

OWENS & MINOR INC/VA/  
Form 10-Q  
May 03, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-9810

**Owens & Minor, Inc.**

(Exact name of Registrant as specified in its charter)

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

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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
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 April 19, 2013, was 63,326,242 shares.

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

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

<i>(in thousands, except per share data)</i>	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net revenue	<b>\$ 2,275,709</b>	\$ 2,217,882
Cost of goods sold	<b>1,996,657</b>	2,003,554
Gross margin	<b>279,052</b>	214,328
Selling, general, and administrative expenses	<b>217,721</b>	155,572
Acquisition-related and exit and realignment charges	<b>2,010</b>	
Depreciation and amortization	<b>12,629</b>	8,578
Other operating income, net	<b>(1,192)</b>	(1,694)
Operating earnings	<b>47,884</b>	51,872
Interest expense, net	<b>3,199</b>	3,422
Income before income taxes	<b>44,685</b>	48,450
Income tax provision	<b>18,587</b>	19,090
Net income	<b>\$ 26,098</b>	\$ 29,360
Net income per common share basic	<b>\$ 0.41</b>	\$ 0.46
Net income per common share diluted	<b>\$ 0.41</b>	\$ 0.46
Cash dividends per common share	<b>\$ 0.24</b>	\$ 0.22

See accompanying notes to consolidated financial statements.

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

<i>(in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	<b>\$ 26,098</b>	<b>\$ 29,360</b>
Other comprehensive income, net of tax:		
Currency translation adjustments (net of income tax benefit of \$385)	<b>(7,827)</b>	
Change in unrecognized net periodic pension costs (net of income tax benefit: \$134 in 2013 and \$225 in 2012)	<b>208</b>	351
Amounts recognized in interest expense, net (net of income tax benefit: \$8 in 2013 and 2012)	<b>(13)</b>	(13)
Other comprehensive income (loss)	<b>(7,632)</b>	338
Comprehensive income	<b>\$ 18,466</b>	<b>\$ 29,698</b>

See accompanying notes to consolidated financial statements.

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

	March 31, 2013	December 31, 2012
<i>(in thousands, except per share data)</i>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 218,563	\$ 97,888
Accounts and notes receivable, net of allowances of \$14,472 and \$14,722	581,121	553,502
Merchandise inventories	743,247	763,756
Other current assets	205,342	213,748
<b>Total current assets</b>	<b>1,748,273</b>	<b>1,628,894</b>
Property and equipment, net of accumulated depreciation of \$128,867 and \$121,873	187,927	191,841
Goodwill, net	272,878	274,884
Intangible assets, net	39,645	42,313
Other assets, net	72,199	69,769
<b>Total assets</b>	<b>\$ 2,320,922</b>	<b>\$ 2,207,701</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 693,616	\$ 603,137
Accrued payroll and related liabilities	18,823	25,468
Deferred income taxes	41,455	40,758
Other accrued liabilities	282,974	254,924
<b>Total current liabilities</b>	<b>1,036,868</b>	<b>924,287</b>
Long-term debt, excluding current portion	214,243	215,383
Deferred income taxes	28,639	30,921
Other liabilities	63,622	63,454
<b>Total liabilities</b>	<b>1,343,372</b>	<b>1,234,045</b>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
<b>Owens &amp; Minor, Inc. shareholders' equity:</b>		
Preferred stock, par value \$100 per share, authorized 10,000 shares, Series A Participating Cumulative Preferred Stock; none issued		
Common stock, par value \$2 per share; authorized 200,000 shares; issued and outstanding 63,335 shares and 63,271 shares	126,672	126,544
Paid-in capital	190,004	187,394
Retained earnings	667,782	658,994
Accumulated other comprehensive loss	(8,038)	(406)
<b>Total Owens &amp; Minor, Inc. shareholders' equity</b>	<b>976,420</b>	<b>972,526</b>
Noncontrolling interest	1,130	1,130
<b>Total equity</b>	<b>977,550</b>	<b>973,656</b>

<b>Total liabilities and equity</b>	<b>\$ 2,320,922</b>	<b>\$ 2,207,701</b>
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See accompanying notes to financial statements.

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

<i>(in thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net income	\$ 26,098	\$ 29,360
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	12,629	8,578
Share-based compensation expense	1,910	2,385
Provision for losses on accounts and notes receivable	107	190
Deferred income tax benefit	(56)	(1,465)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(34,575)	7,553
Merchandise inventories	21,784	82,160
Accounts payable	98,198	(38,279)
Net change in other assets and liabilities	28,981	11,609
Other, net	(465)	(194)
<b>Cash provided by operating activities</b>	<b>154,611</b>	<b>101,897</b>
<b>Investing activities:</b>		
Additions to property and equipment	(7,513)	(4,536)
Additions to computer software and intangible assets	(7,264)	(3,840)
Proceeds from sale of property and equipment	44	99
<b>Cash used for investing activities</b>	<b>(14,733)</b>	<b>(8,277)</b>
<b>Financing activities:</b>		
Cash dividends paid	(15,199)	(14,001)
Repurchases of common stock	(2,282)	(3,750)
Excess tax benefits related to share-based compensation	207	690
Proceeds from exercise of stock options	1,792	3,371
Other, net	(1,958)	(1,941)
<b>Cash used for financing activities</b>	<b>(17,440)</b>	<b>(15,631)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,763)</b>	
<b>Net increase in cash and cash equivalents</b>	<b>120,675</b>	<b>77,989</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>97,888</b>	<b>135,938</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 218,563</b>	<b>\$ 213,927</b>
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid, net	\$ 1,540	\$ 1,201
Interest paid	\$ 698	\$ 541

See accompanying notes to consolidated financial statements.





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

	Owens & Minor, Inc. Shareholders Equity						Total Equity
	Common Shares Outstanding	Common Stock (\$2 par value)	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	
<i>(in thousands, except per share data)</i>							
Balance, December 31, 2011	63,449	\$ 126,900	\$ 179,052	\$ 619,629	\$ (7,494)	\$ 1,130	\$ 919,217
Net income				29,360			29,360
Other comprehensive income					338		338
Comprehensive income							29,698
Dividends declared (\$0.22 per share)				(13,967)			(13,967)
Shares repurchased and retired	(125)	(249)		(3,501)			(3,750)
Share-based compensation expense, exercises and other	197	390	4,338				4,728
Balance, March 31, 2012	63,521	\$ 127,041	\$ 183,390	\$ 631,521	\$ (7,156)	\$ 1,130	\$ 935,926
Balance, December 31, 2012	63,271	\$ 126,544	\$ 187,394	\$ 658,994	\$ (406)	\$ 1,130	\$ 973,656
Net income				26,098			26,098
Other comprehensive loss					(7,632)		(7,632)
Comprehensive income							18,466
Dividends declared (\$0.24 per share)				(15,176)			(15,176)
Shares repurchased and retired	(74)	(148)		(2,134)			(2,282)
Share-based compensation expense, exercises and other	138	276	2,610				2,886
<b>Balance, March 31, 2013</b>	<b>63,335</b>	<b>\$ 126,672</b>	<b>\$ 190,004</b>	<b>\$ 667,782</b>	<b>\$ (8,038)</b>	<b>\$ 1,130</b>	<b>\$ 977,550</b>

See accompanying notes to consolidated financial statements.

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

**Notes to Consolidated Financial Statements**

*(unaudited)*

*(in thousands, unless otherwise indicated)*

**1. Basis of Presentation and Use of Estimates**

*Basis of Presentation*

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

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

*Use of Estimates*

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

**2. Fair Value**

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

**3. Acquisition**

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

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon our preliminary estimate of their fair values at the date of acquisition, with certain exceptions permitted under GAAP. The purchase price exceeded the preliminary estimated fair value of the net tangible and identifiable intangible assets by \$25 million, which was allocated to goodwill. The following table presents the preliminary estimated fair value of the assets acquired and liabilities assumed recognized as of the acquisition date, pending completion of our valuation. There were no adjustments to our preliminary fair value estimates in the first three months of 2013.

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	Preliminary Fair Value Originally Estimated as of Acquisition Date <sup>(1)</sup>	Measurement Period Adjustments Recorded During the Period	Preliminary Fair Value Currently Estimated as of Acquisition Date
<b>Assets acquired:</b>			
Current assets	\$ 211,052	\$	\$ 211,052
Property and equipment	90,729		90,729
Goodwill	25,042		25,042
Intangible assets	21,543		21,543
Other noncurrent assets	11,664		11,664
<b>Total assets</b>	<b>360,030</b>		<b>360,030</b>
<b>Liabilities assumed:</b>			
Current liabilities	190,485		190,485
Noncurrent liabilities	12,237		12,237
<b>Total liabilities</b>	<b>202,722</b>		<b>202,722</b>
Fair value of net assets acquired, net of cash	\$ 157,308	\$	\$ 157,308

<sup>(1)</sup> As previously reported in our 2012 Form 10-K.

We are amortizing the fair value of acquired intangible assets, primarily customer relationships, over their remaining weighted average useful lives of 9 years.

Goodwill of \$25,042 thousand arising from the acquisition consists largely of expected opportunities to provide additional services to existing manufacturer customers and to expand our third-party logistics services globally. All of the goodwill was assigned to our International segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of financial assets and financial liabilities acquired includes financing receivables with a fair value of \$106.8 million and financing payables with a fair value of \$130.4 million.

Acquisition-related costs consist primarily of transaction costs incurred to perform due diligence and to analyze, negotiate and consummate an acquisition, costs to perform post-closing activities to establish a tax-efficient organizational structure, and costs to transition the acquired company's information technology and other operations and administrative functions from the former owner. We incurred \$0.6 million in pre-tax acquisition-related costs in the first three months of 2013.

#### 4. Financing receivables

At March 31, 2013 and December 31, 2012, we had financing receivables of \$125.1 million and \$124.5 million and related payables of \$146.1 million and \$130.1 million outstanding under our order-to-cash program, which were included in other current assets and other current liabilities, respectively, in the consolidated balance sheets.

#### 5. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows:

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	<b>Domestic Segment</b>	<b>International Segment</b>	<b>Total</b>
<b>At December 31, 2012:</b>	\$ 248,498	\$ 26,386	\$ 274,884
Currency translation adjustments		(2,006)	(2,006)
<b>At March 31, 2013:</b>	\$ 248,498	\$ 24,380	\$ 272,878

There were no changes to goodwill for the three month period ended March 31, 2012.

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Intangible assets at March 31, 2013, and December 31, 2012, were as follows:

	<b>Customer Relationships</b>	<b>Other Intangibles</b>	<b>Total</b>
<b>At March 31, 2013:</b>			
Gross intangible assets	\$ 49,700	\$ 2,577	\$ 52,277
Accumulated amortization	(12,106)	(526)	(12,632)
Net intangible assets	\$ 37,594	\$ 2,051	\$ 39,645
<b>At December 31, 2012:</b>			
Gross intangible assets	\$ 51,603	\$ 2,848	\$ 54,451
Accumulated amortization	(11,717)	(421)	(12,138)
Net intangible assets	\$ 39,886	\$ 2,427	\$ 42,313

Amortization expense for intangible assets was \$0.9 million and \$0.6 million for the three months ended March 31, 2013 and 2012, respectively.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$2.2 million for the remainder of 2013, \$4.2 million for 2014, \$4.8 million for 2015, \$4.9 million for 2016 and \$4.7 million for 2017.

**6. Exit and Realignment Costs**

We periodically incur exit and realignment and other charges associated with optimizing our operations, which includes the consolidation of distribution centers and closure of offsite warehouses. During the first three months of 2013, we recognized total charges of \$0.9 million in the Domestic segment and \$0.5 million in the International segment associated with these activities. These charges include \$0.5 million in loss accruals for operating leases, and the remainder is due to losses on property and equipment and other expenses. We expect additional exit and realignment charges of approximately \$3.1 million over the remainder of 2013 for activities initiated in the Domestic segment through March 31, 2013.

The following table summarizes the activity related to exit and realignment cost accruals through March 31, 2013:

	<b>Lease Obligations</b>	<b>Severance and Other</b>	<b>Total</b>
Accrued exit and realignment costs, December 31, 2012	\$ 5,098	\$ 1,116	\$ 6,214
Provision for exit and realignment activities	538	3	541
Cash payments, net of sublease income	(4,844)	(147)	(4,991)
Accrued exit and realignment costs, March 31, 2013	\$ 792	\$ 972	\$ 1,764

**7. Retirement Plan**

We have a noncontributory, unfunded retirement plan for certain officers and other key employees in the United States (Domestic Retirement Plan). In February 2012, our Board of Directors amended the Domestic Retirement Plan to freeze benefit levels and modify vesting provisions under the plan effective as of March 31, 2012.



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The components of net periodic pension cost for the Domestic Retirement Plan, which are included in selling, general and administrative expenses, for the three months ended March 31, 2013 and 2012, are as follows:

Three months ended March 31,	2013	2012
Service cost	\$	\$ 130
Interest cost	402	404
Recognized net actuarial loss	342	257
Curtailment loss		234
<b>Net periodic pension cost</b>	<b>\$ 744</b>	<b>\$ 1,025</b>

Certain of our foreign subsidiaries have defined benefit and health and welfare plans covering substantially all of their respective employees. Our expense for these plans totaled \$0.3 million for the three months ended March 31, 2013.

**8. Debt**

We have \$200 million of senior notes outstanding, which mature on April 15, 2016 and bear interest at 6.35% payable semi-annually (Senior Notes). We may redeem the Senior Notes, in whole or in part, at a redemption price of the greater of 100% of the principal amount of the Senior Notes or the present value of remaining scheduled payments of principal and interest discounted at the applicable Treasury Rate plus 0.25%. As of March 31, 2013 and December 31, 2012, the estimated fair value of the Senior Notes was \$218.5 million and \$219.5 million, and the related carrying amount was \$205.3 million and \$205.8 million. The estimated fair value interest rate used to compute the fair value of the Senior Notes at March 31, 2013 and December 31, 2012 was 3.129% and 3.194%.

We have a five-year \$350 million Credit Agreement with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A. and a syndicate of financial institutions (the Credit Agreement) expiring June 5, 2017. Under this credit facility, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$150 million. The interest rate on the credit facility, which is subject to adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Credit Agreement. We are charged a commitment fee of between 17.5 and 42.5 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. At March 31, 2013, we had no borrowings and letters of credit of approximately \$5.0 million outstanding on the revolving credit facility, leaving \$345.0 million available for borrowing. We also have a \$1.4 million letter of credit outstanding as of March 31, 2013, which supports our European leased facilities.

**9. Income Taxes**

The provision for income taxes was \$18.6 million for the three months ended March 31, 2013, compared to \$19.1 million for the same period of 2012. The effective tax rate was 41.6% for the three months ended March 31, 2013, compared to 39.4% for the same period of 2012. This increase is largely due to the impact of foreign taxes.



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

The following summarizes the calculation of net income per common share attributable to common shareholders for the three months ended March 31, 2013 and 2012.

<i>(in thousands, except per share data)</i>	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Numerator:</b>		
Net income	<b>\$ 26,098</b>	\$ 29,360
Less: income allocated to unvested restricted shares	<b>(195)</b>	(234)
Net income attributable to common shareholders basic	<b>25,903</b>	29,126
Add: undistributed income attributable to unvested restricted shares basic	<b>58</b>	96
Less: undistributed income attributable to unvested restricted shares diluted	<b>(58)</b>	(96)
<b>Net income attributable to common shareholders diluted</b>	<b>\$ 25,903</b>	\$ 29,126
<b>Denominator:</b>		
Weighted average shares outstanding basic	<b>62,687</b>	62,802
Dilutive shares stock options	<b>58</b>	99
<b>Weighted average shares outstanding diluted</b>	<b>62,745</b>	62,901
Net income per share attributable to common shareholders:		
Basic	<b>\$ 0.41</b>	\$ 0.46
Diluted	<b>\$ 0.41</b>	\$ 0.46

**11. Shareholders Equity**

In February 2011, our Board of Directors authorized a share repurchase program of up to \$50 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in February 2014. The program is intended to offset shares issued in conjunction with our stock incentive plans and may be suspended or discontinued at any time. During the first three months of 2013, we repurchased in open-market transactions and retired approximately 74 thousand shares of our common stock for an aggregate of \$2.3 million, or an average price per share of \$30.79. During the first quarter of 2012, we repurchased in open-market transactions and retired approximately 125 thousand shares of our common stock for an aggregate of \$3.8 million, or an average price per share of \$30.08. As of March 31, 2013, we had approximately \$16.6 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

**Table of Contents****12. Accumulated Other Comprehensive Income**

The following table shows the changes in accumulated other comprehensive income (loss) by component for the three months ended March 31, 2013 and 2012:

	Defined Benefit Pension Plans	Currency Translation Adjustments	Other	Total
At December 31, 2012	\$ (10,318)	\$ 9,749	\$ 163	\$ (406)
Other comprehensive income (loss) before reclassifications		(8,212)		(8,212)
Amounts reclassified from accumulated other comprehensive income (loss)	342		(21)	321
Income tax	(134)	385	8	259
<b>Other comprehensive income (loss)</b>	<b>208</b>	<b>(7,827)</b>	<b>(13)</b>	<b>(7,632)</b>
<b>At March 31, 2013</b>	<b>\$ (10,110)</b>	<b>\$ 1,922</b>	<b>\$ 150</b>	<b>\$ (8,038)</b>
At December 31, 2011	\$ (7,707)	\$	\$ 213	\$ (7,494)
Other comprehensive income (loss) before reclassifications	85			85
Amounts reclassified from accumulated other comprehensive income (loss)	491		(21)	470
Income tax	(225)		8	(217)
<b>Other comprehensive income (loss)</b>	<b>351</b>		<b>(13)</b>	<b>338</b>
At March 31, 2012	\$ (7,356)	\$	\$ 200	\$ (7,156)

We include amounts reclassified out of accumulated other comprehensive income related to defined benefit pension plans as a component of net periodic pension cost recorded in selling, general & administrative expenses. For the three months ended March 31, 2012 we reclassified \$0.2 million of prior service costs. For the three months ended March 31, 2013 and 2012, we reclassified \$0.3 million of actuarial net losses.

**13. Commitments and Contingencies**

We have contractual obligations that are required to be paid to customers in the event that certain contractual performance targets are not achieved as of specified dates, generally within 36 months from inception of the contract. These contingent obligations totaled \$3.5 million as of March 31, 2013. If none of the performance targets are met as of the specified dates, and customers have met their contractual commitments, payments will be due as follows: Remainder of 2013 \$1.8 million; 2014 \$0.8 million; 2015 \$0.8 million; and 2016 \$0.1 million. None of these contingent obligations were accrued at March 31, 2013, as we do not consider any of them probable. We deferred the recognition of fees that are contingent upon the company's future performance under the terms of these contracts. As of March 31, 2013, \$1.0 million of deferred revenue related to outstanding contractual performance targets is included in other accrued liabilities.

The state of California is conducting an administrative review of certain ongoing local sales tax incentives that may be available to us. As a result of this review, we could potentially receive tax incentive payments for all or some of the quarterly periods beginning with the first quarter of 2009. The exact amount, if any, is dependent upon a number of factors, including the timing of negotiation and execution of certain customer agreements, collection of amounts from the parties involved, the variability in sales and our operations in California. As of March 31, 2013, the estimated potential payment we could receive and related contingent gain related to prior periods is up to \$7.0 million.

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

In connection with the Movianto acquisition, we entered into transition services agreements with the former owner under which it provides certain information technology and support services. The contract terms range from six to 24 months and are cancellable without penalty with

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thirty days notice. As a result of terminating certain of these agreements, the maximum aggregate fees payable in 2013 under these agreements declined from approximately \$6 million at December 31, 2012 to approximately \$4 million at March 31, 2013.

**Table of Contents****14. Segment Information**

We evaluate the performance of our segments based on the operating earnings of the segments excluding acquisition-related and exit and realignment charges.

The following tables present financial information by segment:

Three months ended March 31,	2013	2012
Net revenue:		
Domestic	\$ 2,154,715	\$ 2,217,882
International	120,994	
Consolidated net revenue	\$ 2,275,709	\$ 2,217,882
Operating earnings (loss):		
Domestic	\$ 52,907	\$ 51,872
International	(3,013)	
Acquisition-related and exit and realignment charges	(2,010)	
Consolidated operating earnings	\$ 47,884	\$ 51,872
Depreciation and amortization:		
Domestic	\$ 9,082	\$ 8,578
International	3,547	
Consolidated depreciation and amortization	\$ 12,629	\$ 8,578
Capital expenditures:		
Domestic	\$ 11,602	\$ 8,376
International	3,175	
Consolidated capital expenditures	\$ 14,777	\$ 8,376
	March 31, 2013	December 31, 2012
Total assets:		
Domestic	\$ 1,706,767	\$ 1,723,699
International	395,592	386,114
Segment assets	2,102,359	2,109,813
Cash and cash equivalents	218,563	97,888
Consolidated total assets	\$ 2,320,922	\$ 2,207,701

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

The following tables present condensed consolidating financial information for: Owens & Minor, Inc.; the guarantors of Owens & Minor, Inc.'s Senior Notes, on a combined basis; and the non-guarantor subsidiaries of the Senior 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.

For the three months ended March 31, 2013	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Income</b>					
Net revenue	\$	\$ 2,154,716	\$ 131,305	\$ (10,312)	\$ 2,275,709
Cost of goods sold		1,936,091	70,607	(10,041)	1,996,657
Gross margin		218,625	60,698	(271)	279,052
Selling, general and administrative expenses	654	156,347	60,720		217,721
Acquisition-related and exit and realignment charges		862	1,148		2,010
Depreciation and amortization	3	9,060	3,566		12,629
Other operating (income) expense, net		(643)	(549)		(1,192)
Operating (loss) earnings	(657)	52,999	(4,187)	(271)	47,884
Interest expense (income), net	4,395	(911)	(285)		3,199
(Loss) income before income taxes	(5,052)	53,910	(3,902)	(271)	44,685
Income tax (benefit) provision	(1,962)	21,455	(906)		18,587
Equity in earnings of subsidiaries	29,188			(29,188)	
<b>Net income (loss)</b>	<b>26,098</b>	<b>32,455</b>	<b>(2,996)</b>	<b>(29,459)</b>	<b>26,098</b>
Other comprehensive income (loss), net of tax	(7,632)	208	(7,828)	7,620	(7,632)
<b>Comprehensive income (loss)</b>	<b>\$ 18,466</b>	<b>\$ 32,663</b>	<b>\$ (10,824)</b>	<b>\$ (21,839)</b>	<b>\$ 18,466</b>

For the three months ended March 31, 2012	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Income</b>					
Net revenue	\$	\$ 2,217,882	\$ 1,340	\$ (1,340)	\$ 2,217,882
Cost of goods sold		2,003,578	1,265	(1,289)	2,003,554
Gross margin		214,304	75	(51)	214,328
Selling, general and administrative expenses	472	154,669	431		155,572
Depreciation and amortization		8,564	14		8,578
Other operating (income) expense, net		(1,696)	2		(1,694)
Operating (loss) earnings	(472)	52,767	(372)	(51)	51,872
Interest expense, net	2,769	630	23		3,422
(Loss) income before income taxes	(3,241)	52,137	(395)	(51)	48,450
Income tax (benefit) provision	(1,271)	20,444	(83)		19,090
Equity in earnings of subsidiaries	31,330			(31,330)	0
<b>Net income (loss)</b>	<b>29,360</b>	<b>31,693</b>	<b>(312)</b>	<b>(31,381)</b>	<b>29,360</b>
Other comprehensive income (loss), net of tax	338	351		(351)	338

<b>Comprehensive income (loss)</b>	<b>\$ 29,698</b>	<b>\$ 32,044</b>	<b>\$ (312)</b>	<b>\$ (31,732)</b>	<b>\$ 29,698</b>
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March 31, 2013	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	\$ 148,611	\$ 14,786	\$ 55,166	\$	\$ 218,563
Accounts and notes receivable, net		486,235	97,657	(2,771)	581,121
Merchandise inventories		727,546	16,652	(951)	743,247
Other current assets	117	68,373	136,855	(3)	205,342
<b>Total current assets</b>	<b>148,728</b>	<b>1,296,940</b>	<b>306,330</b>	<b>(3,725)</b>	<b>1,748,273</b>
Property and equipment, net	12	96,014	91,901		187,927
Goodwill, net		247,271	25,607		272,878
Intangible assets, net		19,450	20,195		39,645
Due from O&M and subsidiaries		378,759	34,381	(413,140)	
Advances to and investments in consolidated subsidiaries	1,455,754			(1,455,754)	
Other assets, net	549	58,355	13,295		72,199
<b>Total assets</b>	<b>\$ 1,605,043</b>	<b>\$ 2,096,789</b>	<b>\$ 491,709</b>	<b>\$ (1,872,619)</b>	<b>\$ 2,320,922</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$	\$ 626,178	\$ 70,211	\$ (2,773)	\$ 693,616
Accrued payroll and related liabilities		11,431	7,392		18,823
Deferred income taxes		42,302	(847)		41,455
Other accrued liabilities	10,161	93,256	179,557		282,974
<b>Total current liabilities</b>	<b>10,161</b>	<b>773,167</b>	<b>256,313</b>	<b>(2,773)</b>	<b>1,036,868</b>
Long-term debt, excluding current portion	205,322	6,260	2,661		214,243
Due to O&M and subsidiaries	413,140			(413,140)	
Intercompany debt		138,890		(138,890)	
Deferred income taxes		23,906	4,733		28,639
Other liabilities		58,870	4,752		63,622
<b>Total liabilities</b>	<b>628,623</b>	<b>1,001,093</b>	<b>268,459</b>	<b>(554,803)</b>	<b>1,343,372</b>
<b>Equity</b>					
Common stock	126,672		1,500	(1,500)	126,672
Paid-in capital	190,004	242,024	258,635	(500,659)	190,004
Retained earnings (deficit)	667,782	863,782	(39,936)	(823,846)	667,782
Accumulated other comprehensive loss	(8,038)	(10,110)	1,921	8,189	(8,038)
<b>Total Owens &amp; Minor, Inc. shareholders equity</b>	<b>976,420</b>	<b>1,095,696</b>	<b>222,120</b>	<b>(1,317,816)</b>	<b>976,420</b>
Noncontrolling interest			1,130		1,130
<b>Total equity</b>	<b>976,420</b>	<b>1,095,696</b>	<b>223,250</b>	<b>(1,317,816)</b>	<b>977,550</b>
<b>Total liabilities and equity</b>	<b>\$ 1,605,043</b>	<b>\$ 2,096,789</b>	<b>\$ 491,709</b>	<b>\$ (1,872,619)</b>	<b>\$ 2,320,922</b>

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December 31, 2012	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	\$ 58,190	\$ 13,641	\$ 26,057	\$	\$ 97,888
Accounts and notes receivable, net		474,533	82,216	(3,247)	553,502
Merchandise inventories		750,046	14,391	(681)	763,756
Other current assets	1,627	76,036	137,593	(1,508)	213,748
<b>Total current assets</b>	<b>59,817</b>	<b>1,314,256</b>	<b>260,257</b>	<b>(5,436)</b>	<b>1,628,894</b>
Property and equipment, net	16	95,516	96,309		191,841
Goodwill, net		247,271	27,613		274,884
Intangible assets, net		19,972	22,341		42,313
Due from O&M and subsidiaries		236,612	34,248	(270,860)	
Advances to and investments in consolidated subsidiaries	1,434,186			(1,434,186)	
Other assets, net	6,885	55,781	14,238	(7,135)	69,769
<b>Total assets</b>	<b>\$ 1,500,904</b>	<b>\$ 1,969,408</b>	<b>\$ 455,006</b>	<b>\$ (1,717,617)</b>	<b>\$ 2,207,701</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 45,300	\$ 518,545	\$ 42,542	\$ (3,250)	\$ 603,137
Accrued payroll and related liabilities		18,201	7,267		25,468
Deferred income taxes		43,110		(2,352)	40,758
Other current liabilities	6,464	92,318	156,142		254,924
<b>Total current liabilities</b>	<b>51,764</b>	<b>672,174</b>	<b>205,951</b>	<b>(5,602)</b>	<b>924,287</b>
Long-term debt, excluding current portion	205,754	6,592	3,037	&#15	