

OWENS & MINOR INC/VA/
Form 10-Q
August 07, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number 1-9810

Owens & Minor, Inc.

(Exact name of Registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-1701843
(I.R.S. Employer
Identification No.)

9120 Lockwood Boulevard, Mechanicsville, Virginia

23116

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(Address of principal executive offices)

(Zip Code)

Post Office Box 27626, Richmond, Virginia

23261-7626

(Mailing address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (804) 723-7000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b.2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Owens & Minor, Inc.'s common stock outstanding as of July 29, 2007, was 40,674,945 shares.

Table of Contents

Owens & Minor, Inc. and Subsidiaries

Index

	Page
Part I. <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Statements of Income – Three Months and Six Months Ended June 30, 2007 and 2006</u>	3
<u>Condensed Consolidated Balance Sheets – June 30, 2007 and December 31, 2006</u>	4
<u>Condensed Consolidated Statements of Cash Flows – Six Months Ended June 30, 2007 and 2006</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	16
Part II. <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Certain Risk Factors</u>	17
Item 4. <u>Submission of Matters to a Vote of Shareholders</u>	17
Item 6. <u>Exhibits</u>	18

Table of Contents**Part I. Financial Information****Item 1. Financial Statements**

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

<i>(in thousands, except per share data)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenue	\$ 1,679,044	\$ 1,300,315	\$ 3,365,243	\$ 2,562,314
Cost of revenue	1,502,181	1,159,086	3,013,719	2,284,895
Gross margin	176,863	141,229	351,524	277,419
Selling, general and administrative expenses	133,456	105,488	276,238	207,039
Depreciation and amortization	8,088	5,527	16,266	10,660
Other operating income and expense, net	(1,388)	(1,012)	(2,470)	(1,932)
Operating earnings	36,707	31,226	61,490	61,652
Interest expense, net	6,613	2,346	13,784	5,403
Loss on early extinguishment of debt		11,411		11,411
Income before income taxes	30,094	17,469	47,706	44,838
Income tax provision	11,828	6,980	18,625	17,846
Net income	\$ 18,266	\$ 10,489	\$ 29,081	\$ 26,992
Net income per common share basic	\$ 0.45	\$ 0.26	\$ 0.73	\$ 0.68
Net income per common share diluted	\$ 0.45	\$ 0.26	\$ 0.71	\$ 0.67
Cash dividends per common share	\$ 0.17	\$ 0.15	\$ 0.34	\$ 0.30

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

<i>(in thousands, except per share data)</i>	June 30, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 4,408	\$ 5,090
Accounts and notes receivable, net of allowances of \$29,605 and \$24,860	515,496	539,178
Merchandise inventories	635,297	666,527
Other current assets	70,453	55,975
Total current assets	1,225,654	1,266,770
Property and equipment, net of accumulated depreciation of \$69,685 and \$64,527	71,745	70,853
Goodwill, net	259,041	259,670
Intangible assets, net	46,481	52,763
Other assets, net	37,544	35,694
Total assets	\$ 1,640,465	\$ 1,685,750
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	\$ 540,390	\$ 542,552
Accrued payroll and related liabilities	12,143	13,472
Other accrued liabilities	90,916	114,479
Total current liabilities	643,449	670,503
Long-term debt	369,031	433,133
Other liabilities	54,483	34,660
Total liabilities	1,066,963	1,138,296
Shareholders equity		
Preferred stock, par value \$100 per share; authorized 10,000 shares Series A; Participating Cumulative Preferred Stock; none issued		
Common stock, par value \$2 per share; authorized 200,000 shares; issued and outstanding 40,636 shares and 40,257 shares	81,273	80,515
Paid-in capital	152,731	143,557
Retained earnings	348,155	332,013
Accumulated other comprehensive loss	(8,657)	(8,631)
Total shareholders equity	573,502	547,454
Total liabilities and shareholders equity	\$ 1,640,465	\$ 1,685,750

See accompanying notes to condensed consolidated financial statements.

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

<i>(in thousands)</i>	Six Months Ended June 30,	
	2007	2006
Operating activities		
Net income	\$ 29,081	\$ 26,992
Adjustments to reconcile net income to cash provided by (used for) operating activities:		
Depreciation and amortization	16,266	10,660
Amortization of direct-response advertising	3,501	1,219
Loss on early extinguishment of debt		11,411
Provision for LIFO reserve	5,900	5,070
Share-based compensation expense	3,804	2,945
Provision for losses on accounts and notes receivable	10,503	4,535
Deferred direct-response advertising costs	(4,391)	(4,842)
Changes in operating assets and liabilities:		
Accounts and notes receivable	13,179	(28,184)
Merchandise inventories	26,591	(35,320)
Accounts payable	1,838	59,811
Net change in other current assets and liabilities	(19,110)	(12,249)
Other, net	(776)	22
Cash provided by operating activities	86,386	42,070
Investing activities		
Additions to property and equipment	(8,207)	(8,286)
Additions to computer software	(4,842)	(2,869)
Acquisition of intangible assets	(58)	(2,090)
Net cash paid for acquisitions of businesses	(2,410)	(3,721)
Other, net	375	(493)
Cash used for investing activities	(15,142)	(17,459)
Financing activities		
Net proceeds of issuance of long-term debt		198,134
Repayment of long-term debt		(210,449)
Cash dividends paid	(13,766)	(12,024)
Net payments on revolving credit facility	(59,800)	
Proceeds from exercise of stock options	4,668	2,924
Excess tax benefits related to share-based compensation	2,076	1,221
Decrease in drafts payable	(4,000)	(4,500)
Other, net	(1,104)	2,290
Cash used for financing activities	(71,926)	(22,404)
Net increase (decrease) in cash and cash equivalents	(682)	2,207
Cash and cash equivalents at beginning of period	5,090	71,897
Cash and cash equivalents at end of period	\$ 4,408	\$ 74,104

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Owens & Minor, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (which are comprised only of normal recurring accruals and the use of estimates) necessary to present fairly the consolidated financial position of Owens & Minor, Inc. and its wholly-owned subsidiaries (O&M or the company) as of June 30, 2007 and December 31, 2006, and the consolidated results of operations for the three- and six-month periods and cash flows for the six-month periods ended June 30, 2007 and 2006, in conformity with U.S. generally accepted accounting principles.

2. Interim Results of Operations

The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

3. Reclassifications and Corrections

Amortization of direct-response advertising costs is included in selling, general and administrative expenses. This expense was previously included in depreciation and amortization. All prior period amounts have been reclassified in order to conform to the current period presentation. This reclassification has no effect on revenue or net income as previously reported.

On December 31, 2006, the company adopted Statement of Financial Accounting Standard No. (SFAS) 158, which requires the company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its benefit plans in its December 31, 2006 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income. The company incorrectly included the adjustment at adoption of \$5.1 million (\$3.1 million, net of tax) as part of comprehensive income for 2006 rather than as a direct adjustment to accumulated other comprehensive income in the company's Annual Report on Form 10-K for the year ended December 31, 2006. Comprehensive income as reported for the year ended December 31, 2006 was \$48.9 million and as revised was \$52.0 million. The company will correct the presentation of comprehensive income in its Annual Report on Form 10-K to be filed for the year ending December 31, 2007. This correction has no effect on net income, shareholders' equity or accumulated other comprehensive loss as previously reported at December 31, 2006.

4. Acquisitions

McKesson Acute-Care Business

Effective September 30, 2006, the company acquired certain assets, including inventory, fixed assets and customer contracts, and assumed certain liabilities, including lease obligations, related to the acute-care medical and surgical supply distribution business of McKesson Medical-Surgical Inc. (McKesson), a wholly-owned subsidiary of McKesson Corporation. McKesson and the company entered into a transition services agreement pursuant to which McKesson provided ongoing operational support of the business during the transition period. This transition period ended in March 2007, after which the company has no further obligation for transition service fees pursuant to the transition services agreement.

The adjusted purchase price was approximately \$169.7 million in cash, including transaction costs, and is subject to further adjustment upon a final determination of the value of inventory transferred. The acquisition was financed with borrowings under

Table of Contents

the company's revolving credit facility and cash on hand. The following table presents the adjusted preliminary purchase allocation of the estimated fair value of the assets acquired and liabilities assumed:

<i>(in thousands)</i>	
Purchase Allocation	
<i>Assets acquired</i>	
Inventory	\$ 123,744
Fixed assets	1,511
Other current assets	405
Intangible assets	30,800
Goodwill	15,935
Other non-current assets	465
Total Assets Acquired	172,860
<i>Liabilities assumed</i>	
Current liabilities	3,141
Total Liabilities Assumed	3,141
Net Assets Acquired	\$ 169,719

The acquisition is being accounted for as a business combination in accordance with SFAS 141, *Business Combinations*, and, as such, the acquired assets and liabilities are recorded based on their estimated fair values as of the closing date. The allocation of the purchase price will be finalized in the third quarter of 2007, after the valuation of certain assets and liabilities is complete.

The following unaudited pro forma information assumes that the company and the acquired business were combined at the beginning of the periods presented. The data is presented for informational purposes only and does not purport to be indicative of the results that would have been achieved if the acquisition had occurred at the beginning of the periods presented. The data does not reflect operating efficiencies expected to be realized from the combined operations nor is it indicative of future operating performance.

<i>(in thousands, except per share data)</i>	Three Months Ended		Six Months Ended
	June 30, 2006		June 30, 2006
Revenue	\$	1,599,386	\$ 3,126,240
Net income	\$	5,107	\$ 15,443
Basic earnings per share	\$	0.13	\$ 0.39
Diluted earnings per share	\$	0.13	\$ 0.38

The unaudited pro forma amounts above include estimated adjustments for amortization of acquired intangible assets, depreciation of acquired fixed assets, and interest expense on borrowings and loss of interest income on cash balances used to fund the purchase price, assuming the acquisition occurred as of the beginning of the periods presented. Interest expense has been calculated at the company's borrowing rate under its credit facility based on rates available to the company during the periods presented. The unaudited pro form