

AIRGAS INC  
Form 10-Q  
August 08, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended: June 30, 2011

Commission file number: 1-9344

**AIRGAS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

56-0732648  
(I.R.S. Employer

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incorporation or organization)

Identification No.)

259 North Radnor-Chester Road, Suite 100

Radnor, PA  
(Address of principal executive offices)

19087-5283  
(ZIP code)

(610) 687-5253

(Registrant's telephone number, including area code)

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  (Do not check if a smaller reporting company) 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

Shares of common stock outstanding at August 2, 2011: 75,630,256 shares

**Table of Contents**

**AIRGAS, INC.**

**FORM 10-Q**

**June 30, 2011**

**INDEX**

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Consolidated Statements of Earnings for the Three Months Ended June 30, 2011 and 2010 (Unaudited)**

3

**Consolidated Balance Sheets as of June 30, 2011 (Unaudited) and March 31, 2011**

4

**Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2011 and 2010 (Unaudited)**

5

**Notes to Consolidated Financial Statements (Unaudited)**

6

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

26

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

41

**Item 4. Controls and Procedures**

42

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

44

**Item 1A. Risk Factors**

44

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

44

**Item 6. Exhibits**

45

**SIGNATURE**

46

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	<b>Three Months Ended</b>	
	<b>2011</b>	<b>June 30, 2010</b>
<b>(In thousands, except per share amounts)</b>		
<b>Net Sales</b>	\$ 1,164,300	\$ 1,052,656
<b>Costs and Expenses:</b>		
Cost of products sold (excluding depreciation)	530,780	475,102
Selling, distribution and administrative expenses	423,446	390,549
Restructuring (Note 17)	13,330	
Costs (benefit) related to unsolicited takeover attempt (Note 18)	(6,700)	3,787
Depreciation	60,267	54,265
Amortization	6,149	6,202
<b>Total costs and expenses</b>	<b>1,027,272</b>	<b>929,905</b>
<b>Operating Income</b>	<b>137,028</b>	<b>122,751</b>
Interest expense, net	(16,650)	(13,319)
Losses on the extinguishment of debt		(2,941)
Other income (expense), net	730	(610)
Earnings before income taxes	121,108	105,881
Income taxes	(46,263)	(41,082)
<b>Net Earnings</b>	<b>\$ 74,845</b>	<b>\$ 64,799</b>
<b>Net Earnings Per Common Share:</b>		
Basic earnings per share	\$ 0.96	\$ 0.78
Diluted earnings per share	\$ 0.93	\$ 0.76
<b>Weighted Average Shares Outstanding:</b>		
Basic	78,346	83,457
Diluted	80,097	85,281

See accompanying notes to consolidated financial statements.



**Table of Contents**

**AIRGAS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	
	June 30, 2011	March 31, 2011
<b>(In thousands, except per share amounts)</b>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 60,535	\$ 57,218
Trade receivables, less allowances for doubtful accounts of \$27,742 and \$23,655 at June 30, 2011 and March 31, 2011, respectively	590,130	550,262
Inventories, net	380,303	362,502
Deferred income tax asset, net	52,058	50,132
Prepaid expenses and other current assets	81,870	100,531
<b>Total current assets</b>	<b>1,164,896</b>	<b>1,120,645</b>
Plant and equipment at cost	4,061,369	3,949,974
Less accumulated depreciation	(1,540,060)	(1,494,216)
Plant and equipment, net	2,521,309	2,455,758
Goodwill	1,137,451	1,117,336
Other intangible assets, net	210,095	197,168
Other non-current assets	50,597	44,974
<b>Total assets</b>	<b>\$ 5,084,348</b>	<b>\$ 4,935,881</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable, trade	\$ 162,645	\$ 163,091
Accrued expenses and other current liabilities	357,584	391,544
Current portion of long-term debt	10,188	9,868
<b>Total current liabilities</b>	<b>530,417</b>	<b>564,503</b>
Long-term debt, excluding current portion	2,221,902	1,842,994
Deferred income tax liability, net	735,381	722,954
Other non-current liabilities	82,025	70,548
Commitments and contingencies		
<b>Stockholders Equity</b>		
Preferred stock, 20,030 shares authorized, no shares issued or outstanding at June 30, 2011 and March 31, 2011		
Common stock, par value \$0.01 per share, 200,000 shares authorized, 86,658 and 86,591 shares issued at June 30, 2011 and March 31, 2011, respectively	867	866
Capital in excess of par value	616,064	607,593
Retained earnings	1,551,303	1,498,728
Accumulated other comprehensive income	8,516	7,580

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Treasury stock, 11,135 and 6,995 shares at cost at June 30, 2011 and March 31, 2011, respectively	(662,127)	(379,885)
<b>Total stockholders equity</b>	<b>1,514,623</b>	<b>1,734,882</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,084,348</b>	<b>\$ 4,935,881</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****AIRGAS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

<b>(In thousands)</b>	<b>Three Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$ 74,845	\$ 64,799
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	60,267	54,265
Amortization	6,149	6,202
Deferred income taxes	9,791	5,500
Loss (gain) on sales of plant and equipment	(172)	636
Stock-based compensation expense	11,577	10,269
Losses on the extinguishment of debt		2,941
Changes in assets and liabilities, excluding effects of business acquisitions:		
Securitization of trade receivables		(295,000)
Trade receivables, net	(32,660)	(22,768)
Inventories, net	(14,820)	(10,671)
Prepaid expenses and other current assets	19,733	15,990
Accounts payable, trade	(2,062)	(6,509)
Accrued expenses and other current liabilities	(32,793)	43,519
Other non-current assets	1,484	1,293
Other non-current liabilities	8,966	(670)
Net cash provided by (used in) operating activities	110,305	(130,204)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(78,451)	(61,121)
Proceeds from sales of plant and equipment	6,676	3,338
Business acquisitions and holdback settlements	(93,159)	(2,474)
Other, net	(1,445)	66
Net cash used in investing activities	(166,379)	(60,191)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	823,515	406,739
Repayment of debt	(448,630)	(202,688)
Financing costs	(1,751)	(854)
Premium paid on redemption of senior subordinated notes		(2,650)
Purchase of treasury stock	(300,000)	
Proceeds from the exercise of stock options	8,624	5,232
Stock issued for the Employee Stock Purchase Plan	3,527	3,580
Tax benefit realized from the exercise of stock options	4,012	1,952
Dividends paid to stockholders	(22,270)	(18,372)
Change in cash overdraft	(7,636)	8,345
Net cash provided by financing activities	59,391	201,284



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Change in cash	\$	3,317	\$	10,889
Cash Beginning of period		57,218		47,001
Cash End of period	\$	60,535	\$	57,890

See accompanying notes to consolidated financial statements.

**Table of Contents**

**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 more complete disclosures contained in the Company s audited consolidated financial statements for the fiscal year ended March 31, 2011.

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**

**(a) *Recently adopted accounting pronouncements***

On April 1, 2011, the Company adopted prospectively Accounting Standards Update ( ASU ) No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force ( ASU 2009-13 )*, which addresses the allocation of revenue in arrangements containing multiple deliverables. Specifically, ASU 2009-13 modifies existing GAAP by providing new guidance concerning (1) the determination of whether an arrangement involving multiple deliverables contains more than one unit of accounting, and (2) the manner in which arrangement consideration should be allocated to such deliverables. The guidance requires the use of an entity s best estimate of the selling price of a deliverable if vendor specific objective evidence or third-party evidence of the selling price cannot be determined. Additionally, ASU 2009-13 eliminates the use of the residual method of allocating consideration when vendor specific objective evidence or third-party evidence of the selling price is known for some, but not all, of the delivered items in a multiple element arrangement. Finally, ASU 2009-13 requires expanded qualitative and quantitative disclosures in the financial statements.

The Company currently has contracts in place that contain multiple deliverables, principally product supply agreements for gases and container rental. These arrangements provide for the purchase of gas product and the rental of storage vessels under a single agreement. The Company treats the deliverables in these arrangements as separate units of accounting with selling prices derived from Company specific or third-party evidence, both of which are determined from the highly competitive markets within the specific localities of the Company s packaged gas distribution business. Revenue for gas product in these arrangements is recognized when the product is shipped, while revenue for container rental in these arrangements is recognized over the period in which the customer is utilizing the container.

The adoption of ASU 2009-13 did not have an effect on the Company s accounting for its multiple-deliverable revenue arrangements, nor is it expected to materially impact the Company s consolidated financial statements in the periods after the initial adoption.

On April 1, 2011, the Company adopted ASU No. 2010-28, *Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts a consensus of the FASB Emerging Issues Task Force ( ASU 2010-28 )*, which provides additional guidance on when Step 2 of the goodwill impairment test must be performed. The guidance clarifies that for reporting units with zero or negative carrying amounts, Step 2 must be performed if it is more likely than not that a goodwill impairment exists based on the evaluation of certain qualitative factors. The Company s consolidated financial statements were not impacted by the adoption of ASU 2010-28. Future goodwill impairment tests will follow the requirements of the new guidance.

On April 1, 2011, th