OWENS & MINOR INC/VA/
Form 10-K
February 24, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the year ended December 31, 2011

¨ **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	**54-1701843**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9120 Lockwood Boulevard, Mechanicsville, Virginia	**23116**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (804) 723-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $2 par value	**New York Stock Exchange**
Preferred Stock Purchase Rights	**New York Stock Exchange**
6.35% Senior Notes due 2016	**Not Listed**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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 x	Accelerated filer ¨
Non-accelerated filer ¨	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 x

The aggregate market value of Common Stock held by non-affiliates (based upon the closing sales price) was approximately $2,199,413,952 as of June 30, 2011.

The number of shares of the Company s common stock outstanding as of February 17, 2012 was 63,542,836 shares.

Documents Incorporated by Reference

The proxy statement for the annual meeting of shareholders to be held on April 27, 2012, is incorporated by reference for Item 5 of Part II and Part III.

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Corporate Officers, located on page 8 of the company s printed Annual Report, can be found at the end of the electronic filing of this Form 10-K.

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Part I

Item 1. Business

The Company

Owens & Minor, Inc. and subsidiaries (we, us, or our) is a Fortune 500 company providing distribution, third-party logistics, and other supply-chain management services to healthcare providers and suppliers of medical and surgical products, and is a leading national distributor of medical and surgical supplies to the acute-care market. The description of our business should be read in conjunction with the consolidated financial statements and supplementary data included in this Form 10-K.

Our core service consists of the distribution of finished medical and surgical products, procured from nearly 1,200 suppliers, to approximately 4,000 healthcare providers from 48 distribution and service centers nationwide. In certain cases, we also perform distribution and supply-chain management services on an outsourced basis from facilities that are owned by customers. In serving our healthcare customers, including acute-care and alternate-site providers and healthcare products suppliers, we also provide a range of data analysis tools and outsourced resource management and consulting services, such as inventory, supply spending and contract management, as well as low-unit-of measure shipments and tailored deliveries. We also provide third-party logistics services for the manufacturers and suppliers of healthcare and life-science products.

We typically provide supply-chain management services, including distribution services, under contractual arrangements with healthcare providers such as hospitals, hospital-based systems, and alternate-site providers. The majority of our revenue is derived from the distribution of consumable medical and surgical goods to healthcare providers. In addition, when providing consulting and outsourcing services to the healthcare market, we enter into fee-based service contracts of varying lengths and terms with customers.

Our company was founded in 1882 and incorporated in 1926 in Richmond, Virginia, as a wholesale drug company. Since 1992, when we sold the wholesale drug division, we have been focused on medical and surgical supply distribution and other supply-chain management services. We have significantly expanded and strengthened our national presence through organic growth and acquisitions.

The Healthcare Supply Distribution Industry

Distributors of medical and surgical supplies provide a wide variety of products and services to healthcare providers which include hospitals, hospital-based systems and alternate-site providers. Distributors contract with healthcare providers, including integrated healthcare networks (IHNs), directly and through group purchasing organizations (GPOs) that negotiate distribution contracts on behalf of their members. Distributors also serve suppliers by selling and distributing suppliers   healthcare products, including supplies used in medical treatment and surgical procedures. In serving suppliers, distributors provide a wide range of other value-added services, including warehousing, handling returns and recalls, and management of accounts receivable.

Healthcare distribution is dependent on utilization of medical/surgical procedures by consumers, which in turn may be affected by the condition of the United States economy. The healthcare industry continues to grow as a percentage of the United States   gross domestic product, as a result of an aging population that is expected to consume an increasing amount of healthcare services. The healthcare distribution industry is also growing as demand increases from healthcare providers and suppliers focused on improving the management of their supply-chain operations. Healthcare providers and suppliers rely on strategic relationships with national medical and surgical supply distributors to perform traditional warehousing and delivery functions, as well as to provide effective supply-chain management solutions.

Consolidation trends in the overall healthcare market, including acquisitions of physicians   practices and ambulatory surgery centers by IHN s, have led to the creation of larger and more sophisticated healthcare providers, which increasingly seek methods to lower the total cost of delivering healthcare services. These healthcare providers face a variety of financial challenges, including managing the cost of purchasing, receiving, storing and tracking medical and surgical supplies. These market trends have also driven significant consolidation within the healthcare supply distribution industry due to the competitive advantages enjoyed by larger distributors. These advantages include, among other things, the ability to serve customers in widespread geographical locations, buy inventory in large volume, develop technology platforms and decision support systems and provide expertise to healthcare providers and suppliers to help reduce supply-chain costs.

The Healthcare Supply Distribution Business Model

Through our traditional distribution business, we purchase a large volume of medical and surgical products from suppliers, store these items at our distribution centers, and provide delivery of these products and related services to healthcare providers. In addition, we have a third-party logistics offering for suppliers that is branded as OM HealthCare Logistics (OM HCL). OM HCL offers flexible warehousing and distribution services and business process outsourcing services to suppliers, enabling them to take advantage of our advanced supply-chain management expertise and significant presence in the healthcare industry. The OM HCL offering provides distribution opportunities for high value products that cannot economically be distributed using a buy-sell model.

In serving the healthcare industry, we also provide outsourced resource management and consulting services, which make use of our proprietary supply-chain management programs and technologies. Our OMSolutions[SM] team provides, to acute-care providers, fee-based consulting and outsourcing services designed to improve the provider s supply chain through more efficient management of inventory, supply spending and supply chain processes.

We have 48 distribution centers located throughout the continental United States; three of these are integrated service centers primarily serving the needs of specific healthcare systems and two others are dedicated to OM HCL s third-party logistics services. Our distribution centers generally serve hospitals and healthcare providers within a 200-mile radius, delivering most supplies with a fleet of leased trucks. Almost all of our delivery personnel are our employees, thereby ensuring the consistency of customer service. Contract carriers and parcel services are used in situations where they are more cost-effective and timely, including for OM HCL. We customize our product deliveries, whether the orders are just-in-time, low-unit-of-measure, pallets, or truckloads, and we also customize delivery schedules according to customers needs, to increase their efficiency in receiving and storing the product. Sales, logistics, credit management and operations teammates are located regionally and, in some cases, locally to manage service to customers. In certain of our larger distribution centers, we utilize automation equipment in low-unit-of-measure picking modules, and our distribution centers have voice-pick technology which enhances speed and accuracy in certain warehousing processes.

Our supply-chain management offering is supported by a significant investment in information technology infrastructure and services. We use a variety of software and information technology systems to support our business needs and efficiently manage our business growth, including warehouse management systems, customer service functions, and demand forecasting programs. We employ a number of customer-facing technology solutions, including OMDirect[SM], an Internet-based product catalog and direct ordering system that facilitates commerce with customers and suppliers.

Products & Services

We offer customers a broad portfolio of products and services. Distribution of medical and surgical supplies to healthcare providers, including our MediChoice® private label product line, accounts for over 95% of our revenues. Additional services include logistics, supplier management, analytics inventory management, outsourced resource management, clinical supply management and business process consulting. Examples of our service offerings include the following:

PANDAC[SM] is an operating room-focused inventory management program that helps healthcare providers manage suture and endo-mechanical inventory. We provide detailed analysis and ongoing reporting which enables customers to decrease redundancy and obsolescence and increase inventory turns, which in turn reduces investment in these high-cost products.

SurgiTrack® is a customizable surgical supply service that includes the assembly and delivery of surgical supplies in procedure-based totes, based on a healthcare provider s surgical schedule. The SurgiTrack program also provides in-depth analysis designed to enable healthcare providers to standardize products used in procedures, reduce inventory and streamline workflow.

OMSolutions is a supply-chain consulting, customer technology and resource management service offering. OMSolutions implements customized healthcare supply-chain solutions through the integration of people, processes and technologies. Services offered by OMSolutions decrease supply-chain costs while increasing operating efficiency. For example, OMSolutions provides consultants who work one-on-one with hospital staff to standardize and efficiently utilize products, processes and technologies. Other examples of OMSolutions services are in-depth value analysis and cost management, cost reduction through the management of purchased services, receiving and storeroom redesign, conducting physical inventories, and configuration of automatic inventory replenishment systems. Additional technology-based services offered by OMSolutions are WISDOM Gold℠, Clinical Supply Solutions℠ and Implant Purchase Manager℠.

WISDOM Gold is an Internet-based supply spend management, data normalization and contract management solution, which is supported by OMSolutions analysts who identify cost-saving opportunities for customers. WISDOM Gold enables customers to gain deeper understanding and control over their supply procurement and contracting efforts.

Clinical Supply Solutions is an inventory and contract management service that enables healthcare providers to reduce expenses by accurately tracking and managing physician-preference products and medical/surgical inventories in high-cost clinical specialty departments, such as cardiac catheterization labs, radiology and operating rooms. Clinical Supply Solutions is enabled by our proprietary web-based technology, including a complete database of products, and the expertise of our inventory specialists and professional analysts.

Implant Purchase Manager is a technology-based service that enables healthcare provider customers to better manage their inventory of high-dollar implants and devices through improved tracking of utilization, contract compliance, and billing. Typically, these implants are not held in inventory but are delivered just-in-time for procedures.

OM HCL is an offering of customized third-party logistics and business process outsourcing services, primarily marketed to suppliers of medical devices and life science companies. This business provides flexible warehousing and distribution services to meet unique product requirements. OM HCL also provides full order-to-cash services, including reverse logistics and chargeback management. The two logistics centers dedicated to OM HCL are state-of-the art facilities that are strategically positioned in central and western U.S. locations. OM HCL s services are enabled by sophisticated supply-chain management software and technology.

Customers

We currently provide distribution, outsourced resource management and/or consulting services to approximately 4,000 healthcare providers, primarily hospitals in the acute-care market. Many of the hospital customers are represented by IHNs or GPOs that negotiate pricing with suppliers and also contract for distribution services with us. We also serve the federal government, including the U.S. Department of Defense, as a prime vendor for medical and surgical supply distribution services. On a more limited basis, we serve alternate-site providers, including ambulatory surgery centers, physicians practices, clinics, home healthcare organizations, nursing homes and rehabilitation facilities. We also provide distribution and supply-chain management services, including third-party logistics and business process outsourcing services, to suppliers of medical and surgical products.

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GPOs and IHNs

GPOs are entities that act on behalf of a group of healthcare providers to obtain better pricing and other benefits than may be available to individual providers. Hospitals, physicians and other types of healthcare providers have joined GPOs to take advantage of improved economies of scale and to obtain services from medical and surgical supply distributors ranging from discounted product pricing to logistical and clinical support. GPOs negotiate directly with medical and surgical product suppliers and distributors on behalf of their members, establishing exclusive or multi-supplier relationships; however, GPOs cannot ensure that members will purchase their supplies from a particular distributor.

We have contracts to provide distribution services to the members of a number of national GPOs, including Novation, LLC (Novation), MedAssets Inc. (MedAssets) and its subsidiary Broadlane, Inc. (Broadlane) and Premier Purchasing Partners, L.P. (Premier). Our agreement with Novation expires in August 2012 and is renewable for up to one additional year. Sales to Novation members represented approximately 35% of our revenue in 2011. Our agreement with MedAssets and Broadlane expires in May 2013. Sales to MedAssets and Broadlane members combined represented approximately 24% of our revenue in 2011. Our agreement with Premier expires December 2012. Sales to Premier members represented approximately 20% of our revenue in 2011.

IHNs are typically networks of commonly owned or managed healthcare providers that seek to offer a broad spectrum of healthcare services and geographic coverage to a particular market. IHNs are significant in the acute-care market because of their expanding role in healthcare delivery and cost containment and their reliance upon the hospital as a key component of their organizations. Because IHNs frequently rely on cost containment as a competitive advantage, IHNs have become an important source of demand for our enhanced inventory management and other value-added services.

Individual Providers

In addition to contracting with healthcare providers at the IHN level and through GPOs, we contract directly with individual healthcare providers, including surgery centers and physicians practices, and smaller networks of healthcare providers that have joined together to negotiate terms.

Sales and Marketing

Our sales and marketing organization is built to support a broad customer base with sales and service teams positioned within the markets we serve so that we can effectively respond to local needs. Enterprise sales and national account teams support IHNs and GPOs, helping to coordinate our multifaceted engagements and implement our service offerings consistently across their network or membership. Our integrated marketing strategy centers around five areas of value-added supply-chain services, including supplier management, distribution and logistics, analytics, outsourced resource management and consulting, and clinical supply management.

Pricing

Industry practice is for healthcare providers, or their IHNs or GPOs, to negotiate product pricing directly with suppliers and then negotiate distribution pricing terms with distributors. The medical/surgical supply distribution industry is characterized by pricing pressure on product and distribution pricing.

The majority of our distribution arrangements compensate us on a cost-plus percentage basis, under which a negotiated percentage distribution fee is added to the contract price agreed to by the customer and the supplier. The determination of this percentage distribution fee is typically based on purchase volume, as well as other factors, and usually remains constant for the life of the contract. In many cases, distribution contracts in the medical/surgical supply industry specify a minimum volume of product to be purchased and are terminable by either party upon relatively short notice.

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In some cases, we may offer pricing that varies during the life of the contract depending upon purchase volume, and, as a result, the negotiated percentage distribution fee may increase or decrease over time as purchase volumes change. Under these contracts, customers percentage distribution fees may be reset after a measurement period to either more or less favorable pricing based on significant changes in purchase volume. If a customer s percentage distribution fee is adjusted, the modified percentage distribution fee applies only to purchases made following the change. Because customers sales volumes typically change gradually, changes in percentage distribution fees for individual customers under this type of arrangement have an insignificant effect on total company results.

Pricing under our CostTrack^SM activity-based pricing model differs from pricing under a traditional cost-plus model. With CostTrack, the pricing of services is based on our cost of providing the services required by the customer. As a result, this pricing model aligns distribution fees charged with the costs of the individual services provided.

OMSolutions pricing is based on professional rates and costs of managing and providing staffing, to perform specific services. Additionally, pricing for technology services is based on the structure and complexity of the customer engagement, including spending level and number of contracts, system interfaces and facilities. We have contracts for OMSolutions and other supply-chain management services which include performance targets related to cost-saving initiatives for customers that result from our services. Achievement against these performance targets is measured as determined by contractual terms. In the event the performance targets are not achieved, we may be obligated to refund or reduce a portion of our fees, or to provide a credit toward future purchases by the customer. When performance targets are achieved, we may be entitled to additional fees.

OM HCL pricing is activity-based, with service-based fees determined by customers particular requirements for warehousing, handling and delivery services.

Our traditional distribution and OM HCL contracts with healthcare providers and suppliers generally include mutual provisions designed to facilitate targeted efficiencies for our operations and our customers operations. These contractual provisions may include financial and nonfinancial incentives or penalties, or a combination of both, for performance against targets.

Suppliers

We offer a variety of supplier programs that benefit our supplier partners, which are designed to increase market share, drive sales growth for their products, or result in operational efficiencies. Through standardization and consolidation of these suppliers products for sale to our customer base, we strive to provide operational benefits and cost savings throughout the supply chain. Supplier programs, which are generally negotiated on an annual basis, provide for enhanced levels of support that are aligned with annual supplier objectives and growth goals.

We have contractual arrangements with suppliers participating in these programs that provide performance-based incentives, as well as cash discounts for prompt payment. Program incentives can be earned on a monthly, quarterly or annual basis.

Additionally, we offer customers a private-label brand of medical and surgical products under our proprietary MediChoice brand name which provides cost-saving alternatives on over 2,900 commodity products. We source our MediChoice products from a select group of manufacturers known for their quality and high service levels. Through our offering of both MediChoice products and branded supplier products, we offer a comprehensive product portfolio to our customers. In late 2011, we established a joint venture with a healthcare products developer and manufacturer to provide sourcing services for our MediChoice private label offering. We believe that this expansion of our private label sourcing capabilities will improve service, quality and value for our customers.

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Sales of products supplied by subsidiaries of Covidien Ltd. accounted for approximately 14% of our revenue for 2011. Sales of products supplied by Johnson & Johnson Health Care Systems, Inc. were approximately 10% of our revenue for 2011.

Information Technology

To support our strategic efforts, we have implemented information systems to manage all aspects of operations, including order fulfillment, customer service, warehouse and inventory management, asset management, electronic commerce, and financial management. We believe that our investment in technology for the management of operations provides us with a significant competitive advantage.

We have an agreement with Dell Perot Systems, which expires in December 2014, to outsource our information technology operations. This agreement includes the management and operation of information technology and infrastructure, as well as support, development and enhancement of all key business systems.

Our technology strategy and expenditures focus on customer service, electronic commerce, data warehousing, decision support, supply-chain management, warehouse management, and sales and marketing programs, as well as significant enhancements to back office systems and overall technology infrastructure. We use electronic commerce technology to conduct business transactions with customers, suppliers and other trading partners. Our proprietary technology includes the OMDirect Internet order fulfillment system, the WISDOM Gold knowledge management and decision-support system, and the QSight^{SM} clinical inventory management system.

During 2011, we invested in improvements to software used in our operations, including customer-facing technologies. In addition, we purchased technology for our Implant Purchase Manager service offering.

Asset Management

In the healthcare supply distribution industry, a significant investment in inventory and accounts receivable is required to meet the rapid delivery requirements of customers and provide high-quality service. As a result, efficient asset management is essential to our profitability. We are focused on effective processes to optimize inventory and collect accounts receivable.

Inventory

We are focused in our efforts to optimize inventory and continually consolidate products and collaborate with supply-chain partners on inventory productivity initiatives. When we convert large-scale, multi-state IHN customers to our distribution network, an additional investment in inventory in advance of expected sales is generally required. We actively monitor inventory for obsolescence and use inventory turnover and other operational metrics to measure our performance in managing inventory. We implemented changes throughout 2011 to our systems and the purchasing organizational structure to enhance both the productivity of our inventory and the service level we provide our customers.

Accounts Receivable

We provide credit in the normal course of business to our customers and utilize credit management techniques to evaluate customers creditworthiness and to facilitate collection. These techniques include performing initial and ongoing credit evaluations of customers based primarily on financial information provided by them and from sources available to the general public. As part of credit evaluations, we also use third-party information from sources such as credit reporting agencies, as well as bank and credit references. We actively manage our accounts receivable to minimize credit risk, days sales outstanding (DSO) and accounts receivable carrying costs. Field and home office specialists work together in collecting accounts receivable and resolving disputed balances. Our ability to properly invoice and ship product to customers enhances our collection results

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and, accordingly, our DSO performance. Also, we have arrangements with certain customers under which they make deposits on account, either because they do not meet our standards for creditworthiness or in order to obtain more favorable pricing.

Competition

The acute-care medical/surgical supply distribution industry in the United States is highly competitive. The sector includes: two major nationwide distributors, Owens & Minor, Inc. and Cardinal Health, Inc.; a smaller national distributor of medical and surgical supplies, Medline, Inc.; and a number of regional and local distributors; as well as customer self-distribution models.

Competitive factors within the medical/surgical supply distribution industry include market pricing, expense control, product availability, the ability to fill and invoice orders accurately, delivery time, range of services provided, efficient product sourcing, inventory management, information technology, electronic commerce capabilities, and the ability to meet customer-specific requirements. We believe our emphasis on technology, combined with a customer-focused approach to distribution and value-added services, enables us to compete effectively with other distribution models.

Direct-to-Consumer Supply Distribution Business

We exited our direct-to-consumer diabetes supply (DTC) business to focus on our distribution business for healthcare providers and suppliers. In January 2009, we sold certain assets of this business, including customer data and intellectual property, to Liberty Healthcare Group, Inc., a subsidiary of Medco Health Solutions, Inc., for $63.0 million. We retained the remaining assets and liabilities of the business, including accounts receivable. We operated the DTC business under the trade name AOM Healthcare Solutions (AOM) beginning with our acquisition of Access Diabetic Supply, LLC in 2005. AOM primarily marketed blood glucose monitoring devices, test strips and other ancillary products used by diabetic consumers for self-testing, mainly through direct-response advertising using a variety of media. We substantially completed our exit from this business by the end of the second quarter of 2009, by liquidating our remaining assets and vacating our leased premises. Additional information regarding this discontinued operation is included in Note 3 of the Notes to Consolidated Financial Statements included in this Form 10-K.

Other Matters

Regulation

The medical/surgical supply distribution industry is subject to regulation by federal, state and local government agencies. Each of our distribution centers is licensed to distribute medical and surgical supplies, as well as certain pharmaceutical and related products. We must comply with laws and regulations, including those governing operating, storage, transportation, safety and security standards for each of our distribution centers, of the Food and Drug Administration, the Drug Enforcement Agency, the Department of Transportation, the Department of Homeland Security, the Occupational Safety and Health Administration, and state boards of pharmacy, or similar state licensing boards and regulatory agencies as they apply to the operation of each of our distribution centers. We are also subject to various federal and state laws intended to protect the privacy of health or other personal information and to prevent healthcare fraud and abuse. In addition, the DTC business was required to comply with Medicare regulations regarding billing practices. We believe we are in material compliance with all statutes and regulations applicable to distributors of medical and surgical supply products and pharmaceutical and related products, including the Healthcare Insurance Portability and Accountability Act of 1996 (HIPAA), Medicare, Medicaid, as well as applicable general employment and employee health and safety laws and regulations.

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Employees

At the end of 2011, we employed approximately 4,800 full- and part-time teammates. We believe that ongoing teammate training is critical to performance and use Owens & Minor University®, an in-house training facility, to offer classes in leadership, management development, finance, operations, safety and sales. We believe that relations with teammates are good.

Available Information

We make our Forms 10-K, Forms 10-Q and Forms 8-K (and all amendments to these reports) available free of charge through the SEC Filings link in the Investor Relations content section on our website located at www.owens-minor.com as soon as reasonably practicable after they are filed with or furnished to the SEC. Information included on our website is not incorporated by reference into this Annual Report on Form 10-K.

You may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding the company (http://www.sec.gov).

Additionally, we have adopted a written Code of Honor that applies to all of our directors, officers and teammates, including our principal executive officer and senior financial officers. This Code of Honor (including any amendments to or waivers of a provision thereof) and our Corporate Governance Guidelines are available on our website at www.owens-minor.com.

Item 1A. Risk Factors

Set forth below are certain risk factors that we believe could materially affect our business, financial condition and prospects. These risk factors are in addition to those mentioned in other parts of this report and are not the only risks we face.

Competition

The medical/surgical supply distribution industry in the United States is highly competitive and characterized by intense pricing pressure. We compete with other national distributors and a number of regional and local distributors, as well as customer self-distribution models. Competitive factors within the medical/surgical supply distribution industry include market pricing, total delivered product cost, product availability, the ability to fill and invoice orders accurately, delivery time, range of services provided, efficient product sourcing, inventory management, information technology, electronic commerce capabilities, and the ability to meet special requirements of customers. Our success is dependent on the ability to compete on the above factors, while managing internal costs and expenses. These competitive pressures could have a material adverse effect on our results of operations.

Dependence on Significant Customers

In 2011, our top ten customers represented approximately 23% of our revenue. In addition, in 2011, approximately 78% of our revenue was from sales to member hospitals under contract with our largest group purchasing organizations (GPO): Novation, Premier, Broadlane and MedAssets. We could lose a significant customer or GPO relationship if an existing contract expires without being replaced or is terminated by the customer or GPO prior to its expiration (if permitted by the applicable contract). Although the termination of our relationship with a given GPO would not necessarily result in the loss of all of the member hospitals as customers, any such termination of a GPO relationship, or a significant individual customer relationship, could have a material adverse effect on our results of operations.

Dependence on Significant Suppliers

We distribute products from nearly 1,200 suppliers and are dependent on these suppliers for the continuing supply of products. In 2011, sales of products of our ten largest suppliers accounted for approximately 54% of revenue. We rely on suppliers to provide agreeable purchasing and delivery terms and performance incentives. Our ability to sustain adequate operating earnings has been, and will continue to be, partially dependent upon our ability to obtain favorable terms and incentives from suppliers, as well as suppliers continuing use of third-party distributors to sell and deliver their products. A change in terms by a significant supplier, or the decision of such a supplier to distribute its products directly to healthcare providers rather than through third-party distributors, could have a material adverse effect on our results of operations.

Operating Margin Initiatives

In response to increasing competitive pricing pressure in the medical/surgical supply distribution market, we are working to counteract the effects of lower pricing on operating margin through several initiatives. These initiatives include, but are not limited to (i) expansion and improved sourcing of our MediChoice® private-label brand of medical and surgical products, (ii) implementation of new funding programs with our suppliers, (iii) modernizing our infrastructure for core distribution through standardization and technology enhancements designed to increase operational and data management efficiencies and improve customer service, (iv) growth and management of third-party logistics services through OM HealthCare Logistics, (v) growth in consulting and value-added supply chain management services offered through OMSolutions℠ and (vi) continued expansion in non acute-care markets in healthcare. If one or more of these initiatives is unsuccessful, it could have an adverse effect on our future performance.

Bankruptcy, Insolvency or other Credit Failure of Customers

We provide credit in the normal course of business to customers. We perform initial and ongoing credit evaluations of customers and maintain reserves for credit losses. The bankruptcy, insolvency or other credit failure of one or more customers with substantial balances due to us could have a material adverse effect on our results of operations.

Changes in the Healthcare Environment

We along with our customers and suppliers are subject to extensive federal and state regulations relating to healthcare as well as the policies and practices of the private healthcare insurance industry. In recent years, there have been a number of government and private initiatives to reduce healthcare costs and government spending. These changes have included an increased reliance on managed care; consolidation of competitors, suppliers and customers; and the development of larger, more sophisticated purchasing groups. All of these changes place additional financial pressure on healthcare providers, who in turn seek to reduce the costs and pricing of products and services provided by us. We expect the healthcare industry to continue to change significantly and these potential changes, which may include a reduction in government support of healthcare services, adverse changes in legislation or regulations, and reductions in healthcare reimbursement practices, could have a material adverse effect on our results of operations.

In March 2010, Congress passed and President Obama signed into law the Patient Protection and Affordable Care Act and related Reconciliation Bill, which includes a variety of healthcare reform provisions and requirements that will become effective at varying times from 2010 to 2018. This healthcare reform legislation includes, among other things, provisions for expanded Medicaid eligibility and access to healthcare insurance as well as increased taxes and fees on certain corporations and medical products. The uncertainties surrounding the components of this legislation and the impact of its implementation on the healthcare industry may have an adverse effect on both customer purchasing and payment behavior and supplier product prices and terms of sale, and may require excise taxes to be paid on sales of certain medical products, all of which could adversely affect our results of operations.

Reliance on Information Systems and Technological Advancement

We rely on information systems to receive, process, analyze and manage data in distributing thousands of inventory items to customers from numerous distribution centers across the country. These systems are also relied upon for billings to and collections from customers, as well as the purchase of and payment for inventory and related transactions from our suppliers. In addition, the success of our long-term growth strategy is dependent upon the ability to continually monitor and upgrade our information systems to provide better service to customers. A third-party service provider, Dell Perot Systems, is responsible for managing a significant portion of our information systems, including key operational and financial systems. Our business and results of operations may be materially adversely affected if systems are interrupted or damaged by unforeseen events or fail to operate for an extended period of time, if we fail to appropriately enhance our systems to support growth and strategic initiatives or if our third-party service provider does not perform satisfactorily.

Regulatory Requirements

We must comply with numerous laws and regulations, including those of the Food and Drug Administration, the Drug Enforcement Agency, the Department of Transportation, the Department of Homeland Security, the Occupational Safety and Health Administration, and state boards of pharmacy, or similar state licensing boards, and other regulatory agencies. Also, we are subject to various federal and state laws intended to protect the privacy of health or other personal information and prevent healthcare fraud and abuse. Although we believe we are in material compliance with all applicable laws and regulations, any failure to comply with existing laws and regulations or the imposition of any additional laws and regulations could have a material adverse effect on our business.

Changes in Tax Laws

We operate throughout the United States. As a result we are subjected to the tax laws and regulations of many jurisdictions. From time to time, legislative and regulatory initiatives are proposed, including proposals to repeal LIFO (last-in, first-out) treatment of inventory or change tax accounting methods for inventory or other tax items, that could adversely affect our tax positions, tax rate or cash payments for taxes.

General Economic Climate

Deterioration in the financial and economic climate in recent years is continuing to have a negative impact on most sectors of the U.S. economy. This deterioration in the financial and economic climate has reduced patient demand for healthcare services, intensified pressures on healthcare providers to reduce both costs and purchases of our products and services and could compromise customers ability to timely pay for their purchases. Poor economic conditions could lead our suppliers to offer less favorable terms of purchase to distributors, which would negatively affect our profitability. These and other possible consequences of financial and economic changes including, but not limited to, the ability of banks to honor commitments under our credit facility, could materially and adversely affect our business and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We had 48 distribution centers, including office and warehouse space, across the United States as of December 31, 2011. We lease 47 of these distribution centers from unaffiliated third parties and own one. Three of the distribution centers are operating as integrated service centers and two are dedicated to OM HealthCare Logistics. We also lease additional warehouse space near four of our distribution centers, as well as small offices for sales and consulting personnel across the United States. In addition, we have a warehousing arrangement in Honolulu, Hawaii, with an unaffiliated third party, and lease space on a temporary basis from time to time to meet our inventory storage needs. We own our corporate headquarters building, and adjacent acreage, in Mechanicsville, Virginia, a suburb of Richmond, Virginia.

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We also own two warehouses, which were acquired from The Burrows Company in 2008 and were closed as of December 31, 2011. These warehouses are being offered for sale. We also have two leases with remaining terms ranging from less than one year to five years for office and warehouse facilities that we have vacated.

We regularly assess our business needs and make changes to the capacity and location of distribution centers. We believe that our facilities are adequate to carry on our business as currently conducted. A number of leases are scheduled to terminate within the next several years. We believe that, if necessary, we could find facilities to replace these leased premises without suffering a material adverse effect on our business.

Item 3. Legal Proceedings

We are subject to various legal actions that are ordinary and incidental to our business, including contract disputes, employment, workers compensation, product liability, regulatory and other matters. We establish reserves from time to time based upon periodic assessment of the potential outcomes of pending matters. In addition, we believe that any potential liability arising from employment, product liability, workers compensation and other personal injury litigation matters would be adequately covered by our insurance coverage, subject to policy limits, applicable deductibles and insurer solvency. While the outcome of legal actions cannot be predicted with certainty, we believe, based on current knowledge and the advice of counsel, that the outcome of these currently pending matters, individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Owens & Minor, Inc. s common stock trades on the New York Stock Exchange under the symbol OMI. As of February 17, 2012, there were approximately 3,700 common shareholders of record. We believe there are an estimated additional 39,700 beneficial holders of our common stock. See Selected Quarterly Financial Information in Item 15 of this report for high and low closing sales prices of our common stock and quarterly cash dividends per common share and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of our dividend payments.

On March 31, 2010, we effected a three-for-two stock split of our outstanding shares of common stock in the form of a stock dividend of one share of common stock for every two shares outstanding to stockholders of record on March 15, 2010. The common stock began trading on a post-split basis on April 1, 2010. All share and per-share data (except par value) have been adjusted to reflect this split.

5-Year Total Shareholder Return

The following performance graph compares the performance of our common stock to the S&P 500 Index and an Industry Peer Group (which includes the companies listed below) for the last five years. This graph assumes that the value of the investment in the common stock and each index was $100 on December 31, 2006, and that all dividends were reinvested.

(Data provided by Standard & Poor s)

	Base Period 12/2006	12/2007	12/2008	12/2009	12/2010	12/2011
Owens & Minor, Inc.	$ 100.00	$ 138.14	$ 124.91	$ 145.68	$ 153.46	$ 148.74
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76
Industry Peer Group	100.00	105.10	66.19	96.01	113.74	123.58

The Industry Peer Group, weighted by market capitalization, consists of companies engaged in the business of healthcare product distribution. The Peer Group includes pharmaceutical distribution companies: AmerisourceBergen Corporation, Cardinal Health, Inc., and McKesson Corporation; and medical product distribution companies: Henry Schein, Inc., Patterson Companies, Inc., and PSS World Medical, Inc.

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Share Repurchase Program. 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 year ended December 31, 2011, we repurchased in open-market transactions and retired 524,071 shares at an average price per share of $30.77. As of December 31, 2011, we have $33.9 million remaining under the repurchase program approved by the Board of Directors. There were no repurchases during the fourth quarter of 2011.

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Item 6. Selected Consolidated Financial Data

(in thousands, except ratios and per share data)

	At or for the Year Ended December 31,[1]				
	2011[3]	**2010[2]**	**2009**	**2008**	**2007**
Summary of Operations:					
Net revenue	**$ 8,627,912**	$ 8,123,608	$ 8,037,624	$ 7,243,237	$ 6,694,596
Income from continuing operations	**$ 115,198**	$ 110,579	$ 116,859	$ 101,257	$ 71,411
(Loss) income from discontinued operations, net of tax			(12,201)	(7,930)	1,299
Net income	**$ 115,198**	$ 110,579	$ 104,658	$ 93,327	$ 72,710
Per Common Share[4]:					
Income (loss) per common share basic:					
Continuing operations	**$ 1.82**	$ 1.76	$ 1.87	$ 1.64	$ 1.18
Discontinued operations			(0.19)	(0.13)	0.02
Net income per share basic	**$ 1.82**	$ 1.76	$ 1.68	$ 1.51	$ 1.20
Income (loss) per common share diluted:					
Continuing operations	**$ 1.81**	$ 1.75	$ 1.86	$ 1.63	$ 1.17
Discontinued operations			(0.19)	(0.13)	0.02
Net income per share diluted	**$ 1.81**	$ 1.75	$ 1.67	$ 1.50	$ 1.19
Cash dividends	**$ 0.800**	$ 0.708	$ 0.613	$ 0.533	$ 0.453
Stock price at year end	**$ 27.79**	$ 29.43	$ 28.62	$ 25.10	$ 28.29
Book value at year end[5]	**$ 14.47**	$ 13.52	$ 12.23	$ 11.08	$ 10.02
Summary of Financial Position:					
Total assets	**$ 1,946,815**	$ 1,822,039	$ 1,747,088	$ 1,776,190	$ 1,528,003
Cash and cash equivalents	**$ 135,938**	$ 159,213	$ 96,136	$ 7,886	$ 10,395
Total debt	**$ 214,556**	$ 210,906	$ 210,917	$ 362,003	$ 286,976
Total Owen s & Minor, Inc. shareholders equity	**$ 918,087**	$ 857,518	$ 769,179	$ 689,051	$ 614,359
Selected Ratios:					
Gross margin as a percent of revenue	**9.94%**	9.94%	10.13%	10.23%	10.02%
Selling, general, and administrative expenses as a percent of revenue	**7.08%**	6.94%	7.37%	7.52%	7.69%
Operating earnings as a percent of revenue	**2.36%**	2.41%	2.50%	2.50%	2.10%
Day sales outstanding[6]	**20.7**	19.6	21.4	24.5	23.6
Average annual inventory turnover[7]	**10.2**	10.4	10.6	10.4	9.7
Days payables outstanding[7]	**27.0**	26.5	27.6	28.9	28.6
Total debt to equity[8]	**0.23**	0.25	0.27	0.53	0.47

(1) In January 2009, we exited our direct-to-consumer diabetes supply (DTC) business. Accordingly, the DTC business is presented as discontinued operations for all periods presented. For additional information regarding discontinued operations, see Note 3 of Notes to Consolidated Financial Statements.

(2) We terminated our frozen defined benefit pension plan in the fourth quarter of 2010 and recognized a settlement charge of $19.6 million ($11.9 million after taxes, or $0.19 per common share). See Note 12 of Notes to Consolidated Financial Statements.

(3) We incurred charges of $12.7 million associated with exit and realignment activities ($7.7 million after taxes, or $0.13 per common share) in the fourth quarter of 2011. See Note 8 of Notes to Consolidated Financial Statements.

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(4) *Prior periods have been retroactively adjusted to reflect a three-for-two stock split effected on March 31, 2010. See Note 1 of Notes to Consolidated Financial Statements.*
(5) *Represents Owens & Minor, Inc. shareholders equity divided by year-end common shares outstanding.*
(6) *Based on net revenue for the fourth quarter of the year.*
(7) *Based on cost of goods sold for the preceding 12 months.*
(8) *Represents total debt divided by Owens & Minor, Inc. shareholders equity.*

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis presented below refers to, and should be read in conjunction with, the consolidated financial statements and related notes included in this form 10-K. Unless otherwise indicated, throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations we are referring to our continuing operations.

2011 Financial Results

Overview. Owens & Minor, Inc. (we, us, or our) is a leading national distributor of name-brand medical and surgical supplies and a healthcare supply-chain management company. Operating earnings increased 3.9% to $203.5 million for 2011, compared to $195.9 million for 2010. In 2011, net income was $115.2 million, an increase of 4.2% from $110.6 million for 2010. Income from continuing operations per diluted common share was $1.81 in 2011, an increase of 3.4% from $1.75 for 2010. Operating earnings were negatively affected in 2011 by exit and realignment charges of $12.7 million and in 2010 by a settlement charge of $19.6 million recognized due to the termination of our defined benefit pension plan. Excluding these charges, operating earnings, net income and net income per diluted share would have been $216.2 million, $122.9 million and $1.94, in 2011, and $215.5 million, $122.5 million and $1.94 in 2010. See Exhibit 11.2 of this report for a reconciliation of these non-GAAP measures to the corresponding GAAP measures for 2011 and 2010.

Stock Split. On March 31, 2010, we effected a three-for-two stock split of our outstanding shares of common stock in the form of a stock dividend of one share of common stock for every two shares outstanding to stockholders of record on March 15, 2010. All share and per-share data (except par value) have been retroactively adjusted to reflect this stock split for all periods presented.

Divestiture. In January 2009, we exited our direct-to-consumer distribution business (DTC business). Accordingly, the DTC business is presented as discontinued operations in our consolidated financial statements, and all prior period information has been reclassified to be consistent with the current period presentation.

Results of Operations

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

Year ended December 31,	**2011**	**2010**	**2009**
Gross margin	**9.94%**	9.94%	10.13%
Selling, general, and administrative expenses	**7.08%**	6.94%	7.37%
Operating earnings	**2.36%**	2.41%	2.50%
Income from continuing operations	**1.34%**	1.36%	1.45%

Net revenue. Net revenue was $8.63 billion for 2011, $8.12 billion for 2010 and $8.04 billion for 2009, representing increases of 6.2% for 2011 compared to 2010 and 1.1% for 2010 compared to 2009.

The following table presents the components of the increase in net revenue for the years ended December 31, 2011 and 2010, compared with the same periods in the prior year, and presents new customer changes net of lost customer activity (net new (lost)). Fee-for-service revenue represents revenue from services provided to customers that are not directly related to sales of product through our traditional distribution services and includes revenue from our OM HealthCare Logistics and OMSolutions^SM businesses.

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(Dollars in millions) **Increase (decrease) for the year ended December 31,**	**2011 versus 2010**		**2010 versus 2009**	
	Net Revenue	**Contribution to Total**	**Net Revenue**	**Contribution to Total**
Revenue from sales of products to:				
Existing customers	$ 381.1	4.7%	$ 188.9	2.4%
Net new (lost) customers	95.9	1.2%	(100.0)	(1.2)%
Fee-for-service revenue	27.3	0.3%	(2.9)	(0.1)%
Total increase in net revenues	$ 504.3	6.2%	$ 86.0	1.1%

Gross margin. Gross margin dollars increased 6.2% to $857.5 million for 2011, from $807.7 million for 2010, which decreased 0.8% from $814.4 million for 2009. The following table presents the components of the increase or decrease in gross margin for the years ended December 31, 2011 and 2010. This table presents gross margin from customer contracts related to sales of product, contribution to gross margin relating to supplier incentives, and gross margin from other services through traditional distribution services (traditional distribution) and margin from OM HealthCare Logistics, OMSolutions and other supply-chain services that are not directly related to sales of product (fee-for-service).

(Dollars in millions) **Increase (decrease) for the year ended December 31,**	**2011 versus 2010**		**2010 versus 2009**	
	Gross Margin	**Impact on gross margin as a percent of revenue**	**Gross Margin**	**Impact on gross margin as a percent of revenue**
Gross margin components:				
Traditional distribution	$ 25.6	(0.26)%	$ 1.1	(0.08)%
Fee-for-service	27.3	0.28%	(2.8)	(0.05)%
Provision for LIFO	(2.6)	(0.02)%	(8.4)	(0.11)%
Other	(0.5)	0.00%	3.4	0.05%
Total increase (decrease) in gross margin	$ 49.8	0.00%	$ (6.7)	(0.19)%

Gross margin for traditional distribution services declined in 2011 and 2010 as a result of lower gross margin on sales to new and existing customers, primarily large integrated health networks.

We value inventory under the LIFO method. Had inventory been valued under the first-in, first-out (FIFO) method, gross margin as a percentage of revenue would have been higher by 16 basis points in 2011, 14 basis points in 2010 and 3 basis points in 2009.

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

SG&A expenses increased 8.2% to $610.7 million for 2011, compared with $564.2 million for 2010. SG&A expenses increased $25.7 million for fee-for-service operations, including costs to convert new third-party logistics business. SG&A expenses unrelated to fee-for-service operations increased $14.8 million for labor costs, $6.3 million for delivery expenses resulting from increased fuel costs and business growth, and $2.2 million for consulting expenses.

SG&A expenses decreased 4.8% to $564.2 million for 2010 compared with $592.3 million for 2009. SG&A expenses decreased $17.3 million for labor costs, primarily related to incentive compensation expense; $7.6 million for information technology outsourcing and consulting primarily related to technology infrastructure enhancements; $4.3 million in Burrows acquisition transition-related expenses; $1.6 million for delivery costs;

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and $1.3 million resulting from a lower provision for losses on accounts and notes receivable. These decreases in SG&A expenses were partially offset by an increase of $2.5 million for costs incurred in our fee-for-service operations. The decrease in incentive compensation expense for 2010 compared with 2009 reflects lower achievement against certain performance-based measures.

Exit and realignment charges. With the continuing consolidation of healthcare providers as well as their aggregation for the purpose of purchasing services, we are experiencing a trend of increasingly larger healthcare systems and integrated healthcare networks converting to our distribution and supply chain services. These customers have a relatively lower gross margin profile because of their significant revenue and scale. In response to this change in customer mix, we are making adjustments to our infrastructure to better align our service model for these customers, including the closure of two distribution centers in 2011. Our actions resulted in total charges of $12.7 million in 2011, associated with exit activities and our organizational realignment. These charges included loss accruals for operating leases of $8.4 million, employee severance costs of $3.0 million, and losses on property and equipment and other expenses of $1.3 million. The exit and realignment charges had a negative impact of $0.13 on income from continuing operations per diluted common share for 2011.

Pension expense. In 2010, we terminated our defined benefit pension plan (which had been frozen since December 31, 1996), contributed $13.9 million to the plan, and completed the distribution of substantially all of the plan assets to plan participants. Pension expense of $21.4 million for 2010 includes net actuarial losses of $19.6 million recognized due to the settlement of the plan s obligations and $1.8 million in other net periodic pension cost. The settlement charge had a negative impact of $0.19 on income from continuing operations per diluted common share for 2010.

Depreciation and amortization expense. Depreciation and amortization expense increased 17.1% to $34.1 million for 2011 from $29.1 million for 2010. The increase was primarily due to depreciation and amortization of warehouse equipment and leasehold improvements for relocated and expanded distribution centers and third-party logistics distribution centers, as well as amortization of operational software improvements and certain customer-related technologies. Depreciation and amortization expense increased to $29.1 million for 2010 from $25.3 million for 2009. The increase was primarily due to amortization of computer software related to enhancements in infrastructure and customer-facing technologies, technology for our third-party logistics operations, and voice-pick systems for our distribution centers, as well as amortization of leasehold improvements for our third-party logistics distribution centers and relocated or expanded distribution centers.

Other operating income, net. Other operating income, net, was $3.5 million, $2.9 million and $5.2 million for 2011, 2010 and 2009, including finance charge income of $2.9 million for 2011, $2.3 million for 2010, and $4.8 million for 2009. Other operating income for 2011 also includes $2.2 million received in settlement of a class action lawsuit, offset by an increase of $2.2 million in transaction-related costs.

Operating earnings. Operating earnings for 2011 increased 3.9% to $203.5 million from $195.9 million for 2010, which decreased 2.7% from $201.3 million for 2009. In comparing 2011 to 2010, the increase in operating earnings was primarily due to an increase in net revenues, partially offset by SG&A expenses to service new business, exit and realignment charges and increased depreciation and amortization expense. In comparing 2010 to 2009, the decrease in operating earnings was primarily due to an increase in pension expense, resulting from the termination of our defined benefit pension plan, and a decrease in gross margin, partially offset by a decrease in SG&A expenses.

Interest expense, net. Interest expense, net of interest earned on cash balances, was $13.7 million for 2011, as compared with $14.3 million for 2010 and $13.0 million for 2009. The following table presents the components of our effective interest rate and average borrowings for years ended December 31, 2011, 2010 and 2009.

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(Dollars in millions) Year ended December 31,	2011	2010	2009
Senior notes	**6.35%**	6.35%	6.35%
Commitment and other fees	**1.27%**	0.98%	0.46%
Interest rate swaps	**(1.28)%**	(0.64)%	(0.67)%
Other, net of interest income	**0.08%**	0.14%	(0.14)%
Total effective interest rate	**6.42%**	6.83%	6.00%
Average borrowings	**$ 213.0**	$ 209.8	$ 217.4

For 2011, the effective interest rate decreased 41 basis points due to amortization of gains resulting from interest rate swap activities (64 basis points), partially offset by greater commitment fees and amortization of deferred transaction costs associated with our $350 million revolving credit facility, which was executed in June 2010 (29 basis points).

Income taxes. The provision for income taxes was $74.6 million for 2011, compared with $71.0 million for 2010, and $71.4 million for 2009. Our effective tax rate was 39.3% for 2011, as compared with 39.1% for 2010, and 37.9% for 2009. The lower effective tax rate for 2009 compared to 2011 and 2010 was primarily the result of recognizing tax benefits due to the conclusion of audits by the Internal Revenue Service of our 2007 and 2006 income tax returns.

Income from continuing operations. Income from continuing operations was $115.2 million for 2011, $110.6 million for 2010, and $116.9 million for 2009. The increase for 2011 compared to 2010 is primarily due to an increase in operating earnings of $7.5 million, which includes exit and realignment charges of $7.7 million, net of tax. The decrease for 2010 compared to 2009 is primarily due to a decrease in operating earnings of $5.3 million, which includes a pension settlement charge of $11.9 million, net of tax.

Loss from discontinued operations, net of tax. There was no income or loss from discontinued operations in 2011 or 2010. Loss from discontinued operations, net of tax, was $12.2 million in 2009, and included costs related to exiting the DTC business.

Financial Condition, Liquidity and Capital Resources

Financial Condition. Cash and cash equivalents decreased to $135.9 million at December 31, 2011 from $159.2 million at December 31, 2010. Nearly all of our cash and cash equivalents are held in cash depository accounts with major banks in the United States or invested in high-quality, short-term liquid investments.

Accounts and notes receivable, net of allowances, increased $35.1 million, or 7.4%, to $507 million at December 31, 2011, from $472 million at December 31, 2010, primarily due to an increase in accounts receivable days outstanding (DSO) of 1.1 days and increased sales. DSO was 20.7 days at December 31, 2011, 19.6 days at December 31, 2010, and 21.4 days at December 31, 2009, based on three months sales.

Merchandise inventories increased to $806 million at December 31, 2011 from $720 million at December 31, 2010. Average annual inventory turnover was 10.2 in 2011 and 10.4 in 2010. The increase in merchandise inventories at 2011 year-end and the decline in inventory turnover for 2011 compared to the prior year-end primarily resulted from growth in business, which requires higher levels of available inventory and the build-up inventory for new customers in anticipation of their full conversion.

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Liquidity and capital expenditures. The following table summarizes our consolidated statements of cash flows for the years ended December 31, 2011, 2010 and 2009:

(Dollars in millions)	**2011**	**2010**	**2009**
Net cash provided by (used for) continuing operations:			
Operating activities	**$ 68.4**	$ 143.2	$ 218.0
Investing activities	**(33.9)**	(37.4)	(21.2)
Financing activities	**(57.5)**	(41.0)	(181.8)
Net cash (used for) provided by discontinued operations	**(0.3)**	(1.7)	73.3
(Decrease) increase in cash and cash equivalents	**$ (23.3)**	$ 63.1	$ 88.3

Cash provided by operating activities was $68.4 million in 2011, compared to $143.2 million in 2010 and $218.0 million in 2009. Cash from operating activities in 2011 was a result of operating earnings and an increase in accounts payable, due to increased inventory purchases, offset by a build-up of inventory of approximately $100 million for new business, an increase in DSO of 1.1 days (adverse impact on cash of $26.3 million), and an increase in other current assets related to our growth in revenues. Cash from operating activities for 2010 was positively affected by operating earnings, a decrease in DSO of 1.8 days (positive impact on cash of approximately $43 million), and an increase in accounts payable. Cash from operating activities for 2010 was negatively affected by an increase in inventory for new customers.

Cash used for investing activities decreased to $33.9 million for 2011 from $37.4 million for 2010, which was increased from $21.2 million for 2009. Capital expenditures were $36.3 million for 2011, primarily related to our strategic and operational efficiency initiatives. These expenditures included investments in leasehold improvements and warehouse equipment both for our distribution centers and third-party logistics facilities, as well as investments in operational software improvements and certain customer-facing technologies.

Capital expenditures were $41.3 million for 2010, primarily related to relocating or expanding distribution centers for new distribution and third-party logistics business, as well as continued investment in operational efficiency initiatives. Capital expenditures in 2010 also included investments in software for the continued implementation of voice-pick and customer-facing technologies and other technology infrastructure enhancements. These capital expenditures were partially offset by proceeds from the sale of properties acquired from The Burrows Company (Burrows).

In 2009, capital expenditures were $32.3 million, primarily related to our strategic initiatives, including leasehold improvements and information technology systems for our third-party logistics operations. During 2009, we also invested in infrastructure initiatives designed to improve operational efficiency in our operating units. We installed automation equipment in certain large distribution centers where the high volume of low unit-of-measure business benefits the most from the use of such equipment through productivity improvements, such as an increase in the number of lines-picke