

AIRGAS INC  
 Form 10-Q  
 February 05, 2016  
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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: December 31, 2015  
 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

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The number of shares of common stock outstanding as of February 3, 2016 was 72,428,483.

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FORM 10-Q

December 31, 2015

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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		Nine Months Ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Net Sales	\$1,295,414	\$1,331,820	\$4,019,693	\$4,003,162
Costs and Expenses:				
Cost of products sold (excluding depreciation)	553,582	588,933	1,751,921	1,772,873
Selling, distribution and administrative expenses	506,143	496,409	1,535,298	1,491,497
Merger costs	21,393	—	21,393	—
Depreciation	79,940	75,556	237,266	221,351
Amortization	8,769	8,036	25,505	23,693
Total costs and expenses	1,169,827	1,168,934	3,571,383	3,509,414
Operating Income	125,587	162,886	448,310	493,748
Interest expense, net	(15,142)	(13,673)	(44,440)	(48,374)
Other income (expense), net	4,316	(238)	5,853	1,712
Earnings before income taxes	114,761	148,975	409,723	447,086
Income taxes	(40,897)	(55,776)	(149,590)	(166,723)
Net Earnings	\$73,864	\$93,199	\$260,133	\$280,363
Net Earnings per Common Share:				
Basic earnings per share	\$1.02	\$1.25	\$3.53	\$3.76
Diluted earnings per share	\$1.01	\$1.23	\$3.49	\$3.70
Weighted Average Shares Outstanding:				
Basic	72,127	74,767	73,732	74,534
Diluted	73,112	75,954	74,603	75,721
Dividends Declared per Common Share	\$0.60	\$0.55	\$1.80	\$1.65

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 December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Net earnings	\$73,864	\$93,199	\$260,133	\$280,363
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments	(2,640	) (5,692	) (5,873	) (8,508
Reclassification of hedging loss included in net earnings	—	129	259	388
Other comprehensive income (loss), before tax	(2,640	) (5,563	) (5,614	) (8,120
Net tax expense of other comprehensive income items	—	(48	) (96	) (144
Other comprehensive income (loss), net of tax	(2,640	) (5,611	) (5,710	) (8,264
Comprehensive income	\$71,224	\$87,588	\$254,423	\$272,099
See accompanying notes to consolidated financial statements.				

Table of ContentsAIRGAS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)	(Unaudited) December 31, 2015	March 31, 2015
<b>ASSETS</b>		
Current Assets		
Cash	\$46,877	\$50,724
Trade receivables, less allowances for doubtful accounts of \$29,901 and \$27,016 at December 31, 2015 and March 31, 2015, respectively	671,507	708,227
Inventories, net	485,230	474,070
Deferred income tax asset, net	65,180	58,072
Prepaid expenses and other current assets	165,653	124,591
Total current assets	1,434,447	1,415,684
Plant and equipment at cost	5,605,541	5,305,059
Less accumulated depreciation	(2,526,649)	(2,353,293)
Plant and equipment, net	3,078,892	2,951,766
Goodwill	1,362,610	1,313,644
Other intangible assets, net	256,251	244,519
Other non-current assets	48,674	47,997
Total assets	\$6,180,874	\$5,973,610
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable, trade	\$159,887	\$206,187
Accrued expenses and other current liabilities	369,787	346,879
Short-term debt	498,551	325,871
Current portion of long-term debt	250,125	250,110
Total current liabilities	1,278,350	1,129,047
Long-term debt, excluding current portion	1,953,450	1,748,662
Deferred income tax liability, net	880,761	854,574
Other non-current liabilities	92,843	89,741
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, 20,030 shares authorized, no shares issued or outstanding at December 31, 2015 and March 31, 2015	—	—
Common stock, par value \$0.01 per share, 200,000 shares authorized, 87,724 and 87,554 shares issued at December 31, 2015 and March 31, 2015, respectively	877	876
Capital in excess of par value	899,480	853,800
Retained earnings	2,348,954	2,231,026
Accumulated other comprehensive income (loss)	(20,563)	(14,853)
Treasury stock, 15,447 and 12,197 shares at cost at December 31, 2015 and March 31, 2015, respectively	(1,253,278)	(919,263)
Total stockholders' equity	1,975,470	2,151,586
Total liabilities and stockholders' equity	\$6,180,874	\$5,973,610
See accompanying notes to consolidated financial statements.		





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

	Nine Months Ended December 31,	
(In thousands)	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	\$260,133	\$280,363
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	237,266	221,351
Amortization	25,505	23,693
Deferred income taxes	18,910	14,332
Gain on sales of plant and equipment	(2,965)	(1,654)
Stock-based compensation expense	24,303	25,618
Changes in assets and liabilities, excluding effects of business acquisitions:		
Trade receivables, net	42,641	14,337
Inventories, net	(6,832)	(20,974)
Prepaid expenses and other current assets	(40,277)	(58,230)
Accounts payable, trade	(48,701)	5,195
Accrued expenses and other current liabilities	8,628	17,972
Other, net	(6,087)	(7,319)
Net cash provided by operating activities	512,524	514,684
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(366,751)	(338,905)
Proceeds from sales of plant and equipment	19,675	16,992
Business acquisitions and holdback settlements	(100,329)	(45,165)
Other, net	1,780	316
Net cash used in investing activities	(445,625)	(366,762)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in short-term debt	171,637	27,966
Proceeds from borrowings of long-term debt	471,870	312,941
Repayment of long-term debt	(264,138)	(406,345)
Financing costs	(3,311)	(5,236)
Purchase of treasury stock	(374,706)	—
Proceeds from the exercise of stock options	30,593	41,565
Stock issued for the Employee Stock Purchase Plan	14,293	13,304
Excess tax benefit realized from the exercise of stock options	7,085	10,487
Dividends paid to stockholders	(131,841)	(123,080)
Change in cash overdraft and other	7,772	(15,497)
Net cash used in financing activities	(70,746)	(143,895)
Change in cash	\$(3,847)	\$4,027
Cash – Beginning of period	50,724	69,561
Cash – End of period	\$46,877	\$73,588
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, 2015.

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) MERGER AGREEMENT

On November 17, 2015, the Company announced that it had entered into a definitive agreement for the acquisition of the Company by L’ Air Liquide, S.A. (“Air Liquide”) in a merger pursuant to an Agreement and Plan of Merger, dated as of November 17, 2015, by and among the Company, Air Liquide and AL Acquisition Corporation (“Merger Sub”), an indirect wholly owned subsidiary of Air Liquide (the “Merger Agreement”). The Merger Agreement provides that, among other things and subject to the terms and conditions thereof, Merger Sub will be merged with and into the Company (the “Merger”) with the Company continuing as the surviving corporation in the Merger. As consideration for the Merger, each outstanding share of common stock of the Company, par value \$0.01 (the “Common Stock”), will automatically be converted into the right to receive \$143 in cash at the effective time of the Merger (the “Effective Time”), excluding treasury stock owned by the Company or shares owned by Air Liquide or any of its subsidiaries, which will be canceled.

The closing of the Merger is subject to customary closing conditions, including the adoption of the Merger Agreement by the affirmative vote of the holders of at least a majority of all outstanding shares of Common Stock and the receipt of necessary antitrust and other regulatory approvals. The special meeting of Airgas stockholders to adopt the Merger Agreement will be held on February 23, 2016.

In connection with the Merger, the Company has incurred \$21.4 million of merger-related costs during the three months ended December 31, 2015, primarily consisting of legal, advisory and other professional fees in connection with the Merger. These costs are included in the “Merger costs” line item of the Company’s consolidated statement of earnings.

(3) ACCOUNTING AND DISCLOSURE CHANGES

Recently Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance on the reporting of discontinued operations. The new guidance limits 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 previous standards, which may have been more routine in nature and not changed an entity’s strategy, were reported in discontinued operations. The new guidance also requires disclosures around both disposals qualifying for discontinued operations as well as significant disposals that are not considered discontinued operations. The Company adopted the new guidance effective April 1, 2015. The guidance did not have an impact on the Company’s consolidated financial statements and related disclosures upon adoption.

In July 2015, the FASB issued new guidance that changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. The amendments in this guidance do not apply to inventory that is measured using last-in, first-out (“LIFO”) or the retail inventory method; rather, the amendments apply to all

other inventory, which includes inventory that is measured using first-in, first-out (“FIFO”) or average cost. Within the scope of this new guidance, an entity should measure inventory at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation, which is consistent with existing GAAP. The Company early adopted the new guidance effective July 1, 2015. The guidance did not have a material impact on the Company’s consolidated financial statements and related disclosures upon adoption.

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AIRGAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(UNAUDITED)

In September 2015, the FASB issued new guidance simplifying the accounting for measurement-period adjustments with respect to business combinations. The amendments in this guidance eliminate the requirement for an acquirer to retrospectively account for adjustments that occur to provisional amounts recognized at the acquisition date during the measurement period following an acquisition. The new guidance requires that an acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amounts are determined, with disclosure of the amounts recognized in the current period that would have been recognized in prior reporting periods based on the date of the acquisition. The Company early adopted the new guidance effective September 30, 2015. The guidance did not have a material impact on the Company's consolidated financial statements and related disclosures upon adoption.

**Accounting Pronouncements Not Yet Adopted**

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. In August 2015, the FASB deferred the effective date of the new guidance by one year to December 15, 2017 for annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. With the deferral, the new standard is effective for the Company for annual and interim reporting periods beginning on April 1, 2018, with early adoption permitted one year prior. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the transition method alternatives and the effect that the new guidance will have on its consolidated financial statements and related disclosures.

In February 2015, the FASB issued new guidance changing the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The new guidance is effective for the Company on April 1, 2016, with early adoption permitted, including early adoption in an interim period. The new guidance may be applied using either a modified retrospective approach or on a full retrospective basis. The Company does not expect this adoption to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued new guidance simplifying the financial statement presentation of debt issuance costs. The new guidance specifies that debt issuance costs related to a recognized term debt obligation shall be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The existing recognition and measurement guidance for debt issuance costs is not affected by the new guidance. In August 2015, the FASB issued a clarification that debt issuance costs related to line-of-credit arrangements can continue to be reflected as deferred assets in the balance sheet consistent with existing GAAP, or can be presented net of the associated debt obligations. The new guidance is effective for the Company on April 1, 2016, with early adoption permitted, for financial statements that have not been previously issued. The new guidance must be applied on a retrospective basis. The Company does not expect this adoption to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued new guidance on customer's accounting for fees paid in a cloud computing arrangement. The amendments to existing GAAP provide guidance to customers about whether a cloud computing arrangement includes a software license. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should

account for the arrangement as a service contract. The new guidance is effective for the Company on April 1, 2016, with early adoption permitted. The new guidance may be applied either prospectively to all arrangements entered into or materially modified after the effective date, or on a retrospective basis. The Company does not expect this adoption to have a material impact on its consolidated financial statements.

In November 2015, the FASB issued new guidance simplifying the balance sheet classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the new guidance. The new guidance is effective for the Company on April 1, 2017, with early adoption permitted as of the beginning of an interim or annual reporting period. The new guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is evaluating the impact that the new guidance will have on its consolidated financial statements and related disclosures.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

In January 2016, the FASB issued new guidance related to the recognition and measurement of financial assets and liabilities. The new guidance makes targeted improvements to GAAP impacting equity investments (other than those accounted for under the equity method or consolidated), financial liabilities accounted for under the fair value election, and presentation and disclosure requirements for financial instruments, among other changes. The new guidance is effective for the Company on April 1, 2018, with early adoption prohibited other than for certain provisions. The Company is evaluating the impact that the new guidance will have on its consolidated financial statements and related disclosures.

**(4) ACQUISITIONS**

## Current Year Acquisitions

Acquisitions are recorded using the acquisition method of accounting and accordingly, results of their operations are included in the Company's consolidated financial statements from the effective date of each respective acquisition. The Company negotiates the respective purchase prices of acquired 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. Management estimates the fair values of acquired intangible assets other than goodwill using the income approach (i.e. discounted cash flows), and plant and equipment using either the cost or market approach, depending on the type of fixed asset.

During the nine months ended December 31, 2015, the Company acquired 17 businesses with aggregate historical annual sales of approximately \$84 million. Transaction and other integration costs incurred during the nine months ended December 31, 2015 were \$2.2 million and were included in selling, distribution and administrative expenses in the Company's consolidated statement of earnings. These acquisitions contributed approximately \$32 million in net sales during the nine months ended December 31, 2015.

Purchase price allocations for certain businesses most recently acquired during the nine months ended December 31, 2015 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 transferred and the estimated fair values of the assets acquired and liabilities assumed for fiscal 2016 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)	Distribution Business Segment	All Other Operations Business Segment	Total
Consideration			
Cash <sup>(a)</sup>	\$56,642	\$44,014	\$100,656
Recognized amounts of identifiable assets acquired and liabilities assumed			
Current assets, net	\$8,231	\$2,228	\$10,459
Plant and equipment	11,621	13,246	24,867
Other intangible assets	23,777	12,769	36,546
Current liabilities	(6,732)	) (4,247	) (10,979
Non-current liabilities	(3,856)	) (3,997	) (7,853
Total identifiable net assets	33,041	19,999	53,040

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Goodwill	23,601	24,015	47,616
	\$56,642	\$44,014	\$100,656

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(a) 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.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

The fair value of trade receivables acquired with fiscal 2016 acquisitions was \$6.0 million, with gross contractual amounts receivable of \$6.8 million. Goodwill associated with fiscal 2016 acquisitions was \$47.4 million, of which \$43.2 million is deductible for income tax purposes. Goodwill largely consists of expected synergies resulting from the acquisitions. These synergies include increased distribution density that will facilitate the sale of industrial, medical and specialty gases, and related supplies, the addition of businesses that offer products and services complementary to the Company's existing portfolio, and enhanced geographical coverage abroad to strengthen the Company's welder and generator rental business. Other intangible assets related to fiscal 2016 acquisitions represent customer relationships and non-competition agreements, and amounted to \$29.0 million and \$7.5 million, respectively. See Note 6 for further information on goodwill and other intangible assets.

The following table provides unaudited pro forma results of operations for the nine months ended December 31, 2015 and 2014, as if fiscal 2016 acquisitions had occurred on April 1, 2014. The pro forma results were prepared from financial information obtained from the sellers of the businesses and as part of 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, 2014 or of results that may occur in the future.

(In thousands, except per share amounts)	Nine Months Ended	
	December 31,	
	2015	2014
Net sales	\$4,040,816	\$4,064,999
Net earnings	260,987	284,046
Diluted earnings per share	\$3.50	\$3.75

## Prior Year Acquisitions

During the nine months ended December 31, 2014, the Company acquired 13 businesses. A total of approximately \$49 million in consideration was transferred for the 13 businesses, the settlement of holdback liabilities and the settlement of a contingent consideration arrangement associated with a prior year acquisition. Of the consideration transferred, \$45 million was paid in net cash and \$4 million represented shares of Airgas, Inc. common stock issued as part of the consideration for a single acquisition. Transaction and other integration costs incurred during the nine months ended December 31, 2014 were \$1.4 million. The acquired businesses had aggregate historical annual sales of approximately \$48 million. These acquisitions contributed approximately \$19 million in net sales for the nine months ended December 31, 2014. The Company acquired these businesses in order to increase its distribution density and enhance its capabilities to facilitate the sale of industrial, medical and specialty gases, and related supplies.

## (5) INVENTORIES, NET

Inventories, net, consist of:

(In thousands)	December 31,	March 31,
	2015	2015
Hardgoods	\$318,432	\$311,453
Gases	166,798	162,617
	\$485,230	\$474,070



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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

## (6) 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 nine months ended December 31, 2015 were as follows:

(In thousands)	Distribution Business Segment	All Other Operations Business Segment	Total
Balance at March 31, 2015	\$ 1,116,569	\$ 197,075	\$ 1,313,644
Acquisitions <sup>(a)</sup>	23,601	24,015	47,616
Other adjustments, including foreign currency translation	1,436	(86	) 1,350
Balance at December 31, 2015	\$ 1,141,606	\$ 221,004	\$ 1,362,610

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

## Annual Test for Goodwill Impairment

The Company is required to test goodwill associated with each of its reporting units for impairment at least annually and whenever events or circumstances indicate that it is more likely than not that goodwill may be impaired. The Company performs its annual goodwill impairment test as of October 31 of each year. At October 31, 2015, the Company had 21 reporting units in the Distribution business segment and 6 reporting units in the All Other Operations business segment, each of which constitutes an operating segment for purposes of the Company's segment reporting. GAAP provides that prior to performing the traditional two-step goodwill impairment test, the Company is permitted to first perform a qualitative assessment about the likelihood of the carrying value of a reporting unit exceeding its fair value, referred to as the "Step 0" assessment. The Step 0 assessment requires the evaluation of certain events and circumstances such as macroeconomic conditions, industry and market considerations, cost factors and overall financial performance, as well as company and reporting unit-specific items. After performing the Step 0 assessment, should the Company determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it is required to perform the 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 the Company concludes otherwise based on the Step 0 assessment, the two-step goodwill impairment test is not required. The Step 0 assessment can be applied to none, some or all of the Company's reporting units in any period, and the Company may also bypass the Step 0 assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test for the given reporting unit. For the October 31, 2015 goodwill impairment test, the Company bypassed the option to perform the Step 0 assessment for all of its reporting units as a periodic refresh of its reporting units' fair values from the application of the qualitative Step 0 assessment in prior years. The determination to proceed to the first step of the two-step goodwill impairment test at October 31, 2015 was based on an evaluation of relevant events and circumstances, including the length of time since the Company's most recent calculation of the fair value of its reporting units. The fair values of the Company's reporting units evaluated using the qualitative Step 0 assessment in the prior year were all substantially in excess of their respective carrying amounts in the Company's prior Step 1 analysis.



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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

The Company determined the estimated fair value of each of its reporting units as of October 31, 2015 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 sales growth rates and profit margins based on specific reporting unit business plan, future capital expenditures, working capital needs, and discount and perpetual growth rates. The discount rates used to estimate the fair value of the individual reporting unit exceeded the Company's weighted average cost of capital as a whole, as the discount rate used for this purpose assigns a higher risk premium to the smaller individual reporting units. 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 and reporting unit-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 methodology used for valuing its reporting units for the purpose of its goodwill impairment test is consistent with prior valuations. The Company's annual goodwill impairment test at October 31, 2015 indicated that the fair values of all of its reporting units substantially exceeded their respective carrying amounts.

## Other Intangible Assets

Other intangible assets by major class are as follows:

(In thousands)	December 31, 2015				March 31, 2015			
	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	\$371,533	\$(135,775)	\$235,758	17	\$345,805	\$(120,321)	\$225,484
Non-competition agreements	6	48,702	(28,362)	20,340	6	43,204	(24,335)	18,869
Other		200	(47)	153		200	(34)	166
		\$420,435	\$(164,184)	\$256,251		\$389,209	\$(144,690)	\$244,519

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 nine months ended December 31, 2015 and 2014 was \$24.3 million and \$22.6 million, respectively. Estimated future amortization expense for the Company's other intangible assets by fiscal year is as follows: remainder of fiscal 2016 - \$8.3 million; 2017 - \$31.7 million; 2018 - \$29.5 million; 2019 - \$27.4 million; 2020 - \$25.8 million; and \$133.5 million thereafter.

## (7) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities include:

(In thousands)	December 31, 2015	March 31, 2015
Accrued payroll and employee benefits	\$88,893	\$98,547
Business insurance reserves <sup>(a)</sup>	50,360	49,934
Taxes other than income taxes	18,654	22,863
Cash overdraft	79,636	71,537
Deferred rental revenue	32,156	34,538
Accrued interest	15,704	12,860

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Other accrued expenses and current liabilities	84,384	56,600
	\$369,787	\$346,879

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(a) With respect to the business insurance reserves above, the Company had corresponding insurance receivables of \$11.0 million at December 31, 2015 and \$11.6 million at March 31, 2015, 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 deductible for which the Company is fully insured.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

## (8) INDEBTEDNESS

Total debt consists of:

(In thousands)	December 31, 2015	March 31, 2015
Short-term		
Money market loans	\$—	\$—
Commercial paper	498,551	325,871
Short-term debt	\$498,551	\$325,871
Long-term		
Trade receivables securitization	\$330,000	\$295,000
Revolving credit borrowings - U.S.	—	—
Revolving credit borrowings - Multi-currency	69,232	48,332
Revolving credit borrowings - France	5,808	6,277
Senior notes, net	1,798,166	1,648,608
Other long-term debt	369	555
Total long-term debt	2,203,575	1,998,772
Less current portion of long-term debt	(250,125 )	(250,110 )
Long-term debt, excluding current portion	\$1,953,450	\$1,748,662
Total debt	\$2,702,126	\$2,324,643

## Money Market Loans

The Company has an agreement with a financial institution to provide access to short-term advances not to exceed \$35 million that was extended in December 2015 and now expires on December 27, 2016. The agreement may be further 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 London Interbank Offering Rate (“LIBOR”). At December 31, 2015, there were no advances outstanding under the agreement.

The Company also has an agreement with another financial institution that provides access to additional short-term advances not to exceed \$35 million that expires on July 31, 2016. The agreement 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 December 31, 2015, there were no advances outstanding under the agreement.

## Trade Receivables Securitization

On July 24, 2015, the Company entered into the Sixth Amendment and Joinder (the “Sixth Amendment”) to the Third Amended and Restated Receivables Purchase Agreement (the “Securitization Agreement”), which increased the maximum amount of borrowings available under the Securitization Agreement from \$295 million to \$330 million. The Sixth Amendment also increased the number of participating banks from three to four.

On December 4, 2015, the Company entered into the Seventh Amendment to the Securitization Agreement which extended the expiration date of the Securitization Agreement from December 5, 2017 to December 5, 2018. There were no other material changes to the Securitization Agreement as a result of the Seventh Amendment.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

## Senior Credit Facility

The Company participates in a \$1 billion Second Amended and Restated Credit Agreement (the “Credit Facility”). As of December 31, 2015, the Company had \$69 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, 2015. The Company also had outstanding U.S. letters of credit of \$51 million issued under the Credit Facility. At December 31, 2015, 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 December 31, 2015, \$381 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.

## Senior Notes

On August 11, 2015, the Company issued \$400 million of 3.05% senior notes maturing on August 1, 2020 (the “2020 Notes”). The 2020 Notes were issued at a discount with a yield of 3.092%. The net proceeds from the sale of the 2020 Notes were used for general corporate purposes, including to fund acquisitions, to repay indebtedness and to repurchase shares pursuant to the Company’s stock repurchase program. Interest on the 2020 Notes is payable semi-annually on February 1 and August 1 of each year, commencing on February 1, 2016. The 2020 Notes contain covenants that restrict the incurrence of liens and limit sale and leaseback transactions. The Company has the option to redeem the 2020 Notes prior to their maturity, in whole or in part, either at 100% of the principal amount of the notes plus any accrued but unpaid interest or at the applicable make-whole premium.

At December 31, 2015, the Company’s \$250 million 2.95% senior notes maturing on June 15, 2016 were included in the “Current portion of long-term debt” line item on the Company’s consolidated balance sheet. On September 14, 2015, the Company redeemed in full its \$250 million 3.25% senior notes originally due to mature on October 1, 2015 (the “2015 Notes”) at 100% of the principal amount of the notes plus accrued interest.

## Aggregate Long-term Debt Maturities

The aggregate maturities of long-term debt at December 31, 2015 are as follows:

(In thousands)	Debt Maturities <sup>(a)</sup>
Remainder of fiscal 2016	\$38
March 31, 2017	250,221
March 31, 2018	325,105
March 31, 2019	330,004
March 31, 2020	350,040
Thereafter	950,000
	\$2,205,408

Outstanding borrowings under the Securitization Agreement at December 31, 2015 are reflected as maturing at the (a) agreement’s expiration in December 2018. Outstanding borrowings under the Credit Facility at December 31, 2015 are reflected as maturing at the agreement’s expiration in November 2019.

The Company’s 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 \$1.8 million at December 31, 2015.

## (9) FAIR VALUE MEASUREMENTS

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 directly or indirectly observable through corroboration with observable market data at the measurement date.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

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 values of cash, trade receivables, other current receivables, trade payables and other current liabilities (e.g., deposit liabilities, cash overdrafts, etc.) approximate fair value based on the short-term maturity of these financial instruments.

**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, 2015 and March 31, 2015 are categorized in the tables below based on the lowest level of significant input to the valuation. During the periods presented, there were no transfers between fair value hierarchical levels.

(In thousands)	Balance at December 31, 2015	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Assets:</b>				
Deferred compensation plan assets	\$ 17,097	\$ 17,097	\$ —	\$ —

**Liabilities:**

(In thousands)	Balance at March 31, 2015	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Assets:</b>				
Deferred compensation plan assets	\$ 16,288	\$ 16,288	\$ —	\$ —

**Liabilities:**

Deferred compensation plan liabilities	\$ 16,288	\$ 16,288	\$ —	\$ —
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The following is a general description of the valuation methodologies used for 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, net, while gains or losses on the deferred compensation plan liabilities are recognized as compensation expense in the consolidated statements of earnings.

**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. The fair values of the fixed rate notes disclosed in the following table 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 inputs management believes a market participant would use in determining imputed interest for obligations without a stated interest rate (Level 2). The fair values of the revolving credit borrowings, securitized receivables and commercial paper approximate their carrying values (see Note 8).

(In thousands)	Carrying Value at December 31, 2015	Fair Value at December 31, 2015	Carrying Value at March 31, 2015	Fair Value at March 31, 2015
3.25% senior notes due 2015	\$ —	\$ —	\$ 249,962	\$ 252,520

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2.95% senior notes due 2016	249,971	251,360	249,918	254,953
1.65% senior notes due 2018	324,769	322,468	324,688	323,921
2.375% senior notes due 2020	274,823	271,906	274,791	274,821
3.05% senior notes due 2020	399,290	403,500	—	—
2.90% senior notes due 2022	249,808	242,433	249,787	249,028
3.65% senior notes due 2024	299,505	297,450	299,462	310,500

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

## (10) STOCKHOLDERS' EQUITY

Changes in stockholders' equity were as follows:

(In thousands of shares)			Shares of Common Stock, \$0.01 Par Value			Shares of Treasury Stock
Balance at March 31, 2015			87,554			(12,197 )
Common stock issuance <sup>(a)</sup>			170			
Reissuance of treasury stock for stock option exercises						514
Purchase of treasury stock <sup>(b)</sup>						(3,764 )
Balance at December 31, 2015			87,724			(15,447 )
(In thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at March 31, 2015	\$ 876	\$853,800	\$2,231,026	\$ (14,853 )	\$ (919,263 )	\$2,151,586
Net earnings			260,133			260,133
Other comprehensive income (loss), net of tax				(5,710 )		(5,710 )
Common stock issuances and reissuances of treasury stock - employee benefit plans <sup>(c)</sup>	1	14,292	(10,364 )		40,691	44,620
Purchase of treasury stock <sup>(b)</sup>					(374,706 )	(374,706 )
Excess tax benefit from stock option exercises		7,085				7,085
Dividends paid on common stock (\$1.80 per share)			(131,841 )			(131,841 )
Stock-based compensation <sup>(d)</sup>		24,303				24,303
Balance at December 31, 2015	\$ 877	\$899,480	\$2,348,954	\$ (20,563 )	\$ (1,253,278)	\$1,975,470

<sup>(a)</sup> Issuance of common stock for purchases through the Amended and Restated 2003 Employee Stock Purchase Plan ("Employee Stock Purchase Plan" or "ESPP").

<sup>(b)</sup> Refer to "Stock Repurchase Program" section below for details.

<sup>(c)</sup> Issuance of common stock for purchases through the Employee Stock Purchase Plan and reissuance of treasury stock for stock option exercises.

<sup>(d)</sup> The Company recognized compensation expense with a corresponding amount recorded to capital in excess of par value.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

The following table presents the gross and net changes in the balances within each component of accumulated other comprehensive income (“AOCI”) for the nine months ended December 31, 2015:

(In thousands)	Foreign Currency Translation Adjustments	Treasury Rate Lock Agreement	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 31, 2015	\$(14,690	) \$(163	) \$ (14,853
Other comprehensive income (loss) before reclassifications	(5,873	) —	(5,873
Amounts reclassified from AOCI <sup>(e)</sup>	—	259	259
Tax effect of other comprehensive income items	—	(96	) (96
Other comprehensive income (loss), net of tax	(5,873	) 163	(5,710
Balance at December 31, 2015	\$(20,563	) \$—	\$ (20,563

The reclassifications out of AOCI were associated with a loss on a treasury rate lock agreement from July 2010 related to the issuance of the Company’s 2015 Notes, which was being reclassified into earnings (interest expense) <sup>(e)</sup> over the term of the 2015 Notes until their redemption in September 2015. The effects on the respective line items of the consolidated statements of earnings impacted by the reclassifications were not material for the nine months ended December 31, 2015 and 2014.

**Stockholder Rights Plan**

On November 17, 2015, the Company entered into an amendment (the “Rights Amendment”) to the stockholder rights plan (the “Rights Plan”) originally dated as of May 8, 2007. The Rights Amendment modifies the existing terms of the Rights Plan by lowering the beneficial ownership threshold for triggering the Rights Plan from 15% of Airgas’ common stock to 10%. Any party that beneficially owns 10% or more of the Company’s common stock at the time of the public announcement of the Rights Amendment will not trigger the Rights Plan unless that party increases its beneficial ownership in the Company’s common stock or exercises any options, rights, warrants, etc. for shares of the Company’s common stock. Additionally, the Rights Amendment modifies and amends the Rights Plan to provide that the Merger Agreement and any agreements or transactions associated with the foregoing will not result in a stock acquisition date (as defined therein), a distribution date (as defined therein) or any other separation of rights from the underlying common stock. There were no other significant changes to the Company’s Rights Plan as a result of the Rights Amendment.

**Stock Repurchase Program**

On May 28, 2015, the Company announced plans to purchase up to \$500 million of Airgas, Inc. common stock under a stock repurchase program approved by the Company’s Board of Directors. Airgas may repurchase shares from time to time for cash in open market transactions or in privately-negotiated transactions in accordance with applicable federal securities laws. The Company will determine the timing and the amount of any repurchases based on its evaluation of market conditions, share price, and other factors. The stock repurchase program has no pre-established closing date. However, stock repurchases are currently suspended in accordance with the Merger Agreement (see Note 2).

From the announcement date of the program through December 31, 2015, the Company repurchased 3.8 million shares on the open market at an average price of \$99.54, but did not repurchase any shares during the quarter ended December 31, 2015. At December 31, 2015, \$125 million was available for additional share repurchases under the program.

**(11) STOCK-BASED COMPENSATION**

The Company recognizes stock-based compensation expense for its Second Amended and Restated 2006 Equity Incentive Plan (“Equity Incentive Plan”) and Employee Stock Purchase Plan. The following table summarizes stock-based compensation expense recognized by the Company for the three and nine months ended December 31, 2015 and 2014:

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(UNAUDITED)

(In thousands)	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Stock-based compensation expense related to:				
Equity Incentive Plan <sup>(a)</sup>	\$3,525	\$3,718	\$21,010	\$22,452
Employee Stock Purchase Plan - options to purchase stock	1,206	1,067	3,293	3,166
	4,731	4,785	24,303	25,618
Tax benefit	(1,454	) (1,588	) (8,404	) (9,138
Stock-based compensation expense, net of tax	\$3,277	\$3,197	\$15,899	\$16,480

Stock-based compensation expense related to stock options granted under the Company's Equity Incentive Plan is <sup>(a)</sup> highest during the Company's fiscal first quarter ended June 30<sup>th</sup> relative to other quarters during the year. This is primarily due to a retirement-eligible vesting provision under the plan and the timing of the majority of the Company's stock option awards each year during its fiscal first quarter.

Equity Incentive PlanFair Value

The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock options. The weighted-average grant date fair value of stock options granted during the nine months ended December 31, 2015 and 2014 was \$19.87 and \$28.72, respectively.

Summary of Stock Option Activity

The following table summarizes the stock option activity during the nine months ended December 31, 2015:

(In thousands, except per share amounts)	Number of Stock Options	Weighted-Average Exercise Price
Outstanding at March 31, 2015	4,974	\$79.76
Granted	1,020	\$103.57
Exercised	(534	) \$60.52
Forfeited	(89	) \$101.77
Outstanding at December 31, 2015	5,371	\$85.83
Vested or expected to vest at December 31, 2015	5,351	\$85.77
Exercisable at December 31, 2015	3,211	\$74.43

A total of 2.3 million shares of common stock were available for grant under the Equity Incentive Plan as of December 31, 2015. As of December 31, 2015, \$38.0 million of unrecognized non-cash compensation expense related to non-vested stock options is expected to be recognized over a weighted-average vesting period of 1.7 years.

Under the terms of the Merger Agreement (see Note 2), all of the stock options outstanding upon the closing of the Merger under the Equity Incentive Plan, whether vested or unvested, would be canceled in consideration for the right of each stock option holder to receive a cash payment equal to the number of stock options held multiplied by the excess of the Merger consideration of \$143 per share over the exercise price per share of the Company's common stock subject to the stock options.

Employee Stock Purchase Plan

The ESPP encourages and assists employees in acquiring an equity interest in the Company. As of December 31, 2015, the ESPP had 1.0 million shares of Company common stock available for issuance.





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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## (UNAUDITED)

## Fair Value

Compensation expense is measured based on the fair value of the employees' option to purchase shares of common stock at the grant date and is recognized over the future periods in which the related employee service is rendered. The fair value per share of employee options to purchase shares under the ESPP was \$17.59 and \$20.44 for the nine months ended December 31, 2015 and 2014, respectively. The fair value of the employees' option to purchase shares of common stock was estimated using the Black-Scholes model.

## ESPP - Purchase Option Activity

The following table summarizes the activity of the ESPP during the nine months ended December 31, 2015:

(In thousands, except per share amounts)	Number of Purchase Options	Weighted-Average Exercise Price
Outstanding at March 31, 2015	54	\$86.47
Granted	187	\$78.93
Exercised	(170	) \$83.97
Outstanding at December 31, 2015	71	\$72.60

In accordance with the terms of the Merger Agreement, the 71 thousand of outstanding purchase options at December 31, 2015 for which common stock was issued in January 2016 represented the final purchase under the ESPP, with no further grants of options to purchase common stock under the ESPP. As a result, all compensation expense related to the outstanding purchase options under the ESPP was recognized in full at December 31, 2015, and no additional expense will be incurred related to the Company's ESPP for the remainder of fiscal 2016.

## (12) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net earnings by the weighted average number of shares of the Company's common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock. Diluted earnings per share is calculated by dividing net earnings by the weighted average common shares outstanding adjusted for the dilutive effect of common stock equivalents related to stock options and the Company's ESPP.

Outstanding stock options that are anti-dilutive are excluded from the Company's diluted earnings per share computation. There were approximately 1.7 million and 1.8 million shares covered by outstanding stock options that were not dilutive for the three months ended December 31, 2015 and 2014, respectively. There were approximately 2.1 million and 1.8 million shares covered by outstanding stock options that were not dilutive for the nine months ended December 31, 2015 and 2014, respectively.

The following table presents the computation of basic and diluted weighted average common shares outstanding for the three and nine months ended December 31, 2015 and 2014:

(In thousands)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Weighted average common shares outstanding:				
Basic shares outstanding	72,127	74,767	73,732	74,534
Incremental shares from assumed exercises of stock options and options under the ESPP	985	1,187	871	1,187
Diluted shares outstanding	73,112	75,954	74,603	75,721

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AIRGAS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(UNAUDITED)

(13) COMMITMENTS AND CONTINGENCIES

Litigation

Airgas has supplied information to and been in discussions with the U.S. Attorney's Office for the Southern District of Florida in response to an ongoing investigation concerning alleged past violations in connection with the handling, labeling and transportation of certain hazardous materials shipments from the Company's Miami facilities to consignees located in South America. Airgas is seeking to resolve with the U.S. Attorney's Office the matters raised by the investigation, but the Company cannot predict the outcome of such investigation, which could include the imposition of criminal fines, penalties or other sanctions. Airgas does not expect that the investigation or the consequences thereof will be material to the Company or its financial condition, or will affect the ongoing operation of its business in any material respect or the timing or consummation of the pending merger with Air Liquide.

In addition, the Company is involved in various other legal and regulatory proceedings that have arisen in the ordinary course of business and have not been fully adjudicated. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material adverse effect upon the Company's consolidated financial condition, results of operations or liquidity.

Merger Agreement

In accordance with the terms of the Merger Agreement, the Company could be required to pay a termination fee of \$400 million contingent upon certain circumstances and rights. Additionally, as described in Note 2, the Company has incurred \$21.4 million of merger-related costs during the three months ended December 31, 2015, primarily consisting of legal, advisory and other professional fees in connection with the Merger. The Company expects to incur additional costs in the future related to the Merger.

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## AIRGAS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(UNAUDITED)

## (14) SUMMARY BY BUSINESS SEGMENT

Business segment information for the Company's Distribution and All Other Operations business segments is presented in the following table for the three and nine months ended December 31, 2015 and 2014. Although corporate operating expenses are generally allocated to each business segment based on sales dollars, the Company reported expenses related to the Air Liquide merger under selling, distribution and administrative expenses in the "Eliminations and Other" column.

(In thousands)	Three Months Ended December 31, 2015				Three Months Ended December 31, 2014			
	Distribution	All Other Ops.	Eliminations and Other	Total	Distribution	All Other Ops.	Eliminations and Other	Total
Gas and rent	\$707,707	\$151,380	\$(11,040)	\$848,047	\$711,030	\$139,226	\$(7,698)	\$842,558
Hardgoods	446,431	937	(1)	447,367	488,315	950	(3)	489,262
Net sales <sup>(a)</sup>	1,154,138	152,317	(11,041)	1,295,414	1,199,345	140,176	(7,701)	1,331,820
Cost of products sold (excluding depreciation) <sup>(a)</sup>	495,806	68,817	(11,041)	553,582	521,782	74,852	(7,701)	588,933
Selling, distribution and administrative expenses	449,989	56,154	—	506,143	449,616	46,793	—	496,409
Merger costs	—	—	21,393	21,393	—	—	—	—
Depreciation	72,398	7,542	—	79,940	69,134	6,422	—	75,556
Amortization	7,441	1,328	—	8,769	6,914	1,122	—	8,036
Total costs and expenses	1,025,634	133,841	10,352	1,169,827	1,047,446	129,189	(7,701)	1,168,934
Operating income	\$128,504	\$18,476	\$(21,393)	\$125,587	\$151,899	\$10,987	\$—	\$162,886
	Nine Months Ended December 31, 2015				Nine Months Ended December 31, 2014			
(In thousands)	Distribution	All Other Ops.	Eliminations and Other	Total				