Owens&Minor

Solutions Technology

OWENS & MINOR 1999 ANNUAL REPORT & FORM 10-K

The nation's largest distributor of national name brand medical/surgical supplies uses the strength of its people and the power of technology to serve its customers.

COMPANY OVERVIEW

Owens & Minor, Inc., a Fortune 500 company headquartered in Richmond, Virginia, is the nation's largest distributor of national name brand medical/surgical supplies. With distribution centers located throughout the United States, the company serves hospitals, integrated healthcare systems and group purchasing organizations. In addition to a diverse product offering, Owens & Minor offers innovative services in supply chain management, logistics and technology, helping customers control healthcare costs and improve inventory management.

Founded in 1882, Owens & Minor began as a wholesale drug company, but since 1992, the company has focused solely on the distribution of medical/surgical supplies. With the advent of the digital marketplace, Owens & Minor is now leading the way among distributors in exploring e-commerce and other methods of sharing information using the Internet.

Owens & Minor's common shares are traded on the New York Stock Exchange under the symbol OMI. As of December 31, 1999, there were approximately 15,000 common shareholders.

ABOUT THE COVER

At Owens & Minor, we believe that solving supply chain problems for our customers is what we do best. By making the most of technology's tools, we are able to help customers streamline inventory management, purchasing, invoicing and contract compliance. Through our innovative use of technology, we provide our customers with solutions that make a crucial difference in a demanding market.

MISSION

To create consistent value for our customers and supply chain partners that will maximize shareholder value and long-term earnings growth; we will do this by managing our business with integrity and the highest ethical standards, while acting in a socially responsible manner with particular emphasis on the well-being of our teammates and the communities we serve.

VISION

To be a world class provider of supply chain management solutions to the selected segments of the healthcare industry we serve.

VALUES

We believe in our teammates and their well-being.

We believe in providing superior customer service.

We believe in supporting the communities we serve.

We believe in delivering long-term value to our shareholders.

We believe in high integrity as the guiding principle of doing business.

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1999 FINANCIAL OVERVIEW

(in thousands, except ratios, per share data and employee statistics)

				Percent Change	
Year ended December 31,	**1999**	1998	1997	99/98	98/97
Net sales	**$3,186,373**	$3,082,119	$3,116,798	3.4%	(1.1%)
Net income	**$ 27,979**	$ 20,145	$ 24,320	38.9%	(17.2%)
Net income per common share – basic	**$ 0.86**	$ 0.56	$ 0.60	53.6%	(6.7%)
Net income per common share – diluted	**$ 0.82**	$ 0.56	$ 0.60	46.4%	(6.7%)
Net income excluding restructuring[1]	**$ 27,420**	$ 26,753	$ 24,320	2.5%	10.0%
Net income per common share excluding restructuring[1]:					
Basic	**$ 0.84**	$ 0.77	$ 0.60	9.1%	28.3%
Diluted	**$ 0.80**	$ 0.75	$ 0.60	6.7%	25.0%
Cash dividends per common share	**$ 0.23**	$ 0.20	$ 0.18	15.0%	11.1%
Book value per common share	**$ 5.58**	$ 4.94	$ 4.48	13.0%	10.3%
Stock price per common share at year-end	**$ 8.94**	$ 15.75	$ 14.50	(43.2%)	8.6%
Number of common shareholders	**15.0**	15.5	16.1	(3.2%)	(3.7%)
Shares of common stock outstanding	**32,711**	32,618	32,213	0.3%	1.3%
Return on average common equity excluding restructuring[1]	**16.0%**	15.9%	14.1%	0.6%	12.8%
Return on total assets excluding restructuring[1] [2]	**3.1%**	3.3%	3.0%	(6.1%)	10.0%
Gross margin as a percent of net sales	**10.5%**	10.6%	10.2%	(0.9%)	3.9%
Selling, general and administrative expenses as a percent of net sales	**7.6%**	7.8%	7.5%	(2.6%)	4.0%
Debt[2]	**$ 280,790**	$ 225,000	$ 292,550	24.8%	(23.1%)
Capitalization ratio[2] [3]	**47.2%**	43.4%	53.0%	8.8%	(18.1%)
Average receivable days sales outstanding[2]	**35.6**	34.7	33.4	2.6%	3.9%
Average inventory turnover	**9.2**	9.8	9.9	(6.1%)	(1.0%)
Employees at year-end	**2,774**	2,661	3,010	4.2%	(11.6%)

(1) *See Note 3 to Consolidated Financial Statements regarding the 1998 nonrecurring restructuring expenses ($11.2 million before tax) and the 1999 reserve adjustment ($1.0 million before tax).*
(2) *Excludes impact of off balance sheet receivables securitization agreement. See Note 7 to Consolidated Financial Statements.*
(3) *Includes mandatorily redeemable preferred securities as equity.*

Net Income Per Common Share – Diluted
(Excluding restructuring)

Dear Shareholders, Teammates, Customers, Suppliers and Friends,

We had a remarkable and successful year in 1999. We fully restored our business, fueling our momentum into 2000. The results we achieved in 1999, especially in the third and fourth quarters, bode well for a more robust future.

We said we were going to restore our sales volume, and we did. We said we were going to maintain our profitability on the new business, and we did. We said we were going to maintain our industry-leading service reputation, and we did. We said we were going to invest heavily in solution-based technology tools to help our customers, and we did. We said we were going to improve productivity, and we did. We accomplished all this as a team of committed souls, all focused on serving our customers and working to improve shareholder value.

Shareholder value is of paramount concern to all of us at Owens & Minor. At this writing, our share price is well below our expectations, and, we believe well below the inherent value of Owens & Minor. Through hard work and determination in 1999, we more than restored our reputation and market presence, and grew our profitability. We increased shareholder value on our balance sheet, and we feel we are in position to earn a higher valuation in the equities' market in 2000.

THE NUMBERS

Our financial results for the year were impressive. The following results include Medix, which we acquired on July 30. As we expected, Medix had no material impact on earnings in 1999.

Sales increased 3.4% for the year and 20.1% in the fourth quarter. Without Medix, sales were up 0.8% for the year and 13.4% in the fourth quarter. Virtually all major group contract purchases were up. The Tenet business conversion exceeded our expectations. Gross margin dollars were up. In other words, we didn't "buy" the new business to replace the lost business. SG&A (Selling, General and Administrative Expenses) as a percent to sales dipped to 7.6% in 1999, down from 7.8% for the previous year. In the fourth quarter of 1999, SG&A was $62.5 million, up only 6% from a year ago, despite the 20% sales increase. Getting SG&A down even further as a percent to sales is one of our highest priorities in 2000.

Earnings per diluted common share for the year were $0.80, up 7% from last year, and $0.25, up 25%, for the fourth quarter, compared to the fourth quarter of 1998. These comparisons, and all other full-year comparisons included in this letter, exclude the effects of a $6.6 million after-tax restructuring charge taken in the second quarter of 1998, and a related $0.6 million after-tax credit taken in the second quarter of 1999. Cash flow was healthy and allowed us to pay down debt by $26.9 million, net of the Medix acquisition. We were able to reduce our overall financing costs for the year through strong asset management. At year-end, however, we employed more working capital to fund our sales growth and experienced a modest increase in days sales outstanding from 34.7 days to 35.6 days, and inventory turns decreased slightly from 9.8 times to 9.2 times.

Capital expenditures were $22 million for the year, reflecting the emphasis on our strategic decision to invest in technology. Productivity improved, as sales per full time equivalent employee (FTE) increased 7%, and gross margin per FTE increased 7%.

A REVIEW OF OUR SUCCESSFUL STRATEGY FOR 1999

At the beginning of 1999, we knew we had to rebuild our business and restore our profitability. Strategically, we decided to focus on what we do best.

Our core competency is that we are the most efficient distributor in our industry, while adding value by providing great service and technology-based solutions to help our customers.

We turned up the pressure on ourselves. We knew we had the best technology tools in the business and the best service, so we packaged our offering that way. Price is always a factor, but we were determined not to give our value away. We earned the Tenet business, and then put into play the smoothest and most comprehensive conversion this industry has ever seen. Our annualized sales rate for Tenet at the end of December 1999, was over $250 million.

By mid-year in 1999, we began to see new sales earned in 1998 come on line as expected. In July, we acquired Medix, a medical/surgical distributor based in Wisconsin. This acquisition increased our market share, particularly in the Midwest, and added significant new customers, especially Consorta Catholic Resource Partners.

To manage our costs more efficiently we downsized some warehouses that had extra capacity and installed our CSW (Client Server Warehousing) system in all of our divisions. CSW has improved accuracy, information flow and speed in our warehouses.

We also reorganized our field management to take advantage of the 'close to the customer' strength we have across the nation. We divided the country into eleven management areas, increasing firepower in the field for sales, operations, technology and human resources.

We knew we had to manage our assets efficiently, pay down debt and lower our interest costs. We accomplished all three with hard work, planning and execution.

G. Gilmer Minor, III
Chairman and Chief Executive Officer

Craig R. Smith
President and Chief Operating Officer

We also continued our work with suppliers, figuring out ways to take real cost out of the supply chain. This cross-functional team effort is very important to Owens & Minor, as our commitment to national brands increases our value to our customers.

Nothing we achieved in 1999 would have been possible without the efforts and determination of our teammates, who rose to the occasion time and again until we accomplished our objectives.

EXPECTATIONS FOR 2000

Our strategy for 2000 is aimed at growing revenues at 8 to 10 percent, while maintaining our gross margin, lowering SG&A, and improving earnings by 13 to 15 percent or more. If we can do all this, we expect our stock price to increase, consistent with our performance and the health of our market sector.

Our hard work in three strategic areas over the past year had a significant impact on our 1999 results, and we will continue to exploit these areas in 2000. The first is maintaining operational excellence, which means running our business so that we provide the absolute best service in the industry. Second, we

We Believe That Our Most Important Product Is Our Word.

want to convert information into knowledge into profits. We have done an outstanding job here with CostTrack, PANDAC®, FOCUS and WISDOM in helping our customers manage their businesses more profitably. (These Owens & Minor tools are described more fully later in this report.) Third, we want to follow and support patient care. As patients migrate to non-traditional settings for healthcare, we will be there to supply their needs.

E-COMMERCE OPPORTUNITIES

Owens & Minor is on the leading edge when it comes to business-to-business, Internet-based communications with our customers. In fact, we won recognition for our innovative use of technology in 1999 when we were named to the "E-Business 100" by *InformationWeek Magazine*, and when we won the 1999 Leadership in Data Warehousing Award from the Data Warehousing Institute.

We are working closely with our largest customers, health alliances and group purchasing organizations, to implement e-commerce solutions involving the collection and organization of useful data, as well as more efficient order processing. We have developed our own e-commerce capability for order processing called OM Direct. Over 200 customers have signed up with OM Direct, and we are processing orders at a rate of over $3 million per month.

Also, we are partnering with several healthcare Web sites, such as Neoforma.com (NASDAQ: NEOF) and medicalbuyer.com™, to explore the value of small package distribution to new markets for Owens & Minor, such as physicians' offices. We call our small package initiative "eMedExpress" (soon to be a "dot-com" site).

We are developing an open business-to-business, e-commerce digital platform with Perot Systems (NYSE: PER) to process customer orders for multiple vendors through one portal. This initiative will provide our customers with the ability to do business with multiple best-of-class strategic partners, while achieving back-office savings and efficiencies through a more disciplined process.

We look at e-commerce as an opportunity to grow our business. Even in the exciting world of e-commerce, the function of distribution must be performed. The question is who can do it best. The answer is Owens & Minor.

PROMOTIONS AND ELECTIONS

Owens & Minor proved again in 1999 that it has both strength and depth on its management team. We made a number of important promotions during the year that made us even more effective.

Craig R. Smith was named President of the company in April 1999, while retaining his position as Chief Operating Officer. Craig has generated tremendous energy and a sense of urgency to restoring our market presence, and he has clearly been successful in this important leadership post.

Timothy J. Callahan was recently promoted to the position of Corporate Senior Vice President, Distribution, with responsibility for our entire field organization and distribution network.

Charles C. Colpo was named Corporate Senior Vice President, Operations, after working his way through our field organization and making his mark in many areas of the company.

Erika T. Davis was promoted to Corporate Vice President of Human Resources. Erika has done a magnificent job helping our Human Resources team be a most responsive and helpful advocate for our teammates.

In 1999, two new Directors were elected to the Board. Peter S. Redding, President and CEO of Standard Register, joined the Board in April, and John T. Crotty, Managing Partner of CroBern Management Partnership, a healthcare investment, consulting and advisory firm, joined us in July. Both Pete and John bring supply chain management experience and leadership to Owens & Minor.

AND LOSSES

In March 1999, Ann Greer Rector, Senior Vice President and Chief Financial Officer, passed away after a short illness. She was our friend, a gallant lady and truly represented the best of Owens & Minor. We miss her terribly, but her can-do spirit is a legacy for us all.

In August 1999, we lost our beloved Director Emeritus, Royal E. Cabell, Jr. Roy had just retired from the Board in April after 37 years of service. He was a mentor, proactive in helping steer the company to growth, sometimes through perilous waters, and a dear, loyal friend. His hearty laugh and broad smile will always be missed.

A NEW YEAR, A NEW CENTURY, A NEW MILLENNIUM

Owens & Minor has provided service to the healthcare industry in three centuries. Our sterling roster of customers proves we are leading the way in our industry. Each year *U.S. News & World Report* compiles an "honor roll" of the nation's best hospitals. Of these top 13 institutions, Owens & Minor is the primary supplier to eight of them. We see this as evidence that we are doing things right.

The industry we serve is in the throes of change as the government, third party payors, providers and patients battle over the quality and cost of care.

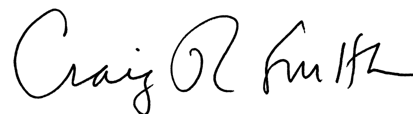
Yet, healthcare is a growth industry any way you look at it, with our population aging and medical requirements accelerating. We believe our strategy of providing innovative supply chain answers, working with strategic partners like Perot Systems, and providing the absolute best-of-class service, not only works for us, but provides dynamic solutions for our customers. If our strategy weren't correct, how else could we have come back so strong, so fast? Owens & Minor keeps changing and keeps growing by doing things right.

To our suppliers and customers, we are grateful for your loyalty and support as we all work together in a very tough industry; to our teammates, we are grateful for your courage, your determination and loyalty as we delivered on our promises in 1999. To our shareholders, we are grateful for your continued support. It's hard to be patient in this market, but we do feel patience will be rewarded.

Thank you all for being part of the Owens & Minor team.

Warmest regards,

G. Gilmer Minor, III
Chairman and Chief Executive Officer



Craig R. Smith
President and Chief Operating Officer

WE PURCHASE GOODS FOR OUR CUSTOMERS

We help our customers lower their purchasing costs by doing the work for them. By purchasing goods in large volume, we are able to buy at lower cost, streamline delivery, and collect important sales and usage information for our customers.

WE HOLD THE INVENTORY

We buy and hold inventory for our customers. With sophisticated delivery processes, we deliver and invoice goods only when our customers are ready. Rather than tying up capital in stock sitting in a warehouse, our customers save money by using our "just-in-time" and stockless services, receiving supplies at the time they are needed.

WE WAREHOUSE

With warehouse facilities around the nation, Owens & Minor stores medical and surgical supplies close to our customers. Because it costs money every time an item is handled, we've researched and developed ways to simplify handling. Using tools such as CSW (Client Server Warehousing), we are able to streamline receipt and storage of materials. In some instances, we bypass the warehouse altogether, taking supplies directly to where they are needed.

WE REDUCE INVENTORY COSTS

Because we have refined the art of warehousing, we are able to reduce costs for our customers. In many cases, we do the warehousing for them. Or, we employ a just-in-time delivery system that eliminates the cost of storage.

WE CUSTOMIZE OUR INFORMATION SERVICES

One of the most important by-products of what we do at Owens & Minor is information. Because we collect and store data, we are able to help customers with purchasing and supply-chain analysis. We support them in product standardization and contract compliance, and help customers pinpoint ways to streamline and save money. WISDOM, a new product launched in 1999, gives our subscribers Internet access to their own purchasing and invoice information.

WE ADD VALUE

Once our customers are ready to receive shipments, we customize how we load our pallets and trucks, reducing labor on the receiving end. Receiving documents are customized to conform with our customers' information systems. Also, we deliver only when our customers are ready, allowing them to streamline their receiving activity.

WE DELIVER

Our warehouse facilities are located throughout the United States close to our customers. To deliver supplies on time, Owens & Minor uses its own drivers, who are important ambassadors for our company. They are committed to customer service.

WE INVOICE AND COLLECT

Once products are delivered, we invoice and collect. By using electronic billing and funds transfer, we reduce costs for ourselves and for our customers. A variety of terms are offered to suit the needs of our individual customers. Many of our customers are members of group purchasing organizations or large hospital systems and they are able to take advantage of favorable pricing.

Solutions In Supply Chain Management Through CSW

At Owens & Minor, we focus on providing the ultimate in service for our customers—solutions. By blending 118 years of experience serving the healthcare industry with the latest in technological innovations, we are providing supply chain management solutions for our customers—hospitals, integrated health-care systems and group purchasing organizations. As an industry leader, we strive to anticipate challenges emerging for our healthcare partners.

OWENS & MINOR PROVIDES SOLUTIONS IN SUPPLY CHAIN MANAGEMENT

In 1999, Owens & Minor fully implemented CSW, or Client Server Warehousing, in its warehouses throughout the country. This computer-based warehouse management system has standardized warehouse processes throughout the company. Prior to the implementation of CSW, Owens & Minor used three different systems to run its warehouses.

With CSW, each item is tracked from the moment it enters the warehouse until it reaches its destination, improving inventory control. Efficiency in the picking and putaway of products has increased, improving our service to customers.

The hand-held RF (radio frequency) units used by teammates to track every item in the warehouse also provide Owens & Minor information on the efficiency of each teammate. Because Owens & Minor has used this information to improve efficiency, the company is benefiting from a reduction in overtime.

In a business as complex as Owens & Minor's, efficiency has a great impact on the bottom line. By using this computer-based technology to track the movement of every item, Owens & Minor has found a way to cut costs, and improve teammate efficiency, invoice accuracy and customer satisfaction.

We Constantly Find Ways To Stay Close To Our Customers.

Solutions In Cost Management Through CostTrack Activity-Based-Management

OWENS & MINOR, INC.

Merging Our Skills With Our Customers' Needs Makes Us Different.

These hand-held RF (radio frequency) units improve efficiency in Owens & Minor's warehouses.

OWENS & MINOR PROVIDES SOLUTIONS IN COST MANAGEMENT

With more than a century's experience in supply chain management, Owens & Minor is constantly finding better ways to manage and reduce costs for itself and its customers. With the goal of delivering efficient, high quality service to customers, Owens & Minor offers CostTrack activity-based-management.

This industry-leading program separates the cost of the product from the process of delivering it, thus identifying the true cost of distribution. CostTrack recognizes and rewards efficiencies such as electronic commerce and standardization of commodity products.

An independent study determined that while hospitals spend about 15 percent of their budgets on supplies, they spend another 10 to 20 percent on managing those supplies. These costly internal processes provide Owens & Minor opportunities to help customers save by implementing CostTrack.

With CostTrack, Owens & Minor customers pay for exactly the services they choose. For example, a customer might ask that we deliver supplies to the loading dock—a relatively low cost activity. However, another customer might ask that Owens & Minor take supplies all the way into the emergency room or operating room. This is a higher cost activity, but one that Owens & Minor provides as an outsourcing solution for many customers.

Rather than using a cost-plus model, Owens & Minor charges according to the complexity of the activity. Customers can choose from a range of services, from basic distribution to a full outsourcing arrangement.

Every Assignment From Our Customers Gives Us The Opportunity To Excel.

By using the best technology available in partnership with our customers, we believe we have developed the right formula for our industry. We believe that Owens & Minor leads the industry by providing in-depth knowledge and experience in supply chain management to customers and by using technology to create solutions for our partners. We believe that when we deliver solutions, we deliver satisfaction.

OWENS & MINOR PROVIDES SOLUTIONS IN DATA MANAGEMENT

In 1999, Owens & Minor launched a major Internet-based initiative, opening its vast data warehouse to customers and suppliers. This award-winning product, called WISDOM, rapidly gained subscribers.

Using a simple Internet connection, subscribers to WISDOM can mine their own sales and other data. Information once difficult for customers and suppliers to compile is now readily available through this Owens & Minor service. Subscribers can easily retrieve detailed reports on purchasing, inventory and usage, and contract compliance. Suppliers can access reports on product inventory, drop shipments, credits, customer contract utilization and service levels with Owens & Minor.

The first e-business intelligence application of its kind within the medical/surgical distribution industry, WISDOM has won acclaim for Owens & Minor. The Data Warehousing Institute, the premier educational association in the data warehousing industry, named Owens & Minor the winner of its 1999 Leadership Award for WISDOM.

Also, *InformationWeek Magazine* included Owens & Minor among its "E-Business 100," a survey of more than 400 nominated businesses that have achieved overall excellence in e-business initiatives. Owens & Minor was cited for the development and use of WISDOM.

Using customized information from WISDOM, customers can save money through product consolidation, and improve inventory management. Now a recognized brand name in the healthcare industry, WISDOM is helping Owens & Minor attract new customers and expand existing relationships. WISDOM gives Owens & Minor a competitive advantage by helping it forge tighter links with customers.

Solutions In Data Management Through WISDOM

OWENS & MINOR, INC.

CORPORATE OFFICERS

Minor Smith Gouldthorpe Callahan Davis Bozard Cape Berling

Grigg Colpo Thomas Luck MacAllister Marston Carneal Clark

G. Gilmer Minor, III (59)
Chairman & Chief Executive Officer

Craig R. Smith (48)
President & Chief Operating Officer

Henry A. Berling (57)
Executive Vice President,
Partnership Development

Timothy J. Callahan (48)
Senior Vice President, Distribution

Drew St. J. Carneal (61)
Senior Vice President,
General Counsel & Secretary

Jack M. Clark, Jr. (49)
Senior Vice President, Sales & Marketing

Charles C. Colpo (42)
Senior Vice President, Operations

James L. Grigg (52)
Senior Vice President,
Supply Chain Management

F. Lee Marston (46)
Senior Vice President,
Chief Information Officer

Richard F. Bozard (52)
Vice President, Treasurer
Acting Chief Financial Officer

Olwen B. Cape (49)
Vice President, Controller

Erika T. Davis (35)
Vice President, Human Resources

Hugh F. Gouldthorpe, Jr. (60)
Vice President, Quality & Communications

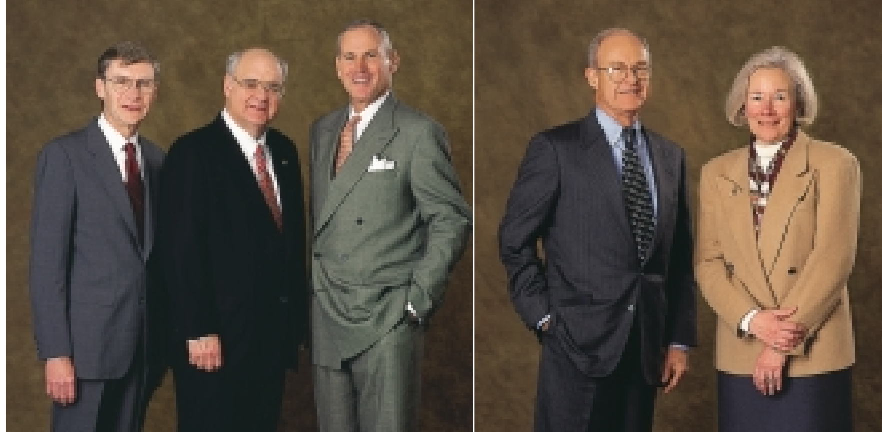
Wayne B. Luck (43)
Vice President, Business Technology Group

Hue Thomas, III (60)
Vice President, Corporate Relations

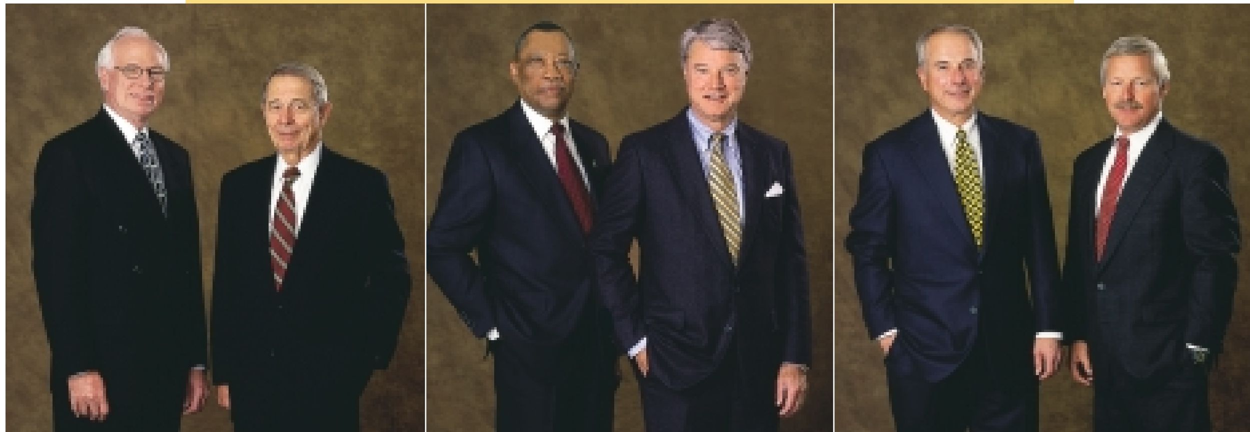
Bruce J. MacAllister (48)
Regional Vice President, East

Numbers inside parentheses indicate age.

BOARD OF DIRECTORS



Crotty Minor Bunting Farinholt Whittemore



Redding Massey Henley Berling Ukrop Rogers

Henry A. Berling (57) [1, 4]
Executive Vice President, Partnership Development, Owens & Minor, Inc.

Josiah Bunting, III (59) [2, 4]
Superintendent, Virginia Military Institute

John T. Crotty (62) [2, 4]
Managing Partner,
CroBern Management Partnership
President, CroBern, Inc.

James B. Farinholt, Jr. (65) [1, 2*, 4]
Special Assistant to the President for Economic Development,
Virginia Commonwealth University

Vernard W. Henley (70) [2, 3, 5]
Chairman & CEO, Consolidated Bank and Trust Company

E. Morgan Massey (73) [1, 2, 4*, 5]
Chairman, Asian-American Coal, Inc.
Chairman Emeritus,
A.T. Massey Coal Company, Inc.
Chairman, Evan Energy Company

G. Gilmer Minor, III (59) [1*, 4]
Chairman & CEO, Owens & Minor, Inc.

Peter S. Redding (61) [3, 4]
President & CEO, Standard Register

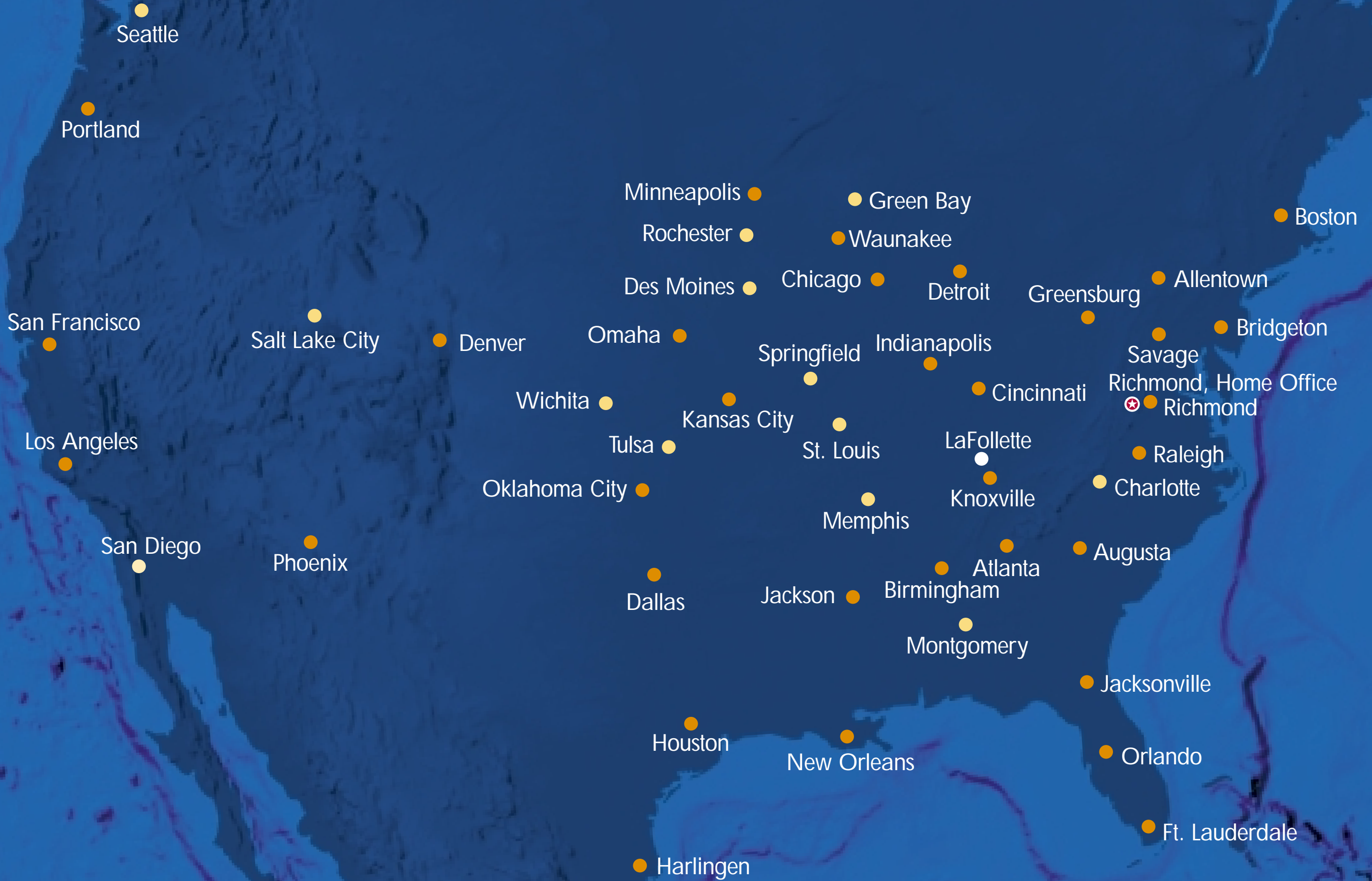
James E. Rogers (54) [1, 3*, 4]
President, SCI Investors Inc.

James E. Ukrop (62) [2, 3, 5]
Chairman, Ukrop's Super Market, Inc.
Chairman, First Market Bank

Anne Marie Whittemore (54) [1, 3, 5*]
Partner,
McGuire, Woods, Battle & Boothe LLP

Board Committees: *[1] Executive Committee, [2] Audit Committee, [3] Compensation & Benefits Committee, [4] Strategic Planning Committee, [5] Governance & Nominating Committee, [*] Denotes Chairperson*

OWENS & MINOR DISTRIBUTION NETWORK



- O&M Medical/Surgical Division
- O&M Custom Distribution Center
- O&M Home Office
- O&M Specialty Distribution

(in thousands, except ratios and per share data)

	1999	1998	1997	1996	1995
Summary of Operations:					
Net sales	**$3,186,373**	$3,082,119	$3,116,798	$3,019,003	$2,976,486
Nonrecurring restructuring expense (credit)[2]	**$ (1,000)**	$ 11,200	$ –	$ –	$ 16,734
Net income (loss)[2]	**$ 27,979**	$ 20,145	$ 24,320	$ 12,965	$ (11,308)
Per Common Share:					
Net income (loss) – basic	**$ 0.86**	$ 0.56	$ 0.60	$ 0.25	$ (0.53)
Net income (loss) – diluted	**$ 0.82**	$ 0.56	$ 0.60	$ 0.25	$ (0.53)
Average number of shares outstanding – basic	**32,574**	32,488	32,048	31,707	30,820
Average number of shares outstanding – diluted	**39,098**	32,591	32,129	31,809	30,820
Cash dividends	**$ 0.23**	$ 0.20	$ 0.18	$ 0.18	$ 0.18
Stock price at year end	**$ 8.94**	$ 15.75	$ 14.50	$ 10.25	$ 12.75
Book value	**$ 5.58**	$ 4.94	$ 4.48	$ 3.99	$ 3.90
Summary of Financial Position:					
Working capital	**$ 219,448**	$ 235,247	$ 233,789	$ 192,990	$ 331,663
Total assets	**$ 865,000**	$ 717,768	$ 712,563	$ 679,501	$ 857,803
Debt	**$ 175,178**	$ 150,000	$ 182,550	$ 167,549	$ 323,308
Mandatorily redeemable preferred securities	**$ 132,000**	$ 132,000	$ –	$ –	$ –
Shareholders' equity	**$ 182,381**	$ 161,126	$ 259,301	$ 242,400	$ 235,271
Selected Ratios:					
Gross margin as a percent of net sales	**10.5%**	10.6%	10.2%	9.9%	9.0%
Selling, general and administrative expenses as a percent of net sales	**7.6%**	7.8%	7.5%	7.7%	7.6%
Average receivable days sales outstanding[3]	**35.6**	34.7	33.4	36.1	37.7
Average inventory turnover	**9.2**	9.8	9.9	8.9	8.3
Return on average total equity[4]	**10.5%**	8.2%	9.7%	5.4%	(4.6%)
Return on average total equity[5]	**16.3%**	9.6%	9.7%	5.4%	(4.6%)
Current ratio	**1.6**	1.9	1.9	1.7	2.1
Capitalization ratio[3][4]	**47.2%**	43.4%	53.0%	54.8%	61.9%
Capitalization ratio[3][5]	**69.4%**	68.9%	53.0%	54.8%	61.9%

(1) On July 30, 1999, the company acquired certain net assets of Medix, Inc. which was accounted for as a purchase.
(2) In 1998, the company incurred $11.2 million, or $6.6 million after taxes, of nonrecurring restructuring expenses related to the cancellation of its medical/surgical distribution contract with Columbia/HCA Healthcare Corporation. In 1999, the company reduced the restructuring accrual by $1.0 million, or $0.6 million after taxes. The company incurred $16.7 million, or $10.3 million after taxes, in 1995 of nonrecurring restructuring expenses related to its restructuring plans developed in conjunction with its combination with Stuart Medical, Inc. in 1994.
(3) Excludes impact of off balance sheet receivables securitization agreement. See Note 7 to Consolidated Financial Statements.
(4) Includes mandatorily redeemable preferred securities as equity.
(5) Includes mandatorily redeemable preferred securities as debt.

Company History

Owens & Minor, Inc. and subsidiaries (O&M or the company) is the largest distributor of national name brand medical and surgical supplies in the United States. The company was incorporated in Virginia on December 7, 1926, as a successor to a partnership founded in Richmond, Virginia in 1882.

O&M has significantly expanded and strengthened its national presence in recent years through internal growth and acquisitions. In July 1999, the company acquired certain net assets of Medix, Inc. (Medix), a distributor of medical and surgical supplies whose customers are primarily located in the Midwest. This acquisition strengthens the company's presence and is expected to provide opportunities for growth in this geographic area. For its 1998 fiscal year, Medix had net sales of approximately $184 million. In May 1994, the company acquired Stuart Medical, Inc., then the third largest distributor of medical and surgical supplies in the United States with 1993 net sales of approximately $891 million.

Industry Overview

Distributors of medical and surgical supplies provide a wide variety of products and services to healthcare providers, including hospitals and hospital-based systems, integrated healthcare networks (IHNs) and alternate care providers. The medical/surgical supply distribution industry has experienced growth in recent years due to the aging population and emerging medical technology resulting in new healthcare procedures and products. Healthcare providers have consolidated to form larger and more sophisticated entities that are increasingly seeking lower procurement costs and sophisticated inventory management from their preferred suppliers and distributors. Over the years, major acute care hospitals have aligned with or acquired outpatient and long-term care facilities to form IHNs, and forged partnerships with national medical and surgical supply distributors to manage the supply procurement and distribution needs of their entire network. The traditional role of distributors in warehousing and delivering medical and surgical supplies to a customer has evolved into the role of assisting their customers to manage the entire supply chain. O&M expects that further consolidation in the medical/surgical supply distribution industry will continue due to the competitive advantages enjoyed by larger distributors.

Customers

O&M distributes over 150,000 finished medical and surgical products produced by approximately 1,200 suppliers to approximately 4,000 customers nationwide. The company's customers are primarily acute care hospitals and hospital-based systems, which account for more than 90% of O&M's net sales. Other customers include alternate care facilities such as nursing homes, clinics, surgery centers, rehabilitation facilities, physicians' offices and home healthcare organizations. The company provides distribution services under contractual agreements with a number of large healthcare networks as well as major buying groups that represent independently owned member hospitals. Most of O&M's sales consist of disposable gloves, dressings, endoscopic products, intravenous products, needles and syringes, sterile procedure trays, surgical products and gowns, urological products and wound closure products.

National Healthcare Networks (Networks) and Group Purchasing Organizations (GPOs). Networks and GPOs are entities that act on behalf of a group of healthcare providers to obtain pricing and other benefits that may be unavailable to individual members. Hospitals, physicians and other types of healthcare providers have joined Networks and GPOs to take advantage of improved economies of scale and to obtain services from medical and surgical supply distributors ranging from discounted product pricing to logistical and clinical support. Networks and GPOs negotiate directly with medical and surgical product suppliers and distributors on behalf of their members, establishing exclusive or multi-supplier relationships. Networks and GPOs cannot ensure that members will purchase their supplies from a given distributor. Since 1985, O&M has been a distributor for VHA, Inc. (VHA), a nationwide network that comprises over 1,900 community-owned healthcare systems and their physicians. On January 1, 1998, VHA and University HealthSystem Consortium Services Corp. (UHCSC), an alliance of academic medical centers, created Novation, a supply

company that serves VHA and UHCSC member organizations. Sales to Novation members represented approximately 53% of O&M's net sales in 1999.

Integrated Healthcare Networks. An IHN is typically a network of different types of healthcare providers that seeks to offer a broad spectrum of healthcare services and comprehensive geographic coverage to a particular local market. IHNs have become increasingly important because of their expanding role in healthcare delivery and cost containment and their reliance upon the hospital, O&M's traditional customer, as a key component of their organizations. Individual healthcare providers within a multiple-entity IHN may be able to contract individually for distribution services; however, the providers' shared economic interests create strong incentives for participation in distribution contracts established at the system level. Because IHNs frequently rely on cost containment as a competitive advantage, IHNs have become an important source of demand for O&M's enhanced inventory management and other value-added services.

In October 1998, O&M entered into an exclusive, eight-year medical/surgical supply distribution agreement with Tenet Healthcare Corporation (Tenet), the second largest for-profit hospital chain in the nation. In addition to being a sole supplier to Tenet's 113 acute care hospitals, O&M provides distribution services to Tenet's BuyPower purchasing program. One of the nation's leading GPOs, BuyPower provides national contracting for its approximately 330 acute care hospitals, 530 associated facilities and 2,500 affiliated members. During 1999, O&M also entered into contracts with a number of other new customers and has renewed contracts with existing customers.

Until mid-1998, O&M was the primary distributor for Columbia/HCA Healthcare Corporation (Columbia/HCA). In 1997, approximately 11% of O&M's net sales were to Columbia/HCA facilities.

Individual Providers. In addition to contracting with healthcare providers at the IHN level and through Networks and GPOs, O&M contracts directly with individual healthcare providers. In 1999, not-for-profit hospitals represented a majority of these facilities.

Suppliers

O&M believes its size and longstanding relationships enable it to obtain attractive terms and incentives from suppliers and contribute to its gross margin. The company has well-established relationships with virtually all of the major suppliers of medical and surgical supplies.

Approximately 17%, 18%, and 20% of O&M's net sales in 1999, 1998, and 1997, respectively, were sales of Johnson & Johnson Hospital Services, Inc. products. Approximately 12% of the company's net sales in 1999, 1998, and 1997 were sales of products of the subsidiaries of Tyco International.

Distribution

O&M employs a decentralized approach to sales and customer service through its 46 distribution centers, strategically located to serve customers in 50 states and the District of Columbia. These distribution centers generally serve hospitals and other customers within, on average, a 100- to 150-mile radius. O&M delivers most medical and surgical supplies with a fleet of leased trucks. Contract carriers and parcel services are used to transport all other medical and surgical supplies.

Competition

The medical/surgical supply distribution industry in the United States is highly competitive and consists of three major nationwide distributors: O&M; Allegiance Corp., which merged with Cardinal Health, Inc. in early 1999; and McKesson General Medical Corp., a subsidiary of McKesson HBOC, Inc. The industry also includes Bergen Brunswig Medical Corp., a wholly owned subsidiary of Bergen Brunswig Corp.; smaller national distributors of medical and surgical supplies; and a number of regional and local distributors.

Competitive factors within the medical/surgical supply distribution industry include total delivered product cost, product availability, the ability to fill and invoice orders accurately, delivery time, services provided, inventory management, information technology, and the ability to meet special customer requirements. O&M believes its decentralized and customer-focused approach to distribution of medical/surgical supplies enables it to compete effectively with both larger and smaller distributors by being located

near the customer and offering a high level of customer service. Further consolidation of medical/surgical supply distributors is expected to continue through the purchase of smaller distributors by larger companies as a result of competitive pressures in the marketplace.

Asset Management

O&M aims to provide the highest quality of service in the medical/surgical supply distribution industry by focusing on providing suppliers and customers with local sales and service support and the most responsive, efficient and cost-effective distribution of medical and surgical products. The company draws on technology to provide a broad range of value-added services to control inventory and accounts receivable.

Inventory. Due to O&M's significant investment in inventory to meet the rapid delivery requirements of its customers, efficient asset management is essential to the company's profitability. The significant and ongoing emphasis on cost control in the healthcare industry puts pressure on distributors and healthcare providers to create more efficient inventory management systems. O&M has responded to these ongoing changes by developing its inventory forecasting capabilities, its client server warehousing management system, its product standardization and consolidation initiative, and its continuous inventory replenishment process (CRP). CRP allows the company's suppliers to monitor daily sales and inventory levels electronically so they can automatically and accurately replenish O&M's inventory. These and other initiatives have enabled the company to control inventory levels while growing sales.

Accounts Receivable. The company's credit practices are consistent with those of other medical/surgical supply distributors. O&M actively manages its accounts receivable to minimize credit risk and does not believe that credit risk associated with accounts receivable poses a significant risk to its results of operations.

Information Technology

In 1998, O&M signed a 10-year agreement to outsource its information technology (IT) operations and procure strategic application development services. This partnership has allowed the company to provide additional resources to major investments in information technology to support internal operations and to enhance services to the company's customers and suppliers. In 1999, O&M's capital expenditures included approximately $19 million for computer hardware and software. O&M has focused its technology expenditures on electronic commerce and sales and marketing programs and services.

Electronic Commerce. O&M is an industry leader in the use of electronic commerce to exchange business transactions with trading partners. In 1999, the company introduced OM Direct, an Internet-based product catalog and direct ordering system, to supplement existing electronic data interchange (EDI) technologies. The company also has entered into a number of contractual arrangements to provide distribution services for Internet-based medical/surgical supply companies. O&M is committed to ongoing investments in an open, Internet-based e-commerce platform to support the company's supply-chain management initiatives and to enable expansion into new market segments for healthcare products.

Sales and Marketing

O&M's sales and marketing force is organized to support its decentralized field sales teams of approximately 220 people. Based from the company's divisions nationwide, the company's local sales teams are positioned to respond to customer needs quickly and efficiently. The company's integrated sales and marketing strategy offers customers value-added services in logistics, information management, asset management and product mix management. O&M provides special training and support tools to its sales team to help promote these programs and services.

O&M's value-added programs and services for its trading partners include the following:

- ***CostTrack Activity-Based-Management (CostTrack):*** This industry-leading activity-based-management program helps customers identify and track the cost-drivers in their distribution activities, giving them the information they need to drive workflow efficiencies, raise employee productivity and cut costs. With CostTrack, customers no longer use a cost-plus model but pay according to the complexity of the Owens & Minor services that they choose.

- ***WISDOM:*** This new Internet-accessed decision support tool connects customers and suppliers to O&M's award-winning data warehouse. Password-protected, WISDOM offers customers online access to more than 90 reports about their purchase history, contract compliance, product usage and other related data. This timely information helps customers make well-informed purchasing decisions and realize hard-dollar savings and operating efficiencies by:

  - standardizing their product lines and consolidating suppliers
  - increasing contract compliance and GPO-related revenues
  - consolidating purchasing data among the various computer systems in a healthcare network

  For subscribing supplier partners, WISDOM provides reports on their O&M product inventory, drop shipments, credits, customer contract utilization and O&M service levels by product and by customer. This information helps suppliers target growth opportunities within specific customer accounts.

- ***PANDAC® Wound Closure Management Program:*** This information-based program provides customers an evaluation of their current and historical wound closure inventories and usage levels, helping them reduce their investment in suture and endomechanical equipment and control their costs per operative case. O&M works closely with customers to target savings in excess of 5% in the first year.

- ***Focus On Consolidation, Utilization & Standardization (FOCUS):*** This partnership program drives product standardization and consolidation, increasing the volume of purchases from O&M's leading suppliers, and in turn, providing operational benefits and cost savings to healthcare customers. FOCUS centers around both commodity and preference product standardization. O&M requires its FOCUS partners to be market share leaders and to meet strict certification standards, such as exceeding minimum fill rates, offering a flexible returned goods policy and using EDI.

Other Matters

Regulation. The medical/surgical supply distribution industry is subject to regulation by federal, state and local government agencies. Each of O&M's distribution centers is licensed to distribute medical and surgical supplies as well as certain pharmaceutical and related products. The company must comply with regulations, including operating and security standards for each of its distribution centers, of the Food and Drug Administration, the Drug Enforcement Agency, the Occupational Safety and Health Administration, state boards of pharmacy and, in certain areas, state boards of health. O&M believes it is in material compliance with all statutes and regulations applicable to distributors of medical and surgical supply products and pharmaceutical and related products, as well as other general employee health and safety laws and regulations.

Properties. O&M's corporate headquarters are located in western Henrico County, in a suburb of Richmond, Virginia, in leased facilities. The company owns two undeveloped parcels of land adjacent to its corporate headquarters. The company leases offices and warehouses for its 46 distribution centers across the United States. In the normal course of business, the company regularly assesses its business needs and makes changes to the capacity and location of its distribution centers. The company believes that its facilities are adequate to carry on its business as currently conducted. All of O&M's distribution centers are leased from unaffiliated third parties. A number of leases are scheduled to terminate within the next several years. The company believes that, if necessary, it could find facilities to replace these leased premises without suffering a material adverse effect on its business.

1999 Financial Results

In 1999, O&M earned net income of $28.0 million, or $0.82 per diluted common share, compared with $20.1 million, or $0.56 per diluted common share, in 1998. Net income in 1999 was increased by a $0.6 million after-tax reduction of a restructuring accrual originally established in 1998. The 1998 restructuring charge of $11.2 million reflected the company's plan to downsize warehouse operations as a result of the cancellation of its contract with Columbia/HCA Healthcare Corporation (Columbia/HCA). Excluding the restructuring charge and the subsequent adjustment, net income attributable to common stock for 1999 increased 10.3% to $27.4 million or $0.80 per diluted common share from $24.9 million or $0.75 per diluted common share for 1998.

Results of Operations

The following table presents the company's consolidated statements of income on a percentage of net sales basis:

Year ended December 31,	**1999**	1998	1997
Net sales	**100.0%**	100.0%	100.0%
Cost of goods sold	**89.5**	89.4	89.8
Gross margin	**10.5**	10.6	10.2
Selling, general and administrative expenses	**7.6**	7.8	7.5
Depreciation and amortization	**0.6**	0.6	0.6
Interest expense, net	**0.4**	0.5	0.5
Discount on accounts receivable securitization	**0.1**	0.1	0.2
Distributions on mandatorily redeemable preferred securities	**0.2**	0.1	–
Nonrecurring restructuring expenses	**–**	0.4	–
Total expenses	**8.9**	9.5	8.8
Income before income taxes	**1.6**	1.1	1.4
Income tax provision	**0.7**	0.4	0.6
Net income	**0.9%**	0.7%	0.8%

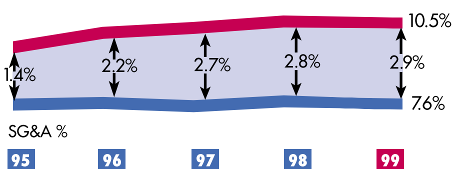
General. On July 30, 1999, the company acquired certain net assets of Medix, Inc. (Medix), a distributor of medical/surgical supplies, for approximately $83 million. The company paid cash of approximately $68 million and assumed debt of approximately $15 million, which was paid off as part of the closing transaction. The excess of the purchase price over the fair value of the identifiable net assets acquired of approximately $58 million has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. This acquisition strengthens the company's presence in the Midwest and is expected to provide opportunities for increased sales in this geographic area. Medix' net sales were approximately $184 million for its fiscal year ended October 2, 1998. The success of the acquisition will depend in part on the company's ability to integrate and capture synergies in the combined businesses.

Net sales. Net sales increased by 3.4% to $3.19 billion for the year ended December 31, 1999, from $3.08 billion in 1998 and increased 20.1% to $861 million for the fourth quarter of 1999 from $717 million for the fourth quarter of 1998. Excluding the sales generated by the Medix acquisition, net sales increased 0.8% for the year and 13.4% for the fourth quarter. The increase in sales was due to new customer contracts and increased penetration of existing accounts. The Columbia/HCA contract, representing approximately 11% of net sales in 1997, was cancelled in mid-1998. Sales to this customer declined significantly during the second half of 1998. In February 1999, the company began shipments to Tenet Healthcare Corporation (Tenet) hospitals and members of the affiliated BuyPower purchasing group. Partly as a result of these changes, sales for the first half of 1999 were 5.2% lower than in 1998, and sales for the second half of 1999, excluding Medix, were 7.2% higher than in 1998.

Net sales declined slightly by 1.1% to $3.08 billion for the year ended December 31, 1998, from $3.12 billion in 1997, and decreased 10.9% to $717 million for the fourth quarter of 1998 from $805 million for the fourth quarter of 1997. The reduction in net sales was due to the cancellation of Columbia/HCA's distribution contract, which mostly affected fourth-quarter results.

Gross margin. Gross margin as a percentage of net sales decreased slightly to 10.5% in 1999 compared with 10.6% in 1998 and decreased to 10.5% for the fourth quarter of 1999 from 11.3% in the fourth quarter of 1998. The decrease for the year and the fourth quarter was a result of the benefits of certain supply chain initiatives being recognized over a lower sales base in 1998.

Gross margin as a percentage of net sales increased to 10.6% in 1998 from 10.2% in 1997 as a result of the company's emphasis on supply chain initiatives with key suppliers. Gross margin as a percentage of net sales increased to 11.3% for the fourth quarter of 1998 from 10.5% in the fourth quarter of 1997. As discussed above, this increase was the result of a lower sales base in 1998.



Selling, general and administrative expenses. Selling, general and administrative (SG&A) expenses as a percentage of net sales were 7.6% in 1999 compared with 7.8% in 1998 and 7.5% in 1997 and decreased to 7.3% in the fourth quarter of 1999 from 8.2% in the fourth quarter of 1998 and 7.7% in the fourth quarter of 1997. The decreases for the year and the fourth quarter of 1999 were primarily a result of the higher sales base as well as management of operating expenses. Spending on Year 2000 initiatives decreased from $3.6 million to $2.6 million for the year and from $1.2 million to $0.2 million for the fourth quarter.

The increase in SG&A expenses as a percentage of net sales to 8.2% in the fourth quarter of 1998 from 7.7% in the fourth quarter of 1997 was driven by the reduction of sales to Columbia/HCA.

Depreciation and amortization. Depreciation and amortization increased by 6.0% in 1999 to $19.4 million, compared with $18.3 million in 1998 and $17.7 million in 1997. The increase in 1999 compared to 1998 was due to goodwill amortization of approximately $0.6 million resulting from the Medix acquisition. In addition, depreciation expense increased as a result of higher capital spending associated with development of electronic commerce applications. O&M anticipates similar increases in depreciation in 2000 associated with additional capital spending on information technology initiatives.

Net interest expense and discount on accounts receivable securitization (financing costs). Net financing costs totaled $17.1 million in 1999, compared with $18.7 million in 1998 and $22.3 million in 1997. Net financing costs included collections of customer finance charges of $4.6 million in 1999, up from $3.0 million in 1998 and $3.1 million in 1997. Excluding the customer finance charges, financing costs remained consistent at $21.7 million in 1999 and 1998, a decrease from $25.4 million in 1997. The increase in cash flow from operations enabled the company to reduce debt in both 1999 and 1998, excluding cash outflows associated with the Medix acquisition. In this analysis of operations, the term "debt" includes both the debt reported in the consolidated financial statements, and amounts financed under the company's off balance sheet accounts receivable securitization facility. The Medix acquisition was funded by cash flow from operations and an increase in outstanding debt.

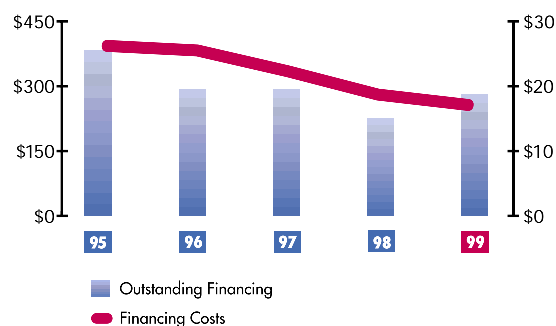
In 1998, the decrease in financing costs was due to lower effective interest rates and lower average outstanding debt. Cash flow from operations in 1998 included a $15.9 million refund of federal income taxes resulting from

a tax method change. Beginning with the tax year ended December 31, 1997, the company received permission from the Internal Revenue Service to change its method of accounting for last-in, first-out inventory. This refund resulted in an increase in the current deferred tax liability and had no effect on the total income tax provision for 1998.

O&M expects to continue to manage its financing costs by continuing its working capital reduction initiatives and management of interest rates, although the future results of these initiatives cannot be assured.

Distributions on mandatorily redeemable preferred securities and dividends on preferred stock. In May 1998, Owens & Minor Trust I (Trust), a wholly owned business trust, issued $132 million of Mandatorily Redeemable Preferred Securities (Securities). The company applied substantially all of the net proceeds from this transaction to repurchase all of its outstanding Series B Cumulative Preferred Stock. The effect of this transaction was to reduce the overall cost of capital of the company. The after-tax combined cost was $4.0 million for the Securities in 1999 and $4.5 million for the Securities and the dividend on preferred stock in 1998, compared to $5.2 million for the total dividends on preferred stock in 1997. As of December 31, 1999 and 1998, the company had accrued $1.2 million of distributions related to the Securities.

Nonrecurring restructuring expenses (credit). As a result of the Columbia/HCA contract cancellation in the second quarter of 1998, the company recorded a nonrecurring restructuring charge of $11.2 million, or $6.6 million after taxes, to downsize operations. In the second quarter of 1999, the company re-evaluated its restructuring accrual. Since the actions under this plan had resulted in lower projected total costs than originally anticipated, the company recorded a reduction in the accrual of $1.0 million, or approximately $0.6 million after taxes. As of December 31, 1999, $4.1 million had been charged against this liability.



Income taxes. The income tax provision was $22.1 million in 1999, $14.6 million in 1998 and $17.6 million in 1997. O&M's effective tax rate was 44.1% in 1999, compared with 42.0% in 1998 and 1997. The increase in the effective tax rate for 1999 results primarily from a decrease in nontaxable income, which was partially offset by the increase in income before income taxes, which decreased the impact of nondeductible goodwill amortization. The 1998 effective tax rate remained consistent with the 1997 effective tax rate as the decrease in income before taxes, which increased the impact of nondeductible goodwill, was offset by the increase in the impact of nontaxable income.

Net income. Excluding the effects of the restructuring expense (credit), 1999 net income increased to $27.4 million from $26.8 million in 1998 and $24.3 million in 1997 and net income per diluted common share increased to $0.80 compared to $0.75 in 1998 and $0.60 in 1997. This increase resulted from increased sales and productivity, partly offset by higher depreciation and amortization and distributions on mandatorily redeemable preferred securities. Excluding the effect of the restructuring expense (credit), 1999 net income attributable to common stock increased to $27.4 million compared to $24.9 million in 1998 and $19.1 million in 1997, due to the positive effect of the retirement of the company's outstanding Series B Cumulative Preferred Stock in May 1998 which was funded through the issuance of $132 million of Securities issued by the Trust. The after-tax distribution rate of the

Securities is lower than the preferred dividend rate. Net income for the fourth quarter increased $2.2 million or 33.9% in 1999 compared to 1998 and decreased $0.5 million or 6.4% in 1998 compared to 1997. The increase in net income in the fourth quarter of 1999 compared to the fourth quarter of 1998 was a result of the higher sales in 1999. The decrease in net income in the fourth quarter of 1998 compared to the fourth quarter of 1997 was a result of the reduction in sales from the cancelled Columbia/HCA contract discussed above. Although the net income trend has been favorable and the company continues to pursue initiatives to improve profitability, the future impact on net income cannot be assured.

Financial Condition, Liquidity and Capital Resources

Liquidity. The company acquired certain net assets of Medix on July 30, 1999, for approximately $83 million. This acquisition was funded by cash flow from operations and an increase in outstanding debt. As a result of the acquisition, debt increased by approximately $55.8 million, from $225.0 million at December 31, 1998, to $280.8 million at December 31, 1999. Excluding the impact of the acquisition, outstanding debt was reduced by $26.9 million. This reduction was due to the positive impact of cash flow from operations.

In May 1998, O&M repurchased all of its outstanding Series B Cumulative Preferred Stock, financing the repurchase with substantially all the net proceeds from the issuance of $132 million of the Securities by the Trust. These transactions reduced the company's overall cost of capital from 1998.

The company expects that its available financing will be sufficient to fund its working capital needs and long-term strategic growth, although this cannot be assured. At December 31, 1999, O&M had approximately $202.4 million of unused credit under its revolving credit facility and $43.5 million under its receivables financing facility.

Working Capital Management. The company's working capital decreased by $15.8 million from December 31, 1998 to $219.4 million at December 31, 1999. This decrease is due, in part, to the Medix acquisition, as well as timing of payments on higher levels of inventory needed to support sales growth. The company continues to focus on the management of inventory levels. Inventory turnover increased to 9.2 times for the fourth quarter of 1999 from 8.4 times in the fourth quarter of 1998 due to the higher level of sales in the fourth quarter of 1999. Inventory turnover decreased to 9.2 times for the year ended December 31, 1999, from 9.8 times in 1998, due to higher levels of inventory to support continuing sales growth, and anticipated increased demand arising from concerns about Year 2000.

Capital Expenditures. Capital expenditures were approximately $22.1 million in 1999, of which approximately $19.0 million was for computer hardware and software, including $3.0 million for system upgrades to complete the preparation for Year 2000. The company expects to continue to invest in technology, including system upgrades, to support strategic initiatives, and improve operational efficiency. These capital expenditures are expected to be funded through cash flow from operations.

Year 2000

The company has experienced virtually no disruptions in its business activities as a result of the calendar rollover to the Year 2000. There can be no assurance, however, that all potential Year 2000 issues have been discovered. The total cost of the company's Year 2000 remediation efforts included $8.3 million of operating expenses and $6.8 million of capital expenditures of which $2.6 million and $3.0 million were incurred during 1999.

Employees

As of December 31, 1999, O&M employed 2,774 people.

Recent Accounting Pronouncements

In May 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 137, *Deferral of the Effective Date of SFAS 133, Accounting for Derivative Instruments and Hedging Activities.* SFAS No. 137 delayed the effective date of SFAS No. 133 by one year. The company will be required to adopt the

provisions of this standard beginning on January 1, 2001. Management believes the effect of the adoption of this standard will be limited to financial statement presentation and disclosure and will not have a material effect on the company's financial condition or results of operations.

Risks

The company is subject to risks associated with changes in the medical industry, including continued efforts to control costs, which place pressure on operating margin, and changes in the way medical and surgical services are delivered to patients. The loss of one of the company's larger customers could have a significant effect on its business. However, management believes that the company's competitive position in the marketplace and its ability to control costs would enable it to continue profitable operations and attract new customers in the event of such a loss.

Market Risk

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

The company is exposed to market risk relating to changes in interest rates. O&M's net exposure to interest rate risk consists of floating rate instruments that are benchmarked to London Interbank Offered Rate (LIBOR). To manage this risk, O&M uses interest rate swaps to modify the company's exposure to interest rate movements and reduce borrowing costs. The company enters into these derivative transactions pursuant to its policies in areas such as counterparty exposure and hedging practices. The company is exposed to certain losses in the event of nonperformance by the counterparties to these swap agreements. However, O&M's exposure is not significant and, since the counterparties are investment grade financial institutions, nonperformance is not anticipated.

The company is exposed to market risk from changes in interest rates related to its interest rate swaps. Interest expense is subject to change as a result of movements in interest rates. As of December 31, 1999, O&M had $100 million of interest rate swaps on which the company pays a variable rate based on LIBOR and receives a fixed rate, and has $65 million of interest rate swaps on which the company pays a fixed rate and receives a variable rate based on LIBOR. A hypothetical increase in interest rates of 10%, or 60 basis points, would result in a potential reduction in future pre-tax earnings of approximately $0.6 million per year in connection with the $100 million swaps and an increase in future pre-tax earnings of approximately $0.4 million per year in connection with the $65 million swaps.

Forward-Looking Statements

Certain statements in this discussion constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, including, but not limited to, general economic and business conditions, competition, changing trends in customer profiles, outcome of outstanding litigation, and changes in government regulations. Although O&M believes its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Owens & Minor, Inc. and Subsidiaries

(in thousands, except per share data)

Year ended December 31,	**1999**	1998	1997
Net sales	**$3,186,373**	$3,082,119	$3,116,798
Cost of goods sold	**2,851,556**	2,755,158	2,800,044
Gross margin	**334,817**	326,961	316,754
Selling, general and administrative expenses	**242,199**	239,543	234,872
Depreciation and amortization	**19,365**	18,270	17,664
Interest expense, net	**11,860**	14,066	15,703
Discount on accounts receivable securitization	**5,240**	4,655	6,584
Distributions on mandatorily redeemable preferred securities	**7,095**	4,494	–
Nonrecurring restructuring expense (credit)	**(1,000)**	11,200	–
Total expenses	**284,759**	292,228	274,823
Income before income taxes	**50,058**	34,733	41,931
Income tax provision	**22,079**	14,588	17,611
Net income	**27,979**	20,145	24,320
Dividends on preferred stock	**–**	1,898	5,175
Net income attributable to common stock	**$ 27,979**	$ 18,247	$ 19,145
Net income per common share – basic	**$ 0.86**	$ 0.56	$ 0.60
Net income per common share – diluted	**$ 0.82**	$ 0.56	$ 0.60
Cash dividends per common share	**$ 0.23**	$ 0.20	$ 0.18

See accompanying notes to consolidated financial statements.

(in thousands, except per share data)

December 31,	**1999**	1998
Assets		
Current assets		
Cash and cash equivalents	**$ 669**	$ 546
Accounts and notes receivable, net	**226,927**	213,765
Merchandise inventories	**342,478**	275,094
Other current assets	**19,172**	14,816
Total current assets	**589,246**	504,221
Property and equipment, net	**25,877**	25,608
Goodwill, net	**210,837**	158,276
Other assets, net	**39,040**	29,663
Total assets	**$865,000**	$717,768
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	**$303,490**	$206,251
Accrued payroll and related liabilities	**6,883**	8,974
Other accrued liabilities	**59,425**	53,749
Total current liabilities	**369,798**	268,974
Long-term debt	**174,553**	150,000
Accrued pension and retirement plans	**6,268**	5,668
Total liabilities	**550,619**	424,642
Company-obligated mandatorily redeemable preferred securities of subsidiary trust, holding solely convertible debentures of Owens & Minor, Inc.	**132,000**	132,000
Shareholders' equity		
Preferred stock, par value $100 per share; authorized – 10,000 shares		
Series A; Participating Cumulative Preferred Stock; none issued	**–**	–
Common stock, par value $2 per share; authorized – 200,000 shares; issued and outstanding – 32,711 shares and 32,618 shares	**65,422**	65,236
Paid-in capital	**12,890**	12,280
Retained earnings	**104,069**	83,610
Total shareholders' equity	**182,381**	161,126
Commitments and contingencies		
Total liabilities and shareholders' equity	**$865,000**	$717,768

See accompanying notes to consolidated financial statements.

(in thousands)

Year ended December 31,	**1999**	1998	1997
Operating activities			
Net income	**$ 27,979**	$ 20,145	$ 24,320
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	**19,365**	18,270	17,664
Nonrecurring restructuring provision (credit)	**(1,000)**	11,200	–
Deferred income taxes	**8,236**	22,737	(3)
Provision for LIFO reserve	**1,741**	1,536	2,414
Provision for losses on accounts and notes receivable	**559**	496	268
Changes in operating assets and liabilities:			
Accounts and notes receivable	**481**	(26,383)	(40,903)
Merchandise inventories	**(42,397)**	8,899	(6,104)
Accounts payable	**86,871**	(23,375)	4,714
Net change in other current assets and current liabilities	**(11,232)**	(651)	4,614
Other, net	**1,686**	(389)	1,038
Cash provided by operating activities	**92,289**	32,485	8,022
Investing activities			
Net cash paid for acquisition of business	**(82,699)**	–	–
Additions to property and equipment	**(8,933)**	(8,053)	(7,495)
Additions to computer software	**(13,172)**	(4,556)	(4,472)
Other, net	**(2,359)**	160	1,851
Cash used for investing activities	**(107,163)**	(12,449)	(10,116)
Financing activities			
Net proceeds from issuance of mandatorily redeemable preferred securities	**–**	127,268	–
Repurchase of preferred stock	**–**	(115,000)	–
Additions to debt	**25,178**	–	26,026
Reductions of debt	**–**	(32,550)	(11,049)
Other financing, net	**(2,741)**	5,554	(4,679)
Cash dividends paid	**(7,520)**	(9,268)	(10,950)
Proceeds from exercise of stock options	**80**	3,923	2,586
Cash provided by (used for) financing activities	**14,997**	(20,073)	1,934
Net increase (decrease) in cash and cash equivalents	**123**	(37)	(160)
Cash and cash equivalents at beginning of year	**546**	583	743
Cash and cash equivalents at end of year	**$ 669**	$ 546	$ 583

See accompanying notes to consolidated financial statements.

(in thousands, except per share data)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings
Balance December 31, 1996	1,150	$ 115,000	31,907	$63,814	$ 5,086	$ 58,500
Net income	–	–	–	–	–	24,320
Common stock cash dividends[1]	–	–	–	–	–	(5,775)
Preferred stock cash dividends[1]	–	–	–	–	–	(5,175)
Exercise of stock options	–	–	303	606	2,902	–
Other	–	–	3	6	17	–
Balance December 31, 1997	1,150	115,000	32,213	64,426	8,005	71,870
Net income	–	–	–	–	–	20,145
Issuance of restricted stock	–	–	64	128	832	–
Unearned compensation	–	–	–	–	(657)	–
Common stock cash dividends[1]	–	–	–	–	–	(6,507)
Preferred stock cash dividends[1]	–	–	–	–	–	(1,898)
Exercise of stock options	–	–	333	666	3,978	–
Repurchase of preferred stock	(1,150)	(115,000)	–	–	–	–
Other	–	–	8	16	122	–
Balance December 31, 1998	–	–	32,618	65,236	12,280	83,610
Net income	–	–	–	–	–	27,979
Issuance of restricted stock	–	–	74	148	893	–
Unearned compensation	–	–	–	–	(454)	–
Common stock cash dividends[1]	–	–	–	–	–	(7,520)
Exercise of stock options	–	–	6	12	71	–
Other	–	–	13	26	100	–
Balance December 31, 1999	**–**	**$ –**	**32,711**	**$65,422**	**$12,890**	**$104,069**

[1] Cash dividends were $0.23, $0.20 and $0.18 per common share in 1999, 1998 and 1997. Cash dividends were $1.65 and $4.50 per preferred share in 1998 and 1997.

See accompanying notes to consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation Owens & Minor, Inc. is the largest distributor of national name brand medical and surgical supplies in the United States. The consolidated financial statements include the accounts of Owens & Minor, Inc. and its wholly owned subsidiaries (the company). All significant intercompany accounts and transactions have been eliminated. The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires management assumptions and estimates that affect amounts reported. Actual results may differ from these estimates.

Cash and Cash Equivalents Cash and cash equivalents include cash and marketable securities with an original maturity or maturity at acquisition of three months or less. Cash and cash equivalents are stated at cost, which approximates market value.

Accounts Receivable The company maintains an allowance for doubtful accounts based upon the expected collectibility of accounts receivable. Allowances for doubtful accounts of $6.5 million and $6.3 million, have been applied as reductions of accounts receivable at December 31, 1999 and 1998.

Merchandise Inventories The company's merchandise inventories are valued on a last-in, first-out (LIFO) basis.

Property and Equipment Property and equipment are stated at cost or, if acquired under capital leases, at the lower of the present value of minimum lease payments or fair market value at the inception of the lease. Normal maintenance and repairs are expensed as incurred, and renovations and betterments are capitalized. Depreciation and amortization are provided for financial reporting purposes using the straight-line method over the estimated useful lives of the assets or, for capital leases and leasehold improvements, over the terms of the lease, if shorter. In general, the estimated useful lives for computing depreciation and amortization are four to eight years for warehouse equipment and three to eight years for computer, office and other equipment. Straight-line and accelerated methods of depreciation are used for income tax purposes.

Goodwill Goodwill is amortized on a straight-line basis over 40 years from the dates of acquisition. As of December 31, 1999 and 1998, goodwill was $238.8 million and $181.1 million and the related accumulated amortization was $28.0 million and $22.8 million. Based upon management's assessment of undiscounted future cash flows, the carrying value of goodwill at December 31, 1999 has not been impaired. The carrying value of goodwill could be impacted if estimated future cash flows are not achieved.

Computer Software The company develops and purchases software for internal use. Effective January 1, 1998, the company adopted the provisions of Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* Software development costs incurred during the application development stage are capitalized. Once the software has been installed and tested and is ready for use, additional costs incurred in connection with the software are expensed as incurred. Adoption of the provisions of this statement did not have a material effect on the consolidated financial statements of the company. Capitalized computer software costs are amortized over the estimated useful life of the software, usually between 3 and 5 years. Computer software costs are included in other assets, net in the Consolidated Balance Sheets. Unamortized software at December 31, 1999 and 1998 was $18.2 million and $10.2 million. Depreciation and amortization expense includes $4.9 million, $5.1 million and $4.6 million of software amortization for the years ended December 31, 1999, 1998 and 1997.

Revenue Recognition Revenue from product sales is generally recognized at the time the product is shipped. Service revenue is recognized over the contractual period as the services are performed.

Stock-Based Compensation The company uses the intrinsic value method of Accounting Principles Board Opinion No. 25 to account for stock-based compensation. This method requires compensation expense to be recognized for the excess of the quoted market price of the stock at the grant date or the measurement date over the amount an employee must pay to acquire the stock. The disclosure requirements of Statement of Financial Accounting Standards

(SFAS) No. 123 are included in Note 9 to Consolidated Financial Statements.

Derivative Financial Instruments The company enters into interest rate swaps and caps as part of its interest rate risk management strategy. These instruments are designated as hedges of interest-bearing liabilities and anticipated cash flows associated with off balance sheet financing. Net payments or receipts are accrued as interest payable or receivable and as interest expense or income. Fees related to these instruments are amortized over the life of the instrument. If the outstanding balance of the underlying liability were to drop below the notional amount of the swap or cap, the excess portion of the swap or cap would be marked to market, and the resulting gain or loss included in net income.

Operating Segments The company adopted the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, effective January 1, 1998. As defined in SFAS No. 131, the company operates in 34 operating segments. As each of these segments is substantially identical to the others in each of the five aggregation characteristics identified in the statement, these segments have been aggregated for purposes of financial statement disclosure.

Note 2 – Acquisition

On July 30, 1999, the company acquired certain net assets of Medix, Inc. (Medix), a distributor of medical and surgical supplies, for approximately $83 million. Headquartered in Waunakee, Wisconsin, Medix' customers are primarily in the Midwest and include acute care hospitals, long-term care facilities and clinics. Medix' net sales were approximately $184 million for its fiscal year ended October 2, 1998. The acquisition has been accounted for by the purchase method and, accordingly, the operating results of Medix have been included in the company's consolidated financial statements since the date of acquisition. Assuming the acquisition had been made at the beginning of the periods, consolidated net sales, on a pro forma basis would have been approximately $3.30 billion and $3.27 billion for the years ended December 31, 1999 and 1998, respectively. Consolidated net income and net income per share on a pro forma basis would not have been materially different from the results reported.

The company paid cash of approximately $68 million and assumed debt of approximately $15 million, which was paid off as part of the closing transaction. The excess of the purchase price over the fair value of the identifiable net assets acquired of approximately $58 million has been recorded as goodwill and is being amortized on a straight-line basis over 40 years.

In connection with the acquisition, management adopted a plan for integration of the businesses which includes closure of some Medix facilities and consolidation of certain administrative functions. An accrual was established to provide for certain costs of this plan. The following table sets forth the major components of the accrual and activity through December 31, 1999:

(In thousands)

	Exit Plan Provision	Charges	Balance at December 31, 1999
Losses under lease commitments	**$1,643**	**$34**	**$1,609**
Employee separations	**395**	**56**	**339**
Other	**685**	**–**	**685**
Total	**$2,723**	**$90**	**$2,633**

The employee separations relate to severance costs for employees in operations and activities being exited. As of December 31, 1999, 12 employees had been terminated. The integration of the Medix business is expected to be substantially complete by mid-2000.

Note 3 – Restructuring

In the second quarter of 1998, the company recorded a nonrecurring restructuring charge of $11.2 million related to the impact of the cancellation of its medical/surgical distribution contract with Columbia/HCA Healthcare Corporation (Columbia/HCA). The restructuring plan includes reductions in warehouse space and in the number of employees in those divisions which had the highest volume of business with Columbia/HCA facilities. In the second quarter of 1999, the company re-evaluated its estimate of the remaining costs to be incurred and reduced the accrual by $1.0 million. The following table sets forth the activity in the restructuring accrual through December 31, 1999:

(In thousands)

	Restructuring Provision	Charges	Adjustments	Balance at December 31, 1999
Losses under lease commitments	**$ 4,194**	**$2,093**	**$ 203**	**$2,304**
Asset write-offs	**3,968**	**652**	**–**	**3,316**
Employee separations	**2,497**	**1,281**	**(1,203)**	**13**
Other	**541**	**64**	**–**	**477**
Total	**$11,200**	**$4,090**	**$(1,000)**	**$6,110**

Approximately 130 employees were terminated in connection with the restructuring plan.

Note 4 – Merchandise Inventories

The company's merchandise inventories are valued on a LIFO basis. If LIFO inventories had been valued on a current cost or first-in, first-out (FIFO) basis, they would have been greater by $28.6 million and $26.8 million as of December 31, 1999 and 1998.

Note 5 – Property and Equipment

The company's investment in property and equipment consists of the following:

(In thousands)

December 31,	**1999**	1998
Warehouse equipment	**$ 23,337**	$ 23,138
Computer equipment	**30,606**	25,888
Office and other equipment	**12,804**	11,368
Leasehold improvements	**9,903**	9,288
Land and improvements	**1,743**	1,738
	78,393	71,420
Accumulated depreciation and amortization	**(52,516)**	(45,812)
Property and equipment, net	**$ 25,877**	$ 25,608

Depreciation and amortization expense for property and equipment in 1999, 1998 and 1997 was $9.3 million, $8.6 million and $8.5 million.

Note 6 – Accounts Payable

Accounts payable balances were $303.5 million and $206.3 million as of December 31, 1999 and 1998, of which $264.4 million and $164.5 million were trade accounts payable and $39.1 million and $41.8 million, were drafts payable. Drafts payable are checks written in excess of bank balances to be funded upon clearing the bank.

Note 7 – Financial Instruments

The company's long-term debt consists of the following:
(In thousands)

December 31,	1999		1998	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
10.875% Senior Subordinated Notes, mature June 2006	**$150,000**	**$155,250**	$150,000	$162,000
Revolving Credit Facility with interest based on London Interbank Offered Rate (LIBOR) or Prime Rate, expires May 2001, credit limit of $225,000	**22,600**	**22,600**	–	–
Obligation under financing agreement	**2,578**	**2,578**	–	–
Total debt	**175,178**	**180,428**	150,000	162,000
Less current maturities	**(625)**	**(625)**	–	–
Long-term debt	**$174,553**	**$179,803**	$150,000	$162,000

In May 1996, the company issued $150.0 million of 10.875% Senior Subordinated 10-year notes (Notes), which mature on June 1, 2006. Interest on the Notes is payable semi-annually on June 1 and December 1. The Notes are redeemable, after June 1, 2001, at the company's option, subject to certain restrictions. The Notes are unconditionally guaranteed on a joint and several basis by all significant subsidiaries of the company, other than O&M Funding Corp. (OMF) and Owens & Minor Trust I.

The Revolving Credit Facility expires in May 2001 with interest based on, at the company's discretion, LIBOR or the Prime Rate. The company is charged a commitment fee of between 0.15% and 0.25% on the unused portion of the Revolving Credit Facility. The terms of the Revolving Credit Facility limit the amount of indebtedness that the company may incur, require the company to maintain certain levels of tangible net worth, current ratio, leverage ratio and fixed charge coverage, and restrict the ability of the company to materially alter the character of the business through consolidation, merger or purchase or sale of assets. At December 31, 1999, the company was in compliance with these covenants.

The company entered into a financing agreement for computer software licenses. This agreement requires periodic payments through January 2002, and interest is imputed at a rate of 7.0%.

Net interest expense includes finance charge income of $4.6 million, $3.0 million and $3.1 million in 1999, 1998 and 1997. Finance charge income represents payments from customers for past due balances on their accounts. Cash payments for interest during 1999, 1998 and 1997 were $16.0 million, $16.4 million and $18.3 million.

The estimated fair value of long-term debt is based on the borrowing rates currently available to the company for loans with similar terms and average maturities. The annual maturities of long-term debt for the five years subsequent to December 31, 1999 are: $0.6 in 2000, $23.9 million in 2001, $0.7 million in 2002 and $0 in 2003 and 2004.

Off Balance Sheet Financing Under the terms of the Receivable Financing Facility, OMF is entitled to transfer, without recourse, certain of the company's trade receivables and to receive up to $150.0 million from an unrelated third party purchaser at a cost of funds at commercial paper rates plus a charge for administrative and credit support services. In October 1999, the Receivables Financing Facility was modified primarily to extend the facility termination date to October 2, 2000. At December 31, 1999 and 1998, the company had received $105.6 million and $75.0 million, respectively, under the agreement. To continue use of the Receivables Financing Facility, the company is required

to be in compliance with the covenants of the Revolving Credit Facility.

The company manages its interest rate risk primarily through the use of interest rate swap agreements. The company's interest rate swap agreements as of December 31, 1999 and 1998 included $100.0 million notional amounts that effectively converted a portion of the company's fixed rate financing instruments to variable rates. Under these swap agreements, expiring in May 2006, the company pays the counterparties a variable rate based on LIBOR and the counterparties pay the company a fixed interest rate ranging from 7.29% to 7.32%. At the option of the counterparties, these swaps can be terminated in 2001. As of December 31, 1999 and 1998, the company also had $65.0 million and $75.0 million notional amounts, respectively, of interest rate swap agreements that effectively converted the company's variable rate financing instruments to fixed rate instruments. Under these swap agreements, which expire in May 2001, the company pays the counterparties a fixed rate ranging from 5.75% to 5.93% and the counterparties pay the company a variable rate based on LIBOR.

The payments received or disbursed related to the interest rate swaps are included in interest expense, net. Based on estimates of the prices obtained from a dealer, the company had an unrealized loss of approximately $1.0 million and an unrealized gain of approximately $5.0 million at December 31, 1999 and 1998 for the fixed to variable rate swaps, and an unrealized gain of approximately $0.7 million and an unrealized loss of approximately $1.2 million at December 31, 1999 and 1998 for the variable to fixed rate swaps.

The company is exposed to certain losses in the event of nonperformance by the counterparties to these swap agreements. However, the company's exposure is not material and, since the counterparties are investment grade financial institutions, nonperformance is not anticipated.

Note 8 – Mandatorily Redeemable Preferred Securities

In May 1998, Owens & Minor Trust I (Trust), a statutory business trust sponsored and wholly owned by Owens & Minor, Inc. (O&M), issued 2,640,000 shares of $2.6875 Term Convertible Securities, Series A (Securities), for aggregate proceeds of $132.0 million. Each Security has a liquidation value of $50. The net proceeds were invested by the Trust in 5.375% Junior Subordinated Convertible Debentures of O&M (Debentures). The Debentures are the sole assets of the Trust. O&M applied substantially all of the net proceeds of the Debentures to repurchase 1,150,000 shares of its Series B Cumulative Preferred Stock at its par value.

The Securities accrue and pay quarterly cash distributions at an annual rate of 5.375% of the liquidation value. Each Security is convertible into 2.4242 shares of the common stock of O&M at the holder's option prior to May 1, 2013. The Securities are mandatorily redeemable upon the maturity of the Debentures on April 30, 2013, and may be redeemed by the company in whole or in part after May 1, 2001. The obligations of the Trust, as provided under the term of the Securities, are fully and unconditionally guaranteed by O&M.

The estimated fair value of the Securities was $79.5 million and $127.4 million at December 31, 1999 and 1998 based on quoted market prices. As of December 31, 1999 and 1998, the company had accrued $1.2 million of distributions related to the Securities.

Note 9 – Stock-Based Compensation

The company maintains stock based compensation plans (Plans) that provide for the granting of stock options, stock appreciation rights (SARs), restricted common stock and common stock. The Plans are administered by the Compensation and Benefits Committee of the Board of Directors and allow the company to award or grant to officers, directors and employees incentive, non-qualified and deferred compensation stock options, SARs and restricted and unrestricted stock. At December 31, 1999, approximately 1.2 million common shares were available for issuance under the Plans.

Stock options awarded under the Plans generally vest over three years and expire ten years from the date of grant. The options are granted at a price equal to fair market value at the date of grant. Restricted stock awarded under the Plans generally vests over three or five years. At December 31, 1999, there were no SARs outstanding.

The company has a Management Equity Ownership Program (MEOP). This program requires each of the company's officers to own the company's common stock

at specified levels, which gradually increase over five years. Officers who meet specified ownership goals in a given year are awarded restricted stock under the provisions of the program. Upon issuance of restricted shares, unearned compensation is charged to shareholders' equity for the market value of restricted stock and recognized as compensation expense ratably over the vesting period. Amortization of unearned compensation for restricted stock awards was approximately $534.1 thousand, $301.6 thousand and $54.3 thousand for 1999, 1998 and 1997.

The following table summarizes the activity and terms of outstanding options at December 31, 1999, and for the years in the three-year period then ended:

(In thousands, except per share data)

	1999		1998		1997	
	Options	**Average Exercise Price**	Options	Average Exercise Price	Options	Average Exercise Price
Options outstanding beginning of year	**2,001**	**$13.78**	1,940	$13.50	1,922	$13.06
Granted	**600**	**13.70**	550	13.79	523	12.73
Exercised	**(6)**	**12.68**	(333)	12.12	(303)	13.41
Expired/cancelled	**(147)**	**13.66**	(156)	13.89	(202)	14.58
Outstanding at end of year	**2,448**	**$13.75**	2,001	$13.78	1,940	$13.50
Exercisable options at end of year	**1,560**	**$13.83**	1,137	$14.16	1,123	$13.87

At December 31, 1999, the following option groups were outstanding:

	Outstanding			Exercisable		
Range of Exercise Prices	Number of Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options (000's)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$ 9.40 – 13.25	595	$12.00	7.35	421	$12.16	7.01
$13.35 – 17.10	1,853	$14.31	6.87	1,139	$14.45	5.70
	2,448	$13.75	6.99	1,560	$13.83	6.06

Using the intrinsic value method, the company's 1999, 1998 and 1997 net income includes stock-based compensation expense (net of tax benefit) of approximately $306 thousand, $201 thousand and $67 thousand. Had the company included in stock-based compensation expense the fair value at grant date of stock option awards granted in 1999, 1998 and 1997, net income would have been $26.6 million (or $0.82 per basic common share and $0.78 per diluted common share), $19.0 million (or $0.52 per basic and diluted common share) and $23.2 million (or $0.56 per basic and diluted common share) for the years ended December 31, 1999, 1998 and 1997. The weighted average fair value of options granted in 1999, 1998 and 1997 was $4.35, $4.06 and $3.77, per option. The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants: dividend yield of 1.6%-2.4% in 1999, 1.2%-1.5% in 1998, and 1.2%-1.7% in 1997; expected volatility of 32.4%-38.6% in 1999, 32.4%-37.9% in 1998, and 24.6%-41.0% in 1997; risk-free interest rate of 6.4% in 1999, 4.7% in 1998, and 5.6% in 1997; and expected lives of 2.1-5.1 years in 1999, 1998 and 1997.

Note 10 – Retirement Plans

Savings and Protection Plan The company maintains a voluntary Savings and Protection Plan covering substantially all full-time employees who have completed six months of service and have attained age 18. The company matches a certain percentage of each employee's contribution. The plan provides for a minimum contribution by the company to the plan for all eligible employees of 1% of their salary. This contribution can be increased at the company's discretion. The company incurred approximately $2.5 million, $2.1 million and $2.6 million in 1999, 1998 and 1997, respectively, of expenses related to this plan.

Pension Plan The company has a noncontributory pension plan covering substantially all employees who had earned benefits as of December 31, 1996. On that date, substantially all of the benefits of employees under this plan were frozen, with all participants becoming fully vested. The company expects to continue to fund the plan based on federal requirements, amounts deductible for income tax purposes and as needed to ensure that plan assets are sufficient to satisfy plan liabilities. As of December 31, 1999, plan assets consist primarily of equity securities, including 34 thousand shares of the company's common stock, and U.S. Government securities.

Retirement Plan The company also has a noncontributory, unfunded retirement plan for certain officers and other key employees. Benefits are based on a percentage of the employees' compensation. The company maintains life insurance policies on plan participants to act as a financing source for the plan.

The following table sets forth the plans' financial status and the amounts recognized in the company's Consolidated Balance Sheets:

(In thousands)

	Pension Plan		Retirement Plan	
	1999	1998	**1999**	1998
Change in benefit obligation				
Benefit obligation, beginning of year	**$22,288**	$20,671	**$ 6,094**	$ 5,078
Service cost	**225**	243	**542**	354
Interest cost	**1,470**	1,415	**406**	350
Actuarial loss (gain)	**(571)**	831	**(978)**	452
Benefits paid	**(894)**	(872)	**(176)**	(140)
Benefit obligation, end of year	**$22,518**	$22,288	**$ 5,888**	$ 6,094
Change in plan assets				
Fair value of plan assets, beginning of year	**$24,143**	$22,121	**$ –**	$ –
Actual return on plan assets	**4,536**	2,827	**–**	–
Employer contribution	**–**	67	**176**	140
Benefits paid	**(894)**	(872)	**(176)**	(140)
Fair value of plan assets, end of year	**$27,785**	$24,143	**$ –**	$ –
Funded status				
Funded status at December 31	**$ 5,267**	$ 1,855	**$(5,888)**	$(6,094)
Unrecognized net actuarial (gain) loss	**(4,112)**	(816)	**635**	1,696
Unrecognized prior service benefit	**–**	–	**(188)**	(204)
Unrecognized net obligation being recognized through 2002	**–**	–	**123**	164
Prepaid (accrued) benefit cost	**$ 1,155**	$ 1,039	**$(5,318)**	$(4,438)

The components of net periodic pension cost for the pension and retirement plans are as follows:

(In thousands)

Year ended December 31,	**1999**	1998	1997
Service cost	**$ 767**	$ 597	$ 568
Interest cost	**1,876**	1,765	1,715
Expected return on plan assets	**(1,811)**	(1,682)	(1,430)
Amortization of prior service benefit	**(16)**	(17)	(17)
Amortization of transition obligation	**41**	41	41
Recognized net actuarial loss	**84**	57	90
Net periodic pension cost	**$ 941**	$ 761	$ 967

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligations was assumed to be 7.0% for the Pension Plan and 8.0% for the Retirement Plan in 1999 and 6.75% for both plans in 1998. The rate of increase in future compensation levels used in determining the projected benefit obligation was 5.5% in 1999 and 1998. The expected long-term rate of return on plan assets was assumed to be 8.5% in 1999 and 1998.

Note 11 – Income Taxes

The income tax provision consists of the following:

(In thousands)

Year ended December 31,	**1999**	1998	1997
Current tax provision (benefit):			
Federal	**$11,724**	$ (7,690)	$14,484
State	**2,119**	(459)	3,130
Total current provision (benefit)	**13,843**	(8,149)	17,614
Deferred tax provision (benefit):			
Federal	**7,206**	19,895	(2)
State	**1,030**	2,842	(1)
Total deferred provision (benefit)	**8,236**	22,737	(3)
Total income tax provision	**$22,079**	$14,588	$17,611

A reconciliation of the federal statutory rate to the company's effective income tax rate is shown below:

Year ended December 31,	**1999**	1998	1997
Federal statutory rate	**35.0%**	35.0%	35.0%
Increases (reductions) in the rate resulting from:			
State income taxes, net of federal income tax impact	**5.5**	4.9	4.9
Nondeductible goodwill amortization	**3.0**	4.7	3.7
Nontaxable income	**–**	(4.0)	(2.6)
Other, net	**0.6**	1.4	1.0
Effective rate	**44.1%**	42.0%	42.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

(In thousands)

Year ended December 31,	**1999**	1998
Deferred tax assets:		
Allowance for doubtful accounts	**$ 2,592**	$ 2,509
Accrued liabilities not currently deductible	**3,900**	5,276
Employee benefit plans	**3,767**	3,616
Nonrecurring restructuring expenses	**2,444**	3,692
Tax loss carryforward, net	**633**	947
Other	**1,156**	815
Total deferred tax assets	**14,492**	16,855
Deferred tax liabilities:		
Merchandise inventories	**24,531**	19,113
Accounts receivable	**1,400**	2,101
Property and equipment	**1,869**	1,076
Computer software	**472**	708
Other	**1,478**	1,359
Total deferred tax liabilities	**29,750**	24,357
Net deferred tax liability	**$(15,258)**	$ (7,502)

At December 31, 1999 and 1998, the company had a $0.04 million and $0.27 million valuation allowance, respectively, for state net operating losses. Based on the level of historical taxable income and projections of future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the company will realize the benefits of these deductible differences, net of existing valuation allowances.

Cash payments for income taxes for 1999, 1998 and 1997 were $17.9 million, $14.1 million and $18.6 million, respectively.

Note 12 – Net Income per Common Share

The following sets forth the computation of basic and diluted net income per common share:
(In thousands, except per share data)

	1999	1998	1997
Numerator:			
Net income	**$27,979**	$20,145	$24,320
Preferred stock dividends	**–**	1,898	5,175
Numerator for basic net income per common share – net income available to common shareholders	**$27,979**	$18,247	$19,145
Distributions on convertible mandatorily redeemable preferred securities, net of taxes	**3,966**	–	–
Numerator for diluted net income per common share – net income available to common shareholders after assumed conversions	**$31,945**	$18,247	$19,145
Denominator:			
Denominator for basic net income per common share – weighted average shares	**32,574**	32,488	32,048
Effect of dilutive securities:			
Conversion of mandatorily redeemable preferred securities	**6,400**	–	–
Stock options and restricted stock	**124**	99	74
Other	**–**	4	7
Denominator for diluted net income per common share – adjusted weighted average shares and assumed conversions	**39,098**	32,591	32,129
Net income per common share – basic	**$ 0.86**	$ 0.56	$ 0.60
Net income per common share – diluted	**$ 0.82**	$ 0.56	$ 0.60

During the years ended December 31, 1999, 1998 and 1997, outstanding options to purchase approximately 2,263 thousand, 461 thousand and 1,192 thousand common shares were excluded from the calculation of diluted net income per share because their exercise price exceeded the average market price for the year.

Note 13 – Shareholders' Equity

In May 1998, the company repurchased all of the shares of its Series B preferred stock at par value. Each share of preferred stock had an annual dividend of $4.50, payable quarterly, had voting rights on items submitted to a vote of the holders of common stock and was convertible into approximately 6.1 shares of common stock at the shareholder's option.

The company has a shareholder rights agreement under which 8/27ths of a Right is attendant to each outstanding share of common stock of the company. Each full Right entitles the registered holder to purchase from the company one one-hundredth of a share of Series A Participating Cumulative Preferred Stock (the Series A Preferred Stock), at an exercise price of $75 (the Purchase Price). The Rights will become exercisable, if not earlier redeemed, only if a person or group acquires 20% or more of the outstanding shares of the company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 20% or more of such outstanding shares. Each holder of a Right, upon the occurrence of certain events, will become entitled to receive, upon exercise and payment of the Purchase Price, Series A Preferred Stock (or in certain circumstances, cash, property or other securities of the company or a potential acquirer) having a value equal to twice the amount of the Purchase Price. The Rights will expire on April 30, 2004, if not earlier redeemed.

Note 14 – Commitments and Contingencies

The company has a commitment through November 2, 2008 to outsource its information technology operations, including strategic application development services. The commitment is cancellable after November 2, 2003 with 180 days prior notice and payment of a minimum termination fee of between $3.0 million to $12.0 million depending upon the date of termination.

The company has a commitment through December 2005 to outsource the management and operation of its mainframe computer. This commitment is cancellable at any time on 180 days prior notice and a minimum termination fee of between $1.7 and $4.2 million, depending upon the date of termination.

The company also has entered into noncancellable agreements to lease certain office and warehouse facilities with remaining terms ranging from one to eight years. Certain leases include renewal options, generally for five-year increments. At December 31, 1999, future minimum annual payments under noncancellable operating lease agreements with original terms in excess of one year are as follows:

(In thousands)

	Total
2000	$20,753
2001	17,852
2002	14,808
2003	12,017
2004	8,366
Later years	9,458
Total minimum payments	$83,254

Rent expense for all operating leases for the years ended December 31, 1999, 1998 and 1997 was $26.1 million, $26.1 million and $26.3 million, respectively.

The company has limited concentrations of credit risk with respect to financial instruments. Temporary cash investments are placed with high credit quality institutions and concentrations within accounts and notes receivable are limited due to their geographic dispersion.

Net sales to member hospitals under contract with Novation totaled $1.7 billion in 1999 and $1.5 billion in 1998, approximately 53% and 49%, of the company's net sales. As members of a group purchasing organization, Novation hospitals have an incentive to purchase from their primary selected distributor; however, they operate independently and are free to negotiate directly with distributors and manufacturers. Net sales to member hospitals under contract with VHA, Inc. were 40% of the company's net sales in 1997.

In 1998 and 1997, net sales to Columbia/HCA totaled $276 million and $356 million, or approximately 9% in 1998 and 11% in 1997 of the company's net sales.

Note 15 – Legal Proceedings

Prior to December 1992, the company's subsidiary Stuart Medical, Inc. (Stuart) distributed spinal fixation devices manufactured by Sofamor S.N.C. As of January 21, 2000, Stuart was named as a defendant in 38 lawsuits, down from 54 in January 1999, arising from personal injury claims allegedly attributable to spinal fixation devices distributed by Stuart (the Cases).

A majority of the lawsuits have been transferred to and consolidated, for pretrial proceedings, in the Eastern District of Pennsylvania in Philadelphia under the style MDL Docket No. 1014: In re Orthopedic Bone Screw Products Liability Litigation.

On August 9, 1999, Medtronic Sofamor Danek, Inc., Danek Medical, Inc. and Sofamor, S.N.C. (formerly known as Sofamor, S.A.), successors to the manufacturer of the spinal fixation devices distributed by Stuart, assumed the defense of Stuart and indemnified Stuart and others against all costs of defense, any settlements and/or any adverse judgment(s) that may be entered against Stuart in these Cases. Stuart also retains insurance coverage for the defense of the Cases. In addition, the company and Stuart are also contractually entitled to indemnification by the former shareholders of Stuart for any liabilities and related expenses incurred by the company or Stuart in connection with the foregoing litigation. Management believes that Stuart's available insurance coverage, together with the indemnification rights discussed above, is adequate to cover any losses should they occur and, accordingly, has accrued no liability therefor. The company is not aware of any uncertainty as to the availability and adequacy of such insurance or indemnification, although there can be no assurance that the Sofamor successor companies and the former shareholders will have sufficient financial resources in the future to meet such obligations.

As of December 31, 1999, approximately 134 Lawsuits (the Lawsuits), seeking compensatory and punitive damages, in most cases of an unspecified amount, have been filed in various federal and state courts against the company, product manufacturers, and other distributors and sellers of natural rubber latex products. The company has obtained dismissal or summary judgment in 18 cases. The Lawsuits allege injuries arising from the use of latex products, principally medical gloves. The Lawsuits also include claims by approximately 52 spouses asserting loss of consortium. The company may be named as a defendant in additional, similar lawsuits in the future. In the course of its medical supply business, the company has distributed latex products, including medical gloves, but it does not, nor has it ever manufactured any latex products. The company has tendered the defense of the Lawsuits to manufacturer defendants whose gloves were distributed by the company. One manufacturer's insurer has agreed to indemnify and assume the defense of the company in five Lawsuits. The company will continue to vigorously pursue indemnification from latex product manufacturers. The company's insurers are paying all costs of defense in the Lawsuits, and the company believes, at this time, that future defense costs and any potential liability should be adequately covered by the insurance, subject to policy limits and insurer solvency. Most of the Lawsuits are at the early stages of trial preparation. Several Lawsuits that were scheduled for trial have been dismissed on summary judgment. After analyzing the above factors at this point in time, it would appear that the likelihood of a material loss to the company with respect to the Lawsuits is remote.

The company is party to various other legal actions that are ordinary and incidental to its business. While the outcome of legal actions cannot be predicted with certainty, management believes the outcome of these proceedings will not have a material adverse effect on the company's financial condition or results of operations.

Note 16 – Condensed Consolidating Financial Information

The following tables present condensed consolidating financial information for: Owens & Minor, Inc.; on a combined basis, the guarantors of Owens & Minor, Inc.'s Notes; and the non-guarantor subsidiaries of the Notes. Separate financial statements of the guarantor subsidiaries are not presented because the guarantors are jointly, severally and unconditionally liable under the guarantees and the company believes the condensed consolidating financial information is more meaningful in understanding the financial position, results of operations and cash flows of the guarantor subsidiaries.

Condensed Consolidating Financial Information

(In thousands)

Year ended December 31, 1999	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Operations					
Net sales	$ –	$3,186,373	$ –	$ –	$3,186,373
Cost of goods sold	–	2,851,556	–	–	2,851,556
Gross margin	–	334,817	–	–	334,817
Selling, general and administrative expenses	9	241,629	561	–	242,199
Depreciation and amortization	–	19,365	–	–	19,365
Interest expense, net	16,798	(4,938)	–	–	11,860
Intercompany interest expense, net	(6,976)	25,326	(18,350)	–	–
Discount on accounts receivable securitization	–	32	5,208	–	5,240
Distributions on mandatorily redeemable preferred securities	–	–	7,095	–	7,095
Nonrecurring restructuring credit	–	(1,000)	–	–	(1,000)
Total expenses	9,831	280,414	(5,486)	–	284,759
Income (loss) before income taxes	(9,831)	54,403	5,486	–	50,058
Income tax provision (benefit)	(4,326)	23,865	2,540	–	22,079
Net income (loss)	$ (5,505)	$ 30,538	$ 2,946	$ –	$ 27,979

Year ended December 31, 1998	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Operations					
Net sales	$ –	$3,082,119	$ –	$ –	$3,082,119
Cost of goods sold	–	2,755,158	–	–	2,755,158
Gross margin	–	326,961	–	–	326,961
Selling, general and administrative expenses	5	239,295	243	–	239,543
Depreciation and amortization	–	18,270	–	–	18,270
Interest expense, net	17,205	(3,139)	–	–	14,066
Intercompany interest expense, net	(10,854)	24,469	(13,615)	–	–
Discount on accounts receivable securitization	–	67	4,588	–	4,655
Distributions on mandatorily redeemable preferred securities	–	–	4,494	–	4,494
Nonrecurring restructuring expenses	–	11,200	–	–	11,200
Total expenses	6,356	290,162	(4,290)	–	292,228
Income (loss) before income taxes	(6,356)	36,799	4,290	–	34,733
Income tax provision (benefit)	(2,574)	15,424	1,738	–	14,588
Net income (loss)	(3,782)	21,375	2,552	–	20,145
Dividends on preferred stock	1,898	–	–	–	1,898
Net income (loss) attributable to common stock	$ (5,680)	$ 21,375	$ 2,552	$ –	$ 18,247

Condensed Consolidating Financial Information

(In thousands)

Year ended December 31, 1997	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Operations					
Net sales	$ –	$3,116,798	$ –	$ –	$3,116,798
Cost of goods sold	–	2,800,044	–	–	2,800,044
Gross margin	–	316,754	–	–	316,754
Selling, general and administrative expenses	–	234,721	151	–	234,872
Depreciation and amortization	–	17,664	–	–	17,664
Interest expense, net	18,422	(2,707)	(12)	–	15,703
Intercompany interest expense, net	(15,669)	26,456	(10,787)	–	–
Discount on accounts receivable securitization	–	10	6,574	–	6,584
Total expenses	2,753	276,144	(4,074)	–	274,823
Income (loss) before income taxes	(2,753)	40,610	4,074	–	41,931
Income tax provision (benefit)	(1,129)	16,685	2,055	–	17,611
Net income (loss)	(1,624)	23,925	2,019	–	24,320
Dividends on preferred stock	5,175	–	–	–	5,175
Net income (loss) attributable to common stock	$ (6,799)	$ 23,925	$ 2,019	$ –	$ 19,145

Condensed Consolidating Financial Information

(In thousands)

December 31, 1999	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheets					
Assets					
Current assets					
Cash and cash equivalents	$ 507	$ 158	$ 4	$ –	$ 669
Accounts and notes receivable, net	–	112,088	114,839	–	226,927
Merchandise inventories	–	342,478	–	–	342,478
Intercompany advances, net	157,711	88,347	1,183	(247,241)	–
Other current assets	–	19,172	–	–	19,172
Total current assets	158,218	562,243	116,026	(247,241)	589,246
Property and equipment, net	–	25,877	–	–	25,877
Goodwill, net	–	210,837	–	–	210,837
Intercompany investments	305,441	15,001	136,083	(456,525)	–
Other assets, net	9,894	27,933	1,213	–	39,040
Total assets	$473,553	$841,891	$253,322	$(703,766)	$865,000
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable	$ –	$303,490	$ –	$ –	$303,490
Accrued payroll and related liabilities	–	6,883	–	–	6,883
Intercompany advances, net	–	157,567	89,674	(247,241)	–
Other accrued liabilities	1,354	56,368	1,703	–	59,425
Total current liabilities	1,354	524,308	91,377	(247,241)	369,798
Long-term debt	172,600	1,953	–	–	174,553
Intercompany long-term debt	136,083	–	–	(136,083)	–
Accrued pension and retirement plans	–	6,268	–	–	6,268
Total liabilities	310,037	532,529	91,377	(383,324)	550,619
Company-obligated mandatorily redeemable preferred securities of subsidiary trust, holding solely convertible debentures of Owens & Minor, Inc.	–	–	132,000	–	132,000
Shareholders' equity					
Common stock	65,422	40,879	5,583	(46,462)	65,422
Paid-in capital	12,890	258,979	15,001	(273,980)	12,890
Retained earnings	85,204	9,504	9,361	–	104,069
Total shareholders' equity	163,516	309,362	29,945	(320,442)	182,381
Total liabilities and shareholders' equity	$473,553	$841,891	$253,322	$(703,766)	$865,000

Condensed Consolidating Financial Information

(In thousands)

December 31, 1998	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Balance Sheets					
Assets					
Current assets					
Cash and cash equivalents	$ 505	$ 40	$ 1	$ –	$ 546
Accounts and notes receivable, net	–	100,148	113,617	–	213,765
Merchandise inventories	–	275,094	–	–	275,094
Intercompany advances, net	148,992	90,698	1,183	(240,873)	–
Other current assets	–	14,816	–	–	14,816
Total current assets	149,497	480,796	114,801	(240,873)	504,221
Property and equipment, net	–	25,608	–	–	25,608
Goodwill, net	–	158,276	–	–	158,276
Intercompany investments	303,941	15,001	136,083	(455,025)	–
Other assets, net	9,784	19,879	–	–	29,663
Total assets	$463,222	$699,560	$250,884	$(695,898)	$717,768
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable	$ –	$206,251	$ –	$ –	$206,251
Accrued payroll and related liabilities	–	8,974	–	–	8,974
Intercompany advances, net	–	148,992	91,881	(240,873)	–
Other accrued liabilities	1,394	50,994	1,361	–	53,749
Total current liabilities	1,394	415,211	93,242	(240,873)	268,974
Long-term debt	150,000	–	–	–	150,000
Intercompany long-term debt	136,083	–	–	(136,083)	–
Accrued pension and retirement plans	–	5,668	–	–	5,668
Total liabilities	287,477	420,879	93,242	(376,956)	424,642
Company-obligated mandatorily redeemable preferred securities of subsidiary trust, holding solely convertible debentures of Owens & Minor, Inc.	–	–	132,000	–	132,000
Shareholders' equity					
Common stock	65,236	40,879	4,083	(44,962)	65,236
Paid-in capital	12,280	258,979	15,001	(273,980)	12,280
Retained earnings (accumulated deficit)	98,229	(21,177)	6,558	–	83,610
Total shareholders' equity	175,745	278,681	25,642	(318,942)	161,126
Total liabilities and shareholders' equity	$463,222	$699,560	$250,884	$(695,898)	$717,768

Condensed Consolidating Financial Information

(In thousands)

Year ended December 31, 1999	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities					
Net income (loss)	$ (5,505)	$ 30,538	$ 2,946	$ –	$ 27,979
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities					
Depreciation and amortization	–	19,365	–	–	19,365
Nonrecurring restructuring credit	–	(1,000)	–	–	(1,000)
Deferred income taxes	–	8,236	–	–	8,236
Provision for LIFO reserve	–	1,741	–	–	1,741
Provision for losses on accounts and notes receivable	–	292	267	–	559
Changes in operating assets and liabilities:					
Accounts and notes receivable	–	1,970	(1,489)	–	481
Merchandise inventories	–	(42,397)	–	–	(42,397)
Accounts payable	–	86,871	–	–	86,871
Net change in other current assets and current liabilities	(39)	(11,536)	343	–	(11,232)
Other, net	3,049	(1,404)	41	–	1,686
Cash provided by (used for) operating activities	(2,495)	92,676	2,108	–	92,289
Investing activities					
Net cash paid for acquisition of business	–	(82,699)	–	–	(82,699)
Additions to property and equipment	–	(8,933)	–	–	(8,933)
Additions to computer software	–	(13,172)	–	–	(13,172)
Other, net	(1,222)	63	(1,200)	–	(2,359)
Cash used for investing activities	(1,222)	(104,741)	(1,200)	–	(107,163)
Financing activities					
Additions to debt	22,600	2,578	–	–	25,178
Change in intercompany advances	(11,441)	12,346	(905)	–	–
Other financing, net	–	(2,741)	–	–	(2,741)
Cash dividends paid	(7,520)	–	–	–	(7,520)
Proceeds from exercise of stock options	80	–	–	–	80
Cash provided by (used for) financing activities	3,719	12,183	(905)	–	14,997
Net increase in cash and cash equivalents	2	118	3	–	123
Cash and cash equivalents at beginning of year	505	40	1	–	546
Cash and cash equivalents at end of year	$ 507	$ 158	$ 4	$ –	$ 669

Condensed Consolidating Financial Information

(In thousands)

Year ended December 31, 1998	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities					
Net income (loss)	$ (3,782)	$ 21,375	$ 2,552	$ –	$ 20,145
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities					
Depreciation and amortization	–	18,270	–	–	18,270
Nonrecurring restructuring provision	–	11,200	–	–	11,200
Deferred income taxes	–	22,737	–	–	22,737
Provision for LIFO reserve	–	1,536	–	–	1,536
Provision for losses on accounts and notes receivable	–	262	234	–	496
Changes in operating assets and liabilities:					
Accounts and notes receivable	–	(74)	(26,309)	–	(26,383)
Merchandise inventories	–	8,899	–	–	8,899
Accounts payable	–	(23,375)	–	–	(23,375)
Net change in other current assets and current liabilities	460	(1,952)	841	–	(651)
Other, net	1,506	(1,895)	–	–	(389)
Cash provided by (used for) operating activities	(1,816)	56,983	(22,682)	–	32,485
Investing activities					
Additions to property and equipment	–	(8,053)	–	–	(8,053)
Additions to computer software	–	(4,556)	–	–	(4,556)
Other, net	–	160	–	–	160
Cash used for investing activities	–	(12,449)	–	–	(12,449)
Financing activities					
Net proceeds from issuance of mandatorily redeemable preferred securities	(4,732)	–	132,000	–	127,268
Repurchase of preferred stock	(115,000)	–	–	–	(115,000)
Reductions of debt	(32,550)	–	–	–	(32,550)
Change in intercompany advances	159,443	(50,126)	(109,317)	–	–
Other financing, net	–	5,554	–	–	5,554
Cash dividends paid	(9,268)	–	–	–	(9,268)
Proceeds from exercise of stock options	3,923	–	–	–	3,923
Cash provided by (used for) financing activities	1,816	(44,572)	22,683	–	(20,073)
Net increase (decrease) in cash and cash equivalents	–	(38)	1	–	(37)
Cash and cash equivalents at beginning of year	505	78	–	–	583
Cash and cash equivalents at end of year	$ 505	$ 40	$ 1	$ –	$ 546

Condensed Consolidating Financial Information

(In thousands)

Year ended December 31, 1997	Owens & Minor, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Statements of Cash Flows					
Operating activities					
Net income (loss)	$ (1,624)	$ 23,925	$ 2,019	$ –	$ 24,320
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities					
Depreciation and amortization	–	17,664	–	–	17,664
Deferred income taxes	–	(3)	–	–	(3)
Provision for LIFO reserve	–	2,414	–	–	2,414
Provision for losses on accounts and notes receivable	–	124	144	–	268
Changes in operating assets and liabilities:					
Accounts and notes receivable	–	(12,591)	(28,312)	–	(40,903)
Merchandise inventories	–	(6,104)	–	–	(6,104)
Accounts payable	–	4,714	–	–	4,714
Net change in other current assets and current liabilities	147	4,670	(203)	–	4,614
Other, net	1,411	(757)	384	–	1,038
Cash provided by (used for) operating activities	(66)	34,056	(25,968)	–	8,022
Investing activities					
Additions to property and equipment	–	(7,495)	–	–	(7,495)
Additions to computer software	–	(4,472)	–	–	(4,472)
Other, net	–	1,851	–	–	1,851
Cash used for investing activities	–	(10,116)	–	–	(10,116)
Financing activities					
Addition to (reduction of) long-term debt	26,026	(11,049)	–	–	14,977
Change in intercompany advances	(17,596)	(8,372)	25,968	–	–
Other financing, net	–	(4,679)	–	–	(4,679)
Cash dividends paid	(10,950)	–	–	–	(10,950)
Proceeds from exercise of stock options	2,586	–	–	–	2,586
Cash provided by (used for) financing activities	66	(24,100)	25,968	–	1,934
Net decrease in cash and cash equivalents	–	(160)	–	–	(160)
Cash and cash equivalents at beginning of year	505	238	–	–	743
Cash and cash equivalents at end of year	$ 505	$ 78	$ –	$ –	$ 583

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Owens & Minor, Inc.:

We have audited the accompanying consolidated balance sheets of Owens & Minor, Inc. and subsidiaries (the company) as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Owens & Minor, Inc. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Richmond, Virginia
February 2, 2000

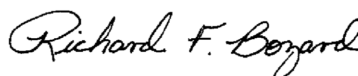
REPORT OF MANAGEMENT

The management of Owens & Minor, Inc. is responsible for the preparation, integrity and objectivity of the consolidated financial statements and related information presented in this annual report. The consolidated financial statements were prepared in conformity with generally accepted accounting principles applied on a consistent basis and include, when necessary, the best estimates and judgments of management.

The company maintains a system of internal controls that provides reasonable assurance that its assets are safeguarded against loss or unauthorized use, that transactions are properly recorded and that financial records provide a reliable basis for the preparation of the consolidated financial statements.

The Audit Committee of the Board of Directors, composed entirely of directors who are not current employees of Owens & Minor, Inc., meets periodically and privately with the company's independent auditors and internal auditors, as well as with company management, to review accounting, auditing, internal control and financial reporting matters. The independent auditors and internal auditors have direct access to the Audit Committee with and without management present to discuss the results of their activities.

G. Gilmer Minor, III
Chairman & Chief Executive Officer



Richard F. Bozard
Vice President & Treasurer
Acting Chief Financial Officer

(in thousands, except per share data)

	1999			
Quarters	**1st**	**2nd**	**3rd**	**4th**
Net sales	**$741,084**	**$772,360**	**$811,917**	**$861,012**
Gross margin	**78,729**	**80,347**	**85,297**	**90,444**
Net income	**5,491**	**6,480**	**7,142**	**8,866**
Per common share:				
Net income				
Basic	**$ 0.17**	**$ 0.20**	**$ 0.22**	**$ 0.27**
Diluted	**$ 0.17**	**$ 0.19**	**$ 0.21**	**$ 0.25**
Dividends	**$ 0.05**	**$ 0.06**	**$ 0.06**	**$ 0.06**
Market price				
High	**$ 17.00**	**$ 12.44**	**$ 13.00**	**$ 10.63**
Low	**$ 9.56**	**$ 9.50**	**$ 9.63**	**$ 7.56**

	1998			
Quarters	1st	2nd	3rd	4th
Net sales	$797,950	$798,978	$768,416	$716,775
Gross margin	82,087	82,533	81,004	81,337
Net income	6,759	145	6,618	6,623
Per common share:				
Net income				
Basic	$ 0.17	$ (0.01)	$ 0.20	$ 0.20
Diluted	$ 0.17	$ (0.01)	$ 0.20	$ 0.20
Dividends	$ 0.05	$ 0.05	$ 0.05	$ 0.05
Market price				
High	$ 19.88	$ 18.88	$ 13.13	$ 17.25
Low	$ 13.13	$ 10.00	$ 10.00	$ 10.63

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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the year ended December 31, 1999

[ ] 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	54-01701843
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4800 Cox Road, Glen Allen, Virginia	23060
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (804) 747-9794

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

Title of each class	Name of each exchange on which registered
Common Stock, $2 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange
10⅞% Senior Subordinated Notes due 2006	New York Stock Exchange
$2.6875 Term Convertible Securities, Series A	Not Listed

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of Common Stock held by non-affiliates (based upon the closing sales price) was $336,451,740 as of February 18, 2000.

The number of shares of the company's Common Stock outstanding as of February 18, 2000 was 32,824,560 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the annual meeting of security holders on April 25, 2000 is incorporated by reference into Part III of this Form 10-K.

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	b. Reports on Form 8-K:	None.
	c. The index to exhibits has been filed as separate pages of the 1999 Form 10-K and is available to shareholders on request from the Secretary of the company at the principal executive offices.	

(a) Part III will be incorporated by reference from the registrant's 2000 Proxy Statement pursuant to instructions G(1) and G(3) of the General Instructions to Form 10-K.

Pursuant to the requirements of Section 13 or 15(d) 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, on the 7th day of March, 2000.

OWENS & MINOR, INC.

/s/ G. Gilmer Minor, III
G. Gilmer Minor, III
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on the 7th day of March 2000 and in the capacities indicated.

Signature	Capacity
/s/ G. Gilmer Minor, III G. Gilmer Minor, III	Chairman and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Richard F. Bozard Richard F. Bozard	Vice President and Treasurer Acting Chief Financial Officer (Principal Financial Officer)
/s/ Olwen B. Cape Olwen B. Cape	Vice President and Controller (Principal Accounting Officer)
/s/ Henry A. Berling Henry A. Berling	Director
/s/ Josiah Bunting, III Josiah Bunting, III	Director
/s/ John T. Crotty John T. Crotty	Director
/s/ James B. Farinholt, Jr. James B. Farinholt, Jr.	Director
/s/ Vernard W. Henley Vernard W. Henley	Director
/s/ E. Morgan Massey E. Morgan Massey	Director
/s/ Peter S. Redding Peter S. Redding	Director
/s/ James E. Rogers James E. Rogers	Director
/s/ James E. Ukrop James E. Ukrop	Director
/s/ Anne Marie Whittemore Anne Marie Whittemore	Director

MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Owens & Minor, Inc.'s common stock trades on the New York Stock Exchange under the symbol OMI. As of December 31, 1999, there were approximately 15,000 common shareholders.

G. Gilmer Minor, III, 59, Chairman of the Board since 1994 and Chief Executive Officer since 1984. Mr. Minor was President from 1981 to April 1999.

Craig R. Smith, 48, President since April 1999 and Chief Operating Officer since 1995. Prior to 1995, Mr. Smith was Executive Vice President, Distribution and Information Systems from 1994 to 1995 and Senior Vice President, Distribution and Information Systems from 1993 to 1994.

Henry A. Berling, 57, Executive Vice President, Partnership Development since 1995. Mr. Berling was Executive Vice President, Partnership Development and Chief Sales Officer from 1996 to 1998. Prior to 1995, Mr. Berling was Executive Vice President, Sales and Customer Development from 1994 to 1995 and Senior Vice President, Sales and Marketing from 1992 to 1994.

Timothy J. Callahan, 48, Senior Vice President, Distribution, since November 1999. From 1997 to November 1999, Mr. Callahan served as Regional Vice President, West. Mr. Callahan was Executive Vice President for NCI, a healthcare consulting company from 1996 to 1997. Prior to that, he was Vice President, Sales, for Sterile Concepts, Inc. from 1990 to 1996.

Drew St. J. Carneal, 61, Senior Vice President, General Counsel and Secretary since 1990.

Jack M. Clark, 49, Senior Vice President, Sales and Marketing since 1997. Mr. Clark was employed by Campbell Soup Company from 1996 to 1997, serving as Vice President, U.S. Sales and Marketing. From 1987 to 1996, he was employed by Coca-Cola USA where his last position was Area Vice President.

Charles C. Colpo, 42, Senior Vice President, Operations since November 1999. Prior to November 1999, Mr. Colpo was Vice President, Operations from 1998 to November 1999. Prior to 1998, Mr. Colpo was Vice President, Supply Chain Process from 1996 to 1998; Vice President, Inventory Management from 1995 to 1996; and Director, Business Process Redesign from 1994 to 1995.

James L. Grigg, 52, Senior Vice President, Supply Chain Management since 1996. Mr. Grigg joined the company in 1996 as Senior Vice President, Product. Mr. Grigg was Vice President, Trade Relations and Product Management for FoxMeyer Health Corp. from 1992 to 1996.

F. Lee Marston, 46, Senior Vice President and Chief Information Officer since 1997. Prior to joining the company, Mr. Marston was President of The Logistics Technology Group. From 1993 to 1996 he also directed the logistics information systems practice of the Progress Group, a logistics consulting firm.

Richard F. Bozard, 52, Acting Chief Financial Officer since March 1999 and Vice President and Treasurer since 1991.

Olwen B. Cape, 49, Vice President and Controller since 1997. Ms. Cape was employed by Bausch & Lomb Incorporated from 1990 to 1997 serving in various financial positions, including Director, Business Analysis & Planning.

Erika T. Davis, 35, Vice President, Human Resources since December 1999. Prior to December 1999, Ms. Davis served as Director, Human Resources & Training from March 1999 to July 1999; Director, Compensation & HRIS from 1995 to 1999; and Manager, Compensation from 1993 to 1995.

Hugh F. Gouldthorpe, Jr., 60, Vice President, Quality and Communications since 1993.

Wayne B. Luck, 43, Vice President, Business Technology Group, since 1998. Prior to 1998, Mr. Luck was Vice President, Information Technology from 1995 to 1998. Mr. Luck served as Director, Application Services from 1993 to 1995.

Bruce J. MacAllister, 48, Regional Vice President, East since 1997. Prior to 1997, Mr. MacAllister was Group Vice President, Southern and Western Regions from 1995 to 1997. From 1993 to 1995 Mr. MacAllister was Division Vice President.

Hue Thomas, III, 60, Vice President, Corporate Relations since 1991.

Henry A. Berling (57) [1, 4]
Executive Vice President,
Partnership Development,
Owens & Minor, Inc.

Josiah Bunting, III (59) [2, 4]
Superintendent,
Virginia Military Institute

John T. Crotty (62) [2, 4]
Managing Partner,
CroBern Management Partnership
President, CroBern, Inc.

James B. Farinholt, Jr. (65) [1, 2*, 4]
Special Assistant to the President
for Economic Development,
Virginia Commonwealth University

Vernard W. Henley (70) [2, 3, 5]
Chairman & CEO,
Consolidated Bank & Trust Company

E. Morgan Massey (73) [1, 2, 4*, 5]
Chairman,
Asian-American Coal, Inc.
Chairman Emeritus,
A.T. Massey Coal Company, Inc.
Chairman, Evan Energy Company

G. Gilmer Minor, III (59) [1*, 4]
Chairman & CEO,
Owens & Minor, Inc.

Peter S. Redding (61) [3, 4]
President & CEO,
Standard Register

James E. Rogers (54) [1, 3*, 4]
President,
SCI Investors Inc.

James E. Ukrop (62) [2, 3, 5]
Chairman,
Ukrop's Super Markets, Inc.
Chairman, First Market Bank

Anne Marie Whittemore (54) [1, 3, 5*]
Partner,
McGuire, Woods, Battle & Boothe LLP

Board Committees: [1] *Executive Committee,* [2] *Audit Committee,* [3] *Compensation & Benefits Committee,* [4] *Strategic Planning Committee,* [5] *Governance & Nominating Committee,* * *Denotes Chairperson*

Annual Meeting
The annual meeting of Owens & Minor, Inc. shareholders will be held on Tuesday, April 25, 2000, at the Crestar Bank Building, 919 East Main Street, Richmond, Virginia.

Transfer Agent, Registrar and Dividend Disbursing Agent
The Bank of New York
Shareholder Relations Department-11E
P.O. Box 11258
Church Street Station
New York, NY 10286
800.524.4458
shareowner-svcs@bankofny.com

Dividend Reinvestment and Stock Purchase Plan
The Dividend Reinvestment and Stock Purchase Plan offers holders of Owens & Minor, Inc. common stock an opportunity to buy additional shares automatically with cash dividends and to buy additional shares with voluntary cash payments. Under the plan, the company pays all brokerage commissions and service charges for the acquisition of shares. Information regarding the plan may be obtained by writing the transfer agent at the following address:

The Bank of New York
Dividend Reinvestment Department
P.O. Box 1958
Newark, NJ 07101-9774

Shareholder Records
Direct correspondence concerning Owens & Minor, Inc. stock holdings or change of address to The Bank of New York's Shareholder Services Department (listed above). Direct correspondence concerning lost or missing dividend checks to:

Receive and Deliver Department-11W
P.O. Box 11002
Church Street Station
New York, NY 10286

Duplicate Mailings
When a shareholder owns shares in more than one account or when several shareholders live at the same address, they may receive multiple copies of annual and quarterly reports. To eliminate multiple mailings, please write to the transfer agent.

Counsel
Hunton & Williams
Richmond, Virginia

Independent Auditors
KPMG LLP
Richmond, Virginia

Stock Exchange Listing
The Company's common shares are listed on the New York Stock Exchange. The trading symbol is OMI.

Press Releases
Owens & Minor, Inc.'s press releases are available through Company News On-Call by fax-on-demand at 800.758.5804, ext. 667125, or at www.prnewswire.com or at www.owens-minor.com.

OWENS & MINOR, INC.

Corporate Office

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4800 Cox Road
Glen Allen, Virginia 23060

Mailing Address
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Richmond, Virginia 23261-7626

804-747-9794

www.owens-minor.com