

OWENS & MINOR INC/VA/
Form 10-Q
November 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 1-9810

Owens & Minor, Inc.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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Owens & Minor, Inc. and Subsidiaries

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

| | | |
|-------------------------------------|--------------|--------------|
| Total liabilities and equity | \$ 2,221,749 | \$ 1,946,815 |
|-------------------------------------|--------------|--------------|

See accompanying notes to consolidated financial statements.

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

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

| | | |
|---|-----------|------------|
| Cash and cash equivalents at end of period | \$ 79,667 | \$ 196,852 |
|---|-----------|------------|

Supplemental disclosure of cash flow information:

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

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

Use of Estimates

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

2. Acquisition

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

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

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

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

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

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

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

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

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

3. Fair Value

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

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

4. Financing Receivables

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

Table of Contents**5. Intangible Assets**

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

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

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

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

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

6. Exit and Realignment Costs

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

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

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

7. Retirement Plan

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

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

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

8. Debt

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

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

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

9. Income Taxes

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

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

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

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

11. Shareholders Equity

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

12. Foreign Currency Translation

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

13. Commitments and Contingencies

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

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

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

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

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

Table of Contents**14. Segment Information**

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

The following tables present financial information by segment:

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

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

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

| For the three months ended September 30, 2012 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|------------------------|----------------------------|--------------|--------------|
| 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 |
| 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 | 2,059 | 146 | 1,926 | (2,072) | 2,059 |
| Comprehensive income (loss) | \$ 26,656 | \$ 33,479 | \$ (4,216) | \$ (29,263) | \$ 26,656 |

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

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| | | | | | |
|-----------------------------------|-----------|-----------|---------|-------------|-----------|
| Other comprehensive income (loss) | 121 | 133 | (133) | 121 | |
| Comprehensive income | \$ 33,473 | \$ 34,560 | \$ (62) | \$ (34,498) | \$ 33,473 |

Table of Contents**Condensed Consolidating Financial Information**

| For the 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 |
| 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 | 2,531 | 642 | 1,926 | (2,568) | 2,531 |
| Comprehensive income (loss) | \$ 86,601 | \$ 99,055 | \$ (4,562) | \$ (94,493) | \$ 86,601 |

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

Table of Contents**Condensed Consolidating Financial Information**

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

Table of Contents**Condensed Consolidating Financial Information**

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