

OWENS & MINOR INC/VA/
Form 10-K
February 25, 2014
Table of Contents

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the year ended December 31, 2013

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number 1-9810

OWENS & MINOR, INC.
(Exact name of registrant as specified in its charter)

Virginia 54-1701843
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

9120 Lockwood Boulevard, Mechanicsville, Virginia 23116
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$2 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
6.35% Senior Notes due 2016	Not Listed

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Website, 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

Edgar Filing: OWENS & MINOR INC/VA/ - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of Common Stock held by non-affiliates (based upon the closing sales price) was approximately \$2,142,554,205 as of June 30, 2013.

The number of shares of the Company's common stock outstanding as of February 18, 2014 was 63,097,861 shares. Documents Incorporated by Reference

The proxy statement for the annual meeting of shareholders to be held on May 1, 2014, is incorporated by reference for Item 5 of Part II and Part III.

Table of Contents

Form 10-K Table of Contents

Item No.		Page
<u>Part I</u>		
1	<u>Business</u>	<u>3</u>
1A.	<u>Risk Factors</u>	<u>7</u>
1B.	<u>Unresolved Staff Comments</u>	<u>10</u>
2	<u>Properties</u>	<u>10</u>
3	<u>Legal Proceedings</u>	<u>10</u>
4	Mine Safety Disclosures	<u>10</u>
<u>Part II</u>		
5	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>10</u>
6	<u>Selected Consolidated Financial Data</u>	<u>13</u>
7	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>15</u>
7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>23</u>
8	<u>Financial Statements and Supplementary Data</u>	<u>24</u>
9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>24</u>
9A.	<u>Controls and Procedures</u>	<u>24</u>
9B.	<u>Other Information</u>	<u>24</u>
	<u>Management’s Report on Internal Control over Financial Reporting</u>	<u>25</u>
	<u>Report of Independent Registered Public Accounting Firm</u>	<u>26</u>
<u>Part III</u>		
10	<u>Directors and Executive Officers of the Registrant</u>	<u>27</u>
11	<u>Executive Compensation</u>	<u>27</u>
12	<u>Security Ownership of Certain Beneficial Owners and Management</u>	<u>27</u>
13	<u>Certain Relationships and Related Transactions</u>	<u>27</u>
14	<u>Principal Accountant Fees and Services</u>	<u>27</u>
<u>Part IV</u>		
15	<u>Exhibits and Financial Statement Schedules</u>	<u>28</u>

Corporate Officers, located on page 8 of the company’s printed Annual Report, can be found at the end of the electronic filing of this Form 10-K.

Table of Contents

Part I

Item 1. Business

General

Owens & Minor, Inc. and subsidiaries (we, us or our), a Fortune 500 company headquartered in Richmond, Virginia, is a leading healthcare logistics company that connects the world of medical products to the point of care. We provide vital supply chain assistance to the providers of healthcare services and the manufacturers of healthcare products, supplies and devices in the United States and Europe. We serve our customers with a service portfolio that covers procurement, inventory management, delivery and sourcing for the healthcare market. With fully developed networks in the United States and Europe, we are equipped to serve a customer base ranging from hospitals, integrated healthcare systems, group purchasing organizations, and the U.S. federal government, to manufacturers of life-science and medical devices and supplies, including pharmaceuticals in Europe. The description of our business should be read in conjunction with the consolidated financial statements and supplementary data included in this Form 10-K. Founded in 1882, Owens & Minor was incorporated in 1926 in Richmond, Virginia. We focus our operations on healthcare logistics services and provide our customers with a service portfolio that covers procurement, inventory management, delivery and sourcing for the healthcare market. Through organic growth and acquisitions over many years, we significantly expanded and strengthened our company, achieving national scale in the United States healthcare market. On August 31, 2012, we acquired the Movianto Group (Movianto), an established European healthcare third-party logistics provider. As a result of the acquisition, we have entered into third-party logistics services for the pharmaceutical, biotechnology and medical device industries in the European market, leveraging an existing platform that also expands our ability to serve our United States-based manufacturer customers on an international level.

Our Domestic segment includes all functions in the United States relating to our role as a healthcare services company providing distribution and logistics services to healthcare providers and manufacturers. The International segment consists of Movianto, our European third-party logistics service. Financial information by segment and geographic area beginning with the acquisition of Movianto in 2012 appears in Note 20, "Segment Information," of the Notes to Consolidated Financial Statements included in this annual report.

The Domestic Segment

The Healthcare Supply Industry in the United States

Healthcare supply volumes in the United States are dependent on the rates of utilization of medical/surgical procedures by consumers, which are subject to fluctuation according to the condition of the domestic economy and other factors. Aside from consumer-driven activity, the healthcare supply industry is also experiencing growing demand for advanced logistics services from healthcare providers and manufacturers that are focused on achieving more efficient and cost-effective supply-chain operations.

In the United States, healthcare supply distributors contract with group purchasing organizations (GPOs) that negotiate distribution contracts on behalf of their healthcare provider members and also contract directly with healthcare providers and manufacturers for their services.

Healthcare providers are increasingly consolidating into larger, more sophisticated networks that are actively seeking reductions in the total cost of delivering healthcare products. These healthcare providers face complex financial challenges, including managing the cost of purchasing, receiving, storing and tracking supplies. Economic trends have also driven significant consolidation within the healthcare supply industry due to the competitive advantages enjoyed by larger organizations. Among these advantages are the ability to serve customers in widespread geographic locations, purchase inventory in large volume, develop technology platforms and decision-support systems and provide expertise to healthcare providers and manufacturers to help reduce supply chain costs.

Table of Contents

Our Products and Services

We offer a comprehensive portfolio of products and services to healthcare providers and manufacturers in the United States. Our portfolio of medical and surgical supplies includes branded products purchased in large volume from manufacturers and our own proprietary MediChoice® private-label products, which are internally sourced through our sourcing joint venture in China or through a select group of manufacturers. We store these items at our distribution centers and provide delivery of these products, along with related services, to healthcare providers around the nation. Most supplies are delivered using a leased fleet and almost all of our delivery personnel are our teammates, ensuring a consistent level of performance and customer service. In situations where they are more cost-effective and timely, we use contract carriers and parcel delivery services. We customize product deliveries, whether the orders are “just-in-time,” “low-unit-of-measure,” pallets, or truckloads. We also customize delivery schedules according to customers’ needs to increase their efficiency in receiving and storing the product. We have deployed automation equipment in low-unit-of-measure picking modules in our larger distribution centers to maximize efficiency, and our distribution center teammates use voice-pick technology to enhance speed and accuracy in certain warehousing processes. We also offer additional services to healthcare providers including supplier management, analytics, inventory management, outsourced resource management, clinical supply management and business process consulting. Our value-add services help providers improve their process for contracting with vendors, purchasing supplies and streamlining inventory. These include our operating room-focused inventory management program that helps healthcare providers manage suture and endo-mechanical inventory, as well as our customizable surgical supply service that includes the assembly and delivery of surgical supplies in procedure-based totes to coincide with the healthcare providers’ surgical schedule.

The majority of our distribution arrangements compensate us on a cost-plus percentage basis, under which a negotiated percentage distribution fee is added to the contract cost agreed to by the customer and the supplier. We price our services for certain other activities under an activity-based pricing model. In these cases, pricing depends upon the range, level or complexity of service that we provide to customers, and in some cases we do not take title to the product involved although we maintain certain custodial risks. As a result, this fee-for-service pricing model aligns the fees we charge with the cost of the services provided, which is a component of selling, general and administrative expenses, rather than with the cost of the product, which is a component of cost of goods sold.

We offer a variety of programs and services dedicated to providing logistics and marketing solutions to our manufacturer customers as well. These programs and services are designed to help manufacturers increase market share, drive sales growth, or achieve operational efficiencies. Manufacturer programs are generally negotiated on an annual basis and provide for enhanced levels of support that are aligned with the manufacturer’s annual objectives and growth goals. We have contractual arrangements with manufacturers participating in these programs that provide performance-based incentives to us, as well as cash discounts for prompt payment. Program incentives can be earned on a monthly, quarterly or annual basis.

All of our services utilize a common infrastructure of distribution centers, equipment, technology, and delivery methods (internal fleet, common carrier or parcel services). We operate a network of 43 distribution centers located throughout the continental United States, which are strategically located to efficiently serve our provider and manufacturer customers. A significant investment in information technology supports the business and efficiently manages growth, including warehouse management systems, customer service and ordering functions, demand forecasting programs, electronic commerce, data warehousing, decision support and supply-chain management, as well as significant enhancements to back office systems and overall technology infrastructure. During 2012, we initiated a three-year, \$50 million investment in our information technology infrastructure in the United States designed to achieve operational and data-management efficiencies, improve customer service, and reduce increases in future operating expenses.

The International Segment

Our Products and Services

Our International segment, comprised of Movianto, represented 4.2% of our consolidated net revenues during 2013. Movianto is a European contract logistics service provider to the pharmaceutical, biotechnology and healthcare industry, offering a broad range of supply chain logistics services to manufacturers. Our warehousing and

transportation offerings include storage, controlled-substance handling, cold-chain, emergency and export delivery, inventory management and pick & pack services. Our other services include order-to-cash, re-labeling, kitting, packaging, customer service and returns management.

4

Table of Contents

Movianto has a network of 20 logistics centers in 11 European countries, including Belgium, Czech Republic, Denmark, France, Germany, Netherlands, Portugal, Slovakia, Spain, Switzerland and the United Kingdom. To serve its clients, Movianto uses a fleet of leased and owned trucks, including cold-chain delivery trucks. The majority of our drivers are Movianto teammates, although contract carriers and parcel services are used in situations where they are more cost-effective and timely.

Movianto's client contracts are generally for three-year terms with rolling automatic one year extension periods. The tendering or competitive bidding process typically takes 12 to 18 months from the initial client request for proposal until becoming operational. Movianto offers significant flexibility to tailor contracts to specific client requirements, and it benefits from the expansion of clients into additional European countries. Pricing may be activity-based, with fees determined by clients' particular requirements for warehousing, handling and delivery services, or it may be based on buy-sell wholesaler arrangements for product and distribution services.

As a part of the Movianto acquisition in 2012, we entered into transition support services agreements with the former owner of Movianto under which it provides certain information technology and support services for terms ranging from six to 24 months. These services were substantially completed at the end of 2013.

Our Customers

We currently provide distribution, outsourced resource management and/or consulting services to thousands of healthcare provider customers. These customers include multi-facility networks of healthcare providers offering a broad spectrum of healthcare services to a particular market or markets (IHNs) as well as smaller, independent hospitals in the United States. In addition to contracting with healthcare providers at the IHN level and through GPOs, we also contract with other types of healthcare providers including surgery centers, physicians' practices and smaller networks of hospitals that have joined together to negotiate terms. We have contracts to provide distribution services to the members of a number of national GPOs, including Novation, LLC (Novation), MedAssets Inc. (MedAssets), Premier, Inc. (Premier) and HealthTrust Purchasing Group (HPG). In 2012 and 2013, we renewed the distribution agreements with all four GPOs to continue our status as an authorized distributor for their member healthcare providers and allow us to compete with other authorized distributors for the business of individual members. Below is a summary of these agreements:

GPO	Year of Renewal	Term	Sales to Members as a % of Consolidated Net Revenue in 2013
Novation	2012	5 years*	33%
MedAssets	2013	3 years	24%
Premier	2013	3 years	21%
HPG	2013	5 years	9%

* Agreement also includes two one-year renewals after the initial term

We have our own independent relationships with most of our hospital customers through separate contractual commitments that may or may not be based upon the terms of our agreement with the GPO. As a result, the termination or expiration of an agreement with a particular GPO would not necessarily mean that we would lose the members of such GPO as our customers.

Our supplier and manufacturer customers represent the largest and most influential healthcare manufacturers in the industry. We have long-term relationships with these important companies in the healthcare supply chain and have long provided traditional distribution services to them. We currently have relationships with approximately 1,300 of these supplier and manufacturer customers. In the Domestic segment, sales of products supplied by subsidiaries of Covidien Ltd. accounted for approximately 13% of our consolidated net revenue for 2013. Sales of products supplied by Johnson & Johnson Health Care Systems, Inc. were approximately 10% of our consolidated net revenue for 2013. In Europe, we serve a diverse customer base of approximately 600 manufacturer clients, including pharmaceutical, biotechnology and medical device manufacturers.

Table of Contents

Asset Management

In the healthcare supply distribution industry, a significant investment in inventory and accounts receivable is required to meet the rapid delivery requirements of customers and provide high-quality service. As a result, efficient asset management is essential to our profitability. We continually work to refine our processes to optimize inventory and collect accounts receivable.

Inventory

We are focused in our efforts to optimize inventory and continually consolidate products and collaborate with supply-chain partners on inventory productivity initiatives. When we convert large-scale, multi-state IHN customers to our distribution network, an additional investment in inventory in advance of expected sales is generally required. We actively monitor inventory for obsolescence and use inventory turnover and other operational metrics to measure our performance in managing inventory.

Accounts Receivable

In the normal course of business, we provide credit to our domestic and European customers and use credit management techniques to evaluate customers' creditworthiness and facilitate collection. These techniques may include performing initial and ongoing credit evaluations of customers based primarily on financial information provided by them and from sources available to the general public. We also use third-party information from sources such as credit reporting agencies, banks and other credit references. We actively manage our accounts receivable to minimize credit risk, days sales outstanding (DSO) and accounts receivable carrying costs. Our ability to accurately invoice and ship product to customers enhances our collection results and drives our positive DSO performance. We also have arrangements with certain customers under which they make deposits on account, either because they do not meet our standards for creditworthiness or in order to obtain more favorable pricing.

Competition

The medical/surgical supply distribution and healthcare logistics industries are highly competitive in the United States and Europe. The U.S. sector includes Owens & Minor, Inc., as well as two major nationwide manufacturers who also provide distribution services, Cardinal Health, Inc. and privately-held Medline, Inc. In addition, we compete with a number of regional and local distributors and customer self-distribution models. Major logistics competitors serving healthcare manufacturers in the United States and in Europe include United Parcel Service, FedEx Corporation, Deutsche Post DHL and Alloga, as well as local competitors in specific countries.

Regulation

The medical/surgical supply distribution industry in the United States is subject to regulation by federal, state and local government agencies. Each of our distribution centers is licensed to distribute medical and surgical supplies, as well as certain pharmaceutical and related products. We must comply with laws and regulations, including those governing operations, storage, transportation, safety and security standards for each of our distribution centers, of the Food and Drug Administration, the Drug Enforcement Agency, the Department of Transportation, the Department of Homeland Security, the Occupational Safety and Health Administration, and state boards of pharmacy, or similar state licensing boards and regulatory agencies. We are also subject to various federal and state laws intended to protect the privacy of health or other personal information and to prevent healthcare fraud and abuse. We believe we are in material compliance with all statutes and regulations applicable to distributors of medical and surgical supply products and pharmaceutical and related products, including the Healthcare Insurance Portability and Accountability Act of 1996 (HIPAA), Medicare, Medicaid, as well as applicable general employment and employee health and safety laws and regulations.

Movianto is subject to local, country and European-wide regulations, including those promulgated by the European Medicines Agency (EMA), a decentralized agency of the European Union responsible for the scientific evaluation of medicines developed by pharmaceutical companies for use in the European Union. In addition, quality requirements are imposed by healthcare industry manufacturers which audit Movianto on a regular basis. Each of our logistics centers in Europe is licensed to distribute medical and surgical supplies, as well as certain pharmaceutical and related products, according to the country-specific requirements. We believe we are in material compliance with all statutes and regulations, including Good Distribution Practices sponsored by the European Commission. Movianto is also ISO 9001:2008 certified across the entire enterprise.

Table of Contents

Employees

At the end of 2013, we employed approximately 4,900 full- and part-time teammates in the Domestic segment and 1,800 in the International segment. Most of our international teammates are covered by collective bargaining agreements. Ongoing teammate training is critical to performance and we use Owens & Minor University®, an in-house training facility, to offer classes in leadership, management development, finance, operations, safety and sales. We continue to have positive relationships with teammates and European works councils.

Available Information

We make our Forms 10-K, Forms 10-Q and Forms 8-K (and all amendments to these reports) available free of charge through the SEC Filings link in the Investor Relations content section on our website located at www.owens-minor.com as soon as reasonably practicable after they are filed with or furnished to the SEC.

Information included on our website is not incorporated by reference into this Annual Report on Form 10-K.

You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding the company (<http://www.sec.gov>).

Additionally, we have adopted a written Code of Honor that applies to all of our directors, officers and teammates, including our principal executive officer and senior financial officers. This Code of Honor (including any amendments to or waivers of a provision thereof) and our Corporate Governance Guidelines are available on our website at www.owens-minor.com.

Item 1A. Risk Factors

Set forth below are certain risk factors that we currently believe could materially and adversely affect our business, financial condition and prospects. These risk factors are in addition to those mentioned in other parts of this report and are not all of the risks that we face. We could also be affected by risks that we currently are not aware of or that we currently do not consider material to our business.

Competition

The medical/surgical supply distribution industry in the United States is highly competitive and characterized by intense pricing pressure. We compete with other national distributors and a number of regional and local distributors, as well as customer self-distribution models and, to a lesser extent, certain third-party logistics companies.

Competitive factors within the medical/surgical supply distribution industry include market pricing, total delivered product cost, product availability, the ability to fill and invoice orders accurately, delivery time, range of services provided, efficient product sourcing, inventory management, information technology, electronic commerce capabilities, and the ability to meet customer-specific requirements. Our success is dependent on the ability to compete on the above factors, while managing internal costs and expenses. These competitive pressures could have a material adverse effect on our results of operations.

In addition, in recent years, the healthcare industry in the United States has experienced and continues to experience significant consolidation in response to cost containment legislation and general market pressures to reduce costs. This consolidation of our customers and suppliers generally gives them greater bargaining power to reduce the pricing available to them, which may adversely impact our results of operations.

The healthcare third-party logistics business in both the United States and abroad also is characterized by intense competition from a number of international, regional and local companies, including large conventional logistics companies that are moving into the healthcare and pharmaceutical distribution business. This competitive market places continuous pricing pressure on us from customers and manufacturers that could adversely affect our results of operations and financial condition if we are unable to continue to increase our revenues and to offset margin reductions caused by pricing pressures through cost control measures.

Dependence on Significant Healthcare Provider Customers

In 2013, our top ten customers in the United States represented approximately 23% of our consolidated net revenue. In addition, in 2013, approximately 77% of our consolidated net revenue was from sales to member hospitals under

contract with our largest group purchasing organizations (GPO): Novation, MedAssets and Premier. We could lose a significant customer or GPO relationship if an existing contract expires without being replaced or is terminated by the customer or GPO prior to its

7

Table of Contents

expiration (if permitted by the applicable contract). Although the termination of our relationship with a given GPO would not necessarily result in the loss of all of the member hospitals as customers, any such termination of a GPO relationship, or a significant individual customer relationship, could have a material adverse effect on our results of operations.

Dependence on Significant Domestic Suppliers

In the United States, we distribute products from nearly 1,300 suppliers and are dependent on these suppliers for the continuing supply of products. In 2013, sales of products of our ten largest domestic suppliers accounted for approximately 53% of consolidated net revenue. We rely on suppliers to provide agreeable purchasing and delivery terms and performance incentives. Our ability to sustain adequate operating earnings has been, and will continue to be, partially dependent upon our ability to obtain favorable terms and incentives from suppliers, as well as suppliers continuing use of third-party distributors to sell and deliver their products. A change in terms by a significant supplier, or the decision of such a supplier to distribute its products directly to healthcare providers rather than through third-party distributors, could have a material adverse effect on our results of operations.

Integration of Acquisitions

In connection with our growth strategy, we from time to time acquire other businesses that we believe will expand or complement our existing businesses and operations. In 2012, we completed our first international acquisition through our purchase of Movianto, which has facilities in 11 European countries and operates throughout the European marketplace. The integration of acquisitions, particularly international acquisitions, involves a number of significant risks, which may include but are not limited to, the following:

- Expenses and difficulties in the transition and integration of operations and systems;
 - Retention of current customers and the ability to obtain new customers;
 - The assimilation and retention of personnel, including management personnel, in the acquired businesses;
 - Accounting, tax, regulatory and compliance issues that could arise;
 - Difficulties in implementing uniform controls, procedures and policies in our acquired companies, or in remediating control deficiencies in acquired companies not formerly subject to the Sarbanes-Oxley Act of 2002;
 - Unanticipated expenses incurred or charges to earnings based on unknown circumstances or liabilities;
 - Failure to realize the synergies and other benefits we expect from the acquisition at the pace we anticipate;
 - General economic conditions in the markets in which the acquired businesses operate; and
 - Difficulties encountered in conducting business in markets where we have limited experience and expertise.
- If we are unable to successfully complete and integrate our strategic acquisitions in a timely manner, our business, growth strategies and results of operations could be adversely affected.

International Operations

Our acquisition of Movianto represents our first significant movement into the international marketplace. Additionally, in 2011, we entered into a joint venture in China to provide product sourcing services. Operations outside the United States involve issues and risks, including but not limited to the following, any of which could have an adverse effect on our business and results of operations:

- Lack of familiarity with and expertise in conducting business in foreign markets;
- Foreign currency fluctuations and exchange risk;
- Unexpected changes in foreign regulations or conditions relating to labor, economic or political environment, and social norms or requirements;
- Adverse tax consequences and difficulties in repatriating cash generated or held abroad;
- Local economic environments, such as in the European markets served by Movianto, including recession, inflation, indebtedness, currency volatility and competition; and
- Changes in trade protection laws and other laws affecting trade and investment, including import/export regulations in both the United States and foreign countries.

International operations are also subject to risks of violation of laws that prohibit improper payments to and bribery of government officials and other individuals and organizations for the purpose of obtaining or retaining business. These laws include the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other similar laws and regulations in

foreign jurisdictions, any violation of which could result in substantial liability and a loss of reputation in the marketplace. Failure to comply with these laws also could subject us to civil and criminal penalties that could adversely affect our business and results of operations.

Table of Contents

Changes in the Healthcare Environment in the United States

We, along with our customers and suppliers, are subject to extensive federal and state regulations relating to healthcare as well as the policies and practices of the private healthcare insurance industry. In recent years, there have been a number of government and private initiatives to reduce healthcare costs and government spending. These changes have included an increased reliance on managed care; reductions in Medicare and Medicaid reimbursement levels; consolidation of competitors, suppliers and customers; a shift in healthcare provider venues from acute care settings to clinics, physician offices and home care; and the development of larger, more sophisticated purchasing groups. All of these changes place additional financial pressure on healthcare provider customers, who in turn seek to reduce the costs and pricing of products and services provided by us. We expect the healthcare industry to continue to change significantly and these potential changes, which may include a reduction in government support of healthcare services, adverse changes in legislation or regulations, and further reductions in healthcare reimbursement practices, could have a material adverse effect on our results of operations.

In March 2010, federal healthcare legislation known as the Affordable Care Act was enacted. This healthcare reform legislation includes, among other things, provisions for expanded Medicaid eligibility and access to healthcare insurance as well as increased taxes and fees on certain corporations and medical products. Effective January 1, 2013, the Affordable Care Act imposed a 2.3% federal excise tax on manufacturers for sales of certain medical devices. In the event these manufacturers attempt to pass all or a portion of this excise tax through to us, or in the event such tax leads manufacturers to offer less favorable terms and incentives to distributors, our profitability could be adversely impacted. The provisions of the Affordable Care Act will not be fully implemented until 2018 and, although there is no way to predict the full impact of the law on the healthcare industry and our operations, its implementation may have an adverse effect on both customer purchasing and payment behavior and supplier product prices and terms of sale, all of which could adversely affect our results of operations.

Regulatory Requirements

We must comply with numerous laws and regulations in the United States, Europe, Asia and other countries where we distribute. We also are required to hold permits and licenses and to comply with the operational and security standards of various governmental bodies and agencies. Any failure to comply with these laws and regulations or any failure to maintain the necessary permits, licenses or approvals, or to comply with the required standards, could disrupt our operations and/or adversely affect our results of operations and financial condition. In addition, we are subject to various federal and state laws intended to prevent healthcare fraud and abuse. The requirements of these fraud and abuse laws are complicated and subject to interpretation and may be applied by a regulator, prosecutor or judge in a manner that could negatively impact us financially or operationally.

General Economic Climate

The financial and economic climate in recent years continues to have a negative impact on most sectors of the domestic economy and the international markets in which Movianto operates. This uncertain financial and economic climate has reduced patient demand for healthcare services, reduced product price inflation, intensified pressures on healthcare providers to reduce both costs and purchases of our products and services and could compromise our customers' ability to timely pay for their purchases. Poor economic conditions could lead our suppliers to offer less favorable terms of purchase to distributors, which would negatively affect our profitability. These and other possible consequences of financial and economic changes could materially and adversely affect our business and results of operations.

Bankruptcy, Insolvency or other Credit Failure of Customers

We provide credit in the normal course of business to customers. We perform initial and ongoing credit evaluations of customers and maintain reserves for credit losses. The bankruptcy, insolvency or other credit failure of one or more customers with substantial balances due to us could have a material adverse effect on our results of operations.

Reliance on Information Systems and Technological Advancement

We rely on information systems to receive, process, analyze and manage data in distributing thousands of inventory items to customers from numerous distribution and logistics centers. These systems are also relied upon for billings to and collections from customers, as well as the purchase of and payment for inventory and related transactions from our suppliers. In addition, the success of our long-term growth strategy is dependent upon the ability to continually

monitor and upgrade our information systems to provide better service to customers. Our business and results of operations may be materially adversely affected if systems are interrupted or damaged by unforeseen events (including cyber attacks) or fail to operate for an extended period of time, or if we fail to appropriately enhance our systems to support growth and strategic initiatives.

9

Table of Contents

Changes in Tax Laws

We operate throughout the United States and Europe as well as in China. As a result, we are subjected to the tax laws and regulations of the United States federal, state and local governments and of various foreign jurisdictions. From time to time, legislative and regulatory initiatives are proposed, including but not limited to proposals to repeal LIFO (last-in, first-out) treatment of domestic inventory or changes in tax accounting methods for inventory or other tax items, that could adversely affect our tax positions, tax rate or cash payments for taxes.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our Domestic segment had 43 distribution centers as well as office and warehouse space across the United States as of December 31, 2013. We lease all of these distribution centers from unaffiliated third parties. We also lease offices in China and Malaysia as well as small offices for sales and consulting personnel across the United States. In addition, we have a warehousing arrangement in Honolulu, Hawaii, with an unaffiliated third party, and lease space on a temporary basis from time to time to meet our inventory storage needs. We own our corporate headquarters building, and adjacent acreage, in Mechanicsville, Virginia, a suburb of Richmond, Virginia.

Our International segment leases 18 and owns two logistics centers across 11 European countries. We also operate seven transport depots, of which we lease six and own one. We also lease office space in Stuttgart, Germany. We regularly assess our business needs and make changes to the capacity and location of distribution and logistics centers. We believe that our facilities are adequate to carry on our business as currently conducted. A number of leases are scheduled to terminate within the next several years. We believe that, if necessary, we could find facilities to replace these leased premises without suffering a material adverse effect on our business.

Item 3. Legal Proceedings

We are subject to various legal actions that are ordinary and incidental to our business, including contract disputes, employment, workers' compensation, product liability, regulatory and other matters. We establish reserves from time to time based upon periodic assessment of the potential outcomes of pending matters. In addition, we believe that any potential liability arising from employment, product liability, workers' compensation and other personal injury litigation matters would be adequately covered by our insurance coverage, subject to policy limits, applicable deductibles and insurer solvency. While the outcome of legal actions cannot be predicted with certainty, we believe, based on current knowledge and the advice of counsel, that the outcome of these currently pending matters, individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

Part II

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Owens & Minor, Inc.'s common stock trades on the New York Stock Exchange under the symbol OMI. As of February 13, 2014, there were approximately 3,484 common shareholders of record. We believe there are an estimated additional 30,985 beneficial holders of our common stock. See Selected Quarterly Financial Information in Item 15 of this report for high and low closing sales prices of our common stock and quarterly cash dividends per common share and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of our dividend payments.

Table of Contents

5-Year Total Shareholder Return

The following performance graph compares the performance of our common stock to the S&P 500 Index and an Industry Peer Group (which includes the companies listed below) for the last five years. This graph assumes that the value of the investment in the common stock and each index was \$100 on December 31, 2008, and that all dividends were reinvested.

The Industry Peer Group, weighted by market capitalization, consists of companies engaged in the business of healthcare product distribution. The Peer Group includes pharmaceutical distribution companies: AmerisourceBergen Corporation, Cardinal Health, Inc., and McKesson Corporation; and medical product distribution companies: Henry Schein, Inc., and Patterson Companies, Inc.

Company Name / Index	Base Period	Years Ended				
	12/2008	12/2009	12/2010	12/2011	12/2012	12/2013
Owens & Minor, Inc.	\$100.00	\$116.81	\$123.13	\$119.43	\$126.30	\$166.60
S&P 500 Index	100.00	126.46	145.51	148.59	172.37	228.19
Peer Group	100.00	146.87	174.80	190.01	223.72	359.71

Share Repurchase Program. In February 2011, our Board of Directors authorized a share repurchase program of up to \$50 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in February 2014. The program is intended to offset shares issued in conjunction with our stock incentive plan and may be suspended or discontinued at any time. During the year ended December 31, 2013, we repurchased in open-market transactions and retired 560 thousand shares at an average price per share of \$33.72. As of December 31, 2013, we have no remaining shares authorized for repurchase.

In February 2014, our Board of Directors renewed our share repurchase program authorizing the purchase of \$100 million in common stock through 2017. The timing of repurchases and the number of shares of common stock to be repurchased will be determined by management based upon market conditions and other factors. The program is intended, in part, to offset shares issued in conjunction with our stock incentive plan and may be suspended or discontinued at any time.

Table of Contents

The following table summarizes the share repurchase activity by month during the fourth quarter of 2013.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of a publicly announced program	Maximum dollar value of shares that may yet be purchased under the program
October 2013	41,600	\$ 34.58	41,600	\$ 1,737,703
November 2013	21,200	\$ 36.88	21,200	\$ 955,593
December 2013	25,770	\$ 37.09	25,770	\$ —
Total	88,570		88,570	

Table of Contents

Item 6. Selected Consolidated Financial Data

(in thousands, except ratios and per share data)

	At or for the Year Ended December 31,					
	2013 ⁽²⁾	2012 ⁽³⁾	2011 ⁽⁴⁾	2010 ⁽⁵⁾	2009	
Summary of Operations:						
Net revenue ⁽⁹⁾	\$9,071,532	\$8,868,324	\$8,627,912	\$8,123,608	\$8,037,624	
Income from continuing operations	\$110,882	\$109,003	\$115,198	\$110,579	\$116,859	
Loss from discontinued operations, net of tax ⁽¹⁾	—	—	—	—	(12,201)	
Net income	\$110,882	\$109,003	\$115,198	\$110,579	\$104,658	
Per Common Share⁽⁶⁾ :						
Net income (loss) attributable to Owens & Minor, Inc. per common share—basic:						
Continuing operations	\$1.76	\$1.72	\$1.82	\$1.76	\$1.87	
Discontinued operations	—	—	—	—	(0.19)	
Net income per share—basic	\$1.76	\$1.72	\$1.82	\$1.76	\$1.68	
Net income (loss) attributable to Owens & Minor, Inc. per common share—diluted:						
Continuing operations	\$1.76	\$1.72	\$1.81	\$1.75	\$1.86	
Discontinued operations	—	—	—	—	(0.19)	
Net income per share—diluted	\$1.76	\$1.72	\$1.81	\$1.75	\$1.67	
Cash dividends	\$0.960	\$0.880	\$0.800	\$0.708	\$0.613	
Stock price at year end	\$36.56	\$28.51	\$27.79	\$29.43	\$28.62	
Summary of Financial Position:						
Total assets	\$2,324,042	\$2,214,398	\$1,946,815	\$1,822,039	\$1,747,088	
Cash and cash equivalents	\$101,905	\$97,888	\$135,938	\$159,213	\$96,136	
Total debt	\$216,243	\$217,591	\$214,556	\$210,906	\$210,917	
Total Owens & Minor, Inc. shareholders' equity	\$1,023,913	\$972,526	\$918,087	\$857,518	\$769,179	
Selected Ratios:						
Gross margin as a percent of revenue	12.31	% 10.43	% 9.94	% 9.94	% 10.13	%
Selling, general, and administrative expenses as a percent of revenue	9.52	% 7.70	% 7.08	% 6.94	% 7.37	%
Operating earnings as a percent of revenue	2.18	% 2.22	% 2.36	% 2.41	% 2.50	%
Days sales outstanding (DSO) ⁽⁷⁾	22.1	20.8	20.7	19.6	21.4	
Average annual inventory turnover ⁽⁸⁾	10.4	10.1	10.2	10.4	10.6	

(1) In January 2009, we exited our direct-to-consumer diabetes supply (DTC) business. Accordingly, the DTC business is presented as discontinued operations for all periods presented.

(2) We incurred charges of \$12.4 million (\$8.9 million after tax, or \$0.14 per common share) associated with acquisition-related and exit and realignment activities in 2013. See Notes 3 and 9 of Notes to Consolidated Financial Statements.

(3) We incurred charges of \$10.2 million (\$8.2 million after tax, or \$0.13 per common share) associated with acquisition-related and exit and realignment activities in 2012. See Notes 3 and 9 of Notes to Consolidated Financial Statements.

We incurred charges of \$13.2 million (\$8.0 million after tax, or \$0.13 per common share) associated with (4) acquisition-related and exit and realignment activities in 2011. See Note 9 of Notes to Consolidated Financial Statements.

Table of Contents

- (5) We terminated our frozen defined benefit pension plan in the fourth quarter of 2010 and recognized a settlement charge of \$19.6 million (\$11.9 million after tax, or \$0.19 per common share).
On March 31, 2010, we effected a three-for-two stock split of our outstanding shares of common stock in the form of a stock dividend of one share of common stock for every two shares outstanding to stockholders of record on
- (6) March 15, 2010. The common stock began trading on a post-split basis on April 1, 2010. All share and per-share data (except par value) have been adjusted to reflect this split.
- (7) Based on net revenue for the fourth quarter of the year.
- (8) Based on cost of goods sold for the preceding 12 months.
- (9) 2012 net revenue has been revised to reflect current year revenue presentation. See Note 1 of Notes to Consolidated Financial Statements.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations is intended to assist the reader in the understanding and assessment of significant changes and trends related to the results of operations of the Company together with its subsidiaries. The discussion and analysis presented below refers to, and should be read in conjunction with, the consolidated financial statements and accompanying notes included in Item 8 of Part II of this Annual Report on Form 10-K.

Overview

Owens & Minor, Inc., along with its subsidiaries, (we, us, or our) is a leading national distributor of name-brand medical and surgical supplies and a healthcare logistics company. We report our business under two segments: Domestic and International. The Domestic segment includes all services in the United States relating to our role as a medical supply logistics company serving healthcare providers and manufacturers. The International segment, which is comprised of the Movianto Group (Movianto) acquired on August 31, 2012, provides third-party logistics for the pharmaceutical, biotechnology and medical device industries in the European market. Segment financial information is provided in Note 20 of Notes to the Consolidated Financial Statements included in this annual report.

Financial Highlights.

The following table provides a reconciliation of reported operating earnings, net income and diluted net income per common share to non-GAAP measures used by management:

(Dollars in thousands, except per share data)	For the years ended December 31,		
	2013	2012	2011
Operating earnings, as reported (GAAP)	\$ 198,083	\$ 196,753	\$ 203,515
Acquisition-related and exit and realignment charges	12,444	10,164	13,168
Operating earnings, adjusted (non-GAAP) (Adjusted Operated Earnings)	\$ 210,527	\$ 206,917	\$ 216,683
Adjusted Operating Earnings as a percent of revenue (non-GAAP)	2.32	% 2.33	% 2.51
Net income attributable to Owens & Minor, Inc., as reported (GAAP)	\$ 110,882	\$ 109,003	\$ 115,198
Acquisition-related and exit and realignment charges, net of tax	8,856	8,200	7,993
Net income, adjusted (non-GAAP) (Adjusted Net Income)	\$ 119,738	\$ 117,203	\$ 123,191
Net income attributable to Owens & Minor, Inc. per diluted common share, as reported (GAAP)	\$ 1.76	\$ 1.72	\$ 1.81
Acquisition-related and exit and realignment charges, per diluted common share	0.14	0.13	0.13
Net income per diluted common share, adjusted (non-GAAP) (Adjusted EPS)	\$ 1.90	\$ 1.85	\$ 1.94

Use of Non-GAAP Measures

Our management's discussion and analysis contains financial measures that are not calculated in accordance with U.S. generally accepted accounting principles (GAAP). 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.

Table of Contents

Acquisition-related charges, pre-tax, of \$3.5 million and \$10.5 million in 2013 and 2012 are associated with Movianto and \$0.5 million in 2011 is related to the establishment of our joint venture in China. Acquisition-related charges in 2013 primarily consist of costs to transition Movianto's information technology and other operations and administrative functions from the former owner. Charges in 2012 are primarily transaction costs incurred to perform due diligence and to analyze, negotiate and consummate the acquisition and costs to perform post-closing activities to establish a tax-efficient organizational structure. Exit and realignment charges (income), pre-tax, of \$8.9 million, \$(0.4) million and \$12.7 million in 2013, 2012 and 2011 are associated with optimizing our operations and include the consolidation of distribution and logistics centers and closure of offsite warehouses in the United States and Europe. Net of tax charges have been tax effected in the preceding table using a blended income tax rate depending on the amount of charges incurred in different tax jurisdictions. Unless otherwise stated, our analysis hereinafter excludes acquisition-related and exit and realignment charges. More information about these charges is provided in Notes 3 and 9 of Notes to Consolidated Financial Statements included in this annual report.

Adjusted EPS increased to \$1.90 in 2013 from \$1.85 in 2012 primarily due to an increase in Adjusted Operating Earnings of \$3.6 million. Domestic segment operating earnings were \$211.9 million for 2013, a decrease of \$0.4 million when compared to the prior year. International segment operating losses improved over the prior year by \$4.0 million to \$1.4 million for 2013. The Domestic segment operating earnings were affected by higher gross margin, which was fully offset by higher selling, general and administrative expenses. The International segment operating loss includes a full year of activity which showed improving results in the second half of 2013.

Results of Operations

2013 compared to 2012

Net revenue.	For the years ended		Change		
	December 31,				
(Dollars in thousands)	2013	2012	\$	%	
Domestic	\$8,688,018	\$8,731,484	\$(43,466)	(0.5))%
International	383,514	136,840	246,674	180.3	%
Net revenue	\$9,071,532	\$8,868,324	\$203,208	2.3	%

Net revenue for the current year increased due to a full year of activity in our International segment compared to four months in the prior year. Domestic segment revenue continued to be impacted by ongoing market trends including lower rates of healthcare utilization. In addition, our continued rationalization of smaller, less profitable healthcare provider customers and suppliers and reduced government purchases were not fully offset by growth in existing customers, fee-for-service and new business. Fee-for-service business represents approximately two-thirds of net revenue in the International segment.

Gross margin.	For the years ended		Change		
	December 31,				
(Dollars in thousands)	2013	2012	\$	%	
Gross margin	\$1,117,075	\$924,654	\$192,421	20.8	%
As a % of net revenue	12.31	% 10.43	%		

Gross margin increased primarily due to a full year of Movianto activity in the current year which contributed \$177.4 million to the year over year change. The Domestic segment gross margin benefitted from strategic initiatives including growth in fee-for-service business during the year and supplier price changes in the first and second quarters of 2013 at a higher level than in 2012.

Table of Contents

We value Domestic segment inventory under the LIFO method. Had inventory been valued under the first-in, first-out (FIFO) method, gross margin as a percentage of net revenue would have been lower by 3 basis points in 2013 and higher by 5 basis points in 2012.

	For the years ended		Change		
	December 31,				
(Dollars in thousands)	2013	2012	\$	%	
SG&A expenses	\$863,656	\$682,595	\$181,061	26.5	%
As a % of net revenue	9.52	% 7.70			%
Depreciation and amortization	\$50,586	\$39,604	\$10,982	27.7	%
Other operating income, net	\$(7,694)	\$(4,462)	\$(3,232)	72.4	%

Selling, general and administrative (SG&A) expenses include labor, warehousing, handling and delivery costs associated with our distribution and logistics services, as well as labor costs for our supply-chain consulting services and all costs associated with our fee-for-service business. The costs to convert new customers to our information systems are generally incurred prior to the recognition of revenues from new customers. The International segment also includes costs for information technology and other transition services provided by the former owners of Movianto which were substantially completed in 2013.

SG&A expense increased by \$165.4 million in the current year due to a full year of activity in Movianto. Domestic SG&A expense also increased over the prior year due to greater fee-for-service sales activity, increased costs to support strategic initiatives and higher costs associated with workers' compensation, litigation and healthcare. During the second quarter of 2013, we reached a settlement in the administrative proceedings before the California Board of Equalization related to certain municipal sales tax incentives. As a result, SG&A expenses were reduced in 2013 by a net amount of \$4.3 million, which was fully offset by the increased costs noted above. In the future, the company expects to receive an ongoing tax incentive that will vary with eligible revenues generated by sales to California-based customers. More information about this incentive is provided in Note 18 of Notes to Consolidated Financial Statements included in this annual report.

Depreciation and amortization expense increase in the current year was primarily related to warehouse equipment and information technology hardware and software acquired with Movianto. In addition, depreciation and amortization increased \$0.8 million in the Domestic segment due to software enhancements for operational efficiency improvements.

Other operating income includes finance charge income of \$6.0 million and \$4.9 million in 2013 and 2012. The increase over the prior year was due to \$1.6 million increase in income associated with product financing arrangements with customers in Europe, \$0.8 million in foreign exchange gains and a net \$0.9 million in Domestic charges incurred in 2012 associated with specific litigation matters and loss contingency expenses which did not recur in the current year.

	For the years ended		Change		
	December 31,				
(Dollars in thousands)	2013	2012	\$	%	
Interest expense, net	\$13,098	\$13,397	\$(299))