OWENS & MINOR INC/VA/
Form 10-Q
November 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number 1-9810

Owens & Minor, Inc.

(Exact name of Registrant as specified in its charter)

Virginia	**54-1701843**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
9120 Lockwood Boulevard, Mechanicsville, Virginia	**23116**
(Address of principal executive offices)	**(Zip Code)**
Post Office Box 27626, Richmond, Virginia	**23261-7626**
(Mailing address of principal executive offices)	**(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 x 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 x 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 x	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 x

The number of shares of Owens & Minor, Inc. s common stock outstanding as of October 26, 2012, was 63,397,422 shares.

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Owens & Minor, Inc. and Subsidiaries

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Part I. Financial Information

Item 1. Financial Statements

Owens & Minor, Inc. and Subsidiaries

Consolidated Statements of Income

(unaudited)

(in thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net revenue	$ 2,179,895	$ 2,176,759	$ 6,583,221	$ 6,432,022
Cost of goods sold	1,951,772	1,960,077	5,929,341	5,788,499
Gross margin	228,123	216,682	653,880	643,523
Selling, general, and administrative expenses	165,320	152,825	471,179	460,119
Acquisition-related and exit and realignment charges	7,831	351	8,448	351
Depreciation and amortization	10,090	8,463	27,184	25,479
Other operating income, net	(1,781)	(3,422)	(4,643)	(2,927)
Operating earnings	46,663	58,465	151,712	160,501
Interest expense, net	3,066	3,426	9,975	10,163
Income before income taxes	43,597	55,039	141,737	150,338
Income tax provision	19,000	21,687	57,667	59,082
Net income	$ 24,597	$ 33,352	$ 84,070	$ 91,256
Net income per common share:				
Basic	$ 0.39	$ 0.53	$ 1.33	$ 1.44
Diluted	$ 0.39	$ 0.53	$ 1.33	$ 1.44
Cash dividends per common share	$ 0.22	$ 0.20	$ 0.66	$ 0.60

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(unaudited)

(in thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income	$ 24,597	$ 33,352	$ 84,070	$ 91,256
Other comprehensive income, net of tax:				
Currency translation adjustments	1,927		1,927	
Amounts recognized in net periodic benefit cost (net of income tax expense - $93 and $410 in 2012 and $85 and $256 in 2011)	146	133	642	400
Amounts recognized in interest expense, net (net of income tax benefit- $8 and $24 in 2012 and 2011)	(14)	(12)	(38)	(37)
Other comprehensive income	2,059	121	2,531	363
Comprehensive income	$ 26,656	$ 33,473	$ 86,601	$ 91,619

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Consolidated Balance Sheets

(unaudited)

(in thousands, except per share data)	**September 30, 2012**	**December 31, 2011**
Assets		
Current assets		
Cash and cash equivalents	$ 79,667	$ 135,938
Accounts and notes receivable, net of allowances of $16,228 and $15,622	582,994	506,758
Merchandise inventories	776,898	806,366
Other current assets	211,967	76,763
Total current assets	1,651,526	1,525,825
Property and equipment, net of accumulated depreciation of $113,137 and $102,904	176,035	108,061
Goodwill, net	285,363	248,498
Intangible assets, net	44,540	22,142
Other assets, net	64,285	42,289
Total assets	$ 2,221,749	$ 1,946,815
Liabilities and equity		
Current liabilities		
Accounts payable	$ 642,123	$ 575,793
Accrued payroll and related liabilities	18,033	20,668
Deferred income taxes	36,982	42,296
Other current liabilities	252,131	93,608
Total current liabilities	949,269	732,365
Long-term debt, excluding current portion	214,795	212,681
Deferred income taxes	31,311	21,894
Other liabilities	66,312	60,658
Total liabilities	1,261,687	1,027,598
Commitments and contingencies		
Equity		
Owens & Minor, Inc. shareholders equity:		
Preferred stock, par value $100 per share, authorized - 10,000 shares, Series A Participating Cumulative Preferred Stock; none issued		
Common stock, par value $2 per share; authorized - 200,000 shares; issued and outstanding - 63,380 shares and 63,449 shares	126,762	126,900
Paid-in capital	185,695	179,052
Retained earnings	651,438	619,629
Accumulated other comprehensive loss	(4,963)	(7,494)
Total Owens & Minor, Inc. shareholders equity	958,932	918,087
Noncontrolling interest	1,130	1,130
Total equity	960,062	919,217

Total liabilities and equity	$ 2,221,749	$ 1,946,815

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Operating activities:		
Net income	$ 84,070	$ 91,256
Adjustments to reconcile net income to cash provided by operating activities of continuing operations:		
Depreciation and amortization	27,184	25,479
Provision for LIFO reserve	5,223	11,265
Share-based compensation expense	4,844	4,335
Deferred income tax expense	1,098	908
Provision for losses on accounts and notes receivable	414	1,107
Pension contributions		(543)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(7,886)	(36,598)
Merchandise inventories	40,078	(52,141)
Accounts payable	32,467	81,188
Net change in other assets and liabilities	(16,355)	(18,465)
Other, net	(773)	335
Cash provided by operating activities of continuing operations	170,364	108,126
Investing activities:		
Acquisition, net of cash acquired	(149,910)	
Additions to computer software and intangible assets	(19,934)	(8,035)
Additions to property and equipment	(7,890)	(16,846)
Proceeds from sale of property and equipment	3,237	46
Cash used for investing activities of continuing operations	(174,497)	(24,835)
Financing activities:		
Cash dividends paid	(41,791)	(38,156)
Repurchases of common stock	(11,250)	(16,124)
Financing costs paid	(1,303)	
Proceeds from termination of interest rate swap		4,005
Excess tax benefits related to share-based compensation	1,223	1,977
Proceeds from exercise of stock options	4,114	7,937
Other, net	(4,444)	(5,127)
Cash used for financing activities of continuing operations	(53,451)	(45,488)
Discontinued operations:		
Operating cash flows		(164)
Net cash used for discontinued operations		(164)
Effect of exchange rate changes on cash and cash equivalents	1,313	
Net (decrease) increase in cash and cash equivalents	(56,271)	37,639
Cash and cash equivalents at beginning of period	135,938	159,213

Cash and cash equivalents at end of period	$ 79,667	$ 196,852
Supplemental disclosure of cash flow information:		
Income taxes paid, net	$ 50,114	$ 53,356
Interest paid	$ 7,549	$ 7,220

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity

(unaudited)

	Owens & Minor, Inc. Shareholders Equity						
(in thousands, except per share data)	Common Shares Outstanding	Common Stock ($2 par value)	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Equity
Balance December 31, 2010	63,433	$ 126,867	$ 165,447	$ 570,320	$ (5,116)	$	$ 857,518
Net income				91,256			91,256
Other comprehensive income					363		363
Comprehensive income							91,619
Dividends declared ($0.60 per share)				(38,156)			(38,156)
Shares repurchased and retired	(524)	(1,048)		(15,076)			(16,124)
Share-based compensation expense, exercises and other	515	1,029	11,093				12,122
Balance September 30, 2011	63,424	$ 126,848	$ 176,540	$ 608,344	$ (4,753)	$	$ 906,979
Balance December 31, 2011	63,449	$ 126,900	$ 179,052	$ 619,629	$ (7,494)	$ 1,130	$ 919,217
Net income				84,070			84,070
Other comprehensive income					2,531		2,531
Comprehensive income							86,601
Dividends declared ($0.66 per share)				(41,791)			(41,791)
Shares repurchased and retired	(390)	(780)		(10,470)			(11,250)
Share-based compensation expense, exercises and other	321	642	6,643				7,285
Balance September 30, 2012	63,380	$ 126,762	$ 185,695	$ 651,438	$ (4,963)	$ 1,130	$ 960,062

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. 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) and a remaining working capital adjustment due of $5.3 million. 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 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 fair value of the net tangible and identifiable intangible assets by $36 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.

	Recognized as of August 31, 2012
Assets acquired:	
Current assets	$ 219,810
Property and equipment	72,778
Goodwill	35,990
Intangible assets	24,278
Other noncurrent assets	12,109
Total assets	364,965

Liabilities assumed:		
Current liabilities		197,742
Noncurrent liabilities		9,915
Total liabilities		207,657
Fair value of net assets acquired, net of cash	$	157,308

We are amortizing the fair value of acquired intangible assets, primarily customer relationships, over their remaining weighted average useful lives of 6 years.

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Goodwill of $36.0 million 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 allocation of the purchase price to the fair value of identifiable assets and liabilities acquired is preliminary pending receipt of final valuations.

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

We present costs incurred in connection with acquisitions in acquisition-related and exit and realignment charges in our consolidated statements of income. Acquisition-related costs consist primarily of transaction costs and integration costs. Transaction costs are incurred during the initial evaluation of a potential targeted acquisition and primarily relate to costs to analyze, negotiate and consummate the transaction as well as due diligence activities. Integration costs relate to activities needed to combine the operations of an acquired enterprise into our operations. We recognized acquisition-related expenses of $7.8 million and $8.4 million for the three and nine months ended September 30, 2012. Acquisition-related expenses includes transaction costs of $7.1 million and $7.7 million, respectively, and post-acquisition integration costs of $0.7 million for the three and nine month periods.

3. Fair Value

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

Property held for sale is reported at estimated fair value less selling costs with fair value determined based on recent sales prices for comparable properties in similar locations (Level 2). Property held for sale of $1.1 million at September 30, 2012, and $4.2 million at December 31, 2011, is included in other assets, net, in the consolidated balance sheets. We are actively marketing the property for sale; however, the ultimate timing of sale is dependent on local market conditions.

4. Financing Receivables

As a result of the Movianto acquisition we have an order-to-cash program under which we invoice manufacturer s customers and remit collected amounts to the manufacturers. We had receivables for which we retain credit risk under this program (referred to as financing receivables) of $124.7 million and related amounts due (referred to as financing payables) of $118.4 million, included in other current assets and other current liabilities, respectively, in the consolidated balance sheet at September 30, 2012. Fees charged for this program are included in net revenue. Product pricing and related product risks are retained by the manufacturer.

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5. Intangible Assets

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

	Customer Relationships	Other Intangibles	Total
At September 30, 2012:			
Gross intangible assets	$ 50,558	$ 10,122	$ 60,680
Accumulated amortization	(11,403)	(4,737)	(16,140)
Net intangible assets	$ 39,155	$ 5,385	$ 44,540
At December 31, 2011:			
Gross intangible assets	$ 31,622	$ 4,720	$ 36,342
Accumulated amortization	(9,569)	(4,631)	(14,200)
Net intangible assets	$ 22,053	$ 89	$ 22,142

Gross intangible assets increased $24.3 million from December 31, 2011 as a result of the Movianto acquisition.

Amortization expense for intangible assets was $0.8 million for the three-month periods ended September 30, 2012 and 2011, and $1.9 million and $2.4 million for the nine months ended September 30, 2012 and 2011.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is $1.4 million for the remainder of 2012, $5.2 million for 2013, and $4.6 million annually for 2014 through 2017.

6. Exit and Realignment Costs

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

Nine months ended September 30, 2012	Lease Obligations	Severance and Other	Total
Accrued exit costs, beginning of period	$ 8,264	$ 1,831	$ 10,095
Interest accretion	211		211
Cash payments, net of sublease income	(1,160)	(1,788)	(2,948)
Accrued exit costs, end of period	$ 7,315	$ 43	$ 7,358

We present charges for exit costs in acquisition-related and exit and realignment charges in our consolidated statements of income. There were no charges for exit costs for the nine months ended September 30, 2012 and 2011. Accrued exit costs at September 30, 2012 relate to exit activities and organizational realignment initiated during the fourth quarter of 2011.

7. Retirement Plan

We have a domestic noncontributory, unfunded retirement plan for certain officers and other key employees. We also sponsor defined benefit plans in some of the European countries in which we operate. 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. As a result, we recognized a curtailment loss of $0.2 million for the nine months ended September 30, 2012. The reduction of the projected benefit obligation as a result of the amendment was less than $1 million.

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Service cost	$ 4	$ 326	$ 134	$ 977
Interest cost	410	451	1,218	1,353
Amortization of prior service cost		73		219
Recognized net actuarial loss	239	145	733	437
Curtailment loss			234	
Net periodic benefit cost	$ 653	$ 995	$ 2,319	$ 2,986

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 September 30, 2012 and December 31, 2011, the estimated fair value of the Senior Notes was $220.8 million and $217.0 million, and the related carrying amount was $206.2 million and $207.5 million. The estimated fair value interest rate used to compute the fair value of the Senior Notes at September 30, 2012 was 3.22%.

On June 5, 2012, we entered into a five-year $350 million Credit Agreement with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A. and a syndicate of financial institutions (the Credit Agreement) expiring June 5, 2017. This agreement replaced an existing $350 million credit agreement set to expire June 7, 2013. Under the new credit facility, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to $150 million. The interest rate on the new credit facility, which is subject to adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Credit Agreement. We are charged a commitment fee of between 17.5 and 42.5 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. At September 30, 2012, we had no borrowings and letters of credit of $5.0 million outstanding on the revolving credit facility, leaving $345.0 million available for borrowing.

We assumed debt (primarily capitalized lease obligations) of approximately $2.1 million with the acquisition of Movianto.

9. Income Taxes

The provision for income taxes was $19.0 million and $57.7 million for the three and nine months ended September 30, 2012, compared to $21.7 million and $59.1 million for the same periods in 2011. The effective tax rate was 43.6% and 40.7% for the three and nine months ended September 30, 2012, compared to 39.4% and 39.3% for the same periods in 2011. The increases in the effective tax rate for the 2012 periods are related to non-deductible acquisition-related costs of $4.7 million incurred in the third quarter of 2012. The effective tax rate excluding acquisition-related costs was 39.4% for the three months and first nine months of 2012, which included a benefit to the rate of 0.7% in the third quarter primarily for the recognition of tax benefits due to the expiration of the statute of limitations for the 2008 U.S. federal income tax return, offset by the effect of valuation allowances recognized on potential income tax benefits from losses in certain foreign tax jurisdictions. A similar impact for both items exists for the year-to-date effective tax rate.

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10. Net Income per Common Share

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

(in thousands, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Numerator:				
Net income	**$ 24,597**	$ 33,352	**$ 84,070**	$ 91,256
Less: income allocated to unvested restricted shares	**(153)**	(252)	**(574)**	(856)
Net income attributable to common shareholders basic	**24,444**	33,100	**83,496**	90,400
Add: undistributed income attributable to unvested restricted shares basic	**53**	136	**229**	397
Less: undistributed income attributable to unvested restricted shares diluted	**(53)**	(135)	**(228)**	(396)
Net income attributable to common shareholders diluted	**$ 24,444**	$ 33,101	**$ 83,497**	$ 90,401
Denominator:				
Weighted average shares outstanding basic	**62,763**	62,802	**62,806**	62,801
Dilutive shares stock options	**78**	145	**84**	183
Weighted average shares outstanding diluted	**62,841**	62,947	**62,890**	62,984
Net income per share attributable to common shareholders:				
Basic	$ 0.39	$ 0.53	$ 1.33	$ 1.44
Diluted	$ 0.39	$ 0.53	$ 1.33	$ 1.44

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 nine months ended September 30, 2012, we repurchased in open-market transactions and retired approximately 390 thousand shares of our common stock for an aggregate of $11.3 million, or an average price per share of $28.84. As of September 30, 2012, we have approximately $22.6 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

12. Foreign Currency Translation

Our international subsidiaries generally consider their local currency to be their functional currency. Assets and liabilities of these international subsidiaries are translated into U.S. dollars at period-end exchange rates and revenues and expenses are translated at average exchange rates during the period. Cumulative currency translation adjustments are included in accumulated other comprehensive loss in shareholders equity. Realized gains and losses from currency exchange transactions are recorded in other operating income, net in the consolidated statements of operations and were not material to our consolidated results of operations for the three- and nine-month periods ended September 30, 2012.

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 $3.6 million as of September 30, 2012. If none of the performance targets are met as of the specified dates, and customers have met their contractual commitments, payments will be due as follows: Remainder of 2012 - $0.5 million; 2013 - $2.5 million; 2014 - $0.4 million; and 2015 - $0.2 million. None of these contingent obligations were accrued at September 30, 2012, as we do not consider any of them probable. We deferred the recognition of fees that are contingent upon the company s future performance under the terms of these contracts. As of September 30, 2012, $1.5 million of deferred revenue related to outstanding contractual performance targets is included in other current liabilities.

The state of California is continuing its administrative review of certain ongoing local sales tax incentives that may be available to us. Upon completion of this review, we could potentially receive tax incentive payments for all or some of the quarterly periods beginning with the first quarter of 2009. The exact amount, if any, is dependent upon a number of factors, including the timing of negotiation and execution of certain customer agreements, collection of amounts from the parties involved, the variability in sales and our operations in California. The estimated potential payment we may receive (and related contingent gain) related to prior periods could be more than $7 million.

In connection with the acquisition of Movianto, our commitments under operating leases increased by $12.7 million, due as follows: remainder of 2012 - $1.2 million; 2013 - $3.9 million; 2014 - $3.2 million; 2015 - $2.0 million; 2016 - $1.7 million; and 2017 - $0.7 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.

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14. 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. As a result of the August 31, 2012 acquisition of Movianto, we will now report Movianto as a separate International business segment. Prior to the acquisition, we had one reportable business segment, which now comprises the Domestic business segment. Accordingly, the Domestic business segment includes traditional distribution, OM HealthCare Logistics, and other supply-chain management services, such as OM Solutions[SM], which provide solutions to healthcare providers and suppliers of medical and surgical products in the United States.

The following tables present financial information by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Net revenue:				
Domestic	$ 2,130,226	$ 2,176,759	$ 6,533,552	$ 6,432,022
International	49,669		49,669	
Consolidated net revenue	$ 2,179,895	$ 2,176,759	$ 6,583,221	$ 6,432,022
Operating earnings (loss):				
Domestic	$ 55,120	$ 58,816	$ 160,786	$ 160,852
International	(626)		(626)	
Acquisition-related and exit and realignment charges	(7,831)	(351)	(8,448)	(351)
Consolidated operating earnings	$ 46,663	$ 58,465	$ 151,712	$ 160,501
Depreciation and amortization:				
Domestic	$ 8,801	$ 8,463	$ 25,895	$ 25,479
International	1,289		1,289	
Consolidated depreciation and amortization	$ 10,090	$ 8,463	$ 27,184	$ 25,479
Capital expenditures:				
Domestic	$ 8,929	$ 11,133	$ 27,086	$ 24,881
International	738		738	
Consolidated capital expenditures	$ 9,667	$ 11,133	$ 27,824	$ 24,881

	September 30, 2012	December 31, 2011
Total assets:		
Domestic	$ 1,732,460	$ 1,810,877
International	409,622	
Segment assets	2,142,082	1,810,877
Cash and cash equivalents	79,667	135,938
Consolidated total assets	$ 2,221,749	$ 1,946,815

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15. Condensed Consolidating Financial Information

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

For the three months ended September 30, 2012	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income					
Net revenue	$	$ 2,130,226	$ 59,200	$ (9,531)	$ 2,179,895
Cost of goods sold		1,921,975	39,074	(9,277)	1,951,772
Gross margin		208,251	20,126	(254)	228,123
Selling, general and administrative expenses	23	144,882	20,415		165,320
Acquisition-related and exit and realignment charges		104	7,727		7,831
Depreciation and amortization		8,783	1,307		10,090
Other operating income, net		(1,396)	(385)		(1,781)
Operating (loss) earnings	(23)	55,878	(8,938)	(254)	46,663
Interest expense (income), net	3,951	(866)	(19)		3,066
(Loss) income before income taxes	(3,974)	56,744	(8,919)	(254)	43,597
Income tax (benefit) provision	(1,634)	23,411	(2,777)		19,000
Equity in earnings of subsidiaries	26,937			(26,937)	
Net income (loss)	24,597	33,333	(6,142)	(27,191)	24,597
Other comprehensive income	2,059	146	1,926	(2,072)	2,059
Comprehensive income (loss)	$ 26,656	$ 33,479	$ (4,216)	$ (29,263)	$ 26,656

For the three months ended September 30, 2011	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income					
Net revenue	$	$ 2,176,759	$	$	$ 2,176,759
Cost of goods sold		1,960,077			1,960,077
Gross margin		216,682			216,682
Selling, general and administrative expenses	(574)	153,319	80		152,825
Acquisition-related and exit and realignment charges		351			351
Depreciation and amortization		8,463			8,463
Other operating expense, net		(3,422)			(3,422)
Operating (loss) earnings	574	57,971	(80)		58,465
Interest expense, net	2,249	1,155	22		3,426
(Loss) income before income taxes	(1,675)	56,816	(102)		55,039
Income tax (benefit) provision	(662)	22,389	(40)		21,687
Equity in earnings of subsidiaries	34,365			(34,365)	
Net income (loss)	33,352	34,427	(62)	(34,365)	33,352

Other comprehensive income (loss)	121	133		(133)	121
Comprehensive income	$ 33,473	$ 34,560	$ (62)	$ (34,498)	$ 33,473

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Condensed Consolidating Financial Information

For the nine months ended September 30, 2012	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income					
Net revenue	$	$ 6,533,552	$ 65,918	$ (16,249)	$ 6,583,221
Cost of goods sold		5,899,666	45,393	(15,718)	5,929,341
Gross margin		633,886	20,525	(531)	653,880
Selling, general and administrative expenses	678	449,092	21,409		471,179
Acquisition-related and exit and realignment charges		721	7,727		8,448
Depreciation and amortization		25,842	1,342		27,184
Other operating income, net		(4,123)	(520)		(4,643)
Operating (loss) earnings	(678)	162,354	(9,433)	(531)	151,712
Interest expense (income), net	11,518	(1,573)	30		9,975
(Loss) income before income taxes	(12,196)	163,927	(9,463)	(531)	141,737
Income tax (benefit) provision	(4,872)	65,514	(2,975)		57,667
Equity in earnings of subsidiaries	91,394			(91,394)	
Net income (loss)	84,070	98,413	(6,488)	(91,925)	84,070
Other comprehensive income	2,531	642	1,926	(2,568)	2,531
Comprehensive income (loss)	$ 86,601	$ 99,055	$ (4,562)	$ (94,493)	$ 86,601

For the nine months ended September 30, 2011	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Income					
Net revenue	$	$ 6,431,896	$ 126	$	$ 6,432,022
Cost of goods sold		5,788,483	16		5,788,499
Gross margin		643,413	110		643,523
Selling, general and administrative expenses	280	459,505	334		460,119
Acquisition-related and exit and realignment charges		351			351
Depreciation and amortization		25,479			25,479
Other operating expense, net	148	(3,067)	(8)		(2,927)
Operating (loss) earnings	(428)	161,145	(216)		160,501
Interest expense, net	7,010	3,097	56		10,163
(Loss) income before income taxes	(7,438)	158,048	(272)		150,338
Income tax (benefit) provision	(2,923)	62,112	(107)		59,082
Equity in earnings of subsidiaries	95,771			(95,771)	
Net income (loss)	91,256	95,936	(165)	(95,771)	91,256
Other comprehensive income	363	400		(400)	363
Comprehensive income (loss)	$ 91,619	$ 96,336	$ (165)	$ (96,171)	$ 91,619

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Condensed Consolidating Financial Information

September 30, 2012	**Owens & Minor, Inc.**	**Guarantor Subsidiaries**	**Non-guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Balance Sheets					
Assets					
Current assets					
Cash and cash equivalents	$ 29,538	$ 14,744	$ 35,385	$	$ 79,667
Accounts and notes receivable, net		491,008	94,602	(2,616)	582,994
Merchandise inventories		750,958	26,470	(530)	776,898
Other current assets	244	66,546	145,182	(5)	211,967
Total current assets	29,782	1,323,256	301,639	(3,151)	1,651,526
Property and equipment, net		102,508	73,527		176,035
Goodwill, net		247,271	38,092		285,363
Intangible assets, net		20,496	24,044		44,540
Due from O&M and subsidiaries		244,094	40,730	(284,824)	
Advances to and investments in consolidated subsidiaries	1,430,878			(1,430,878)	
Other assets, net	641	49,974	13,670		64,285
Total assets	$ 1,461,301	$ 1,987,599	$ 491,702	$ (1,718,853)	$ 2,221,749
Liabilities and equity					
Current liabilities					
Accounts payable	$ 1,575	$ 562,268	$ 80,901	$ (2,621)	$ 642,123
Accrued payroll and related liabilities		11,801	6,232		18,033
Deferred income taxes		36,982			36,982
Other current liabilities	9,785	83,338	159,008		252,131
Total current liabilities	11,360	694,389	246,141	(2,621)	949,269
Long-term debt, excluding current portion	206,185	6,349	2,261		214,795
Due to O&M and subsidiaries	284,824			(284,824)	
Intercompany debt		138,890		(138,890)	
Deferred income taxes		28,693	2,618		31,311
Other liabilities		58,855	7,457		66,312
Total liabilities	502,369	927,176	258,477	(426,335)	1,261,687
Equity					
Common stock	126,762		1,500	(1,500)	126,762
Paid-in capital	185,695	242,024	258,635	(500,659)	185,695
Retained earnings (deficit)	651,438	825,464	(29,967)	(795,497)	651,438
Accumulated other comprehensive loss	(4,963)	(7,065)	1,927	5,138	(4,963)
Total Owens & Minor, Inc. shareholders equity	958,932	1,060,423	232,095	(1,292,518)	958,932
Noncontrolling interest			1,130		1,130
Total equity	958,932	1,060,423	233,225	(1,292,518)	960,062
Total liabilities and equity	$ 1,461,301	$ 1,987,599	$ 491,702	$ (1,718,853)	$ 2,221,749

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Condensed Consolidating Financial Information

December 31, 2011	**Owens & Minor, Inc.**	**Guarantor Subsidiaries**	**Non-guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Balance Sheets					
Assets					
Current assets					
Cash and cash equivalents	$ 120,010	$ 14,809	$ 1,119		$ 135,938
Accounts and notes receivable, net		506,633	125		506,758
Merchandise inventories		806,281	85		806,366
Other current assets	139	76,696	35	(107)	76,763
Total current assets	120,149	1,404,419	1,364	(107)	1,525,825
Property and equipment, net		107,878	183		108,061
Goodwill, net		247,271	1,227		248,498
Intangible assets, net		22,142			22,142
Due from O&M and subsidiaries			40,888	(40,888)	
Advances to and investments in consolidated subsidiaries	1,142,592			(1,142,592)	
Other assets, net	779	41,373	137		42,289
Total assets	$ 1,263,520	$ 1,823,083	$ 43,799	$ (1,183,587)	$ 1,946,815
Liabilities and equity					
Current liabilities					
Accounts payable	$ 113,100	$ 462,604	$ 89	$	$ 575,793
Accrued payroll and related liabilities		20,653	15		20,668
Deferred income taxes		42,296			42,296
Other current liabilities	6,505	86,980	230	(107)	93,608
Total current liabilities	119,605	612,533	334	(107)	732,365
Long-term debt, excluding current portion	207,480	5,201			212,681
Due to O&M and subsidiaries	18,348	22,540		(40,888)	
Intercompany debt		138,890		(138,890)	
Deferred income taxes		21,894			21,894
Other liabilities		60,658			60,658
Total liabilities	345,433	861,716	334	(179,885)	1,027,598
Equity					
Common stock	126,900		1,500	(1,500)	126,900
Paid-in capital	179,052	242,024	64,314	(306,338)	179,052
Retained earnings (deficit)	619,629	727,050	(23,479)	(703,571)	619,629
Accumulated other comprehensive loss	(7,494)	(7,707)		7,707	(7,494)
Total Owens & Minor, Inc. shareholders equity	918,087	961,367	42,335	(1,003,702)	918,087
Noncontrolling interest			1,130		1,130
Total equity	918,087	961,367	43,465	(1,003,702)	919,217
Total liabilities and equity	$ 1,263,520	$ 1,823,083	$ 43,799	$ (1,183,587)	$ 1,946,815

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Condensed Consolidating Financial Information

Nine months ended September 30, 2012	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities:					
Net income (loss)	$ 84,070	$ 98,413	$ (6,488)	$ (91,925)	$ 84,070
Adjustments to reconcile net income to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	(91,394)			91,394	
Depreciation and amortization		25,842	1,342		27,184
Provision for LIFO reserve		5,223			5,223
Share-based compensation expense		4,844			4,844
Deferred income tax expense		1,098			1,098
Provision for losses on accounts and notes receivable		311	103		414
Changes in operating assets and liabilities:					
Accounts and notes receivable		15,314	(25,817)	2,617	(7,886)
Merchandise inventories		50,100	(10,552)	530	40,078
Accounts payable	(111,525)	99,664	46,949	(2,621)	32,467
Net change in other assets and liabilities	3,070	(3,214)	(16,216)	5	(16,355)
Other, net	(1,270)	712	(215)		(773)
Cash provided by (used for) operating activities	(117,049)	298,307	(10,894)		170,364
Investing activities:					
Acquisition, net of cash acquired			(149,910)		(149,910)
Additions to computer software and intangible assets		(18,911)	(1,023)		(19,934)
Additions to property and equipment		(8,159)	269		(7,890)
Proceeds from the sale of property and equipment		3,237			3,237
Cash used for investing activities		(23,833)	(150,664)		(174,497)
Financing activities:					
Change in intercompany advances	77,168	(271,650)	194,482		
Cash dividends paid	(41,791)				(41,791)
Repurchases of common stock	(11,250)				(11,250)
Financing costs paid		(1,303)			(1,303)
Excess tax benefits related to share-based compensation	1,223				1,223
Proceeds from exercise of stock options	4,114				4,114
Other, net	(2,887)	(1,586)	29		(4,444)
Cash provided by (used for) financing activities	26,577	(274,539)	194,511		(53,451)
Effect of exchange rate changes on cash and cash equivalents			1,313		1,313
Net (decrease) increase in cash and cash equivalents	(90,472)	(65)	34,266		(56,271)
Cash and cash equivalents at beginning of period	120,010	14,809	1,119		135,938
Cash and cash equivalents at end of period	$ 29,538	$ 14,744	$ 35,385	$	$ 79,667

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Condensed Consolidating Financial Information

Nine months ended September 30, 2011	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities:					
Net income (loss)	$ 91,256	$ 95,936	$ (165)	$ (95,771)	$ 91,256
Adjustments to reconcile net income to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	(95,771)			95,771	
Depreciation and amortization		25,479			25,479
Provision for LIFO reserve		11,265			11,265
Share-based compensation expense		4,335			4,335
Deferred income tax expense		908			908
Provision for losses on accounts and notes receivable		1,107			1,107
Pension contributions		(543)			(543)
Changes in operating assets and liabilities:					
Accounts and notes receivable	313	(36,911)			(36,598)
Merchandise inventories		(52,141)			(52,141)
Accounts payable		81,187	1		81,188
Net change in other assets and liabilities	2,882	(21,286)	(61)		(18,465)
Other, net	70	265			335
Cash provided by (used for) operating activities	(1,250)	109,601	(225)		108,126
Investing activities:					
Additions to computer software and intangible assets		(8,035)			(8,035)
Additions to property and equipment		(16,846)			(16,846)
Proceeds from the sale of property and equipment		46			46
Cash used for investing activities		(24,835)			(24,835)
Financing activities:					
Change in intercompany advances	78,610	(79,015)	405		