OWENS & MINOR INC/VA/
Form 10-Q
August 02, 2017


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 June 30, 2017
OR
o 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 incorporation or organization) | 54-1701843<br>(I.R.S. Employer Identification No.) |
| 9120 Lockwood Boulevard, Mechanicsville, Virginia<br>(Address of principal executive offices) | 23116<br>(Zip Code) |
| Post Office Box 27626, 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "larger accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
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 July 28, 2017, was 61,226,413 shares.

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Part I. Financial Information
Item 1. Financial Statements
Owens & 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) | 2017 | 2016 | 2017 | 2016 |
| Net revenue | $2,265,907 | $2,483,676 | $4,594,480 | $4,939,469 |
| Cost of goods sold | 1,992,374 | 2,184,256 | 4,039,768 | 4,343,413 |
| Gross margin | 273,533 | 299,420 | 554,712 | 596,056 |
| Distribution, selling, and administrative expenses | 236,615 | 242,914 | 474,308 | 485,639 |
| Acquisition-related and exit and realignment charges | 2,893 | 6,752 | 11,835 | 17,235 |
| Other operating (income) expense, net | 1,188 | (2,300) | 216 | (3,842) |
| Operating earnings | 32,837 | 52,054 | 68,353 | 97,024 |
| Interest expense, net | 6,736 | 6,765 | 13,480 | 13,554 |
| Income before income taxes | 26,101 | 45,289 | 54,873 | 83,470 |
| Income tax provision | 5,960 | 17,573 | 15,947 | 31,619 |
| Net income | $20,141 | $27,716 | $38,926 | $51,851 |
| Net income per common share: | | | | |
| Basic | $0.33 | $0.45 | $0.64 | $0.83 |
| Diluted | $0.33 | $0.45 | $0.64 | $0.83 |
| Cash dividends per common share | $0.2575 | $0.255 | $0.515 | $0.51 |

See accompanying notes to consolidated financial statements.

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

| (in thousands) | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Net income | $20,141 | $27,716 | $38,926 | $51,851 |
| Other comprehensive income (loss), net of tax: | | | | |
| Currency translation adjustments (net of income tax of $0 in 2017 and 2016) | 22,405 | (7,120) | 27,897 | 1,042 |
| Change in unrecognized net periodic pension costs (net of income tax of $219 and $445 in 2017 and $168 and $339 in 2016) | 230 | 245 | 466 | 483 |
| Other (net of income tax of $0 in 2017 and 2016) | 84 | 18 | 194 | 37 |
| Total other comprehensive income (loss), net of tax | 22,719 | (6,857) | 28,557 | 1,562 |
| Comprehensive income (loss) | $42,860 | $20,859 | $67,483 | $53,413 |

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) | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $57,066 | $185,488 |
| Accounts receivable, net of allowances of $13,235 and $13,538 | 655,259 | 606,084 |
| Merchandise inventories | 1,004,076 | 916,311 |
| Other current assets | 306,452 | 254,156 |
| Total current assets | 2,022,853 | 1,962,039 |
| Property and equipment, net of accumulated depreciation of $216,173 and $201,399 | 198,442 | 191,718 |
| Goodwill, net | 423,107 | 414,936 |
| Intangible assets, net | 80,051 | 82,511 |
| Other assets, net | 70,684 | 66,548 |
| Total assets | $2,795,137 | $2,717,752 |
| Liabilities and equity | | |
| Current liabilities | | |
| Accounts payable | $798,454 | $750,750 |
| Accrued payroll and related liabilities | 23,819 | 45,051 |
| Other current liabilities | 241,091 | 238,837 |
| Total current liabilities | 1,063,364 | 1,034,638 |
| Long-term debt, excluding current portion | 579,117 | 564,583 |
| Deferred income taxes | 89,812 | 90,383 |
| Other liabilities | 69,273 | 68,110 |
| Total liabilities | 1,801,566 | 1,757,714 |
| Commitments and contingencies | | |
| Equity | | |
| Common stock, par value $2 per share; authorized - 200,000 shares; issued and outstanding - 61,226 shares and 61,031 shares | 122,453 | 122,062 |
| Paid-in capital | 221,681 | 219,955 |
| Retained earnings | 688,363 | 685,504 |
| Accumulated other comprehensive loss | (38,926) | (67,483) |
| Total equity | 993,571 | 960,038 |
| Total liabilities and equity | $2,795,137 | $2,717,752 |

See accompanying notes to consolidated financial statements.
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Owens & Minor, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| (in thousands) | 2017 | 2016 |
| Operating activities: | | |
| Net income | $38,926 | $51,851 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 25,206 | 28,343 |
| Share-based compensation expense | 5,619 | 5,969 |
| Provision for losses on accounts receivable | (368) | (27) |
| Deferred income tax (benefit) expense | (5,385) | (2,071) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (41,863) | (29,736) |
| Merchandise inventories | (86,234) | (17,947) |
| Accounts payable | 42,235 | 62,710 |
| Net change in other assets and liabilities | (66,003) | (56,599) |
| Other, net | 5,371 | 743 |
| Cash provided by (used for) operating activities | (82,496) | 43,236 |
| Investing activities: | | |
| Additions to property and equipment | (16,433) | (8,857) |
| Additions to computer software and intangible assets | (7,860) | (4,602) |
| Proceeds from sale of property and equipment | 573 | 4,565 |
| Cash used for investing activities | (23,720) | (8,894) |
| Financing activities: | | |
| Proceeds from revolving credit facility | 15,400 | — |
| Cash dividends paid | (31,476) | (32,003) |
| Repurchases of common stock | (4,998) | (20,849) |
| Other, net | (5,658) | (5,968) |
| Cash used for financing activities | (26,732) | (58,820) |
| Effect of exchange rate changes on cash and cash equivalents | 4,526 | 2,409 |
| Net decrease in cash and cash equivalents | (128,422) | (22,069) |
| Cash and cash equivalents at beginning of period | 185,488 | 161,020 |
| Cash and cash equivalents at end of period | $57,066 | $138,951 |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid, net | $24,969 | $49,567 |
| Interest paid | $13,028 | $13,513 |

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 Shares Outstanding | Common Stock ($ 2 par value ) | Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Equity |
|---|---|---|---|---|---|---|
| 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, 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 |
| | | | | | | |
| Balance December 31, 2016 | 61,031 | $122,062 | $219,955 | $685,504 | $ (67,483) | $960,038 |
| Net income | | | | 38,926 | | 38,926 |
| Other comprehensive income | | | | | 28,557 | 28,557 |
| Dividends declared ($0.515 per share) | | | | (31,379) | | (31,379) |
| Shares repurchased and retired | (155) | (310) | | (4,688) | | (4,998) |
| Share-based compensation expense, exercises and other | 350 | 701 | 1,726 | | | 2,427 |
| Balance June 30, 2017 | 61,226 | $122,453 | $221,681 | $688,363 | $ (38,926) | $993,571 |

See accompanying notes to consolidated financial statements.

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. The Clinical & Procedural Solutions (CPS) business segment has been renamed "Proprietary Products" effective January 1, 2017. There has been no change to the segment composition or our method of measuring segment operating earnings.

Reclassifications

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

Use of Estimates

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

Note 2—Fair Value

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

Note 3—Financing Receivables and Payables

At June 30, 2017 and December 31, 2016, we had financing receivables of $168.3 million and $156.5 million and related payables of $95.2 million and $110.0 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

The following table summarizes the changes in the carrying amount of goodwill through June 30, 2017:

| | Domestic | International | Proprietary Products | Consolidated |
|---|---|---|---|---|
| Carrying amount of goodwill, December 31, 2016 | $180,006 | $ 19,391 | $ 215,539 | $ 414,936 |
| Currency translation adjustments | — | 6,676 | 1,495 | 8,171 |
| Carrying amount of goodwill, June 30, 2017 | $180,006 | $ 26,067 | $ 217,034 | $ 423,107 |

Intangible assets at June 30, 2017 and December 31, 2016, were as follows:

| | June 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| | Customer Relationships | Other Intangibles | Customer Relationships | Other Intangibles |
| Gross intangible assets | $121,152 | $ 4,345 | $118,223 | $ 4,045 |
| Accumulated amortization | (43,945 ) | (1,501 ) | (38,429 ) | (1,328 ) |
| Net intangible assets | $77,207 | $ 2,844 | $79,794 | $ 2,717 |

At June 30, 2017, $10.6 million in net intangible assets were held in the Domestic segment, $10.5 million were held in the International segment and $59.0 million were held in the Proprietary Products segment. Amortization expense for intangible assets was $2.3 million and $2.5 million for the three months ended June 30, 2017 and 2016 and $4.7 million and $5.1 million for the six months ended June 30, 2017 and 2016.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is $4.7 million for the remainder of 2017, $8.9 million for 2018, $9.0 million for 2019, $9.0 million for 2020, $8.7 million for 2021 and $7.8 million for 2022.

## 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, 2017 and 2016 were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Domestic segment | $1,793 | $4,894 | $8,540 | $12,968 |
| International segment | 448 | 1,128 | 832 | 2,828 |
| Proprietary Products segment | (40 ) | — | 423 | 1,110 |
| Total exit and realignment charges | $2,201 | $6,022 | $9,795 | $16,906 |

The following table summarizes the activity related to exit and realignment cost accruals through June 30, 2017 and 2016:

| | Lease Obligations | Severance and Other | Total |
|---|---|---|---|
| Accrued exit and realignment costs, December 31, 2016 | $ — | $ 2,238 | $2,238 |
| Provision for exit and realignment activities | — | 3,211 | 3,211 |
| Change in estimate | — | (304) | (304) |
| Cash payments | — | (3,034) | (3,034) |
| Accrued exit and realignment costs, March 31, 2017 | — | 2,111 | 2,111 |
| Provision for exit and realignment activities | — | 1,382 | 1,382 |
| Change in estimate | — | (18) | (18) |
| Cash payments | — | (667) | (667) |
| Accrued exit and realignment costs, June 30, 2017 | $ — | $ 2,808 | $2,808 |
| | | | |
| 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 | (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 | — | (7,087) | (7,087) |
| Accrued exit and realignment costs, June 30, 2016 | $ — | $ 4,615 | $4,615 |

In addition to the exit and realignment accruals in the preceding table, we incurred $0.8 million of costs that were expensed as incurred for the three months ended June 30, 2017, including $0.2 million in information systems costs and $0.6 million in other costs. In the first quarter of 2017, we incurred $4.7 million of costs that were expensed as incurred, including $4.5 million in asset write-downs and $0.2 million in other costs.

For the three months ended June 30, 2016, we recognized $4.7 million of costs that were expensed as incurred, including $3.2 million in consulting costs, $0.9 million in information systems 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.

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, 2017 and 2016, were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Service cost | $16 | $20 | $28 | $43 |
| Interest cost | 474 | 510 | 948 | 1,015 |
| Recognized net actuarial loss | 449 | 413 | 911 | 822 |
| Net periodic benefit cost | $939 | $943 | $1,887 | $1,880 |

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 for the three months ended June 30, 2017 and 2016 and $0.8 million for the six months ended June 30, 2017 and 2016.

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, 2017 and December 31, 2016, the estimated fair value of the 2021 Notes was $281.9 million and $274.5 million and the estimated fair value of the 2024 Notes was $279.1 million and $270.0 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, 2017, the interest rate under the credit facility is LIBOR plus 1.375%.

At June 30, 2017, we had borrowings of $15.4 million under the revolver and letters of credit of approximately $5.1 million outstanding under the Amended Credit Agreement, leaving $429.5 million available for borrowing. We also had a letter of credit outstanding for $1.2 million at June 30, 2017 and $1.1 million at December 31, 2016, 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, 2017.

On July 27, 2017, we entered into a new Credit Agreement to replace the existing Amended Credit Agreement. The new agreement provides borrowing capacity of $600 million and a $250 million term loan. The revolving credit and term loan have a five-year maturity. All other significant terms are the same as the previously disclosed Amended Credit Agreement. The proceeds from the new borrowing were primarily used to fund the Byram acquisition which closed on August 1, 2017. See Note 15 for more information.

Note 8—Income Taxes

The effective tax rate was 22.8% and 29.1% for the three and six months ended June 30, 2017, compared to 38.8% and 37.9% in the same periods of 2016. The change in rates resulted primarily from the release of a valuation allowance in Europe for $3.4 million in the second quarter of 2017 as well as from a higher percentage of the company's pretax income earned in lower tax rate jurisdictions compared to prior year. The liability for unrecognized tax benefits was $11.3 million at June 30, 2017, and $10.7 million at December 31, 2016. Included in the liability at June 30, 2017 were $5.0 million of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

Note 9—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, 2017 and 2016.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (in thousands, except per share data) | 2017 | 2016 | 2017 | 2016 |
| Numerator: | | | | |
| Net income | $20,141 | $27,716 | $38,926 | $51,851 |
| Less: income allocated to unvested restricted shares | (229 ) | (281 ) | (469 ) | (560 ) |
| Net income attributable to common shareholders - basic | 19,912 | 27,435 | 38,457 | 51,291 |
| Add: undistributed income attributable to unvested restricted shares - basic | 27 | 72 | 51 | 131 |
| Less: undistributed income attributable to unvested restricted shares - diluted | (27 ) | (72 ) | (51 ) | (131 ) |
| Net income attributable to common shareholders - diluted | $19,912 | $27,435 | $38,457 | $51,291 |
| Denominator: | | | | |
| Weighted average shares outstanding - basic and diluted | 59,863 | 61,502 | 60,020 | 61,588 |
| Net income per share attributable to common shareholders: | | | | |
| Basic | $0.33 | $0.45 | $0.64 | $0.83 |
| Diluted | $0.33 | $0.45 | $0.64 | $0.83 |

Note 10—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 December 2019. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and 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, 2017, we repurchased in open-market transactions and retired approximately 0.2 million shares of our common stock for an aggregate of $5.0 million, or an average price per share of $32.27. As of June 30, 2017, we have approximately $94.0 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

Note 11—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, 2017 and 2016:

| | Retirement Plans | Currency Translation Adjustments | Other | Total |
|---|---|---|---|---|
| Accumulated other comprehensive income (loss), March 31, 2017 | $(10,973) | $(50,753) | $81 | $(61,645) |
| Other comprehensive income (loss) before reclassifications | — | 22,405 | 84 | 22,489 |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | 22,405 | 84 | 22,489 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 449 | — | — | 449 |
| Income tax | (219) | — | — | (219) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 230 | — | — | 230 |
| Other comprehensive income (loss) | 230 | 22,405 | 84 | 22,719 |
| Accumulated other comprehensive income (loss), June 30, 2017 | $(10,743) | $(28,348) | $165 | $(38,926) |
| | | | | |
| Accumulated other comprehensive income (loss), March 31, 2016 | $(10,244) | $(33,066) | $(96) | $(43,406) |
| Other comprehensive income (loss) before reclassifications | — | (7,120) | 18 | (7,102) |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | (7,120) | 18 | (7,102) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 413 | — | — | 413 |
| Income tax | (168) | — | — | (168) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 245 | — | — | 245 |
| 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) |

| | Retirement Plans | Currency Translation Adjustments | Other | Total |
|---|---|---|---|---|
| Accumulated other comprehensive income (loss), December 31, 2016 | $(11,209) | $(56,245) | $(29) | $(67,483) |
| Other comprehensive income (loss) before reclassifications | — | 27,897 | 194 | 28,091 |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | 27,897 | 194 | 28,091 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 911 | — | — | 911 |
| Income tax | (445) | — | — | (445) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 466 | — | — | 466 |
| Other comprehensive income (loss) | 466 | 27,897 | 194 | 28,557 |
| Accumulated other comprehensive income (loss), June 30, 2017 | $(10,743) | $(28,348) | $165 | $(38,926) |
| | | | | |
| Accumulated other comprehensive income (loss), December 31, 2015 | $(10,482) | $(41,228) | $(115) | $(51,825) |
| Other comprehensive income (loss) before reclassifications | — | 1,042 | 37 | 1,079 |
| Income tax | — | — | — | — |
| Other comprehensive income (loss) before reclassifications, net of tax | — | 1,042 | 37 | 1,079 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 822 | — | — | 822 |
| Income tax | (339) | — | — | (339) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 483 | — | — | 483 |
| 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) |

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, 2017, we reclassified $0.4 million and $0.9 million of actuarial net losses. For the three and six months ended June 30, 2016, we reclassified $0.4 million and $0.8 million of actuarial net losses.

Note 12—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 Proprietary Products. 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. Proprietary Products 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 June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Net revenue: | | | | |
| Segment net revenue | | | | |
| Domestic | $2,130,468 | $2,345,746 | $4,324,428 | $4,667,455 |
| International | 95,899 | 88,559 | 190,894 | 172,110 |
| Proprietary Products | 130,959 | 134,964 | 268,112 | 276,317 |
| Total segment net revenue | $2,357,326 | $2,569,269 | $4,783,434 | $5,115,882 |
| Inter-segment revenue | | | | |
| Proprietary Products | (91,419) | (85,593) | (188,954) | (176,413) |
| Total inter-segment revenue | (91,419) | (85,593) | (188,954) | (176,413) |
| Consolidated net revenue | $2,265,907 | $2,483,676 | $4,594,480 | $4,939,469 |
| | | | | |
| Operating earnings (loss): | | | | |
| Domestic | $29,460 | $43,451 | $66,756 | $85,169 |
| International | 752 | 893 | 1,408 | 2,021 |
| Proprietary Products | 8,810 | 14,255 | 16,938 | 27,526 |
| Inter-segment eliminations | 19 | 207 | (681) | (457) |
| Acquisition-related and exit and realignment charges | (2,893) | (6,752) | (11,835) | (17,235) |
| Other [1] | (3,311) | — | (4,233) | — |
| Consolidated operating earnings | $32,837 | $52,054 | $68,353 | $97,024 |
| | | | | |
| Depreciation and amortization: | | | | |
| Domestic | $6,769 | $7,497 | $13,630 | $15,038 |
| International | 3,964 | 4,416 | 7,768 | 8,865 |
| Proprietary Products | 1,915 | 2,213 | 3,808 | 4,440 |
| Consolidated depreciation and amortization | $12,648 | $14,126 | $25,206 | $28,343 |
| | | | | |
| Capital expenditures: | | | | |
| Domestic | $4,986 | $2,659 | $13,804 | $7,202 |
| International | 3,431 | 2,860 | 8,453 | 4,830 |
| Proprietary Products | 1,105 | 880 | 2,036 | 1,427 |
| Consolidated capital expenditures | $9,522 | $6,399 | $24,293 | $13,459 |

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Total assets: | | |
| Domestic | $1,945,271 | $1,778,481 |
| International | 405,020 | 352,898 |
| Proprietary Products | 387,780 | 400,885 |
| Segment assets | 2,738,071 | 2,532,264 |
| Cash and cash equivalents | 57,066 | 185,488 |
| Consolidated total assets | $2,795,137 | $2,717,752 |

[1] Software as a Service (SaaS) implementation costs associated with significant global IT platforms in connection with the redesign of our global information system strategy.

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Note 13—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, 2017 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Statements of Income | | | | | |
| Net revenue | $ — | $ 2,129,863 | $ 184,187 | $ (48,143) | $ 2,265,907 |
| Cost of goods sold | — | 1,936,554 | 103,971 | (48,151) | 1,992,374 |
| Gross margin | — | 193,309 | 80,216 | 8 | 273,533 |
| Distribution, selling and administrative expenses | 399 | 160,422 | 75,794 | — | 236,615 |
| Acquisition-related and exit and realignment charges | — | 2,325 | 568 | — | 2,893 |
| Other operating (income) expense, net | — | 1,407 | (219) | — | 1,188 |
| Operating earnings (loss) | (399) | 29,155 | 4,073 | 8 | 32,837 |
| Interest expense (income), net | 6,889 | (804) | 651 | — | 6,736 |
| Income (loss) before income taxes | (7,288) | 29,959 | 3,422 | 8 | 26,101 |
| Income tax (benefit) provision | — | 7,409 | (1,449) | — | 5,960 |
| Equity in earnings of subsidiaries | 27,429 | — | — | (27,429) | — |
| Net income (loss) | 20,141 | 22,550 | 4,871 | (27,421) | 20,141 |
| Other comprehensive income (loss) | 22,719 | 313 | 22,406 | (22,719) | 22,719 |
| Comprehensive income (loss) | $ 42,860 | $ 22,863 | $ 27,277 | $ (50,140) | $ 42,860 |

| Three Months Ended June 30, 2016 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Statements of Income | | | | | |
| 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 |

| Six Months Ended June 30, 2017 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Statements of Income | | | | | |
| Net revenue | $ — | $ 4,323,149 | $ 371,135 | $ (99,804 ) | $ 4,594,480 |
| Cost of goods sold | — | 3,926,740 | 212,157 | (99,129 ) | 4,039,768 |
| Gross margin | — | 396,409 | 158,978 | (675 ) | 554,712 |
| Distribution, selling and administrative expenses | 551 | 321,657 | 152,100 | — | 474,308 |
| Acquisition-related and exit and realignment charges | — | 10,124 | 1,711 | — | 11,835 |
| Other operating (income) expense, net | — | 1,033 | (817 ) | — | 216 |
| Operating earnings (loss) | (551 ) | 63,595 | 5,984 | (675 ) | 68,353 |
| Interest expense (income), net | 13,737 | (1,593 ) | 1,336 | — | 13,480 |
| Income (loss) before income taxes | (14,288 ) | 65,188 | 4,648 | (675 ) | 54,873 |
| Income tax (benefit) provision | — | 15,422 | 525 | — | 15,947 |
| Equity in earnings of subsidiaries | 53,214 | — | — | (53,214 ) | — |
| Net income (loss) | 38,926 | 49,766 | 4,123 | (53,889 ) | 38,926 |
| Other comprehensive income (loss) | 28,557 | 660 | 27,897 | (28,557 ) | 28,557 |
| Comprehensive income (loss) | $ 67,483 | $ 50,426 | $ 32,020 | $ (82,446 ) | $ 67,483 |

| Six Months Ended June 30, 2016 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Statements of Income | | | | | |
| 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 |

| June 30, 2017 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Balance Sheets | | | | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $19,415 | $4,159 | $33,492 | $— | $57,066 |
| Accounts receivable, net | — | 563,304 | 101,874 | (9,919) | 655,259 |
| Merchandise inventories | — | 934,746 | 71,764 | (2,434) | 1,004,076 |
| Other current assets | 285 | 120,655 | 185,512 | — | 306,452 |
| Total current assets | 19,700 | 1,622,864 | 392,642 | (12,353) | 2,022,853 |
| Property and equipment, net | — | 101,611 | 96,831 | — | 198,442 |
| Goodwill, net | — | 180,006 | 243,101 | — | 423,107 |
| Intangible assets, net | — | 10,619 | 69,432 | — | 80,051 |
| Due from O&M and subsidiaries | — | 604,922 | — | (604,922) | — |
| Advances to and investment in consolidated subsidiaries | 2,083,889 | — | — | (2,083,889) | — |
| Other assets, net | — | 43,197 | 27,487 | — | 70,684 |
| Total assets | $2,103,589 | $2,563,219 | $829,493 | $(2,701,164) | $2,795,137 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable | $— | $745,418 | $62,284 | $(9,248) | $798,454 |
| Accrued payroll and related liabilities | — | 13,532 | 10,287 | — | 23,819 |
| Other current liabilities | 7,031 | 107,183 | 126,877 | — | 241,091 |
| Total current liabilities | 7,031 | 866,133 | 199,448 | (9,248) | 1,063,364 |
| Long-term debt, excluding current portion | 545,266 | 17,917 | 15,934 | — | 579,117 |
| Due to O&M and subsidiaries | 557,721 | — | 67,546 | (625,267) | — |
| Intercompany debt | — | 138,890 | — | (138,890) | — |
| Deferred income taxes | — | 68,705 | 21,107 | — | 89,812 |
| Other liabilities | — | 61,211 | 8,062 | — | 69,273 |
| Total liabilities | 1,110,018 | 1,152,856 | 312,097 | (773,405) | 1,801,566 |
| Equity | | | | | |
| Common stock | 122,453 | — | — | — | 122,453 |
| Paid-in capital | 221,681 | 174,614 | 583,872 | (758,486) | 221,681 |
| Retained earnings (deficit) | 688,363 | 1,246,107 | (37,908) | (1,208,199) | 688,363 |
| Accumulated other comprehensive income (loss) | (38,926) | (10,358) | (28,568) | 38,926 | (38,926) |
| Total equity | 993,571 | 1,410,363 | 517,396 | (1,927,759) | 993,571 |
| Total liabilities and equity | $2,103,589 | $2,563,219 | $829,493 | $(2,701,164) | $2,795,137 |

| December 31, 2016 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Balance Sheets | | | | | |
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $38,015 | $61,266 | $ 86,207 | $— | $185,488 |
| Accounts receivable, net | — | 526,170 | 90,016 | (10,102) | 606,084 |
| Merchandise inventories | — | 856,566 | 61,505 | (1,760) | 916,311 |
| Other current assets | 106 | 86,907 | 167,143 | — | 254,156 |
| Total current assets | 38,121 | 1,530,909 | 404,871 | (11,862) | 1,962,039 |
| Property and equipment, net | — | 97,725 | 93,993 | — | 191,718 |
| Goodwill, net | — | 180,006 | 234,930 | — | 414,936 |
| Intangible assets, net | — | 11,655 | 70,856 | — | 82,511 |
| Due from O&M and subsidiaries | — | 573,395 | — | (573,395) | — |
| Advances to and investments in consolidated subsidiaries | 2,044,963 | — | — | (2,044,963) | — |
| Other assets, net | — | 49,887 | 16,661 | — | 66,548 |
| Total assets | $2,083,084 | $2,443,577 | $ 821,311 | $(2,630,220) | $2,717,752 |
| Liabilities and equity | | | | | |
| Current liabilities | | | | | |
| Accounts payable | $— | $683,189 | $ 75,512 | $(7,951) | $750,750 |
| Accrued payroll and related liabilities | — | 32,814 | 12,237 | — | 45,051 |
| Other current liabilities | 7,106 | 93,327 | 138,404 | — | 238,837 |
| Total current liabilities | 7,106 | 809,330 | 226,153 | (7,951) | 1,034,638 |
| Long-term debt, excluding current portion | 544,838 | 3,219 | 16,526 | — | 564,583 |
| Due to O&M and subsidiaries | 571,102 | — | 48,044 | (619,146) | — |
| Intercompany debt | — | 138,890 | — | (138,890) | — |
| Deferred income taxes | — | 70,280 | 20,103 | — | 90,383 |
| Other liabilities | — | 60,578 | 7,532 | — | 68,110 |
| Total liabilities | 1,123,046 | 1,082,297 | 318,358 | (765,987) | 1,757,714 |
| Equity | | | | | — |
| Common stock | 122,062 | — | — | — | 122,062 |
| Paid-in capital | 219,955 | 174,614 | 583,872 | (758,486) | 219,955 |
| Retained earnings (deficit) | 685,504 | 1,196,341 | (42,032) | (1,154,309) | 685,504 |
| Accumulated other comprehensive income (loss) | (67,483) | (9,675) | (38,887) | 48,562 | (67,483) |
| Total equity | 960,038 | 1,361,280 | 502,953 | (1,864,233) | 960,038 |
| Total liabilities and equity | $2,083,084 | $2,443,577 | $ 821,311 | $(2,630,220) | $2,717,752 |

| Six Months Ended June 30, 2017 | Owens & Minor, Inc. | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Statements of Cash Flows | | | | | |
| Operating activities: | | | | | |
| Net income (loss) | $ 38,926 | $ 49,766 | $ 4,123 | $ (53,889 ) | $ 38,926 |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: | | | | | |
| Equity in earnings of subsidiaries | (53,214 ) | — | — | 53,214 | — |
| Depreciation and amortization | — | 13,662 | 11,544 | — | 25,206 |
| Share-based compensation expense | — | 5,619 | — | — | 5,619 |
| Provision for losses on accounts receivable | — | (707 ) | 339 | — | (368 ) |
| Deferred income tax (benefit) expense | — | (2,011 ) | (3,374 ) | — | (5,385 ) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | — | (36,427 ) | (4,479 ) | (957 ) | (41,863 ) |
| Merchandise inventories | — | (78,180 ) | (8,727 ) | 673 | (86,234 ) |
| Accounts payable | 37 | 62,229 | (20,990 ) | 959 | 42,235 |
| Net change in other assets and liabilities | (561 ) | (37,367 ) | (28,075 ) | — | (66,003 ) |
| Other, net | 428 | 4,383 | 560 | — | 5,371 |
| Cash provided by (used for) operating activities | (14,384 ) | (19,033 ) | (49,079 ) | — | (82,496 ) |
| Investing activities: | | | | | |
| Additions to property and equipment | — | (11,787 ) | (4,646 ) | — | (16,433 ) |
| Additions to computer software and intangible assets | — | (2,016 ) | (5,844 ) | — | (7,860 ) |
| Proceeds from the sale of property and equipment | — | 193 | 380 | — | 573 |
| Cash used for investing activities | — | (13,610 ) | (10,110 ) | — | (23,720 ) |
| Financing activities: | | | | | |
| Change in intercompany advances | 35,416 | (39,347 ) | 3,931 | — | — |
| Proceeds from revolving credit facility | — | 15,400 | — | — | 15,400 |
| Cash dividends paid | (31,476 ) | — | — | — | (31,476 ) |
| Repurchases of common stock | (4,998 ) | — | — | — | (4,998 ) |
| Other, net | (3,158 ) | (517 ) | (1,983 ) | — | (5,658 ) |
| Cash provided by (used for) financing activities | (4,216 ) | (24,464 ) | 1,948 | — | (26,732 ) |
| Effect of exchange rate changes on cash and cash equivalents | — | — | 4,526 | — | 4,526 |
| Net increase (decrease) in cash and cash equivalents | (18,600 ) | (57,107 ) | (52,715 ) | — | (128,422 ) |
| Cash and cash equivalents at beginning of period | 38,015 | 61,266 | 86,207 | — | 185,488 |
| Cash and cash equivalents at end of period | $ 19,415 | $ 4,159 | $ 33,492 | $ — | $ 57,066 |

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| 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 receivable | — | (129 ) | 102 | — | (27 ) |
| Deferred income tax (benefit) expense | — | (2,071 ) | — | — | (2,071 ) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts 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 | 1,025 | 218 | (500 ) | — | 743 |
| Cash provided by (used for) operating activities | (12,576 ) | 75,014 | (19,202 ) | — | 43,236 |
| 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 ) |
| Other, net | (3,468 ) | (1,167 ) | (1,333 ) | — | (5,968 ) |
| Cash provided by (used for) financing activities | 14,682 | (68,335 ) | (5,167 ) | — | (58,820 ) |
| 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 |

Note 14—Recent Accounting Pronouncements

On January 1, 2017, we adopted ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments in this updated guidance included 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. As a result of this adoption, we recognized $0.1 million and $0.2 million in excess tax benefits in the income statement for the three and six months ended June 30, 2017. In addition, we recorded these tax benefits related to stock based compensation for the six month period in operating activities in the statements of cash flows and reclassified $0.6 million from financing activities in the prior period to conform to this presentation.

In May 2014, the FASB issued an ASU, Revenue from Contracts with Customers. The amended guidance eliminates industry specific guidance and applies to all companies. Revenue will be recognized when an entity satisfies a performance obligation by transferring control of a promised good or service to a customer in an amount that reflects the consideration to which the entity expects to be entitled for that good or service. Revenue from a contract that contains multiple performance obligations is allocated to each performance obligation generally on a relative standalone selling price basis. Amended guidance was issued on: principal versus agent considerations, shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good, clarification on how an entity should evaluate the collectibility threshold and when an entity can recognize nonrefundable consideration received as revenue if an arrangement does not meet the standard's contract criteria. The amended guidance also requires additional quantitative and qualitative disclosures. These amended standards are all effective for us beginning January 1, 2018 and allow for either full retrospective adoption or modified retrospective adoption (cumulative effect). We have made progress on our evaluation of the amended guidance, including identification of revenue streams and customer contract reviews. Our revenue is primarily distribution revenue, which we recognize at the time shipment is completed and title passes to the customer. Although we are continuing to assess the impact of the amended guidance, including impact on financial disclosures, we generally anticipate that the timing of recognition of distribution revenue will be substantially unchanged under the amended guidance. We are still evaluating our method of adoption and whether and how the guidance may require changes to our business processes, systems and controls to support the additional required disclosures.

There have been no changes in our significant accounting policies from those contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

Note 15—Subsequent Events

On August 1, 2017, we completed our previously announced acquisition of Byram Healthcare (Byram) in accordance with the Interest Purchase Agreement dated May 2, 2017. Byram is a leading domestic distributor of reimbursable medical supplies sold directly to patients and home health agencies. Under the terms of the agreement, we acquired all of the equity interests of Byram for $380 million plus cash less assumed debt and debt-like items. The acquisition is expected to contribute approximately $450 million in annual revenues and be modestly accretive to 2017 results. The initial allocation of purchase price to assets and liabilities acquired is not yet complete.

On July 27, 2017, we replaced our Amended Credit Agreement with a new Credit Agreement which includes a revolving credit facility and a term loan. See Note 7 for more information.

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, 2016. 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, 2016.

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. We report under three business units: Domestic, International and Proprietary Products (formerly Clinical & Procedural Solutions (CPS) which has been renamed "Proprietary Products" effective January 1, 2017). There has been no change to the segment composition or the method we use to measure segment operating earnings. Domestic is our U.S. distribution, logistics and value-added services business, while International is our European distribution, logistics and value-added services business. Proprietary Products provides product-related solutions, including surgical and procedural kitting and sourcing. Segment financial information is provided in Note 12 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. In the second quarter of 2017 we began to exclude acquisition-related intangible amortization from our non-GAAP measures, along with the previously excluded items. Intangible amortization amounts are highly dependent on the size and frequency of acquisitions and are being excluded to allow for a more consistent comparison with forecasted, current and historical results and the results of our peers. Prior period amounts have been recast on the same basis.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in thousands except per share data) | 2017 | 2016 | 2017 | 2016 |
| Operating earnings, as reported (GAAP) | $32,837 | $52,054 | $68,353 | $97,024 |
| Acquisition-related and exit and realignment charges (1) | 2,893 | 6,752 | 11,835 | 17,235 |
| Acquisition-related intangible amortization (2) | 2,347 | 2,538 | 4,666 | 5,063 |
| Other (3) | 3,311 | — | 4,233 | — |
| Operating earnings, adjusted (non-GAAP) (Adjusted Operating Earnings) | $41,388 | $61,344 | $89,087 | $119,322 |
| | | | | |
| Net income, as reported (GAAP) | $20,141 | $27,716 | $38,926 | $51,851 |
| Acquisition-related and exit and realignment charges (1) | 2,893 | 6,752 | 11,835 | 17,235 |
| Income tax expense (benefit) (4) | (1,008) | (2,245) | (4,513) | (5,599) |
| Acquisition-related intangible amortization (2) | 2,347 | 2,538 | 4,666 | 5,063 |
| Income tax expense (benefit) (4) | (696) | (658) | (1,392) | (1,312) |
| Other (3) | 3,311 | — | 4,233 | — |
| Income tax expense (benefit) (4) | (1,139) | — | (1,492) | — |
| Net income, adjusted (non-GAAP) (Adjusted Net Income) | $25,849 | $34,103 | $52,263 | $67,238 |
| | | | | |
| Net income per diluted common share, as reported (GAAP) | $0.33 | $0.45 | $0.64 | $0.83 |
| Acquisition-related and exit and realignment charges, per diluted common share (1) | 0.03 | 0.07 | 0.12 | 0.19 |
| Acquisition-related intangible amortization, per diluted common share (2) | 0.03 | 0.03 | 0.05 | 0.06 |
| Other, per diluted common share (3) | 0.04 | — | 0.05 | — |
| Net income per diluted common share, adjusted (non-GAAP) (Adjusted EPS) | $0.43 | $0.55 | $0.86 | $1.08 |

Net income per diluted share was $0.33 and $0.64 for the three and six months ended June 30, 2017, a decrease of $0.12 and $0.19 when compared to the same periods of 2016. Adjusted EPS (non-GAAP) was $0.43 and $0.86 for the three and six months ended June 30, 2017, a decrease of $0.12 and $0.22 compared to prior year. Net income in both periods of 2017 benefitted by $3.4 million or $0.06 per share from the release of an income tax valuation allowance in Europe during the second quarter. Domestic segment operating earnings were $29.5 million in the quarter and $66.8 million for the year to date period compared to $43.5 million and $85.2 million in the prior year comparative periods. The declines were largely a result of the exit of a large customer in 2016, provider margin compression and lower income from manufacturer product price changes on a year to date basis. We expect revenue and gross margin to continue to be negatively affected by this customer exit as well as other competitive dynamics. The International segment operating earnings were $0.8 million for the quarter and $1.4 million year to date, compared to $0.9 million and $2.0 million in the prior year. The change compared to prior year resulted from increased on-boarding costs associated with new business. Proprietary Products operating earnings were $8.8 million and $16.9 million, reflecting decreases of $5.4 million and $10.6 million as a result of lower revenues compared to prior year and increased production costs.

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.

(1) Acquisition-related charges were $0.7 million and $2.0 million for the three and six months ended June 30, 2017 compared to $0.7 million and $0.3 million for the same periods of 2016. Current year charges were primarily transaction and transition costs associated with the pending acquisition of Byram Healthcare. The prior year amounts related primarily to costs incurred to settle certain obligations and address other on-going matters associated with the acquisitions of ArcRoyal and Medical Action.

Exit and realignment charges were $2.2 million and $9.8 million for the three and six months ended June 30, 2017. Current year charges were associated with the write-down of information system assets which are no longer used and severance charges from reduction in force and other employee costs associated with the establishment of our new client engagement center. Expenses associated with the establishment of the client engagement center will continue to be recorded throughout 2017. Exit and realignment charges were $6.0 million and $16.9 million for the three and six months ended June 30, 2016. These included 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. More information about these charges is provided in Note 5 of Notes to Consolidated Financial Statements included in this quarterly report.

(2) Acquisition-related intangible amortization includes amortization of certain intangible assets established during purchase accounting for business combinations. These amounts are highly dependent on the size and frequency of acquisitions and are being excluded to allow for a more consistent comparison with forecasted, current and historical results and the results of our peers. We have begun to exclude these charges from our non-GAAP results in the second quarter of 2017 and thus prior year amounts have been recast on the same basis.

(3) Includes software as a service (SaaS) implementation costs associated with significant global IT platforms in connection with the redesign of our global information system strategy.

(4) 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.

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Domestic | $2,130,468 | $2,345,746 | $(215,278) | (9.2)% |
| International | 95,899 | 88,559 | 7,340 | 8.3 % |
| Proprietary Products | 130,959 | 134,964 | (4,005) | (3.0)% |
| Inter-segment | (91,419) | (85,593) | (5,826) | 6.8 % |
| Net revenue | $2,265,907 | $2,483,676 | $(217,769) | (8.8)% |

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Domestic | $4,324,428 | $4,667,455 | $(343,027) | (7.3 )% |
| International | 190,894 | 172,110 | 18,784 | 10.9 % |
| Proprietary Products | 268,112 | 276,317 | (8,205) | (3.0 )% |

| | | | | |
|---|---|---|---|---|
| Inter-segment | (188,954 ) | (176,413 ) | (12,541 ) | 7.1 % |
| Net revenue | $4,594,480 | $4,939,469 | $(344,989) | (7.0 )% |

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Consolidated net revenue declined during the three and six months ended June 30, 2017 primarily as a result of the exit of a large domestic customer in 2016. The increase in the International segment was driven by growth with existing customers and new business, partially offset by unfavorable foreign currency translation impacts of $6.7 million for the quarter and $15.2 million year to date. A decrease in sales of our sourced products contributed to the year over year change in the Proprietary Products segment.

Cost of goods sold.

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Cost of goods sold | $1,992,374 | $2,184,256 | $(191,882) | (8.8)% |

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Cost of goods sold | $4,039,768 | $4,343,413 | $(303,645) | (7.0)% |

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 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 Proprietary Products business. There is no cost of goods sold associated with our fee-for-service business. As a result of the decrease in sales activity through our distribution and kitting businesses, cost of goods sold decreased from prior year by $191.9 million and $303.6 million for the three and six months ended June 30, 2017, respectively.

Gross margin.

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Gross margin | $273,533 | $299,420 | $(25,887) | (8.6)% |
| As a % of net revenue | 12.07 % | 12.06 % | | |

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Gross margin | $554,712 | $596,056 | $(41,344) | (6.9)% |
| As a % of net revenue | 12.07 % | 12.07 % | | |

The changes in gross margin compared to the prior year were largely attributable to lower revenues, a decline in provider margin, lower income from manufacturer product price changes (on a year to date basis), and the unfavorable impact of foreign currency translation of $3.7 million and $8.4 million for the three and six months ended June 30, 2017, partially offset by a change in revenue mix. With increasing customer cost pressures and competitive dynamics in healthcare, we believe the current trend of increased gross margin pressure will continue.

Operating expenses.

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Distribution, selling and administrative expenses | $236,615 | $242,914 | $(6,299) | (2.6)% |
| As a % of net revenue | 10.44 % | 9.78 % | | |
| Other operating (income) expense, net | $1,188 | $(2,300) | $3,488 | (151.7)% |

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Distribution, selling and administrative expenses | $474,308 | $485,639 | $(11,331) | (2.3)% |
| As a % of net revenue | 10.32% | 9.83% | | |
| Other operating (income) expense, net | $216 | $(3,842) | $4,058 | (105.6)% |

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 decreases in DS&A expenses compared to prior year reflected the decreased sales activity in the quarter and year to date and benefits of cost control and productivity initiatives, as well as favorable foreign currency translation impacts of $3.7 million and $8.4 million for the three and six months ended June 30, 2017. These were offset in part by on-boarding costs in connection with new business. As a percentage of net revenue, the increases related to the large customer loss in 2016.

The changes in other operating (income) expense, net were attributed primarily to software as a service implementation expenses which were not incurred in 2016.

A discussion of the 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) | 2017 | 2016 | $ | % |
| Interest expense, net | $6,736 | $6,765 | $(29) | (0.4)% |
| Effective interest rate | 4.76% | 4.81% | | |

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Interest expense, net | $13,480 | $13,554 | $(74) | (0.5)% |
| Effective interest rate | 4.79% | 4.80% | | |

Interest expense for the three and six months ended June 30, 2017 were consistent with prior year.

Income taxes.

| | Three Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Income tax provision | $5,960 | $17,573 | $(11,613) | (66.1)% |
| Effective tax rate | 22.8% | 38.8% | | |

| | Six Months Ended June 30, | | Change | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | $ | % |
| Income tax provision | $15,947 | $31,619 | $(15,672) | (49.6)% |
| Effective tax rate | 29.1% | 37.9% | | |

The changes in the effective tax rate compared to 2016 resulted primarily from the release of an income tax valuation allowance in Europe for $3.4 million during the second quarter of 2017, resulting from improved operating performance, and a higher percentage overall of the company's pretax income earned in lower tax rate jurisdictions when compared to prior year.

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. Changes in shipping terms with certain of our suppliers have contributed to increased inventory and accounts payable and had an unfavorable impact on inventory turnover.

| (Dollars in thousands) | June 30, 2017 | December 31, 2016 | Change $ | % |
|---|---|---|---|---|
| Cash and cash equivalents | $57,066 | $185,488 | $(128,422) | (69.2)% |
| Accounts receivable, net of allowances | $655,259 | $606,084 | $49,175 | 8.1 % |
| Consolidated DSO (1) | 25.6 | 23.1 | | |
| Merchandise inventories | $1,004,076 | $916,311 | $87,765 | 9.6 % |
| Consolidated inventory turnover (2) | 8.2 | 9.2 | | |
| Accounts payable | $798,454 | $750,750 | $47,704 | 6.4 % |

(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, 2017 and year ended December 31, 2016

Liquidity and capital expenditures. The following table summarizes our consolidated statements of cash flows for the six months ended June 30, 2017 and 2016:

| (Dollars in thousands) | 2017 | 2016 |
|---|---|---|
| Net cash provided by (used for): | | |
| Operating activities | $(82,496) | $43,236 |
| Investing activities | (23,720) | (8,894) |
| Financing activities | (26,732) | (58,820) |
| Effect of exchange rate changes | 4,526 | 2,409 |
| Increase (decrease) in cash and cash equivalents | $(128,422) | $(22,069) |

Cash used for operating activities was $82.5 million in the first six months of 2017, compared to cash provided by operating activities of $43.2 million in the same period of 2016. The decrease in cash from operating activities for the first six months of 2017 compared to the same period in 2016 was primarily due to unfavorable changes in working capital including inventory and accounts receivable balances as well as receivables and payables associated with our order-to-cash business.

Cash used for investing activities was $23.7 million in the first six months of 2017, compared to $8.9 million in the same period of 2016. Investing activities in 2017 and 2016 related 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 2017 was $26.7 million, compared to $58.8 million used in the same period of 2016. During the first six months of 2017, we paid dividends of $31.5 million (compared to $32.0 million in 2016), repurchased common stock under a share repurchase program for $5.0 million (compared to $20.8 million in 2016) and borrowed $15.4 million on our revolving credit facility (there were no outstanding borrowings in the prior year period).

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, 2017, the interest rate under the credit facility is LIBOR plus 1.375%.

At June 30, 2017, we had $15.4 million in borrowings and letters of credit of approximately $5.1 million outstanding under the Amended Credit Agreement, leaving $429.5 million available for borrowing. We also had a letter of credit outstanding for $1.2 million as of June 30, 2017 and $1.1 million as of December 31, 2016 which supports our facilities leased in Europe.

On July 27, 2017, we entered into a new Credit Agreement to replace the existing Amended Credit Agreement. The new agreement provides borrowing capacity of $600 million and a $250 million term loan. The revolving credit and term loan have a five-year maturity. All other significant terms are the same as the previously disclosed Amended Credit Agreement. The proceeds from the new borrowing were primarily used to fund the Byram acquisition which closed on August 1, 2017. See Note 15 of Notes to Consolidated Financial Statements in this quarterly report.

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 2017, we paid cash dividends on our outstanding common stock at the rate of $0.2575 per share, which represents a 1.0% increase over the rate of $0.255 per share paid in the second quarter of 2016. 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.

In October 2016, 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 December 2019. The program is intended to offset shares issued in conjunction with our stock incentive plan and return capital to shareholders, and may be suspended or discontinued at any time. During the first six months of 2017, we repurchased approximately 0.2 million shares for $5.0 million under this program. At June 30, 2017, the remaining amount authorized for repurchase under this program was $94.0 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 $32.8 million and $82.1 million as of June 30, 2017 and December 31, 2016. 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 new 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, 2016 and Note 14 in the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for the quarterly period ended on June 30, 2017.

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;
- 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, 2016.

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 $15.4 million in outstanding borrowings and approximately $5.1 million in letters of credit under the revolving credit facility at June 30, 2017. 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 $2.56 per gallon in the first six months of 2017, an increase from $2.18 per gallon in the first six months of 2016. Based on our fuel consumption in the first six months of 2017, 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, 2017. There has been no change in our internal control over financial reporting during the quarter ended June 30, 2017, 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, 2016. Through June 30, 2017, there have been no material developments in any legal proceedings reported in such Annual Report.

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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, 2016. As a result of the acquisition of Byram Healthcare (Byram), we have added the following risk factors. There have been no other material changes in the risk factors described in such Annual Report.

We are subject to stringent regulatory and licensing requirements

We are required to comply with extensive and complex laws and regulations at the federal, state and local government levels. Among these laws are the federal Anti-kickback Statute, the federal Stark Law, the False Claims Act and similar state laws relating to healthcare fraud and abuse. The requirements of these laws are complex and subject to varying interpretations, and it is possible that regulatory authorities could challenge our policies and practices. If we fail to comply with these laws, we could be subject to federal or state government investigations or qui tam actions (false claims cases initiated by private parties purporting to act on behalf of federal or state governments), which could result in civil or criminal sanctions, including the loss of licenses or the ability to participate in Medicare, Medicaid and other federal and state healthcare programs. Such sanctions and damages could adversely affect our results of operations and financial condition.

Our Byram business is a Medicare-certified supplier and participates in state Medicaid programs. Failure to comply with applicable standards and regulations could result in civil or criminal sanctions, including the loss of our ability to participate in Medicare, Medicaid and other federal and state healthcare programs.

We collect, handle and maintain patient-identifiable health information and other sensitive personal and financial information, which are subject to federal, state and foreign laws that regulate the use and disclosure of such information. Regulations currently in place continue to evolve, and new laws in this area could further restrict our ability to collect, handle and maintain personal or patient information, or could require us to incur additional compliance costs, either of which could have an adverse impact on our results of operations. Violations of federal, state or foreign laws concerning privacy and data protection could subject us to civil or criminal penalties, breach of contract claims, costs for remediation and harm to our reputation.

Compliance with the terms and conditions of Byram’s Corporate Integrity Agreement requires significant resources and, if we fail to comply, we could be subject to penalties or excluded from participation in government healthcare programs, which could seriously harm our results of operations, liquidity and financial results.

Prior to its acquisition by Owens & Minor, Byram entered into a five-year Corporate Integrity Agreement beginning April 2016 with the Office of Inspector General of the United States Department of Health and Human Services (“OIG”). The Corporate Integrity Agreement provides that Byram shall, among other things, establish and maintain a compliance program, including a corporate compliance officer and committee, a code of conduct, comprehensive compliance policies and procedures, training and monitoring, a review process for certain arrangements between Byram and referral sources, a compliance hotline, an open door policy and a disciplinary process for compliance violations. The Corporate Integrity Agreement further provides that Byram shall provide periodic reports to the OIG, complete certain regular certifications and engage an Independent Review Organization to perform reviews of certain arrangements between Byram and referral sources.

Failing to meet the Corporate Integrity Agreement obligations could have material adverse consequences for Byram including monetary penalties for each instance of non-compliance. In addition, in the event of an uncured material breach or deliberate violation of the Corporate Integrity Agreement, we could be excluded from participation in Federal healthcare programs, or other significant penalties, which could seriously harm our results of operations, liquidity and financial results.

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

In October 2016, our Board of Directors authorized a share repurchase program of up to $100 million of the company's outstanding common stock to be executed at the discretion of management over a three-year period. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and 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, 2017, we repurchased in open-market transactions and retired 0.2 million shares of our common stock for an aggregate of $5.0 million, or an average price per share of $32.27. The following table summarizes share repurchase activity by month during the three months ended June 30, 2017.

| 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 2017 | — | $ — | — | $ 98,971,148 |
| May 2017 | 154,855 | $ 32.27 | 154,855 | $ 93,971,159 |
| June 2017 | — | $ — | — | $ 93,971,159 |
| Total | 154,855 | | 154,855 | |

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.<br>(Registrant) |
| Date: August 2, 2017 | /s/ Paul C. Phipps<br>Paul C. Phipps<br>President & Chief Executive Officer |
| Date: August 2, 2017 | /s/ Richard A. Meier<br>Richard A. Meier<br>Executive Vice President, Chief Financial Officer & President, International |

Item 6. Exhibits

(a) Exhibits

| | |
|---|---|
| 10.1 | Credit Agreement, dated as of July 27, 2017, by and among Owens & Minor Distribution, Inc., Owens & Minor Medical, Inc., Barista Acquisition I, LLC, and Barista Acquisition II, LLC, (the “Borrowers”), Owens & Minor, Inc. and certain of its domestic subsidiaries (together, the “Guarantors), Merrill Lynch, Pierce, Fenner & Smith Incorporated, and Wells Fargo Bank, N.A. (the “Administrative Agent”), a syndicate of financial institutions party thereto, and the other agents party thereto (incorporated herein by reference to the Company’s Current Report on Form 8-K, Exhibit 10.1, dated July 28, 2017) |
| 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 |