

OWENS & MINOR INC/VA/
Form 10-Q
November 07, 2013
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, 2013

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)

| | |
|--|--|
| Virginia (State or other jurisdiction of | 54-1701843 (I.R.S. Employer |
| incorporation or organization) | Identification No.) |
| 9120 Lockwood Boulevard, | |
| Mechanicsville, Virginia | 23116 |
| (Address of principal executive offices) | (Zip Code) |
| Post Office Box 27626, | |
| Richmond, Virginia | 23261-7626 |
| (Mailing address of principal executive offices) | (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 "large 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 November 1, 2013, was 63,121,207 shares.

Table of Contents

Owens & Minor, Inc. and Subsidiaries

Index

| | Page |
|---|-------------|
| <u>Part I. Financial Information</u> | |
| Item 1. <u>Financial Statements</u> | 3 |
| <u>Consolidated Statements of Income Three and Nine Months Ended September 30, 2013 and 2012</u> | 3 |
| <u>Consolidated Statements of Comprehensive Income Three and Nine Months Ended September 30, 2013 and 2012</u> | 4 |
| <u>Consolidated Balance Sheets September 30, 2013 and December 31, 2012</u> | 5 |
| <u>Consolidated Statements of Cash Flows Nine Months Ended September 30, 2013 and 2012</u> | 6 |
| <u>Consolidated Statements of Changes in Equity Nine Months Ended September 30, 2013 and 2012</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> | 27 |
| Item 4. <u>Controls and Procedures</u> | 27 |
| <u>Part II. Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | 27 |
| Item 1A. <u>Risk Factors</u> | 27 |
| Item 2. <u>Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u> | 27 |
| Item 6. <u>Exhibits</u> | 28 |

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 | | Nine Months Ended | |
|--|---------------------------|--------------|--------------------------|--------------|
| | September 30, | | September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue | \$ 2,304,599 | \$ 2,179,895 | \$ 6,846,995 | \$ 6,583,221 |
| Cost of goods sold | 2,031,270 | 1,951,772 | 6,021,183 | 5,929,341 |
| Gross margin | 273,329 | 228,123 | 825,812 | 653,880 |
| Selling, general and administrative expenses | 211,344 | 165,320 | 641,613 | 471,179 |
| Acquisition-related and exit and realignment charges | 2,747 | 7,831 | 5,395 | 8,448 |
| Depreciation and amortization | 12,441 | 10,090 | 37,347 | 27,184 |
| Other operating income, net | (2,418) | (1,781) | (5,693) | (4,643) |
| Operating earnings | 49,215 | 46,663 | 147,150 | 151,712 |
| Interest expense, net | 3,389 | 3,066 | 9,835 | 9,975 |
| Income before income taxes | 45,826 | 43,597 | 137,315 | 141,737 |
| Income tax provision | 17,856 | 19,000 | 54,374 | 57,667 |
| Net income | \$ 27,970 | \$ 24,597 | \$ 82,941 | \$ 84,070 |
| Net income per common share: | | | | |
| Basic | \$ 0.44 | \$ 0.39 | \$ 1.31 | \$ 1.33 |
| Diluted | \$ 0.44 | \$ 0.39 | \$ 1.31 | \$ 1.33 |
| Cash dividends per common share | \$ 0.24 | \$ 0.22 | \$ 0.72 | \$ 0.66 |

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> | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------|-----------------------|-----------|
| | September 30, 2013 | 2012 | September 30, 2013 | 2012 |
| Net income | \$ 27,970 | \$ 24,597 | \$ 82,941 | \$ 84,070 |
| Other comprehensive income, net of tax: | | | | |
| Currency translation adjustments (net of income tax expense - \$1,072 and \$533 in 2013 and \$0 in 2012) | 8,340 | 1,927 | 2,196 | 1,927 |
| Change in unrecognized net periodic pension costs (net of income tax benefit - \$134 and \$400 in 2013 and \$93 and \$410 in 2012) | 208 | 146 | 625 | 642 |
| Other (net of income tax expense - \$8 and \$24 for both 2013 and 2012) | 1 | (14) | (24) | (38) |
| Other comprehensive income | 8,549 | 2,059 | 2,797 | 2,531 |
| Comprehensive income | \$ 36,519 | \$ 26,656 | \$ 85,738 | \$ 86,601 |

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> | September 30, 2013 | December 31, 2012 |
|--|-------------------------------|------------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 153,789 | \$ 97,888 |
| Accounts and notes receivable, net of allowances of \$15,328 and \$14,722 | 571,458 | 553,502 |
| Merchandise inventories | 787,803 | 763,756 |
| Other current assets | 246,242 | 213,748 |
| Total current assets | 1,759,292 | 1,628,894 |
| Property and equipment, net of accumulated depreciation of \$139,047 and \$121,873 | 192,672 | 191,841 |
| Goodwill, net | 274,896 | 274,884 |
| Intangible assets, net | 40,519 | 42,313 |
| Other assets, net | 80,287 | 69,769 |
| Total assets | \$ 2,347,666 | \$ 2,207,701 |
| Liabilities and equity | | |
| Current liabilities | | |
| Accounts payable | \$ 689,554 | \$ 603,137 |
| Accrued payroll and related liabilities | 24,793 | 25,468 |
| Deferred income taxes | 49,860 | 40,758 |
| Other accrued liabilities | 276,697 | 254,924 |
| Total current liabilities | 1,040,904 | 924,287 |
| Long-term debt, excluding current portion | 214,416 | 215,383 |
| Deferred income taxes | 30,185 | 30,921 |
| Other liabilities | 55,841 | 63,454 |
| Total liabilities | 1,341,346 | 1,234,045 |
| 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 - 63,162 shares and 63,271 shares | 126,326 | 126,544 |
| Paid-in capital | 194,762 | 187,394 |

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

| | | |
|--|---------------------|---------------------|
| Retained earnings | 681,711 | 658,994 |
| Accumulated other comprehensive income (loss) | 2,391 | (406) |
| Total Owens & Minor, Inc. shareholders equity | 1,005,190 | 972,526 |
| Noncontrolling interest | 1,130 | 1,130 |
| Total equity | 1,006,320 | 973,656 |
| Total liabilities and equity | \$ 2,347,666 | \$ 2,207,701 |

See accompanying notes to consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|--|------------------|
| | 2013 | 2012 |
| Operating activities: | | |
| Net income | \$ 82,941 | \$ 84,070 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 37,347 | 27,184 |
| Share-based compensation expense | 5,162 | 4,844 |
| Provision for losses on accounts and notes receivable | 179 | 414 |
| Deferred income tax expense | 8,424 | 1,098 |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (20,703) | (7,886) |
| Merchandise inventories | (23,690) | 45,301 |
| Accounts payable | 93,950 | 32,467 |
| Net change in other assets and liabilities | (21,285) | (16,355) |
| Other, net | (1,159) | (773) |
| Cash provided by operating activities | 161,166 | 170,364 |
| Investing activities: | | |
| Acquisition, net of cash acquired | | (149,910) |
| Additions to property and equipment | (25,144) | (7,890) |
| Additions to computer software and intangible assets | (20,361) | (19,934) |
| Proceeds from sale of property and equipment | 2,020 | 3,237 |
| Cash used for investing activities | (43,485) | (174,497) |
| Financing activities: | | |
| Cash dividends paid | (45,587) | (41,791) |
| Repurchases of common stock | (15,701) | (11,250) |
| Financing costs paid | | (1,303) |
| Excess tax benefits related to share-based compensation | 733 | 1,223 |
| Proceeds from exercise of stock options | 4,821 | 4,114 |
| Other, net | (6,769) | (4,444) |
| Cash used for financing activities | (62,503) | (53,451) |
| Effect of exchange rate changes on cash and cash equivalents | 723 | 1,313 |
| Net increase (decrease) in cash and cash equivalents | 55,901 | (56,271) |
| Cash and cash equivalents at beginning of period | 97,888 | 135,938 |

| | | |
|--|-------------------|------------------|
| Cash and cash equivalents at end of period | \$ 153,789 | \$ 79,667 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid, net | \$ 51,567 | \$ 50,114 |
| Interest paid | \$ 7,926 | \$ 7,549 |

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 | | | | Noncontrolling | | Total |
|--|---|-------------------------------------|--------------------|----------------------|---|-----------------|---------------------|
| | Common Stock Shares Outstanding | Common Stock (\$ 2 par value) | Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Interest | |
| 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 |
| 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 |
| Balance December 31, 2012 | 63,271 | \$ 126,544 | \$ 187,394 | \$ 658,994 | \$ (406) | \$ 1,130 | \$ 973,656 |
| Net income | | | | 82,941 | | | 82,941 |
| Other comprehensive income | | | | | 2,797 | | 2,797 |
| Dividends declared (\$0.72 per share) | | | | (45,466) | | | (45,466) |
| Shares repurchased and retired | (471) | (942) | | (14,758) | | | (15,700) |
| Share-based compensation expense, exercises and other | 362 | 724 | 7,368 | | | | 8,092 |
| Balance September 30, 2013 | 63,162 | \$ 126,326 | \$ 194,762 | \$ 681,711 | \$ 2,391 | \$ 1,130 | \$ 1,006,320 |

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, financing receivables, accounts payable and financing payables included 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.

3. 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 \$157.3 million (€125 million), net of cash acquired and including debt assumed of \$2.1 million (primarily capitalized lease obligations). 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 manufacturer customers globally.

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon our estimate of their fair values at the date of acquisition, with certain exceptions permitted under GAAP. The purchase price exceeded the estimated fair value of the net tangible and identifiable intangible assets by \$25.4 million, which was

allocated to goodwill. The following table presents the estimated fair value of the assets acquired and liabilities assumed recognized as of the acquisition date.

| | Preliminary Fair Value Originally Estimated as of Acquisition Date ⁽¹⁾ | Measurement Period Adjustments Recorded in 2013 | Fair Value as of Acquisition Date |
|---|--|--|--|
| Assets acquired: | | | |
| Current assets | \$ 211,052 | \$ 295 | \$ 211,347 |
| Property and equipment | 90,729 | (2,385) | 88,344 |
| Goodwill | 25,042 | 387 | 25,429 |
| Intangible assets | 21,543 | 1,335 | 22,878 |
| Other noncurrent assets | 11,664 | 512 | 12,176 |
| Total assets | 360,030 | 144 | 360,174 |
| Liabilities assumed: | | | |
| Current liabilities | 190,485 | 414 | 190,899 |
| Noncurrent liabilities | 12,237 | (270) | 11,967 |
| Total liabilities | 202,722 | 144 | 202,866 |
| Fair value of net assets acquired, net of cash | \$ 157,308 | \$ | \$ 157,308 |

⁽¹⁾ As previously reported in our 2012 Form 10-K

Table of Contents

Measurement period adjustments primarily relate to additional market information obtained regarding acquired assets.

We are amortizing the fair value of acquired intangible assets, primarily customer relationships, over their remaining weighted average useful lives of 9 years.

Goodwill of \$25.4 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 fair value of financial assets and financial liabilities acquired includes financing receivables with a fair value of \$106.8 million and financing payables with a fair value of \$130.4 million.

Acquisition-related costs consist primarily of transaction costs incurred to perform due diligence and to analyze, negotiate and consummate the acquisition, costs to perform post-closing activities to establish a tax-efficient organizational structure, and costs to transition the acquired company's information technology and other operations and administrative functions from the former owner. We incurred \$1.5 million and \$8.4 million in pre-tax acquisition-related costs in the first nine months of 2013 and 2012.

4. Financing Receivables

At September 30, 2013 and December 31, 2012, we had financing receivables of \$148.8 million and \$124.5 million and related payables of \$149.2 million and \$130.1 million outstanding under our order-to-cash program and product financing arrangements, which were included in other current assets and other current liabilities, respectively, in the consolidated balance sheets.

5. Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill through September 30, 2013:

| | Domestic Segment | International Segment | Total |
|--|-----------------------------|----------------------------------|--------------|
| Carrying amount of goodwill, December 31, 2012 | \$ 248,498 | \$ 26,386 | \$ 274,884 |
| Currency translation adjustments | | (375) | (375) |
| Fair value adjustments (See Note 3) | | 387 | 387 |
| Carrying amount of goodwill, September 30, 2013 | \$ 248,498 | \$ 26,398 | \$ 274,896 |

Intangible assets at September 30, 2013, and December 31, 2012, were as follows:

| | Customer Relationships | Other Intangibles | Total |
|--|-----------------------------------|------------------------------|--------------|
|--|-----------------------------------|------------------------------|--------------|

At September 30, 2013

| | | | |
|--------------------------|-----------|----------|-----------|
| Gross intangible assets | \$ 51,174 | \$ 3,838 | \$ 55,012 |
| Accumulated amortization | (13,576) | (917) | (14,493) |

| | | | |
|---|-----------|----------|-----------|
| Net intangible assets, September 30, 2013 | \$ 37,598 | \$ 2,921 | \$ 40,519 |
|---|-----------|----------|-----------|

At December 31, 2012

| | | | |
|--------------------------|-----------|----------|-----------|
| Gross intangible assets | \$ 51,603 | \$ 2,848 | \$ 54,451 |
| Accumulated amortization | (11,717) | (421) | (12,138) |

| | | | |
|--|-----------|----------|-----------|
| Net intangible assets, December 31, 2012 | \$ 39,886 | \$ 2,427 | \$ 42,313 |
|--|-----------|----------|-----------|

Amortization expense for intangible assets was \$0.7 million and \$0.8 million for the three months ended September 30, 2013 and 2012, and \$2.7 million and \$1.9 million for the nine months ended September 30, 2013 and 2012.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$0.7 million for the remainder of 2013, \$4.5 million for 2014, \$5.1 million for 2015, \$5.2 million for 2016, \$5.0 million for 2017 and \$4.1 million for 2018.

Table of Contents**6. Exit and Realignment Costs**

We periodically incur exit and realignment and other charges associated with optimizing our operations, which includes the consolidation of distribution centers, the realignment of our distribution network, and the closure of offsite warehouses. In the current quarter, we recognized \$2.1 million associated with these activities, of which \$1.9 million was in the Domestic segment and \$0.2 million was in the International segment. During the first nine months of 2013, we recognized total charges of \$3.9 million, including \$3.2 million in the Domestic segment and \$0.7 million in the International segment. The year to date charge includes \$1.3 million in loss accruals associated with our operating leases and estimated severance. The remaining charges of \$2.6 million are comprised of costs that are expensed as incurred and not reflected in the table below, including \$1.4 million in product move costs and the remainder in losses on property and equipment and other expenses. We expect additional exit and realignment charges of approximately \$3.0 million over the remainder of 2013 for activities initiated in the Domestic segment through September 30, 2013.

The following table summarizes the activity related to exit and realignment cost accruals through September 30, 2013

| | Lease Obligations | Severance and Other | Total |
|---|------------------------------|--------------------------------|-----------------|
| Accrued exit and realignment costs, December 31, 2012 | \$ 5,098 | \$ 1,116 | \$ 6,214 |
| Provision for exit and realignment activities | 1,186 | 79 | 1,265 |
| Change in estimate | | (79) | (79) |
| Cash payments, net of sublease income | (5,425) | (389) | (5,814) |
| Accrued exit and realignment costs, September 30, 2013 | \$ 859 | \$ 727 | \$ 1,586 |

There were no exit and realignment charges in the third quarter or year to date period for 2012.

7. Retirement Plan

We have a noncontributory, unfunded retirement plan for certain officers and other key employees in the United States (Domestic Retirement Plan). 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.

Certain of our foreign subsidiaries have health and welfare plans covering substantially all of their respective employees. Our expense for these plans totaled \$0.9 million for the nine months ended September 30, 2013.

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, 2013 and 2012, were as follows:

| Three Months Ended | | Nine Months Ended | |
|---------------------------|-------------|--------------------------|-------------|
| September 30, | | September 30, | |
| 2013 | 2012 | 2013 | 2012 |

| | | | | |
|-------------------------------|--------|--------|----------|----------|
| Service cost | \$ 24 | \$ 4 | \$ 89 | \$ 134 |
| Interest cost | 414 | 410 | 1,241 | 1,218 |
| Recognized net actuarial loss | 341 | 239 | 1,024 | 733 |
| Curtailement loss | | | | 234 |
| Net periodic benefit cost | \$ 779 | \$ 653 | \$ 2,354 | \$ 2,319 |

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, 2013 and December 31, 2012, the estimated fair value of the Senior Notes was \$217.5 million and \$219.5 million, and the related carrying amount was \$204.5 million and \$205.8 million. The estimated fair value interest rate used to compute the fair value of the Senior Notes at September 30, 2013 and December 31, 2012 was 2.75% and 3.19%.

We have 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. Under the Credit Agreement, 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 Credit Agreement, 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

Table of Contents

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, 2013, we had no borrowings and letters of credit of approximately \$5.0 million outstanding under the Credit Agreement, leaving \$345.0 million available for borrowing. We also have a \$1.4 million letter of credit outstanding as of September 30, 2013, which supports our facilities leased in Europe.

9. Income Taxes

The provision for income taxes was \$17.9 million and \$54.4 million for the three and nine months ended September 30, 2013, compared to \$19.0 million and \$57.7 million for the same periods in 2012. The effective tax rate was 39.0% and 39.6% for the three and nine months ended September 30, 2013, compared to 43.6% and 40.7% for the same periods in 2012. The decrease in the effective tax rate quarter over quarter is due to the impact of non-deductible acquisition-related costs in the third quarter of 2012 incurred as a result of the Movianto acquisition. The decrease in the effective tax rate for the year-to-date period of 2013 is primarily the result of benefits recognized upon the conclusion of examinations of our 2009 and 2010 federal income tax returns and certain state income tax returns. The liability for unrecognized tax benefits was \$4.8 million at September 30, 2013, compared to \$12.3 million at December 31, 2012. The decrease was a result of the conclusion of these examinations. Included in the liability at September 30, 2013 were \$3.4 million of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

10. Net Income per Common Share

The following summarizes the calculation of net income per common share attributable to common shareholders for the three and nine months ended September 30, 2013 and 2012.

| <i>(in thousands, except per share data)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Numerator: | | | | |
| Net income | \$ 27,970 | \$ 24,597 | \$ 82,941 | \$ 84,070 |
| Less: income allocated to unvested restricted shares | (186) | (153) | (541) | (574) |
| Net income attributable to common shareholders - basic | 27,784 | 24,444 | 82,400 | 83,496 |
| Add: undistributed income attributable to unvested restricted shares - basic | 59 | 53 | 185 | 229 |
| Less: undistributed income attributable to unvested restricted shares - diluted | (59) | (53) | (185) | (228) |
| Net income attributable to common shareholders - diluted | \$ 27,784 | \$ 24,444 | \$ 82,400 | \$ 83,497 |
| Denominator: | | | | |
| Weighted average shares outstanding - basic | 62,605 | 62,763 | 62,678 | 62,806 |
| Dilutive shares - stock options | 26 | 78 | 41 | 84 |
| Weighted average shares outstanding - diluted | 62,631 | 62,841 | 62,719 | 62,890 |

Net income per share attributable to common shareholders:

| | | | | |
|---------|---------|---------|---------|---------|
| Basic | \$ 0.44 | \$ 0.39 | \$ 1.31 | \$ 1.33 |
| Diluted | \$ 0.44 | \$ 0.39 | \$ 1.31 | \$ 1.33 |

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, 2013, we repurchased in open-market transactions and retired approximately 471 thousand shares of our common stock for an aggregate of \$15.7 million, or an average price per share of \$33.32. As of September 30, 2013, we have approximately \$3.2 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

Table of Contents**12. Accumulated Other Comprehensive Income**

The following table shows the changes in accumulated other comprehensive income (loss) by component for the three months ended September 30, 2013 and 2012:

| | Defined Benefit Pension Plans | Currency Translation Adjustments | Other | Total |
|---|--|---|---------------|-----------------|
| Accumulated other comprehensive income (loss), June 30, 2013 | \$ (9,901) | \$ 3,605 | \$ 138 | \$ (6,158) |
| Other comprehensive income (loss) before reclassifications | | 9,412 | 14 | 9,426 |
| Income tax | | (1,072) | | (1,072) |
| Other comprehensive income (loss) before reclassifications, net of tax | | 8,340 | 14 | 8,354 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 342 | | (21) | 321 |
| Income tax | (134) | | 8 | (126) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 208 | | (13) | 195 |
| Other comprehensive income (loss) | 208 | 8,340 | 1 | 8,549 |
| Accumulated other comprehensive income (loss), September 30, 2013 | \$ (9,693) | \$ 11,945 | \$ 139 | \$ 2,391 |

| | Defined Benefit Pension Plans | Currency Translation Adjustments | Other | Total |
|---|--|---|--------------|--------------|
| Accumulated other comprehensive income (loss), June 30, 2012 | \$ (7,211) | \$ | \$ 189 | \$ (7,022) |
| Other comprehensive income (loss) before reclassifications | | 1,927 | | 1,927 |
| Income tax | | | | |
| Other comprehensive income (loss) before reclassifications, net of tax | | 1,927 | | 1,927 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 239 | | (22) | 217 |
| Income tax | (93) | | 8 | (85) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 146 | | (14) | 132 |

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

| | | | | |
|-----------------------------------|-----|-------|------|-------|
| Other comprehensive income (loss) | 146 | 1,927 | (14) | 2,059 |
|-----------------------------------|-----|-------|------|-------|

| | | | | |
|--|-------------------|-----------------|---------------|-------------------|
| Accumulated other comprehensive income (loss), September 30, 2012 | \$ (7,065) | \$ 1,927 | \$ 175 | \$ (4,963) |
|--|-------------------|-----------------|---------------|-------------------|

Table of Contents

The following table shows the changes in accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2013 and 2012:

| | Defined Benefit Pension Plans | Currency Translation Adjustments | Other | Total |
|---|--|---|---------------|-----------------|
| Accumulated other comprehensive income (loss), December 31, 2012 | \$ (10,318) | \$ 9,749 | \$ 163 | \$ (406) |
| Other comprehensive income (loss) before reclassifications | | 2,729 | 14 | 2,743 |
| Income tax | | (533) | | (533) |
| Other comprehensive income (loss) before reclassifications, net of tax | | 2,196 | 14 | 2,210 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 1,025 | | (62) | 963 |
| Income tax | (400) | | 24 | (376) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 625 | | (38) | 587 |
| Other comprehensive income (loss) | 625 | 2,196 | (24) | 2,797 |
| Accumulated other comprehensive income (loss), September 30, 2013 | \$ (9,693) | \$ 11,945 | \$ 139 | \$ 2,391 |

| | Defined Benefit Pension Plans | Currency Translation Adjustments | Other | Total |
|---|--|---|--------------|--------------|
| Accumulated other comprehensive income (loss), December 31, 2011 | \$ (7,707) | \$ | \$ 213 | \$ (7,494) |
| Other comprehensive income (loss) before reclassifications | 84 | 1,927 | | 2,011 |
| Income tax | (33) | | | (33) |
| Other comprehensive income (loss) before reclassifications, net of tax | 51 | 1,927 | | 1,978 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 968 | | (62) | 906 |
| Income tax | (377) | | 24 | (353) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 591 | | (38) | 553 |
| Other comprehensive income (loss) | 642 | 1,927 | (38) | 2,531 |

| | | | | | | | | |
|--|-----------|----------------|-----------|--------------|-----------|------------|-----------|----------------|
| Accumulated other comprehensive income (loss), September 30, 2012 | \$ | (7,065) | \$ | 1,927 | \$ | 175 | \$ | (4,963) |
|--|-----------|----------------|-----------|--------------|-----------|------------|-----------|----------------|

We include amounts reclassified out of accumulated other comprehensive income related to defined benefit pension plans as a component of net periodic pension cost recorded in selling, general & administrative expenses. For the three months ended September 30, 2013 and 2012, we reclassified \$0.3 million and \$0.2 million of actuarial net losses. For the nine months ended September 30, 2013, we reclassified \$1.0 million of actuarial net losses. For the nine months ended September 30, 2012 we reclassified \$0.8 million of actuarial net losses and \$0.2 million of prior service costs.

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 \$2.6 million as of September 30, 2013. 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 2013 \$0.3 million; 2014 \$0.9 million; 2015 \$0.7 million; and 2016 \$0.7 million. None of these contingent obligations were accrued at September 30, 2013, 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, 2013, \$1.2 million of deferred revenue related to outstanding contractual performance targets was included in other accrued liabilities.

Table of Contents

During the second quarter of 2013, we reached a settlement in the administrative proceedings pending before the California Board of Equalization related to certain municipal sales tax incentives. Under the terms of the settlement, we expect to receive approximately \$4.3 million for the period January 1, 2009 through June 30, 2013, of which \$0.8 million was recognized prior to 2013. In the future, the company will receive an ongoing tax incentive that will vary with eligible revenues generated by sales to California-based customers, which amounted to \$0.4 million in the current quarter.

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.

In connection with the Movianto acquisition, we entered into transition services agreements with the former owner under which it provides certain information technology and support services. The contract terms range from six to 24 months and are cancellable without penalty with thirty days notice. Since the acquisition we have terminated certain of these agreements and the maximum obligations in 2013 under these agreements is approximately \$3.9 million, of which \$3.8 million was incurred through the end of the third quarter.

Various issues and potential claims related to the acquisition and transition of Movianto remain outstanding and under review and discussion with the former owner. The ultimate outcomes of these issues and potential claims, including their impact on future financial results, cannot be ascertained or estimated at this time.

14. Segment Information

We evaluate the performance of our segments based on the operating earnings of the segments, excluding acquisition-related and exit and realignment charges.

The following tables present financial information by segment:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue: | | | | |
| Domestic | \$ 2,175,663 | \$ 2,130,226 | \$ 6,474,069 | \$ 6,533,552 |
| International | 128,936 | 49,669 | 372,926 | 49,669 |
| Consolidated net revenue | \$ 2,304,599 | \$ 2,179,895 | \$ 6,846,995 | \$ 6,583,221 |
| Operating earnings (loss): | | | | |
| Domestic | \$ 51,213 | \$ 55,120 | \$ 155,364 | \$ 160,786 |
| International | 749 | (626) | (2,819) | (626) |
| Acquisition-related and exit and realignment charges | (2,747) | (7,831) | (5,395) | (8,448) |
| Consolidated operating earnings | \$ 49,215 | \$ 46,663 | \$ 147,150 | \$ 151,712 |

Depreciation and amortization:

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

| | | | | | | | | |
|--|----|---------------|----|--------|----|---------------|----|--------|
| Domestic | \$ | 8,805 | \$ | 8,801 | \$ | 26,775 | \$ | 25,895 |
| International | | 3,636 | | 1,289 | | 10,572 | | 1,289 |
| Consolidated depreciation and amortization | \$ | 12,441 | \$ | 10,090 | \$ | 37,347 | \$ | 27,184 |
| Capital expenditures: | | | | | | | | |
| Domestic | \$ | 10,032 | \$ | 8,929 | \$ | 34,506 | \$ | 27,086 |
| International | | 4,426 | | 738 | | 10,999 | | 738 |
| Consolidated capital expenditures | \$ | 14,458 | \$ | 9,667 | \$ | 45,505 | \$ | 27,824 |

| | | September 30, 2013 | | December 31, 2012 |
|---------------------------|----|--------------------|----|-------------------|
| Total assets: | | | | |
| Domestic | \$ | 1,749,805 | \$ | 1,723,699 |
| International | | 444,072 | | 386,114 |
| Segment assets | | 2,193,877 | | 2,109,813 |
| Cash and cash equivalents | | 153,789 | | 97,888 |
| Consolidated total assets | \$ | 2,347,666 | \$ | 2,207,701 |

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

The following tables present condensed consolidating financial information for: Owens & Minor, Inc. (O&M); the guarantors of Owens & Minor, Inc.'s Senior Notes, on a combined basis; and the non-guarantor subsidiaries of the Senior Notes, on a combined basis. The guarantor subsidiaries are 100% owned by Owens & Minor, Inc. Separate financial statements of the guarantor subsidiaries are not presented because the guarantees by our guarantor subsidiaries are full and unconditional, as well as joint and several, 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.

| Three Months Ended September 30, 2013 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|--|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Statements of Income | | | | | |
| Net revenue | \$ | \$ 2,175,663 | \$ 140,836 | \$ (11,900) | \$ 2,304,599 |
| Cost of goods sold | | 1,965,696 | 77,290 | (11,716) | 2,031,270 |
| Gross margin | | 209,967 | 63,546 | (184) | 273,329 |
| Selling, general and administrative expenses | 264 | 151,107 | 59,973 | | 211,344 |
| Acquisition-related and exit and realignment charges | | 1,856 | 891 | | 2,747 |
| Depreciation and amortization | 3 | 8,780 | 3,658 | | 12,441 |
| Other operating income, net | | (1,454) | (964) | | (2,418) |
| Operating (loss) earnings | (267) | 49,678 | (12) | (184) | 49,215 |
| Interest expense (income), net | 5,791 | (2,364) | (38) | | 3,389 |
| (Loss) income before income taxes | (6,058) | 52,042 | 26 | (184) | 45,826 |
| Income tax (benefit) provision | (2,319) | 20,694 | (519) | | 17,856 |
| Equity in earnings of subsidiaries | | 31,709 | | (31,709) | |
| Net income (loss) | 27,970 | 31,348 | 545 | (31,893) | 27,970 |
| Other comprehensive income (loss) | 8,549 | 207 | 8,341 | (8,548) | 8,549 |
| Comprehensive income (loss) | \$ 36,519 | \$ 31,555 | \$ 8,886 | \$ (40,441) | \$ 36,519 |

| Three Months Ended September 30, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Statements of Income | | | | | |
| 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 |

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

| | | | | | |
|--|-----------|-----------|------------|-------------|-----------|
| 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) | |
| Net income (loss) | 24,597 | 33,333 | (6,142) | (27,191) | 24,597 |
| Other comprehensive income (loss) | 2,059 | 146 | 1,926 | (2,072) | 2,059 |
| Comprehensive income (loss) | \$ 26,656 | \$ 33,479 | \$ (4,216) | \$ (29,263) | \$ 26,656 |

Table of Contents**Condensed Consolidating Financial Information**

| Nine Months Ended September 30, 2013 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Statements of Income | | | | | |
| Net revenue | \$ | \$ 6,473,954 | \$ 407,010 | \$ (33,969) | \$ 6,846,995 |
| Cost of goods sold | | 5,833,900 | 220,707 | (33,424) | 6,021,183 |
| Gross margin | | 640,054 | 186,303 | (545) | 825,812 |
| Selling, general and administrative expenses | 1,138 | 459,780 | 180,695 | | 641,613 |
| Acquisition-related and exit and realignment charges | | 3,116 | 2,279 | | 5,395 |
| Depreciation and amortization | 10 | 26,705 | 10,632 | | 37,347 |
| Other operating income, net | | (3,597) | (2,096) | | (5,693) |
| Operating (loss) earnings | (1,148) | 154,050 | (5,207) | (545) | 147,150 |
| Interest expense (income), net | 15,340 | (5,096) | (409) | | 9,835 |
| (Loss) income before income taxes | (16,488) | 159,146 | (4,798) | (545) | 137,315 |
| Income tax (benefit) provision | (6,327) | 62,758 | (2,057) | | 54,374 |
| Equity in earnings of subsidiaries | 93,102 | | | (93,102) | |
| Net income (loss) | 82,941 | 96,388 | (2,741) | (93,647) | 82,941 |
| Other comprehensive income (loss) | 2,797 | 623 | 2,195 | (2,818) | 2,797 |
| Comprehensive income (loss) | \$ 85,738 | \$ 97,011 | \$ (546) | \$ (96,465) | \$ 85,738 |

| Nine months ended September 30, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Statements of Income | | | | | |
| 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 |

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

| | | | | | |
|------------------------------------|-----------|-----------|------------|-------------|-----------|
| Income tax (benefit) provision | (4,872) | 65,514 | (2,975) | | 57,667 |
| Equity in earnings of subsidiaries | 91,394 | | | (91,394) | |
| Net income (loss) | 84,070 | 98,413 | (6,488) | (91,925) | 84,070 |
| Other comprehensive income (loss) | 2,531 | 642 | 1,926 | (2,568) | 2,531 |
| Comprehensive income (loss) | \$ 86,601 | \$ 99,055 | \$ (4,562) | \$ (94,493) | \$ 86,601 |

Table of Contents**Condensed Consolidating Financial Information**

| September 30, 2013 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non- guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------------|---------------------------|-----------------------------------|-----------------------|---------------------|
| Balance Sheets | | | | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 110,160 | \$ 15,218 | \$ 28,411 | \$ | \$ 153,789 |
| Accounts and notes receivable, net | | 473,974 | 98,071 | (587) | 571,458 |
| Merchandise inventories | | 765,114 | 23,915 | (1,226) | 787,803 |
| Other current assets | 198 | 80,168 | 165,881 | (5) | 246,242 |
| Total current assets | 110,358 | 1,334,474 | 316,278 | (1,818) | 1,759,292 |
| Property and equipment, net | 6 | 99,222 | 93,444 | | 192,672 |
| Goodwill, net | | 247,271 | 27,625 | | 274,896 |
| Intangible assets, net | | 18,404 | 22,115 | | 40,519 |
| Due from O&M and subsidiaries | | 424,398 | | (424,398) | |
| Advances to and investment in consolidated subsidiaries | 1,530,124 | | | (1,530,124) | |
| Other assets, net | 456 | 62,415 | 17,416 | | 80,287 |
| Total assets | \$ 1,640,944 | \$ 2,186,184 | \$ 476,878 | \$ (1,956,340) | \$ 2,347,666 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ | \$ 643,839 | \$ 46,305 | \$ (590) | \$ 689,554 |
| Accrued payroll and related liabilities | | 15,750 | 9,043 | | 24,793 |
| Deferred income taxes | | 50,977 | (1,117) | | 49,860 |
| Other accrued liabilities | 10,299 | 91,405 | 174,993 | | 276,697 |
| Total current liabilities | 10,299 | 801,971 | 229,224 | (590) | 1,040,904 |
| Long-term debt, excluding current portion | 204,460 | 7,401 | 2,555 | | 214,416 |
| Due to O&M and subsidiaries | 420,995 | | 2,273 | (423,268) | |
| Intercompany debt | | 138,890 | | (138,890) | |
| Deferred income taxes | | 26,484 | 3,701 | | 30,185 |
| Other liabilities | | 51,375 | 4,466 | | 55,841 |
| Total liabilities | 635,754 | 1,026,121 | 242,219 | (562,748) | 1,341,346 |
| Equity | | | | | |
| Common stock | 126,326 | | 1,500 | (1,500) | 126,326 |
| Paid-in capital | 194,762 | 242,025 | 259,864 | (501,889) | 194,762 |
| Retained earnings (deficit) | 681,711 | 927,716 | (39,780) | (887,936) | 681,711 |
| | 2,391 | (9,678) | 11,945 | (2,267) | 2,391 |

| | | | | | | |
|---|--------------|--------------|------------|----------------|--------------|--|
| Accumulated other comprehensive income (loss) | | | | | | |
| Total O&M shareholders equity | 1,005,190 | 1,160,063 | 233,529 | (1,393,592) | 1,005,190 | |
| Noncontrolling Interest | | | 1,130 | | 1,130 | |
| Total equity | 1,005,190 | 1,160,063 | 234,659 | (1,393,592) | 1,006,320 | |
| Total liabilities and equity | \$ 1,640,944 | \$ 2,186,184 | \$ 476,878 | \$ (1,956,340) | \$ 2,347,666 | |

Table of Contents**Condensed Consolidating Financial Information**

| December 31, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|--|-----------------------------------|---------------------------------------|-----------------------|---------------------|
| Balance Sheets | | | | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 58,190 | \$ 13,641 | \$ 26,057 | \$ | \$ 97,888 |
| Accounts and notes receivable, net | | 474,533 | 82,216 | (3,247) | 553,502 |
| Merchandise inventories | | 750,046 | 14,391 | (681) | 763,756 |
| Other current assets | 1,627 | 76,036 | 137,593 | (1,508) | 213,748 |
| Total current assets | 59,817 | 1,314,256 | 260,257 | (5,436) | 1,628,894 |
| Property and equipment, net | 16 | 95,516 | 96,309 | | 191,841 |
| Goodwill, net | | 247,271 | 27,613 | | 274,884 |
| Intangible assets, net | | 19,972 | 22,341 | | 42,313 |
| Due from O&M and subsidiaries | | 236,612 | 34,248 | (270,860) | |
| Advances to and investments in consolidated subsidiaries | 1,434,186 | | | (1,434,186) | |
| Other assets, net | 6,885 | 55,781 | 14,238 | (7,135) | 69,769 |
| Total assets | \$ 1,500,904 | \$ 1,969,408 | \$ 455,006 | \$ (1,717,617) | \$ 2,207,701 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 45,300 | \$ 518,545 | \$ 42,542 | \$ (3,250) | \$ 603,137 |
| Accrued payroll and related liabilities | | 18,201 | 7,267 | | 25,468 |
| Deferred income taxes | | 43,110 | | (2,352) | 40,758 |
| Other current liabilities | 6,464 | 92,318 | 156,142 | | 254,924 |
| Total current liabilities | 51,764 | 672,174 | 205,951 | (5,602) | 924,287 |
| Long-term debt, excluding current portion | 205,754 | 6,592 | 3,037 | | 215,383 |
| Due to O&M and subsidiaries | 270,860 | | | (270,860) | |
| Intercompany debt | | 138,890 | | (138,890) | |
| Deferred income taxes | | 30,141 | 7,069 | (6,289) | 30,921 |
| Other liabilities | | 58,578 | 4,876 | | 63,454 |
| Total liabilities | 528,378 | 906,375 | 220,933 | (421,641) | 1,234,045 |
| Equity | | | | | |
| Common stock | 126,544 | | 1,500 | (1,500) | 126,544 |
| Paid-in capital | 187,394 | 242,024 | 258,635 | (500,659) | 187,394 |
| Retained earnings (deficit) | 658,994 | 831,327 | (36,941) | (794,386) | 658,994 |
| | (406) | (10,318) | 9,749 | 569 | (406) |

| | | | | | | |
|---|--------------|--------------|------------|----------------|--------------|--|
| Accumulated other comprehensive income (loss) | | | | | | |
| Total O&M shareholders equity | 972,526 | 1,063,033 | 232,943 | (1,295,976) | 972,526 | |
| Noncontrolling interest | | | 1,130 | | 1,130 | |
| Total equity | 972,526 | 1,063,033 | 234,073 | (1,295,976) | 973,656 | |
| Total liabilities and equity | \$ 1,500,904 | \$ 1,969,408 | \$ 455,006 | \$ (1,717,617) | \$ 2,207,701 | |

Table of Contents**Condensed Consolidating Financial Information**

| Nine Months Ended September 30, 2013 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------|---------------------------|-------------------------------|--------------|-----------------|
| Statements of Cash Flows | | | | | |
| Operating activities: | | | | | |
| Net income (loss) | \$ 82,941 | \$ 96,388 | \$ (2,741) | \$ (93,647) | \$ 82,941 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: | | | | | |
| Equity in earnings of subsidiaries | (93,102) | | | 93,102 | |
| Depreciation and amortization | 10 | 26,705 | 10,632 | | 37,347 |
| Share-based compensation expense | | 5,162 | | | 5,162 |
| Provision for losses on accounts and notes receivable | | 110 | 69 | | 179 |
| Deferred income tax expense (benefit) | | 11,649 | (3,225) | | 8,424 |
| Changes in operating assets and liabilities: | | | | | |
| Accounts and notes receivable | | 449 | (18,493) | (2,659) | (20,703) |
| Merchandise inventories | | (15,068) | (9,166) | 544 | (23,690) |
| Accounts payable | | 79,994 | 11,296 | 2,660 | 93,950 |
| Net change in other assets and liabilities | 5,264 | (21,493) | (5,056) | | (21,285) |
| Other, net | 972 | 466 | (2,597) | | (1,159) |
| Cash provided by (used for) operating activities | (3,915) | 184,362 | (19,281) | | 161,166 |
| Investing activities: | | | | | |
| Additions to property and equipment | | (18,972) | (6,172) | | (25,144) |
| Additions to computer software and intangible assets | | (15,534) | (4,827) | | (20,361) |
| Proceeds from the sale of property and equipment | | 1,829 | 191 | | 2,020 |
| Cash used for investing activities | | (32,677) | (10,808) | | (43,485) |
| Financing activities: | | | | | |
| Change in intercompany advances | 114,145 | (148,109) | 33,964 | | |
| Cash dividends paid | (45,587) | | | | (45,587) |
| Repurchases of common stock | (15,701) | | | | (15,701) |
| Excess tax benefits related to share-based compensation | 733 | | | | 733 |
| Proceeds from exercise of stock options | 4,821 | | | | 4,821 |
| Other, net | (2,526) | (1,999) | (2,244) | | (6,769) |
| Cash provided by (used for) financing activities | 55,885 | (150,108) | 31,720 | | (62,503) |
| | | | 723 | | 723 |

Effect of exchange rate changes on cash and cash equivalents

| | | | | |
|---|------------|-----------|-----------|------------|
| Net increase (decrease) in cash and cash equivalents | 51,970 | 1,577 | 2,354 | 55,901 |
| Cash and cash equivalents at beginning of period | 58,190 | 13,641 | 26,057 | 97,888 |
| Cash and cash equivalents at end of period | \$ 110,160 | \$ 15,218 | \$ 28,411 | \$ 153,789 |

Table of Contents**Condensed Consolidating Financial Information**

| Nine Months Ended September 30, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
| Statements of Cash Flows | | | | | |
| Operating activities: | | | | | |
| 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 |
| 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 | | 55,323 | (10,552) | 530 | 45,301 |
| 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) |
| Cash provided by (used for) operating activities | (117,049) | 298,307 | (10,894) | | 170,364 |
| Investing activities: | | | | | |
| 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 |
| Cash used for investing activities | | (23,833) | (150,664) | | (174,497) |
| Financing activities: | | | | | |
| 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) |
| | 26,577 | (274,539) | 194,511 | | (53,451) |

Cash provided by (used for) financing activities**Effect of exchange rate changes on cash and cash equivalents**

1,313

1,313

Net (decrease) increase in cash and cash equivalents

(90,472)

(65)

34,266

(56,271)

Cash and cash equivalents at beginning of period

120,010

14,809

1,119

135,938

Cash and cash equivalents at end of period

\$ 29,538

\$ 14,744

\$ 35,385

\$

\$ 79,667

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, 2012, except as discussed below.

We adopted an Accounting Standard Update (ASU) issued by the Financial Accounting Standards Board (FASB) for clarifying disclosures of offsetting assets and liabilities. This clarifies the scope and treatment of derivatives that are offset or subject to an enforceable master netting arrangements. The adoption of this guidance did not have an impact on our financial position or results of operations.

We adopted an ASU for reporting amounts reclassified out of accumulated other comprehensive income. This update requires entities to disclose the amounts reclassified out of accumulated other comprehensive income by component. The adoption of this guidance did not have an impact on our financial position or results of operations.

We adopted an ASU for reporting cumulative translation adjustment upon derecognition of foreign subsidiaries, assets or investments. This update requires the release of related cumulative translation adjustment when the parent ceases to have a controlling financial interest. The adoption of this guidance did not have an impact on our financial position or results of operations.

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, 2012. 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, 2012.

Third quarter and first nine months of 2013 compared with 2012**Overview**

Owens & Minor, Inc., along with its subsidiaries, (we, us, or our) is a leading national distributor of name-brand medical and surgical supplies and a healthcare logistics company. We report our business under two segments: Domestic and International. The Domestic segment includes all services in the United States relating to our role as a medical supply logistics company serving healthcare providers and manufacturers. The International segment provides third-party logistics for the pharmaceutical and medical device industries in the European market. Segment financial information is provided in Note 14 of Notes to the Consolidated Financial Statements included in this quarterly report.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|--|-----------|------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>(Dollars in thousands except per share data)</i> | | | | |
| Operating earnings, as reported (GAAP) | \$ 49,215 | \$ 46,663 | \$ 147,150 | \$ 151,712 |

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

| | | | | |
|--|------------------|-----------|-------------------|------------|
| Acquisition-related and exit and realignment charges | 2,747 | 7,831 | 5,395 | 8,448 |
| Operating earnings, adjusted (non-GAAP) (Adjusted Operated Earnings) | \$ 51,962 | \$ 54,494 | \$ 152,545 | \$ 160,160 |
| Adjusted Operating Earnings as a percent of revenue (non-GAAP) | 2.25% | 2.50% | 2.23% | 2.43% |
| Net income, as reported (GAAP) | \$ 27,970 | \$ 24,597 | \$ 82,941 | \$ 84,070 |
| Acquisition-related and exit and realignment charges, net of tax | 1,899 | 6,588 | 3,832 | 6,963 |
| Net income, adjusted (non-GAAP) (Adjusted Net Income) | \$ 29,869 | \$ 31,185 | \$ 86,773 | \$ 91,033 |
| Net income per diluted common share, as reported (GAAP) | \$ 0.44 | \$ 0.39 | \$ 1.31 | \$ 1.33 |
| Acquisition-related and exit and realignment charges, per diluted common share | 0.03 | 0.10 | 0.06 | 0.11 |
| Net income per diluted common share, adjusted (non-GAAP)(Adjusted EPS) | \$ 0.47 | \$ 0.49 | \$ 1.37 | \$ 1.44 |

Adjusted EPS (non-GAAP) declined to \$0.47 in the third quarter of 2013 compared with \$0.49 in the third quarter of 2012 due to a decrease in Adjusted Operating Earnings (non-GAAP) of \$2.5 million. Adjusted EPS (non-GAAP) declined to \$1.37 for the nine months ended September 30, 2013 compared with \$ 1.44 in the same period of 2012 due to a decrease in Adjusted Operating Earnings (non-GAAP) of \$7.6 million. Domestic segment operating earnings decreased \$3.9 million to \$51.2 million for the third quarter of 2013 and decreased \$5.4 million to \$155.4 million for the nine months ended September 30, 2013. The International segment had operating earnings of \$0.7 million and operating losses of \$2.8 million for the three and nine months ended September 30, 2013.

Table of ContentsUse of Non-GAAP Measures

This 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 our 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.

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 and reconciliations to those financial statements set forth above should be carefully evaluated.

Acquisition-related charges in the first nine months of 2013 consist primarily of costs to transition Movianto's information technology and other operations and administrative functions from the former owner. Exit and realignment charges are associated with optimizing our operations and include the consolidation of distribution centers and closure of offsite warehouses in the United States and Europe. Unless otherwise stated, our analysis hereinafter excludes acquisition-related and exit and realignment charges. More information about these charges is provided in Notes 3 and 6 of Notes to Consolidated Financial Statements included in this quarterly report.

Results of Operations

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| Gross margin | 11.86% | 10.46% | 12.06% | 9.93% |
| Selling, general, and administrative expenses | 9.17% | 7.58% | 9.37% | 7.16% |
| Adjusted Operating Earnings (non-GAAP) | 2.25% | 2.50% | 2.23% | 2.43% |

Net revenue. Net revenue was \$2.30 billion and \$6.85 billion for the three and nine months ended September 30, 2013, representing increases of 5.7% and 4.0% from \$2.18 billion and \$6.58 billion for the same periods in 2012. The increases in consolidated net revenue were primarily due to net revenues contributed by Movianto, which was acquired in August of 2012. For the three and nine months ended September 30, 2013, Domestic segment net revenue was \$2.18 billion and \$6.47 billion. Domestic segment net revenues increased \$45.4 million quarter-over-quarter primarily due to one additional sales day in the current year. In the first nine months of 2013, Domestic segment net revenue decreased \$59.5 million compared to the same period of 2012 primarily due to ongoing market trends, including lower rates of healthcare utilization and reduced government purchases, as well as our continued rationalization of smaller, less profitable healthcare provider customers and suppliers.

International segment net revenue was \$129.0 million and \$372.9 million for the three and nine months ended September 30, 2013, of which approximately 50% was fee-for-service revenues. Net revenue for the same periods in 2012 were \$49.7 million.

Gross margin. Gross margin dollars increased 19.8% to \$273.3 million for the third quarter of 2013 from \$228.1 million for the third quarter of 2012. Gross margin dollars increased 26.3% to \$825.8 million for the first nine months of 2013 from \$653.9 million for the same period of 2012. These increases are primarily due to a full quarter of Movianto activity in the current year. Domestic gross margin for the nine months ended September 30, 2013 benefitted from supplier price changes in the first and second quarters of the year at a higher level than 2012. However, for the quarter, supplier price change benefits were lower than the same period last year, and had minimal impact on the current quarter results. International segment gross margin as a percentage of segment net revenue was approximately 50% for the third quarter and year-to-date period of 2013. We expect this metric to vary in future quarters based on seasonality and mix of buy-sell versus fee-for-service business.

Table of Contents

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. A portion of the International segment SG&A expenses includes ongoing costs for information technology and other transition services.

SG&A expenses increased \$46.0 million and \$170.4 million to \$211.3 million and \$641.6 million for the three and nine months ended September 30, 2013 compared to \$165.3 million and \$471.2 million for the same periods in 2012, primarily as a result of the acquisition of Movianto in August of 2012. Domestic SG&A expenses in the third quarter increased over the prior year due to increased sales activity and greater healthcare costs. During the second quarter of 2013, we reached a settlement in the administrative proceedings pending before the California Board of Equalization related to certain municipal sales tax incentives. As a result, SG&A expenses were reduced year-to-date by a net amount of \$3.9 million, of which \$0.4 million was attributable to the third quarter. The majority of the settlement benefit was offset by the increases noted above, as well as increased litigation expenses and expenses associated with the transition to a new delivery fleet contract in the second quarter. In the future, the company expects to receive an ongoing tax incentive that will vary with eligible revenues generated by sales to California-based customers. More information about this incentive is provided in Note 13 of Notes to Consolidated Financial Statements included in this quarterly report.

Depreciation and amortization expense. Depreciation and amortization expense increased \$2.4 million to \$12.4 million for the third quarter of 2013 and increased \$10.2 million to \$37.3 million for the first nine months of 2013, compared to the same periods in 2012, primarily related to warehouse equipment and information technology hardware and software acquired with Movianto. In addition, depreciation and amortization expense increased \$0.9 million in the Domestic segment primarily due to software enhancements for operational efficiency improvements.

Other operating income, net. Net other operating income was \$2.4 million and \$5.7 million for the third quarter and nine months of 2013 compared to \$1.8 million and \$4.6 million for the same periods in 2012. Net other operating income included finance charge income of \$1.1 million and \$2.9 million for the third quarter and year-to-date period in 2013 compared to \$0.8 million and \$2.8 million for 2012. In addition, net other operating income included income associated with product financing arrangements with customers in Europe of \$0.6 million and \$1.8 million and foreign currency exchange gains of \$ 0.4 million for both the three and nine month periods, respectively. In the first quarter of 2012, we received a \$0.7 million settlement of an anti-trust class action lawsuit, which did not recur in the current year.

Interest expense, net. Interest expense, net of interest earned on cash balances, was \$3.4 million for the third quarter of 2013, as compared with \$3.1 million for the third quarter of 2012, and \$9.8 million for the first nine months of 2013 as compared with \$10.0 million for the first nine months of 2012. The following table presents the components of our effective interest rate and average total debt for the nine month periods ended September 30, 2013 and 2012.

(Dollars in millions)

| Nine months ended September 30, | 2013 | 2012 |
|---------------------------------|---------|---------|
| Interest on senior notes | 6.35% | 6.35% |
| Commitment and other fees | 0.49% | 0.83% |
| Interest rate swaps | (1.04)% | (1.08)% |
| Other, net of interest income | 0.27% | 0.16% |

| | | |
|-------------------------------|----------|----------|
| Total effective interest rate | 6.07% | 6.26% |
| Average total debt | \$ 216.6 | \$ 214.0 |

Table of Contents

Income taxes. The provision for income taxes, including income taxes on acquisition-related and exit and realignment charges, was \$17.9 million and \$54.4 million for the third quarter and first nine months of 2013, compared to \$19.0 million and \$57.7 million for the comparable periods in 2012. The effective tax rate was 39.0% for the third quarter and 39.6% for the first nine months of 2013, compared to 43.6% and 40.7% for the comparable periods of 2012. The decrease in the effective tax rate quarter over quarter is due to the impact of non-deductible acquisition-related costs in the third quarter of 2012 incurred as a result of the Movianto acquisition. The decrease in the effective tax rate for the year-to-date period of 2013 is also the result of benefits recognized upon the conclusion of examinations of our 2009 and 2010 federal income tax returns and certain state income tax returns. These benefits were partially offset by the impact of foreign taxes.

Financial Condition, Liquidity and Capital Resources

Financial condition. Cash and cash equivalents increased to \$153.8 million at September 30, 2013 from \$97.9 million at December 31, 2012. Nearly all of our cash and cash equivalents are held in cash depository accounts with major banks in the United States and Europe or invested in high-quality, short-term liquid investments.

Accounts receivable, net of allowances, increased \$18.0 million to \$571.5 million at September 30, 2013, from \$553.5 million at December 31, 2012. Consolidated accounts receivable days outstanding (DSO) were 22.0 days and 21.2 days at September 30, 2013 and December 31, 2012. Domestic segment DSO was 19.3 days at September 30, 2013, and 19.1 days at December 31, 2012, based on three months sales, and has ranged from 19.1 to 20.7 days over the prior four quarters.

Merchandise inventories increased \$24.0 million to \$787.8 million at September 30, 2013, from \$763.8 million at December 31, 2012. Consolidated average inventory turnover was 10.2 for the third quarter of 2013. Domestic segment average inventory turnover was 10.2 in the third quarter of 2013, based on three months sales, and has ranged from 10.2 to 10.6 over the prior four quarters.

The International segment's net working capital of approximately \$59.7 million at September 30, 2013, excluding cash and cash equivalents, is comprised of accounts receivable of \$96.5 million, financing receivables and other current assets of \$164.9 million, inventories of \$23.9 million, accounts payable of \$43.1 million and financing payables and other current liabilities of approximately \$182.5 million. See Note 4 to the Notes to Consolidated Financial Statements for further information regarding financing receivables.

Liquidity and capital expenditures. The following table summarizes our consolidated statements of cash flows for the nine months ended September 30, 2013 and 2012:

(in millions)

| Nine months ended September 30, | 2013 | 2012 |
|--|-------------|-------------|
| Net cash provided by (used for): | | |
| Operating activities | \$ 161.2 | \$ 170.4 |
| Investing activities | (43.5) | (174.5) |
| Financing activities | (62.5) | (53.5) |
| Effect of exchange rate changes | 0.7 | 1.3 |
| Increase in cash and cash equivalents | \$ 55.9 | \$ (56.3) |

Cash provided by operating activities was \$161.2 million in the first nine months of 2013, compared to \$170.4 million in the same period of 2012. The decrease in cash from operating activities for the first nine months of 2013 compared to same period in 2012 was primarily the result of increased third quarter revenues and its impact on working capital, as well as the timing of accounts payable.

Cash used for investing activities was \$43.5 million in the first nine months of 2013, compared to \$174.5 million in the same period of 2012. Cash used for investing activities in the year-to-date period of 2012 was largely due to the acquisition of Movianto for approximately \$150 million. The remaining investing activities in 2013 and 2012 relate to capital expenditures for our strategic and operational efficiency initiatives, particularly initiatives relating to information technology enhancements and optimizing our distribution network.

Cash used for financing activities in the first nine months of 2013 was \$62.5 million, compared to \$53.5 million used in the first nine months of 2012. During the first nine months of 2013, we paid dividends of \$45.6 million, repurchased common stock under a share repurchase program for \$15.7 million of cash, and received proceeds of \$4.8 million from the exercise of stock options. 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, 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.

Table of Contents

Capital resources. Our sources of liquidity include cash and cash equivalents and a revolving credit facility. We have 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). Under this 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, 2013, we had no borrowings and letters of credit of approximately \$5.0 million outstanding on the revolving credit facility, leaving \$345.0 million available for borrowing. We also have a \$1.4 million letter of credit outstanding as of September 30, 2013, which supports facilities leased in Europe.

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 2013, we had no borrowings or repayments under the credit facilities. Based on our leverage ratio at September 30, 2013, the interest rate under the 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, 2013.

In the third quarter of 2013, we paid cash dividends on our outstanding common stock at the rate of \$0.24 per share, which represents a 9% increase over the rate of \$0.22 per share paid in the third quarter of 2012. 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 third quarter of 2013, we repurchased approximately 213,713 shares for \$7.4 million under this program. The remaining amount authorized for repurchases under this program is \$3.2 million at September 30, 2013.

We earn a portion of our operating earnings in foreign jurisdictions outside the U.S., which we consider to be indefinitely reinvested. Accordingly, no U.S. federal and state income taxes and withholding taxes have been provided on these earnings. Our cash, cash-equivalents, short-term investments, and marketable securities held by our foreign subsidiaries totaled \$28.4 million as of September 30, 2013. We do not intend, nor do we foresee a need, to repatriate these funds or other assets held outside the U.S. In the future, should we require more capital to fund discretionary activities in the U.S. than is generated by our domestic operations and is available through our borrowings, we could elect to repatriate cash or other assets from foreign jurisdictions that have previously been considered to be indefinitely reinvested. Upon distribution of these assets, we could be subject to additional U.S. federal and state income taxes and withholding taxes payable to foreign jurisdictions, where applicable.

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, 2013.

Table of Contents

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 our 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:

competitive pressures in the marketplace, including intense pricing pressure;

our ability to retain existing and attract new customers in a market characterized by significant customer consolidation and intense cost-containment initiatives;

our dependence on sales to certain customers or the loss or material reduction in purchases by key customers;

our dependence on distribution of product of certain suppliers;

our ability to successfully identify, manage or integrate acquisitions, including the management and integration of our acquisition of Movianto;

our ability to successfully manage our international operations, including risks associated with changes in international trade regulations, foreign currency volatility, changes in regulatory conditions, deteriorating economic conditions, adverse tax consequences, and other risks of operating in international markets;

uncertainties related to and our ability to adapt to changes in government regulations, including healthcare laws and regulations (including the Affordable Care Act);

risks arising from possible violations of legal, regulatory or licensing requirements of the markets in which we operate;

uncertainties related to general economic, regulatory and business conditions;

our ability to successfully implement our 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;

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

changes in manufacturer preferences between direct sales and wholesale distribution;

changing trends in customer profiles and ordering patterns and our ability to meet customer demand for additional value-added services;

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

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

availability of and our ability to access special inventory buying opportunities;

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

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 information systems are interrupted or damaged or fail for any extended period of time or that there is a data security breach;

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

adverse changes in U.S. and foreign tax laws and the outcome of outstanding tax contingencies and legislative and tax proposals; and

other factors described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012.

We undertake no obligation to update or revise any forward-looking statements, except as required by applicable law.

Table of Contents

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, 2013, were approximately \$571 million, and consolidated DSO at September 30, 2013, was 22.0 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 approximately \$5 million in letters of credit under the revolving credit facility at September 30, 2013. 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 and pricing of our Domestic segment distribution services, we are exposed to potential volatility in fuel prices. Our strategies for helping to mitigate our exposure to changing domestic fuel prices has included entering into leases for trucks with improved fuel efficiency and entering into fixed price agreements for diesel fuel. We benchmark our domestic diesel fuel purchase prices against the U.S. Weekly Retail On-Highway Diesel Prices (benchmark) as quoted by the U.S. Energy Information Administration. The benchmark averaged \$3.94 per gallon in the first nine months of 2013, a decrease from \$3.95 per gallon in the first nine months of 2012. Based on our fuel consumption in the first nine months of 2013, we estimate that every 10 cents per gallon increase in the benchmark would reduce our Domestic segment operating earnings by approximately \$400,000 on an annualized basis. In January 2013, we entered into a fixed-price purchase agreement with one of our diesel fuel suppliers for approximately one-third of our anticipated Domestic segment fuel usage for 2013 at an equivalent benchmark price of \$3.91 per gallon.

In the normal course of business, we are exposed to foreign currency translation and transaction risks. Our business transactions outside of the United States 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, 2013. There has been no change in our internal control over financial reporting during the quarter ended September 30, 2013, 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, 2012. Through September 30, 2013, 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, 2012. Through September 30, 2013, there have been no material changes in the risk factors described in such Annual Report.

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 2013, we repurchased in open-market transactions and retired 213,713 shares of our common stock for an aggregate of \$7.4 million, or an average price per share of \$34.65. The following table summarizes share repurchase activity by month during the third quarter of 2013.

Table of Contents

| 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 |
|----------------|---|-------------------------------------|---|---|
| July 2013 | 49,913 | \$ 34.12 | 49,913 | \$ 8,875,667 |
| August 2013 | 63,800 | \$ 34.99 | 63,800 | \$ 6,643,089 |
| September 2013 | 100,000 | \$ 34.69 | 100,000 | \$ 3,174,345 |
| Total | 213,713 | | 213,713 | |

Item 6. Exhibits

(a) Exhibits

- 3.1 Amended and Restated Bylaws of Owens & Minor, Inc. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 3.1, dated November 5, 2013).
- 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 7, 2013

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

Date: November 7, 2013

/s/ Richard A. Meier
Richard A. Meier
Executive Vice President & Chief Financial Officer

Table of Contents

Exhibits Filed with SEC

Exhibit #

| | |
|---------|--|
| 3.1 | Amended and Restated Bylaws of Owens & Minor, Inc. (incorporated herein by reference to our Current Report on Form 8-K, Exhibit 3.1, dated November 5, 2013). |
| 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 |