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

FORM 10-Q

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

For the quarterly period ended September 30, 2019
OR

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

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

Owens & Minor, Inc.

(Exact name of Registrant as specified in its charter)

Virginia			**54-1701843**
(State or other jurisdiction of incorporation or organization)			**(I.R.S. Employer Identification No.)**
9120 Lockwood Boulevard	**Mechanicsville**	**Virginia**	**23116**
(Address of principal executive offices)			**(Zip Code)**
Post Office Box 27626, Richmond, Virginia			**23261-7626**
(Mailing address of principal executive offices)			**(Zip Code)**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $2 par value per share	OMI	New York Stock Exchange

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☒
Emerging growth company	☐		

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

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

The number of shares of Owens & Minor, Inc.’s common stock outstanding as of October 31, 2019, was 62,851,754 shares.

Owens & Minor, Inc. and Subsidiaries
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Part I. Financial Information

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	**2019**	**2018**	**2019**	**2018**
Net revenue	**$ 2,399,017**	$ 2,464,877	**$ 7,344,605**	$ 7,295,727
Cost of goods sold	**2,036,530**	2,112,303	**6,255,266**	6,293,474
Gross margin	**362,487**	352,574	**1,089,339**	1,002,253
Distribution, selling and administrative expenses	**332,369**	325,012	**1,016,965**	918,147
Goodwill and intangible asset impairment charges	**—**	—	**—**	165,447
Acquisition-related and exit and realignment charges	**4,905**	7,727	**15,550**	47,416
Other operating (income) expense, net	**(101)**	(1,522)	**674**	(2,281)
Operating income (loss)	**25,314**	21,357	**56,150**	(126,476)
Interest expense, net	**25,938**	23,826	**80,718**	52,651
Other (income) expense, net	**(185)**	—	**1,818**	—
Loss before income taxes	**(439)**	(2,469)	**(26,386)**	(179,127)
Income tax benefit	**(1,663)**	(1,904)	**(3,038)**	(3,936)
Net income (loss)	**$ 1,224**	$ (565)	**$ (23,348)**	$ (175,191)
Net income (loss) per common share: basic and diluted	**$ 0.02**	$ (0.01)	**$ (0.39)**	$ (2.92)

See accompanying notes to consolidated financial statements.

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

(in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Net income (loss)	**$ 1,224**	$ (565)	**$ (23,348)**	$ (175,191)
Other comprehensive income (loss), net of tax:				
Currency translation adjustments (net of income tax of $0 in 2019 and 2018)	**(9,038)**	350	**(5,793)**	(11,407)
Change in unrecognized net periodic pension costs (net of income tax of $61 and $187 in 2019 and $161 and $449 in 2018)	**199**	362	**593**	1,116
Net unrealized (loss) gain on derivative instruments and other (net of income tax of $1,225 and $4,866 in 2019 and $103 and $30 in 2018)	**(1,789)**	2,320	**(9,464)**	2,204
Total other comprehensive income (loss), net of tax	**(10,628)**	3,032	**(14,664)**	(8,087)
Comprehensive income (loss)	**$ (9,404)**	$ 2,467	**$ (38,012)**	$ (183,278)

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	September 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 96,803	$ 103,367
Accounts receivable, net of allowances of $21,043 and $19,618	741,670	823,418
Merchandise inventories	1,153,079	1,290,103
Other current assets	259,708	321,690
Total current assets	2,251,260	2,538,578
Property and equipment, net of accumulated depreciation of $309,259 and $270,105	383,825	386,723
Operating lease assets	234,853	—
Goodwill	398,065	414,122
Intangible assets, net	299,874	321,764
Other assets, net	120,542	112,601
Total assets	$ 3,688,419	$ 3,773,788
Liabilities and equity		
Current liabilities		
Accounts payable	$ 873,743	$ 1,109,589
Accrued payroll and related liabilities	62,081	48,203
Other current liabilities	359,965	314,219
Total current liabilities	1,295,789	1,472,011
Long-term debt, excluding current portion	1,553,991	1,650,582
Operating lease liabilities, excluding current portion	198,858	—
Deferred income taxes	50,553	50,852
Other liabilities	97,950	81,924
Total liabilities	3,197,141	3,255,369
Commitments and contingencies		
Equity		
Common stock, par value $2 per share; authorized - 200,000 shares; issued and outstanding - 62,862 shares and 62,294 shares	125,724	124,588
Paid-in capital	248,916	238,773
Retained earnings	176,914	200,670
Accumulated other comprehensive loss	(60,276)	(45,612)
Total equity	491,278	518,419
Total liabilities and equity	$ 3,688,419	$ 3,773,788

See accompanying notes to consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30, 2019	2018
Operating activities:		
Net loss	**$ (23,348)**	$ (175,191)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	**88,204**	73,596
Share-based compensation expense	**12,057**	10,499
Goodwill and intangible asset impairment charges	**—**	165,447
Provision for losses on accounts receivable	**9,759**	5,757
Deferred income tax benefit	**(11,989)**	(6,754)
Changes in operating lease right-of-use assets and lease liabilities	**(1,280)**	—
Changes in operating assets and liabilities:		
Accounts receivable	**73,986**	(51,603)
Merchandise inventories	**136,021**	21,244
Accounts payable	**(221,381)**	88,198
Net change in other assets and liabilities	**69,756**	(11,522)
Other, net	**7,320**	2,838
Cash provided by operating activities	**139,105**	122,509
Investing activities:		
Acquisitions, net of cash acquired	**—**	(751,834)
Additions to property and equipment	**(31,224)**	(32,489)
Additions to computer software	**(6,928)**	(14,816)
Proceeds from sale of property and equipment	**220**	258
Cash used for investing activities	**(37,932)**	(798,881)
Financing activities:		
Proceeds from issuance of debt	**—**	695,750
(Repayments) borrowings under revolving credit facility	**(36,100)**	74,762
Repayments of debt	**(40,700)**	(9,375)
Financing costs paid	**(4,313)**	(28,512)
Cash dividends paid	**(5,072)**	(32,151)
Other, net	**(3,109)**	(5,308)
Cash (used for) provided by financing activities	**(89,294)**	695,166
Effect of exchange rate changes on cash and cash equivalents	**(2,243)**	1,574
Net increase in cash, cash equivalents and restricted cash	**9,636**	20,368
Cash, cash equivalents and restricted cash at beginning of period	**103,367**	104,522
Cash, cash equivalents and restricted cash at end of period	**$ 113,003**	$ 124,890
Supplemental disclosure of cash flow information:		
Income taxes (received) paid, net of refunds	**$ (12,085)**	$ 18,238
Interest paid	**$ 76,470**	$ 45,313

See accompanying notes to consolidated financial statements.

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

(in thousands, except per share data)	Common Shares Outstanding	Common Stock ($2 par value)	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, December 31, 2018	62,294	$ 124,588	$ 238,773	$ 200,670	$ (45,612)	$ 518,419
Net loss				(14,096)		(14,096)
Other comprehensive loss					(6,423)	(6,423)
Dividends declared ($0.0025 per share)				(119)		(119)
Share-based compensation expense, exercises and other	642	1,284	2,774			4,058
Balance, March 31, 2019	62,936	125,872	241,547	186,455	(52,035)	501,839
Net loss				(10,476)		(10,476)
Other comprehensive income					2,387	2,387
Dividends declared ($0.0025 per share)				(114)		(114)
Share-based compensation expense, exercises and other	28	56	3,209			3,265
Balance, June 30, 2019	62,964	125,928	244,756	175,865	(49,648)	496,901
Net income				1,224		1,224
Other comprehensive loss					(10,628)	(10,628)
Dividends declared ($0.0025 per share)				(175)		(175)
Share-based compensation expense, exercises and other	(102)	(204)	4,160			3,956
Balance, September 30, 2019	**62,862**	**$ 125,724**	**$ 248,916**	**$ 176,914**	**$ (60,276)**	**$ 491,278**
Balance, December 31, 2017	61,476	$ 122,952	$ 226,937	$ 690,674	$ (25,084)	$ 1,015,479
Net income				8,151		8,151
Other comprehensive income					9,307	9,307
Dividends declared ($0.26 per share)				(16,027)		(16,027)
Share-based compensation expense, exercises and other	336	672	1,336			2,008
Balance, March 31, 2018	61,812	123,624	228,273	682,798	(15,777)	1,018,918
Net loss				(182,777)		(182,777)
Other comprehensive loss					(20,426)	(20,426)
Dividends declared ($0.26 per share)				(16,175)		(16,175)
Share-based compensation expense, exercises and other	529	1,057	1,611			2,668
Balance, June 30, 2018	62,341	124,681	229,884	483,846	(36,203)	802,208
Net loss				(565)		(565)
Other comprehensive loss					3,032	3,032
Dividends declared ($0.26 per share)				(16,155)		(16,155)
Share-based compensation expense, exercises and other	(72)	(143)	4,036			3,893
Balance, September 30, 2018	62,269	$ 124,538	$ 233,920	$ 467,126	$ (33,171)	$ 792,413

See accompanying notes to consolidated financial statements.

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

Note 1—Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Owens & Minor, Inc. and the subsidiaries it controls (we, us, our or the Company) and contain all adjustments (which are comprised only of normal recurring accruals and use of estimates) necessary to conform with U.S. generally accepted accounting principles (GAAP). All significant intercompany accounts and transactions have been eliminated. The results of operations for interim periods are not necessarily indicative of the results expected for the full year.

Use of Estimates

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

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash includes cash and marketable securities with an original maturity or maturity at acquisition of three months or less. Cash, cash equivalents and restricted cash are stated at cost. Nearly all of our cash, cash equivalents and restricted cash are held in cash depository accounts in major banks in the United States, Europe, and Asia. Cash that is held by a major bank and has restrictions on its availability to us is classified as restricted cash. Restricted cash represents $16.2 million held in an escrow account as of September 30, 2019 as required by the Centers for Medicare & Medicaid Services (CMS) in conjunction with the Bundled Payments for Care Improvement (BPCI) Advanced Program.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying consolidated balance sheets that sum to the total of those same amounts presented in the accompanying consolidated statements of cash flows. The restricted cash presented below is classified as non-current in Other assets, net within the accompanying consolidated balance sheets.

	September 30, 2019	December 31, 2018
Cash and cash equivalents	$ 96,803	$ 103,367
Restricted cash included in Other assets, net	16,200	—
Total cash, cash equivalents and restricted cash	$ 113,003	$ 103,367

Note 2—Fair Value

The carrying amounts of cash and cash equivalents, accounts receivable, financing receivables, accounts payable and financing payables included in the consolidated balance sheets approximate fair value due to the short-term maturities of these instruments. The carrying amount of restricted cash also approximates fair value due to its nature. The fair value of long-term debt is estimated based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market (Level 1) or, if quoted market prices or dealer quotes are not available, on the borrowing rates currently available for loans with similar terms, credit ratings, and average remaining maturities (Level 2). The fair value of interest rate swaps and foreign currency contracts is determined based on the present value of expected future cash flows considering the risks involved, including non-performance risk, and using discount rates appropriate for the respective maturities. Observable Level 2 inputs are used to determine the present value of expected future cash flows.

Note 3—Acquisition

On April 30, 2018 (the Acquisition Date), we completed the acquisition of substantially all of Avanos Medical, Inc.'s (Avanos, previously Halyard Health, Inc.) Surgical and Infection Prevention (S&IP) business, the name “Halyard Health” (and all variations of that name and related intellectual property rights) and its information technology (IT) systems in exchange for $758 million, net of cash acquired. The Halyard business is a leading global provider of medical supplies and solutions for the prevention of healthcare associated infections across acute care and non-acute care markets. This business is reported as part of the Global Products segment.

The following table presents the fair value of the assets acquired and liabilities assumed recognized as of the Acquisition Date. The fair value of intangibles from this acquisition was primarily determined by applying the income approach, using several significant unobservable inputs for projected cash flows and a discount rate. These inputs are considered Level 3 inputs.

	Preliminary Fair Value Originally Estimated as of Acquisition Date [(1)]	Differences Between Prior and Current Period Fair Value	Fair Value as of Acquisition Date
Assets acquired:			
Current assets	$ 330,870	$ —	$ 330,870
Goodwill	130,217	(17,844)	112,373
Intangible assets	191,230	13,000	204,230
Other noncurrent assets	218,387	5,616	224,003
Total assets	870,704	772	871,476
Liabilities assumed:			
Current liabilities	92,438	(12,428)	80,010
Noncurrent liabilities	20,217	13,200	33,417
Total liabilities	112,655	772	113,427
Fair value of net assets acquired, net of cash	$ 758,049	$ —	$ 758,049

(1) *As previously reported in our 2018 Form 10-K.*

We are amortizing the fair value of acquired intangible assets, primarily customer relationships, a trade name and other intellectual property, over their estimated weighted average useful lives of eight to 12 years.

Goodwill of $112 million, which we assigned to our Global Products segment, consists largely of expected opportunities to expand into new markets and further develop a presence in the medical products segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The unaudited pro forma results of net revenue for the three and nine months ended September 30, 2018 as if Halyard was acquired on January 1, 2018 were $2,464,877 and $7,575,727, respectively. The pro forma results of net income (loss) and net income (loss) per common share have not been represented because the effects were not material to our historic consolidated financial statements. Accordingly, the pro forma results noted above are not necessarily indicative of the results that would have been if the acquisition had occurred on the dates indicated, nor are the pro forma results indicative of results which may occur in the future.

Note 4—Financing Receivables and Payables

At September 30, 2019 and December 31, 2018, we had financing receivables of $165.4 million and $183.3 million, respectively, and related payables of $93.5 million and $100.3 million, respectively, outstanding under our order-to-cash program, which were included in other current assets and other current liabilities, respectively, in the consolidated balance sheets.

Note 5—Goodwill and Intangible Assets

The following table summarizes the goodwill balances by segment and the changes in the carrying amount of goodwill through September 30, 2019:

	Global Solutions	Global Products	Consolidated
Carrying amount of goodwill, December 31, 2018	$ 283,905	$ 130,217	$ 414,122
Currency translation adjustments	—	1,787	1,787
Acquisition	—	(17,844)	(17,844)
Carrying amount of goodwill, September 30, 2019	**$ 283,905**	**$ 114,160**	**$ 398,065**

Intangible assets at September 30, 2019 and December 31, 2018, were as follows:

	September 30, 2019			December 31, 2018		
	Customer Relationships	Tradenames	Other Intangibles	Customer Relationships	Tradenames	Other Intangibles
Gross intangible assets	**$ 283,912**	**$ 90,000**	**$ 45,600**	$ 267,510	$ 97,000	$ 42,930
Accumulated amortization	**(96,873)**	**(14,429)**	**(8,336)**	(72,947)	(8,544)	(4,185)
Net intangible assets	**$ 187,039**	**$ 75,571**	**$ 37,264**	$ 194,563	$ 88,456	$ 38,745
Weighted average useful life	**10 years**	**11 years**	**8 years**	10 years	11 years	8 years

At September 30, 2019, $91.7 million in net intangible assets were held in the Global Solutions segment and $208.1 million were held in the Global Products segment. Amortization expense for intangible assets was $10.9 million and $10.4 million for the three months ended September 30, 2019 and 2018 and $34.4 million and $26.1 million for the nine months ended September 30, 2019 and 2018, respectively.

Based on the current carrying value of intangible assets subject to amortization, estimated amortization expense is $11.0 million for the remainder of 2019, $43.0 million for 2020, $41.3 million for 2021, $40.4 million for 2022, $39.2 million for 2023 and $35.3 million for 2024.

Note 6—Leases

We adopted ASU No. 2016-02, Leases (Topic 842), as of January 1, 2019. We elected to use the adoption date as our date of initial application and thus have not restated comparative prior periods. We elected the ‘package of practical expedients’, which permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs under the new standard. We did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us.

The new standard also provides practical expedients for an entity’s ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize right-of-use assets or lease liabilities, and this includes not recognizing right-of-use assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for all of our leases.

The adoption of the new standard resulted in the recording of operating lease assets and lease liabilities of approximately $197 million and $201 million, respectively, as of January 1, 2019. The standard did not materially impact our consolidated net income (loss) and had no impact on cash flows.

We enter into non-cancelable agreements to lease most of our office and warehouse facilities with remaining terms generally ranging from one to 20 years. Certain leases include renewal options, generally for one to five-year increments. The exercise of lease renewal options is at our sole discretion. We include options to renew (or terminate) in our lease term, and as part of our right-of-use assets and lease liabilities, when it is reasonably certain that we will exercise that option. We also lease some of our transportation and material handling equipment for terms generally ranging from three to 10 years. Leases with a term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term. The depreciable life of right-of-use assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments. We use the implicit rate when readily determinable. The operating lease asset also includes adjustments for any lease payments made and lease incentives.

The components of lease expense were as follows:

	Classification	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	Distribution, selling and administrative expenses	$ 22,358	$ 56,597
Finance lease cost:			
Amortization of lease assets	Distribution, selling and administrative expenses	1,946	3,157
Interest on lease liabilities	Interest expense, net	625	1,258
Total finance lease cost		2,571	4,415
Short-term lease cost	Distribution, selling and administrative expenses	180	570
Variable lease cost	Distribution, selling and administrative expenses	5,363	14,844
Total lease cost		$ 30,472	$ 76,426

Variable lease cost consists primarily of taxes, insurance, and common area or other maintenance costs for our leased facilities which are paid as incurred.

Supplemental balance sheet information is as follows:

	Classification	As of September 30, 2019
Assets:		
Operating lease assets	Operating lease assets	$ 234,853
Finance lease assets	Property and equipment, net	12,561
Total lease assets		$ 247,414
Liabilities:		
Current		
Operating	Other current liabilities	$ 41,206
Finance	Other current liabilities	2,729
Noncurrent		
Operating	Operating lease liabilities, excluding current portion	198,858
Finance	Long-term debt, excluding current portion	15,190
Total lease liabilities		$ 257,983

Other information related to leases was as follows:

	Nine Months Ended September 30, 2019
Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating and finance leases	$ 56,576
Financing cash flows from finance leases	$ 3,036
Right-of-use assets obtained in exchange for new operating and finance lease liabilities	$ 69,171
Weighted average remaining lease term (years)	
Operating leases	6.5
Finance leases	8.0
Weighted average discount rate	
Operating leases	11.8%
Finance leases	9.9%

Maturities of lease liabilities as of September 30, 2019 were as follows:

	Operating Leases	Finance Leases	Total
2019 (remainder)	$ 11,045	$ 1,276	$ 12,321
2020	72,839	3,832	76,671
2021	64,396	2,972	67,368
2022	46,674	2,722	49,396
2023	36,122	2,443	38,565
Thereafter	121,248	13,058	134,306
Total lease payments	352,324	26,303	378,627
Less: Interest	(112,260)	(8,384)	(120,644)
Present value of lease liabilities	$ 240,064	$ 17,919	$ 257,983

At December 31, 2018, future minimum annual payments under non-cancelable lease agreements with original terms in excess of one year, and including payments required under operating leases for facilities we have vacated, were as follows:

	Total
2019	$ 64,082
2020	53,138
2021	42,480
2022	26,445
2023	19,895
Thereafter	45,708
Total minimum payments	$ 251,748

Rent expense for all operating leases for the year ended December 31, 2018 was $78.3 million.

Note 7—Derivatives

We are directly and indirectly affected by changes in foreign currency, which may adversely impact our financial performance and are referred to as “market risks.” When deemed appropriate, we use derivatives as a risk management tool to mitigate the potential impact of certain market risks. We do not enter into derivative financial instruments for trading purposes.

We use a layered hedging program to hedge select anticipated foreign currency cash flows to reduce volatility in cash flows. We account for the designated foreign exchange forward contracts as cash flow hedges. These foreign exchange forward contracts generally have maturities up to 12 months and the counterparties to the transactions are typically large international financial institutions.

We enter into foreign currency contracts to manage our foreign exchange exposure related to certain balance sheet items that do not meet the requirements for hedge accounting. These derivative instruments are adjusted to fair value at the end of each period through earnings. The gain or loss recorded on these instruments is substantially offset by the remeasurement adjustment on the foreign currency denominated asset or liability.

We pay interest under our Credit Agreement which fluctuates based on changes in our benchmark interest rates. In order to mitigate the risk of increases in benchmark rates, we entered into interest rate swaps during the third quarter of 2018 whereby we agree to exchange with the counterparty, at specified intervals, the difference between fixed and variable amounts calculated by reference to the notional amount. The interest rate swaps were designated as cash flow hedges. Cash flows related to the interest rate swap agreements are included in interest expense.

We determine the fair value of our foreign currency derivatives and our interest rate swaps based on observable market-based inputs or unobservable inputs that are corroborated by market data. We do not view the fair value of our derivatives in isolation, but rather in relation to the fair values or cash flows of the underlying exposure. Our derivatives are over-the-counter instruments with liquid markets. All derivatives are carried at fair value in our consolidated balance sheets in other assets and other liabilities. We consider the risk of counterparty default to be minimal. We report cash flows from our hedging instruments in the same cash flow statement category as the hedged items.

The following table summarizes the terms and fair value of our outstanding derivative financial instruments as of September 30, 2019:

			Derivative Assets		Derivative Liabilities	
	Notional Amount	Maturity Date	Classification	Fair Value	Classification	Fair Value
Cash flow hedges						
Interest rate swaps	$ 450,000	May 2022 and May 2025	Other assets, net	$ —	Other liabilities	$ 21,494
Foreign currency contracts	$ 439	December 2019	Other assets, net	$ 25	Other liabilities	$ —
Economic (non-designated) hedges						
Foreign currency contracts	$ 17,695	October 2019 - November 2019	Other assets, net	$ 126	Other liabilities	$ —

The following table summarizes the terms and fair value of our outstanding derivative financial instruments as of December 31, 2018:

			Derivative Assets		Derivative Liabilities	
	Notional Amount	Maturity Date	Classification	Fair Value	Classification	Fair Value
Cash flow hedges						
Interest rate swaps	$ 450,000	May 2022 and May 2025	Other assets, net	$ —	Other liabilities	$ 6,875
Foreign currency contracts	$ 25,592	January 2019 - December 2019	Other assets, net	$ 20	Other liabilities	$ —
Economic (non-designated) hedges						
Foreign currency contracts	$ 32,683	January 2019 - April 2019	Other assets, net	$ —	Other liabilities	$ 198

The following table summarizes the effect of cash flow hedge accounting on our consolidated statements of income (loss) for the three and nine months ended September 30, 2019:

	Amount of Gain/(Loss) Recognized in Other Comprehensive Income (Loss)		**Location of Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Income**	**Total Amount of Income/(Expense) Line Items Presented in the Consolidated Statement of Income (Loss) in Which the Effects are Recorded**		**Amount of Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Income**	
	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019		Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Interest rate swaps	$ (3,356)	$ (15,933)	Interest expense, net	$ (25,938)	$ (80,718)	$ (632)	$ (1,314)
Foreign currency contracts	$ (28)	$ 608	Cost of goods sold	$ (2,036,530)	$ (6,255,266)	$ 262	$ 319

The amount of ineffectiveness associated with these contracts was immaterial for the periods presented.

For the three and nine months ended September 30, 2019, we recognized gains less than $0.1 million and $1.1 million, respectively, associated with our economic (non-designated) foreign currency contracts.

We recorded the change in fair value of derivative instruments and the remeasurement adjustment on the foreign currency denominated asset or liability in acquisition-related and exit and realignment charges for contracts assumed with the Halyard acquisition and in other operating expense, net for all other foreign exchange contracts.

Note 8—Exit and Realignment Costs

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

Exit and realignment charges by segment for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2019	2018	**2019**	2018
Global Solutions segment	**$ 1,352**	$ 2,085	**$ 3,952**	$ 6,523
Global Products segment	**—**	(80)	**214**	(108)
Total exit and realignment charges	**$ 1,352**	$ 2,005	**$ 4,166**	$ 6,415

The following table summarizes the activity related to exit and realignment cost and related accruals through September 30, 2019 and 2018:

		Total [1]
Accrued exit and realignment costs, December 31, 2018	$	8,214
Provision for exit and realignment activities:		
Severance		360
Information system restructuring costs		515
Other		83
Change in estimate		(127)
Cash payments		(3,079)
Accrued exit and realignment costs, March 31, 2019		5,966
Provision for exit and realignment activities:		
Severance		1,008
Information system restructuring costs		948
Other		27
Cash payments		(2,569)
Accrued exit and realignment costs, June 30, 2019		5,380
Provision for exit and realignment activities:		
Severance		305
Information system restructuring costs		1,035
Other		11
Cash payments		(2,965)
Accrued exit and realignment costs, September 30, 2019	**$**	**3,766**
Accrued exit and realignment costs, December 31, 2017	$	11,972
Provision for exit and realignment activities:		
Severance		2,295
Information system restructuring costs		177
Other		230
Change in estimate		(23)
Cash payments		(6,886)
Accrued exit and realignment costs, March 31, 2018		7,765
Provision for exit and realignment activities:		
Severance		(415)
Information system restructuring costs		1,079
Other		1,072
Cash payments		(6,358)
Accrued exit and realignment costs, June 30, 2018		3,143
Provision for exit and realignment activities:		
Severance		640
Information system restructuring costs		674
Other		775
Change in estimate		(85)
Cash payments		(3,936)
Accrued exit and realignment costs, September 30, 2018	$	1,211

[1] *The accrued exit and realignment costs at September 30, 2019 and 2018 related primarily to accrued information system restructuring costs and accrued severance.*

Note 9—Retirement Plans

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

The components of net periodic benefit cost, which are included in distribution, selling and administrative expenses, for the three and nine months ended September 30, 2019 and 2018, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Service cost (benefit)	**$ 391**	$ (28)	**$ 1,152**	$ 10
Interest cost	**601**	418	**1,801**	1,256
Recognized net actuarial loss	**260**	522	**780**	1,566
Net periodic benefit cost	**$ 1,252**	$ 912	**$ 3,733**	$ 2,832

Certain of our foreign subsidiaries have health and welfare plans covering substantially all of their respective employees. Our expense for these plans totaled $0.7 million and $0.5 million for the three months ended September 30, 2019 and 2018, respectively, and $1.9 million and $1.6 million for the nine months ended September 30, 2019 and 2018, respectively.

Note 10—Debt

Debt consists of the following:

	September 30, 2019		December 31, 2018	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
3.875% Senior Notes, due September 2021	**$ 270,265**	**$ 262,879**	$ 273,577	$ 207,001
4.375% Senior Notes, due December 2024	**273,226**	**217,473**	272,972	174,859
Term A Loans, due July 2022	**388,018**	**394,194**	422,422	422,422
Term B Loan, due April 2025	**480,958**	**437,456**	483,327	385,284
Revolver	**174,000**	**174,000**	210,100	210,100
Finance leases and other	**20,451**	**20,451**	18,774	18,774
Total debt	**1,606,918**	**1,506,453**	1,681,172	1,418,440
Less current maturities	**(52,927)**	**(52,927)**	(30,590)	(30,590)
Long-term debt	**$ 1,553,991**	**$ 1,453,526**	$ 1,650,582	$ 1,387,850

We have a Credit Agreement (amended February 2019) with a borrowing capacity of $400 million and $889 million outstanding in term loans. The interest rate on our revolving credit facility and Term A loans is based on the Eurocurrency Rate, the Federal Funds Rate or the Prime Rate, plus an adjustment based on our Consolidated Total Leverage Ratio as defined by the Credit Agreement. Our credit spread at September 30, 2019 was Eurocurrency Rate plus 3.5%. Our Term B loan accrues interest based on the Eurocurrency Rate, the Federal Funds Rate or the Prime Rate, plus interest rate margin of 3.50% per annum with respect to Base Rate Loans (as defined in the Credit Agreement), and 4.50% per annum with respect to Eurocurrency Rate Loans (as defined in the Credit Agreement). We are charged a commitment fee of between 12.5 and 25.0 basis points on the unused portion of the facility. The terms of the Credit Agreement requires us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition.

We also have a Security and Pledge Agreement (the Security Agreement) pursuant to which we granted collateral on behalf of the holders of the 2021 Notes and the 2024 Notes and parties secured on the Credit Agreement (the Secured Parties) including first priority liens and security interests in (a) all present and future shares of capital stock owned by the Credit Parties (as defined) in the Credit Parties' present and future subsidiaries (limited, in the case of controlled foreign corporations, to a pledge of 65% of the voting capital stock of each first-tier foreign subsidiary of each Credit Party) and (b) all present and future personal property and assets of the Credit Parties, subject to certain exceptions. Our Credit Agreement has a "springing maturity date" with respect to the revolving loans and the Term A loans and the Term B loan, if as of the date that is 91 days prior to the maturity date of the Company's 2021 Notes or the 2024 Notes, respectively, all outstanding amounts owing under the 2021 Notes or the 2024 Notes, respectively, have not been paid in full then the Termination Date (as defined in the Credit

Agreement) of the revolving credit facility, Term A loans and Term B loan shall be the date that is 91 days prior to the maturity date of the 2021 Notes.

At September 30, 2019 and December 31, 2018, we had borrowings of $174 million and $210.1 million, respectively, under the revolver and letters of credit of $11.7 million and $15.2 million, respectively, outstanding under the Credit Agreement along with $546.3 million and $550.0 million, respectively, in Senior Notes. We also had letters of credit and bank guarantees outstanding for $9.7 million and $7.7 million as of September 30, 2019 and December 31, 2018, respectively, which supports certain facilities leased as well as other normal business activities in the United States and Europe.

The Credit Agreement and Senior Notes contain cross-default provisions which could result in the acceleration of payments due in the event of default of either agreement. We believe we were in compliance with our debt covenants at September 30, 2019.

As of September 30, 2019, scheduled future principal payments of debt were $12.4 million in 2019, $49.6 million in 2020, $321.0 million in 2021, $472.8 million in 2022, $5.0 million in 2023, and $748.8 million thereafter.

Note 11—Income Taxes

The effective tax rate was 378.8% and 11.5% for the three and nine months ended September 30, 2019, compared to 77.1% and 2.2% in the same periods of 2018. The change in these rates resulted from the mixture of income and losses in jurisdictions in which the Company operates, including those of which require a full valuation allowance, and the incremental income tax expense associated with the vesting of restricted stock. The liability for unrecognized tax benefits was $11.4 million at September 30, 2019 and $9.6 million at December 31, 2018. Included in the liability at September 30, 2019 and December 31, 2018 were $3.1 million and $1.9 million, respectively, of tax positions for which ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

Note 12—Net Income (Loss) per Common Share

The following summarizes the calculation of net income (loss) per common share attributable to common shareholders for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	**2019**	**2018**	**2019**	**2018**
Numerator:				
Net income (loss) attributable to common shareholders - basic and diluted	**$ 1,224**	$ (565)	**$ (23,348)**	$ (175,191)
Denominator:				
Weighted average shares outstanding - basic and diluted	**60,030**	59,766	**60,498**	59,996
Net income (loss) per share attributable to common shareholders:				
Basic and diluted	**$ 0.02**	$ (0.01)	**$ (0.39)**	$ (2.92)

Note 13—Shareholders' Equity

Our Board of Directors authorized a share repurchase program of up to $100 million of our outstanding common stock to be executed at the discretion of management over a 3-year period, expiring in December 2019. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the Company from time to time and/or during the Company's scheduled quarterly trading windows for officers and directors. Our Credit Agreement contains restrictions on the amount and timing of share repurchase activity. This includes prohibiting share repurchases should a default under the Credit Agreement exist prior to or immediately after any share repurchases. We did not repurchase any shares of our common stock during the nine months ended September 30, 2019 and 2018. As of September 30, 2019, we had approximately $94.0 million in remaining authorization available under the repurchase program. We have elected to allocate any excess of share repurchase price over par value to retained earnings.

Note 14—Accumulated Other Comprehensive Income (Loss)

The following table shows the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2019 and 2018:

	Retirement Plans	Currency Translation Adjustments	Derivatives and Other	Total
Accumulated other comprehensive loss, June 30, 2019	$ (7,752)	$ (29,306)	$ (12,590)	$ (49,648)
Other comprehensive income (loss) before reclassifications	—	(9,038)	(3,384)	(12,422)
Income tax	—	—	1,314	1,314
Other comprehensive income (loss) before reclassifications, net of tax	—	(9,038)	(2,070)	(11,108)
Amounts reclassified from accumulated other comprehensive income (loss)	260	—	370	630
Income tax	(61)	—	(89)	(150)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	199	—	281	480
Other comprehensive income (loss)	199	(9,038)	(1,789)	(10,628)
Accumulated other comprehensive loss, September 30, 2019	**$ (7,553)**	**$ (38,344)**	**$ (14,379)**	**$ (60,276)**

	Retirement Plans	Currency Translation Adjustments	Derivatives and Other	Total
Accumulated other comprehensive income (loss), June 30, 2018	$ (11,312)	$ (24,942)	$ 51	$ (36,203)
Other comprehensive income (loss) before reclassifications	—	350	1,932	2,282
Income tax	—	—	(5)	(5)
Other comprehensive income (loss) before reclassifications, net of tax	—	350	1,927	2,277
Amounts reclassified from accumulated other comprehensive income (loss)	523	—	491	1,014
Income tax	(161)	—	(98)	(259)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	362	—	393	755
Other comprehensive income (loss)	362	350	2,320	3,032
Accumulated other comprehensive income (loss), September 30, 2018	$ (10,950)	$ (24,592)	$ 2,371	$ (33,171)

	Retirement Plans	Currency Translation Adjustments	Derivatives and Other	Total
Accumulated other comprehensive loss, December 31, 2018	$ (8,146)	$ (32,551)	$ (4,915)	$ (45,612)
Other comprehensive income (loss) before reclassifications	—	(5,793)	(15,325)	(21,118)
Income tax	—	—	5,204	5,204
Other comprehensive income (loss) before reclassifications, net of tax	—	(5,793)	(10,121)	(15,914)
Amounts reclassified from accumulated other comprehensive income (loss)	780	—	995	1,775
Income tax	(187)	—	(338)	(525)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	593	—	657	1,250
Other comprehensive income (loss)	593	(5,793)	(9,464)	(14,664)
Accumulated other comprehensive loss, September 30, 2019	**$ (7,553)**	**$ (38,344)**	**$ (14,379)**	**$ (60,276)**

	Retirement Plans	Currency Translation Adjustments	Derivatives and Other	Total
Accumulated other comprehensive income (loss), December 31, 2017	$ (12,066)	$ (13,185)	$ 167	$ (25,084)
Other comprehensive income (loss) before reclassifications	—	(11,407)	2,169	(9,238)
Income tax	—	—	(21)	(21)
Other comprehensive income (loss) before reclassifications, net of tax	—	(11,407)	2,148	(9,259)
Amounts reclassified from accumulated other comprehensive income (loss)	1,565	—	65	1,630
Income tax	(449)	—	(9)	(458)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	1,116	—	56	1,172
Other comprehensive income (loss)	1,116	(11,407)	2,204	(8,087)
Accumulated other comprehensive income (loss), September 30, 2018	$ (10,950)	$ (24,592)	$ 2,371	$ (33,171)

We include amounts reclassified out of accumulated other comprehensive income (loss) related to defined benefit pension plans as a component of net periodic pension cost recorded in distribution, selling and administrative expenses. For the three and nine months ended September 30, 2019, we reclassified $0.3 million and $0.8 million, respectively, of actuarial net losses. For the three and nine months ended September 30, 2018, we reclassified $0.5 million and $1.6 million, respectively, of actuarial net losses.

Note 15—Segment Information

We periodically evaluate our application of accounting guidance for reportable segments and disclose information about reportable segments based on the way management organizes the enterprise for making operating decisions and assessing performance. We report our business under two segments: Global Solutions and Global Products. The Global Solutions segment includes our United States and European distribution, logistics and value-added services business. Global Products manufactures and sources medical surgical products through our production and kitting operations. The Halyard business, acquired on April 30, 2018, is part of Global Products.

We evaluate the performance of our segments based on their operating income excluding intangible amortization, acquisition-related and exit and realignment charges, certain purchase price fair value adjustments, and other substantive items that, either as a result of their nature or size, would not be expected to occur as part of our normal business operations on a regular basis.

Segment assets exclude inter-segment account balances as we believe their inclusion would be misleading and not meaningful. We believe all inter-segment sales are at prices that approximate market.

The following tables present financial information by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue:				
Segment net revenue				
Global Solutions	$ 2,153,644	$ 2,243,782	$ 6,629,756	$ 6,875,077
Global Products	359,835	349,895	1,070,808	750,770
Total segment net revenue	2,513,479	2,593,677	7,700,564	7,625,847
Inter-segment revenue				
Global Products	(114,462)	(128,800)	(355,959)	(330,120)
Total inter-segment revenue	(114,462)	(128,800)	(355,959)	(330,120)
Consolidated net revenue	$ 2,399,017	$ 2,464,877	$ 7,344,605	$ 7,295,727
Operating income (loss):				
Global Solutions	$ 25,626	$ 24,150	$ 66,152	$ 84,742
Global Products	16,897	27,634	42,570	61,351
Inter-segment eliminations	(242)	(2,957)	774	(3,032)
Goodwill and intangible asset impairment charges	—	—	—	(165,447)
Intangible amortization	(10,949)	(10,366)	(34,415)	(26,147)
Acquisition-related and exit and realignment charges	(4,905)	(7,727)	(15,550)	(47,416)
Other [(1)]	(1,113)	(9,377)	(3,381)	(30,527)
Consolidated operating income (loss)	$ 25,314	$ 21,357	$ 56,150	$ (126,476)
Depreciation and amortization:				
Global Solutions	$ 16,174	$ 15,829	$ 47,222	$ 47,464
Global Products	13,128	13,953	40,982	26,132
Consolidated depreciation and amortization	$ 29,302	$ 29,782	$ 88,204	$ 73,596
Capital expenditures:				
Global Solutions	$ 5,830	$ 12,006	$ 24,578	$ 40,152
Global Products	6,791	5,245	13,574	7,153
Consolidated capital expenditures	$ 12,621	$ 17,251	$ 38,152	$ 47,305

[(1)] Other consists of Software as a Service (SaaS) implementation costs associated with significant global IT platforms in connection with the redesign of our global information system strategy and incremental charge to cost of goods sold from purchase accounting impacts related to the sale of acquired inventory that was written up to fair value.

	September 30, 2019	December 31, 2018
Total assets:		
Global Solutions	$ 2,547,124	$ 2,618,759
Global Products	1,044,492	1,051,662
Segment assets	3,591,616	3,670,421
Cash and cash equivalents	96,803	103,367
Consolidated total assets	$ 3,688,419	$ 3,773,788

The following table presents net revenue by geographic area, which were attributed based on the location from which we ship products or provide services.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenue:				
United States	**$ 2,200,284**	$ 2,200,196	**$ 6,774,965**	$ 6,694,761
International	**198,733**	264,681	**569,640**	600,966
Consolidated net revenue	**$ 2,399,017**	$ 2,464,877	**$ 7,344,605**	$ 7,295,727

Note 16—Recent Accounting Pronouncements

In February 2016, the FASB established Topic 842, *Leases*, by issuing ASU No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. We adopted ASU No. 2016-02 in the first quarter of 2019. We elected to use the adoption date as our date of initial application and thus have not restated comparative prior periods. See Note 6 for additional information.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. ASU No. 2017-12 is intended to simplify the application of hedge accounting and provide increased transparency as to the scope and results of hedging programs. The Company adopted ASU No. 2017-12 effective beginning January 1, 2019. Its adoption did not have a material impact on our consolidated financial statements.

On February 14, 2018, the FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. ASU No. 2018-02 allows companies to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income (loss) to retained earnings. ASU No. 2018-02 was effective for the Company on January 1, 2019 and we elected not to reclassify income tax effects due to the Act from accumulated other comprehensive loss to retained earnings on the consolidated balance sheets in the period of adoption.

On June 16, 2016, the FASB issued ASU No. 2016-13 *Financial Instruments - Credit Losses, Measurement of Credit Losses on Financial Instruments*, which changes the way entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net earnings. This standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact the adoption of ASU No. 2016-13 will have on our consolidated financial statements and related disclosures. Subsequent to the issuance of ASU No. 2016-13, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* and ASU No. 2019-05, *Financial Instruments - Credit Losses (Topic 326) Targeted Transition Relief*. These ASUs do not change the core principle of the guidance in ASU No. 2016-13. Instead these amendments are intended to clarify and improve operability of certain topics included within the credit losses standard. These ASUs will have the same effective date and transition requirements as ASU No. 2016-13.

In August 2018, the SEC adopted a final rule under *SEC Release No. 33-10532, Disclosure Update and Simplification* that amends certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments also expanded the disclosure requirements on the analysis of shareholders' equity for interim financial statements, in which registrants must now analyze changes in shareholders’ equity, in the form of reconciliation, for the current and comparative year-to-date periods, with subtotals for each interim period. This final rule was effective on November 5, 2018. As of the first quarter of 2019, the Company adopted all relevant disclosure requirements, including the shareholders’ equity interim disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the policy for timing of such transfers. This ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income (loss). The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. ASU No. 2018-13 is generally required to be applied retrospectively to all periods presented upon their effective date with the exception of certain amendments, which should be applied prospectively to the most recent interim or annual period presented in the year of adoption. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements and disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other (Topic 350): Internal-Use Software.* This standard aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements and disclosures.

There have been no further changes in our significant accounting policies from those contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

The following discussion and analysis describes results of operations and material changes in the financial condition of Owens & Minor, Inc. and its subsidiaries since December 31, 2018. Trends of a material nature are discussed to the extent known and considered relevant. This discussion should be read in conjunction with the consolidated financial statements, related notes thereto, and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Overview

Owens & Minor, Inc., along with its subsidiaries, (we, us, or our) is a leading global healthcare solutions company with integrated technologies, products and services aligned to deliver significant and sustained value for healthcare providers and manufacturers across the continuum of care.

On April 30, 2018 (the Acquisition Date), we acquired substantially all of Avanos Medical, Inc.'s (Avanos, previously Halyard Health, Inc.) Surgical and Infection Prevention business, the name "Halyard Health" (and all variations of that name and related intellectual property rights) and its information technology (IT) systems in exchange for $758 million, net of cash acquired. The Halyard business is a leading global provider of medical supplies and solutions for the prevention of healthcare associated infections across acute care and non-acute care markets. This business is reported as part of the Global Products segment.

We entered into transition services agreements with Avanos pursuant to which they and we will provide to each other various transitional services, including, but not limited to, facilities, product supply, financial and business services, procurement, human resources, research and development, regulatory affairs and quality assurance, sales and marketing, information technology and other support services. The services under the transition services agreements commenced on the Acquisition Date and generally terminate within 18 months thereafter. These agreements were substantially completed at the end of October 2019.

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

(Dollars in thousands except per share data)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Operating income (loss), as reported (GAAP)	**$ 25,314**	$ 21,357	**$ 56,150**	$ (126,476)
Intangible amortization [1]	**10,949**	10,366	**34,415**	26,147
Goodwill and intangible asset impairment charges[4]	**—**	—	**—**	165,447
Acquisition-related and exit and realignment charges[2]	**4,905**	7,727	**15,550**	47,416
Fair value adjustments related to purchase accounting[5]	**—**	9,029	**—**	27,088
Other [3]	**1,113**	348	**3,381**	3,439
Operating income, adjusted (non-GAAP) (Adjusted Operating Income)	**$ 42,281**	$ 48,827	**$ 109,496**	$ 143,061
Operating income (loss) as a percent of revenue (GAAP)	**1.06%**	0.87%	**0.76%**	(1.73)%
Adjusted operating income as a percent of revenue (non-GAAP)	**1.76%**	1.98%	**1.49%**	1.96 %
Net income (loss), as reported (GAAP)	**$ 1,224**	$ (565)	**$ (23,348)**	$ (175,191)
Intangible amortization [1]	**10,949**	10,366	**34,415**	26,147
Income tax expense (benefit) [7]	**(3,898)**	(2,209)	**(8,167)**	(6,284)
Goodwill and intangible asset impairment charges[4]	**—**	—	**—**	165,447
Income tax expense (benefit) [7]	**—**	—	**—**	(2,060)
Acquisition-related and exit and realignment charges[2]	**4,905**	7,727	**15,550**	47,416
Income tax expense (benefit) [7]	**(1,639)**	(1,575)	**(3,394)**	(11,843)
Fair value adjustments related to purchase accounting[5]	**—**	9,029	**—**	27,088
Income tax expense (benefit) [7]	**—**	(1,922)	**—**	(6,872)
Other [3]	**928**	348	**5,199**	3,439
Income tax expense (benefit) [7]	**(317)**	(85)	**(967)**	(558)
Tax adjustments [6]	**—**	(1,596)	**—**	(1,596)
Net income, adjusted (non-GAAP) (Adjusted Net Income)	**$ 12,152**	$ 19,518	**$ 19,288**	$ 65,133
Net income (loss) per diluted common share, as reported (GAAP)	**$ 0.02**	$ (0.01)	**$ (0.39)**	$ (2.92)
Intangible amortization [1]	**0.12**	0.14	**0.44**	0.32
Goodwill and intangible asset impairment charges[4]	**—**	—	**—**	2.73
Acquisition-related and exit and realignment charges[2]	**0.05**	0.10	**0.20**	0.58
Fair value adjustments related to purchase accounting[5]	**—**	0.11	**—**	0.33
Other [3]	**0.01**	—	**0.07**	0.04
Tax adjustments [6]	**—**	(0.02)	**—**	(0.02)
Net income per diluted common share, adjusted (non-GAAP) (Adjusted EPS)	**$ 0.20**	$ 0.32	**$ 0.32**	$ 1.06

Net income (loss) per diluted share was $0.02 and $(0.39) for the three and nine months ended September 30, 2019. Adjusted EPS (non-GAAP) was $0.20 and $0.32 for the three and nine month periods ended September 30, 2019. Global Solutions operating income of $25.6 million in the quarter (increased $1.5 million from 2018) and $66.2 million year-to-date (decreased $18.6 million from 2018) reflected lower revenues, continued pressure on distribution margins, and higher transportation expenses compared to prior year. Global Products operating income was $16.9 million in the quarter (decreased $10.7 million from 2018) and was $42.6 million year-to-date (decreased $18.8 million from 2018).

Use of Non-GAAP Measures

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

Management provides these non-GAAP financial measures to investors as supplemental metrics to assist readers in assessing the effects of items and events on our financial and operating results and in comparing our performance to that of our competitors. However, the non-GAAP financial measures used by us may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

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

The following items have been excluded in our non-GAAP financial measures:

(1) Intangible amortization includes amortization of intangible assets established during purchase accounting for business combinations. These amounts are highly dependent on the size and frequency of acquisitions and are being excluded to allow for a more consistent comparison with forecasted, current and historical results and the results of our peers.

(2) Acquisition-related charges were $3.6 million and $11.4 million for the three and nine months ended September 30, 2019, compared to $5.7 million and $41.0 million for the same periods of 2018. Acquisition-related charges in 2019 and 2018 consist primarily of transition and transaction costs for the Halyard transaction.

Exit and realignment charges were $1.4 million and $4.2 million for the three and nine months ended September 30, 2019. Amounts in 2019 were associated with severance costs, our client engagement centers, and IT restructuring charges. Exit and realignment charges were $2.0 million and $6.4 million for the three and nine months ended September 30, 2018. Amounts in 2018 were associated with the establishment of our client engagement centers.

(3) Other consists of Software as a Service (SaaS) implementation costs associated with significant global IT platforms in connection with the redesign of our global information system strategy of $1.1 million and $3.4 million for the three and nine months ended September 30, 2019, compared to $0.3 million and $3.4 million for the same periods of 2018.

Other also consists of write-off of deferred financing costs associated with the revolving credit facility as a result of the Fourth Amendment to the Credit Agreement in February 2019 of $2.0 million and gain on extinguishment of debt related to the partial repurchase of our 2021 Notes in September 2019 of $0.2 million, which are included in Other (income) expense, net within the accompanying consolidated statements of income (loss).

(4) Goodwill and intangible assets impairment charges in 2018 included in our Global Products segment were $149 million and $16.5 million, respectively.

(5) The second and third quarters of 2018 include an incremental charge to cost of goods sold from purchase accounting impacts related to the sale of acquired inventory that was written up to fair value in connection with the Halyard acquisition.

(6) Includes tax adjustments primarily associated with the estimated benefits under the Tax Cuts and Jobs Act.

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

Results of Operations

Net revenue.

(Dollars in thousands)	Three Months Ended September 30, 2019	2018	Change $	%
Global Solutions	**$ 2,153,644**	$ 2,243,782	$ (90,138)	(4.0)%
Global Products	**359,835**	349,895	9,940	2.8 %
Inter-segment	**(114,462)**	(128,800)	14,338	11.1 %
Net revenue	**$ 2,399,017**	$ 2,464,877	$ (65,860)	(2.7)%

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018	Change $	%
Global Solutions	**$ 6,629,756**	$ 6,875,077	$ (245,321)	(3.6)%
Global Products	**1,070,808**	750,770	320,038	42.6 %
Inter-segment	**(355,959)**	(330,120)	(25,839)	(7.8)%
Net revenue	**$ 7,344,605**	$ 7,295,727	$ 48,878	0.7 %

The change in net revenue for the quarter and year-to-date periods reflected the impact of lower distribution revenues as a result of customer non-renewals, primarily resulting from service issues prior to early 2019, and unfavorable impacts of foreign exchange of $6.6 million in the quarter and $26.3 million year-to-date. These were partially offset by revenue growth in other business lines. On a year to date basis, net revenue benefited when compared to prior year from the acquisition of Halyard in April 2018. Halyard sales (included in the Global Products segment) from January through April 2019 were $255 million (net of $71 million of intercompany sales).

Cost of goods sold.

(Dollars in thousands)	Three Months Ended September 30, 2019	2018	Change $	%
Cost of goods sold	**$ 2,036,530**	2,112,303	$ (75,773)	(3.6)%

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018	Change $	%
Cost of goods sold	**$ 6,255,266**	$ 6,293,474	$ (38,208)	(0.6)%

Cost of goods sold includes the cost of the product (net of supplier incentives and cash discounts) and all costs incurred for shipments of products from manufacturers to our distribution centers for all customer arrangements where we are the primary obligor and bear risk of general and physical inventory loss. These are sometimes referred to as distribution contracts. Cost of goods sold also includes direct and certain indirect labor, material and overhead costs associated with our Global Products business. There is no cost of goods sold associated with our fee-for-service arrangements. Cost of goods sold compared to prior year reflects changes in sales activity, including sales mix.

Gross margin.

(Dollars in thousands)	Three Months Ended September 30, 2019	2018	Change $	%
Gross margin	**$ 362,487**	$ 352,574	$ 9,913	2.8%
As a % of net revenue	***15.11%***	*14.30%*		

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018	Change $	%
Gross margin	**$ 1,089,339**	$ 1,002,253	$ 87,086	8.7%
As a % of net revenue	***14.83%***	*13.74%*		

Gross margin in the three and nine months ended September 30, 2019, reflected overall improved sales mix, as the products and manufacturer solutions revenues constitute a higher percentage of revenue, which was partially offset by unfavorable impact from foreign currency translation of $5.3 million and $19.1 million, respectively.

Operating expenses.

(Dollars in thousands)	Three Months Ended September 30, 2019	2018	Change $	%
Distribution, selling and administrative expenses	**$ 332,369**	$ 325,012	$ 7,357	2.3%
As a % of net revenue	***13.85%***	*13.19%*		
Other operating income, net	**$ (101)**	$ (1,522)	$ 1,421	93.4%

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018	Change $	%
Distribution, selling and administrative expenses	**$ 1,016,965**	$ 918,147	$ 98,818	10.8%
As a % of net revenue	***13.85%***	*12.58%*		
Other operating expense (income), net	**$ 674**	$ (2,281)	$ 2,955	129.5%

Distribution, selling and administrative (DS&A) expenses include labor and warehousing costs associated with our distribution and logistics services and all costs associated with our fee-for-service arrangements. Shipping and handling costs are primarily included in DS&A expenses and include costs to store, move, and prepare products for shipment, as well as costs to deliver products to customers.

Overall DS&A expenses compared to prior year reflected higher expenses to support business growth, higher transportation expenses, increased expenses incurred for the development of new customer solutions and increased expenses to support the Halyard business (on a year-to-date basis). These increases were partially offset by favorable impacts for foreign currency translation of $3.8 million and $17.3 million for the three and nine months ended September 30, 2019. The change in other operating expense (income), net was attributed primarily to higher software as a service implementation expenses in the quarter and lower foreign currency transactional gains in the quarter and year-to-date compared to prior year.

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

Interest expense, net.

(Dollars in thousands)	Three Months Ended September 30, 2019	2018	Change $	%
Interest expense, net	**$ 25,938**	$ 23,826	$ 2,112	8.9%
Effective interest rate	***6.35%***	*5.65%*		

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018	Change $	%
Interest expense, net	**$ 80,718**	$ 52,651	$ 28,067	53.3%
Effective interest rate	***6.35%***	*5.08%*		

Interest expense increased year over year primarily as a result of borrowings under our revolving credit facility and term loans entered into to fund the Halyard acquisition. See Note 10 in Notes to Consolidated Financial Statements.

Other (income) expense, net.

(Dollars in thousands)	Three Months Ended September 30, 2019	2018	Change $	%
Other income, net	**$ (185)**	$ —	$ (185)	N/A

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018	Change $	%
Other expense, net	**$ 1,818**	$ —	$ 1,818	N/A

Other (income) expense, net in 2019 includes the write-off of deferred financing costs associated with the revolving credit facility as a result of the Fourth Amendment to the Credit Agreement in February 2019 of $2.0 million and gain on extinguishment of debt related to the partial repurchase of our 2021 Notes in September 2019 of $0.2 million.

Income taxes.

(Dollars in thousands)	Three Months Ended September 30, 2019	2018	Change $	%
Income tax benefit	**$ (1,663)**	$ (1,904)	$ 241	12.7%
Effective tax rate	***378.8%***	*77.1%*		

(Dollars in thousands)	Nine Months Ended September 30, 2019	2018	Change $	%
Income tax benefit	**$ (3,038)**	$ (3,936)	$ 898	22.8%
Effective tax rate	***11.5%***	*2.2%*		

The change in the effective tax rates compared to 2018 resulted from the mixture of income and losses in jurisdictions in which the Company operates, including those of which require a full valuation allowance, and the incremental income tax expense associated with the vesting of restricted stock.

Financial Condition, Liquidity and Capital Resources

Financial condition. We monitor operating working capital through days sales outstanding (DSO) and merchandise inventory turnover. We estimate a hypothetical increase (decrease) in DSO of one day would result in a decrease (increase) in our cash balances, an increase (decrease) in borrowings against our revolving credit facility, or a combination thereof of approximately $26 million.

The majority of our cash and cash equivalents are held in cash depository accounts with major banks in the United States, Europe, and Asia. Changes in our working capital can vary in the normal course of business based upon the timing of inventory purchases, collections of accounts receivable, and payments to suppliers.

(Dollars in thousands)	September 30, 2019	December 31, 2018	Change $	%
Cash and cash equivalents	**$ 96,803**	$ 103,367	$ (6,564)	(6.4)%
Accounts receivable, net of allowances	**$ 741,670**	$ 823,418	$ (81,748)	(9.9)%
Consolidated DSO (1)	***27.6***	*28.5*		
Merchandise inventories	**$ 1,153,079**	$ 1,290,103	$ (137,024)	(10.6)%
Consolidated inventory turnover (2)	***6.8***	*7.4*		
Accounts payable	**$ 873,743**	$ 1,109,589	$ (235,846)	(21.3)%

(1) Based on period end accounts receivable and net revenue for the quarter
(2) Based on average inventory and annualized costs of goods sold for the quarter ended September 30, 2019 and year ended December 31, 2018

Liquidity and capital expenditures. The following table summarizes our consolidated statements of cash flows for the nine months ended September 30, 2019 and 2018:

(Dollars in thousands)	2019	2018
Net cash provided by (used for):		
Operating activities	**$ 139,105**	$ 122,509
Investing activities	**(37,932)**	(798,881)
Financing activities	**(89,294)**	695,166
Effect of exchange rate changes	**(2,243)**	1,574
Net increase in cash, cash equivalents and restricted cash	**$ 9,636**	$ 20,368

Cash provided by operating activities in the first nine months of 2019 reflected fluctuations in net income along with changes in working capital.

Cash used for investing activities in the first nine months of 2019 included capital expenditures of $38.2 million for our strategic and operational efficiency initiatives associated with property and equipment and capitalized software. Cash used for investing activities in 2018 primarily included cash paid for the Halyard acquisition offset by the final purchase price settlement with the seller of Byram for $6.2 million.

Cash (used for) provided by financing activities in the first nine months of 2019 included dividend payments of $5.1 million and repayments of $36.1 million under our revolving credit facility, compared to dividend payments of $32.2 million and proceeds from borrowings of $74.8 million for the same period of 2018. Financing activities in the first nine months of 2019 also included repayments of $40.7 million compared to borrowings of $686.4 million in the same period of 2018 on our term loans (under the Credit Agreement) and 2021 Notes. We used $3.5 million to repurchase $3.7 million aggregate principal amount of the 2021 Notes in September 2019. In 2018, we used net proceeds of $695.8 million from term loans and $74.8 million under our revolving credit facility primarily to fund the Halyard acquisition. We also paid $4.3 million in financing costs related to the Fourth Amendment to the Credit Agreement in February 2019.

Capital resources. Our sources of liquidity include cash and cash equivalents and a revolving credit facility under our Credit Agreement (amended February 2019) with Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., Bank of America, N.A. and a syndicate of financial institutions (the Credit Agreement). The Credit Agreement provides a borrowing capacity of $400 million and $889 million outstanding in term loans. The interest rate on our revolving credit facility and Term A loans is based on the Eurocurrency Rate, the Federal Funds Rate or the Prime Rate, plus an adjustment based on our Consolidated Total Leverage Ratio as defined by the Credit Agreement. Our credit spread at September 30, 2019 was Eurocurrency Rate plus 3.5%. Our Term B loan accrues interest based on the Eurocurrency Rate, the Federal Funds Rate or the Prime Rate, plus interest rate margin of 3.50% per annum with respect to Base Rate Loans (as defined in the Credit Agreement), and 4.50% per annum with respect to Eurocurrency Rate Loans (as defined in the Credit Agreement). We are charged a commitment fee of between 12.5 and 25.0 basis points on the unused portion of the facility. The terms of the Credit Agreement requires us to maintain ratios for leverage and interest coverage, including on a pro forma basis in the event of an acquisition.

We also have a Security and Pledge Agreement (the Security Agreement) pursuant to which we granted collateral on behalf of the holders of the 2021 Notes and the 2024 Notes and parties secured on the Credit Agreement (the Secured Parties) including first priority liens and security interests in (a) all present and future shares of capital stock owned by the Credit Parties (as defined) in the Credit Parties' present and future subsidiaries (limited, in the case of controlled foreign corporations, to a pledge of 65% of the voting capital stock of each first-tier foreign subsidiary of each Credit Party) and (b) all present and future personal property and assets of the Credit Parties, subject to certain exceptions. Our Credit Agreement has a "springing maturity date" with respect to the revolving loans and the Term A loans and the Term B loan, if as of the date that is 91 days prior to the maturity date of the Company's 2021 Notes or the 2024 Notes, respectively, all outstanding amounts owing under the 2021 Notes or the 2024 Notes, respectively, have not been paid in full then the Termination Date (as defined in the Credit Agreement) of the revolving credit facility, Term A loans and Term B loan shall be the date that is 91 days prior to the maturity date of the 2021 Notes.

At September 30, 2019 and December 31, 2018, we had borrowings of $174 million and $210.1 million, respectively, under the revolver and letters of credit of $11.7 million and $15.2 million, respectively, outstanding under the Credit Agreement along with $546.3 million and $550.0 million, respectively, in Senior Notes. We also had letters of credit and bank guarantees outstanding for $9.7 million and $7.7 million as of September 30, 2019 and December 31, 2018, respectively, which supports certain facilities leased as well as other normal business activities in the United States and Europe.

From time to time, we may enter into transactions to repay, repurchase or redeem our outstanding indebtedness (including by means of open market purchases, privately negotiated repurchases, tender or exchange offers and/or repayments or redemptions pursuant to the debt's terms). Our ability to consummate any such transaction will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. We cannot provide any assurance as to if or when we will consummate any such transactions or the terms of any such transaction.

The third quarter dividend of $0.0025 per share was paid in September 2019. The payment of future dividends remains within the discretion of the Board of Directors and will depend upon our results of operations, financial condition, capital requirements, current and future limitations under our Credit Agreement (as amended) and other factors.

Our Board of Directors authorized a share repurchase program of up to $100 million of our outstanding common stock to be executed at the discretion of management over a three-year period, expiring in December 2019. The program is intended to offset shares issued in conjunction with our stock incentive plan and return capital to shareholders, and may be suspended or discontinued at any time. However, our Credit Agreement contains restrictions on the amount and timing of share repurchase activity. This includes prohibiting share repurchases should a default under the Credit Agreement exist prior to or immediately after any share repurchases. We did not repurchase any shares during 2019. At September 30, 2019, the remaining amount authorized for repurchase under this program was $94.0 million.

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

We earn a portion of our operating income in foreign jurisdictions outside the United States. Prior to the reporting period in which the Tax Cuts and Jobs Act (the Act) was enacted we considered foreign earnings to be indefinitely reinvested and provided no United States federal and state taxes or withholding taxes on those earnings. Our cash and cash equivalents held by our foreign subsidiaries totaled $57.5 million at September 30, 2019 and $64.9 million at December 31, 2018. Upon enactment, the Act imposes a tax on our total post-1986 foreign earnings at various tax rates. The Company has recognized an amount for this one-time transition tax. The Company continues to remain permanently reinvested in its foreign subsidiaries, with the exception of a subsidiary in Thailand. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax, or any additional outside basis difference inherent in these entities in which we assert permanent reinvestment. Management has no specific plans to indefinitely reinvest the unremitted earnings of our foreign subsidiary located in Thailand as of September 30, 2019. As such, we have recorded withholding tax liabilities that would be incurred upon future distribution to the U.S. There are no unrecognized deferred taxes as there is no outside basis difference unrelated to unremitted earnings for Thailand. The Company will continue to evaluate its foreign earnings repatriation policy during 2019 for all other foreign subsidiaries in which we operate.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see our Annual Report on Form 10-K for the year ended December 31, 2018 and Note 16 in the Notes to Consolidated Financial Statements, included in this Quarterly Report on Form 10-Q for the quarterly period ended on September 30, 2019.

Forward-looking Statements

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

- competitive pressures in the marketplace, including intense pricing pressure;
- our ability to retain existing and attract new customers in a market characterized by significant customer consolidation and intense cost-containment initiatives;
- our dependence on sales to certain customers or the loss or material reduction in purchases by key customers;
- our dependence on distribution of product of certain suppliers;

- our ability to successfully identify, manage or integrate acquisitions, including our ability to successfully integrate the Halyard S&IP business into our operations and to realize the anticipated benefits and synergies from the Halyard S&IP acquisition;
- our ability to successfully manage our international operations, including risks associated with changes in international trade regulations, foreign currency volatility, changes in regulatory conditions, deteriorating economic conditions, adverse tax consequences, and other risks of operating in international markets;
- uncertainties related to and our ability to adapt to changes in government regulations, including healthcare laws and regulations (including the Affordable Care Act);
- risks arising from possible violations of legal, regulatory or licensing requirements of the markets in which we operate;
- uncertainties related to general economic, regulatory and business conditions;
- our ability to successfully implement our strategic initiatives;
- the availability of and modifications to existing supplier funding programs and our ability to meet the terms to qualify for certain of these programs;
- the effect of price volatility in the commodities markets, including fuel price fluctuations, on our operating costs and supplier product prices;
- our ability to adapt to changes in product pricing and other terms of purchase by suppliers of product;
- the ability of customers and suppliers to meet financial commitments due to us;
- changes in manufacturer preferences between direct sales and wholesale distribution;
- changing trends in customer profiles and ordering patterns and our ability to meet customer demand for additional value-added services;
- our ability to manage operating expenses and improve operational efficiencies in response to changing customer profiles;
- our ability to meet performance targets specified by customer contracts under contractual commitments;
- availability of and our ability to access special inventory buying opportunities;
- the ability of business partners and financial institutions to perform their contractual responsibilities;
- our ability to continue to obtain financing, obtain financing at reasonable rates and to manage financing costs and interest rate risk, and our ability to refinance, extend or repay our substantial indebtedness;
- the risk that information systems are interrupted or damaged or fail for any extended period of time, that new information systems are not successfully implemented or integrated, or that there is a data security breach in our information systems;
- the risk that a decline in business volume or profitability could result in an impairment of goodwill or other long-lived assets;
- our ability to timely or adequately respond to technological advances in the medical supply industry;
- the costs associated with and outcome of outstanding and any future litigation, including product and professional liability claims;
- adverse changes in U.S. and foreign tax laws and the outcome of outstanding tax contingencies and legislative and tax proposals;
- our ability to successfully implement the expense reduction and productivity and efficiency increasing initiatives;
- our ability to continue to comply with the terms and conditions of Byram Healthcare’s Corporate Integrity Agreement;
- the potentially adverse impact of the United Kingdom’s planned withdrawal from the European Union; and
- other factors detailed from time to time in the reports we file with the SEC.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to price risk for our raw materials, the most significant of which relates to the cost of polypropylene and nitrile used in the manufacturing processes of our Global Products segment. Prices of the commodities underlying these raw materials are volatile and have fluctuated significantly in recent years and in the future may contribute to fluctuations in our results of operations. The ability to hedge these commodity prices is limited.

In the normal course of business, we are exposed to foreign currency translation and transaction risks. Our business transactions outside of the United States are primarily denominated in the euro, British pound and Thai baht. We may use foreign currency forwards, swaps and options, where possible, to manage our risk related to certain foreign currency fluctuations.

We are exposed to market risk from changes in interest rates related to our borrowing under our Credit Agreement. However, we enter into interest rate swap agreements to manage our exposure to interest rate changes. We had $889 million in borrowings under our term loans, $174 million in borrowings under our revolving credit facility and $12 million in letters of credit under the Credit Agreement at September 30, 2019. After considering the effects of interest rate swap agreements entered into during July 2018, we estimate an increase in interest rates of 100 basis points would result in a potential reduction in future pre-tax earnings of approximately $6 million per year based on our borrowings outstanding and the effective interest rates at September 30, 2019.

Due to the nature and pricing of our Global Solutions segment distribution services, we are exposed to potential volatility in fuel prices. Our strategies for helping to mitigate our exposure to changing domestic fuel prices have included using trucks with improved fuel efficiency. We benchmark our domestic diesel fuel purchase prices against the U.S. Weekly Retail On-Highway Diesel Prices (benchmark) as quoted by the U.S. Energy Information Administration. The benchmark averaged $3.06 and $3.15 per gallon in the first nine months of 2019 and 2018, respectively. Based on our fuel consumption in the first nine months of 2019, we estimate that every 10 cents per gallon increase in the benchmark would reduce our Global Solutions segment operating income by approximately $0.4 million on an annualized basis.

Item 4. Controls and Procedures

We carried out an evaluation, with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2019.

In connection with the Halyard acquisition, we entered into transition services agreements with Avanos pursuant to which they and we will provide to each other various transitional services, including, but not limited to, facilities, product supply, financial and business services, procurement, human resources, regulatory affairs and quality assurance, sales and marketing, information technology and other support services for a period of up to 18 months after the closing date. These agreements were substantially completed at the end of October 2019.

Management has established controls to mitigate the risk over financial reporting and will continue to monitor and evaluate the sufficiency of the controls. We are currently evaluating the acquired processes, information technology systems and other components of internal controls over financial reporting as part of the Company's integration activities which may result in periodic changes to our internal control over financial reporting. Such changes will be disclosed as required by applicable SEC guidance.

There was no change in our internal control over financial reporting that occurred during the period of this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We implemented internal controls to ensure we adequately assessed the adoption impact of the new lease standard, and its related amendments, on our consolidated financial statements. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

Part II. Other Information

Item 1. Legal Proceedings

Certain legal proceedings pending against us are described in our Annual Report on Form 10-K for the year ended December 31, 2018. Through September 30, 2019, there have been no material developments in any legal proceedings reported in such Annual Report.

Item 1A. Risk Factors

Certain risk factors that we believe could affect our business and prospects are described in our Annual Report on Form 10-K for the year ended December 31, 2018. Through September 30, 2019, there have been no material changes in the risk factors described in such Annual Report.

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

In October 2016, our Board of Directors authorized a share repurchase program of up to $100 million of the Company’s outstanding common stock to be executed at the discretion of management over a three-year period. The timing of repurchases and the exact number of shares of common stock to be purchased will depend upon market conditions and other factors and may be suspended or discontinued at any time. Purchases under the share repurchase program are made either pursuant to 10b5-1 plans entered into by the Company from time to time and/or during the Company’s scheduled quarterly trading windows for officers and directors. We did not repurchase any shares for the nine months ended September 30, 2019.

Item 6. Exhibits

(a) Exhibits

10.1	Executive Separation Agreement and General Release, dated as of June 26, 2019, by and between Stuart Morris-Hipkins and Owens & Minor, Inc.
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Certain exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby undertakes to furnish copies of such omitted materials supplementally upon request by the SEC.

** Management contract or compensatory plan or arrangement

SIGNATURES

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

		Owens & Minor, Inc. (Registrant)
Date:	November 6, 2019	/s/ Edward A. Pesicka Edward A. Pesicka President & Chief Executive Officer
Date:	November 6, 2019	/s/ Michael W. Lowry Michael W. Lowry Senior Vice President, Chief Accounting Officer & Interim Chief Financial Officer

Exhibit 31.1

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

I, Edward A. Pesicka, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 of Owens & Minor, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Edward A. Pesicka

Edward A. Pesicka
President & Chief Executive Officer

Exhibit 31.2

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

I, Michael W. Lowry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, of Owens & Minor, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 6, 2019

/s/ Michael W. Lowry

Michael W. Lowry

Senior Vice President, Chief Accounting Officer & Interim Chief Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Owens & Minor, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward A. Pesicka, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward A. Pesicka

Edward A. Pesicka
President & Chief Executive Officer
Owens & Minor, Inc.
November 6, 2019

Exhibit 32.2

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

In connection with the Quarterly Report of Owens & Minor, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael W. Lowry, Senior Vice President, Chief Accounting Officer & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael W. Lowry

Michael W. Lowry

Senior Vice President, Chief Accounting Officer & Interim Chief Financial Officer

Owens & Minor, Inc.

November 6, 2019