

OWENS & MINOR INC/VA/
Form 10-Q
November 06, 2009
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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, 2009

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 31, 2009, was 41,864,673 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****Condensed Consolidated Statements of Income****(unaudited)**

<i>(in thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue	\$ 2,034,792	\$ 1,786,858	\$ 5,997,200	\$ 5,285,389
Cost of revenue	1,830,450	1,608,109	5,411,526	4,761,084
Gross margin	204,342	178,749	585,674	524,305
Selling, general and administrative expenses	142,162	128,656	425,531	380,386
Depreciation and amortization	6,721	5,667	18,583	16,343
Other operating income, net	(1,233)	(1,893)	(3,958)	(4,811)
Operating earnings	56,692	46,319	145,518	132,387
Interest expense, net	3,202	6,284	9,834	12,660
Income before income taxes	53,490	40,035	135,684	119,727
Income tax provision	18,803	14,687	50,864	45,879
Income from continuing operations	34,687	25,348	84,820	73,848
Loss from discontinued operations, net of tax		(64)	(12,509)	(724)
Net income	\$ 34,687	\$ 25,284	\$ 72,311	\$ 73,124
Income (loss) per common share basic:				
Continuing operations	\$ 0.83	\$ 0.62	\$ 2.04	\$ 1.80
Discontinued operations		(0.01)	(0.30)	(0.02)
Net income per common share basic	\$ 0.83	\$ 0.61	\$ 1.74	\$ 1.78
Income (loss) per common share diluted:				
Continuing operations	\$ 0.83	\$ 0.61	\$ 2.03	\$ 1.78
Discontinued operations			(0.30)	(0.02)
Net income per common share diluted	\$ 0.83	\$ 0.61	\$ 1.73	\$ 1.76
Cash dividends per common share	\$ 0.23	\$ 0.20	\$ 0.69	\$ 0.60

See accompanying notes to condensed consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(unaudited)

<i>(in thousands, except per share data)</i>	September 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 42,931	\$ 7,886
Accounts and notes receivable, net of allowances of \$16,234 and \$14,808	509,497	521,311
Merchandise inventories	679,459	679,069
Other current assets	60,911	71,329
Current assets of discontinued operations		32,199
Total current assets	1,292,798	1,311,794
Property and equipment, net of accumulated depreciation of \$80,005 and \$71,212	82,667	76,949
Property held for sale	12,730	15,730
Goodwill, net	247,271	252,412
Intangible assets, net	28,571	27,802
Other assets, net	32,988	29,145
Other assets of discontinued operations		62,358
Total assets	\$ 1,697,025	\$ 1,776,190
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	\$ 548,929	\$ 513,026
Accrued payroll and related liabilities	23,128	40,018
Other accrued liabilities	111,263	103,429
Current liabilities of discontinued operations	2,603	11,038
Total current liabilities	685,923	667,511
Long-term debt, excluding current portion	207,999	359,237
Other liabilities	57,601	60,391
Total liabilities	951,523	1,087,139
Commitments and contingencies		
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 41,893 shares and 41,441 shares		
	83,786	82,881
Paid-in capital	191,655	180,074
Retained earnings	481,735	438,192
Accumulated other comprehensive loss	(11,674)	(12,096)
Total shareholders equity	745,502	689,051
Total liabilities and shareholders equity	\$ 1,697,025	\$ 1,776,190

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See accompanying notes to condensed consolidated financial statements.

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

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net income	\$ 72,311	\$ 73,124
Adjustments to reconcile net income to cash provided by operating activities of continuing operations:		
Loss from discontinued operations	12,509	724
Depreciation and amortization	18,583	16,343
Share-based compensation expense	5,860	6,129
Provision for LIFO reserve	4,940	10,468
Provision for losses on accounts and notes receivable	3,387	2,368
Loss on interest rate swaps		3,141
Changes in operating assets and liabilities:		
Accounts and notes receivable	8,427	(10,940)
Merchandise inventories	(5,330)	(38,258)
Accounts payable	48,485	46,194
Net change in other current assets and liabilities	(4,552)	8,472
Other, net	(3,160)	1,346
Cash provided by operating activities of continuing operations	161,460	119,111
Investing activities:		
Additions to property and equipment	(14,123)	(12,586)
Additions to computer software	(9,311)	(5,510)
Cash received related to acquisition of business	6,994	
Proceeds from sale of property and equipment	2,398	
Other, net		8
Cash used for investing activities of continuing operations	(14,042)	(18,088)
Financing activities:		
Net payments on revolving credit facility	(150,578)	(76,908)
Cash dividends paid	(28,755)	(24,733)
Increase (decrease) in drafts payable	(12,582)	634
Proceeds from exercise of stock options	5,228	8,140
Excess tax benefits related to share-based compensation	2,306	2,963
Proceeds from the termination of interest rate swaps		3,795
Other, net	(1,604)	(1,911)
Cash used for financing activities of continuing operations	(185,985)	(88,020)
Discontinued operations:		
Operating cash flows	10,612	4,452
Investing cash flows	63,000	(2,109)
Net cash provided by discontinued operations	73,612	2,343

Net increase in cash and cash equivalents	35,045	15,346
Cash and cash equivalents at beginning of period	7,886	10,395
Cash and cash equivalents at end of period	\$ 42,931	\$ 25,741

Supplemental disclosure of cash flow information:

Income taxes paid, net	\$ 42,993	\$ 54,006
Interest paid	\$ 6,694	\$ 7,119

See accompanying notes to condensed consolidated financial statements.

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

The accompanying unaudited condensed consolidated financial statements contain all adjustments (which are comprised only of normal recurring accruals and the use of estimates) necessary to present fairly the consolidated financial position of Owens & Minor, Inc. and its wholly-owned subsidiaries (O&M or the company) as of September 30, 2009, and December 31, 2008, the consolidated results of operations for the three and nine months ended September 30, 2009 and 2008, and the consolidated cash flows for the nine months ended September 30, 2009 and 2008, in conformity with U.S. generally accepted accounting principles (GAAP). All significant intercompany accounts and transactions have been eliminated. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. The company has evaluated all subsequent events through November 6, 2009, the date the financial statements were issued.

In January 2009, the company exited its direct-to-consumer distribution business (the DTC business). Accordingly, the DTC business is reported as discontinued operations for all periods presented, and unless otherwise noted, all amounts presented in the accompanying condensed consolidated financial statements, including note disclosures, contain only information related to the company's continuing operations.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

2. Acquisitions of Businesses and Intangible Assets***The Burrows Company***

On October 1, 2008, the company acquired certain assets and liabilities of The Burrows Company, a Chicago-based, privately-held distributor of medical and surgical supplies to the acute-care market and entered into an agreement to purchase certain real property used in the operation of the business. The acquisition cost was approximately \$90.6 million, including transaction costs, comprised of \$17.5 million of cash paid at acquisition, net of a \$7.0 million purchase price adjustment receivable at December 31, 2008, \$56.1 million of assumed debt which was satisfied in full on the acquisition date, and \$17.0 million cash paid in December 2008 for the real property. The acquisition was financed with borrowings under the company's revolving credit facility and available cash.

During the three months ended September 30, 2009, the company finalized its allocation of the purchase price, including the values assigned to real property, acquired customer relationships, non-compete agreement, involuntary termination costs, and lease exit liabilities. These adjustments resulted in a \$5.1 million decrease to goodwill. The following table presents the adjusted purchase price allocation of the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date:

Purchase allocation	
<i>Assets acquired</i>	
Accounts receivable	\$ 37,484
Inventory	58,164
Other current assets	292
Property and equipment	2,094
Property held for sale	15,150

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Intangible assets	13,900
Goodwill	14,425
Total assets acquired	141,509
<i>Liabilities assumed</i>	
Current liabilities	51,411
Total liabilities assumed	51,411
Net assets acquired, less cash assumed	\$ 90,098

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(in thousands, unless otherwise indicated)**

The results of operations of the acquired business are included in the company's financial statements as of the acquisition date.

The unaudited pro forma impact of the acquisition, as if the acquisition had been completed as of the beginning of 2008, is an increase of less than 10% of consolidated revenues for the three and nine months ended September 30, 2008. The unaudited pro forma impact of the acquisition on income from continuing operations and income from continuing operations per diluted share for the three and nine months ended September 30, 2008, is not material.

3. Discontinued Operations

The following table provides summary financial information for the DTC business for the three- and nine-month periods ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue	\$	\$ 23,610	\$	\$ 72,710
Income (loss) from discontinued operations before income taxes	\$ 264	\$ (101)	\$ (19,757)	\$ (1,135)
Income tax benefit (expense)	(264)	37	7,248	411
Loss from discontinued operations	\$	\$ (64)	\$ (12,509)	\$ (724)

The company incurred charges associated with exiting the DTC business during the nine-month period ended September 30, 2009. These charges related to the valuation of accounts receivable, as the company entered into an agreement with a third party during the first quarter of 2009 to pursue the collection of remaining accounts receivable, a loss on the disposal of inventory, costs associated with leased facilities, and payroll costs, including severance. The company recognized a \$3.2 million pre-tax gain in the first quarter of 2009, on the sale of certain assets of the DTC business to Liberty Healthcare Group, Inc., a subsidiary of Medco Health Solutions, Inc.

4. Fair Value Measurements

Fair value is determined based on the assumptions that a market participant would use in pricing an asset or liability. The assumptions used are in accordance with a three-tier hierarchy, defined by GAAP, that draws a distinction between market participant assumptions based on (i) observable inputs such as quoted prices in active markets (Level 1), (ii) inputs other than quoted prices in active markets that are observable either directly or indirectly (Level 2) and (iii) unobservable inputs that require the company to use present value and other valuation techniques in the determination of fair value (Level 3).

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable reported in the condensed consolidated balance sheets approximate fair value due to the short-term nature of these instruments. See Notes 8 and 9 for the fair value of the company's debt instruments and interest rate swaps.

5. Property Held for Sale

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Property held for sale consists of real properties acquired from The Burrows Company that the company is marketing for sale. These assets are reported at estimated fair value less selling costs. See Note 2 for more information on the acquisition.

6. Intangible Assets

Intangible assets at September 30, 2009, and December 31, 2008, are as follows:

	Customer Relationships	Other Intangibles	Total
At September 30, 2009:			
Gross intangible assets	\$ 31,582	\$ 4,731	\$ 36,313
Accumulated amortization	(4,951)	(2,791)	(7,742)
Net intangible assets	\$ 26,631	\$ 1,940	\$ 28,571
At December 31, 2008:			
Gross intangible assets	\$ 29,183	\$ 4,131	\$ 33,314
Accumulated amortization	(3,513)	(1,999)	(5,512)
Net intangible assets	\$ 25,670	\$ 2,132	\$ 27,802

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(in thousands, unless otherwise indicated)**

Amortization expense for intangible assets was \$0.9 million and \$0.5 million for the three months ended September 30, 2009 and 2008, and \$2.2 million and \$1.5 million for the nine months ended September 30, 2009 and 2008.

Based on the current carrying value of intangible assets subject to amortization, estimated future amortization expense for the next five years is as follows: Remainder of 2009 \$0.8 million; 2010 \$3.0 million; 2011 \$2.8 million; 2012 \$2.1 million; 2013 \$2.1 million; and 2014 \$2.1 million.

7. Retirement Plans

The components of net periodic pension cost of the company's retirement plans for the three and nine months ended September 30, 2009 and 2008, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	\$ 301	\$ 308	\$ 905	\$ 925
Interest cost	871	853	2,612	2,562
Expected return on plan assets	(459)	(490)	(1,376)	(1,470)
Amortization of prior service cost	39	40	117	118
Recognized net actuarial loss	214	193	639	578
Net periodic pension cost	\$ 966	\$ 904	\$ 2,897	\$ 2,713

8. Debt

The company has \$200 million of senior notes outstanding, which mature in April 2016 and bear interest at 6.35% payable semi-annually (Senior Notes). The estimated fair value of the Senior Notes was \$180.0 million and \$174.3 million, and the related carrying amount was \$205.9 million and \$206.6 million at September 30, 2009, and December 31, 2008. The estimated fair value of the Senior Notes is based on quoted market prices for the identical liability when traded as an asset in an active market (Level 1) or, if a quoted market price is not available, on the borrowing rates currently available to the company for loans with similar terms and average maturities (Level 2).

The company has a revolving credit facility with a total borrowing capacity of \$306 million, which expires in May 2011. At September 30, 2009, the company had \$11.0 million of letters of credit and no borrowings outstanding under the facility, leaving \$295.0 million available for borrowing.

9. Derivative Financial Instruments

During the nine months ended September 30, 2008, the company held interest rate swaps related to a portion of the company's \$200 million Senior Notes. The swaps were designated as a fair value hedge of a portion of the Senior Notes using the shortcut method, as both the swaps and the Senior Notes met all of the conditions for the use of this method. Accordingly, no net gains or losses were recorded in the statement of income related to the company's underlying debt and interest rate swap agreements. The fair value of the swaps was determined using observable market inputs (Level 2). The swaps were terminated in the third quarter of 2008, and the company did not hold any derivative financial instruments during the nine months ended September 30, 2009.

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During the third quarter of 2008, Lehman Brothers Holdings, Inc., guarantor of one of the swaps, declared bankruptcy. The company determined at that date that the swaps were no longer expected to be effective in offsetting interest rate risk. The company discontinued accounting for the swaps as a fair value hedge as of that date. The company terminated the swaps in September 2008 and received proceeds of \$3.8 million, plus accrued interest of \$0.9 million. The company realized a loss of \$3.1 million, included in interest expense, net, in the third quarter of 2008. This loss represents the difference between the fair value of the swaps as of the date that hedge accounting was discontinued and the proceeds received on the termination of the swaps. The fair value adjustment of \$6.9 million to the carrying value of the related debt, recorded prior to the discontinuance of the hedge accounting, is being recognized as an offset to interest expense using the interest method over the remaining life of the debt.

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The company's comprehensive income for the three and nine months ended September 30, 2009 and 2008, is shown in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$ 34,687	\$ 25,284	\$ 72,311	\$ 73,124
Other comprehensive income:				
Retirement benefit plans adjustments, net of tax	153	376	460	424
Cash flow hedge activity, net of tax	(13)	(13)	(38)	(38)
Comprehensive income	\$ 34,827	\$ 25,647	\$ 72,733	\$ 73,510

11. Income from Continuing Operations per Common Share

The following summarizes the calculation of income from continuing operations per common share for the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Income from continuing operations	\$ 34,687	\$ 25,348	\$ 84,820	\$ 73,848
Less: income allocated to participating securities	(372)	(183)	(917)	(526)
Income from continuing operations attributable to common shareholders - basic	34,315	25,165	83,903	73,322
Add: undistributed income attributable to participating securities - basic	236	124	523	351
Less: undistributed income reallocated to participating securities - diluted	(234)	(123)	(520)	(347)
Income from continuing operations attributable to common shareholders - diluted	\$ 34,317	\$ 25,166	\$ 83,906	\$ 73,326
Denominator:				
Weighted average shares outstanding - basic	41,205	40,860	41,091	40,744
Dilutive shares - stock options and restricted stock	654	684	633	692
Weighted average shares outstanding - diluted	41,859	41,544	41,724	41,436

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Income from continuing operations per share attributable to common shareholders:⁽¹⁾

Basic	\$ 0.83	\$ 0.62	\$ 2.04	\$ 1.80
Diluted	\$ 0.83	\$ 0.61	\$ 2.03	\$ 1.78

⁽¹⁾ The per share amounts presented above may not recalculate precisely due to the rounding of the numerators and denominators for presentation purposes.

12. Income Taxes

The provision for income taxes was \$18.8 million and \$50.9 million in the third quarter and first nine months of 2009, and \$14.7 million and \$45.9 million in the same periods of 2008. The effective tax rate was 35.2% and 37.5% for the third quarter and first nine months of 2009, and 36.7% and 38.3% in the same periods of 2008. The lower effective tax rates in the 2009 periods are primarily the result of recognizing tax benefits totaling approximately \$1.7 million due to the conclusion of audits by the Internal Revenue Service (IRS) of the company's 2007 and 2006 income tax returns in the third quarter of 2009.

13. Commitments and Contingencies

The company has contractual obligations to customers that are required to be paid 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 total \$5.9 million as of September 30, 2009. If none of the performance targets are met as of the specified

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dates, and customers have met their contractual commitments, payments will be due as follows: Remainder of 2009 \$0.2 million; 2010 \$0.4 million; 2011 \$2.0 million; 2012 \$1.3 million, 2013 none, and 2014 \$2.0 million. None of these contingent obligations were accrued at September 30, 2009, as the company does not consider any of them probable. The company deferred the recognition of fees that are contingent upon the company's future performance under the terms of these contracts. As of September 30, 2009, \$0.9 million of deferred revenue related to outstanding contractual performance targets is included in other accrued liabilities.

The state of California is conducting an administrative review of certain business relocation incentives related to sales tax collections which could result in an outcome ranging from a cash payment of less than \$1.0 million to a cash receipt in excess of \$6.0 million. The company does not believe the matter will be resolved in 2009.

14. 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 the company believes the condensed consolidating financial information is more meaningful in understanding the financial position, results of operations and cash flows of the guarantor subsidiaries.

Condensed Consolidating Financial Information

	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
For the three months ended September 30, 2009					
Statements of Income					
Revenue	\$	\$ 2,034,626	\$ 166	\$	\$ 2,034,792
Cost of revenue		1,830,418	32		1,830,450
Gross margin		204,208	134		204,342
Selling, general and administrative expenses	174	141,673	315		142,162
Depreciation and amortization		6,720	1		6,721
Other operating income, net		(1,228)	(5)		(1,233)
Operating earnings (loss)	(174)	57,043	(177)		56,692
Interest (income) expense, net	(1,449)	4,629	22		3,202
Income (loss) before income taxes	1,275	52,414	(199)		53,490
Income tax provision (benefit)	336	18,538	(71)		18,803
Income (loss) from continuing operations	939	33,876	(128)		34,687
Loss from discontinued operations, net of tax					
Net income (loss)	\$ 939	\$ 33,876	\$ (128)	\$	\$ 34,687

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(in thousands, unless otherwise indicated)****Condensed Consolidating Financial Information**

For the three months ended September 30, 2008	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income					
Revenue	\$	\$ 1,786,858	\$	\$	\$ 1,786,858
Cost of revenue		1,608,109			1,608,109
Gross margin		178,749			178,749
Selling, general and administrative expenses	32	128,624			128,656
Depreciation and amortization		5,667			5,667
Other operating income, net		(1,893)			(1,893)
Operating earnings (loss)	(32)	46,351			46,319
Interest expense, net	2,070	4,214			6,284
Income (loss) before income taxes	(2,102)	42,137			40,035
Income tax (benefit) provision	(814)	15,501			14,687
Income (loss) from continuing operations	(1,288)	26,636			25,348
Loss from discontinued operations, net of tax			(64)		(64)
Net income (loss)	\$ (1,288)	\$ 26,636	\$ (64)	\$	\$ 25,284

For the nine months ended September 30, 2009	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income					
Revenue	\$	\$ 5,996,619	\$ 581	\$	\$ 5,997,200
Cost of revenue		5,411,496	30		5,411,526
Gross margin		585,123	551		585,674
Selling, general and administrative expenses	941	423,894	696		425,531
Depreciation and amortization		18,552	31		18,583
Other operating (income) expense, net		(4,078)	120		(3,958)
Operating earnings (loss)	(941)	146,755	(296)		145,518
Interest (income) expense, net	(9,914)	19,658	90		9,834
Income (loss) before income taxes	8,973	127,097	(386)		135,684

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Income tax provision (benefit)	3,376	47,633	(145)	50,864
Income (loss) from continuing operations	5,597	79,464	(241)	84,820
Loss from discontinued operations, net of tax			(12,509)	(12,509)
Net income (loss)	\$ 5,597	\$ 79,464	\$ (12,750)	\$ 72,311

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(in thousands, unless otherwise indicated)****Condensed Consolidating Financial Information**

For the nine months ended September 30, 2008	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income					
Revenue	\$	\$ 5,285,389	\$	\$	\$ 5,285,389
Cost of revenue		4,761,084			4,761,084
Gross margin		524,305			524,305
Selling, general and administrative expenses	535	379,851			380,386
Depreciation and amortization		16,343			16,343
Other operating income, net		(4,811)			(4,811)
Operating earnings (loss)	(535)	132,922			132,387
Interest expense, net	536	12,124			12,660
Income (loss) before income taxes	(1,071)	120,798			119,727
Income tax (benefit) provision	(410)	46,289			45,879
Income (loss) from continuing operations	(661)	74,509			73,848
Loss from discontinued operations, net of tax			(724)		(724)
Net income (loss)	\$ (661)	\$ 74,509	\$ (724)	\$	\$ 73,124

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)**

(unaudited)

(in thousands, unless otherwise indicated)

Condensed Consolidating Financial Information

September 30, 2009	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheets					
Assets					
Current assets					
Cash and cash equivalents	\$ 37,747	\$ 4,842	\$ 342	\$	\$ 42,931
Accounts and notes receivable, net		509,497			509,497
Merchandise inventories		679,459			679,459
Intercompany advances, net	(20,979)	(55,922)	76,901		
Other current assets	272	54,483	6,156		60,911
Total current assets	17,040	1,192,359	83,399		1,292,798
Property and equipment, net		82,661	6		82,667
Property held for sale		12,730			12,730
Goodwill, net		247,271			247,271
Intangible assets, net		28,571			28,571
Intercompany receivables	38,450			(38,450)	
Intercompany investments	445,228			(445,228)	
Other assets, net	1,680	30,565	743		32,988
Total assets	\$ 502,398	\$ 1,594,157	\$ 84,148	\$ (483,678)	\$ 1,697,025
Liabilities and shareholders equity					
Current liabilities					
Accounts payable	\$	\$ 548,925	\$ 4	\$	\$ 548,929
Accrued payroll and related liabilities		23,123	5		23,128
Other accrued liabilities	8,952	102,283	28		111,263
Current liabilities of discontinued operations			2,603		2,603
Total current liabilities	8,952	674,331	2,640		685,923
Long-term debt, excluding current portion	205,907	2,092			207,999
Intercompany long-term debt		136,966	40,374	(177,340)	
Other liabilities		57,601			57,601
Total liabilities	214,859	870,990	43,014	(177,340)	951,523
Shareholders equity					
Common stock	83,786		1,500	(1,500)	83,786
Paid-in capital	191,655	242,024	62,814	(304,838)	191,655

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Retained earnings (deficit)	11,773	493,142	(23,180)		481,735
Accumulated other comprehensive income (loss)	325	(11,999)			(11,674)
Total shareholders equity	287,539	723,167	41,134	(306,338)	745,502
Total liabilities and shareholders equity	\$ 502,398	\$ 1,594,157	\$ 84,148	\$ (483,678)	\$ 1,697,025

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(in thousands, unless otherwise indicated)****Condensed Consolidating Financial Information**

December 31, 2008	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheets					
Assets					
Current assets					
Cash and cash equivalents	\$ 13,425	\$ (6,590)	\$ 1,051	\$	\$ 7,886
Accounts and notes receivable, net		521,295	16		521,311
Merchandise inventories		679,059	10		679,069
Intercompany advances, net	11,903	(11,903)			
Other current assets	98	65,074	6,157		71,329
Current assets of discontinued operations			32,199		32,199
Total current assets	25,426	1,246,935	39,433		1,311,794
Property and equipment, net		76,949			76,949
Property held for sale		15,730			15,730
Goodwill, net		252,412			252,412
Intangible assets, net		27,799	3		27,802
Intercompany receivables	37,118			(37,118)	
Intercompany investments	445,228			(445,228)	
Other assets, net	1,817	26,437	891		29,145
Other assets of discontinued operations			62,358		62,358
Total assets	\$ 509,589	\$ 1,646,262	\$ 102,685	\$ (482,346)	\$ 1,776,190
Liabilities and shareholders equity					
Current liabilities					
Accounts payable	\$	\$ 512,971	\$ 55	\$	\$ 513,026
Accrued payroll and related liabilities		39,993	25		40,018
Other accrued liabilities	4,747	98,673	9		103,429
Current liabilities of discontinued operations			11,038		11,038
Total current liabilities	4,747	651,637	11,127		667,511
Long-term debt, excluding current portion	206,580	152,657			359,237
Intercompany long-term debt		138,465	37,543	(176,008)	
Other liabilities		60,261	130		60,391
Total liabilities	211,327	1,003,020	48,800	(176,008)	1,087,139
Shareholders equity					
Common stock	82,881		1,500	(1,500)	82,881

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Paid-in capital	180,074	242,024	62,814	(304,838)	180,074
Retained earnings (deficit)	34,944	413,677	(10,429)		438,192
Accumulated other comprehensive income (loss)	363	(12,459)			(12,096)
Total shareholders equity	298,262	643,242	53,885	(306,338)	689,051
Total liabilities and shareholders equity	\$ 509,589	\$ 1,646,262	\$ 102,685	\$ (482,346)	\$ 1,776,190

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(in thousands, unless otherwise indicated)****Condensed Consolidating Financial Information**

For the nine months ended September 30, 2009	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities:					
Net income (loss)	\$ 5,597	\$ 79,464	\$ (12,750)	\$	\$ 72,311
Adjustments to reconcile net income to cash provided by (used for) operating activities:					
Loss from discontinued operations			12,509		12,509
Depreciation and amortization		18,552	31		18,583
Share-based compensation expense		5,860			5,860
Provision for LIFO reserve		4,940			4,940
Provision for losses on accounts and notes receivable		3,335	52		3,387
Changes in operating assets and liabilities:					
Accounts and notes receivable		8,463	(36)		8,427
Merchandise inventories		(5,340)	10		(5,330)
Accounts payable		48,536	(51)		48,485
Net change in other current assets and liabilities	4,017	(8,569)			(4,552)
Other, net	(1,509)	(1,654)	3		(3,160)
Cash provided by (used for) operating activities	8,105	153,587	(232)		161,460
Investing activities:					
Additions to property and equipment		(14,116)	(7)		(14,123)
Additions to computer software		(9,429)	118		(9,311)
Cash received related to acquisition of business		6,994			6,994
Proceeds from sale of property and equipment		2,398			2,398
Cash provided by (used for) investing activities		(14,153)	111		(14,042)
Financing activities:					
Change in intercompany advances	37,438	36,762	(74,200)		
Net payments on revolving credit facility		(150,578)			(150,578)
Cash dividends paid	(28,755)				(28,755)
Decrease in drafts payable		(12,582)			(12,582)
Proceeds from exercise of stock options	5,228				5,228
Excess tax benefits related to share-based compensation	2,306				2,306
Other, net		(1,604)			(1,604)
Cash provided by (used for) financing activities	16,217	(128,002)	(74,200)		(185,985)

Discontinued operations:

Operating cash flows			10,612		10,612
Investing cash flows			63,000		63,000
Net cash provided by discontinued operations			73,612		73,612
Net increase (decrease) in cash and cash equivalents	24,322	11,432	(709)		35,045
Cash and cash equivalents at beginning of period	13,425	(6,590)	1,051		7,886
Cash and cash equivalents at end of period	\$ 37,747	\$ 4,842	\$ 342	\$	\$ 42,931

Table of Contents**Owens & Minor, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(in thousands, unless otherwise indicated)****Condensed Consolidating Financial Information**

For the nine months ended September 30, 2008	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities:					
Net income (loss)	\$ (661)	\$ 74,509	\$ (724)	\$	\$ 73,124
Adjustments to reconcile net income to cash provided by operating activities:					
Loss from discontinued operations			724		724
Depreciation and amortization		16,343			16,343
Provision for LIFO reserve		10,468			10,468
Share-based compensation expense		6,129			6,129
Provision for losses on accounts and notes receivable		2,368			2,368
Loss on interest rate swaps	3,141				3,141
Changes in operating assets and liabilities:					
Accounts and notes receivable		(10,940)			(10,940)
Merchandise inventories		(38,260)	2		(38,258)
Accounts payable		46,238	(44)		46,194
Net change in other current assets and liabilities	3,189	5,264	19		8,472
Other, net	(1,128)	2,474			1,346
Cash provided by operating activities	4,541	114,593	(23)		119,111
Investing activities:					
Additions to property and equipment		(12,586)			(12,586)
Additions to computer software		(5,554)	44		(5,510)
Other, net		8			8