

OWENS & MINOR INC/VA/
Form 10-K
February 25, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the year ended December 31, 2009

.. **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)

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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

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

Non-accelerated filer

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 \$1,827,205,921 as of June 30, 2009.

The number of shares of the Company's common stock outstanding as of February 19, 2010 was 41,959,865 shares.

Documents Incorporated by Reference

The proxy statement for the annual meeting of shareholders on April 30, 2010, is incorporated by reference for Item of Part II and Part III.

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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.

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Part I

Item 1. Business

The Company

Owens & Minor, Inc. and subsidiaries (Owens & Minor, O&M or the company) is a Fortune 500 company providing distribution and other supply chain management services to healthcare providers and suppliers of medical and surgical products, and is a leading national distributor of medical and surgical supplies to the acute-care market. The description of the company's business should be read in conjunction with the consolidated financial statements and supplementary data included in this Form 10-K.

The company's core service consists of the distribution of finished medical and surgical products procured from over 1,400 suppliers to approximately 4,600 healthcare provider customers from 51 distribution and service centers nationwide. In serving its healthcare customers, including acute-care and alternate site providers and healthcare products suppliers, O&M also provides a range of data analysis tools and outsourced resource management and consulting services, such as inventory, supply spending and contract management.

The company typically provides its supply chain management services, including distribution services, under contractual arrangements with healthcare providers such as hospitals, hospital-based systems, and alternate site providers. Most of O&M's revenue is derived from the distribution to healthcare providers of consumable medical and surgical goods. In addition, in providing consulting and outsourcing services to the healthcare market, Owens & Minor enters into fee-based service contracts of varying lengths and terms with customers.

Owens & Minor was founded in 1882 and incorporated in 1926 in Richmond, Virginia, as a wholesale drug company. Since 1992, the company has been focused on medical and surgical supply distribution. O&M has significantly expanded and strengthened its national presence through internal growth and acquisitions. Additional information regarding the company's recent acquisition activity is included in Note 3 of the Notes to Consolidated Financial Statements included in this Form 10-K.

The Healthcare Supply Distribution Industry

Distributors of medical and surgical supplies provide a wide variety of products and services to healthcare providers and suppliers. Healthcare providers include hospitals, hospital-based systems and alternate site providers. Distributors contract with healthcare providers, including integrated healthcare networks (IHNs), directly and with group purchasing organizations (GPOs) that negotiate distribution contracts on behalf of their members. Distributors also serve healthcare suppliers by selling and distributing suppliers' healthcare products, including supplies used in medical treatment and surgical procedures.

The healthcare supply distribution industry continues to grow, as the aging population in the United States increases its use of healthcare services, and as emerging medical technology leads to the development of new products and procedures. The healthcare distribution industry is also growing as healthcare providers and suppliers focus on improving the management of their supply chain operations. Healthcare providers rely on strategic relationships with national medical and surgical supply distributors to perform traditional warehousing and delivery functions, as well as to efficiently manage their entire supply chain. Healthcare product suppliers also turn to distributors for supply chain management expertise and services.

Consolidation trends in the overall healthcare market have led to the creation of larger and more sophisticated healthcare providers, which increasingly seek methods to lower the total cost of delivering healthcare services. These healthcare providers face a variety of financial challenges, including the cost of purchasing, receiving, storing and tracking medical and surgical supplies. These trends have driven significant consolidation within the healthcare supply distribution industry due to the competitive advantages enjoyed by larger distributors, which include, among other things, the ability to serve customers with multiple locations, buy inventory in large volume, and develop technology platforms and decision support systems. Distributors have

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also developed services to help reduce supply chain costs for both healthcare providers and suppliers by streamlining the supply chain through more effective inventory, supply spending and contract management.

The Healthcare Supply Distribution Business Model

Through its healthcare provider distribution business, the company purchases a large volume of medical and surgical products from suppliers, stores these items at its distribution centers, and provides delivery of these products and related services to its customers.

In serving the healthcare industry, O&M also provides outsourced resource management and consulting services, which make use of the company's proprietary supply chain management programs and technology. The company's OMSolutionSM team provides to acute-care providers fee-based consulting and outsourcing services designed to improve the provider supply chain through better management of inventory, supply spending and related data.

In addition, O&M works closely with healthcare suppliers to furnish mutual healthcare provider customers with vital medical and surgical supplies. In 2009, the company expanded its supplier-oriented supply chain management services to include a third-party logistics offering branded as OM Healthcare LogisticsSM (OM HCL). OM HCL offers flexible warehousing and distribution services and business process outsourcing services to healthcare suppliers, enabling them to take advantage of O&M's advanced supply chain management expertise and significant presence in the healthcare industry.

The company has 51 distribution centers located throughout the continental United States; three of these are integrated service centers serving the needs of specific healthcare systems and one is dedicated to OM HCL's third-party logistics services. The company's distribution centers generally serve hospitals and other customers within a 200-mile radius, delivering most customer orders with a fleet of leased trucks. Almost all of O&M's delivery personnel are employees of the company, thereby increasing the consistency of customer service. Contract carriers and parcel services are used in situations where they are more cost-effective, including for OM HCL. The company customizes its product pallets, truckloads and delivery schedules according to customers' needs, to increase their efficiency in receiving and storing the product. Sales, logistics, credit management and operations teammates are located at or near distribution centers to manage service to customers. In certain of its distribution centers, Owens & Minor uses automation equipment in its low-unit-of-measure picking modules, and has deployed voice-pick technology to improve speed and accuracy in certain warehousing processes.

O&M's supply chain management offering is supported by a significant investment in information technology infrastructure and services. O&M uses a variety of software and information technology systems to support its business needs and efficiently manage its business growth, including warehouse management systems, customer service functions, and demand forecasting programs. The company employs a number of customer-facing technology solutions, including OMDirectSM, an Internet-based product catalog and direct ordering system that facilitates commerce with customers and suppliers.

Products & Services

The company offers customers a portfolio of products and services. Distribution of medical and surgical supplies to healthcare providers, including O&M's MediChoice[®] private label product line, accounts for over 95% of the company's revenues. Additional services include logistics, supplier management, analytics, inventory and outsourced resource management and consulting and clinical supply management. Examples of the company's service offerings include the following:

PANDAC[®] is O&M's operating room-focused inventory management program that helps healthcare providers reduce and control suture and endo-mechanical inventory. Detailed analysis and ongoing reporting decreases redundancy and obsolescence, and increases inventory turns, which in turn reduces investment in these high-cost products.

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SurgiTrack® is O&M's customizable surgical supply service that includes the assembly and delivery of surgical supplies in procedure-based totes, based on a healthcare provider's surgical schedule. The SurgiTrack® program also provides in-depth assessment and information to enable healthcare providers to standardize their procedure-based totes, reduce inventory and streamline workflow.

OMSolutionsSM is O&M's supply chain consulting, customer technology and resource management service offering. OMSolutionsSM implements customized healthcare supply chain solutions through the integration of people, processes and technologies. Services offered by OMSolutionsSM decrease supply chain costs while increasing operating efficiency. For example, OMSolutionsSM provides clinician consultants who work one-on-one with hospital staff to standardize and efficiently utilize products, processes and technologies. Other examples of OMSolutionsSM services are in-depth value analysis and cost management, receiving and storeroom redesign, conducting physical inventories, and configuration of automatic inventory replenishment systems. Additional service offerings provided by OMSolutionsSM are WISDOM GoldSM and Clinical Supply SolutionsSM (CSS).

WISDOM GoldSM is an Internet-based supply spend management, data normalization and contract management solution which is supported by OMSolutionsSM analysts, either on-site or remote, who identify cost saving opportunities for customers. WISDOM GoldSM enables customers to gain deeper understanding and control over their supply procurement and contracting efforts.

CSS is an inventory and contract management service that enables healthcare providers to reduce expenses by accurately tracking and managing physician-preference products and medical/surgical inventories in high-cost clinical specialty departments, such as cardiac catheterization labs, radiology and operating rooms. CSS is enabled by O&M's proprietary web-based technology, including a complete database of products, and the expertise of the company's inventory specialists and professional analysts.

OM Healthcare LogisticsSM is O&M's offering of customized third-party logistics and business process outsourcing services, primarily provided to medical device and life science companies. This business provides flexible warehousing and distribution services to meet unique product requirements. OM HCL also includes full order-to-cash services, including reverse logistics and chargeback management. The distribution center dedicated to OM HCL has earned ISO 9001 quality management certification. OM HCL's services are enabled by sophisticated supply chain management software and technology.

Customers

The company currently provides distribution, outsourced resource management and consulting services to approximately 4,600 healthcare providers, including acute-care hospitals, which are the company's primary customers. Many of the hospital customers are represented by IHNs or GPOs that negotiate pricing with suppliers and also contract for distribution services with the company. Other customers include the federal government, for which Owens & Minor serves as a prime vendor for medical and surgical supply distribution services for the U.S. Department of Defense. On a more limited basis, the company serves alternate site providers including ambulatory surgery centers, physicians' practices, clinics, home healthcare organizations, nursing homes and rehabilitation facilities. The company also provides supply chain management services including third-party logistics and business process outsourcing services to manufacturers of medical and surgical products.

GPOs and IHNs

GPOs are entities that act on behalf of a group of healthcare providers to obtain better pricing and other benefits than may be available to individual providers. Hospitals, physicians and other types of healthcare providers have joined GPOs to take advantage of improved economies of scale and to obtain services from medical and surgical supply distributors ranging from discounted product pricing to logistical and clinical support. GPOs negotiate directly with medical and surgical product suppliers and distributors on behalf of their members, establishing exclusive or multi-supplier relationships; however, GPOs cannot ensure that members will purchase their supplies from a particular distributor.

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O&M has contracts to provide distribution services to the members of a number of national GPOs, including Novation, LLC (Novation), Premier Purchasing Partners, L.P. (Premier) and Broadlane, Inc. (Broadlane). O&M's agreement with Novation expires in August 2011 and is renewable for two additional years. Sales to Novation members represented approximately 37% and 38% of the company's revenue in 2009 and 2008. The company's agreement with Premier expires December 2011. Sales to Premier members represented approximately 20% of O&M's revenue in both 2009 and 2008. The company has a five-year agreement with Broadlane expiring in January 2012. Sales to Broadlane members represented approximately 12% of O&M's revenue in both 2009 and 2008.

IHNs are typically networks of commonly owned or managed healthcare providers that seek to offer a broad spectrum of healthcare services and geographic coverage to a particular market. IHNs are significant in the acute-care market because of their expanding role in healthcare delivery and cost containment and their reliance upon the hospital as a key component of their organizations. Because IHNs frequently rely on cost containment as a competitive advantage, IHNs have become an important source of demand for O&M's enhanced inventory management and other value-added services.

Individual Providers

In addition to contracting with healthcare providers at the IHN level and through GPOs, O&M contracts directly with individual healthcare providers and smaller networks of healthcare providers that have joined together to negotiate terms.

Sales and Marketing

O&M's healthcare provider sales and marketing function is organized to support field sales teams throughout the United States. Local sales teams are positioned to respond to customer needs quickly and efficiently. National account directors work closely with IHNs and GPOs to meet their needs and coordinate activities with individual members. The company also has an enterprise sales team that coordinates the company's service offerings for large customers. The company's integrated sales and marketing strategy offers customers value-added services in supplier management, distribution and logistics, analytics, outsourced resource management and consulting, and clinical supply management. The company provides training and sales tools to help its sales teammates demonstrate the value of its portfolio of programs and services.

Pricing

Industry practice is for healthcare providers, or their IHNs or GPOs, to negotiate product pricing directly with suppliers and then negotiate distribution pricing terms with distributors. The medical/surgical supply distribution industry is characterized by intense pricing pressure.

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

In some cases, the company may offer pricing that varies during the life of the contract depending upon purchase volume, and, as a result, the negotiated fixed-percentage distribution fee may increase or decrease over time as purchase volumes change. Under these contracts, customers distribution fees may be reset after a measurement period to either more or less favorable pricing based on significant changes in purchase volume. If a customer's distribution fee percentage is adjusted, the modified percentage distribution fee applies only to

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purchases made following the change. Because customer sales volumes typically change gradually, changes in distribution fee percentages for individual customers under this type of arrangement have an insignificant effect on total company results.

Pricing under O&M's CostTrackSM activity-based pricing model differs from pricing under a traditional cost-plus model. With CostTrackSM, the pricing of services is based on the costs to O&M of providing the services required by the customer. As a result, this pricing model aligns distribution fees charged with the costs of the individual services provided.

OMSolutionsSM pricing is based on professional rates and costs of managing and providing a team or individual to provide specific services. Additionally, pricing for technology services is based on the structure and complexity of the customer engagement, including spending level and number of contracts, system interfaces and facilities. The company has contracts for its OMSolutionsSM and other supply chain management services which include performance targets related to cost-saving initiatives for customers that result from the company's services. Achievement against these performance targets is measured as determined by contractual terms. In the event the performance targets are not achieved, the company may be obligated to refund or reduce a portion of its fees or to provide a credit toward future purchases by the customer.

OM Healthcare LogisticsSM pricing is activity-based, with service-based fees determined by customers' particular requirements.

Suppliers

O&M believes that its size, strength and long-standing relationships enable it to obtain attractive terms from suppliers, and the company has well-established relationships with virtually all major suppliers of medical and surgical supplies. The company works with its largest suppliers to create operating efficiencies in the supply chain through a number of programs which drive product standardization and consolidation for the company and its healthcare provider customers. By increasing the volume of purchases from the company's most efficient suppliers, the company provides operational benefits and cost savings throughout the supply chain.

The company works very closely with its supplier base to enlist participation in a variety of O&M supplier program offerings. O&M supplier programs provide for enhanced levels of support that are closely aligned with annual supplier objectives in the areas of product market share and sales growth attainment. O&M receives incentives from these suppliers, including cash discounts for prompt payment and operational efficiency and performance-based programs. Operational efficiency programs are negotiated annually. Sales of products from suppliers participating in these supply chain efficiency programs represented approximately 45% of O&M's 2009 revenue.

O&M offers a private label brand of medical and surgical products and equipment, known as MediChoice[®], which provides cost-saving alternatives on over 2,400 commodity products. O&M sources its MediChoice[®] products from a select group of manufacturers known for their quality and high service levels. Through its offering of both MediChoice[®] products and branded supplier products, the company offers a comprehensive product portfolio to its customers.

Sales of products supplied by Covidien accounted for approximately 14% of the company's revenue for both 2009 and 2008. Sales of products supplied by Johnson & Johnson Health Care Systems, Inc. were approximately 10% and 11% of the company's revenue for 2009 and 2008.

Information Technology

To support its strategic efforts, the company has implemented information systems to manage all aspects of operations, including order fulfillment, customer service, warehouse and inventory management, asset

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management, electronic commerce, and financial management. O&M believes its investment in and use of technology in the management of operations provides the company with a significant competitive advantage.

O&M has an agreement with Dell Perot Systems through July 2014 to outsource its information technology operations. This agreement includes the management and operation of information technology and infrastructure, as well as support, development and enhancement of all key business systems.

The company's technology strategy and expenditures focus on customer service, electronic commerce, data warehousing, decision support, supply-chain management, warehousing management, and sales and marketing programs, as well as significant enhancements to back office systems and overall technology infrastructure. O&M uses electronic commerce technology to conduct business transactions with customers, suppliers and other trading partners. The company's proprietary technology includes the OMDirectSM internet order fulfillment system and the WISDOM GoldSM knowledge management and decision support system.

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 the company's profitability. O&M is focused on effective processes to optimize inventory and collect accounts receivable.

Inventory

The significant and ongoing emphasis on cost control in the healthcare industry increases the pressure on suppliers, distributors and healthcare providers to manage their inventory more efficiently. O&M's response to these ongoing challenges has been to develop inventory management capabilities based upon proven planning techniques; to utilize a highly flexible client/server warehouse management system; to standardize product whenever possible; and to collaborate with supply chain partners on inventory productivity initiatives, including vendor-managed inventory, freight optimization and lead-time reductions.

Accounts Receivable

O&M provides credit in the normal course of business to its customers and utilizes credit management techniques to evaluate customers creditworthiness and to facilitate collection. These techniques 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. As part of credit evaluations, the company also uses third-party information from sources such as credit reporting agencies, as well as bank and credit references. O&M actively manages its accounts receivable to minimize credit risk, days sales outstanding (DSO) and accounts receivable carrying costs. Field and home office specialists work together in collecting accounts receivable and resolving disputed balances. The company's ability to properly invoice and ship product to its customers enhances its collection results and, accordingly, its DSO performance. Also, O&M has arrangements with certain customers under which they make deposits on account. These deposits are received from customers, either because they do not meet the company's standards for creditworthiness or in order to obtain more favorable pricing.

Competition

The acute-care medical/surgical supply distribution industry in the United States is highly competitive. The sector includes two major nationwide distributors: O&M and Cardinal Health, Inc., a smaller national distributor of medical and surgical supplies, Medline, Inc., and a number of regional and local distributors, as well as customer self-distribution models.

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

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commerce capabilities, and the ability to meet customer-specific requirements. O&M believes its emphasis on technology, combined with a customer-focused approach to distribution and value-added services, enables it to compete effectively with both larger and smaller distributors.

Direct-to-Consumer Supply Distribution Business

The company exited its direct-to-consumer supply distribution business (DTC business) to focus on its distribution business for healthcare providers and suppliers. In January 2009, the company sold certain assets of this business, including customer data and intellectual property, to Liberty Healthcare Group, Inc., a subsidiary of Medco Health Solutions, Inc. for \$63.0 million. O&M retained the remaining assets and liabilities of the business, including accounts receivable. The company operated the DTC business under the trade name AOM Healthcare Solutions (AOM) beginning with its acquisition of Access Diabetic Supply, LLC in 2005. AOM primarily marketed blood glucose monitoring devices, test strips and other ancillary products used by diabetic consumers for self-testing, mainly through direct-response advertising using a variety of media. The company substantially completed its exit from this business by the end of the second quarter of 2009, by liquidating its remaining assets and vacating its leased premises. Additional information regarding this discontinued operation is included in Note 4 of the Notes to Consolidated Financial Statements included in this Form 10-K.

Other Matters

Regulation

The medical/surgical supply distribution industry is subject to regulation by federal, state and local government agencies. Each of O&M's distribution centers is licensed to distribute medical and surgical supplies, as well as certain pharmaceutical and related products. The company must comply with laws and regulations, including those governing operating, storage, transportation, safety and security standards for each of its distribution centers, of the Food and Drug Administration, the Department of Transportation, the Department of Homeland Security, the Occupational Safety and Health Administration, state boards of pharmacy, or similar state licensing boards and regulatory agencies. The company also is subject to various federal and state laws intended to protect the privacy of health or other personal information and prevent healthcare fraud and abuse. In addition, the DTC business was required to comply with Medicare regulations regarding billing practices. O&M believes it is in material compliance with all statutes and regulations applicable to distributors of medical and surgical supply products and pharmaceutical and related products, 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.

Employees

At the end of 2009, the company employed approximately 4,800 full- and part-time teammates. O&M believes that ongoing teammate training is critical to performance, using Owens & Minor University, an in-house training facility, to offer classes in leadership, management development, finance, operations, safety and sales. Management believes that relations with teammates are good.

Available Information

The company makes its 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 the company's 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 the company's website is not incorporated by reference into this Annual Report on Form 10-K.

You may read and copy any materials the company files 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>).

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

Item 1A. Risk Factors

Set forth below are certain risk factors that the company believes could materially affect its business, financial condition and prospects. These risk factors are in addition to those mentioned in other parts of this report and are not the only risks the company faces.

Competition

The medical/surgical supply distribution industry in the United States is highly competitive and characterized by intense pricing pressure. The company competes with other national distributors and a number of regional and local distributors as well as customer self-distribution models. 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 special requirements of customers. The company's success is dependent on its ability to compete on the above factors, while managing internal costs and expenses. These competitive pressures could have a material adverse effect on the company's results of operations.

Dependence on Significant Customers

In 2009, the company's top ten customers represented approximately 20% of its revenue. In addition, in 2009, approximately 70% of the company's revenue was from sales to member hospitals under contract with its three largest GPOs: Novation, Premier and Broadlane. The company 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 expiration (if permitted by the applicable contract). Although the termination of the company's 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 the company's results of operations.

The company has a contract with Defense Supply Center, Philadelphia (DSCP) under which the U.S. Department of Defense, the company's largest customer, and other federal agencies purchase supplies and services. The DSCP contract expires in October 2010. A significant decline in volume of sales under this contract, less favorable terms or a failure to renew the contract upon expiration could have a material adverse effect on the company's results of operations.

Dependence on Significant Suppliers

The company distributes products from over 1,400 suppliers and is dependent on these suppliers for the continuing supply of products. In 2009, sales of products of the company's ten largest suppliers accounted for approximately 54% of revenue. The company relies on suppliers to provide agreeable purchasing and delivery terms and performance incentives. The company's ability to sustain adequate operating earnings has been, and will continue to be, partially dependent upon its 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 the company's results of operations.

Bankruptcy, Insolvency or other Credit Failure of Customers

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

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insolvency or other credit failure of one or more customers with substantial balances due to the company could have a material adverse effect on the company's results of operations.

Changes in the Healthcare Environment

O&M, its customers and its 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; consolidation of competitors, suppliers and customers; and the development of larger, more sophisticated purchasing groups. All of these changes place additional financial pressure on healthcare providers, who in turn seek to reduce the costs and pricing of products and services provided by the company. The company expects 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 reductions in healthcare reimbursement practices, could have a material adverse effect on the company's results of operations.

In addition, several healthcare reform initiatives are currently pending in Congress that, if passed, could fundamentally change current healthcare delivery and payment systems while expanding access to healthcare. The uncertainties surrounding the components of reform legislation and the effects any adopted legislation would ultimately have on the healthcare industry may have an adverse effect on both customer purchasing and payment behavior and supplier product prices and terms of sale, which would adversely affect the company's results of operations.

Operating Margin Initiatives

Competitive pricing pressure has been a significant factor in recent years and management expects this trend to continue. In addition, suppliers continue to seek more restrictive agreements with distributors. The company is working to counteract the effects of these trends through several profitability improvement initiatives, including resource management outsourcing and consulting services offered through OMSolutionsSM, its MediChoice[®] private label brand of select medical and surgical products, the company's provision of third-party logistics services through OM Healthcare LogisticsSM and investments in technology enhancements to increase operational efficiency in its distribution centers and to improve customer service support. In addition, the company offers customers a wide range of value-added services, including PANDAC[®], Wisdom GoldSM, Clinical Supply SolutionsSM and others, all of which enhance profitability. If these initiatives fail to produce anticipated results, the company's results of operations could be materially adversely affected.

Reliance on Information Systems and Technological Advancement

The company relies on information systems to receive, process, analyze and manage data in distributing thousands of inventory items to customers from numerous distribution centers across the country. 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 its suppliers. In addition, the success of the company's long-term growth strategy is dependent upon its ability to continually monitor and upgrade its information systems to provide better service to customers. A third-party service provider, Dell Perot Systems, is responsible for managing a significant portion of the company's information systems, including key operational and financial systems. The company's business and results of operations may be materially adversely affected if its systems are interrupted or damaged by unforeseen events or fail to operate for an extended period of time, if it fails to appropriately enhance its systems to support growth and strategic initiatives or if its third-party service provider does not perform satisfactorily.

Regulatory Requirements

The company must comply with numerous laws and regulations, including those of the Food and Drug Administration, the Department of Transportation, the Department of Homeland Security, the Occupational

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Safety and Health Administration, state boards of pharmacy, or similar state licensing boards, and other regulatory agencies. Also, the company is subject to various federal and state laws intended to protect the privacy of health or other personal information and prevent healthcare fraud and abuse. Although the company believes it is in material compliance with all applicable laws and regulations, any failure to comply with existing laws and regulations or the imposition of any additional laws and regulations could have a material adverse effect on the company's business.

Strategic Initiatives

The company has made and is continuing to make substantial investments in the development and implementation of certain strategic initiatives designed to produce long-term growth in profitability and shareholder value. There can be no assurance that the company will be able to successfully implement its strategic initiatives or that they will produce the desired results. If the company is unsuccessful it could have an adverse effect on the company's future performance.

General Economic Climate

Deterioration in the financial and economic climate in recent years is continuing to have a negative impact on most sectors of the U.S. economy. This deterioration in the financial and economic climate could reduce patient demand for healthcare services, intensify pressures on healthcare providers to reduce both costs and purchases of products and services of the company and compromise customers' ability to timely pay for their purchases. Poor economic conditions could lead the company's suppliers to offer less favorable terms of purchase to distributors, which would negatively affect the company's profitability. These and other possible consequences of financial and economic changes including, but not limited to, the ability of banks to honor commitments under the company's credit facility, as well as the company's ability to renew or replace its credit facility under favorable terms, could materially and adversely affect the company's business and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The company has 51 distribution centers, including office and warehouse space, operating across the United States as of December 31, 2009. The company leases 50 of these distribution centers from unaffiliated third parties and owns one. Three of the distribution centers are operating as integrated service centers and one is dedicated to OM Healthcare LogisticsSM. The company also leases additional warehouse space in seven locations near the company's distribution centers, as well as small offices for sales and consulting personnel across the United States. In addition, the company has a warehousing arrangement in Honolulu, Hawaii, with an unaffiliated third party, and leases space on a temporary basis from time to time to meet its inventory storage needs. The company owns its corporate headquarters building, and adjacent acreage, in Mechanicsville, Virginia, a suburb of Richmond, Virginia.

The company also owns six warehouses, which were acquired from The Burrows Company in 2008 and are closed as of December 31, 2009. These warehouses are being offered for sale. The company also has six leases with remaining terms of one to two years for offices and warehouse facilities that the company has vacated.

The company regularly assesses its business needs and makes changes to the capacity and location of distribution centers. The company believes that its facilities are adequate to carry on its business as currently conducted. A number of leases are scheduled to terminate within the next several years. The company believes that, if necessary, it could find facilities to replace these leased premises without suffering a material adverse effect on its business.

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Item 3. Legal Proceedings

The company is subject to various legal actions that are ordinary and incidental to its business, including contract disputes, employment, workers compensation, product liability, regulatory and other matters. The company establishes reserves from time to time based upon periodic assessment of the potential outcomes of pending matters. In addition, the company believes that any potential liability arising from employment, product liability, workers compensation and other personal injury litigation matters would be adequately covered by the company's insurance coverage, subject to policy limits, applicable deductibles and insurer solvency. While the outcome of legal actions cannot be predicted with certainty, the company believes, 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 the company's financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2009, no matters were submitted to a vote of security holders.

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Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Owens & Minor, Inc.'s common stock trades on the New York Stock Exchange under the symbol OMI. As of February 19, 2010, there were approximately 4,010 common shareholders of record. The company believes there are an estimated additional 37,200 beneficial holders of its common stock. See Selected Quarterly Financial Information in Item 15 of this report for high and low closing sales prices of the company's 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 the company's dividend payments.

On February 8, 2010, the board of directors of Owens & Minor, Inc. announced a three-for-two stock split of the company's common stock to be effected in the form of a stock dividend of one share of company common stock for every two shares outstanding. The record date for the stock split is March 15, 2010, and the stock dividend will be payable on March 31, 2010. The common stock will trade on a post-split basis beginning on April 1, 2010. Refer to Note 20 of Notes to Consolidated Financial Statements for pro forma information regarding this stock split.

The following performance graph compares the performance of the company's common stock to the S&P 500 Index and an Industry Peer Group (which includes the companies listed below) for the last five years.

5-Year Total Shareholder Return

This graph assumes that the value of the investment in the common stock and each index was \$100 on December 31, 2004, and that all dividends were reinvested.

(Data provided by Standard & Poor's)

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	Base Period					
	12/2004	12/2005	12/2006	12/2007	12/2008	12/2009
Owens & Minor, Inc.	\$ 100	\$ 99.49	\$ 115.19	\$ 159.13	\$ 143.89	\$ 167.82
S&P 500 Index	100	104.91	121.48	128.16	80.74	102.11
Peer Group	100	125.38	125.23	131.62	82.89	120.24

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., Patterson Companies, Inc., and PSS World Medical, Inc.

Table of Contents**Item 6. Selected Consolidated Financial Data***(in thousands, except ratios and per share data)*

	2009	At or for the Year Ended December 31, ⁽¹⁾			2005
		2008	2007	2006	
Summary of Operations:					
Revenue	\$ 8,037,624	\$ 7,243,237	\$ 6,694,596	\$ 5,441,266	\$ 4,763,183
Income from continuing operations	\$ 116,859	\$ 101,257	\$ 71,411	\$ 53,953	\$ 60,343
Income (loss) from discontinued operations, net of tax	(12,201)	(7,930)	1,299	(5,201)	4,077
Net income	\$ 104,658	\$ 93,327	\$ 72,710	\$ 48,752	\$ 64,420
Per Common Share:					
Income (loss) per common share ^{base} 2:					
Continuing operations	\$ 2.81	\$ 2.46	\$ 1.76	\$ 1.35	\$ 1.52
Discontinued operations	(0.29)	(0.19)	0.04	(0.13)	