable assets and liabilities acquired is preliminary pending receipt of final valuations.

Pro forma results of operations for this acquisition have not been presented because the effects of revenue and net income were not material to our historic consolidated financial statements.

We present costs incurred in connection with acquisitions in acquisition-related and exit and realignment charges in our consolidated statements of income. Acquisition-related costs consist primarily of transaction costs and integration costs. Transaction costs are incurred during the initial evaluation of a potential targeted acquisition and primarily relate to costs to analyze, negotiate and consummate the transaction as well as due diligence activities. Integration costs relate to activities needed to combine the operations of an acquired enterprise into our operations. We recognized acquisition-related expenses of \$7.8 million and \$8.4 million for the three and nine months ended September 30, 2012. Acquisition-related expenses includes transaction costs of \$7.1 million and \$7.7 million, respectively, and post-acquisition integration costs of \$0.7 million for the three and nine month periods.

### **3. Fair Value**

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable reported in the consolidated balance sheets approximate fair value due to the short-term nature of these instruments. The fair value of long-term debt is estimated based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market (Level 1) or, if quoted market prices or dealer quotes are not available, on the borrowing rates currently available for loans with similar terms, credit ratings and average remaining maturities (Level 2). See Note 8 for the fair value of long-term debt.

Property held for sale is reported at estimated fair value less selling costs with fair value determined based on recent sales prices for comparable properties in similar locations (Level 2). Property held for sale of \$1.1 million at September 30, 2012, and \$4.2 million at December 31, 2011, is included in other assets, net, in the consolidated balance sheets. We are actively marketing the property for sale; however, the ultimate timing of sale is dependent on local market conditions.

### **4. Financing Receivables**

As a result of the Movianto acquisition we have an order-to-cash program under which we invoice manufacturer's customers and remit collected amounts to the manufacturers. We had receivables for which we retain credit risk under this program (referred to as financing receivables) of \$124.7 million and related amounts due (referred to as financing payables) of \$118.4 million, included in other current assets and other current liabilities, respectively, in the consolidated balance sheet at September 30, 2012. Fees charged for this program are included in net revenue. Product pricing and related product risks are retained by the manufacturer.

**Table of Contents****5. Intangible Assets**

Intangible assets at September 30, 2012, and December 31, 2011, are as follows:

	<b>Customer Relationships</b>	<b>Other Intangibles</b>	<b>Total</b>
<b>At September 30, 2012:</b>			
Gross intangible assets	\$ 50,558	\$ 10,122	\$ 60,680
Accumulated amortization	(11,403)	(4,737)	(16,140)
Net intangible assets	\$ 39,155	\$ 5,385	\$ 44,540
<b>At December 31, 2011:</b>			
Gross intangible assets	\$ 31,622	\$ 4,720	\$ 36,342
Accumulated amortization	(9,569)	(4,631)	(14,200)
Net intangible assets	\$ 22,053	\$ 89	\$ 22,142

Gross intangible assets increased \$24.3 million from December 31, 2011 as a result of the Movianto acquisition.

Amortization expense for intangible assets was \$0.8 million for the three-month periods ended September 30, 2012 and 2011, and \$1.9 million and \$2.4 million for the nine months ended September 30, 2012 and 2011.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$1.4 million for the remainder of 2012, \$5.2 million for 2013, and \$4.6 million annually for 2014 through 2017.

**6. Exit and Realignment Costs**

The following table summarizes the activity related to exit cost accruals for the nine months ended September 30, 2012:

	<b>Lease Obligations</b>	<b>Severance and Other</b>	<b>Total</b>
<b>Nine months ended September 30, 2012</b>			
Accrued exit costs, beginning of period	\$ 8,264	\$ 1,831	\$ 10,095
Interest accretion	211		211
Cash payments, net of sublease income	(1,160)	(1,788)	(2,948)
Accrued exit costs, end of period	\$ 7,315	\$ 43	\$ 7,358

We present charges for exit costs in acquisition-related and exit and realignment charges in our consolidated statements of income. There were no charges for exit costs for the nine months ended September 30, 2012 and 2011. Accrued exit costs at September 30, 2012 relate to exit activities and organizational realignment initiated during the fourth quarter of 2011.

**7. Retirement Plan**

We have a domestic noncontributory, unfunded retirement plan for certain officers and other key employees. We also sponsor defined benefit plans in some of the European countries in which we operate. In February 2012, our Board of Directors amended the domestic retirement plan to freeze benefit levels and modify vesting provisions under the plan effective as of March 31, 2012. As a result, we recognized a curtailment loss of \$0.2 million for the nine months ended September 30, 2012. The reduction of the projected benefit obligation as a result of the amendment was less than \$1 million.



**Table of Contents**

The components of net periodic benefit cost, which are included in selling, general and administrative expenses, for the three and nine months ended September 30, 2012 and 2011, are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Service cost	\$ 4	\$ 326	\$ 134	\$ 977
Interest cost	410	451	1,218	1,353
Amortization of prior service cost		73		219
Recognized net actuarial loss	239	145	733	437
Curtailment loss			234	
Net periodic benefit cost	\$ 653	\$ 995	\$ 2,319	\$ 2,986

**8. Debt**

We have \$200 million of senior notes outstanding, which mature on April 15, 2016 and bear interest at 6.35% payable semi-annually (Senior Notes). We may redeem the Senior Notes, in whole or in part, at a redemption price of the greater of 100% of the principal amount of the Senior Notes or the present value of remaining scheduled payments of principal and interest discounted at the applicable Treasury Rate plus 0.25%. As of September 30, 2012 and December 31, 2011, the estimated fair value of the Senior Notes was \$220.8 million and \$217.0 million, and the related carrying amount was \$206.2 million and \$207.5 million. The estimated fair value interest rate used to compute the fair value of the Senior Notes at September 30, 2012 was 3.22%.

On June 5, 2012, we entered into a five-year \$350 million Credit Agreement with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A. and a syndicate of financial institutions (the Credit Agreement) expiring June 5, 2017. This agreement replaced an existing \$350 million credit agreement set to expire June 7, 2013. Under the new credit facility, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$150 million. The interest rate on the new credit facility, which is subject to adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Credit Agreement. We are charged a commitment fee of between 17.5 and 42.5 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. At September 30, 2012, we had no borrowings and letters of credit of \$5.0 million outstanding on the revolving credit facility, leaving \$345.0 million available for borrowing.

We assumed debt (primarily capitalized lease obligations) of approximately \$2.1 million with the acquisition of Movianto.

**9. Income Taxes**

The provision for income taxes was \$19.0 million and \$57.7 million for the three and nine months ended September 30, 2012, compared to \$21.7 million and \$59.1 million for the same periods in 2011. The effective tax rate was 43.6% and 40.7% for the three and nine months ended September 30, 2012, compared to 39.4% and 39.3% for the same periods in 2011. The increases in the effective tax rate for the 2012 periods are related to non-deductible acquisition-related costs of \$4.7 million incurred in the third quarter of 2012. The effective tax rate excluding acquisition-related costs was 39.4% for the three months and first nine months of 2012, which included a benefit to the rate of 0.7% in the third quarter primarily for the recognition of tax benefits due to the expiration of the statute of limitations for the 2008 U.S. federal income tax return, offset by the effect of valuation allowances recognized on potential income tax benefits from losses in certain foreign tax jurisdictions. A similar impact for both items exists for the year-to-date effective tax rate.



**Table of Contents****10. Net Income per Common Share**

The following table summarizes the calculation of net income per share attributable to common shareholders for the three and nine months ended September 30, 2012 and 2011.

<i>(in thousands, except per share data)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
<b>Numerator:</b>				
Net income	\$ 24,597	\$ 33,352	\$ 84,070	\$ 91,256
Less: income allocated to unvested restricted shares	(153)	(252)	(574)	(856)
Net income attributable to common shareholders basic	24,444	33,100	83,496	90,400
Add: undistributed income attributable to unvested restricted shares basic	53	136	229	397
Less: undistributed income attributable to unvested restricted shares diluted	(53)	(135)	(228)	(396)
<b>Net income attributable to common shareholders diluted</b>	<b>\$ 24,444</b>	<b>\$ 33,101</b>	<b>\$ 83,497</b>	<b>\$ 90,401</b>
<b>Denominator:</b>				
Weighted average shares outstanding basic	62,763	62,802	62,806	62,801
Dilutive shares stock options	78	145	84	183
<b>Weighted average shares outstanding diluted</b>	<b>62,841</b>	<b>62,947</b>	<b>62,890</b>	<b>62,984</b>
<b>Net income per share attributable to common shareholders:</b>				
Basic	\$ 0.39	\$ 0.53	\$ 1.33	\$ 1.44
Diluted	\$ 0.39	\$ 0.53	\$ 1.33	\$ 1.44

**11. Shareholders Equity**

In February 2011, our Board of Directors authorized a share repurchase program of up to \$50 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in February 2014. The program is intended to offset shares issued in conjunction with our stock incentive plans and may be suspended or discontinued at any time. During the nine months ended September 30, 2012, we repurchased in open-market transactions and retired approximately 390 thousand shares of our common stock for an aggregate of \$11.3 million, or an average price per share of \$28.84. As of September 30, 2012, we have approximately \$22.6 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

**12. Foreign Currency Translation**

Our international subsidiaries generally consider their local currency to be their functional currency. Assets and liabilities of these international subsidiaries are translated into U.S. dollars at period-end exchange rates and revenues and expenses are translated at average exchange rates during the period. Cumulative currency translation adjustments are included in accumulated other comprehensive loss in shareholders' equity. Realized gains and losses from currency exchange transactions are recorded in other operating income, net in the consolidated statements of operations and were not material to our consolidated results of operations for the three- and nine-month periods ended September 30, 2012.

**13. Commitments and Contingencies**

We have contractual obligations that are required to be paid to customers in the event that certain contractual performance targets are not achieved as of specified dates, generally within 36 months from inception of the contract. These contingent obligations totaled \$3.6 million as of September 30, 2012. If none of the performance targets are met as of the specified dates, and customers have met their contractual commitments, payments will be due as follows: Remainder of 2012 - \$0.5 million; 2013 - \$2.5 million; 2014 - \$0.4 million; and 2015 - \$0.2 million. None of

## Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

these contingent obligations were accrued at September 30, 2012, as we do not consider any of them probable. We deferred the recognition of fees that are contingent upon the company's future performance under the terms of these contracts. As of September 30, 2012, \$1.5 million of deferred revenue related to outstanding contractual performance targets is included in other current liabilities.

The state of California is continuing its administrative review of certain ongoing local sales tax incentives that may be available to us. Upon completion of this review, we could potentially receive tax incentive payments for all or some of the quarterly periods beginning with the first quarter of 2009. The exact amount, if any, is dependent upon a number of factors, including the timing of negotiation and execution of certain customer agreements, collection of amounts from the parties involved, the variability in sales and our operations in California. The estimated potential payment we may receive (and related contingent gain) related to prior periods could be more than \$7 million.

In connection with the acquisition of Movianto, our commitments under operating leases increased by \$12.7 million, due as follows: remainder of 2012 - \$1.2 million; 2013 - \$3.9 million; 2014 - \$3.2 million; 2015 - \$2.0 million; 2016 - \$1.7 million; and 2017 - \$0.7 million.

Prior to exiting the direct-to-consumer business in January 2009, we received reimbursements from Medicare, Medicaid, and private healthcare insurers for certain customer billings. We are subject to audits of these reimbursements for up to seven years from the date of the service.

**Table of Contents****14. Segment Information**

We periodically evaluate our application of accounting guidance for reportable segments and disclose information about reportable segments based on the way management organizes the enterprise for making operating decisions and assessing performance. As a result of the August 31, 2012 acquisition of Movianto, we will now report Movianto as a separate International business segment. Prior to the acquisition, we had one reportable business segment, which now comprises the Domestic business segment. Accordingly, the Domestic business segment includes traditional distribution, OM HealthCare Logistics, and other supply-chain management services, such as OM Solutions<sup>SM</sup>, which provide solutions to healthcare providers and suppliers of medical and surgical products in the United States.

The following tables present financial information by segment:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Net revenue:</b>				
Domestic	\$ 2,130,226	\$ 2,176,759	\$ 6,533,552	\$ 6,432,022
International	49,669		49,669	
Consolidated net revenue	\$ 2,179,895	\$ 2,176,759	\$ 6,583,221	\$ 6,432,022
<b>Operating earnings (loss):</b>				
Domestic	\$ 55,120	\$ 58,816	\$ 160,786	\$ 160,852
International	(626)		(626)	
Acquisition-related and exit and realignment charges	(7,831)	(351)	(8,448)	(351)
Consolidated operating earnings	\$ 46,663	\$ 58,465	\$ 151,712	\$ 160,501
<b>Depreciation and amortization:</b>				
Domestic	\$ 8,801	\$ 8,463	\$ 25,895	\$ 25,479
International	1,289		1,289	
Consolidated depreciation and amortization	\$ 10,090	\$ 8,463	\$ 27,184	\$ 25,479
<b>Capital expenditures:</b>				
Domestic	\$ 8,929	\$ 11,133	\$ 27,086	\$ 24,881
International	738		738	
Consolidated capital expenditures	\$ 9,667	\$ 11,133	\$ 27,824	\$ 24,881
<b>Assets:</b>				
<b>Total assets:</b>				
Domestic	\$ 1,732,460	\$ 1,810,877		
International	409,622			
Segment assets	2,142,082	1,810,877		
Cash and cash equivalents	79,667	135,938		
Consolidated total assets	\$ 2,221,749	\$ 1,946,815		



**Table of Contents****15. Condensed Consolidating Financial Information**

The following tables present condensed consolidating financial information for: Owens & Minor, Inc. (O&M), on a combined basis; the guarantors of O&M's Senior Notes; and the subsidiaries of O&M that are not guarantors of the Senior Notes (Non-guarantor subsidiaries). Separate financial statements of the guarantor subsidiaries are not presented because the guarantors are jointly, severally and unconditionally liable under the guarantees and we believe the condensed consolidating financial information is more meaningful in understanding the financial position, results of operations and cash flows of the guarantor subsidiaries.

For the three months ended September 30, 2012	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Income</b>					
Net revenue	\$	\$ 2,130,226	\$ 59,200	\$ (9,531)	\$ 2,179,895
Cost of goods sold		1,921,975	39,074	(9,277)	1,951,772
Gross margin		208,251	20,126	(254)	228,123
Selling, general and administrative expenses	23	144,882	20,415		165,320
Acquisition-related and exit and realignment charges		104	7,727		7,831
Depreciation and amortization		8,783	1,307		10,090
Other operating income, net		(1,396)	(385)		(1,781)
Operating (loss) earnings	(23)	55,878	(8,938)	(254)	46,663
Interest expense (income), net	3,951	(866)	(19)		3,066
(Loss) income before income taxes	(3,974)	56,744	(8,919)	(254)	43,597
Income tax (benefit) provision	(1,634)	23,411	(2,777)		19,000
Equity in earnings of subsidiaries		26,937		(26,937)	
<b>Net income (loss)</b>	24,597	33,333	(6,142)	(27,191)	24,597
Other comprehensive income	2,059	146	1,926	(2,072)	2,059
<b>Comprehensive income (loss)</b>	\$ 26,656	\$ 33,479	\$ (4,216)	\$ (29,263)	\$ 26,656

For the three months ended September 30, 2011	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Income</b>					
Net revenue	\$	\$ 2,176,759	\$	\$	\$ 2,176,759
Cost of goods sold		1,960,077			1,960,077
Gross margin		216,682			216,682
Selling, general and administrative expenses	(574)	153,319	80		152,825
Acquisition-related and exit and realignment charges		351			351
Depreciation and amortization		8,463			8,463
Other operating expense, net		(3,422)			(3,422)
Operating (loss) earnings	574	57,971	(80)		58,465
Interest expense, net	2,249	1,155	22		3,426
(Loss) income before income taxes	(1,675)	56,816	(102)		55,039
Income tax (benefit) provision	(662)	22,389	(40)		21,687
Equity in earnings of subsidiaries		34,365		(34,365)	
<b>Net income (loss)</b>	33,352	34,427	(62)	(34,365)	33,352

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

Other comprehensive income (loss)	121	133	(133)	121	
<b>Comprehensive income</b>	\$ 33,473	\$ 34,560	\$ (62)	\$ (34,498)	\$ 33,473

**Table of Contents****Condensed Consolidating Financial Information**

<b>For the nine months ended September 30, 2012</b>	<b>Owens &amp; Minor, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Statements of Income</b>					
Net revenue	\$	\$ 6,533,552	\$ 65,918	\$ (16,249)	\$ 6,583,221
Cost of goods sold		5,899,666	45,393	(15,718)	5,929,341
Gross margin		633,886	20,525	(531)	653,880
Selling, general and administrative expenses	678	449,092	21,409		471,179
Acquisition-related and exit and realignment charges		721	7,727		8,448
Depreciation and amortization		25,842	1,342		27,184
Other operating income, net		(4,123)	(520)		(4,643)
Operating (loss) earnings	(678)	162,354	(9,433)	(531)	151,712
Interest expense (income), net	11,518	(1,573)	30		9,975
(Loss) income before income taxes	(12,196)	163,927	(9,463)	(531)	141,737
Income tax (benefit) provision	(4,872)	65,514	(2,975)		57,667
Equity in earnings of subsidiaries	91,394			(91,394)	
<b>Net income (loss)</b>	<b>84,070</b>	<b>98,413</b>	<b>(6,488)</b>	<b>(91,925)</b>	<b>84,070</b>
Other comprehensive income	2,531	642	1,926	(2,568)	2,531
<b>Comprehensive income (loss)</b>	<b>\$ 86,601</b>	<b>\$ 99,055</b>	<b>\$ (4,562)</b>	<b>\$ (94,493)</b>	<b>\$ 86,601</b>

<b>For the nine months ended September 30, 2011</b>	<b>Owens &amp; Minor, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Statements of Income</b>					
Net revenue	\$	\$ 6,431,896	\$ 126	\$	\$ 6,432,022
Cost of goods sold		5,788,483	16		5,788,499
Gross margin		643,413	110		643,523
Selling, general and administrative expenses	280	459,505	334		460,119
Acquisition-related and exit and realignment charges		351			351
Depreciation and amortization		25,479			25,479
Other operating expense, net	148	(3,067)	(8)		(2,927)
Operating (loss) earnings	(428)	161,145	(216)		160,501
Interest expense, net	7,010	3,097	56		10,163
(Loss) income before income taxes	(7,438)	158,048	(272)		150,338
Income tax (benefit) provision	(2,923)	62,112	(107)		59,082
Equity in earnings of subsidiaries	95,771			(95,771)	
<b>Net income (loss)</b>	<b>91,256</b>	<b>95,936</b>	<b>(165)</b>	<b>(95,771)</b>	<b>91,256</b>
Other comprehensive income	363	400		(400)	363
<b>Comprehensive income (loss)</b>	<b>\$ 91,619</b>	<b>\$ 96,336</b>	<b>\$ (165)</b>	<b>\$ (96,171)</b>	<b>\$ 91,619</b>





**Table of Contents****Condensed Consolidating Financial Information**

September 30, 2012	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Balance Sheets</b>					
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 29,538	\$ 14,744	\$ 35,385	\$	\$ 79,667
Accounts and notes receivable, net		491,008	94,602	(2,616)	582,994
Merchandise inventories		750,958	26,470	(530)	776,898
Other current assets	244	66,546	145,182	(5)	211,967
<b>Total current assets</b>	<b>29,782</b>	<b>1,323,256</b>	<b>301,639</b>	<b>(3,151)</b>	<b>1,651,526</b>
Property and equipment, net		102,508	73,527		176,035
Goodwill, net		247,271	38,092		285,363
Intangible assets, net		20,496	24,044		44,540
Due from O&M and subsidiaries		244,094	40,730	(284,824)	
Advances to and investments in consolidated subsidiaries	1,430,878			(1,430,878)	
Other assets, net	641	49,974	13,670		64,285
<b>Total assets</b>	<b>\$ 1,461,301</b>	<b>\$ 1,987,599</b>	<b>\$ 491,702</b>	<b>\$ (1,718,853)</b>	<b>\$ 2,221,749</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 1,575	\$ 562,268	\$ 80,901	\$ (2,621)	\$ 642,123
Accrued payroll and related liabilities		11,801	6,232		18,033
Deferred income taxes		36,982			36,982
Other current liabilities	9,785	83,338	159,008		252,131
<b>Total current liabilities</b>	<b>11,360</b>	<b>694,389</b>	<b>246,141</b>	<b>(2,621)</b>	<b>949,269</b>
Long-term debt, excluding current portion	206,185	6,349	2,261		214,795
Due to O&M and subsidiaries	284,824			(284,824)	
Intercompany debt		138,890		(138,890)	
Deferred income taxes		28,693	2,618		31,311
Other liabilities		58,855	7,457		66,312
<b>Total liabilities</b>	<b>502,369</b>	<b>927,176</b>	<b>258,477</b>	<b>(426,335)</b>	<b>1,261,687</b>
<b>Equity</b>					
Common stock	126,762		1,500	(1,500)	126,762
Paid-in capital	185,695	242,024	258,635	(500,659)	185,695
Retained earnings (deficit)	651,438	825,464	(29,967)	(795,497)	651,438
Accumulated other comprehensive loss	(4,963)	(7,065)	1,927	5,138	(4,963)
<b>Total Owens &amp; Minor, Inc. shareholders equity</b>	<b>958,932</b>	<b>1,060,423</b>	<b>232,095</b>	<b>(1,292,518)</b>	<b>958,932</b>
Noncontrolling interest			1,130		1,130
<b>Total equity</b>	<b>958,932</b>	<b>1,060,423</b>	<b>233,225</b>	<b>(1,292,518)</b>	<b>960,062</b>
<b>Total liabilities and equity</b>	<b>\$ 1,461,301</b>	<b>\$ 1,987,599</b>	<b>\$ 491,702</b>	<b>\$ (1,718,853)</b>	<b>\$ 2,221,749</b>



**Table of Contents****Condensed Consolidating Financial Information**

December 31, 2011	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Balance Sheets</b>					
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 120,010	\$ 14,809	\$ 1,119		\$ 135,938
Accounts and notes receivable, net		506,633	125		506,758
Merchandise inventories		806,281	85		806,366
Other current assets	139	76,696	35	(107)	76,763
<b>Total current assets</b>	120,149	1,404,419	1,364	(107)	1,525,825
Property and equipment, net		107,878	183		108,061
Goodwill, net		247,271	1,227		248,498
Intangible assets, net		22,142			22,142
Due from O&M and subsidiaries			40,888	(40,888)	
Advances to and investments in consolidated subsidiaries	1,142,592			(1,142,592)	
Other assets, net	779	41,373	137		42,289
<b>Total assets</b>	\$ 1,263,520	\$ 1,823,083	\$ 43,799	\$ (1,183,587)	\$ 1,946,815
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 113,100	\$ 462,604	\$ 89	\$	\$ 575,793
Accrued payroll and related liabilities		20,653	15		20,668
Deferred income taxes		42,296			42,296
Other current liabilities	6,505	86,980	230	(107)	93,608
<b>Total current liabilities</b>	119,605	612,533	334	(107)	732,365
Long-term debt, excluding current portion	207,480	5,201			212,681
Due to O&M and subsidiaries	18,348	22,540		(40,888)	
Intercompany debt		138,890		(138,890)	
Deferred income taxes		21,894			21,894
Other liabilities		60,658			60,658
<b>Total liabilities</b>	345,433	861,716	334	(179,885)	1,027,598
<b>Equity</b>					
Common stock	126,900		1,500	(1,500)	126,900
Paid-in capital	179,052	242,024	64,314	(306,338)	179,052
Retained earnings (deficit)	619,629	727,050	(23,479)	(703,571)	619,629
Accumulated other comprehensive loss	(7,494)	(7,707)		7,707	(7,494)
<b>Total Owens &amp; Minor, Inc. shareholders equity</b>	918,087	961,367	42,335	(1,003,702)	918,087
Noncontrolling interest			1,130		1,130
<b>Total equity</b>	918,087	961,367	43,465	(1,003,702)	919,217
<b>Total liabilities and equity</b>	\$ 1,263,520	\$ 1,823,083	\$ 43,799	\$ (1,183,587)	\$ 1,946,815



**Table of Contents****Condensed Consolidating Financial Information**

Nine months ended September 30, 2012	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Cash Flows</b>					
<b>Operating activities:</b>					
Net income (loss)	\$ 84,070	\$ 98,413	\$ (6,488)	\$ (91,925)	\$ 84,070
Adjustments to reconcile net income to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	(91,394)			91,394	
Depreciation and amortization		25,842	1,342		27,184
Provision for LIFO reserve		5,223			5,223
Share-based compensation expense		4,844			4,844
Deferred income tax expense		1,098			1,098
Provision for losses on accounts and notes receivable		311	103		414
Changes in operating assets and liabilities:					
Accounts and notes receivable		15,314	(25,817)	2,617	(7,886)
Merchandise inventories		50,100	(10,552)	530	40,078
Accounts payable	(111,525)	99,664	46,949	(2,621)	32,467
Net change in other assets and liabilities	3,070	(3,214)	(16,216)	5	(16,355)
Other, net	(1,270)	712	(215)		(773)
<b>Cash provided by (used for) operating activities</b>	<b>(117,049)</b>	<b>298,307</b>	<b>(10,894)</b>		<b>170,364</b>
<b>Investing activities:</b>					
Acquisition, net of cash acquired			(149,910)		(149,910)
Additions to computer software and intangible assets		(18,911)	(1,023)		(19,934)
Additions to property and equipment		(8,159)	269		(7,890)
Proceeds from the sale of property and equipment		3,237			3,237
<b>Cash used for investing activities</b>		<b>(23,833)</b>	<b>(150,664)</b>		<b>(174,497)</b>
<b>Financing activities:</b>					
Change in intercompany advances	77,168	(271,650)	194,482		
Cash dividends paid	(41,791)				(41,791)
Repurchases of common stock	(11,250)				(11,250)
Financing costs paid		(1,303)			(1,303)
Excess tax benefits related to share-based compensation	1,223				1,223
Proceeds from exercise of stock options	4,114				4,114
Other, net	(2,887)	(1,586)	29		(4,444)
<b>Cash provided by (used for) financing activities</b>	<b>26,577</b>	<b>(274,539)</b>	<b>194,511</b>		<b>(53,451)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>					
			1,313		1,313
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(90,472)</b>	<b>(65)</b>	<b>34,266</b>		<b>(56,271)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>120,010</b>	<b>14,809</b>	<b>1,119</b>		<b>135,938</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 29,538</b>	<b>\$ 14,744</b>	<b>\$ 35,385</b>	<b>\$</b>	<b>\$ 79,667</b>



**Table of Contents****Condensed Consolidating Financial Information**

Nine months ended September 30, 2011	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Cash Flows</b>					
<b>Operating activities:</b>					
Net income (loss)	\$ 91,256	\$ 95,936	\$ (165)	\$ (95,771)	\$ 91,256
Adjustments to reconcile net income to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	(95,771)			95,771	
Depreciation and amortization		25,479			25,479
Provision for LIFO reserve		11,265			11,265
Share-based compensation expense		4,335			4,335
Deferred income tax expense		908			908
Provision for losses on accounts and notes receivable		1,107			1,107
Pension contributions		(543)			(543)
Changes in operating assets and liabilities:					
Accounts and notes receivable	313	(36,911)			(36,598)
Merchandise inventories		(52,141)			(52,141)
Accounts payable		81,187	1		81,188
Net change in other assets and liabilities	2,882	(21,286)	(61)		(18,465)
Other, net	70	265			335
<b>Cash provided by (used for) operating activities</b>	<b>(1,250)</b>	<b>109,601</b>	<b>(225)</b>		<b>108,126</b>
<b>Investing activities:</b>					
Additions to computer software and intangible assets		(8,035)			(8,035)
Additions to property and equipment		(16,846)			(16,846)
Proceeds from the sale of property and equipment		46			46
<b>Cash used for investing activities</b>		<b>(24,835)</b>			<b>(24,835)</b>
<b>Financing activities:</b>					
Change in intercompany advances	78,610	(79,015)	405		
Cash dividends paid	(38,156)				(38,156)
Repurchases of common stock	(16,124)				(16,124)
Proceeds from termination of interest rate swap	4,005				4,005
Excess tax benefits related to share-based compensation	1,977				1,977
Proceeds from exercise of stock options	7,937				7,937
Other, net	(3,563)	(1,564)			(5,127)
<b>Cash provided by (used for) financing activities</b>	<b>34,686</b>	<b>(80,579)</b>	<b>405</b>		<b>(45,488)</b>
<b>Discontinued operations:</b>					
Operating cash flows			(164)		(164)
<b>Net cash used for discontinued operations</b>			<b>(164)</b>		<b>(164)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>33,436</b>	<b>4,187</b>	<b>16</b>		<b>37,639</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>156,897</b>	<b>2,316</b>			<b>159,213</b>

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

<b>Cash and cash equivalents at end of period</b>	\$ 190,333	\$ 6,503	\$ 16	\$ 196,852
---	------------	----------	-------	------------



**Table of Contents**

**16. Recent Accounting Pronouncements**

There has been no change in our significant accounting policies from those contained in our Annual Report on Form 10-K for the year ended December 31, 2011, except as discussed below.

In the first quarter of 2012, we adopted an Accounting Standard Update (ASU) issued by the Financial Accounting Standards Board (FASB) for fair value measurement. This update amends and clarifies certain measurement principles and disclosure requirements for fair value measurement. The adoption of this guidance did not have an impact on our financial position or results of operations.

In the first quarter of 2012, we adopted an ASU regarding the presentation of comprehensive income. This update requires entities to report comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The adoption of this guidance did not have an impact on our financial position or results of operations.

In the first quarter of 2012, we adopted an ASU for the testing of goodwill. This update allows entities the option to first assess qualitative factors as a basis for determining whether it is necessary to perform the two-step impairment test for goodwill. The adoption of this guidance did not have an impact on our financial position or results of operations.

In the third quarter of 2012, we adopted an ASU for the testing of long-lived assets. This update allows entities the option to first assess qualitative factors as a basis for determining whether it is necessary to perform the quantitative test. The adoption of this guidance did not have an impact on our financial position or results of operations.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis describes results of operations and material changes in the financial condition of Owens & Minor, Inc. and its subsidiaries since December 31, 2011. Trends of a material nature are discussed to the extent known and considered relevant. This discussion should be read in conjunction with the consolidated financial statements, related notes thereto, and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Overview****Third quarter and first nine months of 2012 compared with 2011**

**Acquisition.** Owens & Minor, Inc. (we, us, or our) is a leading national distributor of name-brand medical and surgical supplies and a healthcare supply-chain management company. As a result of the August 31, 2012 acquisition of Movianto, we will now report Movianto as a separate International business segment. Prior to the acquisition, we had one reportable business segment, which now comprises the Domestic business segment. Accordingly, the Domestic business segment includes traditional distribution, OM HealthCare Logistics, and other supply-chain management services, such as OM Solutions<sup>SM</sup>, which provide solutions to healthcare providers and suppliers of medical and surgical products in the United States. Segment information for revenues, operating earnings, depreciation and amortization, capital expenditures and total assets are provided in Note 14 of the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

**Financial Highlights.** The following table provides a reconciliation of reported operating earnings, net income and diluted net income per common share to non-GAAP measures used by management:

<i>(Dollars in thousands except EPS data)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Operating earnings, as reported (GAAP)	\$ 46,663	\$ 58,465	\$ 151,712	\$ 160,501
Acquisition-related and exit and realignment charges	7,831	351	8,448	351
Operating earnings, adjusted (Non-GAAP) (Adjusted Operated Earnings)	\$ 54,494	\$ 58,816	\$ 160,160	\$ 160,852
Adjusted Operating Earnings as a percent of revenue (Non-GAAP)	2.50%	2.70%	2.43%	2.50%
Net income, as reported (GAAP)	\$ 24,597	\$ 33,352	\$ 84,070	\$ 91,256
Acquisition-related and exit and realignment charges, after-tax	6,588	213	6,963	213
Net income, adjusted (Non-GAAP) (Adjusted Net Income)	\$ 31,185	\$ 33,565	\$ 91,033	\$ 91,469
Net income per diluted common share, as reported (GAAP)	\$ 0.39	\$ 0.53	\$ 1.33	\$ 1.44
Acquisition-related and exit and realignment charges	0.10		0.11	
Net income per diluted common share, adjusted (Non-GAAP) (Adjusted EPS)	\$ 0.49	\$ 0.53	\$ 1.44	\$ 1.44

**Use of Non-GAAP Measures**

Our management's discussion and analysis contains financial measures that are not calculated in accordance with U.S. generally accepted accounting principles (GAAP). In general, the measures exclude items and charges that (i) management does not believe reflect our core business and relate more to strategic, multi-year corporate activities; or (ii) relate to activities or actions that may have occurred over multiple or in prior periods without predictable trends. Management uses these non-GAAP financial measures internally to evaluate our performance, evaluate the balance sheet, engage in financial and operational planning and determine incentive compensation.

Management provides these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on its financial and operating results and in comparing our performance to that of our competitors. However, the non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

## Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP.

There were no exit and realignment expenses in the first nine months of 2012 or 2011. Acquisition-related expenses are associated with Movianto in 2012 and with the establishment of our joint venture in China in 2011. During the third quarter and first nine months of 2012 and 2011, the difference between our GAAP and Non-GAAP measures were related entirely to acquisition-related costs. Unless otherwise stated, our analysis hereinafter excludes acquisition-related and exit and realignment expenses.

Adjusted EPS (Non-GAAP) declined by four cents in the third quarter of 2012 compared with the third quarter of last year due to a decrease in Adjusted Operating Earnings (Non-GAAP) of \$4.3 million or 7.3%. The decrease in Adjusted Operating Earnings (Non-GAAP) for this period was primarily due to lower Domestic segment revenues and gross margin (Domestic gross margin declined by \$8.2 million) and an operating loss of \$0.6 million for the International segment, partially offset by lower Domestic segment SG&A expenses of \$6.6 million. In addition, the third quarter of 2011 included income of \$2.2 million relating to an anti-trust lawsuit that did not exist in 2012.

**Table of Contents**

Adjusted EPS (Non-GAAP) for the first nine months of this year was flat compared with the same period last year. Adjusted Operating Earnings (Non-GAAP) for the first nine months of 2012 declined slightly (\$0.7 million or 0.4%) compared to last year as lower Domestic segment gross margin of \$9.2 million was partially offset by lower Domestic SG&A expenses of \$8.1 million. Also contributing to the change between these periods was higher other operating income of \$1.7 million in 2012 partially offset by the International segment operating loss of \$0.6 million and higher Domestic depreciation and amortization in 2012 of \$0.4 million.

The following table presents our consolidated statements of income on a percentage of revenue basis:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gross margin	10.46%	9.95%	9.93%	10.00%
Selling, general and administrative expenses	7.58%	7.02%	7.16%	7.15%
Adjusted Operating Earnings (Non-GAAP)	2.50%	2.70%	2.43%	2.50%

**Results of Operations**

**Net revenue.** Net revenue was \$2.18 billion for the third quarter of 2012 and 2011. Net revenue increased 2.4% to \$6.58 billion for the first nine months of 2012 from \$6.43 billion for the comparable period in 2011.

The following tables present the components of the increase in net revenue for the three- and nine-month periods ended September 30, 2012 and 2011, compared with the same periods in the prior year, and present Domestic segment new customer changes net of lost customer activity ( net new (lost) ). Domestic segment fee-for-service revenue represents revenue from services provided to customers in the U.S. that are not directly related to sales of product through our traditional distribution services and includes revenue from our OM Healthcare Logistics and OM Solutions<sup>SM</sup> businesses.

(Dollars in millions)

Increase (decrease) for the three months ended September 30,	2012 versus 2011		2011 versus 2010	
	Net Revenue	Contribution to Total	Net Revenue	Contribution to Total
Domestic segment:				
Revenue from sales of products to:				
Existing customers	\$ (29.5)	(1.4)%	\$ 89.0	4.3%
Net new (lost) customers	(13.7)	(0.6)%	13.6	0.7%
Fee-for-service revenue	(3.3)	(0.2)%	10.3	0.5%
Domestic segment	(46.5)	(2.2)%	112.9	5.5%
International segment	49.7	2.3%		
Consolidated	\$ 3.2	0.1%	\$ 112.9	5.5%

**Table of Contents***(Dollars in millions)***Increase (decrease) for the nine months ended September 30,**

	<b>2012 versus 2011</b>		<b>2011 versus 2010</b>	
	<b>Net Revenue</b>	<b>Contribution to Total</b>	<b>Net Revenue</b>	<b>Contribution to Total</b>
Domestic segment:				
Revenue from sales of products to:				
Existing customers	\$ 84.1	1.3%	\$ 305.5	5.1%
Net new (lost) customers	15.3	0.2%	53.3	0.9%
Fee-for-service revenue	2.1	0.1%	19.8	0.3%
Domestic segment	101.5	1.6%	378.6	6.3%
International segment	49.7	0.8%		
Consolidated	\$ 151.2	2.4%	\$ 378.6	6.3%

In the third quarter of 2012, Domestic segment revenues were \$2.13 billion, a decrease of \$46.5 million compared to the same quarter of 2011. The decline resulted from a combination of factors, including: one less sales day in the quarter, lower comparative utilization of healthcare services coupled with reduced product price inflation, and a lower level of government purchasing, as well as ongoing rationalization of the company's supplier base. The decline in the existing Domestic segment sales growth rate for the first nine months was primarily due to the same factors.

The International segment net revenue represents the net revenue of Movianto for one month since its acquisition on August 31, 2012.

**Gross margin.** The following tables present gross margin information by segment for the three- and nine-month periods ended September 30, 2012 and 2011.

*(Dollars in millions)*

<b>Gross margin</b>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Domestic segment	\$ 208.5	\$ 216.7	\$ 634.3	\$ 643.5
International segment	19.6		19.6	
Consolidated gross margin	\$ 228.1	\$ 216.7	\$ 653.9	\$ 643.5

<b>Gross margin by segment as a percentage of related revenue</b>	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Domestic segment	9.79%	9.95%	9.71%	10.00%
International segment	39.39%		39.39%	
Consolidated gross margin as percentage of revenue	10.46%	9.95%	9.93%	10.00%

The following tables present the components of the increase or decrease in consolidated gross margin for the three- and nine-month periods ended September 30, 2012 and 2011. Domestic segment gross margin includes gross margin from customer contracts related to sales of product and contribution to gross margin relating to supplier incentives (traditional distribution), fees generated from other services, including OM Healthcare Logistics, OM Solutions and other supply-chain services that are not directly related to sales of product (fee-for-service) and the effect of inventory valuation and other operational components, excluding the impact of applying the last-in first-out (LIFO) method (other).

**Table of Contents***(Dollars in millions)***Increase (decrease) for the three months ended September 30,**

	<b>2012 versus 2011</b>		<b>2011 versus 2010</b>	
		<b>Impact on gross margin as a percent of revenue</b>		<b>Impact on gross margin as a percent of revenue</b>
	<b>Gross Margin</b>		<b>Gross Margin</b>	
<b>Domestic segment:</b>				
Traditional distribution	\$ (5.5)	(0.06)%	\$ 4.9	(0.20)%
Fee-for-service	(3.3)	(0.14)%	10.3	0.43%
Provision for LIFO				
Other	0.6	0.04%	(2.5)	(0.16)%
<b>Domestic segment</b>	<b>(8.2)</b>	<b>(0.16)%</b>	<b>12.7</b>	<b>0.07%</b>
<b>International segment</b>	<b>19.6</b>	<b>0.67%</b>		
<b>Consolidated</b>	<b>\$ 11.4</b>	<b>0.51%</b>	<b>\$ 12.7</b>	<b>0.07%</b>

*(Dollars in millions)***Increase (decrease) for the nine months ended September 30,**

	<b>2012 versus 2011</b>		<b>2011 versus 2010</b>	
		<b>Impact on gross margin as a percent of revenue</b>		<b>Impact on gross margin as a percent of revenue</b>
	<b>Gross Margin</b>		<b>Gross Margin</b>	
<b>Domestic segment:</b>				
Traditional distribution	\$ (9.4)	(0.26)%	\$ 26.7	(0.10)%
Fee-for-service	2.1	0.03%	19.8	0.28%
Provision for LIFO	6.0	0.09%	(2.8)	(0.04)%
Other	(7.9)	(0.15)%	(0.1)	(0.04)%
<b>Domestic segment</b>	<b>(9.2)</b>	<b>(0.29)%</b>	<b>43.6</b>	<b>0.10%</b>
<b>International segment</b>	<b>19.6</b>	<b>0.22%</b>		
<b>Consolidated</b>	<b>\$ 10.4</b>	<b>(0.07)%</b>	<b>\$ 43.6</b>	<b>0.10%</b>

The decline in Domestic gross margin in the third quarter of 2012 versus last year is primarily due to lower sales resulting in \$4.0 million of the \$5.5 million decline for traditional distribution. Lower fee-for-service revenue also contributed to the lower gross margin for the quarter, including OM Healthcare Logistics which had higher fees last year from higher costs incurred to convert a large new customer.

The decline in Domestic gross margin for the first nine months of 2012 versus last year is primarily due to lower percentage margins driven by changes in customer mix, including lower margin on new contracts with large integrated health networks and competitive pressures representing 26 basis points of the decline. The decline in gross margin dollars resulting from these new contracts was partially offset by an increase in gross margin of \$9.3 million from increased sales for the year-to-date period.

The International segment gross margin represents the gross margin for Movianto for one month since its acquisition on August 31, 2012, which resulted in a contribution to consolidated gross margin as a percentage of net revenue of 67 basis points in the third quarter and 22 basis points for the first nine months of 2012 compared with 2011.

**Selling, general and administrative (SG&A) expenses.** SG&A expenses include labor, warehousing, handling and delivery costs associated with our distribution and third-party logistics services, as well as labor costs for our supply-chain consulting services. The costs to convert new customers to our information systems are generally incurred prior to the recognition of revenues from the new customers.

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

The following table presents SG&A expenses by segment for the three- and nine-month periods ended September 30, 2012 and 2011.

**Table of Contents***(Dollars in millions)*

SG&A expenses	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Domestic segment	\$ 146.1	\$ 152.8	\$ 452.0	\$ 460.1
International segment	19.2		19.2	
Consolidated selling, general, and administrative expenses	\$ 165.3	\$ 152.8	\$ 471.2	\$ 460.1

SG&A by segment as a percentage of related revenue	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Domestic segment	6.86%	7.02%	6.92%	7.15%
International segment	38.56%		38.56%	
Consolidated SG&A as a percentage of revenue	7.58%	7.02%	7.16%	7.15%

The International segment represents SG&A expenses of Movianto for one month since its acquisition on August 31, 2012.

The decrease in Domestic segment SG&A expenses of \$6.6 million or 4.3% for the third quarter of 2012 compared to the third quarter of 2011 is primarily due to decreases of \$4.5 million for fee-for-service operations, including lower costs for our third-party logistics business that was converting a large new customer during the second and third quarters of 2011. SG&A expenses unrelated to fee-for-service operations decreased by \$2.1 million due mainly to lower incentive compensation and benefit costs and lower expenses resulting from our organizational realignment in the fourth quarter of 2011.

The decrease in Domestic segment SG&A expenses of \$8.1 million or 1.8% for the first nine months of 2012 compared to the same period in 2011 is primarily due to decreases of \$5.3 million related to fee-for service operations and a decline of \$2.8 million in other SG&A expenses. The reason for the decline in Domestic SG&A expenses in these areas for the first nine months is primarily the same as the third quarter described above.

**Depreciation and amortization expense.** Depreciation and amortization expense increased to \$10.1 million from \$8.5 million for the third quarter and to \$27.2 million from \$25.5 million for the first nine months of 2012 compared with the same periods of 2011. The increase is primarily related to the Movianto acquisition, which resulted in additional depreciation and amortization expense of \$1.3 million.

**Other operating income, net.** Other operating income, net, was \$1.8 million for the third quarter of 2012 compared to other operating income, net of \$3.4 million for the third quarter of 2011, including finance charge income of \$0.8 million in both of the quarterly periods. Other operating income, net, was \$4.6 million for the first nine months of 2012 compared to \$2.9 million for the comparable period of 2011, including finance charge income of \$2.8 million and \$2.2 million, respectively. Other operating income for the third quarter and year-to-date period of 2011 benefitted from \$2.2 million received from settlement of an anti-trust class action lawsuit. In addition, other operating income in the first nine months of 2011 included expenses of \$1.7 million primarily for the development of a model for partnering with customers.

**Interest expense, net.** Interest expense, net of interest earned on cash balances, was \$3.1 million for the third quarter of 2012, as compared with \$3.4 million for the third quarter of 2011, and \$10.0 million for the first nine months of 2012 as compared with \$10.2 million for the first nine months of 2011.

The following table presents the components of our effective interest rate and average borrowings for first nine months of September 30, 2012 and 2011.



**Table of Contents***(Dollars in millions)*

<b>Nine months ended September 30,</b>	<b>2012</b>	<b>2011</b>
Interest on senior notes	6.35%	6.35%
Commitment and other fees	0.83%	1.27%
Interest rate swaps	(1.08)%	(1.33)%
Other, net of interest income	0.16%	0.11%
<b>Total effective interest rate</b>	<b>6.26%</b>	<b>6.40%</b>
Average total debt	\$ 214.0	\$ 212.4

For the nine months ended September 30, 2012, the effective interest rate decreased 14 basis points, primarily due to a 44 basis point decrease as a result of replacing our revolving credit facility in June 2012 with a new revolving credit facility with lower commitment fees (refer to *Capital Resources* in Management's Discussion and Analysis of Financial Condition for a description of the new revolving credit facility). The decrease in commitment fees was partially offset by a decline in interest income from interest rate swaps, which were terminated in the third quarter of 2012.

**Income taxes.** The provision for income taxes was \$19.0 million and \$57.7 million for the third quarter and first nine months of 2012, compared to \$21.7 million and \$59.1 million for the comparable periods in 2011. The effective tax rate was 43.6% and 40.7% for the third quarter and first nine months of 2012, compared to 39.4% and 39.3% for the comparable periods of 2011. Excluding the acquisition-related costs in 2012, of which approximately \$4.7 million are not expected to be tax deductible, the effective tax rate was 39.4% for the third quarter and first nine months of 2012. The 39.4% effective tax rate for the third quarter of 2012 included a benefit to the rate of 0.7% primarily for the recognition of tax benefits due to the expiration of the statute of limitations for the 2008 U.S. federal income tax return, offset by the effect of valuation allowances recognized on potential income tax benefits from losses in certain foreign jurisdictions. A similar impact for both items exists for the year-to-date effective income tax rate.

**Net income.** Adjusted Net Income (Non-GAAP) declined to \$31.2 million in the third quarter of 2012 compared with \$33.6 million in the third quarter of 2011. Adjusted Net Income (Non-GAAP) declined to \$91.0 million in the first nine months of 2012 from \$91.5 million in the first nine months of 2011. The changes in Adjusted Net Income (Non-GAAP) were due to the changes in Adjusted Operating Earnings (Non-GAAP), net interest expense and income taxes discussed above.

**Financial Condition, Liquidity and Capital Resources**

**Financial condition.** Cash and cash equivalents decreased to approximately \$80 million at September 30, 2012 from \$136 million at December 31, 2011, primarily as a result of the Movianto acquisition in the third quarter of 2012. Nearly all of our cash and cash equivalents are held in cash depository accounts with major banks or invested in high-quality, short-term liquid investments.

Accounts receivable, net of allowances, increased \$76 million, or 15.0%, to \$583 million at September 30, 2012, from \$507 million at December 31, 2011, primarily as a result of acquiring accounts receivable of approximately \$79 million in the Movianto acquisition. Accounts receivable days outstanding (DSO) of the Domestic segment were 20.7 days at September 30, 2012, and 20.7 days at December 31, 2011, based on three months' sales, and has ranged from 19.5 to 20.7 days over the prior four quarters.

Merchandise inventories decreased 3.7% to \$777 million at September 30, 2012, from \$806 million at December 31, 2011. Average inventory turnover of the Domestic segment was 10.2 in the third quarter of 2012, based on three months' sales, and has ranged from 10.0 to 10.8 over the prior four quarters.

The International segment's net working capital of approximately \$25 million at September 30, 2012, excluding cash and cash equivalents, is comprised of accounts and financing receivables of \$215 million, inventories of \$26 million and other current assets of \$20 million and accounts payable and other current liabilities of \$236 million. See Note 4 to the Notes to Consolidated Financial Statements for further information on financing receivables.

**Table of Contents**

**Liquidity and capital expenditures.** The following table summarizes our consolidated statements of cash flows for the nine months ended September 30, 2012 and 2011:

<i>(in millions)</i>		
<b>Nine months ended September 30,</b>	<b>2012</b>	<b>2011</b>
Net cash provided by (used for) continuing operations:		
Operating activities	\$ 170.4	\$ 108.1
Investing activities	(174.5)	(24.8)
Financing activities	(53.5)	(45.5)
Discontinued operations		(0.2)
Effect of exchange rate changes	1.3	
<b>(Decrease) increase in cash and cash equivalents</b>	<b>\$ (56.3)</b>	<b>\$ 37.6</b>

Cash provided by operating activities was \$170.4 million in the first nine months of 2012, compared to \$108.1 million for the same period of 2011. Cash from operating activities in the first nine months of 2012 was a result of operating earnings and a decrease in Domestic segment merchandise inventories. Cash from operating activities in the first nine months of 2011 was a result of operating earnings, partially offset by an increase in working capital. We had a buildup of inventory levels during the third and fourth quarter of 2011 to support the conversion of large new customers. Domestic segment inventories returned to normalized levels post-conversion in the first half of 2012.

Cash used for investing activities in the year-to-date period of 2012 was largely due to the acquisition of Movianto. We acquired Movianto in exchange for approximately \$150 million of cash plus assumed third-party debt (primarily capitalized leases) of \$2.1 million plus a remaining working capital adjustment due of \$5.3 million. Capital expenditures of the Domestic segment were \$27.1 million in the first nine months of 2012, compared to \$24.9 million in the same period of 2011. Capital expenditures in 2012 primarily related to our strategic and operational efficiency initiatives, particularly initiatives relating to information technology enhancements. Capital expenditures in the first nine months of 2011 primarily included leasehold improvements and warehouse equipment for our distribution centers and third-party logistics facilities, as well as investments in operational software improvements and certain customer-facing technologies.

Cash used for financing activities in the first nine months of 2012 was \$53.5 million, compared to \$45.5 million used in the first nine months of 2011. During the first nine months of 2012, we paid dividends of \$41.8 million, repurchased common stock under a share repurchase program for \$11.3 million of cash, paid financing costs of \$1.3 million related to a new credit facility, and received proceeds of \$4.1 million from the exercise of stock options. During the first nine months of 2011, we paid dividends of \$38.2 million, repurchased common stock under a share repurchase program for \$16.1 million and received proceeds of \$7.9 million from the exercise of stock options.

**Capital resources.** Our sources of liquidity include cash and cash equivalents and a revolving credit facility. On June 5, 2012, we entered into a five-year \$350 million Credit Agreement with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A. and a syndicate of financial institutions (the Credit Agreement). This agreement replaced an existing \$350 million credit agreement set to expire on June 7, 2013. Under the new credit facility, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$150 million. The interest rate on the new credit facility, which is subject to adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Credit Agreement. We are charged a commitment fee of between 17.5 and 42.5 basis points on the unused portion of the facility. The terms of the credit agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. At September 30, 2012, we had no borrowings and letters of credit of \$5.0 million outstanding on the revolving credit facility, leaving \$345.0 million available for borrowing.

We may utilize the revolving credit facility for long-term strategic growth, capital expenditures, working capital and general corporate purposes. If we were unable to access the revolving credit facility, it could impact our ability to fund these needs. During the first nine months of 2012, we had no borrowings or repayments under the credit facilities. Based on our leverage ratio at September 30, 2012, the interest rate under the new credit facility is LIBOR plus 1.375%. We have \$200 million of senior notes outstanding, which mature in 2016 and bear interest at 6.35%, payable semi-annually on April 15 and October 15. The revolving credit facility and senior notes contain cross-default provisions which could result in the acceleration of payments due in the event of default of either agreement. We believe we were in compliance with the debt covenants at September 30, 2012.

## Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

In the third quarter of 2012, we paid cash dividends on our outstanding common stock at the rate of \$0.22 per share, which represents a 10% increase over the rate of \$0.20 per share paid in the third quarter of 2011. We anticipate continuing to pay quarterly cash dividends in the future. However, the payment of future dividends remains within the discretion of the Board of Directors and will depend upon our results of operations, financial condition, capital requirements and other factors.

## **Table of Contents**

In February 2011, the Board of Directors authorized a share repurchase program of up to \$50 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in February 2014. During the third quarter of 2012, we repurchased approximately 133,000 shares at \$3.7 million under this program. The remaining amount authorized for repurchases under this program is approximately \$22.6 million at September 30, 2012.

We believe available financing sources, including cash generated by operating activities and borrowings under the Revolving Credit Facility, will be sufficient to fund our working capital needs, capital expenditures, long-term strategic growth, payments under long-term debt and lease arrangements, payments of quarterly cash dividends, share repurchases and other cash requirements. While we believe that we will have the ability to meet our financing needs in the foreseeable future, changes in economic conditions may impact (i) the ability of financial institutions to meet their contractual commitments to us, (ii) the ability of our customers and suppliers to meet their obligations to us and/or (iii) our cost of borrowing.

## **Recent Accounting Pronouncements**

For a discussion of recent accounting pronouncements, see Note 16 in the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for the quarterly period ended on September 30, 2012.

## **Forward-looking Statements**

Certain statements in this discussion constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe our expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of our business and operations, all forward-looking statements involve risks and uncertainties and, as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements involve known and unknown risks, including, but not limited to:

general economic and business conditions in both the United States and international marketplaces in which we operate or that we serve;

changing trends in customer profiles, including continued consolidation in the healthcare industry that may result in greater bargaining power of our customers to achieve lower prices for our products and services;

competition in the marketplace and related pressure to reduce pricing;

our ability to implement strategic initiatives;

our ability to integrate and realize the synergies and benefits we expect from our acquisition of Movianto in a timely manner while managing costs and any unanticipated expenses and compliance issues;

our ability to manage risks associated with operating in foreign markets, including but not limited to, currency exchange risks, the political, economic and regulatory environments in these markets, potential adverse tax and cash repatriation issues and compliance with applicable anti-bribery/anti-corruption and other laws and regulations;

the availability of and modifications to existing supplier funding programs and our ability to meet the terms to qualify for certain of these programs;

## Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

our ability to adapt to changes in product pricing and other terms of purchase by suppliers of product;

dependence on sales to certain customers;

the ability of customers to meet financial commitments due to us;

our ability to retain existing customers and the success of marketing and other programs in attracting new customers;

changes in government regulations, including healthcare laws and regulations;

changes in manufacturer preferences between direct sales and wholesale distribution;

our ability to meet customer demand for additional value-added services;

our ability to meet performance targets specified by customer contracts under contractual commitments;

access to special inventory buying opportunities;

the ability of business partners and financial institutions to perform their contractual responsibilities;

our ability to manage operating expenses and improve operational efficiencies in response to changing customer profiles;

the effect of price volatility in the commodities markets, including fuel price fluctuations, on our operating costs and supplier product prices;

our ability to continue to obtain financing at reasonable rates and to manage financing costs and interest rate risk;

the risk that a decline in business volume or profitability could result in an impairment of goodwill or other long-lived assets;

our ability to timely or adequately respond to technological advances in the medical supply industry;

the risk that information systems are interrupted or damaged by unforeseen events or fail for any extended period of time;

our ability to successfully identify, manage or integrate future acquisitions;

the costs associated with and outcome of outstanding and any future litigation, including product and professional liability claims; and

the outcome of outstanding tax contingencies and legislative and tax proposals.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We provide credit in the normal course of business to our customers and are exposed to losses resulting from nonpayment or delinquent payment by customers. We perform initial and ongoing credit evaluations of our customers and maintain reserves for estimated credit losses. We measure our performance in collecting customer accounts receivable in terms of days sales outstanding (DSO). Accounts receivable at September 30, 2012, were approximately \$583 million, and consolidated DSO at September 30, 2012, was 22.9 days, based on three months' sales. A hypothetical increase (decrease) in DSO of one day would result in a decrease (increase) in our cash balances, an increase (decrease) in borrowings against our revolving credit facility, or a combination thereof, of approximately \$25 million.

We are exposed to market risk from changes in interest rates related to our revolving credit facility. We had no outstanding borrowings and \$5.0 million in letters of credit under the revolving credit facility at September 30, 2012. A hypothetical increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately \$0.1 million per year for every \$10 million of outstanding borrowings under the revolving credit facility.

Due to the nature of our distribution services, which generally include delivery of product to specified locations, we are exposed to potential volatility in fuel prices. The price and availability of fuel fluctuates due to market conditions generally outside of our control. Increased fuel costs may have a negative impact on our results of operations by increasing the costs we incur to deliver product, either through utilizing our own fleet or third-party carriers.

We estimate that approximately \$0.6 million of an increase in delivery costs for the first nine months of 2012 was related to increases in diesel prices. We benchmark our Domestic diesel fuel purchase prices against the U.S. Weekly Retail On-Highway Diesel Prices (the Diesel Benchmark Price) as quoted on the website of the U.S. Energy Information Administration. The Diesel Benchmark Price averaged \$3.95 per gallon for nine months ended September 30, 2012, representing an increase of 3.2% from \$3.83 per gallon for the same period in 2011. Accordingly, on an annualized basis, we estimate that every 10 cents per gallon increase in the Diesel Benchmark Price reduced our operating earnings by approximately \$650,000, excluding the effect of mitigating strategies. Our strategies for helping to mitigate Domestic segment exposure to changing fuel prices include the use of fuel surcharges, activity-based pricing, fixed-price contracts with suppliers and a new truck lease program with improved fuel efficiency.

On January 31, 2012, we entered into a fixed-price purchase agreement with one of our diesel fuel suppliers for approximately one-third of our anticipated fuel usage for 2012 at an equivalent Diesel Benchmark Price of \$3.90 per gallon.

In the normal course of business, we are exposed to foreign currency translation and transaction risks. Our business transactions outside of the U.S. are primarily denominated in the Euro and British Pound. We may use foreign currency forwards, swaps and options, where possible, to manage our risk related to certain foreign currency fluctuations. However, we believe that our foreign currency transaction risks are low since our revenues and expenses are typically denominated in the same currency.

**Item 4. Controls and Procedures**

We carried out an evaluation, with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2012.

On August 31, 2012, we completed our acquisition of Movianto. As permitted by the SEC under the current year acquisition scope exception, we plan to exclude the Movianto acquisition from our 2012 assessment of the effectiveness of our internal controls over financial reporting. However, we have extended our oversight and monitoring processes that support our internal control over financial reporting to include Movianto's operations. Except for the effect of the Movianto acquisition, there has been no change in our internal control over financial reporting during the quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Table of Contents**

### **Part II. Other Information**

#### **Item 1. Legal Proceedings**

We are subject to customary legal proceedings of the type described in our Annual Report on Form 10-K for the year ended December 31, 2011. As of September 30, 2012, we do not believe these proceedings, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

#### **Item 1A. Risk Factors**

Certain risk factors that we believe could affect our business and prospects are described in our Annual Report on Form 10-K for the year ended December 31, 2011. Through September 30, 2012, other than the additional risk factors described below, there have been no material changes in the risk factors described in such Annual Report.

#### **Integration of Acquisitions**

In connection with our growth strategy, we from time to time acquire other businesses that we believe will expand or complement our existing businesses and operations. On August 31, 2012, we completed our first international acquisition through our purchase of Movianto, which has facilities in 11 European countries and operates throughout the European marketplace. The integration of acquisitions, particularly international acquisitions, involves a number of significant risks, which may include but are not limited to, the following:

Difficulties in the transition and integration of operations and systems

The assimilation and retention of personnel, including management personnel, in the acquired businesses

Accounting, tax, regulatory and compliance issues that could arise

Difficulties in implementing uniform controls, procedures and policies in our acquired companies, or in remediating control deficiencies in acquired companies not formerly subject to the Sarbanes-Oxley Act of 2002

Retention of current customers and the ability to obtain new customers

Unanticipated expenses incurred or charges to earnings based on unknown circumstances or liabilities

Failure to realize the synergies and other benefits we expect from the acquisition at the pace we anticipate

General economic and market conditions in the United States and the markets in which the acquired businesses operate

Difficulties encountered in conducting business in markets where we have limited experience and expertise

## Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

If we are unable to successfully complete and integrate our strategic acquisitions in a timely manner, our business, growth strategies and results of operations could be adversely affected.

### **International Operations**

Our acquisition of Movianto represents our first significant movement into the international marketplace. Additionally in 2011 we entered into a joint venture in China to provide product sourcing services. Operations outside the United States involve issues and risks, including but not limited to the following, any of which could have an adverse effect on our business and results of operations:

Lack of familiarity with and expertise in conducting business in foreign markets

Foreign currency fluctuations and exchange risk

Unexpected changes in foreign regulations or conditions relating to labor, economic or political environment, and social norms or requirements

Adverse tax consequences and difficulties in repatriating cash generated or held abroad

Local economic environments, such as in the European markets served by Movianto, including recession, inflation, indebtedness, currency volatility and competition

Changes in trade protection laws and other laws affecting trade and investment, including import/export regulations in both the United States and foreign countries

International operations are also subject to risks of violation of laws that prohibit improper payments to and bribery of government officials and other individuals and organizations for the purpose of obtaining or retaining business. These laws include the U.S. Foreign Corrupt Practices Act and similar laws and regulations in foreign jurisdictions. Failure to comply with these laws could subject us to civil and criminal penalties that could adversely affect our business and results of operations.



**Table of Contents****Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

In February 2011, our Board of Directors authorized a share repurchase program of up to \$50 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in February 2014. The program is intended to offset shares issued in conjunction with our stock incentive plan and may be suspended or discontinued at any time. During the third quarter of 2012, we repurchased in open-market transactions and retired 133,409 shares of our common stock for an aggregate of \$3.7 million, or an average price per share of \$28.11. The following table summarizes share repurchase activity by month during the third quarter of 2012.

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of a publicly announced program</b>	<b>Maximum dollar value of shares that may yet be purchased under the program</b>
July 2012	10,000	28.33	10,000	26,092,280
August 2012	115,000	28.08	115,000	22,863,424
September 2012	8,409	28.32	8,409	22,625,641
Total	133,409		133,409	

---

**Table of Contents**

**Item 6. Exhibits**

(a) Exhibits

3.1	Amended and Restated Bylaws (incorporated herein by reference to the company's Current Report on Form 8-K, Exhibit 3.1, dated October 23, 2012).
10.1	Share Purchase Agreement dated August 31, 2012 (incorporated herein by reference to the company's Current Report on Form 8-K, Exhibit 10.1, dated September 4, 2012).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

**Table of Contents**

**SIGNATURES**

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

Owens & Minor, Inc.  
(Registrant)

Date: November 2, 2012

/s/ Craig R. Smith  
Craig R. Smith  
President & Chief Executive Officer

Date: November 2, 2012

/s/ D. Andrew Edwards  
D. Andrew Edwards  
Vice President, Controller & Interim Chief Financial Officer

**Table of Contents**

**Exhibits Filed with SEC**

<b>Exhibit #</b>	
3.1	Amended and Restated Bylaws (incorporated herein by reference to the company's Current Report on Form 8-K, Exhibit 3.1, dated October 23, 2012).
10.1	Share Purchase Agreement dated August 31, 2012 (incorporated herein by reference to the company's Current Report on Form 8-K, Exhibit 10.1, dated September 4, 2012).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document