

OWENS & MINOR INC/VA/  
Form 10-Q  
August 03, 2016  
Table of Contents

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, 2016

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<br>(State or other jurisdiction of<br>incorporation or organization) | 54-1701843<br>(I.R.S. Employer<br>Identification No.) |
|---|---|

|  |                     |
|--|---------------------|
| 9120 Lockwood Boulevard,<br>Mechanicsville, Virginia<br>(Address of principal executive offices) | 23116<br>(Zip Code) |
|--|---------------------|

|  |                          |
|--|--------------------------|
| Post Office Box 27626,<br>Richmond, Virginia<br>(Mailing address of principal executive offices) | 23261-7626<br>(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"/>            | Smaller reporting company | <input type="checkbox"/> |

(Do not check if a smaller reporting company)

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

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 31, 2016, was 62,407,033 shares.

---

Table of Contents

Owens & Minor, Inc. and Subsidiaries  
Index

| <u>Part I. Financial Information</u>  | <u>Page</u> |
|---|-------------|
| <u>Item 1. Financial Statements</u>   | <u>3</u>    |
| <u>Consolidated Statements of Income—Three and Six Months Ended June 30, 2016 and 2015</u>                        | <u>3</u>    |
| <u>Consolidated Statements of Comprehensive Income—Three and Six Months Ended June 30, 2016 and 2015</u>          | <u>4</u>    |
| <u>Consolidated Balance Sheets—June 30, 2016 and December 31, 2015</u>  | <u>5</u>    |
| <u>Consolidated Statements of Cash Flows—Six Months Ended June 30, 2016 and 2015</u>                              | <u>6</u>    |
| <u>Consolidated Statements of Changes in Equity—Six Months Ended June 30, 2016 and 2015</u>                       | <u>7</u>    |
| <u>Notes to Consolidated Financial Statements</u>   | <u>8</u>    |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>              | <u>22</u>   |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>29</u>   |
| <u>Item 4. Controls and Procedures</u>  | <u>29</u>   |
| <u>Part II. Other Information</u>   |             |
| <u>Item 1. Legal Proceedings</u>  | <u>29</u>   |
| <u>Item 1A. Risk Factors</u>  | <u>29</u>   |
| <u>Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u> | <u>30</u>   |
| <u>Item 6. Exhibits</u>   | <u>32</u>   |

Table of Contents

## Part I. Financial Information

## Item 1. Financial Statements

## Owens &amp; Minor, Inc. and Subsidiaries

## Consolidated Statements of Income

(unaudited)

|  | Three Months Ended June 30, |             | Six Months Ended June 30, |             |
|--|-----------------------------|-------------|---------------------------|-------------|
| (in thousands, except per share data)                | 2016                        | 2015        | 2016                      | 2015        |
| Net revenue  | \$2,483,676                 | \$2,422,167 | \$4,939,469               | \$4,813,363 |
| Cost of goods sold                                   | 2,184,256                   | 2,123,830   | 4,343,413                 | 4,217,425   |
| Gross margin   | 299,420                     | 298,337     | 596,056                   | 595,938     |
| Distribution, selling, and administrative expenses   | 242,914                     | 246,958     | 485,639                   | 496,652     |
| Acquisition-related and exit and realignment charges | 6,752                       | 5,707       | 17,235                    | 15,623      |
| Other operating income, net                          | (2,300)                     | (2,188)     | (3,842)                   | (5,172)     |
| Operating earnings                                   | 52,054                      | 47,860      | 97,024                    | 88,835      |
| Interest expense, net                                | 6,765                       | 6,680       | 13,554                    | 13,560      |
| Income before income taxes                           | 45,289                      | 41,180      | 83,470                    | 75,275      |
| Income tax provision                                 | 17,573                      | 16,954      | 31,619                    | 32,109      |
| Net income   | \$27,716                    | \$24,226    | \$51,851                  | \$43,166    |
| Net income per common share:                         |                             |             |                           |             |
| Basic  | \$0.45                      | \$0.39      | \$0.83                    | \$0.69      |
| Diluted  | \$0.45                      | \$0.39      | \$0.83                    | \$0.69      |
| Cash dividends per common share                      | \$0.255                     | \$0.2525    | \$0.51                    | \$0.505     |

See accompanying notes to consolidated financial statements.

3

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

| (in thousands)   | Three Months |          | Six Months |           |
|--|--------------|----------|------------|-----------|
|  | Ended        | June 30, | Ended      | June 30,  |
|  | 2016         | 2015     | 2016       | 2015      |
| Net income   | \$27,716     | \$24,226 | \$51,851   | \$43,166  |
| Other comprehensive income (loss), net of tax:   |              |          |            |           |
| Currency translation adjustments (net of income tax of \$0 in 2016 and 2015)   | (7,120 )     | 6,606    | 1,042      | (21,335 ) |
| Change in unrecognized net periodic pension costs (net of income tax of \$168 and \$339 in 2016 and \$141 and \$285 in 2015) | 245          | 260      | 483        | 518       |
| Other (net of income tax of \$0 in 2016 and 2015)  | 18           | (8 )     | 37         | 30        |
| Total other comprehensive income (loss), net of tax  | (6,857 )     | 6,858    | 1,562      | (20,787 ) |
| Comprehensive income   | \$20,859     | \$31,084 | \$53,413   | \$22,379  |

See accompanying notes to consolidated financial statements.

4

---

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

| (in thousands, except per share data)  | June 30,<br>2016 | December 31,<br>2015 |
|--|------------------|----------------------|
| Assets   |                  |                      |
| Current assets   |                  |                      |
| Cash and cash equivalents  | \$ 138,951       | \$ 161,020           |
| Accounts and notes receivable, net of allowances of \$13,122 and \$13,177  | 609,212          | 587,935              |
| Merchandise inventories  | 957,972          | 940,775              |
| Other current assets   | 268,645          | 284,970              |
| Total current assets   | 1,974,780        | 1,974,700            |
| Property and equipment, net of accumulated depreciation of \$198,703 and \$189,105   | 201,519          | 208,930              |
| Goodwill, net  | 418,366          | 419,619              |
| Intangible assets, net   | 89,599           | 95,250               |
| Other assets, net  | 71,800           | 75,277               |
| Total assets   | \$2,756,064      | \$2,773,776          |
| Liabilities and equity   |                  |                      |
| Current liabilities  |                  |                      |
| Accounts payable   | \$775,970        | \$ 710,609           |
| Accrued payroll and related liabilities  | 28,268           | 45,907               |
| Other current liabilities  | 239,887          | 307,073              |
| Total current liabilities  | 1,044,125        | 1,063,589            |
| Long-term debt, excluding current portion  | 566,955          | 568,495              |
| Deferred income taxes  | 84,500           | 86,326               |
| Other liabilities  | 64,187           | 62,776               |
| Total liabilities  | 1,759,767        | 1,781,186            |
| Commitments and contingencies  |                  |                      |
| Equity   |                  |                      |
| Common stock, par value \$2 per share; authorized - 200,000 shares; issued and outstanding - 62,510 shares and 62,803 shares | 125,021          | 125,606              |
| Paid-in capital  | 214,435          | 211,943              |
| Retained earnings  | 707,104          | 706,866              |
| Accumulated other comprehensive loss   | (50,263 )        | (51,825 )            |
| Total equity   | 996,297          | 992,590              |
| Total liabilities and equity   | \$2,756,064      | \$2,773,776          |

See accompanying notes to consolidated financial statements.

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

| (in thousands)  | Six Months Ended June 30,<br>2016 | 2015      |
|---|-----------------------------------|-----------|
| Operating activities:   |                                   |           |
| Net income  | \$ 51,851                         | \$ 43,166 |
| Adjustments to reconcile net income to cash provided by operating activities: |                                   |           |
| Depreciation and amortization   | 28,343                            | 36,138    |
| Share-based compensation expense  | 5,969                             | 5,048     |
| Provision for losses on accounts and notes receivable                         | (27 )                             | 41        |
| Deferred income tax (benefit) expense   | (2,071 )                          | 2,992     |
| Changes in operating assets and liabilities:                                  |                                   |           |
| Accounts and notes receivable   | (29,736 )                         | 41,622    |
| Merchandise inventories   | (17,947 )                         | (31,866 ) |
| Accounts payable  | 62,710                            | 145,682   |
| Net change in other assets and liabilities                                    | (56,599 )                         | 2,771     |
| Other, net  | 145                               | 1,196     |
| Cash provided by operating activities   | 42,638                            | 246,790   |
| Investing activities:   |                                   |           |
| Additions to property and equipment   | (8,857 )                          | (12,009 ) |
| Additions to computer software and intangible assets                          | (4,602 )                          | (10,816 ) |
| Proceeds from sale of property and equipment                                  | 4,565                             | 837       |
| Cash used for investing activities  | (8,894 )                          | (21,988 ) |
| Financing activities:   |                                   |           |
| Change in bank overdraft  | —                                 | 1,530     |
| Repayment of revolving credit facility  | —                                 | (33,700 ) |

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

|  |            |   |            |   |
|--|------------|---|------------|---|
| Cash dividends paid  | (32,003    | ) | (31,867    | ) |
| Repurchases of common stock                                  | (20,849    | ) | (7,440     | ) |
| Excess tax benefits related to share-based compensation      | 598        |   | 457        |   |
| Other, net   | (5,968     | ) | (5,112     | ) |
| Cash used for financing activities                           | (58,222    | ) | (76,132    | ) |
| Effect of exchange rate changes on cash and cash equivalents | 2,409      |   | (4,473     | ) |
| Net increase (decrease) in cash and cash equivalents         | (22,069    | ) | 144,197    |   |
| Cash and cash equivalents at beginning of period             | 161,020    |   | 56,772     |   |
| Cash and cash equivalents at end of period                   | \$ 138,951 |   | \$ 200,969 |   |
| Supplemental disclosure of cash flow information:            |            |   |            |   |
| Income taxes paid, net                                       | \$ 49,567  |   | \$ 27,542  |   |
| Interest paid  | \$ 13,513  |   | \$ 13,260  |   |

See accompanying notes to consolidated financial statements.



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

| (in thousands, except per share data)                    | Common<br>Shares<br>Outstanding | Common<br>Stock<br>(\$ 2 par<br>value ) | Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive Income<br>(Loss) | Total<br>Equity |
|--|---------------------------------|---|--------------------|----------------------|--|-----------------|
| Balance December 31, 2014                                | 63,070                          | \$ 126,140                              | \$ 202,934         | \$ 685,765           | \$ (24,001 )   | \$ 990,838      |
| Net income   |                                 |   |                    | 43,166               |  | 43,166          |
| Other comprehensive loss                                 |                                 |   |                    |                      | (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,<br>exercises and other | 168                             | 336                                     | 2,793              |                      |  | 3,129           |
| Balance June 30, 2015                                    | 63,018                          | \$ 126,036                              | \$ 205,727         | \$ 690,152           | \$ (44,788 )   | \$ 977,127      |
| Balance December 31, 2015                                | 62,803                          | \$ 125,606                              | \$ 211,943         | \$ 706,866           | \$ (51,825 )   | \$ 992,590      |
| Net income   |                                 |   |                    | 51,851               |  | 51,851          |
| Other comprehensive income                               |                                 |   |                    |                      | 1,562  | 1,562           |
| Dividends declared (\$0.51 per share)                    |                                 |   |                    | (31,914 )            |  | (31,914 )       |
| Shares repurchased and retired                           | (575 )                          | (1,150 )                                |                    | (19,699 )            |  | (20,849 )       |
| Share-based compensation expense,<br>exercises and other | 282                             | 565                                     | 2,492              |                      |  | 3,057           |
| Balance June 30, 2016                                    | 62,510                          | \$ 125,021                              | \$ 214,435         | \$ 707,104           | \$ (50,263 )   | \$ 996,297      |

See accompanying notes to consolidated financial statements.

7

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.

Recently, we have made certain changes to the leadership team, organizational structure, budgeting and financial reporting processes which drive changes to segment reporting. These changes align our operations into three distinct business units: Domestic, International and Clinical & Procedural Solutions (CPS). Domestic is our U.S. distribution, logistics and value-added services business, while International is our European distribution, logistics and value-added services business. CPS provides product-related solutions, including surgical and procedural kitting and sourcing. Beginning with the quarter ended March 31, 2016, we now report our financial results using this three segment structure and have recast prior year segment results on the same basis.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. Depreciation and amortization, previously reported as a separate financial statement line item in the consolidated statements of income is now

included in distribution, selling and administrative expenses for all periods presented.

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 estimated amounts that would be received or paid to terminate the contracts at the reporting date based on current market prices for applicable currencies. See Note 7 for the fair value of long-term debt and Note 8 for the fair value of derivatives.

Note 3—Financing Receivables and Payables

At June 30, 2016 and December 31, 2015, we had financing receivables of \$165.9 million and \$198.5 million and related payables of \$87.2 million and \$148.5 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 4—Goodwill and Intangible Assets

In connection with our new three segment structure, goodwill has been reallocated based on the relative fair value of the underlying reporting units. We performed an interim impairment analysis in the first quarter of 2016 as a result of this change and noted no impairment. The following table summarizes the changes in the carrying amount of goodwill through June 30, 2016:

|  | Domestic  | International | CPS       | Consolidated |
|--|-----------|---------------|-----------|--------------|
| Carrying amount of goodwill, December 31, 2015 | \$180,006 | \$ 23,426     | \$216,187 | \$ 419,619   |
| Currency translation adjustments               | —         | (1,576        | ) 323     | (1,253 )     |
| Carrying amount of goodwill, June 30, 2016     | \$180,006 | \$ 21,850     | \$216,510 | \$ 418,366   |



Intangible assets at June 30, 2016, and December 31, 2015, were as follows:

|                          | June 30, 2016            |          | December 31, 2015        |          |
|--------------------------|--------------------------|----------|--------------------------|----------|
|                          | Customer                 | Other    | Customer                 | Other    |
|                          | Relationship Intangibles |          | Relationship Intangibles |          |
| Gross intangible assets  | \$ 120,784               | \$ 4,364 | \$ 121,888               | \$ 4,621 |
| Accumulated amortization | (34,201 )                | (1,348 ) | (29,872 )                | (1,387 ) |
| Net intangible assets    | \$ 86,583                | \$ 3,016 | \$ 92,016                | \$ 3,234 |

At June 30, 2016, \$12.7 million in net intangible assets were held in the Domestic segment, \$12.9 million were held in the International segment and \$64.0 million were held in the CPS segment. Amortization expense for intangible assets was \$2.2 million and \$2.4 million for the three months ended June 30, 2016 and 2015 and \$4.5 million and \$4.9 million for the six months ended June 30, 2016 and 2015.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$4.6 million for the remainder of 2016, \$9.9 million for 2017, \$9.2 million for 2018, \$9.2 million for 2019, \$9.0 million for 2020 and \$8.6 million for 2021.

#### Note 5—Exit and Realignment Charges

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, 2016 and 2015 were as follows:

|                                    | Three Months        |                     | Six Months          |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | Ended June 30, 2016 | Ended June 30, 2015 | Ended June 30, 2016 | Ended June 30, 2015 |
| Domestic segment                   | \$4,894             | \$(124 )            | \$12,968            | \$2,515             |
| International segment              | 1,128               | 4,045               | 2,828               | 8,717               |
| CPS segment                        | —                   | —                   | 1,110               | —                   |
| Total exit and realignment charges | \$6,022             | \$3,921             | \$16,906            | \$11,232            |

For the three and six months ended June 30, 2016, \$1.3 million and \$11.2 million in charges were associated with our voluntary employee separation program and other severance activities. The following table summarizes the activity related to exit and realignment cost accruals through June 30, 2016 and 2015:

|   | Lease<br>Obligations | Severance and<br>Other | Total    |
|---|----------------------|------------------------|----------|
| Accrued exit and realignment costs, December 31, 2015 | \$ 486               | \$ 1,840               | \$2,326  |
| Provision for exit and realignment activities         | —                    | 9,895                  | 9,895    |
| Cash payments, net of sublease income                 | (486 )               | (1,287 )               | (1,773 ) |
| Accrued exit and realignment costs, March 31, 2016    | —                    | 10,448                 | 10,448   |
| Provision for exit and realignment activities         | —                    | 1,254                  | 1,254    |
| Cash payments, net of sublease income                 | —                    | (7,087 )               | (7,087 ) |
| Accrued exit and realignment costs, June 30, 2016     | \$ —                 | \$ 4,615               | \$4,615  |
| 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  |

In addition to the exit and realignment accruals in the preceding table, we also incurred \$4.7 million of costs that were expensed as incurred for the three months ended June 30, 2016, including \$0.9 million in information systems costs, \$3.2 million in consulting costs and \$0.6 million in other costs. In the first quarter of 2016, we also incurred \$1.0 million of costs that were expensed as incurred, including \$0.5 million in information systems costs, \$0.4 million in consulting costs and \$0.1 million in other costs.

For the three months ended June 30, 2015, we recognized \$2.9 million of costs that were expensed as incurred, including \$1.2 million in accelerated amortization of an 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.

#### Note 6—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 distribution, selling and administrative expenses, for the three and six months ended June 30, 2016 and 2015, were as follows:

|                               | Three<br>Months<br>Ended June<br>30, |       | Six Months<br>Ended June 30, |         |
|-------------------------------|--------------------------------------|-------|------------------------------|---------|
|                               | 2016                                 | 2015  | 2016                         | 2015    |
| Service cost                  | \$20                                 | \$32  | \$43                         | \$65    |
| Interest cost                 | 510                                  | 464   | 1,015                        | 929     |
| Recognized net actuarial loss | 413                                  | 401   | 822                          | 802     |
| Net periodic benefit cost     | \$943                                | \$897 | \$1,880                      | \$1,796 |

Certain of our foreign subsidiaries have health and welfare plans covering substantially all of their respective employees. Our expense for these plans totaled \$0.4 million and \$0.5 million for the three months ended June 30, 2016 and 2015 and \$0.8 million and \$1.0 million for the six months ended June 30, 2016 and 2015.



#### Note 7—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, 2016 and December 31, 2015, the estimated fair value of the 2021 Notes was \$283.2 million and \$273.7 million and the estimated fair value of the 2024 Notes was \$280.9 million and \$272.8 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, 2016, the interest rate under the credit facility is LIBOR plus 1.375%.

At June 30, 2016, 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, 2016 and December 31, 2015, 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, 2016.

#### Note 8—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. At June 30, 2016, we did not have any derivatives outstanding. The total notional values of our foreign currency derivatives as of December 31, 2015 was \$2.0 million. In 2016 and 2015, we did not have any derivatives designated as hedging instruments and all gains and losses resulting from changes in the fair value of derivative instruments were immediately recognized into earnings. At December 31, 2015, the fair value of our foreign currency contracts included in other assets on the consolidated balance sheet was \$0.4 million. The impact from changes in the fair value of these foreign currency derivatives included in other operating expense was \$0.1 million and \$0.4 million for the three and six months ended June 30, 2016. 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 consider the risk of counterparty default to be minimal.

#### Note 9—Income Taxes

The effective tax rate was 38.8% and 37.9% for the three and six months ended June 30, 2016, compared to 41.2% and 42.7% in the same periods of 2015. The change in rate resulted from a higher percentage of the company's pretax income earned in lower tax rate jurisdictions compared to prior year and the deductibility of certain prior year acquisition-related charges for income tax purposes. The liability for unrecognized tax benefits was \$9.0 million at June 30, 2016, and \$7.7 million at December 31, 2015. Included in the liability at June 30, 2016 were \$4.4 million of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

## Note 10—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, 2016 and 2015.

| (in thousands, except per share data)   | Three Months<br>Ended June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2016                           | 2015     | 2016                         | 2015     |
| Numerator:  |                                |          |                              |          |
| Net income  | \$27,716                       | \$24,226 | \$51,851                     | \$43,166 |
| Less: income allocated to unvested restricted shares                            | (281 )                         | (195 )   | (560 )                       | (359 )   |
| Net income attributable to common shareholders - basic                          | 27,435                         | 24,031   | 51,291                       | 42,807   |
| Add: undistributed income attributable to unvested restricted shares - basic    | 72                             | 42       | 131                          | 63       |
| Less: undistributed income attributable to unvested restricted shares - diluted | (72 )                          | (42 )    | (131 )                       | (63 )    |
| Net income attributable to common shareholders - diluted                        | \$27,435                       | \$24,031 | \$51,291                     | \$42,807 |
| Denominator:  |                                |          |                              |          |
| Weighted average shares outstanding - basic                                     | 61,502                         | 62,226   | 61,588                       | 62,281   |
| Dilutive shares - stock options   | —                              | —        | —                            | 1        |
| Weighted average shares outstanding - diluted                                   | 61,502                         | 62,226   | 61,588                       | 62,282   |
| Net income per share attributable to common shareholders:                       |                                |          |                              |          |
| Basic   | \$0.45                         | \$0.39   | \$0.83                       | \$0.69   |
| Diluted   | \$0.45                         | \$0.39   | \$0.83                       | \$0.69   |

## Note 11—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. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the company from time to time and/or during the company's scheduled quarterly trading windows for officers and directors. During the six months ended June 30, 2016, we repurchased in open-market transactions and retired approximately 0.6 million shares of our common stock for an aggregate of \$20.8 million, or an average price per share of \$36.25. As of June 30, 2016, we have approximately \$49.2 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.



## Note 12—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, 2016 and 2015:

|   | Retirement<br>Plans | Currency<br>Translation<br>Adjustments | Other  | Total      |
|---|---------------------|--|--------|------------|
| Accumulated other comprehensive income (loss), March 31, 2016                       | \$(10,244 )         | \$ (33,066 )                           | \$(96) | \$(43,406) |
| Other comprehensive income (loss) before reclassifications                          | —                   | (7,120 )                               | —      | (7,120 )   |
| Income tax  | —                   | —                                      | —      | —          |
| Other comprehensive income (loss) before reclassifications, net of tax              | —                   | (7,120 )                               | —      | (7,120 )   |
| Amounts reclassified from accumulated other comprehensive income (loss)             | 413                 | —                                      | 18     | 431        |
| Income tax  | (168 )              | —                                      | —      | (168 )     |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 245                 | —                                      | 18     | 263        |
| Other comprehensive income (loss)   | 245                 | (7,120 )                               | 18     | (6,857 )   |
| Accumulated other comprehensive income (loss), June 30, 2016                        | \$(9,999 )          | \$ (40,186 )                           | \$(78) | \$(50,263) |
| 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) |

|   | Retirement<br>Plans | Currency<br>Translation<br>Adjustments | Other   | Total      |
|---|---------------------|--|---------|------------|
| Accumulated other comprehensive income (loss), December 31, 2015                    | \$(10,482 )         | \$ (41,228 )                           | \$(115) | \$(51,825) |
| Other comprehensive income (loss) before reclassifications                          | —                   | 1,042                                  | —       | 1,042      |
| Income tax  | —                   | —                                      | —       | —          |
| Other comprehensive income (loss) before reclassifications, net of tax              | —                   | 1,042                                  | —       | 1,042      |
| Amounts reclassified from accumulated other comprehensive income (loss)             | 822                 | —                                      | 37      | 859        |
| Income tax  | (339 )              | —                                      | —       | (339 )     |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 483                 | —                                      | 37      | 520        |
| Other comprehensive income (loss)   | 483                 | 1,042                                  | 37      | 1,562      |
| Accumulated other comprehensive income (loss), June 30, 2016                        | \$(9,999 )          | \$ (40,186 )                           | \$(78 ) | \$(50,263) |
| 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) |

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 distribution, selling and administrative expenses. For the three and six months ended June 30, 2016 and 2015, we reclassified \$0.4 million and \$0.8 million of actuarial net losses.

#### Note 13—Segment Information

We periodically evaluate our application of accounting guidance for reportable segments and disclose information about reportable segments based on the way management organizes the enterprise for making operating decisions and assessing performance. We report our business under three segments: Domestic, International and Clinical & Procedural Solutions (CPS). The Domestic segment includes our United States distribution, logistics and value-added services business. The International segment consists of our European distribution, logistics and value-added services business. CPS provides product-related solutions, including surgical and procedural kitting and sourcing.

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 our normal business operations on a regular basis. Segment assets exclude inter-segment account balances as we believe their inclusion would be misleading or not meaningful. We believe all inter-segment sales are at prices that approximate market.

The following tables present financial information by segment:

|   | Three Months Ended<br>June 30, |             | Six Months Ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2016                           | 2015        | 2016                         | 2015        |
| Net revenue:  |                                |             |                              |             |
| Segment net revenue   |                                |             |                              |             |
| Domestic  | \$2,345,746                    | \$2,279,725 | \$4,667,455                  | \$4,529,430 |
| International   | 88,559                         | 92,856      | 172,110                      | 188,367     |
| CPS   | 134,964                        | 135,714     | 276,317                      | 265,359     |
| Total segment net revenue   | \$2,569,269                    | \$2,508,295 | \$5,115,882                  | \$4,983,156 |
| Inter-segment revenue   |                                |             |                              |             |
| CPS   | (85,593 )                      | (86,128 )   | (176,413 )                   | (169,793 )  |
| Total inter-segment revenue   | (85,593 )                      | (86,128 )   | (176,413 )                   | (169,793 )  |
| Consolidated net revenue  | \$2,483,676                    | \$2,422,167 | \$4,939,469                  | \$4,813,363 |
| Operating earnings (loss):  |                                |             |                              |             |
| Domestic  | \$43,451                       | \$38,394    | \$85,169                     | \$76,499    |
| International   | 893                            | 1,181       | 2,021                        | 843         |
| CPS   | 14,255                         | 13,850      | 27,526                       | 27,032      |
| Inter-segment eliminations  | 207                            | 142         | (457 )                       | 84          |
| Acquisition-related and exit and realignment charges <sup>(1)</sup> | (6,752 )                       | (5,707 )    | (17,235 )                    | (15,623 )   |
| Consolidated operating earnings                                     | \$52,054                       | \$47,860    | \$97,024                     | \$88,835    |
| Depreciation and amortization:                                      |                                |             |                              |             |
| Domestic  | \$7,497                        | \$8,888     | \$15,038                     | \$17,971    |
| International   | 4,416                          | 4,743       | 8,865                        | 9,638       |
| CPS   | 2,213                          | 2,150       | 4,440                        | 4,341       |
| Consolidated depreciation and amortization                          | \$14,126                       | \$15,781    | \$28,343                     | \$31,950    |
| Capital expenditures:   |                                |             |                              |             |
| Domestic  | \$2,659                        | \$3,349     | \$7,202                      | \$11,358    |
| International   | 2,860                          | 7,875       | 4,830                        | 10,790      |
| CPS   | 880                            | 35          | 1,427                        | 677         |
| Consolidated capital expenditures                                   | \$6,399                        | \$11,259    | \$13,459                     | \$22,825    |

|                           | June 30,<br>2016 | December<br>31, 2015 |
|---------------------------|------------------|----------------------|
| Total assets:             |                  |                      |
| Domestic                  | \$1,752,278      | \$1,728,345          |
| International             | 442,097          | 464,003              |
| CPS                       | 422,738          | 420,408              |
| Segment assets            | 2,617,113        | 2,612,756            |
| Cash and cash equivalents | 138,951          | 161,020              |
| Consolidated total assets | \$2,756,064      | \$2,773,776          |

<sup>(1)</sup> 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 has been replaced in the International segment.

## Note 14—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, 2016                     | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|------------------------|----------------------------|--------------|--------------|
| <b>Statements of Income</b>                          |                     |                        |                            |              |              |
| Net revenue  | \$ —                | \$2,345,746            | \$ 176,010                 | \$ (38,080 ) | \$ 2,483,676 |
| Cost of goods sold                                   | —                   | 2,129,586              | 92,660                     | (37,990 )    | 2,184,256    |
| Gross margin   | —                   | 216,160                | 83,350                     | (90 )        | 299,420      |
| Distribution, selling and administrative expenses    | 357                 | 166,047                | 76,510                     | —            | 242,914      |
| Acquisition-related and exit and realignment charges | —                   | 5,249                  | 1,503                      | —            | 6,752        |
| Other operating income, net                          | —                   | (1,363 )               | (937 )                     | —            | (2,300 )     |
| Operating earnings (loss)                            | (357 )              | 46,227                 | 6,274                      | (90 )        | 52,054       |
| Interest expense (income), net                       | 6,903               | (846 )                 | 708                        | —            | 6,765        |
| Income (loss) before income taxes                    | (7,260 )            | 47,073                 | 5,566                      | (90 )        | 45,289       |
| Income tax (benefit) provision                       | —                   | 14,555                 | 3,018                      | —            | 17,573       |
| Equity in earnings of subsidiaries                   | 34,976              | —                      | —                          | (34,976 )    | —            |
| Net income (loss)                                    | 27,716              | 32,518                 | 2,548                      | (35,066 )    | 27,716       |
| Other comprehensive income (loss)                    | (6,857 )            | 264                    | (7,120 )                   | 6,856        | (6,857 )     |
| Comprehensive income (loss)                          | \$ 20,859           | \$ 32,782              | \$ (4,572 )                | \$ (28,210 ) | \$ 20,859    |
| <b>Three Months Ended June 30, 2015</b>              |                     |                        |                            |              |              |
| <b>Statements of Income</b>                          |                     |                        |                            |              |              |
| 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      |
| Distribution, selling and administrative expenses    | 626                 | 169,258                | 77,074                     | —            | 246,958      |
| Acquisition-related and exit and realignment charges | —                   | 256                    | 5,451                      | —            | 5,707        |
| 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    |

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

| Six Months Ended June 30, 2016                       | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|------------------------|----------------------------|--------------|--------------|
| <b>Statements of Income</b>                          |                     |                        |                            |              |              |
| Net revenue  | \$ —                | \$4,667,454            | \$ 348,110                 | \$ (76,095 ) | \$4,939,469  |
| Cost of goods sold                                   | —                   | 4,234,851              | 184,734                    | (76,172 )    | 4,343,413    |
| Gross margin   | —                   | 432,603                | 163,376                    | 77           | 596,056      |
| Distribution, selling and administrative expenses    | 891                 | 335,357                | 149,391                    | —            | 485,639      |
| Acquisition-related and exit and realignment charges | —                   | 13,652                 | 3,583                      | —            | 17,235       |
| Other operating income, net                          | —                   | (2,747 )               | (1,095 )                   | —            | (3,842 )     |
| Operating earnings (loss)                            | (891 )              | 86,341                 | 11,497                     | 77           | 97,024       |
| Interest expense (income), net                       | 13,743              | (1,475 )               | 1,286                      | —            | 13,554       |
| Income (loss) before income taxes                    | (14,634 )           | 87,816                 | 10,211                     | 77           | 83,470       |
| Income tax (benefit) provision                       | —                   | 26,101                 | 5,518                      | —            | 31,619       |
| Equity in earnings of subsidiaries                   | 66,485              | —                      | —                          | (66,485 )    | —            |
| Net income (loss)                                    | 51,851              | 61,715                 | 4,693                      | (66,408 )    | 51,851       |
| Other comprehensive income (loss)                    | 1,562               | 521                    | 1,041                      | (1,562 )     | 1,562        |
| Comprehensive income (loss)                          | \$ 53,413           | \$62,236               | \$ 5,734                   | \$ (67,970 ) | \$53,413     |
| <b>Six Months Ended June 30, 2015</b>                |                     |                        |                            |              |              |
| <b>Statements of Income</b>                          |                     |                        |                            |              |              |
| 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      |
| Distribution, selling and administrative expenses    | 665                 | 338,939                | 157,048                    | —            | 496,652      |
| Acquisition-related and exit and realignment charges | —                   | 3,833                  | 11,790                     | —            | 15,623       |
| 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     |

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

| June 30, 2016   | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations         | Consolidated       |
|---|---------------------|------------------------|----------------------------|----------------------|--------------------|
| <b>Balance Sheets</b>                                   |                     |                        |                            |                      |                    |
| <b>Assets</b>   |                     |                        |                            |                      |                    |
| <b>Current assets</b>                                   |                     |                        |                            |                      |                    |
| Cash and cash equivalents                               | \$ 105,390          | \$ 5,109               | \$ 28,452                  | \$—                  | \$ 138,951         |
| Accounts and notes receivable, net                      | —                   | 528,639                | 90,220                     | (9,647 )             | 609,212            |
| Merchandise inventories                                 | —                   | 905,032                | 55,250                     | (2,310 )             | 957,972            |
| Other current assets                                    | 175                 | 82,304                 | 186,166                    | —                    | 268,645            |
| <b>Total current assets</b>                             | <b>105,565</b>      | <b>1,521,084</b>       | <b>360,088</b>             | <b>(11,957 )</b>     | <b>1,974,780</b>   |
| Property and equipment, net                             | —                   | 100,704                | 100,815                    | —                    | 201,519            |
| Goodwill, net   | —                   | 180,006                | 238,360                    | —                    | 418,366            |
| Intangible assets, net                                  | —                   | 12,693                 | 76,906                     | —                    | 89,599             |
| Due from O&M and subsidiaries                           | —                   | 544,353                | —                          | (544,353 )           | —                  |
| Advances to and investment in consolidated subsidiaries | 2,033,661           | —                      | —                          | (2,033,661 )         | —                  |
| Other assets, net                                       | —                   | 54,130                 | 17,670                     | —                    | 71,800             |
| <b>Total assets</b>                                     | <b>\$2,139,226</b>  | <b>\$2,412,970</b>     | <b>\$ 793,839</b>          | <b>\$(2,589,971)</b> | <b>\$2,756,064</b> |
| <b>Liabilities and equity</b>                           |                     |                        |                            |                      |                    |
| <b>Current liabilities</b>                              |                     |                        |                            |                      |                    |
| Accounts payable  | \$—                 | \$723,773              | \$ 60,764                  | \$(8,567 )           | \$775,970          |
| Accrued payroll and related liabilities                 | —                   | 17,718                 | 10,550                     | —                    | 28,268             |
| Other current liabilities                               | 8,028               | 109,397                | 122,462                    | —                    | 239,887            |
| <b>Total current liabilities</b>                        | <b>8,028</b>        | <b>850,888</b>         | <b>193,776</b>             | <b>(8,567 )</b>      | <b>1,044,125</b>   |
| Long-term debt, excluding current portion               | 544,410             | 4,032                  | 18,513                     | —                    | 566,955            |
| Due to O&M and subsidiaries                             | 590,491             | —                      | 66,325                     | (656,816 )           | —                  |
| Intercompany debt                                       | —                   | 138,890                | —                          | (138,890 )           | —                  |
| Deferred income taxes                                   | —                   | 62,673                 | 21,827                     | —                    | 84,500             |
| Other liabilities                                       | —                   | 57,867                 | 6,320                      | —                    | 64,187             |
| <b>Total liabilities</b>                                | <b>1,142,929</b>    | <b>1,114,350</b>       | <b>306,761</b>             | <b>(804,273 )</b>    | <b>1,759,767</b>   |
| <b>Equity</b>   |                     |                        |                            |                      |                    |
| Common stock  | 125,021             | —                      | —                          | —                    | 125,021            |
| Paid-in capital   | 214,435             | 174,612                | 583,867                    | (758,479 )           | 214,435            |
| Retained earnings (deficit)                             | 707,104             | 1,133,985              | (56,503 )                  | (1,077,482 )         | 707,104            |
| Accumulated other comprehensive income (loss)           | (50,263 )           | (9,977 )               | (40,286 )                  | 50,263               | (50,263 )          |
| <b>Total equity</b>                                     | <b>996,297</b>      | <b>1,298,620</b>       | <b>487,078</b>             | <b>(1,785,698 )</b>  | <b>996,297</b>     |
| <b>Total liabilities and equity</b>                     | <b>\$2,139,226</b>  | <b>\$2,412,970</b>     | <b>\$ 793,839</b>          | <b>\$(2,589,971)</b> | <b>\$2,756,064</b> |

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

| December 31, 2015  | 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                                | \$103,284              | \$5,614                   | \$ 52,122                     | \$—                  | \$161,020          |
| Accounts and notes receivable, net                       | —                      | 507,673                   | 89,895                        | (9,633 )             | 587,935            |
| Merchandise inventories                                  | —                      | 883,232                   | 59,930                        | (2,387 )             | 940,775            |
| Other current assets                                     | 104                    | 72,683                    | 212,183                       | —                    | 284,970            |
| <b>Total current assets</b>                              | <b>103,388</b>         | <b>1,469,202</b>          | <b>414,130</b>                | <b>(12,020 )</b>     | <b>1,974,700</b>   |
| Property and equipment, net                              | —                      | 103,219                   | 105,711                       | —                    | 208,930            |
| Goodwill, net  | —                      | 180,006                   | 239,613                       | —                    | 419,619            |
| Intangible assets, net                                   | —                      | 13,731                    | 81,519                        | —                    | 95,250             |
| Due from O&M and subsidiaries                            | —                      | 518,473                   | —                             | (518,473 )           | —                  |
| Advances to and investments in consolidated subsidiaries | 1,967,176              | —                         | —                             | (1,967,176 )         | —                  |
| Other assets, net  | —                      | 57,409                    | 17,868                        | —                    | 75,277             |
| <b>Total assets</b>                                      | <b>\$2,070,564</b>     | <b>\$2,342,040</b>        | <b>\$ 858,841</b>             | <b>\$(2,497,669)</b> | <b>\$2,773,776</b> |
| <b>Liabilities and equity</b>                            |                        |                           |                               |                      |                    |
| <b>Current liabilities</b>                               |                        |                           |                               |                      |                    |
| Accounts payable   | \$—                    | \$662,909                 | \$ 56,073                     | \$(8,373 )           | \$710,609          |
| Accrued payroll and related liabilities                  | —                      | 32,094                    | 13,813                        | —                    | 45,907             |
| Deferred income taxes                                    | —                      | —                         | —                             | —                    | —                  |
| Other current liabilities                                | 6,924                  | 109,137                   | 191,012                       | —                    | 307,073            |
| <b>Total current liabilities</b>                         | <b>6,924</b>           | <b>804,140</b>            | <b>260,898</b>                | <b>(8,373 )</b>      | <b>1,063,589</b>   |
| Long-term debt, excluding current portion                | 543,982                | 4,527                     | 19,986                        | —                    | 568,495            |
| Due to O&M and subsidiaries                              | 527,068                | —                         | 70,089                        | (597,157 )           | —                  |
| Intercompany debt  | —                      | 138,890                   | —                             | (138,890 )           | —                  |
| Deferred income taxes                                    | —                      | 67,562                    | 18,764                        | —                    | 86,326             |
| Other liabilities  | —                      | 57,573                    | 5,203                         | —                    | 62,776             |
| <b>Total liabilities</b>                                 | <b>1,077,974</b>       | <b>1,072,692</b>          | <b>374,940</b>                | <b>(744,420 )</b>    | <b>1,781,186</b>   |
| <b>Equity</b>  |                        |                           |                               |                      |                    |
| Common stock   | 125,606                | —                         | —                             | —                    | 125,606            |
| Paid-in capital  | 211,943                | 174,612                   | 583,873                       | (758,485 )           | 211,943            |
| Retained earnings (deficit)                              | 706,866                | 1,104,787                 | (58,648 )                     | (1,046,139 )         | 706,866            |
| Accumulated other comprehensive income (loss)            | (51,825 )              | (10,051 )                 | (41,324 )                     | 51,375               | (51,825 )          |
| <b>Total equity</b>                                      | <b>992,590</b>         | <b>1,269,348</b>          | <b>483,901</b>                | <b>(1,753,249 )</b>  | <b>992,590</b>     |
| <b>Total liabilities and equity</b>                      | <b>\$2,070,564</b>     | <b>\$2,342,040</b>        | <b>\$ 858,841</b>             | <b>\$(2,497,669)</b> | <b>\$2,773,776</b> |

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

| Six Months Ended June 30, 2016   | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|------------------------|----------------------------|--------------|--------------|
| Statements of Cash Flows   |                     |                        |                            |              |              |
| Operating activities:  |                     |                        |                            |              |              |
| Net income (loss)  | \$ 51,851           | \$ 61,715              | \$ 4,693                   | \$ (66,408 ) | \$ 51,851    |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: |                     |                        |                            |              |              |
| Equity in earnings of subsidiaries   | (66,485 )           | —                      | —                          | 66,485       | —            |
| Depreciation and amortization  | —                   | 15,039                 | 13,304                     | —            | 28,343       |
| Share-based compensation expense   | —                   | 5,969                  | —                          | —            | 5,969        |
| Provision for losses on accounts and notes receivable                                    | —                   | (129 )                 | 102                        | —            | (27 )        |
| Deferred income tax expense (benefit)  | —                   | (2,071 )               | —                          | —            | (2,071 )     |
| Changes in operating assets and liabilities:   |                     |                        |                            |              |              |
| Accounts and notes receivable  | —                   | (20,837 )              | (9,228 )                   | 329          | (29,736 )    |
| Merchandise inventories  | —                   | (21,800 )              | 3,931                      | (78 )        | (17,947 )    |
| Accounts payable   | —                   | 60,864                 | 2,174                      | (328 )       | 62,710       |
| Net change in other assets and liabilities   | 1,033               | (23,954 )              | (33,678 )                  | —            | (56,599 )    |
| Other, net   | 427                 | 218                    | (500 )                     | —            | 145          |
| Cash provided by (used for) operating activities   | (13,174 )           | 75,014                 | (19,202 )                  | —            | 42,638       |
| Investing activities:  |                     |                        |                            |              |              |
| Additions to property and equipment  | —                   | (5,502 )               | (3,355 )                   | —            | (8,857 )     |
| Additions to computer software and intangible assets                                     | —                   | (1,700 )               | (2,902 )                   | —            | (4,602 )     |
| Proceeds from the sale of property and equipment   | —                   | 18                     | 4,547                      | —            | 4,565        |
| Cash used for investing activities   | —                   | (7,184 )               | (1,710 )                   | —            | (8,894 )     |
| Financing activities:  |                     |                        |                            |              |              |
| Change in intercompany advances  | 71,002              | (67,168 )              | (3,834 )                   | —            | —            |
| Cash dividends paid  | (32,003 )           | —                      | —                          | —            | (32,003 )    |
| Repurchases of common stock  | (20,849 )           | —                      | —                          | —            | (20,849 )    |
| Excess tax benefits related to share-based compensation                                  | 598                 | —                      | —                          | —            | 598          |
| Other, net   | (3,468 )            | (1,167 )               | (1,333 )                   | —            | (5,968 )     |
| Cash provided by (used for) financing activities   | 15,280              | (68,335 )              | (5,167 )                   | —            | (58,222 )    |
| Effect of exchange rate changes on cash and cash equivalents                             | —                   | —                      | 2,409                      | —            | 2,409        |
| Net increase (decrease) in cash and cash equivalents                                     | 2,106               | (505 )                 | (23,670 )                  | —            | (22,069 )    |
| Cash and cash equivalents at beginning of period   | 103,284             | 5,614                  | 52,122                     | —            | 161,020      |
| Cash and cash equivalents at end of period   | \$ 105,390          | \$ 5,109               | \$ 28,452                  | \$ —         | \$ 138,951   |



Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-Q

| Six months ended June 30, 2015   | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------------|------------------------|----------------------------|--------------|--------------|
| Statements of Cash Flows   |                     |                        |                            |              |              |
| Operating activities:  |                     |                        |                            |              |              |
| Net income (loss)  | \$43,166            | \$ 58,322              | \$ (2,618 )                | \$ (55,704 ) | \$ 43,166    |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: |                     |                        |                            |              |              |
| Equity in earnings of subsidiaries   | (55,943 )           | —                      | —                          | 55,943       | —            |
| Depreciation and amortization  | —                   | 17,741                 | 18,397                     | —            | 36,138       |
| Share-based compensation expense   | —                   | 5,048                  | —                          | —            | 5,048        |
| Provision for losses on accounts and notes receivable                                    | —                   | (36 )                  | 77                         | —            | 41           |
| Deferred income tax expense (benefit)  | —                   | 2,376                  | 616                        | —            | 2,992        |
| Changes in operating assets and liabilities:   |                     |                        |                            |              |              |
| Accounts and notes receivable  | —                   | 35,566                 | (180 )                     | 6,236        | 41,622       |
| Merchandise inventories  | —                   | (35,481 )              | 1,193                      | 2,422        | (31,866 )    |
| Accounts payable   | —                   | 146,622                | 5,798                      | (6,738 )     | 145,682      |
| Net change in other assets and liabilities   | (148 )              | 14,338                 | (9,260 )                   | (2,159 )     | 2,771        |
| Other, net   | 429                 | 726                    | 41                         | —            | 1,196        |
| Cash provided by (used for) operating activities   | (12,496 )           | 245,222                | 14,064                     | —            | 246,790      |
| Investing activities:  |                     |                        |                            |              |              |
| Additions to property and equipment  | —                   | (9,292 )               | (2,717 )                   | —            | (12,009 )    |
| Additions to computer software and intangible assets                                     | —                   | (2,068 )               | (8,748 )                   | —            | (10,816 )    |
| Proceeds from the sale of property and equipment   | —                   | 60                     | 777                        | —            | 837          |
| Cash used for investing activities   | —                   | (11,300 )              | (10,688 )                  | —            | (21,988 )    |
| Financing activities:  |                     |                        |                            |              |              |
| Change in intercompany advances  | 135,627             | (155,951 )             | 20,324                     | —            | —            |
| Change in bank overdraft   | —                   | —                      | 1,530                      | —            | 1,530        |
| Repayment of revolving credit facility   | —                   | (33,700 )              | —                          | —            | (33,700 )    |
| Cash dividends paid  | (31,867 )           | —                      | —                          | —            | (31,867 )    |
| Repurchases of common stock  | (7,440 )            | —                      | —                          | —            | (7,440 )     |
| Excess tax benefits related to share-based compensation                                  | 457                 | —                      | —                          | —            | 457          |
| Other, net   | (867 )              | (1,544 )               | (2,701 )                   | —            | (5,112 )     |
| Cash provided by (used for) financing activities   | 95,910              | (191,195 )             | 19,153                     | —            | (76,132 )    |
| Effect of exchange rate changes on cash and cash equivalents                             | —                   | —                      | (4,473 )                   | —            | (4,473 )     |
| Net increase (decrease) in cash and cash equivalents                                     | 83,414              | 42,727                 | 18,056                     | —            | 144,197      |
| Cash and cash equivalents at beginning of period   | 22,013              | 3,912                  | 30,847                     | —            | 56,772       |
| Cash and cash equivalents at end of period   | \$ 105,427          | \$ 46,639              | \$ 48,903                  | \$ —         | \$ 200,969   |

Note 15—Recent Accounting Pronouncements

On January 1, 2016, we adopted ASU 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs, which requires that our \$3.8 million in debt issuance costs at June 30, 2016 related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. As a result of this adoption, we have also presented \$4.1 million in debt issuance costs from our December 31, 2015 balance sheet in a manner that conforms to the new presentation. The adoption of this standard did not affect our results of operations or cash flows in either the current or prior interim or annual periods. In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted and should be applied using a modified retrospective approach. We are in the process of evaluating the potential impacts of this new guidance on our consolidated financial statements and related disclosures. In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments in this updated guidance include changes to simplify the Codification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. We are in the process of evaluating the potential impacts of this new guidance on our consolidated financial statements.

There has been no change in our significant accounting policies from those contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis describes results of operations and material changes in the financial condition of Owens & Minor, Inc. and its subsidiaries since December 31, 2015. Trends of a material nature are discussed to the extent known and considered relevant. This discussion should be read in conjunction with the consolidated financial statements, related notes thereto, and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Overview

Owens & Minor, Inc., along with its subsidiaries, (we, us, or our) is a leading global healthcare services company that connects the world of medical products to the point of care. Recently, we have made certain changes to the leadership team, organizational structure, budgeting and financial reporting processes which drive changes to segment reporting. These changes align our operations into three distinct business units: Domestic, International and Clinical & Procedural Solutions (CPS). Domestic is our U.S. distribution, logistics and value-added services business, while International is our European distribution, logistics and value-added services business. CPS provides product-related solutions, including surgical and procedural kitting and sourcing. Furthermore, the basis for segment reporting shifts from the geography of the end customer to the business unit selling the product or providing the service. This includes intercompany transactions as well. Beginning with the first quarter of 2016, we now report our financial results using this three segment structure and have recast prior year segment results on the same basis. Segment financial information is provided in Note 13 of Notes to Consolidated Financial Statements included in this quarterly report.

Financial highlights. The following table provides a reconciliation of reported operating earnings, net income and net income per diluted common share to non-GAAP measures used by management.

| (Dollars in thousands except per share data)                                   | Three Months   |          | Six Months Ended |           |
|--|----------------|----------|------------------|-----------|
|  | Ended June 30, |          | June 30,         |           |
|  | 2016           | 2015     | 2016             | 2015      |
| Operating earnings, as reported (GAAP)   | \$52,054       | \$47,860 | \$97,024         | \$88,835  |
| Acquisition-related and exit and realignment charges                           | 6,752          | 5,707    | 17,235           | 15,623    |
| Operating earnings, adjusted (non-GAAP) (Adjusted Operating Earnings)          | \$58,806       | \$53,567 | \$114,259        | \$104,458 |
| Net income, as reported (GAAP)   | \$27,716       | \$24,226 | \$51,851         | \$43,166  |
| Acquisition-related and exit and realignment charges                           | 6,752          | 5,707    | 17,235           | 15,623    |
| Income tax expense (benefit)   | (2,245 )       | (838 )   | (5,599 )         | (2,162 )  |
| Net income, adjusted (non-GAAP) (Adjusted Net Income)                          | \$32,223       | \$29,095 | \$63,487         | \$56,627  |
| Net income per diluted common share, as reported (GAAP)                        | \$0.45         | \$0.39   | \$0.83           | \$0.69    |
| Acquisition-related and exit and realignment charges, per diluted common share | 0.07           | 0.07     | 0.19             | 0.21      |
| Net income per diluted common share, adjusted (non-GAAP)(Adjusted EPS)         | \$0.52         | \$0.46   | \$1.02           | \$0.90    |

Net income per diluted share was \$0.45 and \$0.83 for the three and six months ended June 30, 2016, an improvement of \$0.06 and \$0.14 when compared to the same periods of 2015. Adjusted EPS (non-GAAP) was \$0.52 and \$1.02 for the three and six months ended June 30, 2016, an improvement of \$0.06 and \$0.12 compared to prior year. Year over year improvements were primarily as a result of revenue growth and initiatives associated with the company's transformation agenda, including improved expense control. Domestic segment operating earnings of \$43.5 million and \$85.2 million improved by \$5.1 million and \$8.7 million for the three and six month periods of 2016 as a result of revenue growth and expense control initiatives, offset by lower income from manufacturer product price changes. We expect revenue and gross margin to be negatively impacted in the second half of 2016, partially offset by some favorability in operating expenses, as a result of the previously announced exit of a large customer. This is expected to reduce Domestic segment operating earnings for the remainder of the year. The International segment reported operating earnings of \$0.9 million for the quarter and improved by \$1.2 million to \$2.0 million for the year-to-date period compared to prior year. The improvement was a result of continued cost control and improved operational efficiency. CPS operating earnings of \$14.3 million and \$27.5 million for the three and six month periods of 2016 both improved slightly compared to 2015, primarily due to improvements in cost control and higher sales on a year-to-date basis.

#### Use of Non-GAAP Measures

Adjusted operating earnings, adjusted net income and adjusted EPS are an alternative view of performance used by management, and we believe that investors' understanding of our performance is enhanced by disclosing these performance measures. In general, the measures exclude items and charges that (i) management does not believe reflect our core business and relate more to strategic, multi-year corporate activities; or (ii) relate to activities or actions that may have occurred over multiple or in prior periods without predictable trends. Management uses these non-GAAP financial measures internally to evaluate our performance, evaluate the balance sheet, engage in financial and operational planning and determine incentive compensation.

Management provides these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results and in comparing our performance to that of our competitors. However, the non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements set forth above should be carefully evaluated.

Acquisition-related charges were \$0.7 million and \$0.3 million for the three and six months ended June 30, 2016 compared to \$1.8 million and \$4.4 million for the same periods of 2015. The current quarter amount related primarily to costs incurred to settle certain obligations and address other on-going matters associated with the acquisitions of ArcRoyal and Medical Action which were partially offset on a year-to-date basis by the first quarter gain on the sale of property acquired with

23

---

Medical Action. Charges in 2015 consisted primarily of costs to continue the integration of Medical Action and ArcRoyal which were acquired in the fourth quarter of 2014 including certain severance and contractual payments to the former owner and costs to transition information technology and other administrative functions.

Exit and realignment charges were \$6.0 million and \$16.9 million for the three and six months ended June 30, 2016. Charges in 2016 were associated with severance activities (including our voluntary employee separation program in the first quarter of 2016), and other costs associated with our strategic organizational realignment which include certain professional fees and costs to streamline administrative functions and processes in the United States and Europe. Similar charges in 2015 totaled \$3.9 million and \$11.2 million in the comparable periods and also included the consolidation of distribution and logistics centers and closure of offsite warehouses. More information about these charges is provided in Note 5 of Notes to Consolidated Financial Statements included in this quarterly report. These charges have been tax effected in the preceding table by determining the income tax rate depending on the amount of charges incurred in different tax jurisdictions and the deductibility of those charges for income tax purposes.

#### Results of Operations

##### Net revenue.

| (Dollars in thousands) | Three Months Ended June 30, |             | Change   |        |
|------------------------|-----------------------------|-------------|----------|--------|
|                        | 2016                        | 2015        | \$       | %      |
| Domestic               | \$2,345,746                 | \$2,279,725 | \$66,021 | 2.9 %  |
| International          | 88,559                      | 92,856      | (4,297 ) | (4.6)% |
| CPS                    | 134,964                     | 135,714     | (750 )   | (0.6)% |
| Inter-segment          | (85,593 )                   | (86,128 )   | 535      | (0.6)% |
| Net revenue            | \$2,483,676                 | \$2,422,167 | \$61,509 | 2.5 %  |

| (Dollars in thousands) | Six Months Ended June 30, |             | Change    |        |
|------------------------|---------------------------|-------------|-----------|--------|
|                        | 2016                      | 2015        | \$        | %      |
| Domestic               | \$4,667,455               | \$4,529,430 | \$138,025 | 3.0 %  |
| International          | 172,110                   | 188,367     | (16,257 ) | (8.6)% |
| CPS                    | 276,317                   | 265,359     | 10,958    | 4.1 %  |
| Inter-segment          | (176,413 )                | (169,793 )  | (6,620 )  | 3.9 %  |
| Net revenue            | \$4,939,469               | \$4,813,363 | \$126,106 | 2.6 %  |

Consolidated net revenue improved in the three and six month periods ended June 30, 2016 as a result of the increase in our Domestic segment which resulted primarily from growth with our large healthcare provider customers. An additional sales day in the first quarter of 2016 also contributed to the improvement on a year-to-date basis. Domestic segment growth rates are impacted by ongoing market trends including healthcare utilization rates. We expect revenue for the second half of 2016 to be negatively impacted by the previously announced exit of a large domestic customer. In the International segment, excluding the impact of a U.K.-based customer exit last year and the negative impact of foreign exchange, revenues improved by \$1.4 million for the quarter and declined \$2.9 million year-to-date. Revenue growth in CPS for the six month period benefitted from improved alignment with the sales efforts of our Domestic segment.

##### Cost of goods sold.

| (Dollars in thousands) | Three Months Ended June 30, |             | Change   |       |
|------------------------|-----------------------------|-------------|----------|-------|
|                        | 2016                        | 2015        | \$       | %     |
| Cost of goods sold     | \$2,184,256                 | \$2,123,830 | \$60,426 | 2.8 % |

| (Dollars in thousands) | Six Months Ended June 30, |             | Change    |      |
|------------------------|---------------------------|-------------|-----------|------|
|                        | 2016                      | 2015        | \$        | %    |
| Cost of goods sold     | \$4,343,413               | \$4,217,425 | \$125,988 | 3.0% |

Cost of goods sold includes the cost of the product (net of supplier incentives and cash discounts) and all costs incurred for shipments of products from manufacturers to our distribution centers for all customer arrangements where we are

24

---

the primary obligor, bear risk of general and physical inventory loss and carry all credit risk associated with sales. These are sometimes referred to as distribution or buy/sell contracts. Cost of goods sold also includes direct and certain indirect labor, material and overhead costs associated with our kitting businesses. There is no cost of goods sold associated with our fee-for-service business. As a result of the increase in sales activity through our distribution and kitting businesses, cost of goods sold increased from prior year by \$60.4 million and \$126.0 million for the three and six months periods ended June 30, 2016, respectively.

Gross margin.

|                        | Three Months Ended<br>June 30, |           | Change  |              |
|------------------------|--------------------------------|-----------|---------|--------------|
| (Dollars in thousands) | 2016                           | 2015      | \$      | %            |
| Gross margin           | \$299,420                      | \$298,337 | \$1,083 | 0.4%         |
| As a % of net revenue  | 12.06                          | % 12.32   | %       |              |
|                        | Six Months Ended June<br>30,   |           | Change  |              |
| (Dollars in thousands) | 2016                           | 2015      | \$      | %            |
| Gross margin           | \$596,056                      | \$595,938 | \$118   | <del>%</del> |
| As a % of net revenue  | 12.07                          | % 12.38   | %       |              |

The increases in gross margin for the three and six months ended June 30, 2016 compared to the prior year were largely attributable to revenue growth in the Domestic segment as described above. These benefits were offset, in part, by lower income from manufacturer product price changes, the impacts of the U.K. customer exit in July 2015 and unfavorable impacts of foreign currency translation of \$0.6 million and \$2.7 million for the quarter and year-to-date periods. We expect the previously announced exit of a large domestic customer in 2016 to have a negative impact on gross margin for the remainder of the year.

Operating expenses.

|   | Three Months Ended<br>June 30, |           | Change     |         |
|---|--------------------------------|-----------|------------|---------|
| (Dollars in thousands)                            | 2016                           | 2015      | \$         | %       |
| Distribution, selling and administrative expenses | \$242,914                      | \$246,958 | \$(4,044)  | (1.6)%  |
| As a % of net revenue                             | 9.78                           | % 10.20   | %          |         |
| Other operating income, net                       | \$(2,300)                      | \$(2,188) | \$(112)    | 5.1%    |
|   | Six Months Ended June<br>30,   |           | Change     |         |
| (Dollars in thousands)                            | 2016                           | 2015      | \$         | %       |
| Distribution, selling and administrative expenses | \$485,639                      | \$496,652 | \$(11,013) | (2.2)%  |
| As a % of net revenue                             | 9.83                           | % 10.32   | %          |         |
| Other operating income, net                       | \$(3,842)                      | \$(5,172) | \$1,330    | (25.7)% |

Distribution, selling and administrative (DS&A) expenses include labor and warehousing costs associated with our distribution and logistics services and all costs associated with our fee-for-service arrangements. Shipping and handling costs are included in DS&A expenses and include costs to store, move, and prepare products for shipment, as well as costs to deliver products to customers. The costs to convert new customers to our information systems are included in DS&A and are generally incurred prior to the recognition of revenues from the new customers.

The decrease in DS&A expenses compared to prior year reflected the benefits of cost control initiatives, lower fuel costs and improved operational efficiency as well as favorable foreign currency translation impacts of \$0.8 million and \$3.0 million for the three and six months ended June 30, 2016.

The decrease in other operating income, net for the six months ended June 30, 2016 compared to 2015 was attributed primarily to changes in the fair value of derivatives and foreign currency transaction losses compared to prior year.

A discussion of acquisition-related and exit and realignment charges is included above in the Overview section.





## Interest expense, net.

|                         | Three Months Ended June 30, |         | Change |      |
|-------------------------|-----------------------------|---------|--------|------|
| (Dollars in thousands)  | 2016                        | 2015    | \$     | %    |
| Interest expense, net   | \$6,765                     | \$6,680 | \$85   | 1.3% |
| Effective interest rate | 4.81 %                      | 4.81 %  |        |      |

|                         | Six Months Ended June 30, |          | Change |               |
|-------------------------|---------------------------|----------|--------|---------------|
| (Dollars in thousands)  | 2016                      | 2015     | \$     | %             |
| Interest expense, net   | \$13,554                  | \$13,560 | \$(6)  | <del>0%</del> |
| Effective interest rate | 4.80 %                    | 4.74 %   |        |               |

Interest expense for the three and six months ended June 30, 2016 was consistent with prior year.

## Income taxes.

|                        | Three Months Ended June 30, |          | Change |      |
|------------------------|-----------------------------|----------|--------|------|
| (Dollars in thousands) | 2016                        | 2015     | \$     | %    |
| Income tax provision   | \$17,573                    | \$16,954 | \$619  | 3.7% |
| Effective tax rate     | 38.8 %                      | 41.2 %   |        |      |

|                        | Six Months Ended June 30, |          | Change  |        |
|------------------------|---------------------------|----------|---------|--------|
| (Dollars in thousands) | 2016                      | 2015     | \$      | %      |
| Income tax provision   | \$31,619                  | \$32,109 | \$(490) | (1.5)% |
| Effective tax rate     | 37.9 %                    | 42.7 %   |         |        |

The changes in the effective tax rate compared to 2015 resulted from a higher percentage of the company's pretax income earned in lower tax rate jurisdictions compared to prior year and the deductibility of certain prior year acquisition-related charges for income tax purposes.

## Financial Condition, Liquidity and Capital Resources

**Financial condition.** We monitor operating working capital through days sales outstanding (DSO) and merchandise inventory turnover. We estimate a hypothetical increase (decrease) in DSO of one day would result in a decrease (increase) in our cash balances, an increase (decrease) in borrowings against our revolving credit facility, or a combination thereof of approximately \$25 million.

The majority of our cash and cash equivalents are held in cash depository accounts with major banks in the United States and Europe or invested in high-quality, short-term liquid investments. Changes in our working capital can vary in the normal course of business based upon the timing of inventory purchases, collection of accounts receivable, and payment to suppliers.

|  | June 30,  | December 31, | Change     |         |
|--|-----------|--------------|------------|---------|
| (Dollars in thousands)                           | 2016      | 2015         | \$         | %       |
| Cash and cash equivalents                        | \$138,951 | \$161,020    | \$(22,069) | (13.7)% |
| Accounts and notes receivable, net of allowances | \$609,212 | \$587,935    | \$21,277   | 3.6 %   |
| Consolidated DSO <sup>(1)</sup>                  | 21.5      | 21.0         |            |         |
| Merchandise inventories                          | \$957,972 | \$940,775    | \$17,197   | 1.8 %   |
| Consolidated inventory turnover <sup>(2)</sup>   | 9.3       | 9.4          |            |         |
| Accounts payable                                 | \$775,970 | \$710,609    | \$65,361   | 9.2 %   |

(1) Based on period end accounts receivable and net revenue for the quarter

(2) Based on average annual inventory and annualized cost of goods sold for the quarter ended June 30, 2016 and year ended December 31, 2015

Liquidity and capital expenditures. The following table summarizes our consolidated statements of cash flows for the six months ended June 30, 2016 and 2015:

| (Dollars in thousands)                           | 2016       | 2015      |
|--|------------|-----------|
| Net cash provided by (used for):                 |            |           |
| Operating activities                             | \$42,638   | \$246,790 |
| Investing activities                             | (8,894 )   | (21,988 ) |
| Financing activities                             | (58,222 )  | (76,132 ) |
| Effect of exchange rate changes                  | 2,409      | (4,473 )  |
| Increase (decrease) in cash and cash equivalents | \$(22,069) | \$144,197 |

Cash provided by operating activities was \$42.6 million in the first six months of 2016, compared to \$246.8 million in the same period of 2015. The decrease in cash from operating activities for the first six months of 2016 compared to the same period in 2015 was primarily due to routine changes in working capital, including timing of payments to vendors in the prior year.

Cash used for investing activities was \$8.9 million in the first six months of 2016, compared to \$22.0 million in the same period of 2015. Investing activities in 2016 and 2015 relate to capital expenditures for our strategic and operational efficiency initiatives, particularly initiatives relating to information technology enhancements and optimizing our distribution network. Cash used for investing activities in 2016 was partially offset by \$4.6 million in proceeds from the sale of property.

Cash used for financing activities in the first six months of 2016 was \$58.2 million, compared to \$76.1 million used in the same period of 2015. During the first six months of 2016, we paid dividends of \$32.0 million (compared to \$31.9 million in 2015), repurchased common stock under a share repurchase program for \$20.8 million (compared to \$7.4 million in 2015) and made no payments on our Amended Credit Agreement (compared to \$33.7 million in repayments in 2015).

Capital resources. Our sources of liquidity include cash and cash equivalents and a revolving credit facility. On September 17, 2014, we amended our existing Credit Agreement with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., Bank of America, N.A. and a syndicate of financial institutions (the Amended Credit Agreement) increasing our borrowing capacity from \$350 million to \$450 million and extending the term through 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. We may utilize the revolving credit facility for long-term strategic growth, capital expenditures, working capital and general corporate purposes. If we were unable to access the revolving credit facility, it could impact our ability to fund these needs. Based on our leverage ratio at June 30, 2016, the interest rate under the credit facility is LIBOR plus 1.375%.

At June 30, 2016, 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, 2016 and December 31, 2015 which supports our facilities leased in Europe.

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"). 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 amount with an effective yield of 4.422%. Interest on the 2021 Notes and 2024 Notes is payable semiannually in arrears, which commenced on March 15, 2015 and December 15, 2014, respectively. 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.

In the second quarter of 2016, we paid cash dividends on our outstanding common stock at the rate of \$0.255 per share, which represents a 1.0% increase over the rate of \$0.2525 per share paid in the second quarter of 2015. We

anticipate continuing to pay quarterly cash dividends in the future. However, the payment of future dividends remains within the discretion of the Board of Directors and will depend upon our results of operations, financial condition, capital requirements and other factors.

27

---

In February 2014, the Board of Directors 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 plan and return capital to shareholders. The program may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the company from time to time and/or during the company's scheduled quarterly trading windows for officers and directors. During the first six months of 2016, we repurchased approximately 0.6 million shares for \$20.8 million under this program. At June 30, 2016, the remaining amount authorized for repurchase under this program was \$49.2 million.

We earn a portion of our operating earnings in foreign jurisdictions outside the U.S., which we consider to be indefinitely reinvested. Accordingly, no U.S. federal and state income taxes and withholding taxes have been provided on these earnings. Our cash, cash-equivalents, short-term investments, and marketable securities held by our foreign subsidiaries totaled \$23.5 million and \$46.0 million as of June 30, 2016 and December 31, 2015. We do not intend, nor do we foresee a need, to repatriate these funds or other assets held outside the U.S. In the future, should we require more capital to fund discretionary activities in the U.S. than is generated by our domestic operations and is available through our borrowings, we could elect to repatriate cash or other assets from foreign jurisdictions that have previously been considered to be indefinitely reinvested.

We believe available financing sources, including cash generated by operating activities and borrowings under the Amended Credit Agreement, will be sufficient to fund our working capital needs, capital expenditures, long-term strategic growth, payments under long-term debt and lease arrangements, payments of quarterly cash dividends, share repurchases and other cash requirements. While we believe that we will have the ability to meet our financing needs in the foreseeable future, changes in economic conditions may impact (i) the ability of financial institutions to meet their contractual commitments to us, (ii) the ability of our customers and suppliers to meet their obligations to us or (iii) our cost of borrowing.

#### Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see our Annual Report on Form 10-K for the year ended December 31, 2015 and Note 15 in the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for the quarterly period ended on June 30, 2016.

#### Forward-looking Statements

Certain statements in this discussion constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe our expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of our business and operations, all forward-looking statements involve risks and uncertainties and, as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements involve known and unknown risks, including, but not limited to:

- competitive pressures in the marketplace, including intense pricing pressure;
- our ability to retain existing and attract new customers in a market characterized by significant customer consolidation and intense cost-containment initiatives;
- our dependence on sales to certain customers or the loss or material reduction in purchases by key customers;
- our dependence on distribution of product of certain suppliers;
- our ability to successfully identify, manage or integrate acquisitions;
- our ability to successfully manage our international operations, including risks associated with changes in international trade regulations, foreign currency volatility, changes in regulatory conditions, deteriorating economic conditions, adverse tax consequences, and other risks of operating in international markets;
- uncertainties related to and our ability to adapt to changes in government regulations, including healthcare laws and regulations (including the Affordable Care Act);
- risks arising from possible violations of legal, regulatory or licensing requirements of the markets in which we operate;
- uncertainties related to general economic, regulatory and business conditions;
- our ability to successfully implement our strategic initiatives;
-

the availability of and modifications to existing supplier funding programs and our ability to meet the terms to qualify for certain of these programs;

28

---

our ability to adapt to changes in product pricing and other terms of purchase by suppliers of product;  
the ability of customers and suppliers to meet financial commitments due to us;

changes in manufacturer preferences between direct sales and wholesale distribution;

changing trends in customer profiles and ordering patterns and our ability to meet customer demand for additional value-added services;

our ability to manage operating expenses and improve operational efficiencies in response to changing customer profiles;

our ability to meet performance targets specified by customer contracts under contractual commitments;

availability of and our ability to access special inventory buying opportunities;

the ability of business partners and financial institutions to perform their contractual responsibilities;

the effect of price volatility in the commodities markets, including fuel price fluctuations, on our operating costs and supplier product prices;

our ability to continue to obtain financing at reasonable rates and to manage financing costs and interest rate risk;

the risk that information systems are interrupted or damaged or fail for any extended period of time, that new information systems are not successfully implemented or integrated, or that there is a data security breach in our information systems;

the risk that a decline in business volume or profitability could result in an impairment of goodwill or other long-lived assets;

our ability to timely or adequately respond to technological advances in the medical supply industry;

the costs associated with and outcome of outstanding and any future litigation, including product and professional liability claims;

adverse changes in U.S. and foreign tax laws and the outcome of outstanding tax contingencies and legislative and tax proposals; and

other factors described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2015.

We undertake no obligation to update or revise any forward-looking statements, except as required by applicable law.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates related to our revolving credit facility. We had no outstanding borrowings and approximately \$5.0 million in letters of credit under the revolving credit facility at June 30, 2016. A hypothetical increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately \$0.1 million per year for every \$10 million of outstanding borrowings under the revolving credit facility.

Due to the nature and pricing of our Domestic segment distribution services, we are exposed to potential volatility in fuel prices. Our strategies for helping to mitigate our exposure to changing domestic fuel prices has included entering into leases for trucks with improved fuel efficiency. We benchmark our domestic diesel fuel purchase prices against the U.S. Weekly Retail On-Highway Diesel Prices (benchmark) as quoted by the U.S. Energy Information Administration. The benchmark averaged \$2.18 per gallon in the first six months of 2016, a decrease from \$2.88 per gallon in the first six months of 2015. Based on our fuel consumption in the first six months of 2016, we estimate that every 10 cents per gallon increase in the benchmark would reduce our Domestic segment operating earnings by approximately \$0.3 million on an annualized basis.

In the normal course of business, we are exposed to foreign currency translation and transaction risks. Our business transactions outside of the United States are primarily denominated in the Euro and British Pound. We may use foreign currency forwards, swaps and options, where possible, to manage our risk related to certain foreign currency fluctuations. However, we believe that our foreign currency transaction risks are low since our revenues and expenses are typically denominated in the same currency.

### Item 4. Controls and Procedures

We carried out an evaluation, with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based

upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2016. There has been no change in our internal control over financial reporting during the quarter ended June 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

Certain legal proceedings pending against us are described in our Annual Report on Form 10-K for the year ended December 31, 2015. Through June 30, 2016, there have been no material developments in any legal proceedings reported in such Annual Report.

### Item 1A. Risk Factors

Certain risk factors that we believe could affect our business and prospects are described in our Annual Report on Form 10-K for the year ended December 31, 2015. Through June 30, 2016, we have added the following risk factor. There have been no other material changes in the risk factors described in such Annual Report.

#### United Kingdom's withdrawal from the European Union

Our International segment has operations throughout the European Union (the "E.U."), including the United Kingdom (the "U.K."). On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the E.U., commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s withdrawal from the E.U. A withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the E.U., and disrupt trade between the U.K. and the E.U. Given the lack of comparable precedent and recent occurrence of these events, we are monitoring the situation but it is unclear what financial, trade and legal implications the withdrawal of the U.K. from the E.U. would have and how such withdrawal may affect our operations or financial performance.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. The

Table of Contents

strengthening of the U.S. dollar relative to other currencies may adversely affect our operating results. The announcement of Brexit and the withdrawal of the U.K. from the E.U. may also create global economic uncertainty, which may cause our customers and suppliers to take unexpected actions. Any of these effects of Brexit, among others, could adversely affect our business, financial condition, operating results and cash flows.

#### Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

In February 2014, our Board of Directors 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 plan and return capital to shareholders. The program may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the company from time to time and/or during the company's scheduled quarterly trading windows for officers and directors. For the three months ended June 30, 2016, we repurchased in open-market transactions and retired \$0.4 million shares of our common stock for an aggregate of \$15.2 million, or an average price per share of \$36.77. The following table summarizes share repurchase activity by month during the three months ended June 30, 2016.

| Period     | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced program | Maximum dollar value of shares that may yet be purchased under the program |
|------------|----------------------------------|------------------------------|--|--|
| April 2016 | 127,700                          | \$ 37.19                     | 127,700  | \$ 59,620,909  |
| May 2016   | 119,753                          | \$ 36.12                     | 119,753  | \$ 55,292,322  |
| June 2016  | 165,000                          | \$ 37.22                     | 165,000  | \$ 49,150,951  |
| Total      | 412,453                          |                              | 412,453  |  |



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Owens & Minor, Inc.  
(Registrant)

Date: August 3, 2016 /s/ Paul C. Phipps  
Paul C. Phipps  
President & Chief Executive Officer

Date: August 3, 2016 /s/ Richard A. Meier  
Richard A. Meier  
Executive Vice President, Chief Financial Officer & President, International

Item 6. Exhibits

(a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document