

OWENS & MINOR INC/VA/  
Form 10-Q  
July 27, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 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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|   |  |
|---|--|
| <p><b>Virginia</b><br/>(State or other jurisdiction of<br/>incorporation or organization)</p> <p><b>9120 Lockwood Boulevard,</b></p> <p><b>Mechanicsville, Virginia</b><br/>(Address of principal executive offices)</p> <p><b>Post Office Box 27626,</b></p> <p><b>Richmond, Virginia</b><br/>(Mailing address of principal executive offices)</p> | <p><b>54-1701843</b><br/>(I.R.S. Employer<br/>Identification No.)</p> <p><b>23116</b><br/>(Zip Code)</p> <p><b>23261-7626</b><br/>(Zip Code)</p> |
|---|--|

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

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

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

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

|  |  |
|--|--|
| Large accelerated filer <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 July 20, 2012, was 63,503,881 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>  | <b>Three Months Ended June 30,</b> |              | <b>Six Months Ended June 30,</b> |              |
|---|------------------------------------|--------------|----------------------------------|--------------|
|   | <b>2012</b>                        | <b>2011</b>  | <b>2012</b>                      | <b>2011</b>  |
| Net revenue                                   | \$ 2,185,444                       | \$ 2,131,448 | \$ 4,403,326                     | \$ 4,255,263 |
| Cost of goods sold                            | 1,974,015                          | 1,915,382    | 3,977,569                        | 3,828,422    |
| Gross margin                                  | 211,429                            | 216,066      | 425,757                          | 426,841      |
| Selling, general, and administrative expenses | 150,288                            | 156,321      | 305,860                          | 307,294      |
| Depreciation and amortization                 | 8,515                              | 8,249        | 17,093                           | 17,016       |
| Other operating (income) loss, net            | (551)                              | 457          | (2,245)                          | 495          |
| Operating earnings                            | 53,177                             | 51,039       | 105,049                          | 102,036      |
| Interest expense, net                         | 3,487                              | 3,020        | 6,909                            | 6,737        |
| Income before income taxes                    | 49,690                             | 48,019       | 98,140                           | 95,299       |
| Income tax provision                          | 19,577                             | 18,855       | 38,667                           | 37,395       |
| Net income                                    | \$ 30,113                          | \$ 29,164    | \$ 59,473                        | \$ 57,904    |
| Net income per common share:                  |                                    |              |                                  |              |
| Basic   | \$ 0.48                            | \$ 0.46      | \$ 0.94                          | \$ 0.91      |
| Diluted                                       | \$ 0.48                            | \$ 0.46      | \$ 0.94                          | \$ 0.91      |
| Cash dividends per common share               | \$ 0.22                            | \$ 0.20      | \$ 0.44                          | \$ 0.40      |

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Comprehensive Income**

*(unaudited)*

| <i>(in thousands)</i>  | <b>Three Months Ended June 30,</b> |             | <b>Six Months Ended June 30,</b> |             |
|--|------------------------------------|-------------|----------------------------------|-------------|
|  | <b>2012</b>                        | <b>2011</b> | <b>2012</b>                      | <b>2011</b> |
| Net income   | \$ 30,113                          | \$ 29,164   | \$ 59,473                        | \$ 57,904   |
| Other comprehensive income, net of tax:  |                                    |             |                                  |             |
| Amounts recognized in net periodic benefit cost (net of income tax expense - \$92 and \$317 in 2012 and \$116 and \$171 in 2011) | 145                                | 181         | 496                              | 267         |
| Amounts recognized in interest expense, net (net of income tax benefit - \$8 and \$16 for 2012 and \$8 and \$16 for 2011)        | (11)                               | (13)        | (24)                             | (25)        |
| Other comprehensive income   | 134                                | 168         | 472                              | 242         |
| Comprehensive income   | \$ 30,247                          | \$ 29,332   | \$ 59,945                        | \$ 58,146   |

See accompanying notes to consolidated financial statements.

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

| <i>(in thousands, except per share data)</i>   | <b>June 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| <b>Current assets</b>  |                          |                              |
| Cash and cash equivalents  | \$ 224,937               | \$ 135,938                   |
| Accounts and notes receivable, net of allowances of \$15,259 and \$15,622  | 485,249                  | 506,758                      |
| Merchandise inventories  | 748,847                  | 806,366                      |
| Other current assets   | 72,346                   | 76,763                       |
| <b>Total current assets</b>  | <b>1,531,379</b>         | <b>1,525,825</b>             |
| Property and equipment, net of accumulated depreciation of \$110,957 and \$102,904   | 103,889                  | 108,061                      |
| Goodwill, net  | 248,498                  | 248,498                      |
| Intangible assets, net   | 21,018                   | 22,142                       |
| Other assets, net  | 50,640                   | 42,289                       |
| <b>Total assets</b>  | <b>\$ 1,955,424</b>      | <b>\$ 1,946,815</b>          |
| <b>Liabilities and equity</b>  |                          |                              |
| <b>Current liabilities</b>   |                          |                              |
| Accounts payable   | \$ 559,718               | \$ 575,793                   |
| Accrued payroll and related liabilities  | 17,738                   | 20,668                       |
| Deferred income taxes  | 37,879                   | 42,296                       |
| Other accrued liabilities  | 92,462                   | 93,608                       |
| <b>Total current liabilities</b>   | <b>707,797</b>           | <b>732,365</b>               |
| Long-term debt, excluding current portion  | 212,032                  | 212,681                      |
| Deferred income taxes  | 25,467                   | 21,894                       |
| Other liabilities  | 60,165                   | 60,658                       |
| <b>Total liabilities</b>   | <b>1,005,461</b>         | <b>1,027,598</b>             |
| <b>Commitments and contingencies</b>   |                          |                              |
| <b>Equity</b>  |                          |                              |
| <b>Owens &amp; Minor, Inc. shareholders' equity:</b>   |                          |                              |
| Preferred stock, par value \$100 per share, authorized - 10,000 shares, Series A Participating Cumulative Preferred Stock; none issued |                          |                              |
| Common stock, par value \$2 per share; authorized - 200,000 shares; issued and outstanding - 63,504 shares and 63,449 shares           | 127,008                  | 126,900                      |
| Paid-in capital  | 184,627                  | 179,052                      |
| Retained earnings  | 644,220                  | 619,629                      |
| Accumulated other comprehensive loss   | (7,022)                  | (7,494)                      |
| <b>Total Owens &amp; Minor, Inc. shareholders' equity</b>  | <b>948,833</b>           | <b>918,087</b>               |
| Noncontrolling interest  | 1,130                    | 1,130                        |
| <b>Total equity</b>  | <b>949,963</b>           | <b>919,217</b>               |

|                                     |                     |                     |
|-------------------------------------|---------------------|---------------------|
| <b>Total liabilities and equity</b> | <b>\$ 1,955,424</b> | <b>\$ 1,946,815</b> |
|-------------------------------------|---------------------|---------------------|

See accompanying notes to consolidated financial statements.

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

| <i>(in thousands)</i>  | <b>Six Months Ended<br/>June 30,</b> |                   |
|--|--------------------------------------|-------------------|
|  | <b>2012</b>                          | <b>2011</b>       |
| <b>Operating activities:</b>   |                                      |                   |
| Net income   | \$ 59,473                            | \$ 57,904         |
| Adjustments to reconcile net income to cash provided by operating activities of continuing operations: |                                      |                   |
| Depreciation and amortization  | 17,093                               | 17,016            |
| Provision for LIFO reserve   | 5,223                                | 11,265            |
| Share-based compensation expense   | 4,126                                | 3,581             |
| Provision for losses on accounts and notes receivable  | 270                                  | 758               |
| Pension contributions  |                                      | (543)             |
| Deferred income tax benefit  | (1,146)                              | (674)             |
| Changes in operating assets and liabilities:   |                                      |                   |
| Accounts and notes receivable  | 21,239                               | (33,606)          |
| Merchandise inventories  | 52,296                               | (42,762)          |
| Accounts payable   | (16,075)                             | 50,033            |
| Net change in other assets and liabilities   | 684                                  | (23,321)          |
| Other, net   | (404)                                | 114               |
| <b>Cash provided by operating activities of continuing operations</b>                                  | <b>142,779</b>                       | <b>39,765</b>     |
| <b>Investing activities:</b>   |                                      |                   |
| Additions to property and equipment  | (5,460)                              | (8,175)           |
| Additions to computer software and intangible assets   | (12,697)                             | (5,573)           |
| Proceeds from sale of property and equipment   | 115                                  | 44                |
| <b>Cash used for investing activities of continuing operations</b>                                     | <b>(18,042)</b>                      | <b>(13,704)</b>   |
| <b>Financing activities:</b>   |                                      |                   |
| Cash dividends paid  | (27,956)                             | (25,496)          |
| Repurchases of common stock  | (7,500)                              | (5,086)           |
| Financing costs paid   | (1,303)                              |                   |
| Excess tax benefits related to share-based compensation  | 1,160                                | 1,761             |
| Proceeds from exercise of stock options  | 3,761                                | 7,394             |
| Other, net   | (3,900)                              | (4,514)           |
| <b>Cash used for financing activities of continuing operations</b>                                     | <b>(35,738)</b>                      | <b>(25,941)</b>   |
| <b>Discontinued operations:</b>  |                                      |                   |
| Operating cash flows   |                                      | (139)             |
| <b>Net cash used for discontinued operations</b>   |                                      | <b>(139)</b>      |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>88,999</b>                        | <b>(19)</b>       |
| <b>Cash and cash equivalents at beginning of period</b>  | <b>135,938</b>                       | <b>159,213</b>    |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 224,937</b>                    | <b>\$ 159,194</b> |



**Supplemental disclosure of cash flow information:**

|                        |           |           |
|------------------------|-----------|-----------|
| Income taxes paid, net | \$ 38,113 | \$ 42,987 |
| Interest paid          | \$ 7,372  | \$ 7,445  |

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  |  |                              |                 | 57,904            |                                      |                         | 57,904       |
| Other comprehensive income                            |  |                              |                 |                   | 242                                  |                         | 242          |
| Comprehensive income                                  |  |                              |                 |                   |                                      |                         | 58,146       |
| Dividends declared (\$0.40 per share)                 |  |                              |                 | (25,496)          |                                      |                         | (25,496)     |
| Shares repurchased and retired                        | (152)                                    | (303)                        |                 | (4,783)           |                                      |                         | (5,086)      |
| Share-based compensation expense, exercises and other | 488                                      | 975                          | 9,722           |                   |                                      |                         | 10,697       |
| Balance June, 2011                                    | 63,769                                   | \$ 127,539                   | \$ 175,169      | \$ 597,945        | \$ (4,874)                           | \$                      | \$ 895,779   |
| Balance December 31, 2011                             | 63,449                                   | \$ 126,900                   | \$ 179,052      | \$ 619,629        | \$ (7,494)                           | \$ 1,130                | \$ 919,217   |
| Net income  |  |                              |                 | 59,473            |                                      |                         | 59,473       |
| Other comprehensive income                            |  |                              |                 |                   | 472                                  |                         | 472          |
| Comprehensive income                                  |  |                              |                 |                   |                                      |                         | 59,945       |
| Dividends declared (\$0.44 per share)                 |  |                              |                 | (27,895)          |                                      |                         | (27,895)     |
| Shares repurchased and retired                        | (256)                                    | (513)                        |                 | (6,987)           |                                      |                         | (7,500)      |
| Share-based compensation expense, exercises and other | 311                                      | 621                          | 5,575           |                   |                                      |                         | 6,196        |
| Balance June 30, 2012                                 | 63,504                                   | 127,008                      | \$ 184,627      | \$ 644,220        | \$ (7,022)                           | \$ 1,130                | \$ 949,963   |

See accompanying notes to consolidated financial statements.

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

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

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

*Use of Estimates*

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

**2. Fair Value**

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable reported in the consolidated balance sheets approximate fair value due to the short-term nature of these instruments. The fair value of long-term debt is estimated based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market (Level 1) or, if quoted market prices or dealer quotes are not available, on the borrowing rates currently available for loans with similar terms, credit ratings and average remaining maturities (Level 2). See Note 6 for the fair value of long-term debt.

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

**3. Intangible Assets**

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

|                          | <b>Customer<br/>Relationships</b> | <b>Other<br/>Intangibles</b> | <b>Total</b> |
|--------------------------|-----------------------------------|------------------------------|--------------|
| <b>At June 30, 2012:</b> |                                   |                              |              |
| Gross intangible assets  | \$ 31,622                         | \$ 4,720                     | \$ 36,342    |
| Accumulated amortization | (10,683)                          | (4,641)                      | (15,324)     |
| Net intangible assets    | \$ 20,939                         | \$ 79                        | \$ 21,018    |

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## At December 31, 2011:

|                          |    |         |    |         |    |          |
|--------------------------|----|---------|----|---------|----|----------|
| Gross intangible assets  | \$ | 31,622  | \$ | 4,720   | \$ | 36,342   |
| Accumulated amortization |    | (9,569) |    | (4,631) |    | (14,200) |
| Net intangible assets    | \$ | 22,053  | \$ | 89      | \$ | 22,142   |

Amortization expense for intangible assets was \$0.5 million and \$0.8 million for the three months ended June 30, 2012 and 2011, and \$1.1 million and \$1.6 million for the six months ended June 30, 2012 and 2011.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$1.0 million for the remainder of 2012 and \$2.1 million annually for 2013 through 2017.

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### 4. Exit and Realignment Costs

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

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

| Six months ended June 30, 2012          | Lease<br>Obligations | Severance<br>and Other | Total     |
|---|----------------------|------------------------|-----------|
| Accrued exit costs, beginning of period | \$ 8,264             | \$ 1,831               | \$ 10,095 |
| Interest accretion                      | 144                  |                        | 144       |
| Cash payments, net of sublease income   | (734)                | (1,770)                | (2,504)   |
| Accrued exit costs, end of period       | \$ 7,674             | \$ 61                  | \$ 7,735  |

There were no accruals for exit costs for the six months ended June 30, 2011.

### 5. Retirement Plan

We have a noncontributory, unfunded retirement plan for certain officers and other key employees (the Retirement Plan). In February 2012, our Board of Directors amended the Retirement Plan to freeze benefit levels and modify vesting provisions under the plan effective as of March 31, 2012. As a result, we recognized a curtailment loss of \$0.2 million for the six months ended June 30, 2012. The reduction of the projected benefit obligation as a result of the amendment was less than \$1 million.

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

|                                    | Three months ended<br>June 30, |          | Six months ended<br>June 30, |          |
|------------------------------------|--------------------------------|----------|------------------------------|----------|
|                                    | 2012                           | 2011     | 2012                         | 2011     |
| Service cost                       | \$                             | \$ 321   | \$ 130                       | \$ 651   |
| Interest cost                      | 404                            | 475      | 808                          | 902      |
| Amortization of prior service cost |                                | 76       |                              | 146      |
| Recognized net actuarial loss      | 237                            | 221      | 495                          | 292      |
| Curtailment loss                   |                                |          | 234                          |          |
| Net periodic benefit cost          | \$ 641                         | \$ 1,093 | \$ 1,667                     | \$ 1,991 |

### 6. Debt

We have \$200 million of senior notes outstanding, which mature on April 15, 2016 and bear interest at 6.35% payable semi-annually (Senior Notes). We may redeem the Senior Notes, in whole or in part, at a redemption price of the greater of 100% of the principal amount of the Senior Notes or the present value of remaining scheduled payments of principal and interest discounted at the applicable Treasury Rate plus 0.25%. As of June 30, 2012 and December 31, 2011, the estimated fair value of the Senior Notes was \$218.0 million and \$217.0 million, and the related carrying amount was \$206.6 million and \$207.5 million. The estimated fair value interest rate used to compute the fair value of the Senior Notes at June 30, 2012 was 3.77%.

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

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agreement set to expire on June 7, 2013. Under the new credit facility, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$150 million. The interest rate on the new credit facility, which is subject to adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Credit Agreement. We are charged a commitment fee of between 17.5 and 42.5 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. At June 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.

**Table of Contents****7. Income Taxes**

The provision for income taxes was \$19.6 million and \$38.7 million for the three and six months ended June 30, 2012, compared to \$18.9 million and \$37.4 million for the same periods in 2011. The effective tax rate was 39.4% for both the three and six months ended June 30, 2012, compared to 39.3% and 39.2% for the same periods in 2011.

**8. Net Income per Common Share**

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

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
| (in thousands, except per share data)   | 2012                           | 2011      | 2012                         | 2011      |
| Numerator:  |                                |           |                              |           |
| Net income  | \$ 30,113                      | \$ 29,164 | \$ 59,473                    | \$ 57,904 |
| Less: income allocated to unvested restricted shares                          | (194)                          | (218)     | (421)                        | (599)     |
| Net income attributable to common shareholders basic                          | 29,919                         | 28,946    | 59,052                       | 57,305    |
| Add: undistributed income attributable to unvested restricted shares basic    | 87                             | 114       | 176                          | 256       |
| Less: undistributed income attributable to unvested restricted shares diluted | (87)                           | (113)     | (175)                        | (255)     |
| Net income attributable to common shareholders diluted                        | \$ 29,919                      | \$ 28,947 | \$ 59,053                    | \$ 57,306 |
| Denominator:  |                                |           |                              |           |
| Weighted average shares outstanding basic                                     | 62,815                         | 63,007    | 62,825                       | 62,808    |
| Dilutive shares stock options   | 80                             | 191       | 89                           | 204       |
| Weighted average shares outstanding diluted                                   | 62,895                         | 63,198    | 62,914                       | 63,012    |
| Net income per share attributable to common shareholders:                     |                                |           |                              |           |
| Basic   | \$ 0.48                        | \$ 0.46   | \$ 0.94                      | \$ 0.91   |
| Diluted   | \$ 0.48                        | \$ 0.46   | \$ 0.94                      | \$ 0.91   |

**9. Shareholders Equity**

In February 2011, our Board of Directors authorized a share repurchase program of up to \$50 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in February 2014. The program is intended to offset shares issued in conjunction with our stock incentive plans and may be suspended or discontinued at any time. During the six months ended June 30, 2012, we repurchased in open-market transactions and retired approximately 257 thousand shares of our common stock for an aggregate of \$7.5 million, or an average price per share of \$29.23. As of June 30, 2012, we have approximately \$26.4 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

**10. Commitments and Contingencies**

We have contractual obligations that are required to be paid to customers in the event that certain contractual performance targets are not achieved as of specified dates, generally within 36 months from inception of the contract. These contingent obligations totaled \$4.2 million as of June 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 \$0.9 million; 2013 \$2.3 million; 2014 \$0.7 million; and 2015 \$0.3 million. None of these contingent obligations were accrued at June 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 June 30, 2012, \$1.5 million of deferred revenue

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related to outstanding contractual performance targets is included in other accrued 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. As of June 30, 2012, the estimated potential payment we may receive (and related contingent gain) related to prior periods could be more than \$7 million.



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

**11. Condensed Consolidating Financial Information**

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

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

| For the three months ended June 30, 2012     | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations       | Consolidated     |
|--|---------------------|------------------------|----------------------------|--------------------|------------------|
| <b>Statements of Income</b>                  |                     |                        |                            |                    |                  |
| Net revenue                                  | \$                  | \$ 2,185,444           | \$ 5,378                   | \$ (5,378)         | \$ 2,185,444     |
| Cost of goods sold                           |                     | 1,974,114              | 5,053                      | (5,152)            | 1,974,015        |
| Gross margin                                 |                     | 211,330                | 325                        | (226)              | 211,429          |
| Selling, general and administrative expenses | 183                 | 149,542                | 563                        |                    | 150,288          |
| Depreciation and amortization                |                     | 8,494                  | 21                         |                    | 8,515            |
| Other operating income, net                  |                     | (414)                  | (137)                      |                    | (551)            |
| Operating (loss) earnings                    | (183)               | 53,708                 | (122)                      | (226)              | 53,177           |
| Interest expense (income), net               | 4,797               | (1,334)                | 24                         |                    | 3,487            |
| (Loss) income before income taxes            | (4,980)             | 55,042                 | (146)                      | (226)              | 49,690           |
| Income tax (benefit) provision               | (1,963)             | 21,569                 | (29)                       |                    | 19,577           |
| Equity in earnings of subsidiaries           | 33,130              |                        |                            | (33,130)           |                  |
| <b>Net income (loss)</b>                     | <b>30,113</b>       | <b>33,473</b>          | <b>(117)</b>               | <b>(33,356)</b>    | <b>30,113</b>    |
| Other comprehensive income                   | 134                 | 145                    |                            | (145)              | 134              |
| <b>Comprehensive income</b>                  | <b>\$ 30,247</b>    | <b>\$ 33,618</b>       | <b>\$ (117)</b>            | <b>\$ (33,501)</b> | <b>\$ 30,247</b> |

| For the three months ended June 30, 2011     | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations       | Consolidated     |
|--|---------------------|------------------------|----------------------------|--------------------|------------------|
| <b>Statements of Income</b>                  |                     |                        |                            |                    |                  |
| Net revenue                                  | \$                  | \$ 2,131,448           | \$                         | \$                 | \$ 2,131,448     |
| Cost of goods sold                           |                     | 1,915,382              |                            |                    | 1,915,382        |
| Gross margin                                 |                     | 216,066                |                            |                    | 216,066          |
| Selling, general and administrative expenses | 415                 | 155,944                | (38)                       |                    | 156,321          |
| Depreciation and amortization                |                     | 8,249                  |                            |                    | 8,249            |
| Other operating expense, net                 |                     | 457                    |                            |                    | 457              |
| Operating (loss) earnings                    | (415)               | 51,416                 | 38                         |                    | 51,039           |
| Interest expense, net                        | 1,937               | 1,064                  | 19                         |                    | 3,020            |
| (Loss) income before income taxes            | (2,352)             | 50,352                 | 19                         |                    | 48,019           |
| Income tax (benefit) provision               | (923)               | 19,728                 | 50                         |                    | 18,855           |
| Equity in earnings of subsidiaries           | 30,593              |                        |                            | (30,593)           |                  |
| <b>Net income (loss)</b>                     | <b>29,164</b>       | <b>30,624</b>          | <b>(31)</b>                | <b>(30,593)</b>    | <b>29,164</b>    |
| Other comprehensive income                   | 168                 | 181                    |                            | (181)              | 168              |
| <b>Comprehensive income</b>                  | <b>\$ 29,332</b>    | <b>\$ 30,805</b>       | <b>\$ (31)</b>             | <b>\$ (30,774)</b> | <b>\$ 29,332</b> |

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### Condensed Consolidating Financial Information

| For the six months ended June 30, 2012       | Owens &<br>Minor, Inc. | Guarantor<br>Subsidiaries | Non-guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|--|------------------------|---------------------------|-------------------------------|--------------------|------------------|
| <b>Statements of Income</b>                  |                        |                           |                               |                    |                  |
| Net revenue                                  | \$                     | \$ 4,403,326              | \$ 6,718                      | \$ (6,718)         | \$ 4,403,326     |
| Cost of goods sold                           |                        | 3,977,692                 | 6,318                         | (6,441)            | 3,977,569        |
| Gross margin                                 |                        | 425,634                   | 400                           | (277)              | 425,757          |
| Selling, general and administrative expenses | 655                    | 304,210                   | 995                           |                    | 305,860          |
| Depreciation and amortization                |                        | 17,058                    | 35                            |                    | 17,093           |
| Other operating income, net                  |                        | (2,111)                   | (134)                         |                    | (2,245)          |
| Operating (loss) earnings                    | (655)                  | 106,477                   | (496)                         | (277)              | 105,049          |
| Interest expense (income), net               | 7,567                  | (705)                     | 47                            |                    | 6,909            |
| (Loss) income before income taxes            | (8,222)                | 107,182                   | (543)                         | (277)              | 98,140           |
| Income tax (benefit) provision               | (3,234)                | 42,014                    | (113)                         |                    | 38,667           |
| Equity in earnings of subsidiaries           | 64,461                 |                           |                               | (64,461)           |                  |
| <b>Net income (loss)</b>                     | <b>59,473</b>          | <b>65,168</b>             | <b>(430)</b>                  | <b>(64,738)</b>    | <b>59,473</b>    |
| Other comprehensive income                   | 472                    | 496                       |                               | (496)              | 472              |
| <b>Comprehensive income</b>                  | <b>\$ 59,945</b>       | <b>\$ 64,672</b>          | <b>\$ (430)</b>               | <b>\$ (65,234)</b> | <b>\$ 59,945</b> |

| For the six months ended June 30, 2011       | Owens &<br>Minor, Inc. | Guarantor<br>Subsidiaries | Non-guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|--|------------------------|---------------------------|-------------------------------|--------------------|------------------|
| <b>Statements of Income</b>                  |                        |                           |                               |                    |                  |
| Net revenue                                  | \$                     | \$ 4,255,137              | \$ 126                        | \$                 | \$ 4,255,263     |
| Cost of goods sold                           |                        | 3,828,406                 | 16                            |                    | 3,828,422        |
| Gross margin                                 |                        | 426,731                   | 110                           |                    | 426,841          |
| Selling, general and administrative expenses | 853                    | 306,186                   | 255                           |                    | 307,294          |
| Depreciation and amortization                |                        | 17,016                    |                               |                    | 17,016           |
| Other operating expense (income), net        | 148                    | 355                       | (8)                           |                    | 495              |
| Operating (loss) earnings                    | (1,001)                | 103,174                   | (137)                         |                    | 102,036          |
| Interest expense, net                        | 4,762                  | 1,940                     | 35                            |                    | 6,737            |
| (Loss) income before income taxes            | (5,763)                | 101,234                   | (172)                         |                    | 95,299           |
| Income tax (benefit) provision               | (2,262)                | 39,681                    | (24)                          |                    | 37,395           |
| Equity in earnings of subsidiaries           | 61,405                 |                           |                               | (61,405)           |                  |
| <b>Net income (loss)</b>                     | <b>57,904</b>          | <b>61,553</b>             | <b>(148)</b>                  | <b>(61,405)</b>    | <b>57,904</b>    |
| Other comprehensive income                   | 242                    | 267                       |                               | (267)              | 242              |
| <b>Comprehensive income</b>                  | <b>\$ 58,146</b>       | <b>\$ 61,820</b>          | <b>\$ (148)</b>               | <b>\$ (61,672)</b> | <b>\$ 58,146</b> |

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### Condensed Consolidating Financial Information

| June 30, 2012  | Owens &<br>Minor, Inc. | Guarantor<br>Subsidiaries | Non- guarantor<br>Subsidiaries | Eliminations   | Consolidated |
|--|------------------------|---------------------------|--------------------------------|----------------|--------------|
| <b>Balance Sheets</b>                                    |                        |                           |                                |                |              |
| <b>Assets</b>  |                        |                           |                                |                |              |
| <b>Current assets</b>                                    |                        |                           |                                |                |              |
| Cash and cash equivalents                                | \$ 214,248             | \$ 9,362                  | \$ 1,327                       | \$             | \$ 224,937   |
| Accounts and notes receivable, net                       |                        | 482,803                   | 2,446                          |                | 485,249      |
| Merchandise inventories                                  |                        | 749,123                   |                                | (276)          | 748,847      |
| Other current assets                                     | 309                    | 71,987                    | 51                             | (1)            | 72,346       |
| <b>Total current assets</b>                              | 214,557                | 1,313,275                 | 3,824                          | (277)          | 1,531,379    |
| Property and equipment, net                              |                        | 103,723                   | 166                            |                | 103,889      |
| Goodwill, net  |                        | 247,271                   | 1,227                          |                | 248,498      |
| Intangible assets, net                                   |                        | 21,018                    |                                |                | 21,018       |
| Due from O&M and subsidiaries                            |                        | 220,236                   | 40,405                         | (260,641)      |              |
| Advances to and investments in consolidated subsidiaries | 1,207,551              |                           |                                | (1,207,551)    |              |
| Other assets, net  | 687                    | 49,687                    | 266                            |                | 50,640       |
| <b>Total assets</b>                                      | \$ 1,422,795           | \$ 1,955,210              | \$ 45,888                      | \$ (1,468,469) | \$ 1,955,424 |
| <b>Liabilities and equity</b>                            |                        |                           |                                |                |              |
| <b>Current liabilities</b>                               |                        |                           |                                |                |              |
| Accounts payable   | \$                     | \$ 556,915                | \$ 2,803                       | \$             | \$ 559,718   |
| Accrued payroll and related liabilities                  |                        | 17,618                    | 120                            |                | 17,738       |
| Deferred income taxes                                    |                        | 37,879                    |                                |                | 37,879       |
| Other accrued liabilities                                | 6,705                  | 85,827                    | (70)                           |                | 92,462       |
| <b>Total current liabilities</b>                         | 6,705                  | 698,239                   | 2,853                          |                | 707,797      |
| Long-term debt, excluding current portion                | 206,616                | 5,416                     |                                |                | 212,032      |
| Due to O&M and subsidiaries                              | 260,641                |                           |                                | (260,641)      |              |
| Intercompany debt  |                        | 138,890                   |                                | (138,890)      |              |
| Deferred income taxes                                    |                        | 25,467                    |                                |                | 25,467       |
| Other liabilities  |                        | 60,165                    |                                |                | 60,165       |
| <b>Total liabilities</b>                                 | 473,962                | 928,177                   | 2,853                          | (399,531)      | 1,005,461    |
| <b>Equity</b>  |                        |                           |                                |                |              |
| Common stock   | 127,008                |                           | 1,500                          | (1,500)        | 127,008      |
| Paid-in capital  | 184,627                | 242,024                   | 64,314                         | (306,338)      | 184,627      |
| Retained earnings (deficit)                              | 644,220                | 792,219                   | (23,909)                       | (768,310)      | 644,220      |
| Accumulated other comprehensive loss                     | (7,022)                | (7,210)                   |                                | 7,210          | (7,022)      |
| <b>Total Owens &amp; Minor, Inc. shareholders equity</b> | 948,833                | 1,027,033                 | 41,905                         | (1,068,938)    | 948,833      |
| Noncontrolling interest                                  |                        |                           | 1,130                          |                | 1,130        |
| <b>Total equity</b>                                      | 948,833                | 1,027,033                 | 43,035                         | (1,068,938)    | 949,963      |
| <b>Total liabilities and equity</b>                      | \$ 1,422,795           | \$ 1,955,210              | \$ 45,888                      | \$ (1,468,469) | \$ 1,955,424 |

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

| <b>December 31, 2011</b>           | <b>Owens &amp;<br/>Minor,<br/>Inc.</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|------------------------------------|--|-----------------------------------|--|---------------------|---------------------|
| <b>Balance Sheets</b>              |  |                                   |  |                     |                     |
| <b>Assets</b>                      |  |                                   |  |                     |                     |
| <b>Current assets</b>              |  |                                   |  |                     |                     |
| Cash and cash equivalents          | \$ 120,010                             | \$ 14,809                         | \$ 1,119                                   | \$                  | \$ 135,938          |
| Accounts and notes receivable, net |  | 506,633                           | 125  |                     | 506,758             |
| Merchandise inventories            |  | 806,281                           | 85   |                     | 806,366             |
| Other current assets               | 139                                    | 76,696                            | 35   | (107)               | 76,763              |
| <b>Total current assets</b>        | 120,149                                | 1,404,419                         | 1,364                                      | (107)               | 1,525,825           |
| Property and equipment, net        |  | 107,878                           | 183  |                     | 108,061             |
| Goodwill, net                      |  | 247,271                           | 1,227                                      |                     | 248,498             |
| Intangible assets, net             |  | 22,142                            |  |                     | 22,142              |
| Due from O&M and subsidiaries      |  |                                   | 40,888                                     | (40,888)            |                     |