

# OWENS & MINOR INC/VA/

## FORM 10-Q (Quarterly Report)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2017  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-9810

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**Owens & Minor, Inc.**

(Exact name of Registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "larger accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Owens & Minor, Inc.'s common stock outstanding as of October 27, 2017, was 61,249,613 shares.

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

<i>(in thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue	\$ 2,333,961	\$ 2,415,601	\$ 6,928,441	\$ 7,355,069
Cost of goods sold	2,032,019	2,119,326	6,071,787	6,462,739
Gross margin	301,942	296,275	856,654	892,330
Distribution, selling, and administrative expenses	261,045	241,305	735,353	726,944
Acquisition-related and exit and realignment charges	9,299	2,739	21,134	19,974
Other operating (income) expense, net	1,927	(1,337)	2,143	(5,179)
Operating earnings	29,671	53,568	98,024	150,591
Interest expense, net	8,737	6,770	22,218	20,324
Income before income taxes	20,934	46,798	75,806	130,267
Income tax provision	10,063	16,967	26,010	48,585
Net income	\$ 10,871	\$ 29,831	\$ 49,796	\$ 81,682
Net income per common share:				
Basic and diluted	\$ 0.18	\$ 0.48	\$ 0.82	\$ 1.32
Cash dividends per common share	\$ 0.2575	\$ 0.255	\$ 0.7725	\$ 0.765

See accompanying notes to consolidated financial statements.

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

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 10,871	\$ 29,831	\$ 49,796	\$ 81,682
Other comprehensive income (loss), net of tax:				
Currency translation adjustments (net of income tax of \$0 in 2017 and 2016)	12,254	1,401	40,151	2,443
Change in unrecognized net periodic pension costs (net of income tax of \$220 and \$665 in 2017 and \$194 and \$532 in 2016)	236	218	702	701
Other (net of income tax of \$0 in 2017 and 2016)	94	82	288	119
Total other comprehensive income (loss), net of tax	12,584	1,701	41,141	3,263
Comprehensive income	\$ 23,455	\$ 31,532	\$ 90,937	\$ 84,945

See accompanying notes to consolidated financial statements.

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

<i>(in thousands, except per share data)</i>	September 30, 2017	December 31, 2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 98,415	\$ 185,488
Accounts receivable, net of allowances of \$14,609 and \$13,538	732,756	606,084
Merchandise inventories	989,251	916,311
Other current assets	311,499	254,156
<b>Total current assets</b>	<b>2,131,921</b>	<b>1,962,039</b>
Property and equipment, net of accumulated depreciation of \$224,970 and \$201,399	203,587	191,718
Goodwill, net	690,230	414,936
Intangible assets, net	231,886	82,511
Other assets, net	76,532	66,548
<b>Total assets</b>	<b>\$ 3,334,156</b>	<b>\$ 2,717,752</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 875,630	\$ 750,750
Accrued payroll and related liabilities	31,998	45,051
Other current liabilities	296,663	238,837
<b>Total current liabilities</b>	<b>1,204,291</b>	<b>1,034,638</b>
Long-term debt, excluding current portion	917,256	564,583
Deferred income taxes	137,539	90,383
Other liabilities	71,286	68,110
<b>Total liabilities</b>	<b>2,330,372</b>	<b>1,757,714</b>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Common stock, par value \$2 per share; authorized - 200,000 shares; issued and outstanding - 61,249 shares and 61,031 shares	122,499	122,062
Paid-in capital	224,183	219,955
Retained earnings	683,444	685,504
Accumulated other comprehensive loss	(26,342)	(67,483)
<b>Total equity</b>	<b>1,003,784</b>	<b>960,038</b>
<b>Total liabilities and equity</b>	<b>\$ 3,334,156</b>	<b>\$ 2,717,752</b>

See accompanying notes to consolidated financial statements.

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

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2017	2016
<b>Operating activities:</b>		
Net income	\$ 49,796	\$ 81,682
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	41,060	42,182
Share-based compensation expense	8,592	8,934
Provision for losses on accounts receivable	1,158	(216)
Deferred income tax (benefit) expense	(4,585)	(3,233)
Changes in operating assets and liabilities:		
Accounts receivable	(79,114)	5,023
Merchandise inventories	(56,134)	(5,066)
Accounts payable	79,787	58,742
Net change in other assets and liabilities	(40,634)	(44,903)
Other, net	5,719	1,366
<b>Cash provided by operating activities</b>	<b>5,645</b>	<b>144,511</b>
<b>Investing activities:</b>		
Acquisition, net of cash acquired	(366,569)	—
Additions to property and equipment	(24,963)	(13,682)
Additions to computer software and intangible assets	(12,826)	(7,081)
Proceeds from sale of property and equipment	780	4,497
<b>Cash used for investing activities</b>	<b>(403,578)</b>	<b>(16,266)</b>
<b>Financing activities:</b>		
Change in bank overdraft	—	21,753
Proceeds from debt issuance	250,000	—
Borrowing under revolving credit facility	117,200	—
Financing costs paid	(1,798)	—
Cash dividends paid	(47,316)	(47,802)
Repurchases of common stock	(5,000)	(48,654)
Other, net	(7,363)	(8,118)
<b>Cash provided by (used for) financing activities</b>	<b>305,723</b>	<b>(82,821)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>5,137</b>	<b>6,652</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(87,073)</b>	<b>52,076</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>185,488</b>	<b>161,020</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 98,415</b>	<b>\$ 213,096</b>
<b>Supplemental disclosure of cash flow information:</b>		
Income taxes paid, net	\$ 26,917	\$ 57,996
Interest paid	\$ 19,951	\$ 20,023

See accompanying notes to consolidated financial statements.

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

<i>(in thousands, except per share data)</i>	Common Shares Outstanding	Common Stock (\$ 2 par value )	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance December 31, 2015	62,803	\$ 125,606	\$ 211,943	\$ 706,866	\$ (51,825)	\$ 992,590
Net income				81,682		81,682
Other comprehensive loss					3,263	3,263
Dividends declared (\$0.765 per share)				(47,671)		(47,671)
Shares repurchased and retired	(1,378)	(2,757)		(45,896)		(48,653)
Share-based compensation expense, exercises and other	274	549	4,923			5,472
<b>Balance September 30, 2016</b>	<b>61,699</b>	<b>\$ 123,398</b>	<b>\$ 216,866</b>	<b>\$ 694,981</b>	<b>\$ (48,562)</b>	<b>\$ 986,683</b>
Balance December 31, 2016	61,031	\$ 122,062	\$ 219,955	\$ 685,504	\$ (67,483)	\$ 960,038
Net income				49,796		49,796
Other comprehensive income					41,141	41,141
Dividends declared (\$0.7725 per share)				(47,169)		(47,169)
Shares repurchased and retired	(155)	(310)		(4,687)		(4,997)
Share-based compensation expense, exercises and other	373	747	4,228			4,975
<b>Balance September 30, 2017</b>	<b>61,249</b>	<b>\$ 122,499</b>	<b>\$ 224,183</b>	<b>\$ 683,444</b>	<b>\$ (26,342)</b>	<b>\$ 1,003,784</b>

See accompanying notes to consolidated financial statements.



**Owens & Minor, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
*(unaudited)*  
*(in thousands, unless otherwise indicated)*

**Note 1—Basis of Presentation and Use of Estimates**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements include the accounts of Owens & Minor, Inc. and the subsidiaries it controls (we, us, or our) and contain all adjustments (which are comprised only of normal recurring accruals and use of estimates) necessary to conform with U.S. generally accepted accounting principles (GAAP). All significant intercompany accounts and transactions have been eliminated. The results of operations for interim periods are not necessarily indicative of the results expected for the full year. The Clinical & Procedural Solutions (CPS) business segment has been renamed "Proprietary Products" effective January 1, 2017. Byram Healthcare (Byram), acquired on August 1, 2017, is included in the Domestic segment. There have been no other changes to the segment composition or our method of measuring segment operating earnings.

*Reclassifications*

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

*Use of Estimates*

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

**Note 2—Fair Value**

The carrying amounts of cash and cash equivalents, accounts receivable, financing receivables, accounts payable and financing payables included in the consolidated balance sheets approximate fair value due to the short-term nature of these instruments. The fair value of long-term debt is estimated based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market (Level 1) or, if quoted market prices or dealer quotes are not available, on the borrowing rates currently available for loans with similar terms, credit ratings and average remaining maturities (Level 2). We determine the fair value of our derivatives, if any, based on estimated amounts that would be received or paid to terminate the contracts at the reporting date based on current market prices for applicable currencies. See Note 8 for the fair value of long-term debt.

**Note 3—Acquisition**

On August 1, 2017, we completed the acquisition of Byram Healthcare, a leading domestic distributor of reimbursable medical supplies sold directly to patients and home health agencies.

The consideration was \$367 million, net of cash acquired, which is subject to final working capital adjustments with the seller. The purchase price was allocated on a preliminary basis to the underlying assets acquired and liabilities assumed based upon our current estimate of their fair values at the date of acquisition. The purchase price exceeded the preliminary estimated fair value of the net tangible and identifiable intangible assets by \$263 million, which was allocated to goodwill. The following table presents the preliminary estimated fair value of the assets acquired and liabilities assumed recognized as of the acquisition date. The fair value of intangibles from this acquisition was primarily determined by applying the income approach, using several significant unobservable inputs for projected cash flows and a discount rate. These inputs are considered Level 3 inputs. The allocation of purchase price to assets and liabilities acquired is not yet complete.

	<b>Preliminary Fair Value Estimated as of Acquisition Date</b>
<b>Assets acquired:</b>	
Current assets	\$ 62,902
Goodwill	263,155
Intangible assets	156,000
Noncurrent assets	3,615
Total assets	485,672
<b>Liabilities assumed:</b>	
Current liabilities	72,397
Noncurrent liabilities	46,706
Total liabilities	119,103
Fair value of net assets acquired, net of cash	\$ 366,569

We are amortizing the preliminary fair value of acquired intangible assets, primarily customer relationships and a tradename, over their estimated remaining weighted average useful lives of 10 years .

Goodwill of \$263 million , which we assigned to our Domestic segment, consists largely of expected opportunities to expand into the non-acute market with direct to patient distribution capabilities. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

Acquisition-related expenses in the current year consisted primarily of transaction costs incurred to perform due diligence and to analyze, negotiate and consummate the Byram acquisition, and costs to transition the acquired operations. We recognized pre-tax acquisition-related expenses of \$3.1 million in 2017 related to these activities.

**Note 4—Financing Receivables and Payables**

At September 30, 2017 and December 31, 2016 , we had financing receivables of \$176.9 million and \$156.5 million and related payables of \$105.5 million and \$110.0 million outstanding under our order-to-cash program and product financing arrangements, which were included in other current assets and other current liabilities, respectively, in the consolidated balance sheets.

**Note 5—Goodwill and Intangible Assets**

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

	<b>Domestic</b>	<b>International</b>	<b>Proprietary Products</b>	<b>Consolidated</b>
Carrying amount of goodwill, December 31, 2016	\$ 180,006	\$ 19,391	\$ 215,539	\$ 414,936
Acquisition (See Note 3)	263,155	—	—	263,155
Currency translation adjustments	—	10,001	2,138	12,139
<b>Carrying amount of goodwill, September 30, 2017</b>	<b>\$ 443,161</b>	<b>\$ 29,392</b>	<b>\$ 217,677</b>	<b>\$ 690,230</b>

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

	September 30, 2017		December 31, 2016	
	Customer Relationships	Other Intangibles	Customer Relationships	Other Intangibles
Gross intangible assets	\$ 241,444	\$ 41,483	\$ 118,223	\$ 4,045
Accumulated amortization	(48,757)	(2,284)	(38,429)	(1,328)
Net intangible assets	\$ 192,687	\$ 39,199	\$ 79,794	\$ 2,717

At September 30, 2017 , \$163.5 million in net intangible assets were held in the Domestic segment, \$10.2 million were held in the International segment and \$58.2 million were held in the Proprietary Products segment. Amortization expense for intangible assets was \$5.1 million and \$2.2 million for the three months ended September 30, 2017 and 2016 and \$9.7 million and \$6.6 million for the nine months ended September 30, 2017 and 2016 .

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is \$11.6 million for the remainder of 2017 , \$24.6 million for 2018 , \$24.7 million for 2019 , \$24.7 million for 2020 , \$24.4 million for 2021 and \$23.5 million for 2022.

#### Note 6—Exit and Realignment Charges

We periodically incur exit and realignment and other charges associated with optimizing our operations, which includes the consolidation of certain distribution and logistics centers, administrative offices and warehouses in the United States and Europe. These charges also include costs associated with our strategic organizational realignment which include management changes, certain professional fees and costs to streamline administrative functions and processes.

Exit and realignment charges by segment for the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Domestic segment	\$ 3,880	\$ 1,224	\$ 12,421	\$ 14,194
International segment	574	457	1,406	3,284
Proprietary Products segment	592	465	1,015	1,574
Total exit and realignment charges	\$ 5,046	\$ 2,146	\$ 14,842	\$ 19,052

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

	Lease Obligations	Severance and Other	Total
Accrued exit and realignment costs, December 31, 2016	\$ —	\$ 2,238	\$ 2,238
Provision for exit and realignment activities	—	3,211	3,211
Change in estimate	—	(304)	(304)
Cash payments	—	(3,034)	(3,034)
Accrued exit and realignment costs, March 31, 2017	—	2,111	2,111
Provision for exit and realignment activities	—	1,382	1,382
Change in estimate	—	(18)	(18)
Cash payments	—	(667)	(667)
Accrued exit and realignment costs, June 30, 2017	—	2,808	2,808
Provision for exit and realignment activities	—	3,156	3,156
Cash payments	—	(423)	(423)
<b>Accrued exit and realignment costs, September 30, 2017</b>	<b>\$ —</b>	<b>\$ 5,541</b>	<b>\$ 5,541</b>
Accrued exit and realignment costs, December 31, 2015	\$ 486	\$ 1,840	\$ 2,326
Provision for exit and realignment activities	—	9,895	9,895
Cash payments, net of sublease income	(486)	(1,287)	(1,773)
Accrued exit and realignment costs, March 31, 2016	—	10,448	10,448
Provision for exit and realignment activities	—	1,254	1,254
Cash payments, net of sublease income	—	(7,087)	(7,087)
Accrued exit and realignment costs, June 30, 2016	—	4,615	4,615
Provision for exit and realignment activities	—	725	725
Change in Estimate	—	(268)	(268)
Cash payments, net of sublease income	—	(2,066)	(2,066)
Accrued exit and realignment costs, September 30, 2016	\$ —	\$ 3,006	\$ 3,006

In addition to the exit and realignment accruals in the preceding table, we also incurred \$1.9 million of costs that were expensed as incurred for the three months ended September 30, 2017, including \$1.7 million in information system restructuring costs, and \$0.2 million in other costs. For the nine months ended September 30, 2017, we recognized \$7.4 million of costs that were expensed as incurred, including \$4.5 million in asset write-downs, \$1.9 million in information system restructuring costs and \$1.0 million in other costs.

We incurred \$1.7 million of costs that were expensed as incurred for the three months ended September 30, 2016, including \$0.7 million in other facility costs, \$0.5 million in labor costs, \$0.4 million in information systems costs, and \$0.1 million in other costs. For the nine months ended September 30, 2016, we recognized \$7.4 million of costs that were expensed as incurred, including \$3.6 million in consulting costs, \$1.8 million in information system costs, \$0.7 million in other facility costs, \$0.5 million in labor costs, and \$0.8 million in other costs.

**Note 7—Retirement Plans**

We have a noncontributory, unfunded retirement plan for certain officers and other key employees in the United States. Certain of our foreign subsidiaries also have defined benefit pension plans covering substantially all of their respective employees.

The components of net periodic benefit cost, which are included in distribution, selling and administrative expenses, for the three and nine months ended September 30, 2017 and 2016, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Service cost	\$ 26	\$ 27	\$ 53	\$ 70
Interest cost	474	508	1,422	1,523
Recognized net actuarial loss	456	412	1,367	1,236
Net periodic benefit cost	\$ 956	\$ 947	\$ 2,842	\$ 2,829

Certain of our foreign subsidiaries have health and welfare plans covering substantially all of their respective employees. Our expense for these plans totaled \$0.5 million and \$0.4 million for the three months ended September 30, 2017 and 2016 and \$1.3 million for the nine months ended September 30, 2017 and 2016.

**Note 8—Debt**

We have \$275 million of 3.875% senior notes due 2021 (the “2021 Notes”) and \$275 million of 4.375% senior notes due 2024 (the “2024 Notes”), with interest payable semi-annually. The 2021 Notes were sold at 99.5% of the principal amount with an effective yield of 3.951%. The 2024 Notes were sold at 99.6% of the principal with an effective yield of 4.422%. We have the option to redeem the 2021 Notes and 2024 Notes in part or in whole prior to maturity at a redemption price equal to the greater of 100% of the principal amount or the present value of the remaining scheduled payments discounted at the Treasury Rate plus 30 basis points. As of September 30, 2017 and December 31, 2016, the estimated fair value of the 2021 Notes was \$280.1 million and \$274.5 million and the estimated fair value of the 2024 Notes was \$276.9 million and \$270.0 million, respectively.

On July 27, 2017, we entered into a new Credit Agreement replacing the Amended Credit Agreement. The new agreement provides borrowing capacity of \$600 million and a \$250 million term loan. We make principal payments under the term loan on a quarterly basis with the remaining outstanding principal due in five years. The revolving credit facility has a five -year maturity. The proceeds from the new borrowing were primarily used to fund the Byram acquisition which closed on August 1, 2017. Under the Credit Agreement, we have the ability to request two one -year extensions and to request an increase in aggregate commitments by up to \$200 million. The interest rate on the Credit Agreement, which is subject to adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Credit Agreement. We are charged a commitment fee of between 12.5 and 25.0 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. Based on our leverage ratio at September 30, 2017, the interest rate under the credit facility is LIBOR plus 1.375%.

At September 30, 2017, we had borrowings of \$117.2 million under the revolver and letters of credit of approximately \$5.1 million outstanding under the Credit Agreement, leaving \$477.7 million available for borrowing. We also had a letter of credit outstanding for \$1.3 million as of September 30, 2017 and \$1.1 million at December 31, 2016, which supports our facilities leased in Europe.

The Credit Agreement and senior notes contain cross-default provisions which could result in the acceleration of payments due in the event of default of either agreement. We believe we were in compliance with our debt covenants at September 30, 2017.

**Note 9—Income Taxes**

The effective tax rate was 48.1% and 34.3% for the three and nine months ended September 30, 2017, compared to 36.3% and 37.3% in the same periods of 2016. The changes in the effective tax rate compared to 2016 resulted primarily from a change in income mix among different tax rate jurisdictions and the effect of certain acquisition-related costs which were not deductible for tax purposes offset on a year to date basis by the release of an income tax valuation allowance in Europe for \$3.4 million during the second quarter of 2017.

The liability for unrecognized tax benefits was \$13.3 million at September 30, 2017, and \$10.7 million at December 31, 2016. Included in the liability at September 30, 2017 were \$5.0 million of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

**Note 10—Net Income per Common Share**

The following summarizes the calculation of net income per common share attributable to common shareholders for the three and nine months ended September 30, 2017 and 2016.

<i>(in thousands, except per share data)</i>	Three Months Ended		September 30,	
	2017	2016	2017	2016
<b>Numerator:</b>				
Net income	\$ 10,871	\$ 29,831	\$ 49,796	\$ 81,682
Less: income allocated to unvested restricted shares	(279)	(291)	(738)	(855)
Net income attributable to common shareholders - basic	10,592	29,540	49,058	80,827
Add: undistributed income attributable to unvested restricted shares - basic	—	80	16	216
Less: undistributed income attributable to unvested restricted shares - diluted	—	(80)	(16)	(216)
Net income attributable to common shareholders - diluted	\$ 10,592	\$ 29,540	\$ 49,058	\$ 80,827
<b>Denominator:</b>				
Weighted average shares outstanding - basic and diluted	59,849	61,015	60,010	61,405
<b>Net income per share attributable to common shareholders:</b>				
Basic and diluted	\$ 0.18	\$ 0.48	\$ 0.82	\$ 1.32

**Note 11—Shareholders' Equity**

Our Board of Directors has authorized a share repurchase program of up to \$100 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in December 2019. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the company from time to time and/or during the company's scheduled quarterly trading windows for officers and directors. During the nine months ended September 30, 2017, we repurchased in open-market transactions and retired approximately 0.2 million shares of our common stock for an aggregate of \$5.0 million, or an average price per share of \$32.27. As of September 30, 2017, we have approximately \$94.0 million remaining under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

**Note 12—Accumulated Other Comprehensive Income (Loss)**

The following table shows the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2017 and 2016 :

	Retirement Plans	Currency Translation Adjustments	Other	Total
Accumulated other comprehensive income (loss), June 30, 2017	\$ (10,743)	\$ (28,348)	\$ 165	\$ (38,926)
Other comprehensive income (loss) before reclassifications	—	12,254	94	12,348
Income tax	—	—	—	—
Other comprehensive income (loss) before reclassifications, net of tax	—	12,254	94	12,348
Amounts reclassified from accumulated other comprehensive income (loss)	456	—	—	456
Income tax	(220)	—	—	(220)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	236	—	—	236
Other comprehensive income (loss)	236	12,254	94	12,584
<b>Accumulated other comprehensive income (loss), September 30, 2017</b>	<b>\$ (10,507)</b>	<b>\$ (16,094)</b>	<b>\$ 259</b>	<b>\$ (26,342)</b>
Accumulated other comprehensive income (loss), June 30, 2016	\$ (9,999)	\$ (40,186)	\$ (78)	\$ (50,263)
Other comprehensive income (loss) before reclassifications	—	1,401	82	1,483
Income tax	—	—	—	—
Other comprehensive income (loss) before reclassifications, net of tax	—	1,401	82	1,483
Amounts reclassified from accumulated other comprehensive income (loss)	412	—	—	412
Income tax	(194)	—	—	(194)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	218	—	—	218
Other comprehensive income (loss)	218	1,401	82	1,701
Accumulated other comprehensive income (loss), September 30, 2016	\$ (9,781)	\$ (38,785)	\$ 4	\$ (48,562)

	Retirement Plans	Currency Translation Adjustments	Other	Total
Accumulated other comprehensive income (loss), December 31, 2016	\$ (11,209)	\$ (56,245)	\$ (29)	\$ (67,483)
Other comprehensive income (loss) before reclassifications		40,151	288	40,439
Income tax	—	—	—	—
Other comprehensive income (loss) before reclassifications, net of tax	—	40,151	288	40,439
Amounts reclassified from accumulated other comprehensive income (loss)	1,367	—	—	1,367
Income tax	(665)	—	—	(665)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	702	—	—	702
Other comprehensive income (loss)	702	40,151	288	41,141
<b>Accumulated other comprehensive income (loss), September 30, 2017</b>	<b>\$ (10,507)</b>	<b>\$ (16,094)</b>	<b>\$ 259</b>	<b>\$ (26,342)</b>

Accumulated other comprehensive income (loss), December 31, 2015	\$ (10,482)	\$ (41,228)	\$ (115)	\$ (51,825)
Other comprehensive income (loss) before reclassifications	—	2,443	119	2,562
Income tax	—	—	—	—
Other comprehensive income (loss) before reclassifications, net of tax	—	2,443	119	2,562
Amounts reclassified from accumulated other comprehensive income (loss)	1,233	—	—	1,233
Income tax	(532)	—	—	(532)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	701	—	—	701
Other comprehensive income (loss)	701	2,443	119	3,263
Accumulated other comprehensive income (loss), September 30, 2016	\$ (9,781)	\$ (38,785)	\$ 4	\$ (48,562)

We include amounts reclassified out of accumulated other comprehensive income related to defined benefit pension plans as a component of net periodic pension cost recorded in distribution, selling and administrative expenses. For the three and nine months ended September 30, 2017, we reclassified \$0.5 million and \$1.4 million of actuarial net losses. For the three and nine months ended September 30, 2016, we reclassified \$0.4 million and \$1.2 million of actuarial net losses.

### Note 13—Segment Information

We periodically evaluate our application of accounting guidance for reportable segments and disclose information about reportable segments based on the way management organizes the enterprise for making operating decisions and assessing performance. We report our business under three segments: Domestic, International and Proprietary Products. The Domestic segment includes our United States distribution, logistics and value-added services business. Byram, acquired on August 1, 2017, is included in the Domestic segment. The International segment consists of our European distribution, logistics and value-added services business. Proprietary Products provides product-related solutions, including surgical and procedural kitting and sourcing.

We evaluate the performance of our segments based on their operating earnings excluding acquisition-related and exit and realignment charges, certain purchase price fair value adjustments, and other substantive items that, either as a result of their nature or size, would not be expected to occur as part of our normal business operations on a regular basis. Segment assets exclude inter-segment account balances as we believe their inclusion would be misleading or not meaningful. We believe all inter-segment sales are at prices that approximate market.



The following tables present financial information by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenue:				
Segment net revenue				
Domestic	\$ 2,194,143	\$ 2,287,233	\$ 6,518,571	\$ 6,954,687
International	96,661	83,751	287,555	255,861
Proprietary Products	124,542	132,705	392,654	409,022
Total segment net revenue	\$ 2,415,346	\$ 2,503,689	\$ 7,198,780	\$ 7,619,570
Inter-segment revenue				
Proprietary Products	(81,385)	(88,088)	(270,339)	(264,501)
Total inter-segment revenue	(81,385)	(88,088)	(270,339)	(264,501)
Consolidated net revenue	\$ 2,333,961	\$ 2,415,601	\$ 6,928,441	\$ 7,355,069
Operating earnings (loss):				
Domestic	\$ 36,056	\$ 41,034	\$ 102,812	\$ 126,202
International	(2,163)	1,382	(754)	3,402
Proprietary Products	9,102	14,340	26,040	41,866
Inter-segment eliminations	416	(449)	(266)	(905)
Acquisition-related and exit and realignment charges	(9,299)	(2,739)	(21,134)	(19,974)
Other <sup>(1)</sup>	(4,441)	—	(8,674)	—
Consolidated operating earnings	\$ 29,671	\$ 53,568	\$ 98,024	\$ 150,591
Depreciation and amortization:				
Domestic	\$ 9,602	\$ 7,360	\$ 23,233	\$ 22,399
International	4,304	4,259	12,072	13,125
Proprietary Products	1,947	2,218	5,755	6,658
Consolidated depreciation and amortization	\$ 15,853	\$ 13,837	\$ 41,060	\$ 42,182
Capital expenditures:				
Domestic	\$ 9,572	\$ 3,071	\$ 23,376	\$ 10,274
International	3,206	3,223	11,659	8,053
Proprietary Products	718	1,009	2,754	2,436
Consolidated capital expenditures	\$ 13,496	\$ 7,303	\$ 37,789	\$ 20,763
Total assets:				
			September 30, 2017	December 31, 2016
Domestic		\$	2,416,079	\$ 1,778,481
International			418,331	352,898
Proprietary Products			401,331	400,885
Segment assets			3,235,741	2,532,264
Cash and cash equivalents			98,415	185,488
Consolidated total assets		\$	3,334,156	\$ 2,717,752

<sup>(1)</sup> Software as a Service (SaaS) implementation costs associated with the upgrading of our global IT platforms in connection with the redesign of our global information system strategy.

**Note 14—Condensed Consolidating Financial Information**

The following tables present condensed consolidating financial information for: Owens & Minor, Inc. (O&M); the guarantors of Owens & Minor, Inc.'s 2021 Notes and 2024 Notes, on a combined basis; and the non-guarantor subsidiaries of the 2021 Notes and 2024 Notes, on a combined basis. The guarantor subsidiaries are 100% owned by Owens & Minor, Inc. Separate financial statements of the guarantor subsidiaries are not presented because the guarantees by our guarantor subsidiaries are full and unconditional, as well as joint and several, and we believe the condensed consolidating financial information is more meaningful in understanding the financial position, results of operations and cash flows of the guarantor subsidiaries.

<b>Three Months Ended September 30, 2017</b>	<b>Owens &amp; Minor, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Statements of Income</b>					
Net revenue	\$ —	\$ 2,113,450	\$ 264,765	\$ (44,254)	\$ 2,333,961
Cost of goods sold	—	1,919,049	157,439	(44,469)	2,032,019
Gross margin	—	194,401	107,326	215	301,942
Distribution, selling and administrative expenses	(117)	159,108	102,054	—	261,045
Acquisition-related and exit and realignment charges	—	6,960	2,339	—	9,299
Other operating (income) expense, net	—	448	1,479	—	1,927
Operating earnings (loss)	117	27,885	1,454	215	29,671
Interest expense (income), net	7,018	(1,184)	2,903	—	8,737
Income (loss) before income taxes	(6,901)	29,069	(1,449)	215	20,934
Income tax (benefit) provision	—	7,881	2,182	—	10,063
Equity in earnings of subsidiaries	17,772	—	—	(17,772)	—
<b>Net income (loss)</b>	<b>10,871</b>	<b>21,188</b>	<b>(3,631)</b>	<b>(17,557)</b>	<b>10,871</b>
Other comprehensive income (loss)	12,584	330	12,254	(12,584)	12,584
<b>Comprehensive income (loss)</b>	<b>\$ 23,455</b>	<b>\$ 21,518</b>	<b>\$ 8,623</b>	<b>\$ (30,141)</b>	<b>\$ 23,455</b>

<b>Three Months Ended September 30, 2016</b>	<b>Owens &amp; Minor, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Non-guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Statements of Income</b>					
Net revenue	\$ —	\$ 2,287,335	\$ 168,216	\$ (39,950)	\$ 2,415,601
Cost of goods sold	—	2,070,639	89,192	(40,505)	2,119,326
Gross margin	—	216,696	79,024	555	296,275
Distribution, selling and administrative expenses	(52)	169,451	71,906	—	241,305
Acquisition-related and exit and realignment charges	—	2,237	502	—	2,739
Other operating income, net	—	(1,205)	(132)	—	(1,337)
Operating earnings (loss)	52	46,213	6,748	555	53,568
Interest expense (income), net	7,403	(1,345)	712	—	6,770
Income (loss) before income taxes	(7,351)	47,558	6,036	555	46,798
Income tax (benefit) provision	—	14,131	2,836	—	16,967
Equity in earnings of subsidiaries	37,182	—	—	(37,182)	—
<b>Net income (loss)</b>	<b>29,831</b>	<b>33,427</b>	<b>3,200</b>	<b>(36,627)</b>	<b>29,831</b>
Other comprehensive income (loss)	1,701	299	1,402	(1,701)	1,701
<b>Comprehensive income (loss)</b>	<b>\$ 31,532</b>	<b>\$ 33,726</b>	<b>\$ 4,602</b>	<b>\$ (38,328)</b>	<b>\$ 31,532</b>

<u>Nine Months Ended September 30, 2017</u>	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Income</b>					
Net revenue	\$ —	\$ 6,436,599	\$ 635,900	\$ (144,058)	\$ 6,928,441
Cost of goods sold	—	5,845,789	369,596	(143,598)	6,071,787
Gross margin	—	590,810	266,304	(460)	856,654
Distribution, selling and administrative expenses	434	480,765	254,154	—	735,353
Acquisition-related and exit and realignment charges	—	17,084	4,050	—	21,134
Other operating (income) expense, net	—	1,481	662	—	2,143
Operating earnings (loss)	(434)	91,480	7,438	(460)	98,024
Interest expense (income), net	20,756	(2,777)	4,239	—	22,218
Income (loss) before income taxes	(21,190)	94,257	3,199	(460)	75,806
Income tax (benefit) provision	—	23,303	2,707	—	26,010
Equity in earnings of subsidiaries	70,986	—	—	(70,986)	—
<b>Net income (loss)</b>	<b>49,796</b>	<b>70,954</b>	<b>492</b>	<b>(71,446)</b>	<b>49,796</b>
Other comprehensive income (loss)	41,141	990	40,151	(41,141)	41,141
<b>Comprehensive income (loss)</b>	<b>\$ 90,937</b>	<b>\$ 71,944</b>	<b>\$ 40,643</b>	<b>\$ (112,587)</b>	<b>\$ 90,937</b>

<u>Nine Months Ended September 30, 2016</u>	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>Statements of Income</b>					
Net revenue	\$ —	\$ 6,954,983	\$ 516,131	\$ (116,045)	\$ 7,355,069
Cost of goods sold	—	6,305,489	273,927	(116,677)	6,462,739
Gross margin	—	649,494	242,204	632	892,330
Distribution, selling and administrative expenses	838	504,984	221,122	—	726,944
Acquisition-related and exit and realignment charges	—	15,888	4,086	—	19,974
Other operating income, net	—	(3,952)	(1,227)	—	(5,179)
Operating earnings (loss)	(838)	132,574	18,223	632	150,591
Interest expense (income), net	21,134	(2,808)	1,998	—	20,324
Income (loss) before income taxes	(21,972)	135,382	16,225	632	130,267
Income tax (benefit) provision	—	40,237	8,348	—	48,585
Equity in earnings of subsidiaries	103,654	—	—	(103,654)	—
<b>Net income (loss)</b>	<b>81,682</b>	<b>95,145</b>	<b>7,877</b>	<b>(103,022)</b>	<b>81,682</b>
Other comprehensive income (loss)	3,263	821	2,442	(3,263)	3,263
<b>Comprehensive income (loss)</b>	<b>\$ 84,945</b>	<b>\$ 95,966</b>	<b>\$ 10,319</b>	<b>\$ (106,285)</b>	<b>\$ 84,945</b>

<u>September 30, 2017</u>	<u>Owens &amp; Minor, Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non- guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Balance Sheets</b>					
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 11,456	\$ 1,145	\$ 85,814	\$ —	\$ 98,415
Accounts receivable, net	30,770	595,202	114,563	(7,779)	732,756
Merchandise inventories	—	909,406	82,065	(2,220)	989,251
Other current assets	193	117,403	193,903	—	311,499
<b>Total current assets</b>	<b>42,419</b>	<b>1,623,156</b>	<b>476,345</b>	<b>(9,999)</b>	<b>2,131,921</b>
Property and equipment, net	—	103,765	99,822	—	203,587
Goodwill, net	—	180,006	510,224	—	690,230
Intangible assets, net	—	10,100	221,786	—	231,886
Due from O&M and subsidiaries	—	645,264	—	(645,264)	—
Advances to and investment in consolidated subsidiaries	2,094,759	—	—	(2,094,759)	—
Other assets, net	—	43,521	33,011	—	76,532
<b>Total assets</b>	<b>\$ 2,137,178</b>	<b>\$ 2,605,812</b>	<b>\$ 1,341,188</b>	<b>\$ (2,750,022)</b>	<b>\$ 3,334,156</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ —	\$ 768,780	\$ 114,644	\$ (7,794)	\$ 875,630
Accrued payroll and related liabilities	—	18,615	13,383	—	31,998
Other current liabilities	7,127	110,580	178,956	—	296,663
<b>Total current liabilities</b>	<b>7,127</b>	<b>897,975</b>	<b>306,983</b>	<b>(7,794)</b>	<b>1,204,291</b>
Long-term debt, excluding current portion	545,830	6,743	364,683	—	917,256
Due to O&M and subsidiaries	580,437	—	65,002	(645,439)	—
Intercompany debt	—	138,890	—	(138,890)	—
Deferred income taxes	—	69,722	67,817	—	137,539
Other liabilities	—	61,142	10,144	—	71,286
<b>Total liabilities</b>	<b>1,133,394</b>	<b>1,174,472</b>	<b>814,629</b>	<b>(792,123)</b>	<b>2,330,372</b>
<b>Equity</b>					
Common stock	122,499	—	—	—	122,499
Paid-in capital	224,183	174,613	583,872	(758,485)	224,183
Retained earnings (deficit)	683,444	1,267,294	(41,539)	(1,225,755)	683,444
Accumulated other comprehensive income (loss)	(26,342)	(10,567)	(15,774)	26,341	(26,342)
<b>Total equity</b>	<b>1,003,784</b>	<b>1,431,340</b>	<b>526,559</b>	<b>(1,957,899)</b>	<b>1,003,784</b>
<b>Total liabilities and equity</b>	<b>\$ 2,137,178</b>	<b>\$ 2,605,812</b>	<b>\$ 1,341,188</b>	<b>\$ (2,750,022)</b>	<b>\$ 3,334,156</b>

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

<u>Nine Months Ended September 30, 2017</u>	<u>Owens &amp; Minor, Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Statements of Cash Flows</b>					
<b>Operating activities:</b>					
Net income (loss)	\$ 49,796	\$ 70,954	\$ 492	\$ (71,446)	\$ 49,796
Adjustments to reconcile net income to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	(70,986)	—	—	70,986	—
Depreciation and amortization	—	23,281	17,779	—	41,060
Share-based compensation expense	—	8,592	—	—	8,592
Provision for losses on accounts receivable	—	(377)	1,535	—	1,158
Deferred income tax expense (benefit)	—	(1,208)	(3,377)	—	(4,585)
Changes in operating assets and liabilities:					
Accounts receivable	—	(68,655)	(8,047)	(2,412)	(79,114)
Merchandise inventories	—	(52,840)	(3,753)	459	(56,134)
Accounts payable	—	85,591	(8,217)	2,413	79,787
Net change in other assets and liabilities	(65)	(25,431)	(15,138)	—	(40,634)
Other, net	(1)	5,716	4	—	5,719
<b>Cash provided by (used for) operating activities</b>	<b>(21,256)</b>	<b>45,623</b>	<b>(18,722)</b>	<b>—</b>	<b>5,645</b>
<b>Investing activities:</b>					
Acquisitions, net of cash acquired	—	—	(366,569)	—	(366,569)
Additions to property and equipment	—	(17,884)	(7,079)	—	(24,963)
Additions to computer software and intangible assets	—	(5,333)	(7,493)	—	(12,826)
Proceeds from the sale of property and equipment	—	198	582	—	780
<b>Cash used for investing activities</b>	<b>—</b>	<b>(23,019)</b>	<b>(380,559)</b>	<b>—</b>	<b>(403,578)</b>
<b>Financing activities:</b>					
Change in intercompany advances	50,452	(87,278)	36,826	—	—
Proceeds from debt issuance	—	—	250,000	—	250,000
Borrowing under revolving credit facility	—	6,013	111,187	—	117,200
Financing costs paid	—	—	(1,798)	—	(1,798)
Cash dividends paid	(47,316)	—	—	—	(47,316)
Repurchases of common stock	(5,000)	—	—	—	(5,000)
Other, net	(3,439)	(1,460)	(2,464)	—	(7,363)
<b>Cash provided by (used for) financing activities</b>	<b>(5,303)</b>	<b>(82,725)</b>	<b>393,751</b>	<b>—</b>	<b>305,723</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>—</b>	<b>—</b>	<b>5,137</b>	<b>—</b>	<b>5,137</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(26,559)</b>	<b>(60,121)</b>	<b>(393)</b>	<b>—</b>	<b>(87,073)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>38,015</b>	<b>61,266</b>	<b>86,207</b>	<b>—</b>	<b>185,488</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 11,456</b>	<b>\$ 1,145</b>	<b>\$ 85,814</b>	<b>\$ —</b>	<b>\$ 98,415</b>

<u>Nine Months Ended September 30, 2016</u>	<u>Owens &amp; Minor, Inc.</u>	<u>Guarantor Subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Statements of Cash Flows</b>					
<b>Operating activities:</b>					
Net income (loss)	\$ 81,682	\$ 95,145	\$ 7,877	\$ (103,022)	\$ 81,682
Adjustments to reconcile net income to cash provided by (used for) operating activities:					
Equity in earnings of subsidiaries	(103,654)	—	—	103,654	—
Depreciation and amortization	—	22,497	19,685	—	42,182
Share-based compensation expense	—	8,934	—	—	8,934
Provision for losses on accounts receivable	—	(84)	(132)	—	(216)
Deferred income tax expense (benefit)	—	(3,233)	—	—	(3,233)
Changes in operating assets and liabilities:					
Accounts receivable	—	14,107	(9,385)	301	5,023
Merchandise inventories	—	(3,662)	(771)	(633)	(5,066)
Accounts payable	—	55,060	3,982	(300)	58,742
Net change in other assets and liabilities	2,277	(512)	(46,668)	—	(44,903)
Other, net	1,321	319	(274)	—	1,366
<b>Cash provided by (used for) operating activities</b>	<b>(18,374)</b>	<b>188,571</b>	<b>(25,686)</b>	<b>—</b>	<b>144,511</b>
<b>Investing activities:</b>					
Additions to property and equipment	—	(7,337)	(6,345)	—	(13,682)
Additions to computer software and intangible assets	—	(2,937)	(4,144)	—	(7,081)
Proceeds from the sale of property and equipment	—	78	4,419	—	4,497
<b>Cash used for investing activities</b>	<b>—</b>	<b>(10,196)</b>	<b>(6,070)</b>	<b>—</b>	<b>(16,266)</b>
<b>Financing activities:</b>					
Change in intercompany advances	172,057	(162,206)	(9,851)	—	—
Change in bank overdraft	—	—	21,753	—	21,753
Cash dividends paid	(47,802)	—	—	—	(47,802)
Repurchases of common stock	(48,654)	—	—	—	(48,654)
Other, net	(4,027)	(1,782)	(2,309)	—	(8,118)
<b>Cash provided by (used for) financing activities</b>	<b>71,574</b>	<b>(163,988)</b>	<b>9,593</b>	<b>—</b>	<b>(82,821)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>—</b>	<b>—</b>	<b>6,652</b>	<b>—</b>	<b>6,652</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>53,200</b>	<b>14,387</b>	<b>(15,511)</b>	<b>—</b>	<b>52,076</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>103,284</b>	<b>5,614</b>	<b>52,122</b>	<b>—</b>	<b>161,020</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 156,484</b>	<b>\$ 20,001</b>	<b>\$ 36,611</b>	<b>\$ —</b>	<b>\$ 213,096</b>

## Note 15—Recent Accounting Pronouncements

On January 1, 2017, we adopted ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The amendments in this updated guidance included changes to simplify the Codification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. As a result of this adoption, we recognized \$0.1 million and \$ 0.3 million in excess tax benefits in the income statement for the three and nine months ended September 30, 2017. In addition, we recorded these tax benefits related to stock based compensation for the nine month period in operating activities in the statements of cash flows and reclassified \$0.7 million from financing activities in the prior period to conform to this presentation.

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

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

## Note 16—Subsequent Events

On October 31, 2017, we entered into a Purchase Agreement to acquire the Surgical and Infection Prevention (“S&IP”) business of Halyard Health, Inc. (“Halyard”) for \$710 million in cash, subject to certain adjustments as provided in the Purchase Agreement. Halyard’s S&IP business is a leading global provider of medical supplies and solutions for the prevention of healthcare-associated infections across the acute and alternate site channels. The transaction, which has been approved by the boards of directors of both companies, is expected to close in the first quarter of 2018, subject to customary closing conditions and regulatory approvals, including Hart-Scott-Rodino.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis describes results of operations and material changes in the financial condition of Owens & Minor, Inc. and its subsidiaries since December 31, 2016. Trends of a material nature are discussed to the extent known and considered relevant. This discussion should be read in conjunction with the consolidated financial statements, related notes thereto, and management’s discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2016.

### Overview

Owens & Minor, Inc., along with its subsidiaries, (we, us, or our) is a leading global healthcare services company that connects the world of medical products to the point of care. We report under three business units: Domestic, International and Proprietary Products (formerly Clinical & Procedural Solutions (CPS) which has been renamed "Proprietary Products" effective January 1, 2017). Domestic is our U.S. distribution, logistics and value-added services business. Byram, acquired on August 1, 2017, is included in the Domestic segment. International is our European distribution, logistics and value-added services business. Proprietary Products provides product-related solutions, including surgical and procedural kitting and sourcing. Segment financial information is provided in Note 13 of Notes to Consolidated Financial Statements included in this quarterly report.

**Financial highlights.** The following table provides a reconciliation of reported operating earnings, net income and net income per diluted common share to non-GAAP measures used by management. In the second quarter of 2017 we began to exclude acquisition-related intangible amortization from our non-GAAP measures, along with the previously excluded items. Intangible amortization amounts are highly dependent on the size and frequency of acquisitions and are being excluded to



allow for a more consistent comparison with forecasted, current and historical results and the results of our peers. Prior period amounts have been recast on the same basis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<i>(Dollars in thousands except per share data)</i>				
Operating earnings, as reported (GAAP)	\$ 29,671	\$ 53,568	\$ 98,024	\$ 150,591
Acquisition-related and exit and realignment charges <sup>(1)</sup>	9,299	2,739	21,134	19,974
Acquisition-related intangible amortization <sup>(2)</sup>	5,071	2,489	9,737	7,552
Other <sup>(3)</sup>	4,441	—	8,674	—
Operating earnings, adjusted (non-GAAP) (Adjusted Operating Earnings)	\$ 48,482	\$ 58,796	\$ 137,569	\$ 178,117
Net income, as reported (GAAP)	\$ 10,871	\$ 29,831	\$ 49,796	\$ 81,682
Acquisition-related and exit and realignment charges <sup>(1)</sup>	9,299	2,739	21,134	19,974
Income tax expense (benefit) <sup>(4)</sup>	(2,854)	(1,015)	(7,367)	(6,615)
Acquisition-related intangible amortization <sup>(2)</sup>	5,071	2,489	9,737	7,552
Income tax expense (benefit) <sup>(4)</sup>	(1,601)	(645)	(2,993)	(1,956)
Other <sup>(3)</sup>	4,441	—	8,674	—
Income tax expense (benefit) <sup>(4)</sup>	(973)	—	(2,465)	—
Net income, adjusted (non-GAAP) (Adjusted Net Income)	\$ 24,254	\$ 33,399	\$ 76,516	\$ 100,637
Net income per diluted common share, as reported (GAAP)	\$ 0.18	\$ 0.48	\$ 0.82	\$ 1.32
Acquisition-related and exit and realignment charges, per diluted common share <sup>(1)</sup>	0.11	0.03	0.23	0.21
Acquisition-related intangible amortization, per diluted common share <sup>(2)</sup>	0.06	0.03	0.11	\$ 0.09
Other, per diluted common share <sup>(3)</sup>	0.05	—	0.10	—
Net income per diluted common share, adjusted (non-GAAP)(Adjusted EPS)	\$ 0.40	\$ 0.54	\$ 1.26	\$ 1.62

Net income per diluted share was \$0.18 and \$0.82 for the three and nine months ended September 30, 2017, a decrease of \$0.30 and \$0.50 when compared to the same periods of 2016. Adjusted EPS (non-GAAP) was \$0.40 and \$1.26 for the three and nine months ended September 30, 2017, a decrease of \$0.14 and \$0.36 compared to prior year. Net income in the year to date period of 2017 benefitted by \$3.4 million or \$0.06 per share from the release of an income tax valuation allowance in Europe during the second quarter. Domestic segment operating earnings were \$36.1 million in the quarter and \$102.8 million for the year to date period compared to \$41.0 million and \$126.2 million in the prior year comparative periods. The declines were largely a result of provider margin compression, the exit of a large customer in 2016 and lower income from manufacturer product price changes on a year to date basis. We expect the current trend of increased gross margin pressure to continue. The International segment operating losses were \$2.2 million for the quarter and \$0.8 million year to date, compared to operating earnings of \$1.4 million and \$3.4 million in the prior year. The change compared to prior year resulted primarily from increased costs to support new business. Proprietary Products operating earnings were \$9.1 million and \$26.0 million, reflecting decreases of \$5.2 million and \$15.8 million as a result of lower revenues compared to prior year and increased production costs.

#### Use of Non-GAAP Measures

Adjusted operating earnings, adjusted net income and adjusted EPS are an alternative view of performance used by management, and we believe that investors' understanding of our performance is enhanced by disclosing these performance measures. In general, the measures exclude items and charges that (i) management does not believe reflect our core business and relate more to strategic, multi-year corporate activities; or (ii) relate to activities or actions that may have occurred over multiple or in prior periods without predictable trends. Management uses these non-GAAP financial measures internally to evaluate our performance, evaluate the balance sheet, engage in financial and operational planning and determine incentive compensation.

Management provides these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results and in comparing our performance to that of our

competitors. However, the non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements set forth above should be carefully evaluated.

(1) Acquisition-related charges were \$4.3 million and \$6.3 million for the three and nine months ended September 30, 2017 compared to \$0.6 million and \$0.9 million for the same periods of 2016. Current year charges were primarily transaction and transition costs associated with the acquisition of Byram and the upcoming Halyard S&IP transaction. The prior year amounts related primarily to costs incurred to settle certain obligations and address other on-going matters associated with the acquisitions of ArcRoyal and Medical Action.

Exit and realignment charges were \$5.0 million and \$14.8 million for the three and nine months ended September 30, 2017. Current year charges were associated with severance from reduction in force and other employee costs associated with the establishment of our new client engagement centers, the write-down of information system assets which are no longer used and other IT restructuring charges. Expenses associated with the establishment of the client engagement center will continue to be recorded throughout 2017. Exit and realignment charges were \$2.1 million and \$19.1 million for the three and nine months ended September 30, 2016. These included severance activities (including our voluntary employee separation program in the first quarter of 2016), and other costs associated with our strategic organizational realignment which include certain professional fees and costs to streamline administrative functions and processes in the United States and Europe. More information about these charges is provided in Note 6 of Notes to Consolidated Financial Statements included in this quarterly report.

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

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

(4) These charges have been tax effected in the preceding table by determining the income tax rate depending on the amount of charges incurred in different tax jurisdictions and the deductibility of those charges for income tax purposes.

## Results of Operations

### Net revenue.

<i>(Dollars in thousands)</i>	Three Months Ended September 30,		Change	
	2017	2016	\$	%
Domestic	\$ 2,194,143	\$ 2,287,233	\$ (93,090)	(4.1)%
International	96,661	83,751	12,910	15.4 %
Proprietary Products	124,542	132,705	(8,163)	(6.2)%
Inter-segment	(81,385)	(88,088)	6,703	(7.6)%
Net revenue	\$ 2,333,961	\$ 2,415,601	\$ (81,640)	(3.4)%

<i>(Dollars in thousands)</i>	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
Domestic	\$ 6,518,571	\$ 6,954,687	\$ (436,116)	(6.3)%
International	287,555	255,861	31,694	12.4 %
Proprietary Products	392,654	409,022	(16,368)	(4.0)%
Inter-segment	(270,339)	(264,501)	(5,838)	2.2 %
Net revenue	\$ 6,928,441	\$ 7,355,069	\$ (426,628)	(5.8)%

Consolidated net revenue declined for both the three and nine months ended September 30, 2017, primarily as a result the exit of a large domestic customer in 2016, lower growth with existing domestic customers and one less sales day compared to prior year. Byram contributed \$80.3 million in revenue to the Domestic segment for the quarter and year to date. The

increase in the International segment was driven by growth with existing customers and new business as well as a favorable foreign currency translation impact of \$2.8 million for the quarter but offset by an unfavorable impact of \$12.4 million year to date. A decrease in sales of our sourced products contributed to the year over year change in the Proprietary Products segment.

**Cost of goods sold.**

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Cost of goods sold	\$ 2,032,019	\$ 2,119,326	\$ (87,307)	(4.1)%

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Cost of goods sold	\$ 6,071,787	\$ 6,462,739	\$ (390,952)	(6.0)%

Cost of goods sold includes the cost of the product (net of supplier incentives and cash discounts) and all costs incurred for shipments of products from manufacturers to our distribution centers for all customer arrangements where we are the primary obligor, bear risk of general and physical inventory loss and carry all credit risk associated with sales. These are referred to as distribution, including products sold through Byram, or buy/sell contracts. Cost of goods sold also includes direct and certain indirect labor, material and overhead costs associated with our Proprietary Products business. There is no cost of goods sold associated with our fee-for-service business. As a result of the decrease in sales activity through our distribution business, cost of goods sold decreased from prior year by \$87.3 million and \$391.0 million for the three and nine months ended September 30, 2017, respectively.

**Gross margin.**

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Gross margin	\$ 301,942	\$ 296,275	\$ 5,667	1.9%
<i>As a % of net revenue</i>	12.94%	12.27%		

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Gross margin	\$ 856,654	\$ 892,330	\$ (35,676)	(4.0)%
<i>As a % of net revenue</i>	12.36%	12.13%		

Gross margin for the quarter included positive contribution from Byram and a change in revenue mix offset by the impact of overall lower revenues, a decline in provider margin and lower income from manufacturer product price changes (on a year to date basis). The impact of foreign currency translation was favorable for the quarter by \$2.3 million and unfavorable by \$6.1 million for the year to date. With increasing customer cost pressures and competitive dynamics in healthcare, we believe the current trend of increased gross margin pressure will continue.

**Operating expenses.**

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Distribution, selling and administrative expenses	\$ 261,045	\$ 241,305	\$ 19,740	8.2%
<i>As a % of net revenue</i>	11.18%	9.99%		
Other operating (income) expense, net	\$ 1,927	\$ (1,337)	\$ 3,264	(244.1)%

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Distribution, selling and administrative expenses	\$ 735,353	\$ 726,944	\$ 8,409	1.2%
<i>As a % of net revenue</i>	10.61%	9.88%		

Other operating (income) expense, net \$ 2,143 \$ (5,179) \$ 7,322 (141.4)%

Distribution, selling and administrative (DS&A) expenses include labor and warehousing costs associated with our distribution and logistics services and all costs associated with our fee-for-service arrangements. Shipping and handling costs are included in DS&A expenses and include costs to store, move, and prepare products for shipment, as well as costs to deliver products to customers. The costs to convert new customers to our information systems are included in DS&A and are generally incurred prior to the recognition of revenues from the new customers.

Excluding Byram, DS&A as a percentage of revenue was 10.55% and 10.40% for the three and nine months ended September 30, 2017. Overall expenses reflected decreased sales activity in the quarter and year to date, benefits of cost control and productivity initiatives, and a favorable foreign currency translation impact of \$6.2 million year to date. These were offset in part by increased costs to support new business and unfavorable foreign currency translation impacts of \$2.3 million in the quarter. As a percentage of net revenue, the increases related to the large customer loss in 2016.

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

A discussion of the acquisition-related and exit and realignment charges is included above in the Overview section.

#### Interest expense, net.

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Interest expense, net	\$ 8,737	\$ 6,770	\$ 1,967	29.1%
<i>Effective interest rate</i>	4.15%	4.76%		

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Interest expense, net	\$ 22,218	\$ 20,324	\$ 1,894	9.3%
<i>Effective interest rate</i>	4.52%	4.79%		

The increase in interest expense and change in effective interest rate for the three and nine months ended September 30, 2017 were a result of the borrowings under our new Credit Agreement entered in July 2017.

#### Income taxes.

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Income tax provision	\$ 10,063	\$ 16,967	\$ (6,904)	(40.7)%
<i>Effective tax rate</i>	48.1%	36.3%		

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
<i>(Dollars in thousands)</i>				
Income tax provision	\$ 26,010	\$ 48,585	\$ (22,575)	(46.5)%
<i>Effective tax rate</i>	34.3%	37.3%		

The changes in the effective tax rate compared to 2016 resulted primarily from a change in income mix among different tax rate jurisdictions and the effect of certain acquisition-related costs which were not deductible for tax purposes offset on a year to date basis by the release of an income tax valuation allowance in Europe for \$3.4 million during the second quarter of 2017.

## Financial Condition, Liquidity and Capital Resources

**Financial condition .** We monitor operating working capital through days sales outstanding (DSO) and merchandise inventory turnover. We estimate a hypothetical increase (decrease) in DSO of one day would result in a decrease (increase) in our cash balances, an increase (decrease) in borrowings against our revolving credit facility, or a combination thereof of approximately \$25 million.

The majority of our cash and cash equivalents are held in cash depository accounts with major banks in the United States and Europe or invested in high-quality, short-term liquid investments. Changes in our working capital can vary in the normal course of business based upon the timing of inventory purchases, collection of accounts receivable, and payment to suppliers. Changes in shipping terms with certain of our suppliers have contributed to increased inventory and accounts payable and had an unfavorable impact on inventory turnover.

<i>(Dollars in thousands)</i>	September 30, 2017	December 31, 2016	Change	
			\$	%
Cash and cash equivalents	\$ 98,415	\$ 185,488	\$ (87,073)	(46.9)%
Accounts and notes receivable, net of allowances	\$ 732,756	\$ 606,084	\$ 126,672	20.9 %
<i>Consolidated DSO <sup>(1)</sup></i>	<i>27.6</i>	<i>23.1</i>		
Merchandise inventories	\$ 989,251	\$ 916,311	\$ 72,940	8.0 %
<i>Consolidated inventory turnover <sup>(2)</sup></i>	<i>8.1</i>	<i>9.2</i>		
Accounts payable	\$ 875,630	\$ 750,750	\$ 124,880	16.6 %

(1) Based on period end accounts receivable and net revenue for the quarter

(2) Based on average annual inventory and annualized cost of goods sold for the quarter ended September 30, 2017 and year ended December 31, 2016

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

<i>(Dollars in thousands)</i>	2017	2016
Net cash provided by (used for):		
Operating activities	\$ 5,645	\$ 144,511
Investing activities	(403,578)	(16,266)
Financing activities	305,723	(82,821)
Effect of exchange rate changes	5,137	6,652
Increase (decrease) in cash and cash equivalents	\$ (87,073)	\$ 52,076

Cash provided by operating activities was \$ 5.6 million in the first nine months of 2017, compared to \$144.5 million in the same period of 2016. The decrease in cash from operating activities for the first nine months of 2017 compared to the same period in 2016 was primarily due to unfavorable changes in working capital including inventory and accounts receivable balances.

Cash used for investing activities was \$ 403.6 million in the first nine months of 2017, compared to \$16.3 million in the same period of 2016. Investing activities in 2017 and 2016 related to capital expenditures for our strategic and operational efficiency initiatives, particularly initiatives relating to information technology enhancements and optimizing our distribution network. Cash used for investing activities in 2017 also includes the acquisition of Byram Healthcare for \$367 million.

Cash provided by financing activities in the first nine months of 2017 was \$ 305.7 million, compared to cash used of \$82.8 million in the same period of 2016. During the first nine months of 2017, we paid dividends of \$47.3 million (compared to \$47.8 million in 2016), repurchased common stock under a share repurchase program for \$5.0 million (compared to \$48.7 million in 2016) and borrowed on our new Credit Agreement (\$250 million term loan and \$117.2 million on our revolving credit facility). There were no borrowings in the prior year period.

**Capital resources.** Our sources of liquidity include cash and cash equivalents and a revolving credit facility. On July 27, 2017, we entered into a new Credit Agreement replacing the Amended Credit Agreement with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., Bank of America, N.A. and a syndicate of financial institutions (the Credit Agreement). The Credit Agreement provides borrowing capacity of \$600 million and a \$250 million term loan. We make principal payments under the term loan on a quarterly basis with the remaining outstanding principal due in five years. The revolving credit facility has a five-year maturity. Under the Credit Agreement, we have the ability to request two one-year extensions and to request an increase in aggregate commitments by up to \$200 million. The interest rate on the Credit Agreement, which is subject to

adjustment quarterly, is based on the London Interbank Offered Rate (LIBOR), the Federal Funds Rate or the Prime Rate, plus an adjustment based on the better of our debt ratings or leverage ratio (Credit Spread) as defined by the Credit Agreement. We are charged a commitment fee of between 12.5 and 25.0 basis points on the unused portion of the facility. The terms of the Credit Agreement limit the amount of indebtedness that we may incur and require us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition. We may utilize the revolving credit facility for long-term strategic growth, capital expenditures, working capital and general corporate purposes. If we were unable to access the revolving credit facility, it could impact our ability to fund these needs. Based on our leverage ratio at September 30, 2017, the interest rate under the credit facility is LIBOR plus 1.375%.

At September 30, 2017, we had borrowings of \$117.2 million and letters of credit of approximately \$5.1 million outstanding under the Credit Agreement, leaving \$477.7 million available for borrowing. We also have a \$1.3 million letter of credit outstanding as of September 30, 2017 and December 31, 2016 which supports our facilities leased in Europe.

We have \$275 million of 3.875% senior notes due 2021 (the “2021 Notes”) and \$275 million of 4.375% senior notes due 2024 (the “2024 Notes”). The 2021 Notes were sold at 99.5% of the principal amount with an effective yield of 3.951%. The 2024 Notes were sold at 99.6% of the principal amount with an effective yield of 4.422%. Interest on the 2021 Notes and 2024 Notes is payable semiannually in arrears, which commenced on March 15, 2015 and December 15, 2014, respectively. We have the option to redeem the 2021 Notes and 2024 Notes in part or in whole prior to maturity at a redemption price equal to the greater of 100% of the principal amount or the present value of the remaining scheduled payments discounted at the Treasury Rate plus 30 basis points.

In the third quarter of 2017, we paid cash dividends on our outstanding common stock at the rate of \$0.2575 per share, which represents a 1.0% increase over the rate of \$0.255 per share paid in the third quarter of 2016. We anticipate continuing to pay quarterly cash dividends in the future. However, the payment of future dividends remains within the discretion of the Board of Directors and will depend upon our results of operations, financial condition, capital requirements and other factors.

In October 2016, the Board of Directors authorized a share repurchase program of up to \$100 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in December 2019. The program is intended to offset shares issued in conjunction with our stock incentive plan and return capital to shareholders, and may be suspended or discontinued at any time. During the first nine months of 2017, we repurchased approximately 0.2 million shares for \$5.0 million under this program. At September 30, 2017, the remaining amount authorized for repurchase under this program was \$94.0 million.

We earn a portion of our operating earnings in foreign jurisdictions outside the U.S., which we consider to be indefinitely reinvested. Accordingly, no U.S. federal and state income taxes and withholding taxes have been provided on these earnings. Our cash, cash-equivalents, short-term investments, and marketable securities held by our foreign subsidiaries totaled \$60.7 million and \$82.1 million as of September 30, 2017 and December 31, 2016. We do not intend, nor do we foresee a need, to repatriate these funds or other assets held outside the U.S. In the future, should we require more capital to fund discretionary activities in the U.S. than is generated by our domestic operations and is available through our borrowings, we could elect to repatriate cash or other assets from foreign jurisdictions that have previously been considered to be indefinitely reinvested.

We believe available financing sources, including cash generated by operating activities and borrowings under the Credit Agreement and other committed financing, will be sufficient to fund our working capital needs, capital expenditures, long-term strategic growth, payments under long-term debt and lease arrangements, payments of quarterly cash dividends, share repurchases and other cash requirements. While we believe that we will have the ability to meet our financing needs in the foreseeable future, changes in economic conditions may impact (i) the ability of financial institutions to meet their contractual commitments to us, (ii) the ability of our customers and suppliers to meet their obligations to us or (iii) our cost of borrowing.

### **Recent Accounting Pronouncements**

For a discussion of recent accounting pronouncements, see our Annual Report on Form 10-K for the year ended December 31, 2016 and Note 15 in the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for the quarterly period ended on September 30, 2017 .

## Forward-looking Statements

Certain statements in this discussion constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe our expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of our knowledge of our business and operations, all forward-looking statements involve risks and uncertainties and, as a result, actual results could differ materially from those projected, anticipated or implied by these statements. Such forward-looking statements involve known and unknown risks, including, but not limited to:

- competitive pressures in the marketplace, including intense pricing pressure;
- our ability to retain existing and attract new customers in a market characterized by significant customer consolidation and intense cost-containment initiatives;
- our dependence on sales to certain customers or the loss or material reduction in purchases by key customers;
- our dependence on distribution of product of certain suppliers;
- our ability to successfully identify, manage or integrate acquisitions;
- our ability to successfully manage our international operations, including risks associated with changes in international trade regulations, foreign currency volatility, changes in regulatory conditions, deteriorating economic conditions, adverse tax consequences, and other risks of operating in international markets;
- uncertainties related to and our ability to adapt to changes in government regulations, including healthcare laws and regulations (including the Affordable Care Act);
- risks arising from possible violations of legal, regulatory or licensing requirements of the markets in which we operate;
- uncertainties related to general economic, regulatory and business conditions;
- our ability to successfully implement our strategic initiatives;
- the availability of and modifications to existing supplier funding programs and our ability to meet the terms to qualify for certain of these programs;
- our ability to adapt to changes in product pricing and other terms of purchase by suppliers of product;
- the ability of customers and suppliers to meet financial commitments due to us;
- changes in manufacturer preferences between direct sales and wholesale distribution;
- changing trends in customer profiles and ordering patterns and our ability to meet customer demand for additional value-added services;
- our ability to manage operating expenses and improve operational efficiencies in response to changing customer profiles;
- our ability to meet performance targets specified by customer contracts under contractual commitments;
- availability of and our ability to access special inventory buying opportunities;
- the ability of business partners and financial institutions to perform their contractual responsibilities;
- the effect of price volatility in the commodities markets, including fuel price fluctuations, on our operating costs and supplier product prices;
- our ability to continue to obtain financing at reasonable rates and to manage financing costs and interest rate risk;
- the risk that information systems are interrupted or damaged or fail for any extended period of time, that new information systems are not successfully implemented or integrated, or that there is a data security breach in our information systems;
- the risk that a decline in business volume or profitability could result in an impairment of goodwill or other long-lived assets;
- our ability to timely or adequately respond to technological advances in the medical supply industry;
- the costs associated with and outcome of outstanding and any future litigation, including product and professional liability claims;

- adverse changes in U.S. and foreign tax laws and the outcome of outstanding tax contingencies and legislative and tax proposals; and
- other factors described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2016.

We undertake no obligation to update or revise any forward-looking statements, except as required by applicable law.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from changes in interest rates related to our revolving credit facility. We had \$117.2 million in outstanding borrowings and approximately \$5.1 million in letters of credit under the revolving credit facility at September 30, 2017. A hypothetical increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately \$0.1 million per year for every \$10 million of outstanding borrowings under the revolving credit facility.

Due to the nature and pricing of our Domestic segment distribution services, we are exposed to potential volatility in fuel prices. Our strategies for helping to mitigate our exposure to changing domestic fuel prices has included entering into leases for trucks with improved fuel efficiency. We benchmark our domestic diesel fuel purchase prices against the U.S. Weekly Retail On-Highway Diesel Prices (benchmark) as quoted by the U.S. Energy Information Administration. The benchmark averaged \$2.58 per gallon in the first nine months of 2017, a increase from \$2.25 per gallon in the first nine months of 2016. Based on our fuel consumption in the first nine months of 2017, we estimate that every 10 cents per gallon increase in the benchmark would reduce our Domestic segment operating earnings by approximately \$0.3 million on an annualized basis.

In the normal course of business, we are exposed to foreign currency translation and transaction risks. Our business transactions outside of the United States are primarily denominated in the Euro and British Pound. We may use foreign currency forwards, swaps and options, where possible, to manage our risk related to certain foreign currency fluctuations. However, we believe that our foreign currency transaction risks are low since our revenues and expenses are typically denominated in the same currency.

### **Item 4. Controls and Procedures**

We carried out an evaluation, with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2017. There has been no change in our internal control over financial reporting during the quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

SEC guidance permits the exclusion of an evaluation of the effectiveness of a registrant's disclosure controls and procedures as they relate to the internal control over financial reporting for an acquired business during the year of an acquisition. In the third quarter of 2017, we acquired Byram Healthcare. This acquisition represented \$477 million of total assets and \$80.3 million of revenues as of and for the three months ended September 30, 2017. Management's evaluation and conclusion as to the effectiveness of the design and operation of the Company's disclosure controls and procedures as of and for the period covered by this report excludes any evaluation of the internal control over financial reporting of these acquisitions.

## **Part II. Other Information**

### **Item 1. Legal Proceedings**

Certain legal proceedings pending against us are described in our Annual Report on Form 10-K for the year ended December 31, 2016. Through September 30, 2017, there have been no material developments in any legal proceedings reported in such Annual Report.

### **Item 1A. Risk Factors**

Certain risk factors that we believe could affect our business and prospects are described in our Annual Report on Form 10-K for the year ended December 31, 2016. Through September 30, 2017, we have added the following risk factors. There have been no other material changes in the risk factors described in such Annual Report.



***We are subject to stringent regulatory and licensing requirements***

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

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

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

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

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

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

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

In October 2016, our Board of Directors authorized a share repurchase program of up to \$100 million of the company's outstanding common stock to be executed at the discretion of management over a three-year period. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the company from time to time and/or during the company's scheduled quarterly trading windows for officers and directors. We did not repurchase any shares for the three months ended September 30, 2017 .

**Item 6. Exhibits**

(a) Exhibits

31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Owens & Minor, Inc.  
(Registrant)

Date: November 1, 2017

/s/ Paul C. Phipps

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Paul C. Phipps  
President & Chief Executive Officer

Date: November 1, 2017

/s/ Richard A. Meier

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Richard A. Meier  
Executive Vice President, Chief Financial Officer & President, International

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul C. Phipps, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, of Owens & Minor, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Paul C. Phipps

Paul C. Phipps

President & Chief Executive Officer

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard A. Meier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, of Owens & Minor, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Richard A. Meier

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Richard A. Meier

Executive Vice President, Chief Financial Officer & President,  
International

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Owens & Minor, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul C. Phipps, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul C. Phipps

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Paul C. Phipps

President & Chief Executive Officer

Owens & Minor, Inc.

November 1, 2017

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Owens & Minor, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard A. Meier, Executive Vice President, Chief Financial Officer & President, International of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard A. Meier

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Richard A. Meier

Executive Vice President, Chief Financial Officer & President,  
International  
Owens & Minor, Inc.

November 1, 2017