OWENS & MINOR INC/VA/
Form 10-Q
August 03, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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

OR

For the transition period from ______ to ______

Commission file number 1-9810

Owens & Minor, Inc.

(Exact name of Registrant as specified in its charter)

Virginia	**54-1701843**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9120 Lockwood Boulevard, Mechanicsville, Virginia	**23116**

(Address of principal executive offices)	**(Zip Code)**
Post Office Box 27626, Richmond, Virginia	**23261-7626**
(Mailing address of principal executive offices)	**(Zip Code)**

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

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

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

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

The number of shares of Owens & Minor, Inc. s common stock outstanding as of July 31, 2006, was 40,180,897 shares.

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Owens & Minor, Inc. and Subsidiaries

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Part I. Financial Information

Item 1. Financial Statements

Owens & Minor, Inc. and Subsidiaries

Consolidated Statements of Income

(unaudited)

(in thousands, except per share data)	Three Months Ended June 30 2006	Three Months Ended June 30 2005	Six Months Ended June 30 2006	Six Months Ended June 30 2005
Revenue	$ 1,300,315	$ 1,210,894	$ 2,562,314	$ 2,404,494
Cost of revenue	1,159,086	1,082,126	2,284,895	2,149,888
Gross margin	141,229	128,768	277,419	254,606
Selling, general and administrative expenses	104,764	96,075	205,820	190,027
Depreciation and amortization	6,251	5,147	11,879	8,594
Other operating income and expense, net	(1,012)	(960)	(1,932)	(2,071)
Operating earnings	31,226	28,506	61,652	58,056
Interest expense, net	2,346	2,905	5,403	6,230
Loss on early extinguishment of debt	11,411		11,411	
Income before income taxes	17,469	25,601	44,838	51,826
Income tax provision	6,980	9,628	17,846	19,934
Net income	$ 10,489	$ 15,973	$ 26,992	$ 31,892
Net income per common share - basic	$ 0.26	$ 0.40	$ 0.68	$ 0.81
Net income per common share - diluted	$ 0.26	$ 0.40	$ 0.67	$ 0.80
Cash dividends per common share	$ 0.15	$ 0.13	$ 0.30	$ 0.26

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Consolidated Balance Sheets

(unaudited)

(in thousands, except per share data)

	June 30, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 74,104	$ 71,897
Accounts and notes receivable, net of allowances of $14,016 and $13,333	377,283	353,102
Merchandise inventories	470,230	439,887
Other current assets	32,069	29,666
Total current assets	953,686	894,552
Property and equipment, net of accumulated depreciation of $66,597 and $70,481	56,105	51,942
Goodwill, net	242,749	242,620
Intangible assets, net	20,543	18,383
Other assets, net	32,481	32,353
Total assets	$ 1,305,564	$ 1,239,850
Liabilities and shareholders equity		
Current liabilities		
Accounts payable	$ 443,520	$ 387,833
Accrued payroll and related liabilities	9,497	12,701
Other accrued liabilities	82,503	88,334
Total current liabilities	535,520	488,868
Long-term debt	197,698	204,418
Other liabilities	38,361	34,566
Total liabilities	771,579	727,852
Shareholders equity		
Preferred stock, par value $100 per share; authorized 10,000 shares Series A; Participating Cumulative Preferred Stock; none issued		
Common stock, par value $2 per share; authorized 200,000 shares; issued and outstanding 40,143 shares and 39,890 shares	80,286	79,781
Paid-in capital	139,679	133,653
Retained earnings	322,321	307,353
Accumulated other comprehensive loss	(8,301)	(8,789)
Total shareholders equity	533,985	511,998
Total liabilities and shareholders equity	$ 1,305,564	$ 1,239,850

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)	Six Months Ended June 30, 2006	2005
Operating activities		
Net income	$ 26,992	$ 31,892
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	11,879	8,594
Loss on early extinguishment of debt	11,411	
Provision for LIFO reserve	5,070	5,493
Stock-based compensation expense	2,945	1,051
Provision for losses on accounts and notes receivable	4,535	1,697
Deferred direct-response advertising costs	(4,842)	(2,421)
Changes in operating assets and liabilities:		
Accounts and notes receivable	(28,184)	6,901
Merchandise inventories	(35,320)	27,853
Accounts payable	59,811	45,553
Net change in other current assets and liabilities	(12,249)	(8,362)
Other, net	22	3,135
Cash provided by operating activities	42,070	121,386
Investing activities		
Additions to property and equipment	(8,286)	(14,093)
Additions to computer software	(2,869)	(1,510)
Acquisition of intangible assets	(2,090)	
Net cash paid for acquisitions of businesses	(3,721)	(60,619)
Other, net	(493)	11
Cash used for investing activities	(17,459)	(76,211)
Financing activities		
Net proceeds of issuance of long-term debt	198,134	
Repayment of long-term debt	(210,449)	
Cash dividends paid	(12,024)	(10,340)
Proceeds from exercise of stock options	2,924	3,452
Excess tax benefits related to stock-based compensation	1,221	
Decrease in drafts payable	(4,500)	(19,877)
Other, net	2,290	(122)
Cash used for financing activities	(22,404)	(26,887)
Net increase in cash and cash equivalents	2,207	18,288
Cash and cash equivalents at beginning of period	71,897	55,796
Cash and cash equivalents at end of period	$ 74,104	$ 74,084

See accompanying notes to consolidated financial statements.

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Owens & Minor, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(unaudited)

1. Accounting Policies

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which are comprised only of normal recurring accruals and the use of estimates) necessary to present fairly the consolidated financial position of Owens & Minor, Inc. and its wholly-owned subsidiaries (O&M or the company) as of June 30, 2006 and December 31, 2005, and the consolidated results of operations for the three- and six-month periods and cash flows for the six-month periods ended June 30, 2006 and 2005, in conformity with U.S. generally accepted accounting principles.

These financial statements are presented on a consolidated basis, and do not include condensed consolidating financial information, because i) all registered securities of the company are issued by the parent company, which has no independent assets or operations, ii) all securities that are guaranteed are fully, unconditionally, jointly and severally guaranteed by all significant subsidiaries, and iii) any subsidiaries of the parent company other than the subsidiary guarantors are minor.

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

2. Interim Results of Operations

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

3. Acquisitions

Effective February 24, 2006, the company acquired certain operating assets of a direct-to-consumer distributor of diabetic supplies for $2.3 million in total consideration. The assets acquired consisted primarily of customer relationships.

Effective June 30, 2006, the company acquired a Michigan-based, direct-to-consumer diabetes-supply company for $3.6 million in total consideration. The purchase price is subject to adjustment upon a final determination of the net working capital and total number of customers acquired. A preliminary allocation of the purchase price resulted in approximately $0.3 million of net tangible assets and $3.3 million of intangible assets, which consist primarily of customer relationships. The allocation of the purchase price is expected to be finalized after the valuation of certain acquired assets is complete.

The company entered the direct-to-consumer diabetic supply business on January 31, 2005, and from this date through June 30, 2006, the company has completed a series of acquisitions in this business. For the three-month periods ended June 30, 2006 and 2005, the direct-to-consumer diabetic supply business contributed $21.2 million and $14.5 million of revenue and $0.3 million and $0.8 million of operating earnings to the company. For the six-month periods ended June 30, 2006 and 2005, the direct-to-consumer diabetic supply business contributed $39.0 million and $22.9 million of revenue. Operating earnings were $0.0 million for the six-month period ended June 30, 2006, and $2.2 million for the corresponding period of 2005.

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4. Stock-Based Compensation

The company maintains stock-based compensation plans (Plans) that provide for the granting of stock options, stock appreciation rights (SARs), restricted common stock and common stock. The Plans are administered by the Compensation and Benefits Committee of the Board of Directors and allow the company to award or grant to officers, directors and employees incentive, non-qualified and deferred compensation stock options, SARs and restricted and unrestricted stock. At June 30, 2006, approximately 3.2 million common shares were available for issuance under the Plans.

Stock options awarded under the Plans are generally subject to graded vesting over three years and expire seven to ten years from the date of grant. The options are granted at a price equal to fair market value at the date of grant. Restricted stock awarded under the Plans generally vests over three or five years. Certain restricted stock grants contain accelerated vesting provisions, based on the satisfaction of certain performance criteria, related to the achievement of certain financial and operational results. At June 30, 2006, there were no SARs outstanding.

The company has a Management Equity Ownership Program. This program requires each of the company s officers to own the company s common stock at specified levels, which gradually increase over five years. Officers and certain other employees who meet specified ownership goals in a given year are awarded restricted stock under the provisions of the program.

The company also awards restricted stock under the Plans to officers and certain other employees based on pre-established objectives.

Effective January 1, 2006, the company adopted the provisions of Statement of Financial Accounting Standards No. (SFAS) 123(R), *Share-Based Payment,* a revision of SFAS 123, *Accounting for Stock-Based Compensation.* SFAS 123(R) also supersedes Accounting Principles Board Opinion No. (APB) 25, *Accounting for Stock Issued to Employees,* and amends SFAS 95, *Statement of Cash Flows.* SFAS 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values, while SFAS 123 as originally issued provided the option of recognizing share-based payments based on their fair values or based on their intrinsic values with pro forma disclosure of the effect of recognizing the payments based on their fair values. The company adopted the provisions of SFAS 123(R) using the modified prospective method, in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date and are expected to vest. The following table presents the effect of adopting SFAS 123(R) on the results of operations:

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(in thousands, except per share data)	For the Three Months Ended June 30, 2006		For the Six Months Ended June 30, 2006	
	As Reported	Effect of SFAS 123(R)	As Reported	Effect of SFAS 123(R)
Income before income taxes	$ 17,469	$ (1,167)	$ 44,838	$ (1,617)
Net income	10,489	(712)	26,992	(986)
Net income per basic common share	$ 0.26	$ (0.02)	$ 0.68	$ (0.02)
Net income per diluted common share	0.26	(0.02)	0.67	(0.02)
Cash provided by operating activities	$ 20,433	$ (55)	$ 42,070	$ (1,221)
Cash used for financing activities	$ 10,179	$ 55	$ 22,404	$ 1,221

The adoption of the provisions of SFAS 123(R) did not have a material cumulative effect on the company s financial position or results of operations at January 1, 2006.

Prior to January 1, 2006, the company used the intrinsic value method, as defined by Accounting Principles Board Opinion No. 25, to account for stock-based compensation. This method required compensation expense to be recognized for the excess of the quoted market price of the stock at the grant date or the measurement date over the amount an employee must pay to acquire the stock. The following table presents th