Owens & Minor, Inc.

Building On A Foundation Of TRUST

Contents

About the Cover

Owens & Minor, Inc., established in 1882 in Richmond, Virginia, is the nation's leading distributor of national name-brand medical and surgical supplies. Since its inception, the company has operated according to the guiding principles of trust, integrity, ethics, character and value. These core values formed the foundation for Owens & Minor's successful history, and are the building blocks for its future.

Company Overview

Owens & Minor, Inc., a Fortune 500 company headquartered in Richmond, Virginia, ended 2002 with sales of $3.96 billion. As the nation's leading distributor of national name-brand medical and surgical supplies, the company serves its 4,000 customers from 41 distribution centers located strategically throughout the United States. Owens & Minor's customers include acute-care hospitals, group purchasing organizations and integrated healthcare systems. Along with a wide range of medical and surgical products, the company offers its customers supply chain management solutions, innovative technology tools, and logistics services that improve efficiency and reduce cost in the healthcare marketplace.

The company places a high priority on its mission, vision and values, which focus on the well-being of customers, supply chain partners, teammates and shareholders. The company has developed a culture of recognition, reinforcement and reward for its teammates, who are vital to its success. Owens & Minor believes that high integrity is the guiding principle of doing business.

Owens & Minor common shares are traded on the New York Stock Exchange under the symbol OMI. As of December 31, 2002, there were approximately 34 million common shares outstanding.

Financial Highlights

(in thousands, except ratios, per share data and teammate statistics)

Year ended December 31,	2002	2001	2000	Percent Change 02/01	Percent Change 01/00
Net sales	**$3,959,781**	$3,814,994	$3,503,583	3.8%	8.9%
As reported:					
Income before extraordinary item[2][3]	**$ 47,217**	$ 30,103	$ 33,088	56.9%	(9.0%)
Income before extraordinary item per common share - basic[2][3]	**$ 1.40**	$ 0.90	$ 1.01	55.6%	(10.9%)
Income before extraordinary item per common share - diluted[2][3]	**$ 1.26**	$ 0.85	$ 0.94	48.2%	(9.6%)
Excluding goodwill amortization[1]:					
Income before extraordinary item[2][3]	**$ 47,217**	$ 35,431	$ 38,417	33.3%	(7.8%)
Income before extraordinary item per common share - basic[2][3]	**$ 1.40**	$ 1.06	$ 1.17	32.1%	(9.4%)
Income before extraordinary item per common share - diluted[2][3]	**$ 1.26**	$ 0.98	$ 1.08	28.6%	(9.3%)
Cash dividends per common share	**$ 0.31**	$ 0.2725	$ 0.2475	13.8%	10.1%
Book value per common share at year-end	**$ 7.96**	$ 6.97	$ 6.41	14.2%	8.7%
Stock price per common share at year-end	**$ 16.42**	$ 18.50	$ 17.75	(11.2%)	4.2%
Number of common shareholders	**13.1**	13.9	15.0	(5.8%)	(7.3%)
Shares of common stock outstanding	**34,113**	33,885	33,180	0.7%	2.1%
Return on average common equity excluding goodwill amortization and unusual items[1][2][3][4]	**19.2%**	19.1%	19.2%		
Return on total assets excluding goodwill amortization and unusual items[1][2][3][4][6]	**4.8%**	4.3%	4.0%		
Gross margin as a percent of net sales	**10.6%**	10.7%	10.7%		
Selling, general and administrative expenses as a percent of net sales[3]	**7.8%**	7.8%	7.7%		
Outstanding financing[5]	**$ 240,185**	$ 273,449	$ 233,533	(12.2%)	17.1%
Capitalization ratio[6][7]	**37.7%**	42.6%	40.4%		
Average receivable days sales outstanding[6]	**32.0**	33.1	33.3		
Average inventory turnover	**9.6**	9.7	9.5		
Teammates at year-end	**2,968**	2,937	2,763	1.1%	6.3%

(1) Effective January 1, 2002, the company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. As a result, goodwill is no longer amortized. Data for 2001 and prior periods have been restated to exclude the effect of goodwill amortization in order to present a more meaningful comparison.

(2) In 2002, the company recorded reductions in a restructuring accrual of $0.5 million, or $0.3 million net of tax. In 2001, the company recorded an impairment loss of $1.1 million on an investment in marketable equity securities, a provision for disallowed income tax deductions of $7.2 million, and a reduction in a restructuring accrual of $1.5 million, or $0.8 million net of tax. In 2000, the company recorded a reduction in a restructuring accrual of $0.8 million, or $0.4 million net of tax. Excluding these unusual items, the charge mentioned in footnote 3 below, and goodwill amortization of $5.3 million, net of tax, in 2001 and 2000, income before extraordinary item per diluted common share in 2002, 2001 and 2000 was $1.30, $1.17 and $1.07. See Notes 1, 3, 6 and 14 to the Consolidated Financial Statements.

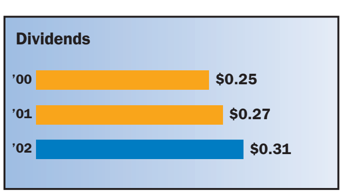
(3) In 2002, the company recorded a charge of $3.0 million, or $1.8 million net of tax, due to the cancellation of the company's contract for mainframe computer services. This charge was included in selling, general and administrative (SG&A) expenses. Excluding this charge, SG&A expenses as a percent of net sales were 7.7% in 2002.

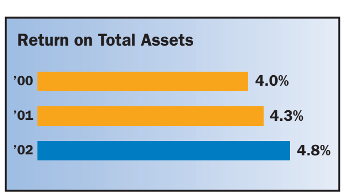
(4) Excludes extraordinary items.

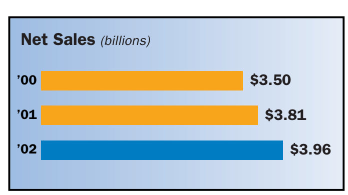
(5) Consists of debt and sales of accounts receivable outstanding under the company's off balance sheet receivables financing facility. See Notes 8 and 9 to the Consolidated Financial Statements.

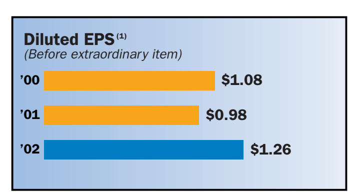
(6) Assumes that receivables had not been sold under the company's off balance sheet receivables financing facility.

(7) Includes mandatorily redeemable preferred securities as equity.









Dear Shareholders, Teammates, Customers, Suppliers and Friends,

When I was growing up, my father would take my brother and me down to our old four-story downtown warehouse after church on Sunday. Owens & Minor was a wholesale drug company with a couple of million dollars in sales but growing every year. This old warehouse was outfitted with a fairly elaborate system of conveyor belts and skate wheel rollers to move product down the aisles and between floors. My brother and I would get on the conveyor belt in a cardboard tote box, and with a push of a button, ride the conveyor belt. One day I asked my father to push the button to reverse the belt so we wouldn't have to walk all the way back. I'll never forget his answer. He said that this belt always moves forward just like our company. The impact of that simple statement set the tone for the rest of my life.

Owens & Minor moved forward again in 2002 with splendid acceleration in all parts of our business. I have much to celebrate with you in this report, not only about our results in 2002 but also our new strategic direction.

The Numbers Speak

Please note that all of the pertinent numbers exclude unusual items and goodwill amortization described in the financial section of this annual report. In 2002, **we met or exceeded** most of our internal goals, and strengthened our balance sheet while improving productivity. **Sales** for the year were up 4% to $3.96 billion. We sagged a little in mid-year, but ended with the strongest sales quarter in company history. **Earnings per diluted share** for the year were $1.30, or 11% above 2001. **Income** was $48.7 million, up 14% from last year. **Gross margin** remained at an acceptable level of 10.6%, down slightly from 10.7% in 2001. **Selling, general and administrative** expenses improved to 7.7% of sales, down from 7.8% last year. **Asset management** continued to improve with strong performances in managing receivables and inventory. **Return on total assets** improved from 4.3% in 2001 to 4.8% in 2002. We generated $46 million in **free cash flow** in 2002, which allowed us to decrease outstanding financing by $33 million. As in the past, strong asset management helped carry the day. During the fourth quarter **we announced a plan to repurchase** up to $50 million of a combination of our common stock and our trust preferred convertible securities. That initiative is well underway.

Productivity improvements continue to help our profitability. **Sales per full time equivalent (FTE)** increased 5.6%, extending a very positive year over year trend. Our **gross margin per FTE** continued to improve, by 4%, also extending this positive trend. Looking back at 1999, our sales were $3.2 billion and our FTE's were 2,644. Since then, sales have grown 24% while our FTE count has only grown 3%. By using technology to help grow our business and operate it more efficiently, we have seen very little increase in our workforce, thus improving our profitability and without sacrificing our service one iota.

Our **share price fell 11.2%** in 2002, less than the popular indices, but certainly not acceptable to me. The value of our company continues to strengthen and we must do a better job of communicating that.

"Our people, who care deeply about our company, will never give up in their quest to satisfy our customers and shareholders alike."

We **increased our dividend** in 2002 by 13.8%, and have continuously paid a dividend since the 1920s.

Highlights for 2002

We signed a **comprehensive seven-year technology services agreement** with Perot Systems Corporation, putting all of our information technology outsourcing under one roof. This seven-year agreement holds enormous benefit for us, especially the approximately $30 million in savings it will generate over the life of the contract. We will reinvest the majority of these savings to improve our value to customers and suppliers.

We were honored to receive the **2002 VHA Service Excellence Award**. This award, voted on by VHA members, salutes our outstanding performance in quality and customer service to the VHA membership. This is a tribute to every one of our teammates across the country.

In 2002, *InformationWeek* ranked Owens & Minor as the **#1 most innovative technology company in healthcare** for the third year in a row. Overall, Owens & Minor was ranked #11 out of 500 American companies for the use of innovative technology.

In an independent survey of the healthcare industry, Owens & Minor was again ranked as the **#1 customer service provider**. Our own customer satisfaction surveys, conducted by an independent research firm, found that overall customer satisfaction improved from 96% to 97%. It's going to be hard to get much better than this, but we are sure going to try.

We introduced **Owens & Minor University (OMU)** to our teammates in November and have a full rollout of educational programs and learning experiences ready for introduction in the first quarter of 2003.

"We are always there when our customers need us. That dependability has been a hallmark of our company for a long, long time."

Our **corporate credit and bank loan ratings have been upgraded** by Standard & Poors to BB+ from BB, as a result of our improving financial strength.

We introduced a private label program under the name of **MediChoice™**. Sales of these products exceeded our internal expectations for the first year. We expect this initiative to grow in the future.

And finally, we introduced **three strategic initiatives** that will drive our company forward over the next three to five years.

Strategic Direction

"Extra, extra, read all about it," cried the newspaper barker as he stood at the intersection of Good and Great Streets, "Owens & Minor introduces new strategic directions." Sounds a little corny to express excitement this way, but I ***feel*** excited about our new direction for the future.

In my opinion, any company worth its salt must reinvent itself every three to five years. For example, let's take the last 20-plus years for us. In 1981, Owens & Minor acquired part of the Will Ross Company, which put us on the map as a Sunbelt distribution company. In 1985 we were awarded the VHA supply company contract for our coverage area, which grew our business tremendously, and is still growing it today. In 1989 we acquired National Healthcare on the West Coast and became a national company. In 1994 we acquired Stuart Medical, which just about doubled the size of our company. In 1998 we introduced the first wave of our leading edge technology such as WISDOM℠, CostTrack℠, and OMDirect℠, our Internet-based ordering and communications platform. And in 2002, we developed and launched new strategic initiatives.

So, you see…a willingness to change, listening to our customers and being quick on our feet has served us well.

We spent the better part of the last twelve months listening to our customers. As a result, we developed new strategic initiatives

"The opportunities are there, we have the right team on the field, and we have the right strategy to follow for success."

that will successfully carry us to the next level. These three initiatives are progressing very well. A more detailed description of these initiatives follows in this annual report, but here they are in a nutshell.

First, our **core business** objective is to do a better job at the things we do so well today. We have established Owens & Minor University (OMU) to better educate and develop our teammates. And, we have launched improvements to our operations nationwide that will ensure consistent service from coast-to-coast.

The **second** strategic initiative is **OMSolutions℠**. This new unit brings together teammates from across the country who have been consulting on logistics and supply chain matters, as well as outsourcing, so that we can create a formal business to help provide solutions for our customers. We have also developed programs to provide support to clinical areas of the hospital.

And **third,** we are developing a **third party logistics model (3PL)** to provide manufacturers and healthcare providers a creative alternative to getting products to the patient more efficiently and at less cost.

We will update you regularly in 2003 on our progress in these three strategic areas.

Changing of the Guard

Recently, two long-term Owens & Minor teammates announced their retirement. **Drew St. J. Carneal, senior vice president, general counsel and corporate secretary**, relinquished the role of general counsel in mid-February 2003, and will retain the role of senior vice president, corporate secretary until his retirement later this year. Drew, who joined the company in 1988, has been the Rock of Gibraltar for our teammates and me personally. He has the highest respect and admiration possible from us all.

Also, **Hue Thomas, III**, **vice president, corporate relations**, has announced his retirement. He will move back to his native state of Georgia in the spring. Since joining the company in 1970, Hue tackled just about every job in the company. He served in a field capacity in Georgia before moving to Richmond in 1984 to work primarily with our supplier partners. At every step along the way, Hue has distinguished himself by his loyalty to the company, our customers and his teammates.

Also, **Josiah Bunting, III**, who recently announced his retirement as superintendent of the Virginia Military Institute, is not standing for re-election to our board of directors. He is finishing his second three-year term on our board and has provided us with wise counsel and great leadership during these years. Thank you, Si!

And, **Grace R. den Hartog** joined our team as **senior vice president, general counsel**, in mid-February 2003. Grace, formerly a partner with McGuireWoods LLP, has concentrated in the management of national products liability defense litigation for the last 18 years. She has been recognized as one of the top 50 women in her field in the country. She brings to us her good judgment, sharp mind, a tremendous work ethic, high integrity, and a passion for doing what's right. Welcome, Grace!

Corporate Governance and Responsibility

As the Chief Executive Officer, I am responsible for the integrity and credibility of our company. I gladly accept that responsibility and share it with our board of directors. In 1996, we established a Governance and Nominating Committee of the board to address collaboratively and proactively many of the issues defined now by the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission, and the New York Stock Exchange. We did this not only because it was the right decision for our shareholders, teammates and the investment community, but also because it was a natural outgrowth of our company's long history of integrity and credibility. The committee operates independently from management and works closely with our independent compensation and benefits committee and our independent audit committee. We accept and support the guidelines for strengthening corporate governance as a means of restoring confidence in corporate America. Please refer to Annex A of our proxy for our statement of Corporate Governance Guidelines, or refer to our company web site, www.owens-minor.com and click on Investor Relations and then Corporate Governance.

In 2002, like all public companies, we re-examined our processes for ensuring that we are making complete and timely disclosure to investors. Our fundamental processes were and continue to be sound. Jeff Kaczka, our senior vice president and chief financial officer, and I have signed the certifications required by the Sarbanes-Oxley Act, and you can find these certifications at the end of this report.

In Conclusion

I want to pay a final tribute to two teammates who passed away this past year. Bob Ricord was a sales representative par excellence in Shreveport, Louisiana, for 28 years. David Hutchison was a buyer and manager in Knoxville, Tennessee, for 35 years. I have had the distinct pleasure of working side by side with these two guys through the years, and I loved them for their spirit, their loyalty, their integrity, their compassion and their success. The highest compliment I can ever pay them is that they cared more about their customers and teammates than themselves. Bob and Hutch will be sorely missed.

We must always remember that every day offers us a new opportunity to excel. We have the technology tools, the service, the relationships, the trust of our customers and suppliers, but most importantly, we have the heart of a lion. Our people, who care deeply about our company, will never give up in their quest to satisfy our customers and shareholders alike. As we look ahead, the foundation for our new strategic initiatives will be based on other important characteristics as well. For example, we show up every day, rain or shine, and plug away at being the very best distribution company in our sector, maybe in all of healthcare. We are always there when our customers need us. That dependability has been a hallmark of our company for a long, long time. The blocking and tackling philosophy of taking care of business is not fancy, but it works for us and we keep on growing the value of our company. And, we grow with the highest integrity as a guiding principle. That's worth its weight in gold. Now, you see why I'm so excited. The opportunities are there, we have the right team on the field, and we have the right strategy to follow for success.

I'm grateful to our shareholders for their patience in a very tough market environment; grateful to our suppliers for collaborating with us in a team approach; and grateful to our customers who give us a chance every day to earn their business; and I'm grateful to my teammates, who show up every day with the heart of a lion.

Warm regards,

G Gilmer Minor III

Craig R. Smith
President and Chief Operating Officer

G. Gilmer Minor, III
Chairman and Chief Executive Officer

Owens & Minor
Our Business At A Glance

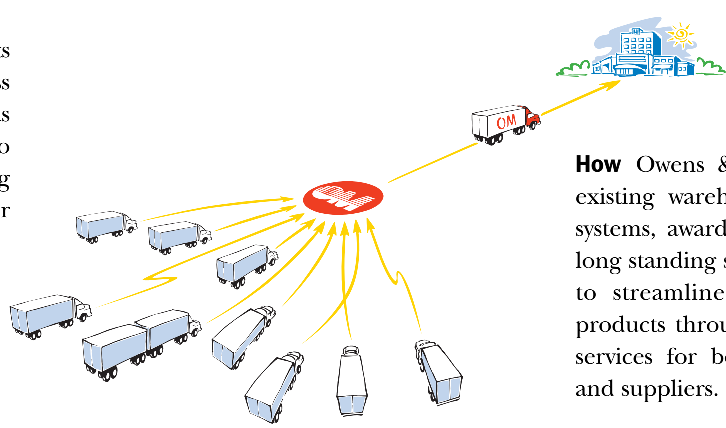
Core Business Owens & Minor is the nation's leading distributor of national name-brand medical and surgical supplies for 4,000 healthcare customers around the nation.

How Owens & Minor contracts with healthcare customers to provide distribution services. O&M then purchases and stores this inventory in its 41 distribution centers nationwide. Using state-of-the-art forecasting and planning systems, Owens & Minor ensures that customers have the products they need when they need them.

OMSolutions℠ Owens & Minor offers supply chain management consulting and implementation services through a newly created professional services arm for its hospital customers. This package of supply chain services reaches far beyond the conventional boundaries of physical distribution of supplies to produce operational efficiencies and cost savings.

How Through OMSolutions℠, Owens & Minor's supply chain logistics professionals target the hospital's biggest supply chain cost-drivers to eliminate redundant activities and other inefficiencies. Addressing customers' specific needs, O&M puts the right people, products, technology and processes to work, whether it means business planning and benchmarking, total operating room redesign or managing all of a hospital's supply chain activities.

Third Party Logistics Through its third party logistics (3PL) business model, Owens & Minor will focus on providing 3PL services to manufacturers and aggregating orders for healthcare provider customers nationwide.



How Owens & Minor will leverage its existing warehouse and transportation systems, award-winning technology and long standing supply chain relationships to streamline delivery of healthcare products through a broad array of 3PL services for both healthcare providers and suppliers.

Why By adapting and using technology to its fullest, Owens & Minor can help customers design a customized delivery system from bulk distribution to low unit of measure, just-in-time or stockless services. In addition, O&M helps customers with product standardization through MediChoice™, a private label program; FOCUS™, a product consolidation program with market-leading suppliers; and OMSpecialities℠, a clinically-focused program for high-dollar inventory in the operating room and beyond.

Results By using the best in supply chain management techniques, technology and services, Owens & Minor helps hospitals reduce cost, improve asset management and enhance overall operational efficiencies. Customers believe in Owens & Minor, with 97% saying they were satisfied with the quality of service they received from Owens & Minor during 2002.

Why The needs of each hospital customer vary and require customized solutions. With OMSolutions℠, O&M provides the level and extent of service appropriate for each customer—from assessment to implementation to integration.

Results With OMSolutions℠, Owens & Minor focuses on improving the customer's total supply chain, allowing the healthcare provider to focus on patient care. This consulting arm packages the best of Owens & Minor's solutions to fulfill supply chain needs for customers nationwide.

Why O&M's entry into third party logistics is a natural extension of its distribution experience and expertise and meets its goal to streamline the total supply chain with cost-saving solutions.

Results Through its 3PL services, the company expects to offer the aggregation of supply chain services to the healthcare industry. The company expects to lower costs, improve efficiency and streamline the supply chain.

Core Business

Delivering Medical and Surgical Supplies to the Healthcare Industry

Owens & Minor conducted a significant strategic planning effort in 2002, involving the entire senior management team and many teammates throughout the organization. The team developed and launched a three-pronged strategy designed to expand Owens & Minor's presence in healthcare. The resulting strategic initiatives are focused on: improving productivity in the core business; launching a supply chain consulting and management arm; and creating a third party logistics (3PL) service for healthcare.

Owens & Minor's distribution business continues to drive the company's success, allowing it to explore new opportunities within the healthcare industry. As a result of its strategic planning effort, the company identified a series of operational, supplier and training initiatives designed to enhance productivity in its facilities nationwide.

By using technology, logistics management and top-notch customer service, O&M focuses on the supply chain, empowering customers to focus on patient care.

Character, Value, Integrity, Ethics, Trust

To improve operations, Owens & Minor is working with each of its 41 distribution centers to standardize procedures on a best-practices model, called the OM Model. As a result, Owens & Minor expects to achieve improved productivity and provide additional capacity to accommodate its 3PL effort.

Owens & Minor is working with its supplier partners to ensure it offers the right mix of products to customers. For example, Owens & Minor plans to enroll more suppliers in its FOCUS™ program, which

Within its 41 distribution centers around the nation, Owens & Minor is undertaking an initiative to improve operations and standardize procedures.

including: leadership, sales training, operations and finance. The company seeks to put the best-trained and best-prepared teammates in the field every day in order to maintain and improve its top-ranked customer service ratings, its leadership in technology and its healthcare market share.

helps grow market share for preferred suppliers. Also, in 2002, the company successfully launched a private label line called MediChoice™, which has given new options to customers and new opportunity to suppliers. This private label program offers a growing catalog of commodity-type products including: bandages, gowns, shoe covers and thermometers. MediChoice™, well-received by customers, easily exceeded early sales goals. New product launches are planned for the year ahead.

Owens & Minor has earned a reputation as an innovative user of technology in the healthcare and medical field. In fact, for the third year in a row, Owens & Minor was the top ranked healthcare and medical company in the *InformationWeek 500*. Owens & Minor was ranked 11th overall in this prestigious list.

Also in 2002, Owens & Minor committed to a wide-scale training initiative, which will give teammates opportunities to enhance job skills and career preparation. As a result, Owens & Minor has created an in-house university called Owens & Minor University (OMU). Course work includes on-line and classroom-based programs on a variety of subjects

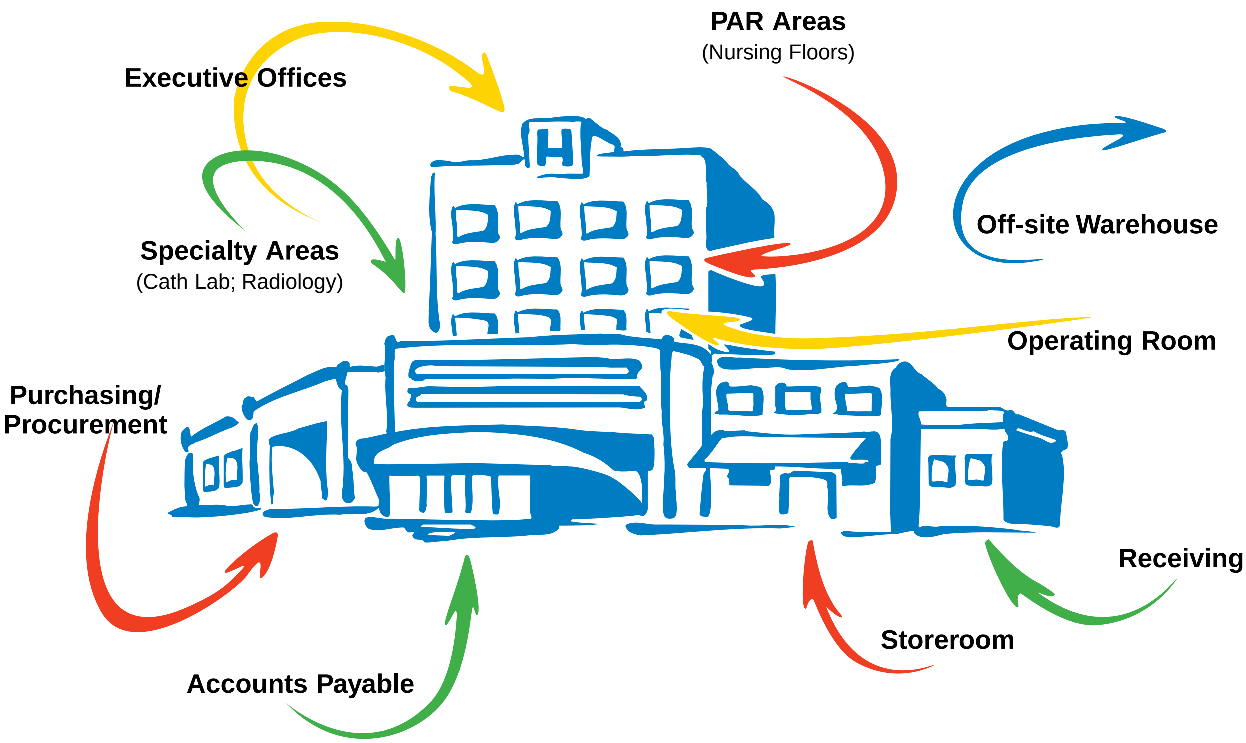
With OMU, the company provides teammates access to in-house and on-line classes in operations, sales, management and leadership.

Most importantly for Owens & Minor, the company stakes its reputation on customer service. Each year, the company conducts an independent customer survey to assess how well it is performing. In 2002, Owens & Minor achieved a 97% satisfaction rating from its customers, an improvement over a 96% satisfaction rating the year before. This comprehensive attention to customer service, and to providing value to customers and business partners, has long been a hallmark of Owens & Minor, and with the new strategic initiatives it will continue to be a major focus for the company.

OMSolutions℠

Delivering Professional Supply Chain Management Services to the Healthcare Industry

As a result of the 2002 strategic planning effort, Owens & Minor launched a new business initiative called OMSolutions℠, packaging supply chain management services for healthcare customers and business partners through a newly created consulting arm. Through customer research and interaction, Owens & Minor knows that healthcare providers are seeking a trusted partner to help them take cost out of the supply chain.



Traditionally, O&M served its hospital customers from off-site warehouses and the receiving dock. Today, O&M has crossed barriers and now serves departments throughout the hospital with the latest in technology, logistics management and supply chain management consulting.

Just as O&M teammates work together to improve service to customers, the new initiatives complement one another in the company's ongoing effort to improve productivity and profitability.

Programs offered by OMSolutions℠ include: outsourced materials management, clinical inventory management, physical inventory management, and partnership programs. Other programs include implementation of Owens & Minor's award-winning WISDOM^2 ℠ programs, on-site project management, management consulting and outsourcing. The company is collaborating within its core business and with outside consultants, working not only with existing customers, but also with customers who do not use the company's distribution services.

Through OMSolutions℠ consultants work with customers on-site to design and implement solutions. In some cases, OMSolutions℠ will outsource positions for hospital customers, such as materials managers. In these cases OMSolutions℠ will take on the responsibility of managing the hospital's materials management function. In each case, Owens & Minor will evaluate the customer's needs, and then apply the right people, products, technology and processes as a solution.

With OMSolutions℠, Owens & Minor will focus on making the supply chain more efficient, allowing healthcare provider customers to focus on patient care. Owens & Minor now serves many departments within the hospital walls, from the chief executive's office to clinical areas to the receiving dock, Owens & Minor is crossing boundaries to serve its customers. With more than two dozen projects already in the works, the company expects to add new projects steadily in 2003. Market demand for these services is strong.

As physicians and clinicians more frequently make supply chain decisions, O&M offers new tools and techniques to improve this important materials management process.

O&M expects to improve financial results for customers and itself with its new OMSolutions℠ supply chain management consulting arm.

Value, Integrity, Ethics, Trust

Character,

Third Party Logistics

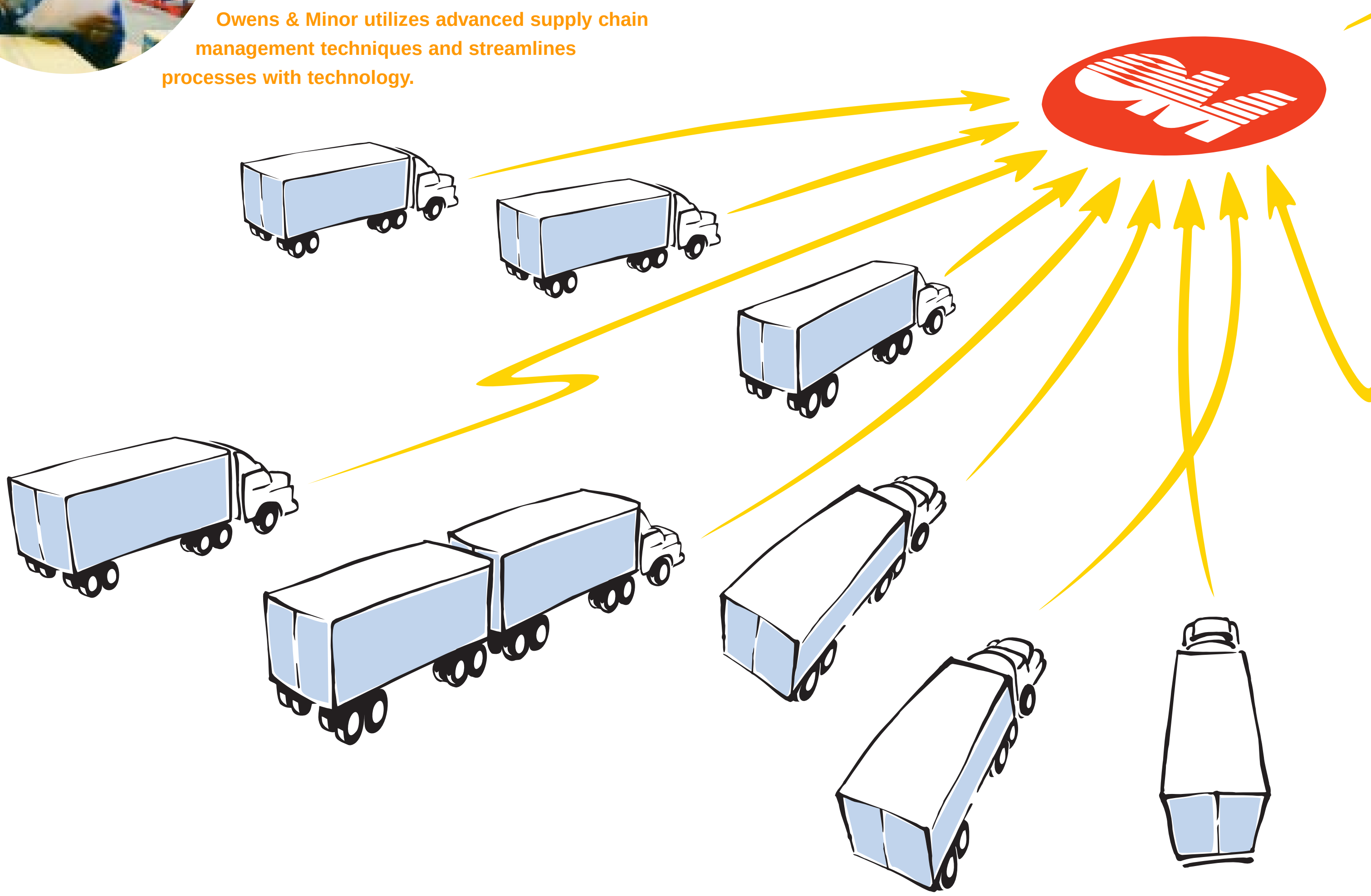
Delivering 3PL Services to the Healthcare Industry

Also in 2002, Owens & Minor created a third party logistics service (3PL) designed to provide supply chain services to hospitals and healthcare manufacturers. Industry research, along with customer demand, allowed Owens & Minor to identify a clear need for logistics, transportation and aggregation services in healthcare. Owens & Minor also found that the penetration by traditional 3PL companies in healthcare is minimal, offering a compelling opportunity.

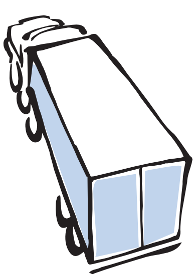
Owens & Minor, through its 3PL service, will offer logistics and supply chain management services in three main categories: distribution and transportation management; technology services; and consulting services. In order to capitalize on this opportunity, Owens & Minor intends to tap its existing relationships with suppliers and healthcare providers. The company will also use its industry-leading,

Using a fleet of leased trucks and its own drivers, O&M serves customers nationwide. O&M has launched a new effort to create and offer 3PL services to the healthcare industry.

In its distribution centers around the nation, Owens & Minor utilizes advanced supply chain management techniques and streamlines processes with technology.



Value, Character, Integrity, Ethics, Trust



activity-based costing expertise to streamline service. And finally, Owens & Minor will leverage its nationwide network of distribution facilities, existing transportation systems and award-winning information technology to provide innovative new 3PL services.

This initiative meets a clear need in the healthcare market, as manufacturers are seeking ways to reduce supply chain cost, and hospitals are seeking ways to aggregate orders entering their facilities. For Owens & Minor, the 3PL effort offers an excellent avenue for diversification into a new area of healthcare service, without taking ownership of inventory as it does in its traditional distribution business. For Owens & Minor, existing relationships with suppliers and healthcare providers, the scale of its distribution network, and the quality of its delivery capabilities, give it a unique competitive advantage.

The company made the strategic decision to work within healthcare, its core competency, where it knows there is significant opportunity to improve supply chain processes. Healthcare providers have turned to Owens & Minor for solutions and Owens & Minor has responded. While each new initiative can stand alone, they also work together as a complementary package for hospital customers and healthcare suppliers. With this new strategy, Owens & Minor is better positioned than ever before to serve the needs of its healthcare customers, and to achieve new levels of growth, profitability and productivity.

O&M teammates collaborate on new strategic initiatives that will improve productivity and increase capacity in existing facilities for 3PL services.

Board of Directors

Standing Left-Right *Henry Berling, James Ukrop, Peter Redding, Vernard Henley, John Crotty, James Farinholt, Jr.*
Seated Left-Right *Marshall Acuff, Gil Minor, III, James Rogers, Josiah Bunting, III, Anne Marie Whittemore*

A. Marshall Acuff, Jr. (63) [2,4,5]
Retired Senior Vice President
& Managing Director,
Salomon Smith Barney, Inc.

Henry A. Berling (60) [1,4]
Executive Vice President,
Owens & Minor, Inc.

Josiah Bunting, III (63) [2,4,5]
Retired Superintendent,
Virginia Military Institute

John T. Crotty (65) [2,3,4*]
Managing Partner,
CroBern Management Partnership
President, CroBern, Inc.

James B. Farinholt, Jr. (68) [1,2*,4]
Managing Director,
Tall Oaks Capital Partners, LLC

Vernard W. Henley (73) [2,3,5]
Retired Chairman & CEO,
Consolidated Bank & Trust Company

G. Gilmer Minor, III (62) [1*,4]
Chairman & CEO,
Owens & Minor, Inc.

Peter S. Redding (64) [2,3,4]
Retired President & CEO,
Standard Register Company

James E. Rogers (57) [1,3*,4]
President, SCI Investors Inc.

James E. Ukrop (65) [3,4,5]
Chairman,
Ukrop's Super Markets, Inc.
Chairman, First Market Bank

Anne Marie Whittemore (56) [1,3,5*]
Partner, McGuireWoods LLP

Board Committees: [1]Executive Committee, [2]Audit Committee, [3]Compensation & Benefits Committee, [4]Strategic Planning Committee, [5]Governance & Nominating Committee, *Denotes Chairperson

Corporate Officers

G. Gilmer Minor, III (62)
Chairman & Chief Executive Officer

Chairman of the Board since 1994 and Chief Executive Officer since 1984. Mr. Minor was President from 1981 to April 1999. Mr. Minor joined the company in 1963.

Craig R. Smith (51)
President & Chief Operating Officer

President since 1999 and Chief Operating Officer since 1995. Mr. Smith has been with the company since 1989.

Henry A. Berling (60)
Executive Vice President

Executive Vice President since 1995. Mr. Berling was Executive Vice President and Chief Sales Officer from 1996 to 1998. Mr. Berling has been with the company since 1966.

Timothy J. Callahan (51)
Senior Vice President, Sales & Marketing

Senior Vice President, Sales and Marketing since September 2002. From 1999 to 2002, Mr. Callahan served as Senior Vice President, Distribution. Prior to that, Mr. Callahan was Regional Vice President, West from 1997 to 1999. Mr. Callahan has been with the company since 1997.

Drew St. J. Carneal (64)
Senior Vice President, Corporate Secretary

Senior Vice President, Corporate Secretary since February 2003. From 1990 to February 2003, Mr. Carneal served as Senior Vice President, General Counsel and Secretary. Mr. Carneal has been with the company since 1989.

Charles C. Colpo (45)
Senior Vice President, Operations

Senior Vice President, Operations since 1999. From 1998 to 1999, Mr. Colpo was Vice President, Operations. Prior to that, Mr. Colpo was Vice President, Supply Chain Process from 1996 to 1998. Mr. Colpo has been with the company since 1981.

Erika T. Davis (39)
Senior Vice President, Human Resources

Senior Vice President, Human Resources since 2001. From 1999 to 2001, Ms. Davis was Vice President of Human Resources. Prior to that, Ms. Davis served as Director, Human Resources & Training in 1999 and Director, Compensation & HRIS from 1995 to 1999. Ms. Davis has been with the company since 1993.

Grace R. den Hartog (51)
Senior Vice President & General Counsel

Senior Vice President & General Counsel since February 2003. Ms. den Hartog previously served as a Partner of McGuireWoods LLP from 1990 to February 2003.

David R. Guzmán (47)
Senior Vice President & Chief Information Officer

Senior Vice President and Chief Information Officer since 2000. Mr. Guzmán was employed by Office Depot from 1999 to 2000, serving as Senior Vice President, Systems Development. From 1997 to 1998, he was employed by ALCOA as Chief Architect, Managing Director, Global Information Services.

Jeffrey Kaczka (43)
Senior Vice President & Chief Financial Officer

Senior Vice President and Chief Financial Officer since 2001. Mr. Kaczka served as Senior Vice President and Chief Financial Officer for Allied Worldwide, Inc. from 1999 to 2001. In 1995 he served as Chief Financial Officer for I-Net, Inc. which was acquired by Wang Laboratories in 1996. Mr. Kaczka continued with Wang until 1998.

Richard F. Bozard (55)
Vice President, Treasurer

Vice President and Treasurer since 1991. Mr. Bozard has been with the company since 1988.

Olwen B. Cape (53)
Vice President, Controller

Vice President and Controller since 1997. Ms. Cape has been with the company since 1997.

Hugh F. Gouldthorpe, Jr. (64)
Vice President, Quality & Communications

Vice President, Quality and Communications since 1993. Mr. Gouldthorpe has been with the company since 1986.

Hue Thomas, III (63)
Vice President, Corporate Relations

Vice President, Corporate Relations since 1991. Mr. Thomas has been with the company since 1970. Mr. Thomas will retire in March 2003.

Numbers inside parenthesis indicate age

Left-Right *David Guzman, Hugh Gouldthorpe, Jr, Hue Thomas, III, Richard Bozard, Craig Smith, Jeffrey Kaczka, Olwen Cape, Timothy Callahan, Drew St. J. Carneal, Charles Colpo, Erika Davis (not pictured: Gil Minor III, Henry Berling, Grace den Hartog)*

2002 Financial
Table of Contents

Selected Financial Data(1)

Owens & Minor, Inc. and Subsidiaries

(in thousands, except ratios and per share data)

	2002	2001	2000	1999	1998
Summary of Operations:					
Net sales	**$3,959,781**	$3,814,994	$3,503,583	$3,194,134	$3,090,048
Income before extraordinary item(2)(3)	**$ 47,217**	$ 30,103	$ 33,088	$ 27,979	$ 20,145
Income before extraordinary item, excluding goodwill amortization(2)(3)(4)	**$ 47,217**	$ 35,431	$ 38,417	$ 32,807	$ 24,616
Per Common Share:					
Income before extraordinary item - basic	**$ 1.40**	$ 0.90	$ 1.01	$ 0.86	$ 0.56
Income before extraordinary item - diluted	**$ 1.26**	$ 0.85	$ 0.94	$ 0.82	$ 0.56
Average number of shares outstanding - basic	**33,799**	33,368	32,712	32,574	32,488
Average number of shares outstanding - diluted	**40,698**	40,387	39,453	39,098	32,591
Cash dividends	**$ 0.31**	$ 0.2725	$ 0.2475	$ 0.23	$ 0.20
Stock price at year-end	**$ 16.42**	$ 18.50	$ 17.75	$ 8.94	$ 15.75
Book value at year-end	**$ 7.96**	$ 6.97	$ 6.41	$ 5.58	$ 4.94
Per Common Share, Excluding Goodwill Amortization(4):					
Income before extraordinary item - basic	**$ 1.40**	$ 1.06	$ 1.17	$ 1.01	$ 0.70
Income before extraordinary item - diluted	**$ 1.26**	$ 0.98	$ 1.08	$ 0.95	$ 0.69
Summary of Financial Position:					
Working capital	**$ 385,023**	$ 311,778	$ 233,637	$ 219,448	$ 235,247
Total assets	**$1,009,477**	$ 953,853	$ 867,548	$ 865,000	$ 717,768
Long-term debt	**$ 240,185**	$ 203,449	$ 152,872	$ 174,553	$ 150,000
Mandatorily redeemable preferred securities	**$ 125,150**	$ 132,000	$ 132,000	$ 132,000	$ 132,000
Shareholders' equity	**$ 271,437**	$ 236,243	$ 212,772	$ 182,381	$ 161,126
Selected Ratios:					
Gross margin as a percent of net sales	**10.6%**	10.7%	10.7%	10.7%	10.8%
Selling, general and administrative expenses as a percent of net sales(3)	**7.8%**	7.8%	7.7%	7.8%	8.0%
Average receivable days sales outstanding(5)	**32.0**	33.1	33.3	34.9	33.5
Average inventory turnover	**9.6**	9.7	9.5	9.2	9.8
Return on average total equity before extraordinary items and goodwill amortization(4)(6)	**13.5%**	11.1%	12.8%	12.1%	9.9%
Return on average total equity before extraordinary items and goodwill amortization(4)(7)	**18.6%**	15.8%	19.4%	19.1%	11.7%
Current ratio	**2.1**	1.8	1.6	1.6	1.9
Capitalization ratio(5)(6)	**37.7%**	42.6%	40.4%	47.2%	43.4%
Capitalization ratio(5)(7)	**57.4%**	63.2%	63.2%	69.4%	68.9%

(1) On July 30, 1999, the company acquired certain net assets of Medix, Inc. This acquisition was accounted for as a purchase.

(2) In 1998, the company incurred $11.2 million, or $6.6 million net of tax, of nonrecurring restructuring expenses which are included in income before extraordinary item. In 2002, 2001, 2000 and 1999, income before extraordinary item included reductions in the restructuring accrual of $0.5 million, $1.5 million, $0.8 million and $1.0 million, or $0.3 million, $0.8 million, $0.4 million and $0.6 million net of tax. See Note 3 to the Consolidated Financial Statements.

(3) In 2002, income before extraordinary item included a charge to selling, general and administrative expenses of $3.0 million, or $1.8 million net of tax, due to the cancellation of the company's contract for mainframe computer services. In 2001, income before extraordinary item included an impairment loss of $1.1 million on an investment in marketable equity securities and a provision for disallowed income tax deductions of $7.2 million. See Notes 6 and 14 to the Consolidated Financial Statements.

(4) Effective January 1, 2002, the company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. As a result, goodwill is no longer amortized. Data for 2001 and prior periods have been restated to exclude the effect of goodwill amortization in order to present a more meaningful comparison.

(5) Assumes that receivables had not been sold under the company's off balance sheet receivables financing facility. See Note 9 to the Consolidated Financial Statements.

(6) Includes mandatorily redeemable preferred securities as equity.

(7) Includes mandatorily redeemable preferred securities as debt.

Business Description

The Company

Owens & Minor, Inc. and subsidiaries (O&M or the company) is the leading distributor of national name-brand medical and surgical supplies in the United States, distributing over 120,000 finished medical and surgical products produced by approximately 1,100 suppliers to approximately 4,000 customers from 41 distribution centers nationwide. The company's customers are primarily acute-care hospitals and integrated healthcare networks (IHNs), which account for more than 90% of O&M's net sales. Many of these hospital customers are represented by national healthcare networks (Networks) or group purchasing organizations (GPOs) that offer discounted pricing with suppliers and contract distribution services with the company. Other customers include alternate care providers such as clinics, home healthcare organizations, nursing homes, physicians' offices, rehabilitation facilities and surgery centers. The company typically provides its distribution services under contractual arrangements ranging from three to five years. Most of O&M's sales consist of consumable goods such as disposable gloves, dressings, endoscopic products, intravenous products, needles and syringes, sterile procedure trays, surgical products and gowns, urological products and wound closure products.

Founded in 1882 and incorporated in 1926 in Richmond, Virginia, as a wholesale drug company, the company redefined its mission in 1992, selling the wholesale drug division to concentrate on medical and surgical distribution. Since then, O&M has significantly expanded and strengthened its national presence through internal growth and acquisitions, generating nearly $4 billion of net sales in 2002. In November 2002, the company announced new strategic initiatives to offer supply chain management consulting services and third party logistics services to the healthcare industry, leveraging its existing reputation and relationships in the healthcare market as well as its physical infrastructure.

The Industry

Distributors of medical and surgical supplies provide a wide variety of products and services to healthcare providers, including hospitals and hospital-based systems, IHNs and alternate care providers. The company contracts with these providers directly and through Networks and GPOs. The medical/surgical supply distribution industry continues to experience growth due to the aging population and emerging medical technologies resulting in new healthcare procedures and products. Over the years, healthcare providers have continued to change their health systems to meet the needs of the markets they serve. They have forged strategic relationships with national medical and surgical supply distributors to meet the challenges of managing the supply procurement and distribution needs of their entire network. The traditional role of distributors in warehousing and delivering medical and surgical supplies to customers is evolving into the role of assisting customers to manage the entire supply chain.

In recent years, the overall healthcare market has been characterized by the consolidation of healthcare providers into larger and more sophisticated entities seeking to lower their total costs. These providers have sought to lower total product costs by obtaining incremental value-added services from medical and surgical supply distributors. These trends have driven significant consolidation within the medical/surgical supply distribution industry due to the competitive advantages enjoyed by larger distributors, which include, among other things, the ability to serve nationwide customers, buy inventory in volume and develop technology platforms and decision support systems.

The Business

Through its core distribution business, the company purchases a high volume of medical and surgical products from suppliers, warehouses these items at its distribution centers and provides delivery services to its customers. O&M's 41 distribution centers are located throughout the United States and are situated close to its major customer facilities. These distribution centers generally serve hospitals and other customers within a 200-mile radius, delivering most medical and surgical supplies with a fleet of leased trucks. Almost all of O&M's delivery personnel are employees of the company, providing more effective control of customer service. The company customizes its product pallets and truckloads according to the needs of its customers, thus enabling them to reduce labor on the receiving end. Furthermore, delivery times are adjusted to customers' needs, allowing them to streamline receiving activities. Contract carriers and parcel services are used to transport all other medical and surgical supplies.

O&M strives to make the supply chain more efficient through the use of advanced warehousing, delivery and purchasing techniques, enabling customers to order and receive products using just-in-time and stockless services. A key component of this strategy is a significant investment in advanced information technology, which includes automated warehousing technology as well as OMDirect℠, an Internet-based product catalog and direct ordering system, which supplements existing EDI and XML technologies to communicate with customers and suppliers.

Products & Services

In addition to its core medical and surgical supply distribution service, the company offers value-added services in supply chain management, logistics and information technology to help its customers control healthcare costs, improve inventory management and increase profitability. In late 2002, the company announced two new initiatives designed to provide additional value-added services to the healthcare industry.

- ***OMSolutions℠:*** OMSolutions℠ provides consulting and outsourcing services to customers. Programs offered by OMSolutions℠ include long-term partnership initiatives such as outsourced materials management; integrated operating room management; clinical inventory management; order optimization; and WISDOM^{2}℠ implementation; and outsourced warehousing. OMSolutions℠ also offers a menu of supply chain management services such as: receiving and storeroom redesign; physical inventories; and reconfiguration of periodic automatic replenishment systems. These services are designed to improve supply chain efficiency and allow the provider to focus on patient care.

- ***Third Party Logistics (3PL):*** Owens & Minor offers logistics and supply chain management services in the following main categories: physical distribution to include warehousing and transportation management; and consulting services. In order to make the most of these opportunities, the company intends to leverage its existing relationships with suppliers and end-users, its activity-based costing expertise, and its distribution facilities, transportation systems and information technology. The company's goal is to ensure that products reach the patient in the most cost-effective manner.

Other services offered by the company include:

- ***CostTrack℠:*** This activity-based management approach helps customers identify and track the cost drivers in their procurement and handling activities, giving them the information they need to drive workflow efficiencies, raise employee productivity and reduce costs. With CostTrack℠, the pricing of services provided to customers is based on the variety of services that they choose, as compared to a traditional cost-plus pricing model. In 2002, 32% of the company's net sales were generated through the CostTrack℠ program, up from nearly 28% in 2001.

- ***WISDOM℠:*** This Internet-accessed decision support tool connects customers, suppliers and GPOs to the company's data warehouse. WISDOM℠ offers customers secure online access to a wide variety of reports, which summarize purchasing history, contract compliance, product usage and other related data. This timely information helps customers consolidate purchasing information across their healthcare systems and identify opportunities for product standardization, contract compliance and supplier consolidation.

- ***WISDOM^{2}℠:*** The second generation of WISDOM℠, this Internet-based decision support tool provides customers access to purchasing information not only for their purchases from Owens & Minor, but for all medical/surgical manufacturers and suppliers recorded in their materials management information systems. This timely information helps customers identify opportunities for product standardization, contract compliance, order optimization and efficiencies in their overall purchasing activity.

- ***PANDAC® Wound Closure Asset Management Program:*** This information-based program provides customers with an evaluation of their current and historical wound closure inventories and usage levels, helping them reduce their investment in high-cost wound management supplies and control their costs per operative case.

Business Description *(continued)*

- ***FOCUS™:*** This supplier partnership program drives product standardization and consolidation for the company and its customers. By increasing the volume of purchases from the company's most efficient suppliers, FOCUS™ provides operational benefits and cost savings throughout the supply chain. FOCUS™ centers around both commodity and preference product standardization.

- ***MediChoice™:*** In 2002, the company launched this private label program designed to provide value and choice to customers. The MediChoice™ line currently includes commodity products such as isolation gowns, shoe covers, hot- and cold-packs, and crutches. The company plans to introduce additional products under the MediChoice™ label in the future.

Customers

The company currently provides its distribution services to approximately 4,000 healthcare providers, including hospitals, IHNs and alternate care providers, contracting with them directly and through Networks and GPOs. In recent years, the company has also begun to provide logistics services to manufacturers of medical and surgical products.

Networks and GPOs

Networks and GPOs are entities that act on behalf of a group of healthcare providers to obtain better pricing and other benefits that may be unavailable to individual members. Hospitals, physicians and other types of healthcare providers have joined Networks and GPOs to take advantage of improved economies of scale and to obtain services from medical and surgical supply distributors ranging from discounted product pricing to logistical and clinical support. Networks and GPOs negotiate directly with medical and surgical product suppliers and distributors on behalf of their members, establishing exclusive or multi-supplier relationships. However, networks and GPOs cannot ensure that members will purchase their supplies from a given distributor. O&M is a distributor for Novation, the supply company of VHA, Inc. and University HealthSystem Consortium, which represents the purchasing interests of more than 2,300 healthcare organizations. Sales to Novation members represented approximately 50% of the company's net sales in 2002. The company is also a distributor for Broadlane, a GPO providing national contracting for more than 490 acute-care hospitals and more than 1,500 sub-acute care facilities, including Tenet Healthcare Corporation, one of the largest for-profit hospital chains in the nation. Sales to Broadlane members represented approximately 14% of O&M's net sales in 2002.

IHNs

IHNs are typically networks of different types of healthcare providers that seek to offer a broad spectrum of healthcare services and comprehensive geographic coverage to a particular local market. IHNs have become increasingly important because of their expanding role in healthcare delivery and cost containment and their reliance upon the hospital as a key component of their organizations. Individual healthcare providers within a multiple-entity IHN may be able to contract individually for distribution services; however, the providers' shared economic interests create strong incentives for participation in distribution contracts established at the system level. Because IHNs frequently rely on cost containment as a competitive advantage, IHNs have become an important source of demand for O&M's enhanced inventory management and other value-added services.

Individual Providers

In addition to contracting with healthcare providers at the IHN level, and through Networks and GPOs, O&M contracts directly with individual healthcare providers.

Sales and Marketing

O&M's sales and marketing function is organized to support its decentralized field sales teams of approximately 200 people. Based in the company's distribution centers nationwide, the company's local sales teams are positioned to respond to customer needs quickly and efficiently. National account directors work closely with Networks and GPOs to meet their needs and coordinate activities with their individual member facilities. In addition, O&M has a national field organization, OMSpecialties℠, which is focused on assisting customers in the clinical environment. O&M provides special training and support tools to its sales team to help promote these programs and services.

Contracts and Pricing

Industry practice is for healthcare providers or their GPOs to negotiate product pricing directly with suppliers and then negotiate distribution pricing terms with distributors. When product pricing is not determined by contracts between the supplier and the healthcare provider, it is determined by the distribution agreement between the healthcare provider and the distributor.

The majority of O&M's distribution arrangements compensate the company on a cost-plus percentage basis under which a negotiated fixed-percentage distributor fee is added to the product cost agreed to by the customer and the supplier. The determination of this fee is typically based on customer size, as well as other factors, and usually remains constant for the life of the contract. In many cases, distribution contracts in the medical/surgical supply industry specify a minimum volume of product to be purchased and are terminable by the customer upon short notice.

In some cases, the company may offer pricing that varies during the life of the contract, depending upon purchase volume and, as a result, the negotiated fixed percentage distributor fee may increase or decrease. Under these contracts, customers' distribution fees may be re-set after a measurement period to either more or less favorable pricing based on significant changes in purchase volume. If a customer's distribution fee percentage is adjusted, the modified percentage distributor fee applies only to a customer's purchases made following the change. Because customer sales volumes typically change gradually, changes in distributor fee percentages for individual customers under this type of arrangement have an insignificant impact on total company results.

Pricing under O&M's CostTrack℠ activity-based pricing model differs from pricing under a traditional cost-plus model. With CostTrack℠, the pricing of services provided to customers is based on the type and level of services that they choose, as compared to a traditional cost-plus pricing model. As a result, this pricing model more accurately aligns the distribution fees charged to the customer with the costs of the individual services provided.

O&M also has arrangements that charge incremental fees for additional distribution and enhanced inventory management services, such as more frequent deliveries and distribution of products in small units of measure. Although the company's sales personnel based in the distribution centers negotiate local arrangements and pricing levels with customers, corporate management has established minimum pricing levels and a contract review process.

Suppliers

O&M believes that its size, strength and long-standing relationships enable it to obtain attractive terms from suppliers, including discounts for prompt payment and volume incentives. The company has well-established relationships with virtually all major suppliers of medical and surgical supplies, and works with its largest suppliers to create operating efficiencies in the supply chain.

Approximately 16% of O&M's net sales in 2002 were sales of Johnson & Johnson Health Care Systems, Inc. products. Approximately 14% of O&M's 2002 net sales were sales of products of the subsidiaries of Tyco International, which include The Kendall Company, United States Surgical and Mallinckrodt.

Information Technology

To support its strategic efforts, the company has developed information systems to manage virtually all aspects of its operations, including warehouse and inventory management, asset management and electronic commerce. O&M believes that its investment in and use of technology in the management of its operations provides the company with a significant competitive advantage.

In 2002, O&M signed a seven-year agreement with Perot Systems Corporation to outsource its information technology ("IT") operations, including the management, start-up and operation of its mainframe computer and distributed services processing as well as application support, development and enhancement services. This agreement extends and expands a relationship that began in 1998. This relationship has allowed the company to provide resources to major IT initiatives, which support internal operations and enhance services to customers and suppliers.

Business Description *(continued)*

The company has focused its technology spending on electronic commerce, data warehousing and decision support, supply chain management and warehousing systems, sales and marketing programs and services, as well as significant infrastructure enhancements. O&M is an industry leader in the use of electronic commerce to conduct business transactions with customers and suppliers, using OMDirect℠, an Internet-based product catalog and direct ordering system, to supplement existing EDI and XML technologies.

The company also provides distribution services for several Internet-based medical and surgical supply companies. O&M is committed to an ongoing investment in an open, Internet-based electronic commerce platform to support the company's supply chain management initiatives and to enable expansion into new market segments for medical and surgical products.

Asset Management

In the medical/surgical supply distribution industry, a significant investment in inventory and accounts receivable is required to meet the rapid delivery requirements of customers and provide high-quality service. As a result, efficient asset management is essential to the company's profitability. O&M is highly focused on effective control of inventory and accounts receivable, and draws on technology to achieve this goal.

Inventory

The significant and ongoing emphasis on cost control in the healthcare industry puts pressure on suppliers, distributors and healthcare providers to create more efficient inventory management systems. O&M has responded to these ongoing challenges by developing inventory forecasting capabilities, a client/server warehouse management system, a product standardization and consolidation initiative, and a vendor-managed inventory process. This vendor-managed inventory process allows some of the company's major suppliers to monitor daily sales, inventory levels and product forecasts electronically so they can automatically and accurately replenish O&M's inventory.

Accounts Receivable

The company's credit practices are consistent with those of other medical and surgical supply distributors. O&M actively manages its accounts receivable through a decentralized approach that puts the company closer to the customer and enables it to effectively collect its receivables and to minimize credit risk.

Competition

The medical/surgical supply distribution industry in the United States is highly competitive and consists of three major nationwide distributors: O&M; Cardinal Health (formerly known as Allegiance Corp.); and McKesson Medical-Surgical, a subsidiary of McKesson HBOC, Inc. The industry also includes a number of regional and local distributors.

Competitive factors within the medical/surgical supply distribution industry include total delivered product cost, product availability, the ability to fill and invoice orders accurately, delivery time, services provided, inventory management, information technology, electronic commerce capabilities and the ability to meet special customer requirements. O&M believes its emphasis on technology, combined with its customer-focused approach to distribution and value-added services, enables it to compete effectively with both larger and smaller distributors by being located near the customer and offering a high level of customer service.

Other Matters

Regulation

The medical/surgical supply distribution industry is subject to regulation by federal, state and local government agencies. Each of O&M's distribution centers is licensed to distribute medical and surgical supplies, as well as certain pharmaceutical and related products. The company must comply with regulations, including operating and security standards for each of its distribution centers, of the Food and Drug Administration, the Occupational Safety and Health Administration, state boards of pharmacy and, in certain areas, state boards of health. O&M believes it is in material compliance with all statutes and regulations applicable to distributors of medical and surgical supply products and pharmaceutical and related products, as well as other general employee health and safety laws and regulations.

Employees

At the end of 2002, the company had 2,968 full-time and part-time employees. O&M believes that ongoing employee training is critical to performance, and recently launched Owens & Minor University, an in-house training program including on-line and in-house classes in leadership, management development, finance, operations and sales. Management believes that relations with employees are good.

Properties

O&M's corporate headquarters are located in western Henrico County, in a suburb of Richmond, Virginia, in facilities leased from unaffiliated third parties. The company owns two undeveloped parcels of land adjacent to its corporate headquarters. The company also owns an undeveloped parcel of land in nearby Hanover County to be used for its future corporate headquarters. The company leases offices and warehouses for 40 of its distribution centers across the United States from unaffiliated third parties. In addition, the company has an arrangement with a warehousing company in Honolulu, Hawaii. In the normal course of business, the company regularly assesses its business needs and makes changes to the capacity and location of its distribution centers. The company believes that its facilities are adequate to carry on its business as currently conducted. A number of leases are scheduled to terminate within the next several years. The company believes that, if necessary, it could find facilities to replace these leased premises without suffering a material adverse effect on its business.

Management's Discussion & Analysis

2002 Financial Results

Overview. In 2002, O&M earned net income of $47.3 million, or $1.27 per diluted common share, compared with $23.0 million, or $0.68 per diluted common share in 2001, and $33.1 million, or $0.94 per diluted common share in 2000. Excluding unusual items and goodwill amortization, net income for 2002 increased to $48.7 million, or $1.30 per diluted common share, from $42.8 million, or $1.17 per diluted common share, for 2001 and $38.0 million, or $1.07 per diluted common share, for 2000. The increase from 2001 to 2002 was the result of increased sales, a reduction of financing costs and success in controlling operating expenses and improving productivity. The increase from 2000 to 2001 was primarily due to the increase in sales, a reduction of financing costs, and a lower effective tax rate for ongoing operations.

The following table presents the company's consolidated statements of income on a percentage of net sales basis:

Year ended December 31,	2002	2001	2000
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	89.4	89.3	89.3
Gross margin	10.6	10.7	10.7
Selling, general and administrative expenses	7.8	7.8	7.7
Depreciation and amortization	0.4	0.4	0.4
Amortization of goodwill	—	0.2	0.2
Interest expense, net	0.3	0.3	0.3
Discount on accounts receivable securitization	0.0	0.1	0.2
Impairment loss on investment	—	0.0	—
Distributions on mandatorily redeemable preferred securities	0.2	0.2	0.2
Restructuring credit	(0.0)	(0.0)	(0.0)
Total expenses	8.6	9.0	9.0
Income before income taxes and extraordinary item	2.0	1.7	1.7
Income tax provision	0.8	0.9	0.8
Income before extraordinary item	1.2	0.8	0.9
Extraordinary item, net of tax	0.0	(0.2)	—
Net income	1.2%	0.6%	0.9%

Unusual items. In 2002, the company incurred a $3.0 million charge, or $1.8 million net of tax, due to the cancellation of a mainframe computer services contract that was replaced by a new information technology agreement. The company also realized a $50 thousand extraordinary gain, net of tax, resulting from the repurchase of mandatorily redeemable preferred securities. In 2001, unusual items included a $1.1 million impairment loss on an investment in marketable equity securities, a $7.2 million additional tax provision related principally to disallowed interest deductions for corporate-owned life insurance for the years 1995 through 1998, and a $7.1 million after-tax extraordinary loss on the early retirement of debt. Net income in 2002, 2001 and 2000 also included reductions in a restructuring reserve, originally established in 1998, of $0.3 million, $0.8 million, and $0.4 million, net of tax.

Goodwill amortization. On January 1, 2002, the company adopted the provisions of Statement of Financial Accounting Standards No. (SFAS) 142, *Goodwill and Other Intangible Assets,* under which the company no longer records goodwill amortization expense.

The following tables reconcile selected results of operations as reported under generally accepted accounting principles to results excluding unusual items and goodwill amortization for the years ended December 31, 2002, 2001 and 2000:

(in thousands, except per share data)

Year ended December 31, 2002	As reported	Unusual items	As Adjusted	% of net sales
Selling, general and administrative expenses	$ 307,015	$ (2,987)	$304,028	7.7%
Income before income taxes and extraordinary item	$ 78,197	$ 2,500	$ 80,697	2.0%
Income tax provision	30,980	1,017	31,997	0.8%
Income before extraordinary item	47,217	1,483	48,700	1.2%
Extraordinary item, net of tax	50	(50)	—	—
Net income	$ 47,267	$ 1,433	$ 48,700	1.2%
Per common share - diluted:				
Income before extraordinary item	$ 1.26		$ 1.30	
Extraordinary item, net of tax	0.01		—	
Net income	$ 1.27		$ 1.30	

Year ended December 31, 2001	As reported	Goodwill amortization	Unusual items	As Adjusted	% of net sales
Income before income taxes and extraordinary item	$ 64,577	$ 5,974	$ (405)	$ 70,146	1.8%
Income tax provision	34,474	646	(7,817)	27,303	0.7%
Income before extraordinary item	30,103	5,328	7,412	42,843	1.1%
Extraordinary item, net of tax	(7,068)	—	7,068	—	—
Net income	$ 23,035	$ 5,328	$14,480	$ 42,843	1.1%
Per common share - diluted:					
Income before extraordinary item	$ 0.85			$ 1.17	
Extraordinary item, net of tax	(0.17)			—	
Net income	$ 0.68			$ 1.17	

Year ended December 31, 2000	As reported	Goodwill amortization	Unusual items	As Adjusted	% of net sales
Income before income taxes	$ 60,160	$ 5,988	$ (750)	$ 65,398	1.9%
Income tax provision	27,072	659	(338)	27,393	0.8%
Net income	$ 33,088	$ 5,329	$ (412)	$ 38,005	1.1%
Net income per diluted common share	$ 0.94			$ 1.07	

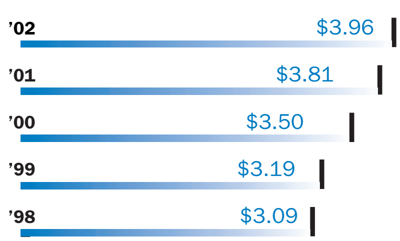
Results of Operations

Net sales. Net sales increased by 4% to $3.96 billion for 2002, from $3.81 billion for 2001. During 2002, the company's sales were impacted by losses of certain customers in late 2001 and early 2002, including those who chose other distributors in 2001 in connection with the Novation contract renewal. Other new business awarded in early 2002 transitioned more slowly than expected; however, this new business, combined with penetration of existing accounts, more than offset the losses.

Net sales increased by 9% to $3.81 billion for 2001, from $3.50 billion for 2000. This increase resulted from further penetration of existing accounts, as well as new business, including the addition of several large customers. In April 2001, the company signed a new distribution agreement with Novation, the supply company of VHA, Inc. and University HealthSystem Consortium, continuing its long-standing relationship with these organizations.

The company anticipates sales growth for 2003 to be in the 3 to 6 percent range.

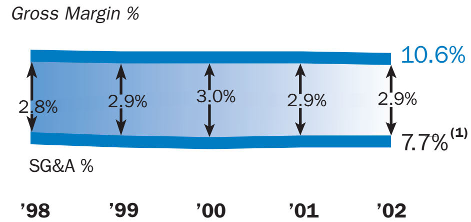
Net Sales
(billions)



Gross margin. Gross margin as a percentage of net sales for 2002 decreased slightly to 10.6% from 10.7% in 2001 and 2000. This decrease is the result of competitive pressures and more limited inventory buying opportunities.

For 2003, management anticipates continued competitive pressure. The company will continue to pursue opportunities for margin improvement, including an emphasis on providing value-added services to customers, as well as further development of the MediChoice™ private label product line. The company will also continue to pursue available buying opportunities in order to reduce the cost of goods sold.

Gross Margin % vs. SG&A % of Net Sales



(1) *Before unusual charge described below*

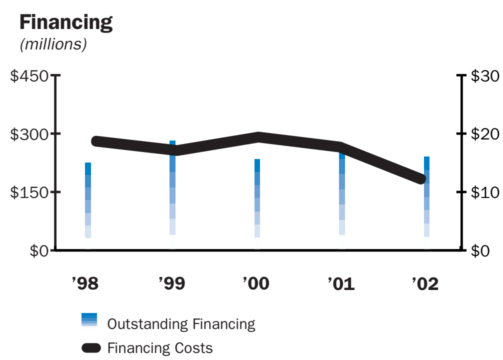
Selling, general and administrative expenses. In July 2002, the company entered into a new, seven-year information technology agreement with Perot Systems Corporation, expanding an existing outsourcing relationship. As a result of the new agreement, O&M recorded a liability for termination costs of $3.0 million in connection with the impending cancellation of its existing contract for mainframe computer services. This charge is included in selling, general and administrative (SG&A) expense for 2002.

Excluding the cancellation charge, SG&A expenses as a percentage of sales were 7.7% in 2002, compared with 7.8% in 2001 and 7.7% in 2000. The decrease from 2001 to 2002 is partly the result of a decrease in warehouse personnel costs made possible by the completion of significant customer and business transitions that occurred in 2001. Additionally, SG&A expenses continued to improve as a result of ongoing company-wide efforts to increase productivity and reduce expenses such as delivery expense and travel.

The increase from 2000 to 2001 was primarily the result of higher personnel, warehouse and employee benefits costs driven by customer and business transitions, including higher than normal activity levels related to customer sign-ups as a result of the Novation contract renewal, the addition of several large new customer accounts, and changes in the levels of service provided to certain customers, such as the addition of low unit-of-measure delivery.

In 2003, management expects increased investment in new strategic initiatives, such as its OMSolutions℠ hospital consulting and 3PL services, and in-house training programs. In addition, the company expects to implement operational standardization initiatives that will ultimately result in productivity improvements.

Net interest expense and discount on accounts receivable securitization (financing costs). Net financing costs totaled $12.2 million in 2002, compared with $17.7 million in 2001 and $19.4 million in 2000. Net financing costs included collections of customer finance charges of $4.2 million in 2002, compared with $4.5 million in 2001 and $5.3 million in 2000. Net financing costs in 2002 also included a write-off of $0.2 million of deferred financing costs related to the replacement of the company's revolving credit facility and $0.7 million in fees related to the origination of a new off balance sheet receivables financing facility. Excluding these items and the collection of customer finance charges, financing costs decreased to $15.4 million from $22.2 million in 2001 and $24.8 million in 2000. The decreases in financing costs from year to year were primarily driven by lower outstanding financing levels and lower effective interest rates. Effective interest rates improved as a result of both the refinancing of the company's long-term debt in mid-2001 and from decreases in short-term interest rates. O&M expects to continue to manage its financing costs by managing working capital levels. Future financing costs will be affected primarily by changes in short-term interest rates, as well as working capital requirements.



Impairment loss on investment. The company owns equity securities of a provider of business-to-business e-commerce services in the healthcare industry. The market value of these securities fell significantly below the company's original cost basis and, as management believed that recovery in the near term was unlikely, the company recorded an impairment charge of $1.1 million in the third quarter of 2001.

Restructuring credits. As a result of the cancellation of a significant customer contract in 1998, the company recorded a nonrecurring restructuring charge of $6.6 million, after taxes, to downsize operations. The company periodically re-evaluates its restructuring reserve, and since the actions under this plan have resulted in lower projected total costs than originally anticipated, the company has recorded reductions in the reserve in 2002, 2001 and 2000 of $0.5 million, $1.5 million and $0.8 million, which have increased net income by $0.3 million, $0.8 million and $0.4 million. These adjustments resulted primarily from the re-utilization of warehouse space that had previously been vacated under the restructuring plan, the resolution of uncertainties related to potential asset write-offs, and changes in expectations regarding the sublease of vacated warehouse space. In 2002, 2001 and 2000, amounts of $0.4 million, $0.3 million and $1.8 million were charged against the restructuring liability. The remaining accrual consists primarily of expected losses on a lease commitment for vacated office space and a provision for losses on disputed accounts receivable.

Income taxes. The provision for income taxes was $31.0 million in 2002, compared with $34.5 million in 2001 and $27.1 million in 2000. Income tax expense for 2001 included a $7.2 million provision for estimated tax liabilities related principally to interest deductions for corporate-owned life insurance claimed on the company's tax returns for the years 1995 through 1998. Excluding this charge, goodwill amortization, and the other unusual items previously mentioned, O&M's effective tax rate was 39.7% in 2002, compared with 38.9% in 2001 and 41.9% in 2000. The increase in rate from 2001 to 2002 resulted primarily from increases in certain non-deductible expenses. The reduction in rate from 2000 to 2001 resulted primarily from lower effective state income tax rates and decreases in the effect of certain nondeductible items.

Financial Condition, Liquidity and Capital Resources

Liquidity. Combined outstanding debt and off balance sheet receivables financing decreased by $33.3 million to $240.2 million at December 31, 2002, from December 31, 2001, as a result of favorable cash flow. Excluding sales of accounts receivable under the company's off balance sheet receivables financing facility (Receivables Financing Facility), $55.7 million of cash was provided by operating activities in 2002, compared with $11.6 million in 2001 and $68.8 million in 2000. This increase in operating cash flow from 2001 to 2002 was the result of slower sales growth in 2002, as well as inventory reductions made possible by the completion of customer transitions that began in 2001.

On July 2, 2001, the company issued $200 million of 8½% Senior Subordinated Notes which will mature in July 2011. The proceeds from these notes were used to retire the company's $150 million of 10⅞% Senior Subordinated Notes and to reduce the amount of outstanding financing under the Receivables Financing Facility. The retirement of the 10⅞% Notes resulted in an extraordinary loss on the early retirement of debt of $7.1 million, net of income tax benefit. In conjunction with the new notes, the company entered into interest rate swap agreements through 2011 under which the company pays counterparties a variable rate based on London Interbank Offered Rate (LIBOR) and the counterparties pay the company a fixed interest rate of 8½% on a notional amount of $100 million.

Effective April 30, 2002, the company replaced its revolving credit facility with a new agreement expiring in April 2005. The credit limit of the new facility is $150 million, of which $4.0 million is reserved for certain letters of credit. The interest rate is based on, at the company's discretion, LIBOR, the Federal Funds Rate or the Prime Rate. Under the new facility, the company is charged a commitment fee of between 0.30% and 0.40% on the unused portion of the facility, and a utilization fee of 0.25% if borrowings exceed $75 million. The terms of the new agreement limit the amount of indebtedness that the company may incur, require the company to maintain certain levels of net worth, current ratio, leverage ratio and fixed charge coverage ratio, and restrict the ability of the company to materially alter the character of the business through consolidation, merger, or purchase or sale of assets. At December 31, 2002, the company was in compliance with these covenants.

Effective April 30, 2002, the company replaced its Receivables Financing Facility with a new agreement expiring in April 2005. Under the terms of the new facility, O&M Funding, a wholly owned subsidiary, is entitled to sell, without recourse, up to $225 million of its trade receivables to a group of unrelated third party purchasers at a cost of funds based on either commercial paper rates, the Prime Rate, or LIBOR. The terms of the new agreement require the company to maintain certain levels of net worth, current ratio, leverage ratio and fixed charge coverage ratio, and restrict the company's ability to materially alter the character of the business through consolidation, merger, or purchase or sale of assets. At December 31, 2002, the company was in compliance with these covenants.

In November 2002, the company announced a repurchase plan representing a combination of its common stock and its $2.6875 Term Convertible Securities, Series A issued by the company's wholly owned subsidiary Owens & Minor Trust I ("Trust Preferred Securities"). Under this plan, up to $50 million of Trust Preferred Securities and common stock, with a maximum of $35 million in common stock, may be purchased by the company. The shares of common stock and Trust Preferred Securities may be acquired from time to time through December 31, 2003, in the open market, in block trades, in private transactions or otherwise. In December 2002, the company repurchased 137,000 shares of Trust Preferred Securities resulting in an extraordinary gain of $50 thousand, net of tax. From January 1 through February 24, 2003, the company repurchased 661,500 shares of common stock and 250,000 shares of Trust Preferred Securities. Each share of Trust Preferred Securities represents 2.4242 shares of potential common shares for the purposes of computing earnings per diluted common share.

The company expects that its available financing will be sufficient to fund its working capital needs and long-term strategic growth, although this cannot be assured. At December 31, 2002, O&M had $118.1 million of unused credit under its revolving credit facility and the ability to sell an additional $225.0 million of accounts receivable under the Receivables Financing Facility.

The following is a summary of the company's significant contractual obligations as of December 31, 2002:

(in millions)

	Payments due by period				
Contractual obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term debt[(1)]	$ 227.9	$ —	$ 27.9	$ —	$ 200.0
Mandatorily redeemable preferred securities[(2)]	125.2	—	—	—	125.2
Operating leases[(3)]	72.2	24.0	32.8	12.8	2.6
Other contractual obligations[(3)]	200.6	34.4	59.8	59.4	47.0
Total contractual obligations	$ 625.9	$ 58.4	$ 120.5	$ 72.2	$ 374.8

(1) See Note 8 to the Consolidated Financial Statements. (2) See Note 11 to the Consolidated Financial Statements. (3) See Note 18 to the Consolidated Financial Statements.

Capital Expenditures. Capital expenditures were approximately $9.8 million in 2002, down from $16.8 million in 2001. In 2001, the company spent $3.3 million to purchase land for its future corporate headquarters. The remaining decrease was a result of lower spending on software development in 2002 and fewer warehouse relocations.

Critical Accounting Policies

The company's consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The company continually evaluates the accounting policies and estimates it uses to prepare its financial statements. Management's estimates are generally based on historical experience and various other assumptions that are judged to be reasonable in light of the relevant facts and circumstances. Because of the uncertainty inherent in such estimates, actual results may differ.

Critical accounting policies are defined as those policies that relate to estimates that require a company to make assumptions about matters that are highly uncertain at the time the estimate is made and could have a material impact on the company's results due to changes in the estimate or the use of different estimates that could reasonably have been used. The company believes its critical accounting policies and estimates include its allowances for losses on accounts and notes receivable, inventory valuation and accounting for goodwill.

Allowances for losses on accounts and notes receivable. The company maintains valuation allowances based upon the expected collectibility of accounts and notes receivable. The allowances include specific amounts for accounts that are likely to be uncollectible, such as customer bankruptcies and disputed amounts, and general allowances for accounts that may become uncollectible. These allowances are estimated based on many factors such as industry trends, current economic conditions, creditworthiness of customers, age of the receivables and changes in customer payment patterns. At December 31, 2002, the company had accounts and notes receivable of $354.9 million, net of allowances of $6.8 million. An unexpected bankruptcy or other adverse change in financial condition of a customer could result in increases in these allowances, which could have a material impact on net income. The company actively manages its accounts receivable to minimize credit risk.

Inventory valuation. In order to state inventories at the lower of LIFO cost or market, the company maintains an allowance for obsolete and excess inventory based upon the expectation that some inventory will become obsolete and be sold for less than cost or become unsaleable altogether. The allowance is estimated based on factors such as age of the inventory and historical trends. At December 31, 2002, the company had inventory of $351.8 million, net of an allowance of $1.9 million. Changes in product specifications, customer product preferences or the loss of a customer could result in unanticipated impairment in net realizable value that may have a material impact on cost of goods sold, gross margin, and net income. The company actively manages its inventory levels to minimize the risk of loss and has consistently achieved a high level of inventory turnover.

Goodwill. On January 1, 2002, the company adopted the provisions of SFAS 142, *Goodwill and Other Intangible Assets.* The provisions of SFAS 142 state that goodwill should not be amortized but should be tested for impairment upon adoption of the standard and, at least annually, at the reporting unit level. As a result, the company no longer records goodwill amortization expense.

The company performs an impairment test of its goodwill based on its reporting units as defined in SFAS 142 on an annual basis. In performing the impairment test, the company determines the fair value of its reporting units using valuation techniques which can include multiples of the units' earnings before interest, taxes, depreciation and amortization (EBITDA), present value of expected cash flows and quoted market prices. The EBITDA multiples are based on an analysis of current market capitalizations and recent acquisition prices of similar companies.

The fair value of each reporting unit is then compared to its carrying value to determine potential impairment. The company's goodwill totaled $198.1 million at December 31, 2002.

The impairment review required by SFAS 142 requires the extensive use of accounting judgment and financial estimates. The application of alternative assumptions, such as a change in discount rates or EBITDA multiples, or the testing for impairment at a different level of organization or on a different organization structure, could produce materially different results.

Recent Accounting Pronouncements

In September 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, *Accounting for Asset Retirement Obligations*. The provisions of SFAS 143 address financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The company will be required to adopt the provisions of this standard beginning on January 1, 2003. Management believes that adoption of this standard will not have a material effect on the company's financial condition or results of operations.

In May 2002, the FASB issued SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*. The most significant provisions of SFAS 145 address the termination of extraordinary item treatment for gains and losses on early retirement of debt. The company will be required to adopt the provisions of this standard beginning on January 1, 2003. Upon adoption of the standard, the company will modify the presentation of its 2001 and 2002 results with respect to its loss on early retirement of debt and its gain on the repurchase of mandatorily redeemable preferred securities. However, adoption of the standard will not affect the company's financial condition or results of operations.

In July 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. The provisions of SFAS 146 modify the accounting for the costs of exit and disposal activities by requiring that liabilities for those activities be recognized when the liability is incurred. Previous accounting literature permitted recognition of some exit and disposal liabilities at the date of commitment to an exit plan. The provisions of this statement will be effective for any exit or disposal activities that the company may initiate after December 31, 2002.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002, and are not expected to have a material effect on the company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. For variable interests in a variable interest entity created before February 1, 2003, the Interpretation is applicable as of July 1, 2003. The application of this Interpretation is not expected to have a material effect on the company's financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003, if it is reasonably possible that the company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

Customer Risk

The company is subject to risks associated with changes in the medical industry, including competition and continued efforts to control costs, which place pressure on operating margin, changes in the way medical and surgical services are delivered, and changes in manufacturer preferences between the sale of product directly to hospital customers and the use of wholesale distribution. The loss of one of the company's larger customers could have a significant effect on its business.

Market Risk

O&M provides credit, in the normal course of business, to its customers. The company performs ongoing credit evaluations of its customers and maintains reserves for credit losses.

The company is exposed to market risk relating to changes in interest rates. To manage this risk, O&M uses interest rate swaps to modify the company's balance of fixed and variable rate financing. The company is exposed to certain losses in the event of nonperformance by the counterparties to these swap agreements. However, O&M's exposure is not significant and, since the counterparties are investment grade financial institutions, nonperformance is not anticipated.

The company is exposed to market risk from both changes in interest rates related to its interest rate swaps and changes in discount rates related to its Receivables Financing Facility. Interest expense and discount on accounts receivable securitization are subject to change as a result of movements in interest rates. As of December 31, 2002, O&M had $100 million of interest rate swaps on which the company pays a variable rate based on LIBOR and receives a fixed rate. A hypothetical increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately $1.0 million per year in connection with the swaps. The company had no outstanding financing under its Receivables Financing Facility at December 31, 2002, but does sell receivables under the facility from time to time. 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 financing under the Receivables Financing Facility.

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 O&M believes its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of its 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: general economic and business conditions; the ability of the company to implement its strategic initiatives; dependence on sales to certain customers; dependence on suppliers; changes in manufacturer preferences between direct sales and wholesale distribution; competition; changing trends in customer profiles; the ability of the company to meet customer demand for additional value-added services; the ability to convert customers to CostTrack℠; the availability of supplier incentives; the ability to capitalize on buying opportunities; the ability of business partners to perform their contractual responsibilities; the ability to manage operating expenses; the ability of the company to manage financing costs and interest rate risk; the risk that a decline in business volume or profitability could result in an impairment of goodwill; the ability to timely or adequately respond to technological advances in the medical supply industry; the ability to successfully identify, manage or integrate possible future acquisitions; the outcome of outstanding litigation; and changes in government regulations. As a result of these and other factors, no assurance can be given as to the company's future results. The company is under no obligation to update or revise any forward-looking statements, whether as a result of new information, future results, or otherwise.