AIRGAS INC
Form 10-Q
February 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: December 31, 2011
Commission file number: 1-9344

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

Delaware (State or other jurisdiction of incorporation or organization)	56-0732648 (I.R.S. Employer 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 ý 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 ý 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	ý	Accelerated filer	¨
Non-accelerated filer	o (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 ý

Shares of common stock outstanding at February 6, 2012: 76,364,174 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	2010	2011	2010
(In thousands, except per share amounts)				
Net Sales	$1,153,751	$1,034,464	$3,505,134	$3,148,783
Costs and Expenses:				
Cost of products sold (excluding depreciation)	520,816	458,217	1,604,177	1,409,491
Selling, distribution and administrative expenses	433,050	387,962	1,279,933	1,175,125
Restructuring and other special charges (Notes 17 and 18)	2,431	—	18,261	—
Costs (benefits) related to unsolicited takeover attempt (Note 19)	(1,170)	17,558	(7,870)	26,032
Depreciation	61,575	56,131	182,224	166,610
Amortization	6,437	6,230	18,841	18,643
Total costs and expenses	1,023,139	926,098	3,095,566	2,795,901
Operating Income	130,612	108,366	409,568	352,882
Interest expense, net	(15,741)	(18,471)	(49,815)	(45,815)
Losses on the extinguishment of debt	—	—	—	(4,162)
Other income, net	1,375	1,036	1,524	1,278
Earnings before income taxes	116,246	90,931	361,277	304,183
Income taxes	(43,941)	(35,100)	(136,428)	(116,988)
Net Earnings	$72,305	$55,831	$224,849	$187,195
Net Earnings Per Common Share:				
Basic earnings per share	$0.95	$0.66	$2.93	$2.24
Diluted earnings per share	$0.93	$0.65	$2.87	$2.19
Weighted Average Shares Outstanding:				
Basic	75,940	84,057	76,632	83,739
Diluted	77,705	85,850	78,340	85,549

See accompanying notes to consolidated financial statements.

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AIRGAS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)	(Unaudited) December 31, 2011	March 31, 2011
ASSETS		
Current Assets		
Cash	$45,790	$57,218
Trade receivables, less allowances for doubtful accounts of $30,624 and $23,655 at December 31, 2011 and March 31, 2011, respectively	595,518	550,262
Inventories, net	393,363	362,502
Deferred income tax asset, net	53,954	50,132
Prepaid expenses and other current assets	114,026	100,531
Total current assets	1,202,651	1,120,645
Plant and equipment at cost	4,198,908	3,949,974
Less accumulated depreciation	(1,636,206)	(1,494,216)
Plant and equipment, net	2,562,702	2,455,758
Goodwill	1,141,160	1,117,336
Other intangible assets, net	199,578	197,168
Other non-current assets	52,549	44,974
Total assets	$5,158,640	$4,935,881
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current Liabilities		
Accounts payable, trade	$152,211	$163,091
Accrued expenses and other current liabilities	338,779	391,544
Short-term debt	406,861	—
Current portion of long-term debt	10,743	9,868
Total current liabilities	908,594	564,503
Long-term debt, excluding current portion	1,760,065	1,842,994
Deferred income tax liability, net	763,263	722,954
Other non-current liabilities	77,578	70,548
Commitments and contingencies		
Stockholders’ Equity		
Preferred stock, 20,030 shares authorized, no shares issued or outstanding at December 31, 2011 and March 31, 2011	—	—
Common stock, par value $0.01 per share, 200,000 shares authorized, 86,801 and 86,591 shares issued at December 31, 2011 and March 31, 2011, respectively	868	866
Capital in excess of par value	634,801	607,593
Retained earnings	1,641,745	1,498,728
Accumulated other comprehensive income	2,801	7,580
Treasury stock, 10,611 and 6,995 shares at cost at December 31, 2011 and March 31, 2011, respectively	(631,075)	(379,885)
Total stockholders’ equity	1,649,140	1,734,882
Total liabilities and stockholders’ equity	$5,158,640	$4,935,881

See accompanying notes to consolidated financial statements.

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

(In thousands)	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$224,849	$187,195
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	182,224	166,610
Amortization	18,841	18,643
Impairment	2,500	—
Deferred income taxes	37,750	45,198
(Gain) loss on sales of plant and equipment	(65)	890
Stock-based compensation expense	21,352	19,535
Losses on the extinguishment of debt	—	4,162
Changes in assets and liabilities, excluding effects of business acquisitions:		
Securitization of trade receivables	—	(295,000)
Trade receivables, net	(37,360)	(13,974)
Inventories, net	(27,059)	(24,978)
Prepaid expenses and other current assets	(10,908)	(4,238)
Accounts payable, trade	(9,801)	(39,161)
Accrued expenses and other current liabilities	(62,329)	28,289
Other non-current assets	2,059	1,385
Other non-current liabilities	(1,002)	(6,131)
Net cash provided by operating activities	341,051	88,425
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(263,398)	(180,522)
Proceeds from sales of plant and equipment	12,199	10,629
Business acquisitions and holdback settlements	(96,970)	(20,695)
Other, net	(1,473)	(1,072)
Net cash used in investing activities	(349,642)	(191,660)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term debt	406,701	—
Proceeds from borrowings of long-term debt	1,065,560	882,341
Repayment of long-term debt	(1,147,735)	(774,729)
Financing costs	(4,567)	(8,439)
Premium paid on redemption of senior subordinated notes	—	(3,175)
Purchase of treasury stock	(300,000)	—
Proceeds from the exercise of stock options	22,890	17,999
Stock issued for the Employee Stock Purchase Plan	11,361	11,015
Tax benefit realized from the exercise of stock options	10,914	6,373
Dividends paid to stockholders	(70,819)	(60,340)
Change in cash overdraft	2,858	20,204
Net cash (used in) provided by financing activities	(2,837)	91,249
Change in cash	$(11,428)	$(11,986)

Cash – Beginning of period	57,218	47,001
Cash – End of period	$45,790	$35,015

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, 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 and did not impact the Company's consolidated financial statements in the periods since 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.

On April 1, 2011, the Company adopted ASU No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations – a consensus of the FASB Emerging Issues Task

Force (“ASU 2010-29”), which provides clarification on disclosure requirements and amends current guidance to require entities to disclose pro forma revenue and earnings of the combined entity as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. Qualitative disclosures describing the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the business combinations included in the reported pro forma revenue and earnings are also required. Pro forma disclosures for acquisitions occurring on or after April 1, 2011 follow the new guidance – see Note 3 for disclosures related to the Company’s business combinations.

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AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(UNAUDITED)

In September 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment (“ASU 2011-08”), which simplifies the test for goodwill impairment. Under ASU 2011-08, entities are first permitted to perform a qualitative assessment about the likelihood of the carrying value of a reporting unit exceeding its fair value. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount based on the qualitative assessment, it is required to perform the currently prescribed two-step goodwill impairment test to identify the potential goodwill impairment and measure the amount of the goodwill impairment loss, if any, to be recognized for that reporting unit. However, if an entity concludes otherwise based on the qualitative assessment, the two-step goodwill impairment test is not required. The new guidance is effective for goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company early adopted ASU 2011-08 effective October 1, 2011, and performed its annual goodwill impairment test under the new guidance – see Note 5 for results.

(b) Accounting pronouncements not yet adopted

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (“ASU 2011-04”), which amends existing GAAP with respect to fair value measurements. The majority of the key provisions of ASU 2011-04 represent clarifications to existing fair value measurement guidance, including changes in the valuation premise and the application of premiums and discounts. However, new disclosures are required under ASU 2011-04, including more robust disclosures related to Level 3 fair value measurements, a broader scope related to the disclosure of transfers between Level 1 and Level 2 fair value measurements, and new disclosures around the fair value hierarchy related to assets and liabilities disclosed at fair value but not measured as such on the balance sheet. The new guidance is effective prospectively for interim and annual periods beginning after December 15, 2011, with early adoption prohibited. The Company adopted ASU 2011-04 on January 1, 2012, and the Company will modify its fair value measurement disclosures as applicable in light of the new requirements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”), which increases the prominence of items reported in other comprehensive income. Under ASU 2011-05, entities will be required to present all non-owner changes in stockholders’ equity in a single continuous statement of comprehensive income or in two separate but consecutive statements, thereby eliminating the option to present components of other comprehensive income as part of the statement of stockholders’ equity. Currently, components of the Company’s other comprehensive income consist of foreign currency translation adjustments and the net gain or loss on derivative instruments.

Subsequently, in December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (“ASU 2011-12”), which deferred certain provisions of ASU 2011-05. Under ASU 2011-12, the requirement within ASU 2011-05 to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements has been deferred pending further deliberation by the FASB. The new guidance within ASU 2011-05 and ASU 2011-12 is effective for fiscal years beginning after December 15, 2011, with early adoption permitted and full retrospective application required. The Company is currently evaluating the two alternative presentations of other comprehensive income; however, adoption of the new guidance will not impact the Company’s consolidated financial results.

In September 2011, the FASB issued ASU No. 2011-09, Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer’s Participation in a Multiemployer Plan (“ASU 2011-09”). ASU 2011-09 requires more robust disclosures surrounding entities’ participation in multiemployer pension plans (“MEPPs”). The Company historically participated in several MEPPs providing defined benefits to union employees under the terms of collective bargaining agreements (“CBAs”), but successfully negotiated the withdrawal from the last MEPP in which it participated in November 2011. The new guidance is effective for fiscal years ending after December 15, 2011 and is required to be applied retrospectively for all prior periods presented in the financial statements. The

Company will adopt ASU 2011-09 for its fiscal year ending March 31, 2012 and will modify its MEPP disclosures as appropriate.

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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 nine months ended December 31, 2011, the Company purchased six businesses. The largest of these businesses were ABCO Gases, Welding and Industrial Supply Company, Inc. ("ABCO") and Pain Enterprises, Inc. ("Pain"). ABCO was a New England-based industrial gas and welding supply distributor with 12 locations throughout Connecticut, New Hampshire, Massachusetts and Rhode Island with historical annual sales of approximately $35 million. Pain, a producer and distributor of dry ice and liquid carbon dioxide with 20 locations throughout the Midwestern United States, generated historical annual sales of approximately $33 million. For the nine months ended December 31, 2011, a total of $97 million in cash was paid for the six businesses, the settlement of holdback liabilities and the settlement of a contingent consideration arrangement associated with a prior year acquisition. Transaction and other integration costs incurred during the nine months ended December 31, 2011 were approximately $1.7 million. The businesses acquired during the nine months ended December 31, 2011 had aggregate historical annual sales of approximately $73 million. These acquisitions contributed approximately $43 million in net sales for the nine months ended December 31, 2011. The Company acquired these businesses in order to expand its geographic coverage and strengthen its national network of branch-store locations, and to expand its dry ice and liquid carbon dioxide production and distribution.

Purchase Price Allocation

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 network and production locations. The acquisition purchase price is allocated based on the fair values of the assets acquired and liabilities assumed, which are based on third-party appraisals and management estimates. Fiscal 2012 purchase price allocations are substantially complete, except for cylinders and intangibles related to the ABCO acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed related to fiscal 2012 acquisitions, as well as adjustments to finalize the valuations of certain prior year acquisitions. Valuation adjustments related to prior year acquisitions were not significant and appraisals for prior year acquisitions are complete. The final determination of the fair values of assets acquired and liabilities assumed may result in further adjustments to the values presented below.

(In thousands)	Distribution Business Segment	All Other Operations Business Segment	Total
Current assets, net	$10,193	$4,942	$15,135
Plant and equipment	29,139	17,983	47,122
Goodwill	17,734	10,092	27,826
Other intangible assets	15,936	5,130	21,066
Current liabilities	(8,683)	(1,026)	(9,709)
Non-current liabilities	(1,183)	(3,287)	(4,470)
Total cash consideration	$63,136	$33,834	$96,970

The fair value of trade receivables acquired in the fiscal 2012 acquisitions was $7.9 million, with gross contractual amounts receivable of $8.6 million. Goodwill associated with fiscal 2012 acquisitions was $27.8 million and is deductible for income tax purposes. Goodwill largely consists of expected synergies resulting from the acquisitions, including the expansion of geographical coverage that will facilitate the sale of industrial, medical, and specialty gases and related supplies. Intangible assets related to fiscal 2012 acquisitions represent customer relationships and non-competition agreements and amounted to $17.4 million and $3.5 million, respectively. See Note 5 for further information on goodwill and intangible assets.

In connection with acquisitions completed prior to the April 1, 2009 adoption of the revised guidance on business combinations, the Company is a party to contingent consideration agreements that provide for additional purchase price to be paid to the sellers if the future earnings of the acquired businesses exceed predetermined amounts. Amounts payable under these contingent payment agreements continue through fiscal 2019 and are limited to $7.5 million. Such amounts, if paid, will be capitalized as additional costs of the acquisitions.

AIRGAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(UNAUDITED)

Pro Forma Operating Results
The following table provides unaudited pro forma results of operations for the nine-month periods ended December 31, 2011 and 2010, as if fiscal 2012 acquisitions had occurred on April 1, 2010. The pro forma results were prepared from financial information obtained from the sellers of the businesses, as well as information obtained during the due diligence process associated with the acquisitions. The unaudited pro forma results reflect certain adjustments related to the acquisitions, such as increased depreciation and amortization expense resulting from the stepped-up basis to fair value of assets acquired and adjustments to reflect the Company's borrowing and tax rates. The pro forma operating results do not include any anticipated synergies related to combining the businesses. Accordingly, such pro forma operating results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of April 1, 2010 or of results that may occur in the future.

	Nine Months Ended December 31,	
(In thousands, except per share amounts)	2011	2010
Net sales	$3,515,803	$3,194,155
Net earnings	225,014	186,797
Diluted earnings per share	$2.87	$2.18

(4) INVENTORIES, NET
Inventories, net, consist of:

(In thousands)	December 31, 2011	March 31, 2011
Hardgoods	$292,644	$246,607
Gases	100,719	115,895
	$393,363	$362,502

Hardgoods inventories determined using the last-in, first-out ("LIFO") inventory method totaled $36 million at December 31, 2011 and $32 million at March 31, 2011. The balance of the hardgoods inventories is valued using the first-in, first-out ("FIFO") and average-cost inventory methods. If the hardgoods inventories valued under the LIFO method had been valued using the FIFO method, the carrying value of hardgoods inventory would have been $12.0 million higher at December 31, 2011 and $11.1 million higher at March 31, 2011. Substantially all of the inventories are finished goods.

(5) GOODWILL AND OTHER INTANGIBLE ASSETS
Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. 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 for the nine months ended December 31, 2011 were as follows:

(In thousands)	Distribution Business Segment	All Other Operations Business Segment	Total
Balance at March 31, 2011	$930,718	$186,618	$1,117,336
Acquisitions [(a)]	17,734	10,092	27,826

Other adjustments, including foreign currency translation	(3,935)	(67)	(4,002)
Balance at December 31, 2011	$944,517	$196,643	$1,141,160

[(a)] Includes current acquisitions and adjustments made to prior year acquisitions.

Other intangible assets amounted to approximately $200 million and $197 million, net of accumulated amortization of $90 million and $75 million at December 31, 2011 and March 31, 2011, respectively. These intangible assets primarily consist of customer relationships, which are amortized over the estimated benefit periods which range from 7 to 17 years, and non-competition agreements, which are amortized over the term of the agreements. The determination of the estimated benefit period 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 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 is not recoverable, impairment is measured as the amount by which the carrying value exceeds its estimated fair value. Fair value is generally estimated based on either appraised value or other valuation techniques. Estimated future amortization expense by fiscal year is as follows: remainder of fiscal 2012 - $5.9 million; 2013 - $23.6 million; 2014 - $21.2 million; 2015 - $19.6 million; 2016 - $18.2 million; and $111.1 million thereafter.

Test for Goodwill Impairment

The Company is required to perform an assessment of the carrying value of goodwill associated with each of its reporting units at least annually and whenever events or circumstances indicate that it is more likely than not that goodwill may be impaired. The Company elected to perform its annual assessment of the carrying value of goodwill as of October 31 of each year. The annual assessment of the carrying value of goodwill at October 31, 2011 indicated that the Company's goodwill was not impaired.

As of October 31, 2011, the Company had 18 reporting units in the Distribution business segment and six reporting units in the All Other Operations business segment. In performing the annual goodwill impairment test, the Company bypassed the option to perform a qualitative assessment and proceeded directly to performing the first step of the two-step goodwill impairment test for all of its reporting units. The Company determined the estimated fair value of each of its reporting units as of October 31, 2011 using a discounted cash flow model and compared those values to the carrying value of each of the respective reporting units. Significant assumptions used in the cash flow model include revenue growth rates and profit margins based on specific reporting unit business plans, future capital expenditures, working capital needs, discount rates and perpetual growth rates. The discount rates used to estimate the fair value of the individual reporting units exceeded the Company's weighted average cost of capital as a whole, as the discount rate used to estimate each reporting unit's fair value assigns a higher risk premium to smaller entities. At October 31, 2011, the discount rates used in the model were 10.0% for the Distribution business segment reporting units and slightly higher rates for the smaller reporting units in the All Other Operations business segment. The perpetual growth rate assumed in the discounted cash flow model was in line with the long-term growth rate as measured by the U.S. Gross Domestic Product and the industry's long-term rate of growth. In addition to Company specific growth targets, general economic conditions, the long-term economic outlook for the U.S. economy, and market conditions affecting borrowing costs and returns on equity all influence the estimated fair value of each of the Company's reporting units.

The Company's annual assessment of the carrying value of goodwill indicated that the fair values of most reporting units exceeded their respective carrying values by a substantial amount. Furthermore, a hypothetical 10.0% reduction in the fair value of each reporting unit would not indicate that goodwill associated with any reporting unit was potentially impaired. For one reporting unit in the All Other Operations business segment, the excess of the estimated fair value over its carrying value declined from the prior year's goodwill impairment assessment. The Company will continue to monitor this business and consider interim analyses of goodwill as appropriate; however, the amount of goodwill associated with this reporting unit is not material to the Company's consolidated financial statements.

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities include:

(In thousands)	December 31, 2011	March 31, 2011
Accrued payroll and employee benefits	$92,998	$121,691
Business insurance reserves [(a)]	49,221	45,438
Taxes other than income taxes	19,129	21,218
Cash overdraft	67,459	64,601
Deferred rental revenue	27,935	26,401
Accrued costs related to unsolicited takeover attempt (Note 19)	998	43,452
Other accrued expenses and current liabilities	81,039	68,743
	$338,779	$391,544

(a) With respect to the business insurance reserves above, the Company had corresponding insurance receivables of $12.2 million at both December 31, 2011 and March 31, 2011, which are included within the "Prepaid 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 self-insured retention for which the Company is fully insured.

(7) INDEBTEDNESS

Total debt consists of:

(In thousands)	December 31, 2011	March 31, 2011
Short-term		
Commercial paper	$406,861	$—
Long-term		
Revolving credit borrowings - U.S.	$—	$331,000
Revolving credit borrowings - Multi-currency	41,344	43,103
Revolving credit borrowings - France	6,155	4,106
Trade receivables securitization	295,000	295,000
Senior notes, net	1,205,694	954,343
Senior subordinated notes	215,446	215,446
Other long-term debt	7,169	9,864
Total long-term debt	1,770,808	1,852,862
Less current portion of long-term debt	(10,743)	(9,868)
Long-term debt, excluding current portion	$1,760,065	$1,842,994
Total debt	$2,177,669	$1,852,862

Commercial Paper

In October 2011, the Company commenced a $750 million commercial paper program supported by its $750 million revolving credit facility (see below). This program allows the Company to obtain favorable short-term borrowing rates with maturities that may vary, but will generally not exceed 90 days from the date of issue. The Company has used proceeds from the commercial paper program to pay down amounts outstanding under its revolving credit facility and for general corporate purposes. At December 31, 2011, $407 million was outstanding under the commercial paper program and the average effective interest rate on these borrowings was 0.55%.

Senior Credit Facility

On July 19, 2011, the Company entered into a $750 million Amended and Restated Credit Facility (the "Credit Facility") to amend and restate the prior credit facility dated September 13, 2010. The Credit Facility consists of a $650 million U.S. dollar revolving credit line and a $100 million (U.S. dollar equivalent) multi-currency revolving credit line. The maturity date of the Credit Facility is July 19, 2016. Under circumstances described in the Credit Facility, the revolving credit line may be increased by an additional $325 million, provided that the multi-currency revolving credit line may not be increased by more than an additional $50 million.

As of December 31, 2011, the Company had $41 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 December 31, 2011. The Company also had outstanding U.S. letters of credit of $45 million issued under the Credit Facility. U.S. dollar revolver borrowings bear interest at the London Interbank Offered Rate ("LIBOR") plus 125 basis points. The multi-currency revolver bears interest based on a rate of 125 basis points over the Euro currency rate applicable to each foreign currency borrowing. As of December 31, 2011, the average effective interest rate on the multi-currency revolver was 2.15%.

At December 31, 2011, the financial covenant of the Credit Facility did not restrict the Company's ability to borrow on the unused portion of the Credit Facility. The Credit Facility contains customary events of default, including, without limitation, failure to make payments, a cross-default to certain other debt, breaches of covenants, breaches of representations and warranties, certain monetary judgments and bankruptcy and ERISA events. In the event of default, repayment of borrowings under the Credit Facility may be accelerated. As of December 31, 2011, $257 million remained available under the Company's Credit Facility, after giving effect to the borrowings under the commercial paper program backstopped by the Credit Facility, the outstanding U.S. letters of credit and the borrowings under the multi-currency revolver.

The Company also maintains a committed revolving line of credit of up to €8.0 million (U.S. $10.4 million) to fund its operations in France. These revolving credit borrowings are outside of the Company's Credit Facility. At December 31, 2011, these revolving credit borrowings were €4.8 million (U.S. $6.2 million). The variable interest rates on the French revolving credit borrowings are based on the Euro currency rate plus 125 basis points. As of December 31, 2011, the effective interest rate on the French revolving credit borrowings was 2.38%. This line of credit matures on December 31, 2012.

Money Market Loans

The Company has an agreement with a financial institution that provides access to short-term advances not to exceed $35 million. The agreement expires on April 1, 2012, but may be 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 December 31, 2011, there were no advances outstanding under the agreement.

The Company also has an agreement with another financial institution to provide access to additional short-term advances not to exceed $35 million. The agreement expires on January 2, 2013, but may be extended subject to renewal provisions contained in the agreement. The advances may be for one to six months with rates at a fixed spread over the corresponding LIBOR. At December 31, 2011, there were no advances outstanding under the agreement.

Senior Notes

On June 3, 2011, the Company issued $250 million of 2.95% senior notes maturing on June 15, 2016 (the "2016 Notes"). The 2016 Notes were issued at a discount with a yield of 2.98%. The net proceeds from the sale of the 2016 Notes were used to fund acquisitions and repurchase shares under the Company's stock repurchase program. Interest on the 2016 Notes is payable semi-annually on June 15 and December 15 of each year.

At December 31, 2011, the Company had $300 million outstanding of 2.85% senior notes maturing on October 1, 2013 (the "2013 Notes"). The 2013 Notes were issued at a discount with a yield of 2.871%. Interest on the 2013 Notes is

payable semi-annually on April 1 and October 1 of each year.
At December 31, 2011, the Company had $400 million outstanding of 4.5% senior notes maturing on September 15, 2014 (the “2014 Notes”). The 2014 Notes were issued at a discount with a yield of 4.527%. Interest on the 2014 Notes is payable semi-annually on March 15 and September 15 of each year.
At December 31, 2011, the Company had $250 million outstanding of 3.25% senior notes maturing on October 1, 2015

(the “2015 Notes”). The 2015 Notes were issued at a discount with a yield of 3.283%. Interest on the 2015 Notes is payable semi-annually on April 1 and October 1 of each year.

The 2013, 2014, 2015 and 2016 Notes (collectively, the “Senior Notes”) contain covenants that could restrict the incurrence of liens and limit sale and leaseback transactions. Additionally, the Company has the option to redeem the Senior Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued but unpaid interest and applicable make-whole payments.

Senior Subordinated Notes

At December 31, 2011, the Company had $215 million outstanding of 7.125% senior subordinated notes maturing on October 1, 2018 (the “2018 Notes”). Interest on the 2018 Notes is payable semi-annually on April 1 and October 1 of each year. The 2018 Notes have a redemption provision, which permits the Company, at its option, to call the 2018 Notes at scheduled dates and prices. The first scheduled optional redemption date is October 1, 2013 at a price of 103.563% of the principal amount.

Other Long-term Debt

The Company’s other long-term debt primarily consists of vendor financing of rental welders, capitalized lease obligations and notes issued to sellers of businesses acquired, which are repayable in periodic installments. At December 31, 2011, other long-term debt totaled $7.2 million with an average interest rate of approximately 6% and an average maturity of approximately one year.

Trade Receivables Securitization

The Company participates in a securitization agreement with three commercial banks to which it sells qualifying trade receivables on a revolving basis (the “Securitization Agreement”). The Company’s sale of qualified trade receivables is accounted for as a secured borrowing under which qualified trade receivables collateralize amounts borrowed from the commercial banks. Trade receivables that collateralize the Securitization Agreement are held in a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes and represents the Company’s only variable interest entity. Qualified trade receivables in the amount of the outstanding borrowing under the Securitization Agreement are not available to the general creditors of the Company. The maximum amount of the Securitization Agreement is $295 million and it bears interest at approximately LIBOR plus 70 basis points. At December 31, 2011, the amount of outstanding borrowing under the Securitization Agreement was $295 million, and it was classified as long-term debt on the Consolidated Balance Sheet. Amounts borrowed under the Securitization Agreement could fluctuate monthly based on the Company’s funding requirements and the level of qualified trade receivables available to collateralize the Securitization Agreement. The Securitization Agreement expires in December 2013 and contains customary events of termination, including standard cross-default provisions with respect to outstanding debt.

Debt Extinguishment Charges

During the nine months ended December 31, 2010, the Company repurchased $30 million of its 2018 Notes at an average price of 110.6% of the principal. Losses on the early extinguishment of debt from the repurchase of the 2018 Notes were $3.6 million for the nine months ended December 31, 2010 and related to the redemption premiums and write-off of unamortized debt issuance costs.

Also during the nine months ended December 31, 2010, the Company entered into a new credit facility. In connection with the entry by the Company into the credit facility on September 13, 2010, the Company’s then existing senior credit facility was terminated and all obligations under the prior credit facility (including the term loans) were repaid in full using proceeds of the credit facility and other funds. As a result of the termination of the prior credit facility, the Company recorded a loss on the early extinguishment of debt of $0.6 million during the nine months ended December 31, 2010 related to the write-off of unamortized debt issuance costs.

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Aggregate Long-term Debt Maturities
The aggregate maturities of long-term debt at December 31, 2011 are as follows:

(In thousands)	Debt Maturities [(a)]
December 31, 2012	$10,743
March 31, 2013	724
March 31, 2014	596,100
March 31, 2015	400,472
March 31, 2016	250,178
Thereafter	506,897
	$1,765,114

(a) Outstanding borrowings under the Securitization Agreement at December 31, 2011 are reflected as maturing at the agreement's expiration in December 2013.

The Senior Notes are reflected in the debt maturity schedule at their maturity values rather than their carrying values, which are net of aggregate discounts of $1.0 million at December 31, 2011. The 2013 Notes also include additional carrying value of $6.7 million at December 31, 2011 related to the Company's fair value hedges — see Note 8 for additional disclosure.

(8) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES
The Company manages its exposure to changes in market interest rates. The Company's involvement with derivative instruments is limited to highly effective interest rate swap agreements used to manage well-defined interest rate risk exposures and treasury rate lock agreements used to fix the interest rate related to forecasted debt issuances. The Company monitors its positions and credit ratings of its counterparties and does not anticipate non-performance by the counterparties. Interest rate swap and treasury rate lock agreements are not entered into for trading purposes. The Company recognizes derivative instruments as either assets or liabilities at fair value on the Consolidated Balance Sheets. At December 31, 2011, the Company was party to a total of five interest rate swap agreements with an aggregate notional amount of $300 million.
Cash Flow Hedges
The Company previously designated fixed interest rate swap agreements as cash flow hedges of interest payments on certain of the Company's variable-rate debt instruments. For derivative instruments designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income ("AOCI") and is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative instruments representing hedge ineffectiveness are recognized in current earnings.
For the nine months ended December 31, 2010, the fair value of the liability for the fixed interest rate swap agreements decreased and the Company recorded a corresponding adjustment to AOCI of $4.0 million, or $2.7 million after tax. The amount of gain or loss recorded in current earnings as a result of hedge ineffectiveness related to the designated cash flow hedges was immaterial for the nine months ended December 31, 2010.
At December 31, 2011 and 2010, the Company was not party to any fixed interest rate swap agreements.
In anticipation of the issuance of the 2015 Notes, the Company entered into a treasury rate lock agreement in July 2010 with a notional amount of $100 million that matured in September 2010. The treasury rate lock agreement was designated as a cash flow hedge of the semi-annual interest payments associated with the forecasted issuance of the 2015 Notes. When the treasury rate lock agreement matured, the Company realized a loss of $2.6 million ($1.6 million after tax) which was reported as a component within AOCI and will be reclassified into earnings over the term

of the 2015 Notes. For the nine months ended December 31, 2011, $388 thousand of the loss on the treasury rate lock was reclassified to interest expense. At December 31, 2011, the estimated loss recorded in AOCI on the treasury rate lock agreement that is expected to be reclassified into earnings within the next twelve months is $518 thousand ($326 thousand after tax).

Fair Value Hedges

The Company also has variable interest rate swap agreements, which are designated as fair value hedges. For derivative instruments designated as fair value hedges, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings.

At December 31, 2011, the Company had five variable interest rate swaps outstanding with a notional amount of $300 million. These variable interest rates swaps effectively convert the Company's $300 million of fixed rate 2013 Notes to variable rate debt. At December 31, 2011, these swap agreements required the Company to make variable interest payments based on a weighted average forward rate of 1.49% and receive fixed interest payments from the counterparties based on a fixed rate of 2.85%. The maturity of these fair value swaps coincides with the maturity date of the Company's 2013 Notes in October 2013. During the nine months ended December 31, 2011, the fair value of the variable interest rate swaps increased by $2.0 million to an asset of $7.0 million and was recorded in other non-current assets. The corresponding increase in the carrying value of the 2013 Notes caused by the hedged risk was $1.5 million and was recorded in long-term debt. The Company records the gain or loss on the hedged item (i.e., the 2013 Notes) and the gain or loss on the variable interest rate swaps in interest expense. The net gain or loss recorded in earnings as a result of hedge ineffectiveness related to the designated fair value hedges was immaterial for the nine months ended December 31, 2011 and 2010.

Tabular Disclosure

The following tables reflect the fair values of derivative instruments on the Company's Consolidated Balance Sheets as well as the effect of derivative instruments on the Company's earnings and stockholders' equity.

Fair Value of Derivatives Designated as Hedging Instruments

(In thousands)	December 31, 2011 Balance Sheet Location	Fair Value	March 31, 2011 Balance Sheet Location	Fair Value
Interest rate swaps:				
Variable interest rate swaps	Other non-current assets	$7,037	Other non-current assets	$5,086

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Effect of Derivative Instruments on Earnings and Stockholders' Equity

(In thousands)	Amount of Gain Recognized in OCI on Derivatives	
	Nine Months Ended December 31,	
Derivatives in Cash Flow Hedging Relationships	2011	2010
Interest rate contracts	$ 388	$ 1,504
Tax effect	(144)	(396)
Net effect	$ 244	$ 1,108

(In thousands)	Amount of Loss Reclassified from AOCI into Pre-tax Income	
	Nine Months Ended December 31,	
Location of Loss Reclassified from AOCI into Pre-tax Income for Derivatives in Cash Flow Hedging Relationships	2011	2010
Interest expense, net	$ 388	$ 4,113

(In thousands)	Location of Gain (Loss) Recognized in Pre-tax Income	Amount of Gain (Loss) Recognized in Pre-tax Income	
		Nine Months Ended December 31,	
Derivatives in Fair Value Hedging Relationships		2011	2010
Change in fair value of variable interest rate swaps	Interest expense, net	$1,951	$7,074
Change in carrying value of 2013 Notes	Interest expense, net	(1,485)	(7,120)
Net effect	Interest expense, net	$466	$(46)

(9) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are classified based upon the level of judgment associated with the inputs used to measure their fair value. The hierarchical levels related to the subjectivity of the valuation inputs are defined as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable, directly or indirectly through corroboration with observable market data at the measurement date.
- Level 3 inputs are unobservable inputs that reflect management's best estimate of the assumptions (including assumptions about risk) that market participants would use in pricing the asset or liability at the measurement date.

The carrying value of cash, trade receivables, other current receivables, trade payables and other current liabilities (e.g., deposit liabilities, cash overdrafts, etc.) approximates fair value.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis at December 31, 2011 and March 31, 2011 are categorized in the tables below based on the lowest level of significant input to the valuation.

(In thousands)	Balance at December 31, 2011	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Deferred compensation plan assets	$10,537	$10,537	$—	$—
Derivative assets - variable interest rate swap agreements	7,037	—	7,037	—
Total assets measured at fair value on a recurring basis	$17,574	$10,537	$7,037	$—
Liabilities:				
Deferred compensation plan liabilities	$10,537	$10,537	$—	$—
Contingent consideration liability	2,450	—	—	2,450
Total liabilities measured at fair value on a recurring basis	$12,987	$10,537	$—	$ 2,450

(In thousands)	Balance at March 31, 2011	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets:				
Deferred compensation plan assets	$9,160	$9,160	$—	$—
Derivative assets - variable interest rate swap agreements	5,086	—	5,086	—
Total assets measured at fair value on a recurring basis	$14,246	$9,160	$5,086	$—
Liabilities:				
Deferred compensation plan liabilities	$9,160	$9,160	$—	$—
Total liabilities measured at fair value on a recurring basis	$9,160	$9,160	$—	$—

The following is a general description of the valuation methodologies used for financial assets and liabilities measured at fair value:

Deferred compensation plan assets and corresponding liabilities — The Company’s deferred compensation plan assets consist of open-ended mutual funds (Level 1) and are included within other non-current assets on the Consolidated Balance Sheets. The Company’s deferred compensation plan liabilities are equal to the plan’s assets and are included within other non-current liabilities on the Consolidated Balance Sheets. Gains or losses on the deferred compensation plan assets are recognized as other income (expense), net, while gains or losses on the deferred compensation plan liabilities are recognized as compensation expense in the Consolidated Statement of Earnings.

Derivative assets — interest rate swap agreements — The Company’s variable interest rate swap agreements are with highly rated counterparties, are designated as fair value hedges and effectively convert the Company’s fixed rate 2013 Notes to variable rate debt. The swap agreements are valued using an income approach that relies on observable market inputs such as interest rate yield curves and treasury spreads (Level 2). Expected future cash flows are converted to a present value amount based upon market expectations of the changes in these interest rate yield curves. The fair values of the Company’s interest rate swap agreements are included within other non-current assets on the Consolidated Balance Sheets. See Note 8 for additional derivatives disclosures.

Contingent consideration liability — As part of the consideration for an acquisition, the Company has an arrangement in place whereby future consideration in the form of cash may be transferred to the seller contingent upon the achievement of certain earnings targets. The fair value of the contingent consideration arrangement was estimated using the income approach with inputs that are not observable in the market. Key assumptions include a discount rate commensurate with the level of risk of achievement, time horizon and other risk factors, and probability adjusted earnings growth, all of which the Company believes are appropriate and representative of market participant assumptions. The liability for the contingent consideration arrangement is included within accrued expenses and other current liabilities on the Consolidated Balance Sheets. There was no effect on the Company's earnings as a result of the contingent consideration arrangement for the three months ended December 31, 2011.

Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the nine months ended December 31, 2011 were as follows (in thousands):

Balance at March 31, 2011	$—
Contingent consideration liability recorded	2,450
Balance at December 31, 2011	$2,450

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition. During the nine months ended December 31, 2011, the Company performed an evaluation of the recoverability of the fixed assets related to one of its liquid carbon dioxide plants. This evaluation was based upon the receipt of notice that a supplier's hydrogen plant, which generates carbon dioxide as a by-product that serves as the feedstock for the Company's co-located liquid carbon dioxide plant, will cease operations in calendar year 2013. See Note 18 for additional details.

As a result of the analysis, the Company remeasured the assets of the plant and recognized an impairment charge of $2.5 million which was reflected in the "Restructuring and other special charges" line item of the Company's Consolidated Statement of Earnings. The remeasured plant assets totaled $8.8 million and were included within plant and equipment on the Company's Consolidated Balance Sheets. The Company used an income approach to estimate the fair value of the plant assets based on significant unobservable inputs (Level 3). Factors such as expected future revenues and margins, the likelihood of asset redeployment and the length of the remaining operating term were considered in determining the future cash flows of the plant assets. The asset group will not be remeasured at fair value on a recurring basis; however, it is still subject to fair value measurements to test for recoverability of the carrying amount should future conditions warrant an evaluation.

Fair Value of Debt

The carrying value of debt, which is reported on the Company's Consolidated Balance Sheets, generally reflects the cash proceeds received upon its issuance, net of subsequent repayments, plus the impact of the Company's fair value hedges. The fair value of the Company's variable interest rate revolving credit borrowings disclosed in the table below was estimated based on observable forward yield curves and unobservable credit spreads management believes a market participant would assume for these facilities under market conditions as of the balance sheet date. The fair values of the fixed rate notes disclosed below were determined based on quoted prices from the broker/dealer market, observable market inputs for similarly termed treasury notes adjusted for the Company's credit spread and unobservable inputs management believes a market participant would use in determining imputed interest for obligations without a stated interest rate. The fair value of the securitized receivables approximates its carrying value.

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