DELTA APPAREL, INC
Form 10-Q
February 05, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended December 28, 2013

OR

o 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 1-15583

DELTA APPAREL, INC.

(Exact name of registrant as specified in its charter)

GEORGIA	58-2508794
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
322 South Main Street Greenville, SC	29601
(Address of principal executive offices)	(Zip Code)

(864) 232-5200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 þ No o

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of January 24, 2014, there were outstanding 7,901,848 shares of the registrant's common stock, par value of $0.01 per share, which is the only class of outstanding common or voting stock of the registrant.

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements
Delta Apparel, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Amounts in thousands, except share amounts and per share data)
(Unaudited)

	December 28, 2013	September 28, 2013
Assets		
Current assets:		
Cash and cash equivalents	$288	$829
Accounts receivable, less allowances of $2,908 and $2,958 respectively	49,792	68,707
Income tax receivable	3,042	1,232
Inventories, net	174,198	165,190
Prepaid expenses and other current assets	4,600	3,786
Deferred income taxes	5,670	5,981
Total current assets	237,590	245,725
Property, plant and equipment, net	42,795	40,600
Goodwill	36,729	36,729
Intangibles, net	24,497	24,837
Other assets	3,784	3,871
Total assets	$345,395	$351,762
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$47,923	$52,877
Accrued expenses	17,068	17,463
Current portion of long-term debt	14,504	3,704
Total current liabilities	79,495	74,044
Long-term debt, less current maturities	118,340	131,030
Deferred income taxes	4,628	3,610
Other liabilities	1,592	806
Contingent consideration	3,400	3,400
Total liabilities	$207,455	$212,890
Shareholders' equity:		
Preferred stock—$0.01 par value, 2,000,000 shares authorized, none issued and outstanding	—	—
Common stock —$0.01 par value, 15,000,000 shares authorized, 9,646,972 shares issued, and 7,901,848 and 7,873,848 shares outstanding as of December 28, 2013 and September 28, 2013, respectively	96	96
Additional paid-in capital	59,682	59,428
Retained earnings	98,982	100,579
Accumulated other comprehensive loss	(472)	(557)
Treasury stock —1,745,124 and 1,773,124 shares as of December 28, 2013 and September 28, 2013, respectively	(20,348)	(20,674)
Total shareholders' equity	137,940	138,872

Total liabilities and shareholders' equity	$345,395	$351,762

See accompanying Notes to Condensed Consolidated Financial Statements.

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Delta Apparel, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended				
	December 28, 2013		December 29, 2012		
Net sales	$100,012		$106,750		
Cost of goods sold	80,970		83,995		
Gross profit	19,042		22,755		
Selling, general and administrative expenses	19,843		21,875		
Other (income) expense, net	(127	)	34		
Operating (loss) income	(674	)	846		
Interest expense, net	1,458		887		
Loss before benefit from income taxes	(2,132	)	(41	)	
Benefit from income taxes	(535	49,281	$	8,791	$ 58,072
Accumulated amortization		(22,119)		(3,436)	(25,555)
Net intangible assets	$	27,162	$	5,355	$ 32,517
Weighted average useful life		8 years		6 years	

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Amortization expense for intangible assets was $2.4 million and $3.2 million for the three months ended June 30, 2008 and 2007, and $4.9 million and $6.3 million for the six months ended June 30, 2008 and 2007.

Based on the current carrying value of intangible assets subject to amortization, estimated future amortization expense is as follows: Remainder of 2008 $4.2 million; 2009 $5.9 million; 2010 $3.6 million; 2011 $2.1 million; 2012 $1.5 million.

5. Retirement Plans

The components of net periodic pension cost of the company s retirement plans for the three and six months ended June 30, 2008 and 2007, are as follows:

(in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Service cost	$ 398	$ 197	$ 617	$ 424
Interest cost	861	776	1,709	1,573
Expected return on plan assets	(490)	(422)	(980)	(881)
Amortization of prior service cost	38	39	78	79
Recognized net actuarial loss	204	187	385	379
Net periodic pension cost	$ 1,011	$ 777	$ 1,809	$ 1,574

6. Comprehensive Income

The company s comprehensive income for the three and six months ended June 30, 2008 and 2007, is shown in the table below:

(in thousands)	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
Net income	$ 23,632	$ 18,266	$ 47,841	$ 29,081
Other comprehensive loss change in value of cash-flow hedge derivatives, net of tax	(11)	(12)	(23)	(25)
Other comprehensive income adjustments related to pension benefit plans, net of tax	47		47	
Comprehensive income	$ 23,668	$ 18,254	$ 47,865	$ 29,056

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7. Net Income per Common Share

The following sets forth the computation of basic and diluted net income per common share:

(in thousands, except per share data)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Numerator:				
Numerator for basic and diluted net income per common share net income	$ 23,632	$ 18,266	$ 47,841	$ 29,081
Denominator:				
Denominator for basic net income per common share weighted average shares	40,754	40,213	40,677	40,111
Effect of dilutive securities stock options and restricted stock	695	550	686	599
Denominator for diluted net income per common share adjusted weighted average shares	41,449	40,763	41,363	40,710
Net income per common share basic	$ 0.58	$ 0.45	$ 1.18	$ 0.73
Net income per common share diluted	$ 0.57	$ 0.45	$ 1.16	$ 0.71

8. Direct-to-Consumer (DTC) Distribution Business

For the three months ended June 30, 2008 and 2007, the DTC distribution business contributed $23.7 million and $27.9 million of revenue, and $1.5 million of operating losses and $2.3 million of operating earnings to the company. For the six months ended June 30, 2008 and 2007, the DTC distribution business contributed $49.1 million and $54.9 million of revenue, and $1.4 million of operating losses and $1.3 million of operating earnings to the company.

9. Recent Accounting Pronouncements

Statement of Financial Accounting Standards No. (SFAS) 157, *Fair Value Measurements,* defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the effective date of SFAS 157 was deferred to fiscal years beginning after November 15, 2008, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The company adopted SFAS 157 beginning in the interim period ended March 31, 2008, for financial assets and liabilities. The adoption had no impact on the company s financial statements for the periods presented herein. The company is evaluating the impact of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities on the company s financial position and results of operations.

The company s interest rate swap agreements are recorded at fair value using observable market inputs (Level 2), as defined by, and in accordance with, the fair value hierarchy of SFAS 157. At June 30, 2008, the fair value of interest rate swap agreements was $4.9 million. The fair value of the swap agreements is recorded in other assets, net, on the condensed consolidated balance sheet.

The company adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, as of January 1, 2008. This statement permits the company the irrevocable option to account for most financial assets and financial liabilities at fair value, rather than at historical cost, with changes in the fair value recognized in earnings. The adoption had no impact on the company s consolidated financial statements for the three and six months ended June 30, 2008, as the company has not elected the fair value option for any of its financial assets or financial liabilities.

The company adopted Emerging Issues Task Force Issue No. (EITF) 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*, as of January 1, 2008 on a prospective basis. EITF 06-11 requires income tax benefits from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units, and outstanding equity share options to be recognized as an increase to additional paid-in capital. The impact of EITF 06-11 on the three and six months ended June 30, 2008 was not material.

In March 2008, SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133*, was issued. This statement requires enhanced disclosures about an entity s derivative and hedging activities. SFAS 161 will be effective for the company in the first quarter of 2009 and the impact to the company s consolidated financial statements will be limited to changes in disclosures.

In April 2008, FASB Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*, was issued, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. This FSP is effective for fiscal years beginning after December 15, 2008, with prospective application to intangible assets acquired after the effective date. The adoption of FSP FAS 142-3 is not expected to have a material impact on the company s consolidated financial statements.

In May 2008, SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*, was issued. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). SFAS 162 makes the GAAP hierarchy explicitly and directly applicable to preparers of financial statements, a step that recognizes preparers responsibilities for selecting the accounting principles for their financial statements, and sets the stage for making the framework of FASB Concept Statements fully authoritative. The effective date for SFAS 162 is 60 days following the SEC s approval of the Public Company Accounting Oversight Board s related amendments to remove the GAAP hierarchy from auditing standards, where it has resided for some time. The adoption of SFAS 162 is not expected to have an impact on the company s consolidated financial statements.

In June 2008, FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, was issued. This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in SFAS 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The company is evaluating the impact of this pronouncement on the consolidated financial statements.

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

The following discussion and analysis describes material changes in the financial condition of Owens & Minor, Inc. and its wholly-owned subsidiaries (O&M or the company) since December 31, 2007. Trends of a material nature are discussed to the extent known and considered relevant. This discussion should be read in conjunction with the condensed consolidated financial statements, related notes thereto, and management s discussion and analysis of financial condition and results of operations included in the company s Annual Report on Form 10-K for the year ended December 31, 2007.

Results of Operations

Second quarter and first six months of 2008 compared with 2007

Overview. In the second quarter and first six months of 2008, the company earned net income of $23.6 million and $47.8 million, improved from $18.3 million and $29.1 million in the comparable periods of 2007. Net income per diluted common share was $0.57 for the second quarter and $1.16 for the first six months of 2008, increased from $0.45 and $0.71 in the comparable periods of 2007. Operating earnings, which were $41.8 million, or 2.33% of revenue, in the second quarter of 2008, increased from $36.7 million, or 2.19% of revenue, in the second quarter of 2007. In the first six months of 2008, operating earnings were $85.0 million, or 2.40% of revenue, also increased from operating earnings in the first six months of 2007, which were $61.5 million, or 1.83% of revenue. Operating earnings in the first six months of 2007 were negatively affected by the cost of integrating the acquired acute-care distribution business of McKesson Medical-Surgical Inc.

Included in operating earnings for the second quarter and first six months of 2008 are $1.5 million and $1.4 million of operating losses from the direct-to-consumer (DTC) distribution business. In the comparable periods of 2007, the DTC distribution business had operating earnings of $2.3 million and $1.3 million.

Revenue. Revenue increased 6.9%, or $115.9 million, to $1.79 billion in the second quarter of 2008, from $1.68 billion in the second quarter of 2007. For the first six months of 2008, revenue increased 5.4%, or $182.4 million, from the comparable period in 2007. In comparing the second quarter of 2008 to the same period of 2007, the increase resulted primarily from greater sales to existing customers. In comparing the six-month period ended June 30, 2008 to the same period ended June 30, 2007, there was a decrease in revenue of approximately $47 million from the acquired McKesson business. Mitigating this decrease was net new business and greater sales to existing customers. The DTC distribution business contributed $23.7 million and $49.1 million of revenue in the second quarter and first six months of 2008, as compared with $27.9 million and $54.9 million in the comparable periods of 2007. The decline in revenue of the DTC distribution business is primarily due to lower Medicare reimbursements for certain respiratory products, higher contractual allowances, adjusted based on historical payment trends, and a slightly lower patient count. There were approximately 182,000 DTC customers at June 30, 2008, as compared with 185,000 at June 30, 2007. The Medicare Improvements for Patients and Providers Act of 2008, enacted on July 15, 2008, will reduce reimbursement rates for certain items included in Medicare s competitive bidding program that are offered by the DTC distribution business. For these products, reimbursement rates will be reduced by 9.5% nationwide beginning January 1, 2009. The competitive bidding program, which was delayed pursuant to this Act, is expected to result in new contracts for these items in 18 to 24 months from the enactment date of this Act.

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Gross margin. Gross margin dollars were $190.2 million and $377.3 million in the second quarter and first six months of 2008. For the same periods of 2007, gross margin dollars were $176.9 million and $351.5 million. As a percentage of revenue, gross margin was 10.60% and 10.63% for the second quarter and first six months of 2008, as compared with 10.53% and 10.45% for the same periods of 2007. In comparing quarter-to-quarter, the 7 basis point gross margin improvement was primarily due to additional sales of value-added programs and services, including an approximate 40% increase in revenue from higher margin MediChoice® products, the company s private-label brand of select medical/surgical products. In comparing the first six months of 2008 to the same period of 2007, gross margin as a percent of revenue increased 18 basis points. This increase resulted from: (i) improved gross margin from the acquired McKesson business as this business transitioned to O&M systems; (ii) additional sales of programs and services; (iii) greater supplier incentives; and (iv) greater manufacturer s price adjustments, which were partially offset by an increase in the reserve for last-in, first-out (LIFO) inventory valuation.

The company values inventory for its healthcare provider distribution business under the LIFO method. Had inventory been valued under the first-in, first-out (FIFO) method, gross margin would have been 0.30% greater in the first six months of 2008 and 0.12% greater in the first six months of 2007.

Selling, general and administrative (SG&A) expenses. SG&A expenses were $141.5 million and $278.7 million for the second quarter and first six months of 2008, as compared with $133.5 million and $276.2 million in the comparable periods of 2007. As a percentage of revenue, SG&A expense was 7.89% in the second quarter and 7.85% in the first six months of 2008, improved from 7.95% and 8.21% in the comparable periods of 2007. In comparing the second quarter of 2008 to the same period of 2007, fuel costs were greater by approximately $1.3 million and incentive compensation expense, including equity-based compensation, was greater by approximately $3.1 million. In comparing the first six-month period of 2008 to the same period of 2007, SG&A expense as a percentage of revenue improved as a result of costs associated with the integration of the acquired McKesson business that were included in 2007, including $6.7 million in service fees paid to McKesson for operational support during the transition period. Additionally, in the first six-month period of 2008, fuel costs were greater by approximately $2.2 million and incentive compensation expense, including equity-based compensation, was greater by approximately $8.4 million than in the same period of 2007. The increase in incentive compensation expense reflects improved achievement against certain performance-based measures, as well as the impact of an increase in the price of the company s common stock. These expense increases were offset by a decrease in selling costs of $1.7 million in the first six months of 2008 and by the company leveraging its infrastructure over greater sales.

Depreciation and amortization expense for the second quarter and first six months of 2008 was $7.8 million and $15.6 million, a slight decrease from $8.1 million and $16.3 million in the comparable periods of 2007. Amortization of intangible assets was $0.7 million and $1.4 million less in the second quarter and first six months of 2008 compared to the same periods of 2007, due to the accounting for the McKesson purchase transaction being finalized, and lower amortization expense for acquired intangibles in the DTC distribution business, which are amortized at rates that decline during the amortization period. There were no acquisitions of intangible assets in the DTC distribution business in 2007 or in the first six months of 2008. This decrease in amortization was partially offset by greater depreciation from capital additions made to facilitate the growth in the healthcare provider business.

Interest expense, net. Net interest expense was $2.8 million for the second quarter and $6.3 million for the first half of 2008, a decrease from $6.6 million for the second quarter and from $13.8 million for the first half of 2007. Decreased interest expense in the 2008 periods was primarily due to lower balances outstanding under the company s revolving credit agreement, as the company has significantly reduced borrowings under this facility since the second quarter of 2007. Interest expense also decreased in the 2008 periods due to a more favorable interest rate environment. In the first six months of 2008, the company s effective interest rate was 6.4% on average borrowings of approximately $210 million, compared to 6.9% on average borrowings of approximately $420 million in the first six months of 2007. Under the company s interest rate swap agreements related to the company s senior notes, the counterparties pay the company a fixed interest rate of 6.35%, and the company pays counterparties variable rates based on the London Interbank Offered Rate (LIBOR) which reset every six months in April and October. At the last reset date, the average rate decreased by 250 basis points to 3.75%.

Income taxes. The provision for income taxes was $15.3 million and $30.8 million in the second quarter and first six months of 2008, compared to $11.8 million and $18.6 million in the same periods of 2007. The effective tax rate was 39.4% and 39.2% for the second quarter and first half of 2008, compared to 39.3% and 39.0% in the same periods of 2007. The slightly lower effective rates in 2007 were primarily due to adjustments to the company s liability for unrecognized tax benefits for resolution of outstanding tax issues.

Financial Condition, Liquidity and Capital Resources

Liquidity. In the first six months of 2008, cash and cash equivalents increased by $2.8 million to $4.9 million at June 30, 2008. In the first half of 2008, the company generated $79.0 million of cash flow from operations, compared with $86.4 million in the first half of 2007. Cash flows in the first six months of 2008 were negatively affected by increases in accounts receivable and inventories, while cash flows in the first six months of 2007 were positively affected by decreases in both of these items. Cash flows in the first six months of 2008 were positively affected by the timing of payments for inventory. Cash used for investing activities decreased to $9.7 million in the first half of 2008 from $15.1 million in the first half of 2007, primarily due to greater capital expenditures in 2007 to accommodate the acquired McKesson business. Capital expenditures were $9.7 million in the first six months of 2008, compared to $13.0 million in the same period of 2007. Financing activities used $66.5 million of cash in the first six months of 2008, and $71.9 million in the first six months of 2007. In both periods, cash was used primarily to reduce the company s revolving credit facility and to pay dividends. Cash used to pay dividends was $16.5 million in the first six months of 2008, increased from $13.8 million in the same period of 2007, as the company paid a dividend per share of $0.40 in the first half of 2008 as compared with $0.34 per share in the first half of 2007.

Accounts receivable days sales outstanding (DSO) at June 30, 2008, were 24.0 days, improved from 24.3 days at December 31, 2007, and 27.9 days at June 30, 2007, based on three month s sales. Inventory turnover was 10.4 in the second quarter of 2008, 10.6 in the fourth quarter of 2007 and 9.4 in the second quarter of 2007. Positive asset management trends from the second quarter of 2007 resulted as the company began to realize operational improvements after completing its transition of the acquired McKesson business.

The company has a $350 million revolving credit facility. The interest rate on the facility is based on, at the company s discretion, LIBOR, the Federal Funds Rate or the Prime Rate, plus an adjustment based on the company s leverage ratio, as defined by the credit agreement. The company is charged a commitment fee of between 0.05% and 0.15% on the unused portion of the facility, which includes a 0.05% reduction

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in the fee based on the company s investment grade rating. In July 2008, the credit agreement was amended to improve the company s flexibility by changing certain restrictions and by releasing certain guarantors.

The company has $200 million of senior notes outstanding, which mature in 2016 and bear interest at 6.35%, payable semiannually. In conjunction with the senior notes, the company is a party to interest rate swap agreements, under which the company pays counterparties variable rates based on LIBOR, and the counterparties pay the company a fixed interest rate of 6.35% on a notional amount of $100 million, effectively converting one-half of the notes to variable-rate debt. These swaps were designated as fair value hedges and were assumed to have no ineffectiveness under the provisions of Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

The company believes its available financing sources will be sufficient to fund working capital needs and long-term strategic growth, although this cannot be assured. At June 30, 2008, the company had $325 million of available credit under its revolving credit facility. Based on the company s leverage ratio at June 30, 2008, the company s interest rate under its revolving credit facility, which is subject to adjustment quarterly, will be LIBOR plus 50 basis points at the next adjustment date.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see note 9 in the Notes to Condensed Consolidated Financial Statements.

Forward-looking Statements

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

general economic and business conditions;

the ability of the company to implement its strategic initiatives;

dependence on sales to certain customers;

the ability of customers to meet financial commitments due to the company;

the ability to retain existing customers and the success of marketing and other programs in attracting new customers;

dependence on suppliers;

the ability to adapt to changes in product pricing and other terms of purchase by suppliers of product;

changes in manufacturer preferences between direct sales and wholesale distribution;

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competition;

changing trends in customer profiles and ordering patterns;

the ability of the company to meet customer demand for additional value-added services;

the availability of supplier incentives;

access to special inventory buying opportunities;

the ability of business partners to perform their contractual responsibilities;

the ability to manage operating expenses;

the effect of higher fuel prices on delivery costs;

the ability of the company to manage financing costs and interest rate risk;

the risk that a decline in business volume or profitability could result in an impairment of goodwill;

the ability to timely or adequately respond to technological advances in the medical supply industry;

the ability to successfully identify, manage or integrate acquisitions;

the costs associated with and outcome of outstanding and any future litigation, including product and professional liability claims;

the outcome of outstanding tax contingencies;

the ability to manage reimbursements from Medicare, Medicaid, private healthcare insurers and individual customers;

changes in government regulations, including healthcare laws and regulations; and

changes in reimbursement guidelines of Medicare and Medicaid and/or reimbursement practices of private healthcare insurers.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The company has $200 million of outstanding fixed-rate debt maturing in 2016. O&M uses interest rate swaps to modify the company s balance of fixed and variable rate financing, thus hedging its interest rate risk. The company is exposed to certain losses in the event of nonperformance by the counterparties to these swap agreements. However, O&M believes its exposure is not significant, and the event of nonperformance would not have a material effect on the company.

The company is exposed to market risk from changes in interest rates related to its interest rate swaps and its revolving credit facility. As of June 30, 2008, the company had $100 million of interest rate swaps under which the company pays counterparties variable rates based on LIBOR, and the counterparties pay the company a fixed interest rate of 6.35% on a notional amount of $100 million. A hypothetical increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately $1.0 million per year in connection with the swaps. The company had $25.0 million of outstanding borrowings and letters of credit under its revolving credit facility at June 30, 2008. A hypothetical increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately $0.1 million per year for every $10 million of outstanding borrowings under the revolving credit facility.

Item 4. Controls and Procedures

The company carried out an evaluation, with the participation of the company s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the company s disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company s disclosure controls and procedures are effective in timely alerting them to material information relating to the company required to be included in the company s periodic SEC filings. There has been no change in the company s internal controls over financial reporting during the quarter ended June 30, 2008, that has materially affected, or is reasonably likely to materially affect, the company s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

Certain legal proceedings pending against the company are described in the company s Annual Report on Form 10-K for the year ended December 31, 2007. Through June 30, 2008, there have been no material developments in any legal proceedings reported in such Annual Report.

Item 1A. Certain Risk Factors

Certain risk factors that the company believes could affect its business and prospects are described in the company s Annual Report on Form 10-K for the year ended December 31, 2007. Through June 30, 2008, there have been no material changes in any risk factors reported in such Annual Report.

Item 4. Submission of Matters to a Vote of Shareholders

The following matters were submitted to a vote of O&M s shareholders at its annual meeting held on April 25, 2008, with the voting results designated below for each such matter:

(1) Election of G. Gilmer Minor, III, J. Alfred Broaddus, Jr., Eddie N. Moore, Jr., Peter S. Redding, Robert C. Sledd and Craig R. Smith as directors of O&M for a two-year term.

Directors	Votes For	Votes Against Or Withheld	Abstentions	Broker Non-Votes
G. Gilmer Minor, III	37,349,081	535,047	0	0
J. Alfred Broaddus, Jr.	37,671,832	212,296	0	0
Eddie N. Moore, Jr.	37,672,233	211,895	0	0
Peter S. Redding	37,672,979	211,150	0	0
Robert C. Sledd	37,673,420	210,709	0	0
Craig R. Smith	37,361,957	522,171	0	0

(2) A resolution to amend the Company s Amended and Restated Articles of Incorporation to declassify the Board of Directors.

Votes For	Votes Against Or Withheld	Abstentions	Broker Non-Votes
37,389,579	77,155	17,392	0

(3) A resolution to amend the Company s Amended and Restated Articles of Incorporation to eliminate provisions authorizing the Series B Cumulative Preferred Stock.

Votes For	Votes Against Or Withheld	Abstentions	Broker Non-Votes
34,890,323	26,105	9,319	2,958,380

(4) Ratification of the appointment of KPMG LLP as O&M s independent registered public accountants for 2008.

Votes For	Votes Against Or Withheld	Abstentions	Broker Non-Votes
37,795,050	81,263	7,813	0

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Item 6. Exhibits.

(a) Exhibits

3.1	Owens & Minor, Inc. Amended and Restated Articles of Incorporation (incorporated herein by reference to the Company s Current Report on Form 8-K, Exhibit 3.1, dated July 29, 2008).
4.1	Form of Third Amendment and Consent to Amended and Restated Credit Agreement dated as of July 14, 2008 by and among Owens & Minor Medical, Inc., Owens & Minor Distribution, Inc., the Company, certain subsidiaries of the Company, the banks identified on the signature pages thereto and Bank of America, N.A., as Administrative Agent (incorporated herein by reference to the Company s Current Report on Form 8-K, Exhibit 4.1, dated July 18, 2008).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

	Owens & Minor, Inc. (Registrant)
Date September 12, 2008	/s/ CRAIG R. SMITH Craig R. Smith President and Chief Executive Officer
Date September 12, 2008	/s/ JAMES L. BIERMAN James L. Bierman Senior Vice President & Chief Financial Officer
Date September 12, 2008	/s/ OLWEN B. CAPE Olwen B. Cape Vice President & Controller Chief Accounting Officer

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Exhibits Filed with SEC

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