

OWENS & MINOR INC/VA/
Form 10-Q
July 28, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____
Commission file number 1-9810

Owens & Minor, Inc.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Virginia (State or other jurisdiction of 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"/> |

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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 24, 2015, was 63,018,058 shares.

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Part I. Financial Information

Item 1. Financial Statements

Owens & Minor, Inc. and Subsidiaries

Consolidated Statements of Income

(unaudited)

| (in thousands, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-------------|---------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue | \$2,422,167 | \$2,305,858 | \$4,813,363 | \$4,562,239 |
| Cost of goods sold | 2,123,830 | 2,023,586 | 4,217,425 | 3,998,771 |
| Gross margin | 298,337 | 282,272 | 595,938 | 563,468 |
| Selling, general and administrative expenses | 231,498 | 225,838 | 465,323 | 451,448 |
| Acquisition-related and exit and realignment charges | 5,707 | 7,593 | 15,623 | 10,855 |
| Depreciation and amortization | 15,460 | 13,892 | 31,329 | 27,756 |
| Other operating income, net | (2,188 |) (2,152 |) (5,172 |) (9,978 |
| Operating earnings | 47,860 | 37,101 | 88,835 | 83,387 |
| Interest expense, net | 6,680 | 3,342 | 13,560 | 6,589 |
| Income before income taxes | 41,180 | 33,759 | 75,275 | 76,798 |
| Income tax provision | 16,954 | 13,883 | 32,109 | 31,436 |
| Net income | \$24,226 | \$19,876 | \$43,166 | \$45,362 |
| Net income per common share: | | | | |
| Basic | \$0.39 | \$0.32 | \$0.69 | \$0.72 |
| Diluted | \$0.39 | \$0.32 | \$0.69 | \$0.72 |
| Cash dividends per common share | \$0.2525 | \$0.25 | \$0.505 | \$0.50 |

See accompanying notes to consolidated financial statements.

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

| (in thousands) | Three Months Ended 2015 | June 30, 2014 | Six Months Ended 2015 | June 30, 2014 |
|---|----------------------------|------------------|--------------------------|------------------|
| Net income | \$24,226 | \$19,876 | \$43,166 | \$45,362 |
| Other comprehensive income (loss), net of tax: | | | | |
| Currency translation adjustments (net of income tax of \$0 in 2015 and 2014) | 6,606 | (570 |) (21,335 |) (103 |
| Change in unrecognized net periodic pension costs (net of income tax of \$141 and \$285 in 2015 and \$90 and \$186 in 2014) | 260 | 112 | 518 | 219 |
| Other (net of income tax of \$0 in 2015 and \$8 and \$16 in 2014) | (8 |) 15 | 30 | 6 |
| Total other comprehensive income (loss), net of tax | 6,858 | (443 |) (20,787 |) 122 |
| Comprehensive income | \$31,084 | \$19,433 | \$22,379 | \$45,484 |

See accompanying notes to consolidated financial statements.

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Table of ContentsOwens & Minor, Inc. and Subsidiaries
Consolidated Balance Sheets
(unaudited)

| (in thousands, except per share data) | June 30, 2015 | December 31, 2014 |
|--|------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$200,969 | \$56,772 |
| Accounts and notes receivable, net of allowances of \$13,220 and \$13,306 | 580,739 | 626,192 |
| Merchandise inventories | 903,501 | 872,457 |
| Other current assets | 275,481 | 315,285 |
| Total current assets | 1,960,690 | 1,870,706 |
| Property and equipment, net of accumulated depreciation of \$173,278 and \$163,377 | 219,372 | 232,979 |
| Goodwill, net | 421,760 | 423,276 |
| Intangible assets, net | 100,904 | 108,593 |
| Other assets, net | 92,180 | 99,852 |
| Total assets | \$2,794,906 | \$2,735,406 |
| Liabilities and equity | | |
| Current liabilities | | |
| Accounts payable | \$753,495 | \$608,846 |
| Accrued payroll and related liabilities | 34,797 | 31,507 |
| Deferred income taxes | 41,378 | 37,979 |
| Other accrued liabilities | 288,432 | 326,223 |
| Total current liabilities | 1,118,102 | 1,004,555 |
| Long-term debt, excluding current portion | 574,623 | 608,551 |
| Deferred income taxes | 62,282 | 63,901 |
| Other liabilities | 62,772 | 67,561 |
| Total liabilities | 1,817,779 | 1,744,568 |
| Commitments and contingencies | | |
| Equity | | |
| Owens & Minor, Inc. shareholders' equity: | | |
| Common stock, par value \$2 per share; authorized - 200,000 shares; issued and outstanding - 63,018 shares and 63,070 shares | 126,036 | 126,140 |
| Paid-in capital | 205,727 | 202,934 |
| Retained earnings | 690,152 | 685,765 |
| Accumulated other comprehensive income | (44,788 |) (24,001 |
| Total equity | 977,127 | 990,838 |
| Total liabilities and equity | \$2,794,906 | \$2,735,406 |

See accompanying notes to consolidated financial statements.

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

| (in thousands) | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2015 | 2014 |
| Operating activities: | | |
| Net income | \$43,166 | \$45,362 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 36,138 | 27,756 |
| Share-based compensation expense | 5,048 | 4,190 |
| Provision for losses on accounts and notes receivable | 41 | 334 |
| Deferred income tax (benefit) expense | 2,992 | (5,151) |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | 41,622 | 28,477 |
| Merchandise inventories | (31,866) | (48,575) |
| Accounts payable | 145,682 | 54,922 |
| Net change in other assets and liabilities | 2,771 | (32,765) |
| Other, net | 1,196 | (1,078) |
| Cash provided by operating activities | 246,790 | 73,472 |
| Investing activities: | | |
| Additions to property and equipment | (12,009) | (25,657) |
| Additions to computer software and intangible assets | (10,816) | (13,166) |
| Proceeds from sale of investment | — | 1,937 |
| Proceeds from sale of property and equipment | 837 | 45 |
| Cash used for investing activities | (21,988) | (36,841) |
| Financing activities: | | |
| Change in bank overdraft | 1,530 | — |
| Repayment of revolving credit facility | (33,700) | — |
| Cash dividends paid | (31,867) | (31,564) |
| Repurchases of common stock | (7,440) | (9,448) |
| Excess tax benefits related to share-based compensation | 457 | 444 |
| Proceeds from exercise of stock options | — | 1,180 |
| Purchase of noncontrolling interest | — | (1,500) |
| Other, net | (5,112) | (4,441) |
| Cash used for financing activities | (76,132) | (45,329) |
| Effect of exchange rate changes on cash and cash equivalents | (4,473) | (1,180) |
| Net increase (decrease) in cash and cash equivalents | 144,197 | (9,878) |
| Cash and cash equivalents at beginning of period | 56,772 | 101,905 |
| Cash and cash equivalents at end of period | \$200,969 | \$92,027 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid, net | \$27,542 | \$56,837 |
| Interest paid | \$13,260 | \$7,402 |

See accompanying notes to consolidated financial statements.

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

| (in thousands, except per share data) | Owens & Minor, Inc. Shareholders' Equity | | | | | | Total Equity |
|---|--|---|--------------------|----------------------|--|----------------------------|-----------------|
| | Common Shares Outstanding | Common Stock (\$ 2 par value) | Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | |
| Balance December 31, 2013 | 63,096 | \$126,193 | \$196,605 | \$691,547 | \$ 9,568 | \$ 1,130 | \$1,025,043 |
| Net income | | | | 45,362 | | | 45,362 |
| Other comprehensive income | | | | | 122 | | 122 |
| Dividends declared (\$0.50 per share) | | | | (31,473) | | | (31,473) |
| Shares repurchased and retired | (277) | (555) | | (8,893) | | | (9,448) |
| Share-based compensation expense, 247 exercises and other | | 495 | 3,109 | | | | 3,604 |
| Purchase of noncontrolling interest | | | (695) | | | (1,130) | (1,825) |
| Balance June 30, 2014 | 63,066 | \$126,133 | \$199,019 | \$696,543 | \$ 9,690 | \$ — | \$1,031,385 |
| Balance December 31, 2014 | 63,070 | \$126,140 | \$202,934 | \$685,765 | \$ (24,001) | \$ — | \$990,838 |
| Net income | | | | 43,166 | | | 43,166 |
| Other comprehensive income | | | | | (20,787) | | (20,787) |
| Dividends declared (\$0.505 per share) | | | | (31,779) | | | (31,779) |
| Shares repurchased and retired | (220) | (440) | | (7,000) | | | (7,440) |
| Share-based compensation expense, 168 exercises and other | | 336 | 2,793 | | | | 3,129 |
| Balance June 30, 2015 | 63,018 | \$126,036 | \$205,727 | \$690,152 | \$ (44,788) | \$ — | \$977,127 |

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

(in thousands, unless otherwise indicated)

Note 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). 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year 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.

Note 2—Fair Value

The carrying amounts of cash and cash equivalents, accounts receivable, financing receivables, accounts payable and financing payables included in the consolidated balance sheets approximate fair value due to the short-term nature of these instruments. The fair value of long-term debt is estimated based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market (Level 1) or, if quoted market prices or dealer quotes are not available, on the borrowing rates currently available for loans with similar terms, credit ratings and average remaining maturities (Level 2). We determine the fair value of our derivatives based on quoted market prices. See Note 8 for the fair value of long-term debt and Note 9 for the fair value of derivatives.

Note 3—Acquisitions

On October 1, 2014, we completed the acquisition of Medical Action Industries Inc. (Medical Action), a leading producer of surgical kits and procedure trays, which enabled an expansion of our capabilities in the assembly of kits, packs and trays for the healthcare market.

On November 1, 2014, we acquired ArcRoyal, a privately held surgical kitting company based in Ireland (ArcRoyal). The transaction expanded our capabilities in the assembly of kits, packs and trays in the European healthcare market. The combined consideration for these two acquisitions was \$261.6 million, net of cash acquired, and including debt assumed of \$13.4 million (capitalized lease obligations).

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon our preliminary estimate of their fair values at the date of acquisition, with certain exceptions permitted under GAAP. The combined purchase price exceeded the preliminary estimated fair value of the net tangible and identifiable intangible assets by \$151.3 million, which was allocated to goodwill. The following table presents, in the aggregate, the preliminary estimated fair value of the assets acquired and liabilities assumed recognized as of the acquisition date. Adjustments relate to revised estimates pending completion of our valuation. The allocation of purchase price to assets and liabilities acquired is not yet complete as we are working to finalize the valuation of specific fixed assets and liabilities.

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| | Preliminary Fair Value Estimated as of Acquisition Date | Differences Between Prior and Current Period Preliminary Fair Value Estimate | Preliminary Fair Value Currently Estimated as of Acquisition Date |
|--|---|--|---|
| Assets acquired: | | | |
| Current assets | \$90,608 | \$147 | \$90,755 |
| Property and equipment | 34,048 | (1,234) | 32,814 |
| Goodwill | 150,492 | 773 | 151,265 |
| Intangible assets | 77,623 | — | 77,623 |
| Total assets | 352,771 | (314) | 352,457 |
| Liabilities assumed: | | | |
| Current liabilities | 64,736 | (314) | 64,422 |
| Noncurrent liabilities | 26,426 | — | 26,426 |
| Total liabilities | 91,162 | (314) | 90,848 |
| Fair value of net assets acquired, net of cash | \$261,609 | \$— | \$261,609 |

We are amortizing the fair value of acquired intangible assets, primarily customer relationships, over their remaining weighted average useful lives of 14 years.

Goodwill of \$151.3 million consists largely of expected opportunities to expand our kitting capabilities. We assigned goodwill of \$21.9 million to our International segment and \$129.4 million to our Domestic segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

Acquisition-related expenses in 2015 consisted primarily of transition costs incurred to integrate the acquired operations (including certain severance and contractual payments to former management). We recognized pre-tax acquisition-related expenses of \$1.8 million in the second quarter and \$4.4 million year-to-date in 2015 related to these activities.

Acquisition-related expenses of \$3.5 million and \$4.1 million in the three and six months ended June 30, 2014 consisted of costs to perform due diligence and analysis related to the Medical Action and ArcRoyal acquisitions, as well as certain costs in Movianto to resolve issues and claims with the former owner.

Note 4—Financing Receivables and Payables

At June 30, 2015 and December 31, 2014, we had financing receivables of \$157.5 million and \$196.2 million and related payables of \$136.5 million and \$168.8 million outstanding under our order-to-cash program and product financing arrangements, which were included in other current assets and other current liabilities, respectively, in the consolidated balance sheets.

Note 5—Goodwill and Intangible Assets

The following table summarizes the changes in the carrying amount of goodwill through June 30, 2015:

| | Domestic Segment | International Segment | Total |
|--|------------------|-----------------------|-----------|
| Carrying amount of goodwill, December 31, 2014 | \$377,089 | \$46,187 | \$423,276 |
| Currency translation adjustments | — | (2,289) | (2,289) |
| Acquisitions (see Note 3) | 773 | — | 773 |
| Carrying amount of goodwill, June 30, 2015 | \$377,862 | \$43,898 | \$421,760 |

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Intangible assets at June 30, 2015, and December 31, 2014, were as follows:

| | June 30, 2015 | | December 31, 2014 | |
|--------------------------|------------------------|-------------------|------------------------|-------------------|
| | Customer Relationships | Other Intangibles | Customer Relationships | Other Intangibles |
| Gross intangible assets | \$123,222 | \$2,695 | \$125,448 | \$3,405 |
| Accumulated amortization | (24,905) | (108) | (19,773) | (487) |
| Net intangible assets | \$98,317 | \$2,587 | \$105,675 | \$2,918 |

At June 30, 2015, \$63.2 million in net intangible assets were held in the Domestic segment and \$37.7 million were held in the International segment. Amortization expense for intangible assets was \$2.4 million and \$1.1 million for the three months ended June 30, 2015 and 2014 and \$4.9 million and \$2.2 million for the six months ended June 30, 2015 and 2014.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$5.0 million for the remainder of 2015, \$10.2 million for 2016, \$10.0 million for 2017, \$9.4 million for 2018, \$9.3 million for 2019 and \$9.3 million for 2020.

Note 6—Exit and Realignment Costs

We periodically incur exit and realignment and other charges associated with optimizing our operations, which includes the consolidation of certain distribution and logistics centers, administrative offices and warehouses in the United States and Europe. These charges also include costs associated with our strategic organizational realignment which include management changes, certain professional fees and costs to streamline administrative functions and processes.

Exit and realignment charges by segment for the three and six months ended June 30, 2015 and 2014 were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------------|-----------------------------|---------|---------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Domestic segment | \$(124) | \$2,303 | \$2,515 | \$3,596 |
| International segment | 4,045 | 1,801 | 8,717 | 3,131 |
| Total exit and realignment charges | \$3,921 | \$4,104 | \$11,232 | \$6,727 |

The following table summarizes the activity related to exit and realignment cost accruals through June 30, 2015 and 2014:

| | Lease Obligations | Severance and Other | Total |
|---|-------------------|---------------------|---------|
| Accrued exit and realignment costs, December 31, 2014 | \$3,575 | \$2,887 | \$6,462 |
| Provision for exit and realignment activities | 256 | 142 | 398 |
| Cash payments, net of sublease income | (385) | (873) | (1,258) |
| Accrued exit and realignment costs, March 31, 2015 | 3,446 | 2,156 | 5,602 |
| Provision for exit and realignment activities | 572 | 392 | 964 |
| Cash payments, net of sublease income | (349) | (1,171) | (1,520) |
| Accrued exit and realignment costs, June 30, 2015 | \$3,669 | \$1,377 | \$5,046 |
| Accrued exit and realignment costs, December 31, 2013 | \$2,434 | \$475 | \$2,909 |
| Provision for exit and realignment activities | 532 | 807 | 1,339 |
| Cash payments, net of sublease income | (411) | (327) | (738) |
| Accrued exit and realignment costs, March 31, 2014 | 2,555 | 955 | 3,510 |
| Provision for exit and realignment activities | 6 | 2,236 | 2,242 |
| Cash payments, net of sublease income | (383) | (1,095) | (1,478) |
| Accrued exit and realignment costs, June 30, 2014 | \$2,178 | \$2,096 | \$4,274 |

In addition to the exit and realignment accruals in the preceding table, we also incurred \$2.9 million of costs that were expensed as incurred for the three months ended June 30, 2015, including \$1.2 million in accelerated amortization of an

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information system that has been replaced, \$0.8 million in property related costs, \$0.7 million in information systems costs, and \$0.2 million in other costs. In the first quarter of 2015, we also incurred \$6.9 million of costs that were expensed as incurred, including \$3.0 million in accelerated amortization of an information system that has been replaced, \$1.8 million in facility costs, \$1.3 million in labor costs, \$0.3 million in information systems costs and \$0.5 million in other costs.

For the three months ended June 30, 2014, we recognized \$1.9 million in costs that were expensed as incurred, including \$0.9 million in property related costs, \$0.7 million in labor costs, and \$0.2 million in information technology costs. Additional expense in the first quarter of 2014 of \$1.3 million were comprised of \$0.5 million in relocation costs, \$0.5 million in property related costs, and \$0.3 million in labor and other costs.

We expect additional exit and realignment charges of approximately \$1.7 million over the remainder of 2015 for activities initiated in the Domestic and International segments through June 30, 2015.

Note 7—Retirement Plans

We have a noncontributory, unfunded retirement plan for certain officers and other key employees in the United States. Certain of our foreign subsidiaries also have defined benefit pension plans covering substantially all of their respective employees.

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, 2015 and 2014, were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|-----------------------------|-------|---------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Service cost | \$32 | \$40 | \$65 | \$75 |
| Interest cost | 464 | 482 | 929 | 965 |
| Recognized net actuarial loss | 401 | 202 | 802 | 406 |
| Net periodic benefit cost | \$897 | \$724 | \$1,796 | \$1,446 |

Certain of our foreign subsidiaries have health and welfare plans covering substantially all of their respective employees. Our expense for these plans totaled \$0.5 million and \$0.5 million for the three months ended June 30, 2015 and 2014 and \$1.0 million and \$1.0 million for the six months ended June 30, 2015 and 2014.

Note 8—Debt

We have \$275 million of 3.875% senior notes due 2021 (the “2021 Notes”) and \$275 million of 4.375% senior notes due 2024 (the “2024 Notes”), with interest payable semi-annually. The 2021 Notes were sold at 99.5% of the principal amount with an effective yield of 3.951%. The 2024 Notes were sold at 99.6% of the principal with an effective yield of 4.422%. We have the option to redeem the 2021 Notes and 2024 Notes in part or in whole prior to maturity at a redemption price equal to the greater of 100% of the principal amount or the present value of the remaining scheduled payments discounted at the Treasury Rate plus 30 basis points. As of June 30, 2015 and December 31, 2014, the estimated fair value of the 2021 Notes was \$280.7 million and \$275.1 million and the estimated fair value of the 2024 Notes was \$279.7 million and \$283.9 million, respectively.

We have a Credit Agreement with a \$450 million borrowing capacity which extends through September 2019. Under the Amended Credit Agreement, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$200 million. The interest rate on the Amended Credit Agreement, which is subject to adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Amended Credit Agreement. We are charged a commitment fee of between 12.5 and 25.0 basis points on the unused portion of the facility. The terms of the Amended 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. Based on our leverage ratio at June 30, 2015, the interest rate under the credit facility is LIBOR plus 1.375%.

At June 30, 2015, we had no borrowings and letters of credit of approximately \$5.0 million outstanding under the Amended Credit Agreement, leaving \$445 million available for borrowing. We also have a \$1.2 million letter of credit outstanding as of June 30, 2015 and December 31, 2014, which supports our facilities leased in Europe.

The Amended Credit Agreement and senior notes contain cross-default provisions which could result in the acceleration of payments due in the event of default of either agreement. We believe we were in compliance with our debt covenants at June 30, 2015.

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Note 9—Derivatives

When deemed appropriate, we use derivatives, primarily forward contracts, as a risk management tool to mitigate the potential impact of foreign currency exchange risk. The total notional values of our foreign currency derivatives was \$5.7 million at June 30, 2015 and \$10.0 million as of December 31, 2014. We do not currently have any derivatives designated as hedging instruments and all gains and losses resulting from changes in the fair value of derivative instruments are immediately recognized into earnings. At June 30, 2015 and December 31, 2014 the fair value of our foreign currency contracts included in other assets on the consolidated balance sheet was \$0.9 million and \$0.7 million. The impact from changes in the fair value of these foreign currency derivatives included in other operating expense was \$0.5 million and other operating income was \$0.3 million for the three and six months ended June 30, 2015. We did not hold foreign currency contracts in the first six months of 2014. We consider the risk of counterparty default to be minimal.

Note 10—Income Taxes

The effective tax rate was 41.2% and 42.7% for the three and six months ended June 30, 2015, compared to 41.1% and 40.9% in the same periods of 2014. The change in rate is mainly due to the impact of foreign taxes and the effect of certain acquisition-related costs which are not deductible for tax purposes. The liability for unrecognized tax benefits was \$6.0 million at June 30, 2015, and \$6.7 million at December 31, 2014. Included in the liability at June 30, 2015 were \$3.6 million of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. In the current quarter, the Company concluded the examinations of our 2012 and 2013 federal income tax returns. The impact of these examinations on our financial statements was not material.

Note 11—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, 2015 and 2014.

| (in thousands, except per share data) | Three Months Ended 30, 2015 | June 2014 | Six Months Ended 30, 2015 | June 2014 |
|---|-----------------------------------|--------------|---------------------------------|--------------|
| Numerator: | | | | |
| Net income | \$24,226 | \$19,876 | \$43,166 | \$45,362 |
| Less: income allocated to unvested restricted shares | (195) | (159) | (359) | (345) |
| Net income attributable to common shareholders - basic | 24,031 | 19,717 | 42,807 | 45,017 |
| Add: undistributed income attributable to unvested restricted shares - basic | 42 | 19 | 63 | 68 |
| Less: undistributed income attributable to unvested restricted shares - diluted | (42) | (19) | (63) | (68) |
| Net income attributable to common shareholders - diluted | \$24,031 | \$19,717 | \$42,807 | \$45,017 |
| Denominator: | | | | |
| Weighted average shares outstanding - basic | 62,226 | 62,311 | 62,281 | 62,271 |
| Dilutive shares - stock options | — | 5 | 1 | 9 |
| Weighted average shares outstanding - diluted | 62,226 | 62,316 | 62,282 | 62,280 |
| Net income per share attributable to common shareholders: | | | | |
| Basic | \$0.39 | \$0.32 | \$0.69 | \$0.72 |
| Diluted | \$0.39 | \$0.32 | \$0.69 | \$0.72 |

Note 12—Shareholders' Equity

Our Board of Directors has authorized a share repurchase program of up to \$100 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in February 2017. The program is intended, in part, to offset shares issued in conjunction with our stock incentive plans and return capital to shareholders. The program may be suspended or discontinued at any time. During the six months ended June 30, 2015, we repurchased in open-market transactions and retired approximately 0.2 million shares of our common stock

for an aggregate of \$7.4 million, or an average price per share of \$33.82. As of June 30, 2015, we have approximately \$82.6 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

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Note 13—Accumulated Other Comprehensive Income

The following table shows the changes in accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2015 and 2014:

| | Defined Benefit Pension Plans | Currency Translation Adjustments | Other | Total |
|--|-------------------------------------|--|---------|--------------|
| Accumulated other comprehensive income (loss), March 31, 2015 | \$ (10,065) | \$ (41,588) | \$ 7 | \$ (51,646) |
| Other comprehensive income (loss) before reclassifications | — | 6,606 | — | 6,606 |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | 6,606 | — | 6,606 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 401 | — | (8) | 393 |
| Income tax | (141) | — | — | (141) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 260 | — | (8) | 252 |
| Other comprehensive income (loss) | 260 | 6,606 | (8) | 6,858 |
| Accumulated other comprehensive income (loss), June 30, 2015 | \$ (9,805) | \$ (34,982) | \$ (1) | \$ (44,788) |
| Accumulated other comprehensive income (loss), March 31, 2014 | \$ (6,372) | \$ 16,359 | \$ 146 | \$ 10,133 |
| Other comprehensive income (loss) before reclassifications | — | (570) | 29 | (541) |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | (570) | 29 | (541) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 202 | — | (22) | 180 |
| Income tax | (90) | — | 8 | (82) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 112 | — | (14) | 98 |
| Other comprehensive income (loss) | 112 | (570) | 15 | (443) |
| Accumulated other comprehensive income (loss), June 30, 2014 | \$ (6,260) | \$ 15,789 | \$ 161 | \$ 9,690 |

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| | Defined Benefit Pension Plans | Currency Translation Adjustments | Other | Total |
|--|-------------------------------------|--|----------|--------------|
| Accumulated other comprehensive income (loss), December 31, 2014 | \$ (10,323) | \$ (13,647) | \$ (31) | \$ (24,001) |
| Other comprehensive income (loss) before reclassifications | — | (21,335) | — | (21,335) |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | (21,335) | — | (21,335) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 803 | — | 30 | 833 |
| Income tax | (285) | — | — | (285) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 518 | — | 30 | 548 |
| Other comprehensive income (loss) | 518 | (21,335) | 30 | (20,787) |
| Accumulated other comprehensive income (loss), June 30, 2015 | \$ (9,805) | \$ (34,982) | \$ (1) | \$ (44,788) |
| Accumulated other comprehensive income (loss), December 31, 2013 | \$ (6,479) | \$ 15,892 | \$ 155 | \$ 9,568 |
| Other comprehensive income (loss) before reclassifications | — | (103) | 31 | (72) |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | (103) | 31 | (72) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 405 | — | (41) | 364 |
| Income tax | (186) | — | 16 | (170) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 219 | — | (25) | 194 |
| Other comprehensive income (loss) | 219 | (103) | 6 | 122 |
| Accumulated other comprehensive income (loss), June 30, 2014 | \$ (6,260) | \$ 15,789 | \$ 161 | \$ 9,690 |

We include amounts reclassified out of accumulated other comprehensive income related to defined benefit pension plans as a component of net periodic pension cost recorded in selling, general & administrative expenses. For the three and six months ended June 30, 2015, we reclassified \$0.4 million and \$0.8 million of actuarial net losses. For the three and six months ended June 30, 2014, we reclassified \$0.2 million and \$0.4 million of actuarial net losses.

Note 14—Commitments and Contingencies

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

In the first quarter of 2015, we settled our dispute and terminated the service contract with a customer in the United Kingdom. As part of the settlement, we entered into a transition agreement for the transfer of services back to this customer and paid approximately \$3.9 million that was fully accrued at December 31, 2014. Substantially all outstanding accounts receivable as of December 31, 2014 related to this contract have been received.

Note 15—Segment Information

We evaluate the performance of our segments based on their operating earnings excluding acquisition-related and exit and realignment charges, certain purchase price fair value adjustments, and other substantive items that, either as a

result of their nature or size, would not be expected to occur as part of the our normal business operations on a regular basis.

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The following tables present financial information by segment:

| | Three Months Ended | June 30, | Six Months Ended | June 30, |
|---|--------------------|-------------|------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenue: | | | | |
| Domestic | \$2,317,661 | \$2,187,535 | \$4,603,296 | \$4,336,451 |
| International | 104,506 | 118,323 | 210,067 | 225,788 |
| Consolidated net revenue | \$2,422,167 | \$2,305,858 | \$4,813,363 | \$4,562,239 |
| Operating earnings (loss): | | | | |
| Domestic | \$52,390 | \$48,317 | \$102,901 | \$101,053 |
| International | 1,177 | (3,623) | 1,557 | (6,811) |
| Acquisition-related and exit and realignment charges ⁽¹⁾ | (5,707) | (7,593) | (15,623) | (10,855) |
| Consolidated operating earnings | \$47,860 | \$37,101 | \$88,835 | \$83,387 |
| Depreciation and amortization: | | | | |
| Domestic | \$10,504 | \$8,812 | \$21,242 | \$17,787 |
| International | 5,277 | 5,080 | 10,708 | 9,969 |
| Consolidated depreciation and amortization | \$15,781 | \$13,892 | \$31,950 | \$27,756 |
| Capital expenditures: | | | | |
| Domestic | \$3,384 | \$18,858 | \$12,035 | \$29,033 |
| International | 7,875 | 5,737 | 10,790 | 9,790 |
| Consolidated capital expenditures | \$11,259 | \$24,595 | \$22,825 | \$38,823 |

| | June 30, 2015 | December 31, 2014 |
|---------------------------|---------------|-------------------|
| Total assets: | | |
| Domestic | \$2,130,996 | \$2,139,972 |
| International | 462,941 | 538,662 |
| Segment assets | 2,593,937 | 2,678,634 |
| Cash and cash equivalents | 200,969 | 56,772 |
| Consolidated total assets | \$2,794,906 | \$2,735,406 |

⁽¹⁾ The three and six months ended June 30, 2015 include \$1.2 million and \$4.2 million, respectively in accelerated amortization related to an information system that is being replaced.

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Note 16—Condensed Consolidating Financial Information

The following tables present condensed consolidating financial information for: Owens & Minor, Inc. (O&M); the guarantors of Owens & Minor, Inc.'s 2021 Notes and 2024 Notes, on a combined basis; and the non-guarantor subsidiaries of the 2021 Notes and 2024 Notes, on a combined basis. The guarantor subsidiaries are 100% owned by Owens & Minor, Inc. Separate financial statements of the guarantor subsidiaries are not presented because the guarantees by our guarantor subsidiaries are full and unconditional, as well as joint and several, and we believe the condensed consolidating financial information is more meaningful in understanding the financial position, results of operations and cash flows of the guarantor subsidiaries.

| Three Months Ended June 30, 2015 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|------------------------|----------------------------|--------------|---------------|
| Statements of Income | | | | | |
| Net revenue | \$— | \$2,279,725 | \$178,844 | \$(36,402) |) \$2,422,167 |
| Cost of goods sold | — | 2,064,515 | 95,570 | (36,255) |) 2,123,830 |
| Gross margin | — | 215,210 | 83,274 | (147) |) 298,337 |
| Selling, general and administrative expenses | 626 | 160,348 | 70,524 | — | 231,498 |
| Acquisition-related and exit and realignment charges | — | 256 | 5,451 | — | 5,707 |
| Depreciation and amortization | — | 8,910 | 6,550 | — | 15,460 |
| Other operating income, net | — | (1,354) |) (834) |) — | (2,188) |
| Operating earnings (loss) | (626) |) 47,050 | 1,583 | (147) |) 47,860 |
| Interest expense (income), net | 6,938 | (233) |) (25) |) — | 6,680 |
| Income (loss) before income taxes | (7,564) |) 47,283 | 1,608 | (147) |) 41,180 |
| Income tax (benefit) provision | — | 16,973 | (19) |) — | 16,954 |
| Equity in earnings of subsidiaries | 31,790 | — | — | (31,790) |) — |
| Net income (loss) | 24,226 | 30,310 | 1,627 | (31,937) |) 24,226 |
| Other comprehensive income (loss) | 6,858 | (21,839) |) 28,696 | (6,857) |) 6,858 |
| Comprehensive income (loss) | \$31,084 | \$8,471 | \$30,323 | \$(38,794) |) \$31,084 |

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| Three Months Ended June 30, 2014 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------|---------------------------|-------------------------------|--------------|---------------|
| Statements of Income | | | | | |
| Net revenue | \$— | \$2,187,130 | \$137,683 | \$(18,955) |) \$2,305,858 |
| Cost of goods sold | — | 1,978,815 | 63,299 | (18,528) |) 2,023,586 |
| Gross margin | — | 208,315 | 74,384 | (427) |) 282,272 |
| Selling, general and administrative expenses | 61 | 152,122 | 73,655 | — | 225,838 |
| Acquisition-related and exit and realignment charges | — | 3,886 | 3,707 | — | 7,593 |
| Depreciation and amortization | 2 | 8,790 | 5,100 | — | 13,892 |
| Other operating income, net | — | (814) |) (1,338) |) — | (2,152) |
| Operating earnings (loss) | (63) |) 44,331 | (6,740) |) (427) |) 37,101 |
| Interest expense (income), net | 2,924 | 791 | (373) |) — | 3,342 |
| Income (loss) before income taxes | (2,987) |) 43,540 | (6,367) |) (427) |) 33,759 |
| Income tax (benefit) provision | (1,200) |) 17,808 | (2,725) |) — | 13,883 |
| Equity in earnings of subsidiaries | 21,663 | — | — | (21,663) |) — |
| Net income (loss) | 19,876 | 25,732 | (3,642) |) (22,090) |) 19,876 |
| Other comprehensive income (loss) | (443) |) 111 | (570) |) 459 | (443) |
| Comprehensive income (loss) | \$19,433 | \$25,843 | \$(4,212) |) \$(21,631) |) \$19,433 |
| Six Months Ended June 30, 2015 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
| Statements of Income | | | | | |
| Net revenue | \$— | \$4,529,430 | \$360,204 | \$(76,271) |) \$4,813,363 |
| Cost of goods sold | — | 4,098,327 | 195,608 | (76,510) |) 4,217,425 |
| Gross margin | — | 431,103 | 164,596 | 239 | 595,938 |
| Selling, general and administrative expenses | 665 | 320,925 | 143,733 | — | 465,323 |
| Acquisition-related and exit and realignment charges | — | 3,833 | 11,790 | — | 15,623 |
| Depreciation and amortization | — | 18,014 | 13,315 | — | 31,329 |
| Other operating income, net | — | (2,331) |) (2,841) |) — | (5,172) |
| Operating earnings (loss) | (665) |) 90,662 | (1,401) |) 239 | 88,835 |
| Interest expense (income), net | 12,885 | 581 | 94 | — | 13,560 |
| Income (loss) before income taxes | (13,550) |) 90,081 | (1,495) |) 239 | 75,275 |
| Income tax (benefit) provision | (773) |) 31,759 | 1,123 | — | 32,109 |
| Equity in earnings of subsidiaries | 55,943 | — | — | (55,943) |) — |
| Net income (loss) | 43,166 | 58,322 | (2,618) |) (55,704) |) 43,166 |
| Other comprehensive income (loss) | (20,787) |) (21,335) |) 548 | 20,787 | (20,787) |
| Comprehensive income (loss) | \$22,379 | \$36,987 | \$(2,070) |) \$(34,917) |) \$22,379 |

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| Six Months Ended June 30, 2014 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------------|---------------------------|-------------------------------|--------------|--------------|
| Statements of Income | | | | | |
| Net revenue | \$— | \$4,335,495 | \$257,558 | \$(30,814) | \$4,562,239 |
| Cost of goods sold | — | 3,918,280 | 110,897 | (30,406) | 3,998,771 |
| Gross margin | — | 417,215 | 146,661 | (408) | 563,468 |
| Selling, general and administrative expenses | 14 | 306,372 | 145,062 | — | 451,448 |
| Acquisition-related and exit and realignment charges | — | 5,180 | 5,675 | — | 10,855 |
| Depreciation and amortization | 1 | 17,741 | 10,014 | — | 27,756 |
| Other operating income, net | — | (7,877) | (2,101) | — | |