

AIRGAS INC  
 Form 10-Q  
 November 05, 2014  
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UNITED STATES  
 SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2014  
 Commission file number: 1-9344

AIRGAS, INC.  
 (Exact name of registrant as specified in its charter)

Delaware 56-0732648  
 (State or other jurisdiction of (I.R.S. Employer  
 incorporation or organization) Identification No.)

259 North Radnor-Chester Road, Suite 100 19087-5283  
 Radnor, PA (ZIP code)  
 (Address of principal executive offices)  
 (610) 687-5253  
 (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	
Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

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  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of shares of common stock outstanding as of November 3, 2014 was 74,702,022.

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AIRGAS, INC.

FORM 10-Q

September 30, 2014

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

AIRGAS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net Sales	\$1,357,755	\$1,281,970	\$2,671,342	\$2,561,861
Costs and Expenses:				
Cost of products sold (excluding depreciation)	600,534	563,012	1,183,940	1,138,555
Selling, distribution and administrative expenses	500,375	474,455	995,088	947,930
Depreciation	73,160	68,487	145,795	135,517
Amortization	7,905	7,247	15,657	14,476
Total costs and expenses	1,181,974	1,113,201	2,340,480	2,236,478
Operating Income	175,781	168,769	330,862	325,383
Interest expense, net	(18,562)	(20,665)	(34,701)	(41,459)
Other income, net	81	1,474	1,950	1,587
Earnings before income taxes	157,300	149,578	298,111	285,511
Income taxes	(58,988)	(54,596)	(110,947)	(105,843)
Net Earnings	\$98,312	\$94,982	\$187,164	\$179,668
Net Earnings per Common Share:				
Basic earnings per share	\$1.32	\$1.29	\$2.52	\$2.45
Diluted earnings per share	\$1.30	\$1.27	\$2.48	\$2.41
Weighted Average Shares Outstanding:				
Basic	74,561	73,507	74,417	73,372
Diluted	75,754	74,815	75,616	74,676
Dividends Declared per Common Share	\$0.55	\$0.48	\$1.10	\$0.96

See accompanying notes to consolidated financial statements.

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AIRGAS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net earnings	\$ 98,312	\$ 94,982	\$ 187,164	\$ 179,668
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(5,391	) 2,028	(2,816	) (537
Reclassification of hedging loss included in net earnings	129	129	259	259
Other comprehensive income (loss), before tax	(5,262	) 2,157	(2,557	) (278
Net tax expense of other comprehensive income items	(48	) (48	) (96	) (96
Other comprehensive income (loss), net of tax	(5,310	) 2,109	(2,653	) (374
Comprehensive income	\$ 93,002	\$ 97,091	\$ 184,511	\$ 179,294

See accompanying notes to consolidated financial statements.

Table of ContentsAIRGAS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)	(Unaudited) September 30, 2014	March 31, 2014
<b>ASSETS</b>		
Current Assets		
Cash	\$ 65,712	\$ 69,561
Trade receivables, less allowances for doubtful accounts of \$29,443 and \$31,757 at September 30, 2014 and March 31, 2014, respectively	719,149	701,060
Inventories, net	487,778	478,149
Deferred income tax asset, net	57,347	57,961
Prepaid expenses and other current assets	98,040	92,356
Total current assets	1,428,026	1,399,087
Plant and equipment at cost	5,114,922	4,931,064
Less accumulated depreciation	(2,243,698	) (2,128,649
Plant and equipment, net	2,871,224	2,802,415
Goodwill	1,309,247	1,289,896
Other intangible assets, net	253,027	258,836
Other non-current assets	43,250	43,080
Total assets	\$ 5,904,774	\$ 5,793,314
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable, trade	\$ 204,735	\$ 196,911
Accrued expenses and other current liabilities	348,409	345,676
Short-term debt	433,174	387,866
Current portion of long-term debt	205	400,322
Total current liabilities	986,523	1,330,775
Long-term debt, excluding current portion	2,006,943	1,706,774
Deferred income tax liability, net	820,196	825,897
Other non-current liabilities	88,688	89,219
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, 20,030 shares authorized, no shares issued or outstanding at September 30, 2014 and March 31, 2014	—	—
Common stock, par value \$0.01 per share, 200,000 shares authorized, 87,456 and 87,353 shares issued at September 30, 2014 and March 31, 2014, respectively	875	874
Capital in excess of par value	824,707	789,789
Retained earnings	2,145,629	2,047,843
Accumulated other comprehensive income (loss)	(2,124	) 529
Treasury stock, 12,842 and 13,264 shares at cost at September 30, 2014 and March 31, 2014, respectively	(966,663	) (998,386
Total stockholders' equity	2,002,424	1,840,649
Total liabilities and stockholders' equity	\$ 5,904,774	\$ 5,793,314

See accompanying notes to consolidated financial statements.





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AIRGAS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In thousands)	Six Months Ended	
	September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 187,164	\$ 179,668
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	145,795	135,517
Amortization	15,657	14,476
Deferred income taxes	(6,702)	) 3,183
Gain on sales of plant and equipment	(1,338)	) (828)
Stock-based compensation expense	20,833	19,965
Changes in assets and liabilities, excluding effects of business acquisitions:		
Trade receivables, net	(12,812)	) 9,632
Inventories, net	(7,226)	) 8,424
Prepaid expenses and other current assets	(5,395)	) 6,913
Accounts payable, trade	6,513	(13,948)
Accrued expenses and other current liabilities	2,514	18,766
Other, net	(3,085)	) (574)
Net cash provided by operating activities	341,918	381,194
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(220,872)	) (168,483)
Proceeds from sales of plant and equipment	10,634	7,292
Business acquisitions and holdback settlements	(29,834)	) (15,745)
Other, net	716	(1,869)
Net cash used in investing activities	(239,356)	) (178,805)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in short-term debt	45,112	—
Proceeds from borrowings of long-term debt	306,254	4,666
Repayment of long-term debt	(403,757)	) (119,863)
Financing costs	(2,398)	) —
Purchase of treasury stock	—	(8,127)
Proceeds from the exercise of stock options	19,830	22,946
Stock issued for the Employee Stock Purchase Plan	8,994	8,797
Excess tax benefit realized from the exercise of stock options	5,091	6,568
Dividends paid to stockholders	(81,942)	) (70,505)
Change in cash overdraft and other	(3,595)	) (21,992)
Net cash used in financing activities	(106,411)	) (177,510)
Change in cash	\$ (3,849)	) \$ 24,879
Cash – Beginning of period	69,561	86,386
Cash – End of period	\$ 65,712	\$ 111,265

See accompanying notes to consolidated financial statements.



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AIRGAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Airgas, Inc. and its subsidiaries (“Airgas” or the “Company”). Intercompany accounts and transactions are eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). These consolidated financial statements do not include all disclosures required for annual financial statements. These consolidated financial statements should be read in conjunction with the complete disclosures contained in the Company’s audited consolidated financial statements for the fiscal year ended March 31, 2014.

The preparation of financial statements in accordance with GAAP requires the use of estimates. The consolidated financial statements reflect, in the opinion of management, reasonable estimates and all adjustments necessary to present fairly the Company’s results of operations, financial position and cash flows for the periods presented. The interim operating results are not necessarily indicative of the results to be expected for the entire year.

(2) ACCOUNTING AND DISCLOSURE CHANGES

Recently Adopted Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board (“FASB”) issued new guidance clarifying the accounting for the release of cumulative translation adjustments (“CTA”) into net income upon the occurrence of certain sale or other derecognition transactions related to foreign entities. The new guidance describes the circumstances in which CTA should be released (either partially or fully) into net income based on the type of transaction related to a foreign entity. The Company adopted the new guidance effective April 1, 2014. The guidance did not have an impact on the Company’s financial position, results of operation or liquidity upon adoption; rather, the Company will prospectively apply the provisions of the new guidance to applicable transactions related to its foreign entities.

In July 2013, the FASB issued new guidance clarifying the financial statement presentation of unrecognized tax benefits. The new guidance specifies that an unrecognized tax benefit (or a portion thereof) shall be presented in the financial statements as a reduction to a deferred tax asset depending on the availability of certain deferred tax assets to settle the additional income taxes resulting from the disallowance of a tax position. If the deferred tax asset is not available or the entity does not plan to use the deferred tax asset for such purpose given the option, the unrecognized tax benefit shall be presented in the financial statements as a liability and shall not be combined with deferred tax assets. The Company adopted the new guidance effective April 1, 2014, with no material impact on the balance sheet presentation of its unrecognized tax benefits.

Accounting Pronouncements Not Yet Adopted

In April 2014, the FASB issued new guidance on the reporting of discontinued operations. The guidance amends existing standards by limiting the presentation of discontinued operations to disposals that represent a strategic shift with a major effect on an entity’s operations and financial results. In contrast, many disposals under current standards, which may be more routine in nature and not change an entity’s strategy, are reported in discontinued operations. The guidance also requires new disclosures around both disposals qualifying for discontinued operations as well as significant disposals that are not considered discontinued operations. The new guidance is effective for the Company on a prospective basis starting April 1, 2015, with early adoption permitted for disposals that have not been previously reported in the Company’s financial statements. The impact of the new guidance on the Company’s consolidated financial statements will depend on the occurrence of disposal transactions subject to the guidance, and will only be applicable to new disposals subsequent to adoption.

In May 2014, the FASB issued new guidance on the accounting for revenue from contracts with customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance will replace most existing GAAP revenue recognition guidance when it becomes effective. The new standard is effective for the Company on April 1, 2017, and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The

Company is evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

## (3) ACQUISITIONS

Acquisitions have been recorded using the acquisition method of accounting and accordingly, results of their operations have been included in the Company's consolidated financial statements since the effective date of each respective acquisition.

During the six months ended September 30, 2014, the Company acquired eight businesses with historical annual sales of approximately \$36 million, all of which were in the Distribution business segment. Transaction and other integration costs incurred during the six months ended September 30, 2014 were \$1 million and were included in selling, distribution and administrative expenses in the Company's consolidated statement of earnings. These acquisitions contributed approximately \$10 million in net sales during the six months ended September 30, 2014. The Company negotiated the respective purchase prices of the businesses based on the expected cash flows to be derived from their operations after integration into the Company's existing distribution, production and service networks. The acquisition purchase price for each business is allocated based on the fair values of the assets acquired and liabilities assumed, which are based on management estimates and third-party appraisals. Purchase price allocations for the businesses acquired during the six months ended September 30, 2014 are primarily based on provisional fair values and are subject to revision as the Company finalizes appraisals and other analyses. Final determination of the fair values may result in further adjustments to the values presented below. The following table summarizes the consideration paid and the estimated fair values of the assets acquired and liabilities assumed for fiscal 2015 acquisitions, as well as adjustments to finalize the valuations of certain prior year acquisitions. Valuation adjustments related to prior year acquisitions were not significant.

(In thousands)

## Consideration

Cash <sup>(a)</sup>	\$ 29,834
Airgas, Inc. common stock <sup>(b)</sup>	4,458
Fair value of total consideration transferred	\$ 34,292

## Recognized amounts of identifiable assets acquired and liabilities assumed

Current assets, net	\$ 7,751
Plant and equipment	8,943
Other intangible assets	9,411
Current liabilities	(7,333 )
Non-current liabilities	(4,423 )
Total identifiable net assets	14,349
Goodwill	19,943
	\$ 34,292

<sup>(a)</sup> Includes cash paid, net of cash acquired, for current year acquisitions as well as payments for the settlement of holdback liabilities and contingent consideration arrangements associated with prior year acquisitions.

Represents 41,060 shares of Airgas, Inc. common stock issued in connection with a single acquisition. The fair

<sup>(b)</sup> value of the shares issued as part of the consideration for the acquisition was determined based on the closing sales price of Airgas, Inc. common stock on the acquisition date.

The fair value of trade receivables acquired with fiscal 2015 acquisitions was \$5.2 million, with gross contractual amounts receivable of \$5.7 million. Goodwill associated with fiscal 2015 acquisitions was \$15.5 million, of which \$11.1 million is deductible for income tax purposes. Goodwill largely consists of expected synergies resulting from

the acquisitions, including increased distribution density and enhanced capabilities that will facilitate the sale of industrial, medical and specialty gases, and related supplies. Other intangible assets related to fiscal 2015 acquisitions represent customer relationships and non-competition agreements, and amounted to \$6.7 million and \$2.6 million, respectively. See Note 5 for further information on goodwill and other intangible assets.

Pro forma results of operations have not been presented for these acquisitions since the impact is not material to the Company's consolidated statements of earnings, either individually or in aggregate.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(UNAUDITED)

## (4) INVENTORIES, NET

Inventories, net, consist of:

(In thousands)	September 30, 2014	March 31, 2014
Hardgoods	\$ 321,179	\$ 313,127
Gases	166,599	165,022
	\$ 487,778	\$ 478,149

## (5) GOODWILL AND OTHER INTANGIBLE ASSETS

## Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The valuations of assets acquired and liabilities assumed from certain recent acquisitions are based on preliminary estimates of fair value and are subject to revision as the Company finalizes appraisals and other analyses. Changes in the carrying amount of goodwill by business segment for the six months ended September 30, 2014 were as follows:

(In thousands)	Distribution Business Segment	All Other Operations Business Segment	Total
Balance at March 31, 2014	\$ 1,092,728	\$ 197,168	\$ 1,289,896
Acquisitions <sup>(a)</sup>	19,943	—	19,943
Other adjustments, including foreign currency translation	(576)	(16)	(592)
Balance at September 30, 2014	\$ 1,112,095	\$ 197,152	\$ 1,309,247

<sup>(a)</sup> Includes acquisitions completed during the current year and adjustments made to prior year acquisitions.

## Other Intangible Assets

Other intangible assets by major class are as follows:

(In thousands)	September 30, 2014				March 31, 2014			
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	17	\$ 351,908	\$ (118,997)	\$ 232,911	17	\$ 345,199	\$ (107,577)	\$ 237,622
Non-competition agreements	6	42,380	(22,440)	19,940	7	40,316	(19,287)	21,029
Other		200	(24)	176		199	(14)	185
		\$ 394,488	\$ (141,461)	\$ 253,027		\$ 385,714	\$ (126,878)	\$ 258,836

Other intangible assets primarily consist of customer relationships, which are amortized over the estimated benefit periods ranging from seven to 25 years, and non-competition agreements, which are amortized over the terms of the agreements. The determination of the estimated benefit periods associated with customer relationships is based on an analysis of historical customer sales attrition information and other customer-related factors at the date of acquisition. There are no expected residual values related to these intangible assets. The Company evaluates the estimated benefit periods and recoverability of its other intangible assets when facts and circumstances indicate that the lives may not be

appropriate and/or the carrying values of the assets may not be recoverable. If the carrying value of an other intangible asset or asset group is not recoverable, impairment is measured as the amount by which the carrying value exceeds its estimated fair value.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

As the Company's other intangible assets amortize and reach the end of their respective amortization periods, the fully amortized balances are removed from the gross carrying and accumulated amortization amounts. Amortization expense related to the Company's other intangible assets for the six months ended September 30, 2014 and 2013 was \$15.0 million and \$13.9 million, respectively. Estimated future amortization expense for the Company's other intangible assets by fiscal year is as follows: remainder of fiscal 2015 - \$14.8 million; 2016 - \$28.4 million; 2017 - \$26.5 million; 2018 - \$24.8 million; 2019 - \$22.8 million; and \$135.7 million thereafter.

**(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities include:

(In thousands)	September 30, 2014	March 31, 2014
Accrued payroll and employee benefits	\$ 87,281	\$92,038
Business insurance reserves <sup>(a)</sup>	50,480	49,372
Income taxes	12,799	8,943
Taxes other than income taxes	27,622	25,183
Cash overdraft	64,650	68,245
Deferred rental revenue	33,142	34,557
Accrued interest	14,567	11,335
Other accrued expenses and current liabilities	57,868	56,003
	\$ 348,409	\$ 345,676

With respect to the business insurance reserves above, the Company had corresponding insurance receivables of \$11.6 million at September 30, 2014 and \$11.8 million at March 31, 2014, which are included within the "Prepaid <sup>(a)</sup> expenses and other current assets" line item on the Company's consolidated balance sheets. The insurance receivables represent the balance of probable claim losses in excess of the Company's deductible for which the Company is fully insured.

**(7) INDEBTEDNESS**

Total debt consists of:

(In thousands)	September 30, 2014	March 31, 2014
Short-term		
Money market loans	\$ —	\$ —
Commercial paper	433,174	387,866
Short-term debt	\$ 433,174	\$ 387,866
Long-term		
Trade receivables securitization	\$ 295,000	\$ 295,000
Revolving credit borrowings - U.S.	—	—
Revolving credit borrowings - Multi-currency	55,598	54,230
Revolving credit borrowings - France	7,390	8,056
Senior notes, net	1,648,417	1,748,774
Other long-term debt	743	1,036
Total long-term debt	2,007,148	2,107,096
Less current portion of long-term debt	(205 )	(400,322 )
Long-term debt, excluding current portion	\$ 2,006,943	\$ 1,706,774

Total debt \$ 2,440,322    \$2,494,962

In July 2014, the Company extended an agreement with a financial institution that provides access to short-term advances not to exceed \$35 million. The agreement now expires on July 31, 2015, and may be further extended subject to renewal provisions contained in the agreement. The advances are generally overnight or for up to seven days. The amount, term and interest rate of an advance are established through mutual agreement with the financial institution when the Company requests such an advance. At September 30, 2014, there were no advances outstanding under the agreement.

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AIRGAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(UNAUDITED)

The Company participates in a \$750 million Amended and Restated Credit Facility (the “Credit Facility”). As of September 30, 2014, the Company had \$56 million of borrowings under the Credit Facility, all of which were under the multi-currency revolver. There were no borrowings under the U.S. dollar revolver at September 30, 2014. The Company also had outstanding U.S. letters of credit of \$51 million issued under the Credit Facility. At September 30, 2014, the financial covenant of the Credit Facility did not restrict the Company’s ability to borrow on the unused portion of the Credit Facility, and the Company was in compliance with all covenants under all of its debt agreements. At September 30, 2014