

OWENS & MINOR INC/VA/
Form 10-Q
April 27, 2012
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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 March 31, 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)

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

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 <input checked="" type="checkbox"/> | Accelerated filer <input type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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 April 20, 2012, was 63,528,748 shares.

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Owens & Minor, Inc. and Subsidiaries

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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> | Three Months Ended March 31, | |
|---|-------------------------------------|--------------|
| | 2012 | 2011 |
| Net revenue | \$ 2,217,882 | \$ 2,123,815 |
| Cost of goods sold | 2,003,554 | 1,913,040 |
| Gross margin | 214,328 | 210,775 |
| Selling, general, and administrative expenses | 155,572 | 150,973 |
| Depreciation and amortization | 8,578 | 8,767 |
| Other operating (income) loss, net | (1,694) | 38 |
| Operating earnings | 51,872 | 50,997 |
| Interest expense, net | 3,422 | 3,717 |
| Income before income taxes | 48,450 | 47,280 |
| Income tax provision | 19,090 | 18,540 |
| Net income | \$ 29,360 | \$ 28,740 |
| Net income per common share basic | \$ 0.46 | \$ 0.45 |
| Net income per common share diluted | \$ 0.46 | \$ 0.45 |
| Cash dividends per common share | \$ 0.22 | \$ 0.20 |

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

(unaudited)

| <i>(in thousands)</i> | Three Months Ended March 31, | |
|--|-------------------------------------|-------------|
| | 2012 | 2011 |
| Net income | \$ 29,360 | \$ 28,740 |
| Other comprehensive income, net of tax: | | |
| Amounts recognized in net periodic benefit cost (net of income tax expense \$225 in 2012 and \$55 in 2011) | 351 | 86 |
| Amounts recognized in interest expense, net (net of income tax benefit \$8 in 2012 and 2011) | (13) | (12) |
| Other comprehensive income | 338 | 74 |
| Comprehensive income | \$ 29,698 | \$ 28,814 |

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> | March 31, 2012 | December 31, 2011 |
|--|---------------------------|------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 213,927 | \$ 135,938 |
| Accounts and notes receivable, net of allowances of \$15,423 and \$15,622 | 499,015 | 506,758 |
| Merchandise inventories | 724,206 | 806,366 |
| Other current assets | 66,647 | 76,763 |
| Total current assets | 1,503,795 | 1,525,825 |
| Property and equipment, net of accumulated depreciation of \$106,510 and \$102,904 | 107,705 | 108,061 |
| Goodwill, net | 248,498 | 248,498 |
| Intangible assets, net | 21,547 | 22,142 |
| Other assets, net | 43,265 | 42,289 |
| Total assets | \$ 1,924,810 | \$ 1,946,815 |
| Liabilities and equity | | |
| Current liabilities | | |
| Accounts payable | \$ 537,514 | \$ 575,793 |
| Accrued payroll and related liabilities | 10,471 | 20,668 |
| Deferred income taxes | 39,437 | 42,296 |
| Other accrued liabilities | 104,856 | 93,608 |
| Total current liabilities | 692,278 | 732,365 |
| Long-term debt, excluding current portion | 212,285 | 212,681 |
| Deferred income taxes | 23,505 | 21,894 |
| Other liabilities | 60,816 | 60,658 |
| Total liabilities | 988,884 | 1,027,598 |
| Commitments and contingencies | | |
| Equity | | |
| Owens & Minor, Inc. shareholders' equity: | | |
| 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 63,521 shares and 63,449 shares | 127,041 | 126,900 |
| Paid-in capital | 183,390 | 179,052 |
| Retained earnings | 631,521 | 619,629 |
| Accumulated other comprehensive loss | (7,156) | (7,494) |
| Total Owens & Minor, Inc. shareholders' equity | 934,796 | 918,087 |
| Noncontrolling interest | 1,130 | 1,130 |
| Total equity | 935,926 | 919,217 |

| | | |
|-------------------------------------|--------------|--------------|
| Total liabilities and equity | \$ 1,924,810 | \$ 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> | Three Months Ended March 31, | |
|--|-------------------------------------|-------------------|
| | 2012 | 2011 |
| Operating activities: | | |
| Net income | \$ 29,360 | \$ 28,740 |
| Adjustments to reconcile net income to cash provided by operating activities of continuing operations: | | |
| Depreciation and amortization | 8,578 | 8,767 |
| Provision for LIFO reserve | 5,223 | 11,265 |
| Share-based compensation expense | 2,385 | 3,021 |
| Provision for losses on accounts and notes receivable | 190 | 359 |
| Deferred income tax benefit | (1,465) | (1,830) |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | 7,553 | (49,386) |
| Merchandise inventories | 76,937 | (20,695) |
| Accounts payable | (38,279) | 72,742 |
| Net change in other assets and liabilities | 11,609 | (8,639) |
| Other, net | (194) | 175 |
| Cash provided by operating activities of continuing operations | 101,897 | 44,519 |
| Investing activities: | | |
| Additions to property and equipment | (4,536) | (4,128) |
| Additions to computer software and intangible assets | (3,840) | (3,010) |
| Proceeds from sale of property and equipment | 99 | 41 |
| Cash used for investing activities of continuing operations | (8,277) | (7,097) |
| Financing activities: | | |
| Cash dividends paid | (14,001) | (12,786) |
| Repurchases of common stock | (3,750) | |
| Excess tax benefits related to share-based compensation | 690 | 874 |
| Proceeds from exercise of stock options | 3,371 | 3,594 |
| Other, net | (1,941) | (2,366) |
| Cash used for financing activities of continuing operations | (15,631) | (10,684) |
| Discontinued operations: | | |
| Operating cash flows | | (101) |
| Net cash used for discontinued operations | | (101) |
| Net increase in cash and cash equivalents | 77,989 | 26,637 |
| Cash and cash equivalents at beginning of period | 135,938 | 159,213 |
| Cash and cash equivalents at end of period | \$ 213,927 | \$ 185,850 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid, net | \$ 1,201 | \$ 5,439 |

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Interest paid

See accompanying notes to consolidated financial statements.

\$ 541 \$ 564

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

| | 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 | |
| <i>(in thousands, except per share data)</i> | | | | | | | |
| Balance December 31, 2010 | 63,433 | \$ 126,867 | \$ 165,447 | \$ 570,320 | \$ (5,116) | \$ | \$ 857,518 |
| Net income | | | | 28,740 | | | 28,740 |
| Other comprehensive income | | | | | 74 | | 74 |
| Comprehensive income | | | | | | | 28,814 |
| Dividends declared (\$0.20 per share) | | | | (12,786) | | | (12,786) |
| Share-based compensation expense, exercises and other | 280 | 559 | 6,581 | | | | 7,140 |
| Balance March 31, 2011 | 63,713 | \$ 127,426 | \$ 172,028 | \$ 586,274 | \$ (5,042) | \$ | \$ 880,686 |
| Balance December 31, 2011 | 63,449 | \$ 126,900 | \$ 179,052 | \$ 619,629 | \$ (7,494) | \$ 1,130 | \$ 919,217 |
| Net income | | | | 29,360 | | | 29,360 |
| Other comprehensive income | | | | | 338 | | 338 |
| Comprehensive income | | | | | | | 29,698 |
| Dividends declared (\$0.22 per share) | | | | (13,967) | | | (13,967) |
| Shares repurchased and retired | (125) | (249) | | (3,501) | | | (3,750) |
| Share-based compensation expense, exercises and other | 197 | 390 | 4,338 | | | | 4,728 |
| Balance March 31, 2012 | 63,521 | \$ 127,041 | \$ 183,390 | \$ 631,521 | \$ (7,156) | \$ 1,130 | \$ 935,926 |

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. 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 6 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 \$4.2 million at March 31, 2012, and 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.

3. Intangible Assets

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

| | Customer Relationships | Other Intangibles | Total |
|---------------------------|-----------------------------------|------------------------------|--------------|
| At March 31, 2012: | | | |
| Gross intangible assets | \$ 31,622 | \$ 4,720 | \$ 36,342 |
| Accumulated amortization | (10,159) | (4,636) | (14,795) |
| Net intangible assets | \$ 21,463 | \$ 84 | \$ 21,547 |

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At December 31, 2011:

| | | | |
|--------------------------|-----------|----------|-----------|
| 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 |

Amortization expense for intangible assets was \$0.6 million and \$0.8 million for the three months ended March 31, 2012 and 2011, respectively.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$1.6 million for the remainder of 2012 and \$2.1 annually for 2013 through 2016.

Table of Contents**4. Exit and Realignment Costs**

During the fourth quarter of 2011, we recognized total charges of \$12.7 million associated with exit activities and our organizational realignment. These charges included loss accruals for operating leases of \$8.4 million, employee severance costs of \$3.0 million and losses on property and equipment and other expenses of \$1.3 million.

The following table summarizes the activity related to exit cost accruals for the three months ended March 31, 2012:

| Three months ended March 31, 2012 | Lease Obligations | Severance and Other | Total |
|---|----------------------|------------------------|-----------|
| Accrued exit costs, beginning of period | \$ 8,264 | \$ 1,831 | \$ 10,095 |
| Interest accretion | 74 | | 74 |
| Cash payments, net of sublease income | (445) | (1,149) | (1,594) |
| Accrued exit costs, end of period | \$ 7,893 | \$ 682 | \$ 8,575 |

There were no accruals for exit costs for the three months ended March 31, 2011.

5. Retirement Plan

We have a noncontributory, unfunded retirement plan for certain officers and other key employees (the Retirement Plan). In February 2012, our Board of Directors amended the 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 \$234 thousand for the three months ended March 31, 2012. The reduction of the projected benefit obligation as a result of the amendment was less than \$1 million.

The components of net periodic benefit cost, which are included in selling, general and administrative expenses, for the three months ended March 31, 2012 and 2011, are as follows:

| Three months ended March 31, | 2012 | 2011 |
|------------------------------------|----------|--------|
| Service cost | \$ 130 | \$ 330 |
| Interest cost | 404 | 427 |
| Amortization of prior service cost | | 70 |
| Recognized net actuarial loss | 257 | 71 |
| Curtailment loss | 234 | |
| Net periodic benefit cost | \$ 1,025 | \$ 898 |

6. 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 March 31, 2012 and December 31, 2011, the estimated fair value of the Senior Notes was \$215.8 million and \$217.0 million, and the related carrying amount was \$207.0 million and \$207.5 million. The estimated fair value interest rate used to compute the fair value of the Senior Notes at March 31, 2012 was 4.21%.

We have a \$350 million revolving credit facility with Bank of America, N.A., Wells Fargo Bank, N.A. and a syndicate of banks which expires on June 7, 2013 (the Revolving Credit Facility). Under this 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 facility, which is subject to adjustment quarterly, is based on, at our discretion, the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on our

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leverage ratio (Credit Spread). We are charged a commitment fee of between 37.5 and 62.5 basis points on the unused portion of the facility. The Credit Spread for LIBOR-based borrowings ranges from 225 basis points (at a leverage ratio of less than 0.5) to 325 basis points (at a leverage ratio of greater than or equal to 2.50). The terms of the agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage (debt to EBITDA ratio of no greater than 3.5) and interest coverage (EBITDA to interest ratio of no less than 3.0), including on a pro forma basis in the event of an acquisition. At March 31, 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.

Table of Contents**7. Income Taxes**

The provision for income taxes was \$19.1 million for the three months ended March 31, 2012, compared to \$18.5 million for the same period of 2011. The effective tax rate was 39.4% for the three months ended March 31, 2012, compared to 39.2% for the same period of 2011.

8. Net Income per Common Share

The following summarizes the calculation of net income per common share attributable to common shareholders for the three months ended March 31, 2012 and 2011.

| <i>(in thousands, except per share data)</i> | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2012 | 2011 |
| Numerator: | | |
| Net income | \$ 29,360 | \$ 28,740 |
| Less: income allocated to unvested restricted shares | (234) | (379) |
| Net income attributable to common shareholders basic | 29,126 | 28,361 |
| Add: undistributed income attributable to unvested restricted shares basic | 96 | 141 |
| Less: undistributed income attributable to unvested restricted shares diluted | (96) | (141) |
| Net income attributable to common shareholders diluted | \$ 29,126 | \$ 28,361 |
| Denominator: | | |
| Weighted average shares outstanding basic | 62,802 | 62,641 |
| Dilutive shares stock options | 99 | 220 |
| Weighted average shares outstanding diluted | 62,901 | 62,861 |
| Net income per share attributable to common shareholders: | | |
| Basic | \$ 0.46 | \$ 0.45 |
| Diluted | \$ 0.46 | \$ 0.45 |

9. 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 first quarter of 2012, we repurchased in open-market transactions and retired approximately 125 thousand shares of our common stock for an aggregate of \$3.8 million, or an average price per share of \$30.08. Through March 31, 2011, no shares had been repurchased. As of March 31, 2012, we have approximately \$30.1 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

10. 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 \$2.5 million as of March 31, 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 \$0.8 million; 2013 \$1.0 million; and 2014 \$0.7 million. None of these contingent obligations were accrued at March 31, 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 March 31, 2012, \$0.9 million of deferred revenue related to

outstanding contractual performance targets is included in other accrued liabilities.

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The state of California is conducting an administrative review of certain ongoing local sales tax incentives that may be available to us. As a result 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. As of March 31, 2012, the estimated potential payment we could receive and related contingent gain related to prior periods is up to \$7.4 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.

11. Condensed Consolidating Financial Information

The following tables present condensed consolidating financial information for: Owens & Minor, Inc., on a combined basis; the guarantors of Owens & Minor, Inc.'s Senior Notes; and the non-guarantor subsidiaries of the Senior Notes. 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.

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| For the three months ended March 31, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------------|---------------------------|-------------------------------|--------------------|------------------|
| Statements of Income | | | | | |
| Net revenue | \$ | \$ 2,217,882 | \$ 1,340 | \$ (1,340) | \$ 2,217,882 |
| Cost of goods sold | | 2,003,578 | 1,265 | (1,289) | 2,003,554 |
| Gross margin | | 214,304 | 75 | (51) | 214,328 |
| Selling, general and administrative expenses | 472 | 154,669 | 431 | | 155,572 |
| Depreciation and amortization | | 8,564 | 14 | | 8,578 |
| Other operating (income) expense, net | | (1,696) | 2 | | (1,694) |
| Operating (loss) earnings | (472) | 52,767 | (372) | (51) | 51,872 |
| Interest expense, net | 2,769 | 630 | 23 | | 3,422 |
| (Loss) income before income taxes | (3,241) | 52,137 | (395) | (51) | 48,450 |
| Income tax (benefit) provision | (1,271) | 20,444 | (83) | | 19,090 |
| Equity in earnings of subsidiaries | 31,330 | | | (31,330) | |
| Net income (loss) | \$ 29,360 | \$ 31,693 | \$ (312) | \$ (31,381) | \$ 29,360 |

| For the three months ended March 31, 2011 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------------|---------------------------|-------------------------------|--------------------|------------------|
| Statements of Income | | | | | |
| Net revenue | \$ | \$ 2,123,689 | \$ 126 | \$ | \$ 2,123,815 |
| Cost of goods sold | | 1,913,024 | 16 | | 1,913,040 |
| Gross margin | | 210,665 | 110 | | 210,775 |
| Selling, general and administrative expenses | 439 | 150,242 | 292 | | 150,973 |
| Depreciation and amortization | | 8,767 | | | 8,767 |
| Other operating expense (income), net | 147 | (102) | (7) | | 38 |
| Operating (loss) earnings | (586) | 51,758 | (175) | | 50,997 |
| Interest expense, net | 2,825 | 876 | 16 | | 3,717 |
| (Loss) income before income taxes | (3,411) | 50,882 | (191) | | 47,280 |
| Income tax (benefit) provision | (1,338) | 19,953 | (75) | | 18,540 |
| Equity in earnings of subsidiaries | 30,813 | | | (30,813) | |
| Net income (loss) | \$ 28,740 | \$ 30,929 | \$ (116) | \$ (30,813) | \$ 28,740 |

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| March 31, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------|---------------------------|-------------------------------|----------------|--------------|
| Balance Sheets | | | | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 200,533 | \$ 11,772 | \$ 1,622 | \$ | \$ 213,927 |
| Accounts and notes receivable, net | | 498,088 | 226 | 701 | 499,015 |
| Merchandise inventories | | 724,257 | | (51) | 724,206 |
| Other current assets | 49 | 67,263 | 36 | (701) | 66,647 |
| Total current assets | 200,582 | 1,301,380 | 1,884 | (51) | 1,503,795 |
| Property and equipment, net | | 107,528 | 177 | | 107,705 |
| Goodwill, net | | 247,271 | 1,227 | | 248,498 |
| Intangible assets, net | | 21,547 | | | 21,547 |
| Due from O&M and subsidiaries | | 182,997 | 40,710 | (223,707) | |
| Advances to and investments in consolidated subsidiaries | 1,174,274 | | | (1,174,274) | |
| Other assets, net | 732 | 42,401 | 132 | | 43,265 |
| Total assets | \$ 1,375,588 | \$ 1,903,124 | \$ 44,130 | \$ (1,398,032) | \$ 1,924,810 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ | \$ 536,661 | \$ 853 | \$ | \$ 537,514 |
| Accrued payroll and related liabilities | | 10,430 | 41 | | 10,471 |
| Deferred income taxes | | 39,437 | | | 39,437 |
| Other accrued liabilities | 10,037 | 94,736 | 83 | | 104,856 |
| Total current liabilities | 10,037 | 681,264 | 977 | | 692,278 |
| Long-term debt, excluding current portion | 207,048 | 5,237 | | | 212,285 |
| Due to O&M and subsidiaries | 223,707 | | | (223,707) | |
| Intercompany debt | | 138,890 | | (138,890) | |
| Deferred income taxes | | 23,505 | | | 23,505 |
| Other liabilities | | 60,816 | | | 60,816 |
| Total liabilities | 440,792 | 909,712 | 977 | (362,597) | 988,884 |
| Equity | | | | | |
| Common stock | 127,041 | | 1,500 | (1,500) | 127,041 |
| Paid-in capital | 183,390 | 242,024 | 64,314 | (306,338) | 183,390 |
| Retained earnings (deficit) | 631,521 | 758,744 | (23,791) | (734,953) | 631,521 |
| Accumulated other comprehensive loss | (7,156) | (7,356) | | 7,356 | (7,156) |
| Total Owens & Minor, Inc. shareholders equity | 934,796 | 993,412 | 42,023 | (1,035,435) | 934,796 |
| Noncontrolling interest | | | 1,130 | | 1,130 |
| Total equity | 934,796 | 993,412 | 43,153 | (1,035,435) | 935,926 |
| Total liabilities and equity | \$ 1,375,588 | \$ 1,903,124 | \$ 44,130 | \$ (1,398,032) | \$ 1,924,810 |

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| December 31, 2011 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------|---------------------------|-------------------------------|----------------|--------------|
| Balance Sheets | | | | | |
| Assets | | | | | |
| Current assets | | | | | |
| 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 |
| Total current assets | 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 |
| Total assets | \$ 1,263,520 | \$ 1,823,083 | \$ 43,799 | \$ (1,183,587) | \$ 1,946,815 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| 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 accrued liabilities | 6,505 | 86,980 | 230 | (107) | 93,608 |
| Total current liabilities | 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 |
| Total liabilities | 345,433 | 861,716 | 334 | (179,885) | 1,027,598 |
| Equity | | | | | |
| 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) |
| Total Owens & Minor, Inc. shareholders equity | 918,087 | 961,367 | 42,335 | (1,003,702) | 918,087 |
| Noncontrolling interest | | | 1,130 | | 1,130 |
| Total equity | 918,087 | 961,367 | 43,465 | (1,003,702) | 919,217 |
| Total liabilities and equity | \$ 1,263,520 | \$ 1,823,083 | \$ 43,799 | \$ (1,183,587) | \$ 1,946,815 |

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| Three months ended March 31, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------------|---------------------------|-------------------------------|--------------|-------------------|
| Statements of Cash Flows | | | | | |
| Operating activities: | | | | | |
| Net income (loss) | \$ 29,360 | \$ 31,693 | \$ (312) | \$ (31,381) | \$ 29,360 |
| Adjustments to reconcile net income to cash (used for) provided by operating activities: | | | | | |
| Equity in earnings of subsidiaries | (31,330) | | | 31,330 | |
| Depreciation and amortization | | 8,564 | 14 | | 8,578 |
| Provision for LIFO reserve | | 5,223 | | | 5,223 |
| Share-based compensation expense | | 2,385 | | | 2,385 |
| Provision for losses on accounts and notes receivable | | 190 | | | 190 |
| Deferred income tax benefit | | (1,465) | | | (1,465) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts and notes receivable | | 8,355 | (101) | (701) | 7,553 |
| Merchandise inventories | | 76,801 | 85 | 51 | 76,937 |
| Accounts payable | (113,100) | 74,057 | 764 | | (38,279) |
| Net change in other assets and liabilities | 3,622 | 7,408 | (122) | 701 | 11,609 |
| Other, net | (423) | 230 | (1) | | (194) |
| Cash (used for) provided by operating activities | (111,871) | 213,441 | 327 | | 101,897 |
| Investing activities: | | | | | |
| Additions to property and equipment | | (4,534) | (2) | | (4,536) |
| Additions to computer software and intangible assets | | (3,840) | | | (3,840) |
| Proceeds from the sale of property and equipment | | 99 | | | 99 |
| Cash used for investing activities | | (8,275) | (2) | | (8,277) |
| Financing activities: | | | | | |
| Change in intercompany advances | 207,520 | (207,698) | 178 | | |
| Cash dividends paid | (14,001) | | | | (14,001) |
| Cash paid for share repurchases | (3,750) | | | | (3,750) |
| Excess tax benefits related to share-based compensation | 690 | | | | 690 |
| Proceeds from exercise of stock options | 3,371 | | | | 3,371 |
| Other, net | (1,436) | (505) | | | (1,941) |
| Cash provided by (used for) financing activities | 192,394 | (208,203) | 178 | | (15,631) |
| Net increase (decrease) in cash and cash equivalents | 80,523 | (3,037) | 503 | | 77,989 |
| Cash and cash equivalents at beginning of period | 120,010 | 14,809 | 1,119 | | 135,938 |
| Cash and cash equivalents at end of period | \$ 200,533 | \$ 11,772 | \$ 1,622 | \$ | \$ 213,927 |

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| Three months ended March 31, 2011 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------------|---------------------------|-------------------------------|--------------|-------------------|
| Statements of Cash Flows | | | | | |
| Operating activities: | | | | | |
| Net income (loss) | \$ 28,740 | \$ 30,929 | \$ (116) | \$ (30,813) | \$ 28,740 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: | | | | | |
| Equity in earnings of subsidiaries | (30,813) | | | 30,813 | |
| Depreciation and amortization | | 8,767 | | | 8,767 |
| Provision for LIFO reserve | | 11,265 | | | 11,265 |
| Share-based compensation expense | | 3,021 | | | 3,021 |
| Provision for losses on accounts and notes receivable | | 359 | | | 359 |
| Deferred income tax benefit | | (1,830) | | | (1,830) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts and notes receivable | 313 | (49,699) | | | (49,386) |
| Merchandise inventories | | (20,695) | | | (20,695) |
| Accounts payable | | 72,741 | 1 | | 72,742 |
| Net change in other assets and liabilities | 3,595 | (12,233) | (1) | | (8,639) |
| Other, net | 197 | (22) | | | 175 |
| Cash provided by (used for) operating activities | 2,032 | 42,603 | (116) | | 44,519 |
| Investing activities: | | | | | |
| Additions to property and equipment | | (4,128) | | | (4,128) |
| Additions to computer software and intangible assets | | (3,010) | | | (3,010) |
| Proceeds from the sale of property and equipment | | 41 | | | 41 |
| Cash used for investing activities | | (7,097) | | | (7,097) |
| Financing activities: | | | | | |
| Change in intercompany advances | 27,916 | (28,149) | 233 | | |
| Cash dividends paid | (12,786) | | | | (12,786) |
| Excess tax benefits related to share-based compensation | 874 | | | | 874 |
| Proceeds from exercise of stock options | 3,594 | | | | 3,594 |
| Other, net | | (2,366) | | | (2,366) |
| Cash provided by (used for) financing activities | 19,598 | (30,515) | 233 | | (10,684) |
| Discontinued operations: | | | | | |
| Operating cash flows | | | (101) | | (101) |
| Net cash used for discontinued operations | | | (101) | | (101) |
| Net increase in cash and cash equivalents | 21,630 | 4,991 | 16 | | 26,637 |
| Cash and cash equivalents at beginning of period | 156,897 | 2,316 | | | 159,213 |
| Cash and cash equivalents at end of period | \$ 178,527 | \$ 7,307 | \$ 16 | \$ | \$ 185,850 |

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12. 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.

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.

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 result of operations.

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.

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.

Results of Operations**First quarter of 2012 compared with first quarter of 2011**

Overview. 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. Operating earnings increased 1.7% to \$51.9 million for the first quarter of 2012, from \$51.0 million in the first quarter of 2011. In the first quarter of 2012, net income increased 2.2% to \$29.4 million, from \$28.7 million in the first quarter of 2011. Net income per diluted common share was \$0.46 for the first quarter of 2012, an increase from \$0.45 in the comparable period of 2011.

Financial highlights. The following table presents highlights from our consolidated statements of income on a percentage of revenue basis:

| | Three Months Ended March 31, | |
|--|---------------------------------|-------|
| | 2012 | 2011 |
| Gross margin | 9.66% | 9.92% |
| Selling, general and administrative expenses | 7.01% | 7.11% |
| Operating earnings | 2.34% | 2.40% |
| Net income | 1.32% | 1.35% |

Net revenue. Net revenue was \$2.22 billion for the first quarter of 2012, representing an increase of 4.4% from \$2.12 billion for the first quarter of 2011.

The following table presents the components of the increase in net revenue for the three-month periods ended March 31, 2012 and 2011, compared with the same periods in the prior year, and presents new customer changes net of lost customer activity (net new). Fee-for-service revenue represents revenue from services provided to customers that are not directly related to sales of product through our traditional distribution services and includes revenue from our OM Healthcare Logistics and OMSolutionsSM businesses.

(Dollars in millions)

| Increase for the three months ended March 31, | 2012 versus 2011 | | 2011 versus 2010 | |
|---|------------------|-----------------------|------------------|-----------------------|
| | Net Revenue | Contribution to Total | Net Revenue | Contribution to Total |
| Revenue from sales of products to: | | | | |
| Existing customers | \$ 55.9 | 2.6% | \$ 133.5 | 6.8% |
| Net new customers | 33.1 | 1.6% | 18.6 | 0.9% |
| Fee-for-service revenue | 5.1 | 0.2% | 2.0 | 0.1% |
| Total increase in net revenues | \$ 94.1 | 4.4% | \$ 154.1 | 7.8% |

Gross margin. Gross margin dollars increased 1.7% to \$214.3 million for the first quarter of 2012 from \$210.8 million for the first quarter of 2011. The following table presents the components of the increase or decrease in total company gross margin for the three-month periods ended March 31, 2012 and 2011. Total company gross margin primarily includes gross margin from customer contracts related to sales of product, contribution to gross margin relating to supplier incentives (traditional distribution), fees generated from other services, including OM Healthcare Logistics, OMSolutions 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).

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| Increase (decrease) for the three months ended March 31, | 2012 versus 2011 | | 2011 versus 2010 | |
|--|------------------|--|------------------|--|
| | Gross Margin | Impact on gross margin as a percent of revenue | Gross Margin | Impact on gross margin as a percent of revenue |
| Gross margin components: | | | | |
| Traditional distribution | \$ (0.6) | (0.42)% | \$ 12.3 | (0.10)% |
| Fee-for-service | 5.1 | 0.20% | 2.0 | 0.06% |
| Provision for LIFO | 6.0 | 0.29% | (3.0) | (0.11)% |
| Other | (6.9) | (0.33)% | 2.5 | 0.07% |
| Total increase (decrease) in gross margin | \$ 3.6 | (0.26)% | \$ 13.8 | (0.08)% |

The decline in gross margin as a percentage of revenue versus the first quarter of 2011 primarily relates to changes in customer mix, including lower margin on new contracts with large integrated health networks and competitive pressures.

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.

SG&A expenses increased 3.0% to \$155.6 million for the first quarter of 2012, compared with \$151.0 million in the first quarter of 2011. SG&A expenses increased by \$3.6 million for fee-for-service operations, including costs to service new third-party logistics business. SG&A expenses unrelated to fee-for-service operations decreased as a percentage of revenue due to lower incentive compensation accruals, consulting expenses, selling expenses and occupancy costs, partially offset by greater warehouse expenses and fuel costs.

Depreciation and amortization expense. Depreciation and amortization expense for the first quarter of 2012 decreased 2.2% to \$8.6 million from \$8.8 million for the first quarter of 2011. The decrease is primarily due to the expiration of noncompete agreements.

Other operating income, net. Other operating income, net, was \$1.7 million for the first quarter of 2012 compared to other operating expense of less than \$0.1 million for the first quarter of 2011, including finance charge income of \$1.0 million and \$0.9 million, respectively. Other operating income in the first quarter of 2012 benefited from income of \$0.5 million related to the settlement of a class action litigation. Other operating expense in the first quarter of 2011 was adversely impacted by costs of \$0.7 million for the development of a model for partnering with our large customers.

Operating earnings. Operating earnings for the first quarter of 2012 increased 1.7% to \$51.9 million from \$51.0 million for the first quarter of 2011. The increase resulted primarily from a \$3.6 million increase in gross margin and an increase of \$1.7 million in other operating income, partially offset by additional SG&A expenses to service the growth in business.

Interest expense, net. Interest expense, net of interest earned on cash balances, was \$3.4 million for the first quarter of 2012, as compared with \$3.7 million for the first quarter of 2011. The following table presents the components of our effective interest rate and average borrowings for three months ended March 31, 2012 and 2011.

(Dollars in millions)

| Three months ended March 31, | 2012 | 2011 |
|--------------------------------------|--------------|--------------|
| Interest on senior notes | 6.35% | 6.35% |
| Commitment and other fees | 1.26% | 1.28% |
| Interest rate swaps | (0.85)% | (0.48)% |
| Other, net of interest income | (0.33)% | |
| Total effective interest rate | 6.43% | 7.15% |
| | | |
| Average total debt | \$ 214.2 | \$ 210.7 |

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For the three months ended March 31, 2012, the effective interest rate decreased 72 basis points, primarily due to a 37 basis point decrease as a result of interest rate swap activities.

Income taxes. The provision for income taxes was \$19.1 million, representing a 39.4% effective tax rate for the first quarter of 2012, compared to \$18.5 million, representing a 39.2% effective tax rate, for the same period of 2011.

Net income. Net income increased to \$29.4 million for the first quarter of 2012 compared to \$28.7 million for the first quarter of 2011. The increase is primarily due to an increase in operating earnings.

Financial Condition, Liquidity and Capital Resources

Financial condition. Cash and cash equivalents increased to \$214 million at March 31, 2012 from \$136 million at December 31, 2011. Nearly all of our cash and cash equivalents are held in cash depository accounts with major banks in the United States or invested in high-quality, short-term liquid investments.

Accounts receivable, net of allowances, decreased \$7.7 million, or 1.5%, to \$499 million at March 31, 2012, from \$507 million at December 31, 2011. Accounts receivable days outstanding (DSO) was 19.9 days at March 31, 2012, and 20.7 days at December 31, 2011, based on three months sales, and has ranged from 20.6 to 21.1 days over the prior four quarters.

Merchandise inventories decreased 10% to \$724 million at March 31, 2012, from \$806 million at December 31, 2011. Average inventory turnover was 10.5 in the first quarter of 2012, based on three months sales, and has ranged from 10.0 to 10.7 over the prior four quarters.

Liquidity and capital expenditures. The following table summarizes our consolidated statements of cash flows for the three months ended March 31, 2012 and 2011:

| <i>(in millions)</i> | | |
|--|-------------|-------------|
| Three months ended March 31, | 2012 | 2011 |
| Net cash provided by (used for) continuing operations: | | |
| Operating activities | \$ 101.9 | \$ 44.5 |
| Investing activities | (8.3) | (7.1) |
| Financing activities | (15.6) | (10.7) |
| Net cash used for discontinued operations | | (0.1) |
| | | |
| Increase in cash and cash equivalents | \$ 78.0 | \$ 26.6 |

Cash provided by operating activities was \$101.9 million in the first quarter of 2012, compared to \$44.5 million in the first quarter of 2011. Cash from operating activities in the first quarter of 2012 was a result of operating earnings, a decrease in merchandise inventories and a decrease in DSO of 0.8 days (favorable impact on cash of \$19.5 million), partially offset by a decrease in accounts payable. Cash from operating activities in the first quarter of 2011 was a result of operating earnings and an increase in accounts payable, partially offset by increases in accounts and notes receivable and merchandise inventories. We had a build up of inventory levels during the fourth quarter of 2011 to support the conversion of large new customers. Inventories returned to normalized levels post-conversion in the first quarter of 2012.

Capital expenditures were \$8.3 million in the first quarter of 2012, compared to \$7.1 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 quarter of 2011 primarily included warehouse equipment and technology for both our distribution centers and third-party logistics facilities, as well as investments in certain customer-facing technologies.

Cash used for financing activities in the first quarter of 2012 was \$15.6 million, compared to \$10.7 million used in the first quarter of 2011. During the first quarter of 2012, we paid dividends of \$14.0 million, repurchased common stock under a share repurchase program for \$3.8 million of cash, and received proceeds of \$3.4 million from the exercise of stock options. During the first quarter of 2011, we paid dividends of \$12.8 million and received proceeds of \$3.6 from the exercise of stock options.

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Capital resources. Our sources of liquidity include cash and cash equivalents and a revolving credit facility. We have a \$350 million Credit Agreement with Bank of America, N.A., Wells Fargo Bank, N.A. and a syndicate of banks which expires on June 7, 2013 (the Revolving Credit Facility). The interest rate on the Revolving Credit Facility, which is subject to adjustment quarterly, is based on, at

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our discretion, the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on our leverage ratio (Credit Spread). We are charged a commitment fee of between 37.5 and 62.5 basis points on the unused portion of the facility. The terms of the agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage. 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 quarter of 2012, we had no borrowings or repayments under the Revolving Credit Facility. We had \$5.0 million of letters of credit and no borrowings outstanding at March 31, 2012, leaving \$345.0 million available for borrowing at that date. Based on our leverage ratio at March 31, 2012, the interest rate under the facility will remain unchanged at LIBOR plus 250 basis points at the next adjustment date.

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 March 31, 2012.

In the first 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 first 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.

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 first quarter of 2012, we repurchased approximately 125,000 shares at \$3.8 million under this program. The remaining amount authorized for repurchases under this program is \$30.1 million at March 31, 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.

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Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 12 in the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for the quarterly period ended on March 31, 2012.

Recent Development

In April 2012, the company and Novation, LLC (Novation), a group purchasing organization, entered into a new distribution agreement that will replace our existing distribution agreement with Novation effective September 1, 2012. Under the new agreement, our status as an authorized distributor for Novation's member healthcare facilities will continue, allowing us to compete with other authorized distributors to secure individual member business, which is typically accomplished through individual contract arrangements with the member healthcare facilities. The new agreement has a five-year term with two one-year renewal options.

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;

our ability to implement strategic initiatives;

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

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;

competition;

changing trends in customer profiles and ordering patterns;

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 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.

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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 March 31, 2012, were approximately \$499 million, and DSO at March 31, 2012, was 19.9 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 \$24 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 March 31, 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 \$0.4 million of an increase in delivery costs for the first quarter of 2012 was related to increases in diesel prices. We benchmark our 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 \$3.96 per gallon for three months ended March 31, 2012, representing an increase of 9.8% from \$3.61 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 \$470,000, excluding the effect of mitigating strategies. Our strategies for helping to mitigate our exposure to changing fuel prices include the use of fuel surcharges, activity-based pricing and fixed-price contracts with suppliers.

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.

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 March 31, 2012. There has been no change in our internal control over financial reporting during the quarter ended March 31, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Certain legal proceedings pending against us are described in our Annual Report on Form 10-K for the year ended December 31, 2011. Through March 31, 2012, there have been no material developments in any legal proceedings reported in such Annual Report.

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 March 31, 2012, there have been no material changes in the risk factors described in such Annual Report.

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 first quarter of 2012, we repurchased in open-market transactions and retired 124,655 shares of our common stock for an aggregate of \$3.8 million, or an average price per share of \$30.08. The following table summarizes share repurchase activity by month during the first quarter of 2012.

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced program | Maximum dollar value of shares that may yet be purchased under the program |
|---------------|---|-------------------------------------|---|---|
| January 2012 | | \$ | | \$ 33,875,601 |
| February 2012 | 53,505 | 30.33 | 53,505 | 32,253,062 |
| March 2012 | 71,150 | 29.90 | 71,150 | 30,125,608 |
| Total | 124,655 | | 124,655 | |

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Item 6. Exhibits

(a) Exhibits

| | |
|----------|---|
| 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 |

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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: April 27, 2012

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

Date: April 27, 2012

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

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Exhibits Filed with SEC

| Exhibit # | |
|------------------|--|
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