Apollo Senior Floating Rate Fund Inc.
Form 40-17G
March 15, 2013
**Via EDGAR**

March 14, 2013

Securities and Exchange Commission

U.S. Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549

Re: Apollo Senior Floating Rate Fund Inc. (File No. 811-22481)
Apollo Tactical Income Fund Inc. (File No. 811-22591)
Filing of Joint Fidelity Bond Pursuant to Rule 17g-1

Dear Commissioners:

On behalf of Apollo Senior Floating Rate Fund Inc. and Apollo Tactical Income Fund Inc. (each, a Fund and collectively, the Funds ), each an investment company registered under the Investment Company Act of 1940 (the 1940 Act ), I am filing the following documents pursuant to Rule 17g-1 under the 1940 Act:

(i) a copy of the Funds joint insured fidelity bond, attached hereto as Exhibit A;

(ii) a copy of the resolutions of a special committee of each Fund s board of directors, consisting of a majority of directors who are not interested persons (as defined in the 1940 Act) of the Funds, approving the amount, type, form and coverage of the joint insured fidelity bond, attached hereto as Exhibit B;

(iii) a statement showing the amount of the single insured bond that each Fund would have provided and maintained had it not been named as an insured under the joint insured fidelity bond, attached hereto as Exhibit C; and

(iv) a copy of the joint fidelity bond agreement among each Fund and all the other named insureds, attached hereto as Exhibit D.

The premiums for the joint insured fidelity bond have been paid for the period of February 26, 2013 to February 26, 2014.

If you have any questions, please do not hesitate to contact me at 212.822.0456.

Kind regards,

/s/ Joseph D. Glatt
Joseph D. Glatt
Chief Legal Officer and Secretary

**EXHIBIT A**

**National Union Fire Insurance Company of Pittsburgh, Pa.**

A capital stock company

POLICY NUMBER: 01-770-70-86 REPLACEMENT OF POLICY NUMBER: 01-542-68-08

**INVESTMENT COMPANY BLANKET BOND**

**DECLARATIONS:**

ITEM 1. Name of Insured (herein called Insured): **APOLLO SENIOR FLOATING RATE FUND INC.**

Principal Address: **9 WEST 57TH STREET 43RD FLOOR**

**NEW YORK, NY 10019**

ITEM 2. Bond Period: from 12:01 a.m. February 26, 2013 to February 26, 2014 the effective date of the termination or cancellation of this bond, standard time at the Principal Address as to each of said dates.

ITEM 3. Limit of Liability - Subject to Sections 9, 10 and 12 hereof,

Single Loss Single Loss

| | Limit of Liability | Deductible |
|---|---|---|
| Insuring Agreement A (Fidelity)- | $5,000,000 | $Nil |
| Insuring Agreement B (Audit Expense)- | $50,000 | $5,000 |
| Insuring Agreement C (On Premises)- | $5,000,000 | $50,000 |
| Insuring Agreement D (In Transit)- | $5,000,000 | $50,000 |
| Insuring Agreement E (Forgery or Alteration)- | $5,000,000 | $50,000 |
| Insuring Agreement F (Securities)- | $5,000,000 | $50,000 |
| Insuring Agreement G (Counterfeit Currency)- | $5,000,000 | $50,000 |
| Insuring Agreement H (Stop Payment)- | $100,000 | $10,000 |
| Insuring Agreement I (Uncollectible Items of Deposit)- | $50,000 | $5,000 |
| Additional Coverages: | | |
| Insuring Agreement (J) Computer Systems | $1,000,000 | $50,000 |
| Insuring Agreement (K) Unauthorized Signatures | $100,000 | $5,000 |

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If Not Covered is inserted above opposite any specified Insuring Agreement or Coverage, such Insuring Agreement or Coverage and any other reference thereto in this bond shall be deemed to be deleted therefrom.

ITEM 4. Offices or Premises Covered-Offices acquired or established subsequent to the effective date of this bond are covered according to the terms of General Agreement A. All the Insured s offices or premises in existence at the time this bond becomes effective are covered under this bond except the offices or premises located as follows: **No Exceptions**

ITEM 5. The liability of the Underwriter is subject to the terms of the following riders attached thereto: Endorsement #1, #2, #3, #4, #5, #6, #7, #8, #9, #10, #11, #12, #13

ITEM 6. The Insured by the acceptance of this bond gives to the Underwriter terminating or canceling prior bond(s) or policy(ies) No.(s) 01-542-68-08 such termination or cancellation to be effective as of the time this bond becomes effective.

PREMIUM: $25,000

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**IN WITNESS WHEREOF**, the Insurer has caused this policy to be signed on the Declarations Page by its President, a Secretary and a duly authorized representative of the Insurer.

**SECRETARY** **PRESIDENT**

AUTHORIZED REPRESENTATIVE

COUNTERSIGNATURE DATE COUNTERSIGNED AT

**AON RISK SERVICES NORTHEAST INC**

**199 WATER STREET**

**NEW YORK, NY 10038-3526**

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**INVESTMENT COMPANY BLANKET BOND**

The Underwriter, in consideration of an agreed premium, and subject to the Declarations made a part hereof, the General Agreements, Conditions and Limitations and other terms of this bond, agrees with the Insured, in accordance with the Insuring Agreements hereof to which an amount of insurance is applicable as set forth in Item 3 of the Declarations and with respect to loss sustained by the Insured at any time but discovered during the Bond Period, to indemnify and hold harmless the Insured for:

**INSURING AGREEMENTS**

(A) FIDELITY

Loss resulting from any dishonest or fraudulent act(s), including Larceny or Embezzlement committed by an Employee, committed anywhere and whether committed alone or in collusion with others, including loss of Property resulting from such acts of an Employee, which Property is held by the Insured for any purpose or in any capacity and whether so held gratuitously or not and whether or not the Insured is liable therefor.

Dishonest or fraudulent act(s) as used in this Insuring Agreement shall mean only dishonest or fraudulent act(s) committed by such Employee with the manifest intent:

(a) to cause the Insured to sustain such loss; and

(b) to obtain financial benefit for the Employee, or for any other person or organization intended by the Employee to receive such benefit, other than salaries, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment.

(B) AUDIT EXPENSE

Expense incurred by the Insured for that part of the costs of audits or examinations required by any governmental regulatory authority to be conducted either by such authority or by an independent accountant by reason of the discovery of loss sustained by the Insured through any dishonest or fraudulent act(s), including Larceny or Embezzlement of

any of the Employees. The total liability of the Underwriter for such expense by reason of such acts of any Employee or in which such Employee is concerned or implicated or with respect to any one audit or examination is limited to the amount stated opposite Audit Expense in Item 3 of the Declarations; it being understood, however, that such expense shall be deemed to be a loss sustained by the Insured through any dishonest or fraudulent act(s), including Larceny or Embezzlement of one or more of the Employees and the liability under this paragraph shall be in addition to the Limit of liability stated in Insuring Agreement (A) in Item 3 of the Declarations.

(C) ON PREMISES

Loss of Property (occurring with or without negligence or violence) through robbery, burglary, Larceny, theft, holdup, or other fraudulent means, misplacement, mysterious unexplainable disappearance, damage thereto or destruction thereof, abstraction or removal from the possession, custody or control of the Insured, and loss of subscription, conversion, redemption or deposit privileges through the misplacement or loss of Property, while the Property is (or is supposed or believed by the Insured to be) lodged or deposited within any offices or premises located anywhere,

except in an office listed in Item 4 of the Declarations or amendment thereof or in the mail or with a carrier for hire other than an armored motor vehicle company, for the purpose of transportation.

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Offices and Equipment

(1) Loss of or damage to, furnishings, fixtures, stationery, supplies or equipment, within any of the Insured s offices covered under this bond caused by Larceny or theft in, or by burglary, robbery or holdup of such office, or attempt thereat, or by vandalism or malicious mischief; or

(2) loss through damage to any such office by Larceny or theft in, or by burglary, robbery or holdup of such office or attempt thereat, or to the interior of any such office by vandalism or malicious mischief provided, in any event, that the Insured is the owner of such offices, furnishings, fixtures, stationery, supplies or equipment or is legally liable for such loss or damage, always excepting, however, all loss or damage through fire.

(D) IN TRANSIT

Loss of Property (occurring with or without negligence or violence) through robbery, Larceny, theft, holdup, misplacement, mysterious unexplainable disappearance, being lost or otherwise made away with, damage thereto or destruction thereof, and loss of subscription, conversion, redemption or deposit privileges through the misplacement or loss of Property, while the Property is in transit anywhere in the custody of any person or persons acting as messenger, except while in the mail or with a carrier for hire, other than an armored motor vehicle company, for the purpose of transportation, such transit to begin immediately upon receipt of such Property by the transporting person or persons, and to end immediately upon delivery thereof at destination.

(E) FORGERY OR ALTERATION

Loss through FORGERY or ALTERATION of, on or in any bills of exchange, checks, drafts, acceptances, certificates of deposit. promissory notes, or other written promises, orders or directions to pay sums certain in money, due bills, money orders, warrants, orders upon public treasuries, letters of credit, written instructions, advices or applications directed to the Insured, authorizing or acknowledging the transfer, payment, delivery or receipt of funds or Property, which instructions or advices or applications purport to have been signed or endorsed by any customer of the Insured, shareholder or subscriber to shares, whether certificated or uncertificated, of any Investment Company or by any financial or banking institution or stockbroker but which instructions, advices or applications either bear the forged signature or endorsement or have been altered without the knowledge and consent of such customer, shareholder or subscriber to shares, whether certificated or uncertificated, of an Investment Company, financial or banking institution or stockbroker, withdrawal orders or receipts for the withdrawal of funds or Property, or receipts or certificates of deposit for Property and bearing the name of the Insured as issuer, or of another Investment Company for which the Insured acts as agent, excluding, however, any loss covered under Insuring Agreement (F) hereof whether or not coverage for Insuring Agreement (F) is provided for in the Declarations of this bond.

Any check or draft (a) made payable to a fictitious payee and endorsed in the name of such fictitious payee or (b) procured in a transaction with the maker or drawer thereof or with one acting as an agent of such maker or drawer or anyone impersonating another and made or drawn payable to the one so impersonated and endorsed by anyone other than the one impersonated, shall be deemed to be forged as to such endorsement.

Mechanically reproduced facsimile signatures are treated the same as handwritten signatures.

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(F) SECURITIES

Loss sustained by the Insured, including loss sustained by reason of a violation of the constitution, by-laws, rules or regulations of any Self Regulatory Organization of which the Insured is a member or which would have been imposed upon the Insured by the constitution, by-laws, rules or regulations of any Self Regulatory Organization if the Insured had been a member thereof,

(1) through the Insured s having, in good faith and in the course of business, whether for its own account or for the account of others, in any representative, fiduciary, agency or any other capacity, either gratuitously or otherwise, purchased or otherwise acquired, accepted or received, or sold or delivered, or given any value, extended any credit or assumed any liability, on the faith of, or otherwise acted upon, any securities, documents or other written instruments which prove to have been

(a) counterfeited, or
(b) forged as to the signature of any maker, drawer, issuer, endorser, assignor, lessee, transfer agent or registrar, acceptor, surety or guarantor or as to the signature of any person signing in any other capacity, or
(c) raised or otherwise altered, or lost, or stolen, or

(2) through the Insured s having, in good faith and in the course of business, guaranteed in writing or witnessed any signatures whether for valuable consideration or not and whether or not such guaranteeing or witnessing is ultra vires the Insured, upon any transfers, assignments, bills of sale, powers of attorney, guarantees, endorsements or other obligations upon or in connection with any securities, documents or other written instruments and which pass or purport to pass title to such securities, documents or other written instruments; EXCLUDING, losses caused by FORGERY or ALTERATION of, on or in those instruments covered under Insuring Agreement (E) hereof.

Securities, documents or other written instruments shall be deemed to mean original (including original counterparts) negotiable or non-negotiable agreements which in and of themselves represent an equitable interest, ownership, or debt, including an assignment thereof which instruments are in the ordinary course of business, transferable by delivery of such agreements with any necessary endorsement or assignment.

The word counterfeited as used in this Insuring Agreement shall be deemed to mean any security, document or other written instrument which is intended to deceive and to be taken for an original.

Mechanically produced facsimile signatures are treated the same as handwritten signatures.

(G) COUNTERFEIT CURRENCY

Loss through the receipt by the Insured, in good faith, of any counterfeited money orders or altered paper currencies or coin of the United States of America or Canada issued or purporting to have been issued by the United States of America or Canada or issued pursuant to a United States of America or Canadian statute for use as currency.

(H) STOP PAYMENT

Loss against any and all sums which the Insured shall become obligated to pay by reason of the Liability imposed upon the Insured by law for damages:

For having either complied with or failed to comply with any written notice of any customer, shareholder or subscriber of the Insured or any Authorized Representative of such customer, shareholder or subscriber to stop payment of any check or draft made or drawn by such customer, shareholder or subscriber or any Authorized Representative of such customer, shareholder or subscriber, or

For having refused to pay any check or draft made or drawn by any customer, shareholder or subscriber of the Insured or any Authorized Representative of such customer, shareholder or subscriber.

(I) UNCOLLECTIBLE ITEMS OF DEPOSIT

Loss resulting from payments of dividends or fund shares, or withdrawals permitted from any customer s, shareholder s or subscriber s account based upon Uncollectible Items of Deposit of a customer, shareholder or subscriber credited by the Insured or the Insured s agent to such customer s, shareholder s or subscriber s Mutual Fund Account; or

loss resulting from any Item of Deposit processed through an Automated Clearing House which is reversed by the customer, shareholder or subscriber and deemed uncollectible by the Insured.

Loss includes dividends and interest accrued not to exceed 15% of the Uncollectible Items which are deposited.

This Insuring Agreement applies to all Mutual Funds with exchange privileges if all Fund(s) in the exchange program are insured by a National Union Fire Insurance Company of Pittsburgh, PA for Uncollectible Items of Deposit. Regardless of the number of transactions between Fund(s), the minimum number of days of deposit within the Fund(s) before withdrawal as declared in the Fund(s) prospectus shall begin from the date a deposit was first credited to any Insured Fund(s).

**GENERAL AGREEMENTS**

A . ADDITIONAL OFFICES OR EMPLOYEES-CONSOLIDATION OR MERGER-NOTICE

1. If the Insured shall, while this bond is in force, establish any additional office or offices, such office or offices shall be automatically covered hereunder from the dates of their establishment, respectively. No notice to the Underwriter of an increase during any premium period in the number of offices or in the number of Employees at any of the offices covered hereunder need be given and no additional premium need be paid for the remainder of such premium period.

2. If an Investment Company, named as Insured herein, shall, while this bond is in force, merge or consolidate with, or purchase the assets of another institution, coverage for such acquisition shall apply automatically from the date of acquisition. The Insured shall notify the Underwriter of such acquisition within 60 days of said date, and an additional premium shall be computed only if such acquisition involves additional offices or employees.

B. WARRANTY

No statement made by or on behalf of the Insured, whether contained in the application or otherwise, shall be deemed to be a warranty of anything except that it is true to the best of the knowledge and belief of the person making the statement.

C. COURT COSTS AND ATTORNEYS FEES (Applicable to all Insuring Agreements or Coverages now or hereafter forming part of this bond)

The Underwriter will indemnify the Insured against court costs and reasonable attorneys fees incurred and paid by the Insured in defense, whether or not successful, whether or not fully litigated on the merits and whether or not settled of any suit or legal proceeding brought against the Insured to enforce the Insured s liability or alleged liability on account of any loss, claim or damage which, if established against the Insured, would constitute a loss sustained by the Insured covered under the terms of this bond provided, however, that with respect to Insuring Agreement (A) this indemnity shall apply only in the event that

(1) an Employee admits to being guilty of any dishonest or fraudulent act(s), including Larceny or Embezzlement; or

(2) an Employee is adjudicated to be guilty of any dishonest or fraudulent act(s), including Larceny or Embezzlement;

(3) in the absence of (1) or (2) above an arbitration panel agrees, after a review of an agreed statement of facts, that an Employee would be found guilty of dishonesty if such Employee were prosecuted.

The Insured shall promptly give notice to the Underwriter of any such suit or legal proceeding and at the request of the Underwriter shall furnish it with copies of all pleadings and other papers therein. At the Underwriter s election the Insured shall permit the Underwriter to conduct the defense of such suit or legal proceeding, in the Insured s name, through attorneys of the Underwriter s selection. In such event, the Insured shall give all reasonable information and assistance which the Underwriter shall deem necessary to the proper defense of such suit or legal proceeding.

If the amount of the Insured s liability or alleged liability is greater than the amount recoverable under this bond, or if a Deductible Amount is applicable, or both, the liability of the Underwriter under this General Agreement is limited to the proportion of court costs and attorneys fees incurred and paid by the Insured or by the Underwriter that the amount recoverable under this bond bears to the total of such amount plus the amount which is not so recoverable. Such indemnity shall be in addition to the Limit of Liability for the applicable Insuring Agreement or Coverage.

D. FORMER EMPLOYEE

Acts of an Employee, as defined in this bond, are covered under Insuring Agreement (A) only while the Employee is in the Insured s employ. Should loss involving a former Employee of the Insured be discovered subsequent to the termination of employment, coverage would still apply under Insuring Agreement (A) if the direct proximate cause of the loss occurred while the former Employee performed duties within the scope of his/her employment.

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**THE FOREGOING INSURING AGREEMENTS AND**

**GENERAL AGREEMENTS ARE SUBJECT TO**

**THE FOLLOWING CONDITIONS**

**AND LIMITATIONS:**

SECTION 1. DEFINITIONS

The following terms, as used in this bond, shall have the respective meanings stated in this Section:

(a) Employee means:

(1) any of the Insured s officers, partners, or employees, and
(2) any of the officers or employees of any predecessor of the Insured whose principal assets are acquired by the Insured by consolidation or merger with, or purchase of assets or capital stock of such predecessor. and
(3) attorneys retained by the Insured to perform legal services for the Insured and the employees of such attorneys while such attorneys or the employees of such attorneys are performing such services for the Insured, and
(4) guest students pursuing their studies or duties in any of the Insured s offices, and
(5) directors or trustees of the Insured, the investment advisor, underwriter (distributor), transfer agent, or shareholder accounting record keeper, or administrator authorized by written agreement to keep financial and/or other required records, but only while performing acts coming within the scope of the usual duties of an officer or employee or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of the Insured, and
(6) any individual or individuals assigned to perform the usual duties of an employee within the premises of the Insured, by contract, or by any agency furnishing temporary personnel on a contingent or part-time basis, and
(7) each natural person, partnership or corporation authorized by written agreement with the Insured to perform services as electronic data processor of checks or other accounting records of the Insured, but excluding any such processor who acts as transfer agent or in any other agency capacity in issuing checks, drafts or securities for the Insured, unless included under Sub-section (9) hereof, and
(8) those persons so designated in Section 15, Central Handling of Securities, and
(9) any officer, partner or Employee of

a) an investment advisor,
b) an underwriter (distributor),
c) a transfer agent or shareholder accounting record-keeper, or
d) an administrator authorized by written agreement to keep financial and/or other required records,

for an Investment Company named as Insured while performing acts coming within the scope of the usual duties of an officer or Employee of any Investment Company named as Insured herein, or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of any such Investment Company, provided that only

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Employees or partners of a transfer agent, shareholder accounting record-keeper or administrator which is an affiliated person as defined in the Investment Company Act of 1940, of an Investment Company named as Insured or is an affiliated person of the adviser, underwriter or administrator of such Investment Company, and which is not a bank, shall be included within the definition of Employee.

Each employer of temporary personnel or processors as set forth in Sub-Sections (6) and of Section 1(a) and their partners, officers and employees shall collectively be deemed to be one person for all the purposes of this bond, excepting, however, the last paragraph of Section 13.

Brokers, or other agents under contract or representatives of the same general character shall not be considered Employees.

(b) Property means money (i.e., currency, coin, bank notes, Federal Reserve notes), postage and revenue stamps, U.S. Savings Stamps, bullion, precious metals of all kinds and in any form and articles made therefrom, jewelry, watches, necklaces, bracelets, gems, precious and semi-precious stones, bonds, securities, evidences of debts, debentures, scrip, certificates, interim receipts, warrants, rights, puts, calls, straddles, spreads, transfers, coupons, drafts, bills of exchange, acceptances, notes, checks, withdrawal orders, money orders, warehouse receipts, bills of lading, conditional sales contracts, abstracts of title, insurance policies,
deeds, mortgages under real estate and/or chattels and upon interests therein, and assignments of such policies, mortgages and instruments, and other valuable papers, including books of account and other records used by the Insured in the conduct of its business, and all other instruments similar to or in the nature of the foregoing including Electronic Representations of such instruments enumerated above (but excluding all data processing records) in which the Insured has an interest or in which the Insured acquired or should have acquired an interest by reason of a predecessor s declared financial condition at the time of the Insured s consolidation or merger with, or purchase of the principal assets of, such predecessor or which are held by the Insured for any purpose or in any capacity and whether so held by the Insured for any purpose or in any capacity and whether so held gratuitously or not and whether or not the Insured is liable therefor.

(c) Forgery means the signing of the name of another with intent to deceive; it does not include the signing of one s own name with or without authority, in any capacity, for any purpose.

(d) Larceny and Embezzlement as it applies to any named Insured means those acts as set forth in Section 37 of the Investment Company Act of 1940.

(e) Items of Deposit means any one or more checks and drafts. Items of Deposit shall not be deemed uncollectible until the Insured s collection procedures have failed.

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SECTION 2. EXCLUSIONS

THIS BOND DOES NOT COVER:

(a) loss effected directly or indirectly by means of forgery or alteration of, on or in any instrument, except when covered by Insuring Agreement (A), (E), (F) or (G).

(b) loss due to riot or civil commotion outside the United States of America and Canada; or loss due to military, naval or usurped power, war or insurrection unless such loss occurs in transit in the circumstances recited in Insuring Agreement (D), and unless, when such transit was initiated, there was no knowledge of such riot, civil commotion, military, naval or usurped power, war or insurrection on the part of any person acting for the Insured in initiating such transit.

(c) loss, in time of peace or war, directly or indirectly caused by or resulting from the effects of nuclear fission or fusion or radioactivity; provided, however, that this paragraph shall not apply to loss resulting from industrial uses of nuclear energy.

(d) loss resulting from any wrongful act or acts of any person who is a member of the Board of Directors of the Insured or a member of any equivalent body by whatsoever name known unless such person is also an Employee or an elected official, partial owner or partner of the Insured in some other capacity, nor, in any event, loss resulting from the act or acts of any person while acting in the capacity of a member of such Board or equivalent body.

(e) loss resulting from the complete or partial non-payment of, or default upon, any loan or transaction in the nature of, or amounting to, a loan made by or obtained from the Insured or any of its partners, directors or Employees, whether authorized or unauthorized and whether procured in good faith or through trick, artifice, fraud or false pretenses. unless such loss is covered under Insuring Agreement (A), (E) or (F).

(f) loss resulting from any violation by the Insured or by any Employee

(1) of law regulating (a) the issuance, purchase or sale of securities, (b) securities transactions upon Security Exchanges or over the counter market, (c) Investment Companies, or (d) Investment Advisors, or

(2) of any rule or regulation made pursuant to any such law, unless such loss, in the absence of such laws, rules or regulations, would be covered under Insuring Agreements (A) or (E).

(g) loss of Property or loss of privileges through the misplacement or loss of Property as set forth in Insuring Agreement (C) or (D) while the Property is in the custody of any armored motor vehicle company, unless such loss shall be in excess of the amount recovered or received by the Insured under (a) the Insured s contract with said armored motor vehicle company, (b) insurance carried by said armored motor vehicle company for the benefit of users of its service, and (c) all other insurance and indemnity in force in whatsoever form carried by or for the benefit of users of said armored motor vehicle company s service, and then this bond shall cover only such excess.

(h) potential income, including but not limited to interest and dividends, not realized by the Insured because of a loss covered under this bond, except as included under Insuring Agreement (I).

(i) all damages of any type for which the Insured is legally liable, except direct compensatory damages arising from a loss covered under this bond.

(j) loss through the surrender of Property away from an office of the Insured as a result of a threat

(1) to do bodily harm to any person, except loss of Property in transit in the custody of any person acting as messenger provided that when such transit was initiated there was no knowledge by the Insured of any such threat, or

(2) to do damage to the premises or Property of the Insured, except when covered under Insuring Agreement (A).

(k) all costs, fees and other expenses incurred by the Insured in establishing the existence of or amount of loss covered under this bond unless such indemnity is provided for under Insuring Agreement (B).

(l) loss resulting from payments made or withdrawals from the account of a customer of the Insured, shareholder or subscriber to shares involving funds erroneously credited to such account, unless such payments are made to or withdrawn by such depositor or representative of such person, who is within the premises of the drawee bank of the Insured or within the office of the Insured at the time of such payment or withdrawal or unless such payment is covered under Insuring Agreement (A).

(m) any loss resulting from Uncollectible Items of Deposit which are drawn from a financial institution outside the fifty states of the United States of America, District of Columbia, and territories and possessions of the United States of America, and Canada.

SECTION 3. ASSIGNMENT OF RIGHTS

This bond does not afford coverage in favor of any Employers of temporary personnel or of processors as set forth in sub-sections (6) and (7) of Section 1(a) of this bond, as aforesaid, and upon payment to the Insured by the Underwriter on account of any loss through dishonest or fraudulent act(s) including Larceny or Embezzlement committed by any of the partners, officers or employees of such Employers, whether acting alone or in collusion with others, an assignment of such of the Insured s rights and causes of action as it may have against such Employers by reason of such acts so committed shall, to the extent of such payment, be given by the Insured to the Underwriter, and the Insured shall execute all papers necessary to secure to the Underwriter the rights herein provided for.

SECTION 4. LOSS -NOTICE -PROOF- LEGAL PROCEEDINGS

This bond is for the use and benefit only of the Insured named in the Declarations and the Underwriter shall not be liable hereunder for loss sustained by anyone other than the Insured unless the Insured, in its sole discretion and at its option, shall include such loss in the Insured s proof of loss. At the earliest practicable moment after discovery of any loss hereunder the Insured shall give the Underwriter written notice thereof and shall also within six months after such discovery furnish to the Underwriter affirmative proof of loss with full particulars. If claim is made under this bond for loss of securities or shares, the

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Underwriter shall not be liable unless each of such securities or shares is identified in such proof of loss by a certificate or bond number or, where such securities or shares are uncertificated, by such identification means as agreed to by the Underwriter. The Underwriter shall have thirty days after notice and proof of loss within which to investigate the claim, but where the loss is clear and undisputed, settlement shall be made within forty-eight hours; and this shall apply notwithstanding the loss is made up wholly or in part of securities of which duplicates may be obtained. Legal proceedings for recovery of any loss hereunder shall not be brought prior to the expiration of sixty days after such proof of loss is filed with the Underwriter nor after the expiration of twenty-four months from the discovery of such loss, except that any action or proceeding to recover hereunder on account of any judgment against the Insured in any suit mentioned in General Agreement C or to recover attorneys fees paid in any such suit, shall be begun within twenty-four months from the date upon which the judgment in such suit shall become final. If any limitation embodied in this bond is prohibited by any law controlling the construction hereof, such limitation shall be deemed to be amended so as to be equal to the minimum period of limitation permitted by such law.

Discovery occurs when the Insured

(a) becomes aware of facts, or
(b) receives written notice of an actual or potential claim by a third party which alleges that the Insured is liable under circumstance

which would cause a reasonable person to assume that a loss covered by the bond has been or will be incurred even though the exact amount or details of loss may not be then known.

SECTION 5. VALUATION OF PROPERTY

The value of any Property, except books of accounts or other records used by the Insured in the conduct of its business, for the loss of which a claim shall be made hereunder, shall be determined by the average market value of such Property on the business day next preceding the discovery of such loss; provided, however, that the value of any Property replaced by the Insured prior to the payment of claim therefor shall be the actual market value at the time of replacement; and further provided that in case of a loss or misplacement of interim certificates, warrants, rights, or other securities, the production which is necessary to the exercise of subscription, conversion, redemption or deposit privileges, the value thereof shall be the market value of such privileges immediately preceding the expiration thereof if said loss or misplacement is not discovered until after their expiration. If no market price is quoted for such Property or for such privileges, the value shall be fixed by agreement between the parties or by arbitration.

In case of any loss or damage to Property consisting of books of accounts or other records used by the Insured in the conduct of its business, the Underwriter shall be liable under this bond only if such books or records are actually reproduced and then for not more than the cost of blank books, blank pages or other materials plus the cost of labor for the actual transcription or copying of data which shall have been furnished by the Insured in order to reproduce such books and other records.

SECTION 6. VALUATION OF PREMISES AND FURNISHINGS

In case of damage to any office of the Insured, or loss of or damage to the furnishings, fixtures, stationery, supplies, equipment, safes or vaults therein, the Underwriter shall not be liable for more than the actual cash value thereof, or for more than the actual cost of

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their replacement or repair. The Underwriter may, at its election, pay such actual cash value or make such replacement or repair. If the Underwriter and the Insured cannot agree upon such cash value or such cost of replacement or repair, such shall be determined by arbitration.

SECTION 7. LOST SECURITIES

If the Insured shall sustain a loss of securities the total value of which is in excess of the limit stated in Item 3 of the Declarations of this bond, the liability of the Underwriter shall be limited to payment for, or duplication of, securities having value equal to the limit stated in Item 3 of the Declarations of this bond.

If the Underwriter shall make payment to the Insured for any loss of securities, the Insured shall thereupon assign to the Underwriter all of the Insured s rights, title and interests in and to said securities.

With respect to securities the value of which do not exceed the Deductible Amount (at the time of the discovery of the loss) and for which the Underwriter may at its sole discretion and option and at the request of the Insured issue a Lost Instrument Bond or Bonds to effect replacement thereof, the Insured will pay the usual premium charged therefor and will indemnify the Underwriter against all loss or expense that the Underwriter may sustain because of the issuance of such Lost Instrument Bond or Bonds.

With respect to securities the value of which exceeds the Deductible Amount (at the time of discovery of the loss) and for which the Underwriter may issue or arrange for the issuance of a Lost Instrument Bond or Bonds to effect replacement thereof, the Insured agrees that it will pay as premium therefor a proportion of the usual premium charged therefor, said proportion being equal to the percentage that the Deductible Amount bears to the value of the securities upon discovery of the loss, and that it will indemnify the issuer of said Lost Instrument Bond or Bonds against all loss and expense that is not recoverable from the Underwriter under the terms and conditions of this INVESTMENT COMPANY BLANKET BOND subject to the Limit of Liability hereunder.

SECTION 8. SALVAGE

In case of recovery, whether made by the Insured or by the Underwriter, on account of any loss in excess of the Limit of Liability hereunder plus the Deductible Amount applicable to such loss from any source other than suretyship, insurance, reinsurance, security or indemnity taken by or for the benefit of the Underwriter, the net amount of such recovery, less the actual costs and expenses of making same, shall be applied to reimburse the Insured in full for the excess portion of such loss, and the remainder, if any, shall be paid first in reimbursement of the Underwriter and thereafter in reimbursement of the Insured for that part of such loss within the Deductible Amount. The Insured shall execute all necessary papers to secure to the Underwriter the rights provided for herein.

SECTION 9. NON-REDUCTION AND NON- ACCUMULATION OF LIABILITY AND TOTAL LIABILITY

At all times prior to termination hereof this bond shall continue in force for the limit stated in the applicable sections of Item 3 of the Declarations of this bond notwithstanding any previous loss for which the Underwriter may have paid or be liable to pay hereunder; PROVIDED, however, that regardless of the number of years this bond shall continue in force and the number of premiums which shall be payable or paid, the liability of the Underwriter under this bond with respect to all loss resulting from

(a) any one act of burglary, robbery or holdup, or attempt thereat, in which no Partner or Employee is concerned or implicated shall be deemed to be one loss, or

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(b) any one unintentional or negligent act on the part of any one person resulting in damage to or destruction or misplacement of Property, shall be deemed to be one loss, or

(c) all wrongful acts, other than those specified in (a) above, of any one person shall be deemed to be one loss, or

(d) all wrongful acts, other than those specified in (a) above, of one or more persons (which dishonest act(s) or act(s) of Larceny or Embezzlement include, but are not limited to, the failure of an Employee to report such acts of others) whose dishonest act or acts intentionally or unintentionally, knowingly or unknowingly, directly or indirectly, aid or aids in any way, or permits the continuation of, the dishonest act or acts of any other person or persons shall be deemed to be one loss with the act or acts of the persons aided, or

(e) any one casualty or event other than those specified in (a), (b), (c) or (d) preceding, shall be deemed to be one loss, and

shall be limited to the applicable Limit of Liability stated in Item 3 of the Declarations of this bond irrespective of the total amount of such loss or losses and shall not be cumulative in amounts from year to year or from period to period.

Sub-section (c) is not applicable to any situation to which the language of sub-section (d) applies.

SECTION 10. LIMIT OF LIABILITY

With respect to any loss set forth in the PROVIDED clause of Section 9 of this bond which is recoverable or recovered in whole or in part under any other bonds or policies issued by the Underwriter to the Insured or to any predecessor in interest of the Insured and terminated or cancelled or allowed to expire and in which the period for discovery has not expired at the time any such loss thereunder is

discovered, the total liability of the Underwriter under this bond and under other bonds or policies shall not exceed, in the aggregate, the amount carried hereunder on such loss or the amount available to the Insured under such other bonds or policies, as limited by the terms and conditions thereof, for any such loss if the latter amount be the larger.

SECTION 11. OTHER INSURANCE

If the Insured shall hold, as indemnity against any loss covered hereunder, any valid and enforceable insurance or suretyship, the Underwriter shall be liable hereunder only for such amount of such loss which is in excess of the amount of such other insurance or suretyship, not exceeding, however, the Limit of Liability of this bond applicable to such loss.

SECTION 12. DEDUCTIBLE

The Underwriter shall not be liable under any of the Insuring Agreements of this bond on account of loss as specified, respectively, in sub-sections (a), (b), (c), (d) and (e) of Section 9, NON-REDUCTION AND NON-ACCUMULATION OF LIABILITY AND TOTAL LIABILITY, unless the amount of such loss, after deducting the net amount of all reimbursement and/or recovery obtained or made by the Insured, other than from any bond or policy of insurance issued by an insurance company and covering such loss, or by the Underwriter on account thereof prior to payment by the Underwriter of such loss, shall exceed the Deductible Amount set forth in Item 3 of the Declarations hereof (herein called Deductible Amount) and then for such excess only, but in no event for more than the applicable Limit of Liability stated in Item 3 of the Declarations.

The Insured will bear, in addition to the Deductible Amount, premiums on Lost Instrument Bonds as set forth in Section 7.

There shall be no deductible applicable to any loss under Insuring Agreement A sustained by any Investment Company named as Insured herein.

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SECTION 13. TERMINATION

The Underwriter may terminate this bond as an entirety by furnishing written notice specifying the termination date which cannot be prior to 60 days after the receipt of such written notice by each Investment Company named as Insured and the Securities and Exchange Commission, Washington, D.C. The Insured may terminate this bond as an entirety by furnishing written notice to the Underwriter. When the Insured cancels, the Insured shall furnish written notice to the Securities and Exchange Commission, Washington. D.C. prior to 60 days before the effective date of the termination. The Underwriter shall notify all other Investment Companies named as Insured of the receipt of such termination notice and the termination cannot be effective prior to 60 days after receipt of written notice by all other Investment Companies. Premiums are earned until the termination date as set forth herein.

This Bond will terminate as to any one Insured immediately upon taking over of such Insured by a receiver or other liquidator or by State or Federal officials, or immediately upon the filing of a petition under any State or Federal statute relative to bankruptcy or reorganization of the Insured, or assignment for the benefit of creditors of the Insured. or immediately upon such Insured ceasing to exist, whether through merger into another entity, or by disposition of all of its assets.

The Underwriter shall refund the unearned premium computed at short rates in accordance with the standard short rate cancellation tables if terminated by the Insured or pro rata if terminated for any other reason.

This Bond shall terminate

(a) as to any Employee as soon as any partner, officer or supervisory Employee of the Insured, who is not in collusion with such Employee, shall learn of any dishonest or fraudulent act(s), including Larceny or Embezzlement on the part of such Employee without prejudice to the loss of any Property then in transit in the custody of such Employee (See Section 16[d]), or

(b) as to any Employee 60 days after receipt by each Insured and by the Securities and Exchange Commission of a written notice from the Underwriter of its desire to terminate this bond as to such Employee, or

(c) as to any person, who is a partner, officer or employee of any Electronic Data Processor covered under this bond, from and after the time that the Insured or any partner or officer thereof not in collusion with such person shall have knowledge or information that such person has committed any dishonest or fraudulent act(s), including Larceny or Embezzlement in the service of the Insured or otherwise, whether such act be committed before or after the time this bond is effective.

SECTION 14. RIGHTS AFTER TERMINATION OR CANCELLATION

At any time prior to the termination or cancellation of this bond as an entirety, whether by the Insured or the Underwriter, the Insured may give to the Underwriter notice that it desires under this bond an additional period of 12 months within which to discover loss sustained by the Insured prior to the effective date of such termination or cancellation and shall pay an additional premium therefor.

Upon receipt of such notice from the Insured, the Underwriter shall give its written consent thereto; provided, however, that such additional period of time shall terminate immediately;

(a) on the effective date of any other insurance obtained by the Insured, its successor in business or any other party, replacing in whole or in part the insurance afforded by this bond, whether or not such other insurance provides coverage for loss sustained prior to its effective date, or

(b) upon takeover of the Insured s business by any State or Federal official or agency, or by any receiver or liquidator, acting or appointed for this purpose

without the necessity of the Underwriter giving notice of such termination. In the event that such additional period of time is terminated, as provided above, the Underwriter shall refund any unearned premium.

The right to purchase such additional period for the discovery of loss may not be exercised by any State or Federal official or agency, or by any receiver or liquidator, acting or appointed to take over the Insured s business for the operation or for the liquidation thereof or for any other purpose.

SECTION 15. CENTRAL HANDLING OF SECURITIES

Securities included in the systems for the central handling of securities established and maintained by Depository Trust Company, Midwest Depository Trust Company, Pacific Securities Depository Trust Company, and Philadelphia Depository Trust Company, hereinafter called Corporations, to the extent of the Insured s interest therein as effective by the making of appropriate entries on the books and records of such Corporations shall be deemed to be Property.

The words Employee and Employees shall be deemed to include the officers, partners, clerks and other employees of the New York Stock Exchange, Boston Stock Exchange, Midwest Stock Exchange, Pacific Stock Ex- change and Philadelphia Stock

Exchange, hereinafter called Exchanges, and of the above named Corporations, and of any nominee in whose name is registered any security included within the systems for the central handling of securities established and maintained by such Corporations, and any employee of any recognized service company, while such officers, partners, clerks and other employees and employees of service companies perform services for such Corporations in the operation of such systems. For the purpose of the above definition a recognized service company shall be any company providing clerks or other personnel to said Exchanges or Corporation on a contract basis.

The Underwriter shall not be liable on account of any loss(es) in connection with the central handling of securities within the systems established and maintained by such Corporations, unless such loss(es) shall be in excess of the amount(s) recoverable or recovered under any bond or policy of insurance indemnifying such Corporations, against such loss(es), and then the Underwriter shall be liable hereunder only for the Insured s share of such excess loss(es), but in no event for more than the Limit of Liability applicable hereunder.

For the purpose of determining the Insured s share of excess loss(es) it shall be deemed that the Insured has an interest in any certificate representing any security included within such systems equivalent to the interest the Insured then has in all certificates representing the same security included within such systems and that such Corporations shall use their best judgement in apportioning the amount(s) recoverable or recovered under any bond or policy of insurance indemnifying such Corporations against such loss(es) in connection with the central handling of securities within such systems among all those having an interest as recorded by appropriate entries in the books and records of such Corporations in Property involved in such loss(es) on the basis that each such interest shall share in the amount(s) so recoverable or recovered in the ratio that the value of each such interest bears to the total

value of all such interests and that the Insured s share of such excess loss(es) shall be the amount of the Insured s interest in such Property in excess of the amount(s) so apportioned to the Insured by such Corporations.

This bond does not afford coverage in favor of such Corporations or Exchanges or any nominee in whose name is registered any security included within the systems for the central handling of securities established and maintained by such Corporations, and upon payment to the Insured by the Underwriter on account of any loss(es) within the systems, an assignment of such of the Insured s rights and causes of action as it may have against such Corporations or Exchanges shall to the extent of such payment, be given by the Insured to the Underwriter, and the Insured shall execute all papers necessary to secure to the Underwriter the rights provided for herein.

SECTION 16. ADDITIONAL COMPANIES INCLUDED AS INSURED

If more than one corporation, co-partnership or person or any combination of them be included as the Insured herein:

(a) the total liability of the Underwriter hereunder for loss or losses sustained by any one or more or all of them shall not exceed the limit for which the Underwriter would be liable hereunder if all such loss were sustained by any one of them,
(b) the one first named herein shall be deemed authorized to make, adjust and receive and enforce payment of all claims hereunder and shall be deemed to be the agent of the others for such purposes and for the giving or receiving of any notice required or permitted to be given by the terms hereof, provided that the Underwriter shall furnish each named Investment Company with a copy of the bond and with any amendment thereto, together with a
copy of each formal filing of the settlement of each such claim prior to the execution of such settlement,
(c) the Underwriter shall not be responsible for the proper application of any payment made hereunder to said first named Insured,
(d) knowledge possessed or discovery made by any partner, officer or supervisory Employee of any Insured shall for the purposes of Section 4 and Section 13 of this bond constitute knowledge or discovery by all the Insured, and
(e) if the first named Insured ceases for any reason to be covered under this bond, then the Insured next named shall thereafter be considered as the first named Insured for the purposes of this bond.

SECTION 17. NOTICE AND CHANGE OF CONTROL

Upon the Insured s obtaining knowledge of a transfer of its outstanding voting securities which results in a change in control (as set forth in Section 2(a) (9) of the Investment Company Act of 1940) of the Insured, the Insured shall within thirty (30) days of such knowledge give written notice to the Underwriter setting forth:

(a) the names of the transferors and transferees (or the names of the beneficial owners if the voting securities are requested in another name), and
(b) the total number of voting securities owned by the transferors and the transferees (or the beneficial owners), both immediately before and after the transfer, and
(c) the total number of outstanding voting securities.

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As used in this section, control means the power to exercise a controlling influence over the management or policies of the Insured.

Failure to give the required notice shall result in termination of coverage of this bond, effective upon the date of stock transfer for any loss in which any transferee is concerned or implicated.

Such notice is not required to be given in the case of an Insured which is an Investment Company.

SECTION 18. CHANGE OR MODIFICATION

This bond or any instrument amending or effecting same may not be changed or modified orally. No changes in or modification thereof shall be effective unless made by written endorsement issued to form a part hereof over the signature of the Underwriter s Authorized Representative. When a bond covers only one

Investment Company no change or modification which would adversely affect the rights of the Investment Company shall be effective prior to 60 days after written notification has been furnished to the Securities and Exchange Commission, Washington, D.C. by the Insured or by the Underwriter. If more than one Investment Company is named as the Insured herein, the Underwriter shall give written notice to each Investment Company and to the Securities and Exchange Commission, Washington, D.C. not less than 60 days prior to the effective date of any change or modification which would adversely affect the rights of such Investment Company.

IN WITNESS WHEREOF, the Underwriter has caused this bond to be executed on the Declarations Page.

41206 (9/84)

**ENDORSEMENT #1**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**NOTICE OF CLAIM**

**(REPORTING BY E-MAIL)**

In consideration of the premium charged, it is hereby understood and agreed as follows:

1. Email Reporting of Claims : In addition to the postal address set forth for any Notice of Claim Reporting under this policy, such notice may also be given in writing pursuant to the policy s other terms and conditions to the Insurer by email at the following email address:

   c-claim@chartisinsurance.com

   Your email must reference the policy number for this policy. The date of the Insurer s receipt of the emailed notice shall constitute the date of notice.

   In addition to Notice of Claim Reporting via email, notice may also be given to the Insurer by mailing such notice to: c-Claim for Financial Lines, Chartis, Financial Lines Claims, 175 Water Street, 9th Floor, New York, New York 10038 or faxing such notice to (866) 227-1750.

2. Definitions : For this endorsement only, the following definitions shall apply:

   (a) Insurer means the Insurer, Underwriter or Company or other name specifically ascribed in this policy the insurance company or underwriter for this policy.

   (b) Notice of Claim Reporting means notice of claim/circumstance, notice of loss or other reference in the policy designated for reporting of claims, loss or occurrences or situations that may give rise or result in loss under this policy.

   (c) Policy means the policy, bond or other insurance product to which this endorsement is attached.

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**ENDORSEMENT #1 - Continued**

3. This endorsement does not apply to any Kidnap & Ransom/Extortion Coverage Section, if any, provided by this policy.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

AUTHORIZED REPRESENTATIVE

99758 (08/08)

**ENDORSEMENT #2**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**EMPLOYEE DEFINITION AMENDED RIDER**

It is agreed that:

1. Paragraph (e) of Section 1. DEFINITIONS of the CONDITIONS AND LIMITATIONS Clause of the attached bond is amended by adding the following additional paragraph to the end thereof:

(e) Employee means:

(1) any of the Insured s officers, partners, or employees, and

(2) any of the officers or employees of any predecessor of the Insured whose principal assets are acquired by the Insured by consolidation or merger with, or purchase of assets or capital stock of such predecessor. And

(3) attorneys retained by the Insured to perform legal services for the Insured and the employees of such attorneys while such attorneys or the employees of such attorneys are performing such services for the Insured, and

(4) guest students pursuing their studies or duties in any of the Insured s offices, and

(5) directors or trustees of the Insured, the investment advisor, underwriter (distributor), transfer agent, or shareholder accounting record keeper, or administrator authorized by written agreement to keep financial and/or other required records, but only while performing acts coming within the scope of the usual duties of an officer or employee or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of the Insured, and

(6) any individual or individuals assigned to perform the usual duties of an employee within the premises of the Insured, by contract, or by any agency furnishing temporary personnel on a contingent or part-time basis, and

**ENDORSEMENT #2 - Continued**

(7) each natural person, partnership or corporation authorized by written agreement with the Insured to perform services as electronic data processor of checks or other accounting records of the Insured, but excluding any such processor who acts as transfer agent or in any other agency capacity in issuing checks, drafts or securities for the Insured, unless included under Sub-section (9) hereof, and

(8) those persons so designated in Section 15, Central Handling of Securities, and

(9) any officer, partner or Employee of

a) an investment advisor,
b) an underwriter (distributor),
c) a transfer agent or shareholder accounting record-keeper, or
d) an administrator authorized by written agreement to keep financial and/or other required records,

for an Investment Company named as Insured while performing acts coming within the scope of the usual duties of an officer or Employee of any Investment Company named as Insured herein, or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of any such Investment Company, provided that only Employees or partners of a transfer agent, shareholder accounting record-keeper or administrator which is an affiliated person as defined in the Investment Company Act of 1940, of an Investment Company named as Insured or is an affiliated person of the adviser, underwriter or administrator of such Investment Company, and which is not a bank, shall

be included within the definition of Employee.

Each employer of temporary personnel or processors as set forth in Sub-Sections (6) and of Section 1(a) and their partners, officers and employees shall collectively be deemed to be one person for all the purposes of this bond, excepting, however, the last paragraph of Section 13.

Brokers, or other agents under contract or representatives of the same general character shall not be considered Employees.

2. Nothing contained here shall be held to vary, alter, waive or extend any of the terms, limitations, conditions, or agreements of the attached bond other than as above stated.

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #3**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**CENTRAL HANDLING OF SECURITIES RIDER**

It is agreed that:

1. Those premises of Depositories listed in the following Schedule shall be deemed to be premises of the insured but only as respects coverage on Certificated Securities:

SCHEDULE

| DEPOSITORY | LOCATIONS COVERED |
|---|---|

ALL DEPOSITORIES USED BY THE INSURED AND ALL LOCATIONS OF SAID DEPOSITORIES

2. Certificated Securities held by such Depository shall be deemed to be Property as defined in the attached bond to the extent of the Insured s interest as effected by the making of appropriate entries on the books and records of such Depository.

3. The attached bond does not afford coverage in favor of any Depository listed in the Schedule above. When the Underwriter indemnifies the Insured for a loss covered hereunder, the Insured will assign the rights and causes of action to the extent of the claim payment against the Depository, or any other entity or person against whom it has a cause of action, to the Underwriter.

4. If the rules of the Depository named in the Schedule above provide that the Insured shall be assessed for a portion of the judgment (or agreed settlement) taken by the Underwriter based upon the assignment set forth in part 3 above and the Insured actually pays such assessment, then the Underwriter will reimburse the Insured for the amount of the assessment but not exceeding the amount of the loss payment by the Underwriter.

5. Nothing herein contained shall be held to vary, alter, waive, or extend any of the terms, limitations, conditions, or provisions of the attached bond other than as above stated.

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #4**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**NEW YORK AMENDATORY ENDORSEMENT - NY STATUTE 3420**

Wherever used in this endorsement: 1) we , us , our and Insurer mean the insurance company which issued this pol 2) you , your , Insured and first Named Insured mean the Named Corporation, Named Entity, Named Organizat Named Sponsor, Named Insured, or Insured stated in the declarations page; 3) other insured(s) means all other persons or entities afforded coverage under the policy; 4) Discovery Period means Discovery Period or Extended Reporting Period, as defined in the policy; and 5) Claim means Claim or Suit as defined in the policy.

It is hereby understood and agreed that the policy is amended as follows:

**A.** The following provisions are hereby added to the policy:

**FAILURE TO GIVE NOTICE WITHIN PRESCRIBED TIME:**

Failure to give any notice required to be given by this policy, or any policy of which this is a renewal, within the prescribed time shall not invalidate any Claim made against an Insured if:

(a) it shall be shown not to have been reasonably possible to give notice within the prescribed time and that notice was given as soon as was reasonably possible thereafter; or

(b) the failure to provide timely notice has not prejudiced the Insurer.

Any such Claim shall be deemed to have been first made against the Insured and noticed to the Insurer within the Policy Period or Discovery Period of the policy issued by the Insurer (the Noticed Policy ) in which the Insurer received notice of the Claim; provided that the coverage afforded with respect to the Noticed Policy shall be in an amount not greater than the amount of coverage afforded with respect to the Policy Period of the policy issued by the Insurer (the Former Policy ) in which the Claim was actually first made against the Insured. The foregoing sentence may result in (but not be limited to): (1) reducing the limit of liability available for such a Claim to the available limit of liability applicable to the

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**ENDORSEMENT #4 - Continued**

Former Policy; (2) increasing the applicable retention amount to that retention amount applicable to the Former Policy; or (3) reducing or eliminating coverage due to exclusions or other restrictions appearing in the Former Policy but eliminated, in part or in whole, in the Noticed Policy. No coverage shall be afforded under this endorsement if there was not in existence a Former Policy at the time the Claim was actually first made against the Insured.

**PREJUDICE:**

With respect to subsection (b) above, any such Claim must be noticed during the Policy Period or Discovery Period of a Noticed Policy which is a renewal or extension of the Former Policy.

Nothing in this endorsement shall be construed to provide coverage for a Claim under more than one Policy Period or Discovery Period.

In the event that the Insurer alleges that it was prejudiced as a result of a failure to give notice within the time required under the policy, the burden of proof shall be on:

(a) the Insurer to prove that it has been prejudiced, if the notice was provided within two years of the time required under the policy; or

(b) the Insured to prove that the Insurer has not been prejudiced, if the notice was provided more than two years after the time required under the policy.

The Insurer s rights shall not be deemed prejudiced unless the failure to timely provide notice materially impairs the ability of the Insurer to investigate or defend the Claim.

Notwithstanding the above, an irrebuttable presumption of prejudice shall apply if, prior to the notice, the Insured s liability has been determined by a court of competent jurisdiction or by a binding arbitration; or if the Insured has resolved the Claim by settlement or other compromise.

**NOTICE TO AGENT:**

Notice given by or on behalf of the Insured, or written notice by or on behalf of the injured party or any other claimant, to any licensed agent of the Insurer in the state of New York, with particulars sufficient to identify the Insured, shall be deemed notice to the Insurer.

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**ENDORSEMENT #4 - Continued**

**INSOLVENCY/BANKRUPTCY OF INSURED:**

The insolvency or bankruptcy of the Insured shall not relieve the Insurer of its obligations under this policy as long as all policy requirements are met by Insured, its trustee or receiver in bankruptcy. Should a covered judgment be rendered against an insolvent or bankrupt Insured, the Insurer shall be liable for the amount of such judgment not to exceed the applicable limit of liability under this policy.

**B.** The Clause entitled, Action Against Us or Action Against Company is deleted in its entirety and replaced with the following:

No one may bring an action against us unless there has been full compliance with all the terms of this policy and the amount of the Insured s obligation to pay has been finally determined either by:

1. judgment against the Insured which remains unsatisfied at the expiration of thirty (30) days from the service of notice of entry of the judgment upon the Insured and upon us; or

2. written agreement of the Insured, the claimant and us.

Any person or organization or legal representative thereof who has secured such judgment or written agreement shall thereafter be entitled to recover under this policy to the extent of the insurance afforded by this policy. We may not be impleaded by the Insured or its legal representative in any legalaction brought against the Insured by any person or organization.

ALL OTHER TERMS, CONDITIONS AND EXCLUSIONS REMAIN UNCHANGED.

AUTHORIZED REPRESENTATIVE

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**ENDORSEMENT #5**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**STOP PAYMENT LEGAL LIABILITY - SUB-LIMITED TO $100K**

It is agreed that:

1. In consideration of the additional premium included herein, this policy is extended to indemnify the Insured against any and all sums which the Insured shall become obligated to pay by reason of the liability imposed upon the Insured by law for damages:

   (a) for having either complied with or failed to comply with any written notice of any depositor of the Insured or any authorized Representative of such depositor to stop payment of any cheque or draft made or drawn by such depositor or any authorized representative of such depositor, or

   (b) for having refused to pay any cheque or draft made or drawn by any depositor of the Insured or any authorized representative of such depositor.

   Provided always that:

   (1) the Insured shall bear the first $nil for each and every loss.

   (2) the Underwriter s liability under this rider shall be limited to $100,000 for any one loss and in all during each policy year, subject to a $100,000 annual aggregate.

   (3) the term Policy Year as used in this rider shall mean each period of twelve calendar months commencing the effective date of the attached bond.

2. Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, limitations, conditions or agreements of the attached bond other than as above stated.

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #6**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**UNAUTHORIZED SIGNATURES - SUB-LIMITED TO $100K; $5K DED.**

It is agreed that:

1. The attached bond is amended to include the following insuring agreement:

**UNAUTHORIZED SIGNATURE**

Loss resulting directly from the Insured having accepted, paid or cashed any original check or withdrawal order made or drawn on a customer s account which bears the signature or endorsement of one other than a person whose name and signature is on file with the Insured as a signatory on such account it shall be a condition precedent to the Insured s right of recovery under this Coverage that the Insured shall have on file signature of all persons who are signatories on such account.

2. The Limit of Liability on this Agreement is $100,000 as part of, and not in addition to, the Aggregate Limit of Liability shown on the Declaration Page; a $5,000 deductible shall apply to each and every loss.

3. Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, limitations, conditions or agreements of the attached policy other than as above stated.

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #7**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**TERMINATION OR CANCELLATION SECTION AMENDED TO 60 DAYS**

It is agreed that:

1. Section 13. TERMINATION of the **CONDITIONS AND LIMITATIONS** Clause of the attached bond is deleted in its entirety and replaced with the following:

TERMINATION OR CANCELLATION

Section 13. The Underwriter may terminate this bond as an entirety by furnishing written notice specifying the termination date which cannot be prior to 60 days after the receipt of such written notice by each Investment Company named as Insured and the Securities and Exchange Commission, Washington, D.C. The Insured may terminate this bond as an entirety by furnishing written notice to the Underwriter. When the Insured cancels, the Insured shall furnish written notice to the Securities and Exchange Commission, Washington. D.C. prior to 60 days before the effective date of the termination. The Underwriter shall notify all other Investment Companies named as Insured of the receipt of such termination notice and the termination cannot be effective prior to 60 days after receipt of written notice by all other Investment Companies. Premiums are earned until the termination date as set forth herein.

The Underwriter shall refund the unearned premium computed at short rates in accordance with the standard short rate cancellation tables if terminated by the Insured or pro rata if terminated for any other reason.

This Bond shall terminate as to any Employee 60 days after receipt by each Insured and by the Securities and Exchange Commission of a written notice from the Underwriter of its desire to terminate this bond as to such Employee.

2. Nothing contained here shall be held to vary, alter, waive or extend any of the terms, limitations, conditions, or agreements of the attached bond other than as above stated.

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #8**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**COMPUTER SYSTEMS**

It is agreed that:

1. The attached bond is amended by adding an additional Insuring Agreement as follows:

**COMPUTER SYSTEMS**

Loss resulting directly from a fraudulent

(1) Entry of Electronic Data or Computer Program into, or

(2) Change of Electronic Data or Computer Program within any Computer Systems operated by the Insured, whether owned or leased; or any Computer System identified in the application for this bond; or a Computer System first used by the Insured during the Bond Period, as provided by General Agreement B of this bond;

provided that the entry or change causes

(i) property to be transferred, paid or delivered,

(ii) an account of the Insured, or of its customer, to be added, deleted, debited or credited, or

(iii) an unauthorized account or a fictitious account to be debited or credited.

In this Insuring Agreement, fraudulent entry or change shall include such entry or change made by an Employee or the Insured acting in good faith

(a) on an instruction from a software contractor who has a written agreement with the Insured to design, implement or service programs for a Computer System covered by this Insuring Agreement.

2. In addition to the Conditions and Limitations in the bond, the following, applicable to the Computer Systems Fraud Insuring Agreement, are added:

**ENDORSEMENT #8 - Continued**

DEFINITIONS

A. Computer Program means a set of related electronic instructions which direct the operations and functions of a computer or devices connected to it which enable the computer or devices to receive, process, store or send Electronic Data;

B. Computer Systems means

1) computers with related peripheral components, including storage components wherever located,
2) systems and applications software,
3) terminal devices, and
4) related communication networks

by which Electronic Data are electronically collected, transmitted, processed, stored and retrieved;

C. Electronic Data means facts or information converted to a form usable in a Computer System by Computer Programs, and which is stored on magnetic tapes or disks, or optical storage disks or other bulk media.

D. Telefacsimile Device means a machine capable of sending or receiving a duplicate image of a document by means of electronic impulses transmitted through a telephone line and which reproduces the duplicate image on paper;

E. Tested means a method of authenticating the contents of a communication by placing a valid test key on it which has been agreed upon between the Insured and a customer, automated clearing house, or another financial institution for the purpose of protecting the integrity of the communication in the ordinary course of business.

EXCLUSIONS

A. loss resulting directly or indirectly form the assumption of liability by the Insured by contract unless the liability arises from a loss covered by the Computer Systems Fraud Insuring Agreement and would be imposed on the Insured regardless of the existence of the contract;

**ENDORSEMENT #8 - Continued**

B. loss resulting directly or indirectly from negotiable instruments, securities, documents or other written instruments which bear a forged signature, or are counterfeit, altered or otherwise fraudulent and which are used as source documentation in the preparation of Electronic Data or manually keyed into a data terminal;

C. loss resulting directly or indirectly from

1) mechanical failure, faulty construction, error in design, latent defect, fire, wear or tear, gradual deterioration, electrical disturbance or electrical surge which affects a Computer System, or

2) failure or breakdown of electronic data processing media, or

3) error or omission in programming or processing;

D. loss resulting directly or indirectly from the input of Electronic Data into a Computer System terminal device either on the premises of a customer of the Insured or under the control of such a customer by a person who had authorized access to the customer s authentication mechanism;

E. loss resulting directly from the theft to confidential information

SERIES OF LOSSES

All loss or series of losses involving the fraudulent acts of one individual, or involving fraudulent acts in which one individual is implicated, whether or not that individual is specifically identified, shall be treated as a Single Loss and subject to the Single Loss Limit of Liability. A series of losses involving unidentified individuals but arising from the same method of operation shall be deemed to involve the same individual and in that event shall be treated as a Single Loss and subject to the Single Loss Limit of Liability.

3. The exclusion below, as found in financial institution bonds forms 14 and 25, does not apply to the Computer Systems Fraud Insuring Agreement.

**ENDORSEMENT #8 - Continued**

loss involving any Uncertificated Security except an Uncertificated Security of any Federal Reserve Bank of the United States or when covered under Insuring Agreement (A);

4. Nothing herein contained shall be held to vary, alter, waive, or extend any of the terms, limitations, conditions or agreements or the attached bond other than as above stated.

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #9**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**AUDIT EXPENSE COVERAGE**

It is agreed that:

1. An additional paragraph, as follows, is inserted as the fifth paragraph of the Fidelity Insuring Agreement.
Audit Expense Coverage $50,000 (for coverage, an amount must be inserted)

This Insuring Agreement shall be subject to a deductible of $5,000

Expense incurred by the Insured for that part of the cost of audits or examinations required by State or Federal supervisory authorities to be conducted either by such authorities or by independent accountants by reason of the discovery of loss sustained by the Insured through dishonest or fraudulent acts of any of the Employees. The total liability of the Underwriter for such expense by reason of such acts of any Employee or in which such Employee is concerned or implicated or with respect to any one audit or examination is limited to the amount stated opposite Audit Expense Coverage ; it being understood, however, that such expense shall be deemed to be loss sustained by the Insured through dishonest or fraudulent act of one or more of the Employees and the liability of the Underwriter under this paragraph of Insuring Agreement (A) shall be part of and not in addition to the Single Loss Limit of Liability stated in Item 4 of the Declarations.

2. The following paragraph is substituted for Section 2 (d):

(d) loss resulting directly or indirectly from any acts of any director or trustee of the Insured other than one employed as a salaried, pensioned or elected official or an Employee of the Insured, except when performing acts coming within the scope of the usual duties of an Employee, or while acting as a member of any committee duly elected or appointed by resolution of the board of directors or trustees of the Insured to perform specific, as distinguished from general, directorial acts on behalf of the Insured;

**ENDORSEMENT #9 - Continued**

3. The following paragraph is substituted for Section 2 (u):

(u) all fees, costs and expenses incurred by the Insured

(1) in establishing the existence of or amount of loss covered under this bond, except to the extent covered under the portion of Insuring Agreement (A) entitled Audit Expense, or

(2) as a party to any legal proceeding whether or not such legal proceeding exposes the Insured to loss covered by this bond;

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #10**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**THIS ENDORSEMENT CHANGES THE POLICY. PLEASE READ IT CAREFULLY.**

**COVERAGE TERRITORY ENDORSEMENT**

Payment of loss under this policy shall only be made in full compliance with all United States of America economic or trade sanction laws or regulations, including, but not limited to, sanctions, laws and regulations administered and enforced by the U.S. Treasury Department s Office of Foreign Assets Control ( OFAC ).

AUTHORIZED REPRESENTATIVE

89644 (7/05)

**ENDORSEMENT #11**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**NEW YORK STATUTORY RIDER/ENDORSEMENT**

It is agreed that:

1. Part (a) of the Section entitled Termination or Cancelation of this bond/policy is deleted.

2. Cancelation of this bond/policy by the Underwriter/Company is subject to the following provisions:
If the bond/policy has been in effect for 60 days or less, it may be cancelled by the Underwriter/Company for any reason. Such cancelation shall be effective 20 days after the Underwriter/Company mails a notice of cancelation to the first-named insured at the mailing address shown in the bond/policy. However, if the bond/policy has been in effect for more than 60 days or is a renewal, then cancelation must be based on one of the following grounds:

(A) non-payment of premium;

(B) conviction of a crime arising out of acts increasing the hazard insured against;

(C) discovery of fraud or material misrepresentation in the obtaining of the bond/policy or in the presentation of claim thereunder;

(D) after issuance of the bond/policy or after the last renewal date, discovery of an act or omission, or a violation of any bond/policy condition that substantially and materially increases the hazard insured against, and which occurred subsequent to inception of the current bond/policy period;

(E) material change in the nature or extent of the risk, occurring after issuance or last annual renewal anniversary date of the bond/policy, which causes the risk of loss to be substantially and materially increased beyond that contemplated at the time the bond/policy was issued or last renewed;

(F) the cancelation is required pursuant to a determination by the superintendent that continuation of the present premium volume of the insurer would jeopardize that insurer s solvency or be hazardous to the interests of the insureds, the insurer s creditors or the public;

SR6180b (12/93)

**ENDORSEMENT #11 - Continued**

(G) a determination by the superintendent that the continuation of the bond/policy would violate, or would place the insurer in violation of, any provision of the New York State insurance laws.

(H) where the insurer has reason to believe, in good faith and with sufficient cause, that there is a possible risk or danger that the insured property will be destroyed by the insured for the purpose of collecting the insurance proceeds, provided, however, that:

(i) a notice of cancelation on this ground shall inform the insured in plain language that the insured must act within ten days if review by the Insurance Department of the State of New York of the ground for cancelation is desired, and

(ii) notice of cancelation on this ground shall be provided simultaneously by the insurer to the Insurance Department of the State of New York. Cancelation based on one of the above grounds shall be effective 15 days after the notice of cancellation is mailed or delivered to the named insured, at the address shown on the bond/policy, and to its authorized agent or broker.

3. If the Underwriter/Company elects not to replace a bond/policy at the termination of the bond/policy period, it shall notify the insured not more than 120 days nor less than 60 days before termination. If such notice is given late, the bond/policy shall continue in effect for 60 days after such notice is given. The Aggregate Limit of Liability shall not be increased or reinstated. The notice not to replace shall be mailed to the insured and its broker or agent.

4. If the Underwriter/Company elects to replace the bond/policy, but with a change of limits, reduced coverage, increased deductible, additional exclusion, or upon increased premiums in excess of ten percent (exclusive of any premium increase as a result of experience rating), the Underwriter must mail written notice to the insured and its agent or broker not more than 120 days nor less than 60 days before replacement. If such notice is given late, the replacement bond/policy shall be in effect with the same terms, conditions and rates as the terminated bond/policy for 60 days after such notice is given.

SR6180b (12/93)

**ENDORSEMENT #11 - Continued**

5. The Underwriter/Company may elect to simply notify the insured that the bond/policy will either be not renewed or renewed with different terms, conditions or rates. In this event, the Underwriter/Company will inform the insured that a second notice will be sent at a later date specifying the Underwriter s/Company s exact intention. The Underwriter shall inform the insured that, in the meantime, coverage shall continue on the same terms, conditions and rates as the expiring bond/policy until the expiration date of the bond/policy or 60 days after the second notice is mailed or delivered, whichever is later.

FOR USE WITH FINANCIAL INSTITUTION BONDS,

STANDARD FORMS NOS. 14, 15, 24, AND 25 AND

EXCESS BANK EMPLOYEE DISHONESTY BONDS,

STANDARD FORM NO. 28, AND COMPUTER CRIME

POLICY FOR FINANCIAL INSTITUTIONS TO COMPLY

WITH STATUTORY REQUIREMENTS.

SR6180b (12/93) AUTHORIZED REPRESENTATIVE

AUTHORIZED REPRESENTATIVE

SR6180b (12/93)

**ENDORSEMENT #12**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**ADDITIONAL INSUREDS RIDER**

It is agreed that:

1. Item 1 of the Declarations, Name of Insured (herein called Insured), is amended to include the following listed entities as additional Insureds under the attached bond:

Apollo Tactical Income Fund, Inc

Apollo Credit Management, LLC

2. Nothing contained here shall be held to vary, alter, waive or extend any of the terms, limitations, conditions, or agreements of the attached bond other than as above stated.

AUTHORIZED REPRESENTATIVE

**ENDORSEMENT #13**

This endorsement, effective 12:01 am February 26, 2013 forms a part of

Policy number: 01-770-70-86

Issued to: APOLLO SENIOR FLOATING RATE FUND INC.

By: National Union Fire Insurance Company of Pittsburgh, Pa.

**FORMS INDEX ENDORSEMENT**

The contents of the Policy is comprised of the following forms:

FORMS INDEX ENDORSEMENT

The contents of the Policy is comprised of the following forms:

| MBER | EDITION DATE | FORM TITLE |
|---|---|---|
| | 04/95 | INVESTMENET COMPANY BLANKET BOND DEC |
| | 09/84 | INVESTMENET COMPANY BLANKET BOND GUTS |
| | 08/08 | NOTICE OF CLAIM (REPORTING BY E-MAIL) |
| | | EMPLOYEE DEFINITION AMENDED RIDER |
| | | CENTRAL HANDLING OF SECURITIES RIDER |
| | 01/09 | NEW YORK LAW 3420 AMENDATORY ENDORSEMENT |
| | | STOP PAYMENT LEGAL LIABILITY SUB-LIMITED TO $100K |
| | | UNAUTHORIZED SIGNATURES SUB-LIMITED TO $100K; $5K DED. |

(“ASU 2013-11”), which provides clarification on the financial statement presentation of unre
benefits. ASU 2013-11 specifies that an unrecognized tax benefit (or a portion thereof) shall be prese
financial statements as a reduction to a deferred tax asset when a net operating loss carryforward, a
loss, or a tax credit carryforward exists. If such deferred tax asset is not available at the reporting da
additional income taxes resulting from the disallowance of a tax position, or the entity does not plan
deferred tax asset for such purpose given the option, the unrecognized tax benefit shall be prese
financial statements as a liability and shall not be combined with deferred tax assets. The amendme
2013-11 are effective for fiscal years (and interim periods within those years) beginning after Dec
2013, with early adoption permitted. The Company has unrecognized state tax benefits of approxi
million (excluding accrued interest) recorded on a gross basis in other non-current liabilities at Sep
2013. However, the Company does not believe the new guidance will have a material impact on t
sheet presentation of its unrecognized tax benefits based on the nature of these items.

(3) ACQUISITIONS AND DIVESTITURES
Acquisitions

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

During the six months ended September 30, 2013, the Company purchased five businesses with histor
sales of approximately $12 million. Transaction and other integration costs incurred during the six mo
September 30, 2013 were approximately $0.7 million and were included in selling, distribution and
administrative expenses in the Company's Consolidated Statement of Earnings.

On October 31, 2013, the Company acquired the assets and operations of The Encompass Gas Group,
Note 17 for further information.

Divestitures

On June 1, 2012, the Company divested the assets and operations of five branch locations in western C
The Company realized a gain on the sale of $6.8 million ($5.5 million after tax) recorded in "Other inc
its Consolidated Statement of Earnings. The operations were included in the Distribution business seg
contributed net sales that were not material to the Company's Consolidated Statement of Earnings.

(4) INVENTORIES, NET

Inventories, net, consist of:

| (In thousands) | September 30, 2013 | Marc |
|---|---|---|
| Hardgoods | $314,763 | $317 |
| Gases | 152,360 | 157,7 |
| | $467,123 | $474 |

(5) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price of an acquired entity over the amounts assigned t
assets acquired and liabilities assumed in a business combination. The valuations of assets acquired an
liabilities assumed from certain recent acquisitions are based on preliminary estimates of fair value an
subject to revision as the Company finalizes appraisals and other analyses. Changes in the carrying am
goodwill by business segment for the six months ended September 30, 2013 were as follows:

| (In thousands) | Distribution Business Segment | All Other Operations Business Segment | Total |
|---|---|---|---|
| Balance at March 31, 2013 | $998,128 | $197,485 | $1,19 |
| Acquisitions [a] | 6,281 | (233) | 6,048 |
| Other adjustments, including foreign currency translation | 118 | (16) | 102 |
| Balance at September 30, 2013 | $1,004,527 | $197,236 | $1,20 |

[a] Includes acquisitions completed during the current year and adjustments made to prior year acquisi

Other Intangible Assets

Other intangible assets by major class are as follows:

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

| (In thousands) | September 30, 2013 Weighted Average Amortization Period (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | March 31, 2013 Weighted Average Amortization Period (Years) | Gross Carrying Amount | Accumulated Amortization |
|---|---|---|---|---|---|---|---|
| Customer relationships | 15 | $294,428 | $(97,914 ) | $196,514 | 15 | $294,598 | $(91,354 |
| Non-competition agreements | 7 | 42,535 | (21,204 ) | 21,331 | 7 | 42,891 | (19,338 |
| Other | | 23 | (2 ) | 21 | | 1,295 | (1,268 |
| | | $336,986 | $(119,120) | $217,866 | | $338,784 | $(111,960 |

Other intangible assets primarily consist of customer relationships, which are amortized over the estim benefit periods ranging from seven to 17 years, and non-competition agreements, which are amortized terms of the agreements. The determination of the estimated benefit periods associated with customer relationships is based on an analysis of historical customer sales attrition information and other custon factors at the date of acquisition. There are no expected residual values related to these intangible asse Company evaluates the estimated benefit periods and recoverability of its other intangible assets when circumstances indicate that the lives may not be appropriate and/or the carrying values of the assets ma recoverable. If the carrying value of an other intangible asset or asset group is not recoverable, impairı measured as the amount by which the carrying value exceeds its estimated fair value.

As the Company's other intangible assets amortize and reach the end of their respective amortization p fully amortized balances are removed from the gross carrying and accumulated amortization amounts. Amortization expense related to the Company's other intangible assets for the six months ended Septe 2013 and 2012 was $13.9 million and $12.8 million, respectively. Estimated future amortization exper Company's other intangible assets by fiscal year is as follows: remainder of fiscal 2014 - $13.7 millior $26.4 million; 2016 - $24.8 million; 2017 - $22.9 million; 2018 - $21.2 million; and $108.9 million th

Prior Year Impairment Evaluation

In June 2012, the Company re-evaluated the economic viability of a small hospital piping construction associated with a reporting unit in the Company's All Other Operations business segment. In accordar relevant accounting guidance, if events or circumstances exist indicating that it is more likely than not goodwill may be impaired, the Company is required to perform an interim assessment of the carrying goodwill. However, prior to performing the test for goodwill impairment, the Company is required to assessment of the recoverability of the long-lived assets (including amortizing intangible assets) of the Long-lived assets are not considered recoverable when the carrying amount of the long-lived asset or exceeds the undiscounted expected future cash flows. If long-lived assets are not recoverable, an impa is recognized to the extent that the carrying amount exceeds fair value.

As a result of the impairment analysis performed on the long-lived assets at this reporting unit, the Co recorded a charge of $1.7 million related to certain of the intangible assets associated with this busines the three months ended June 30, 2012. The charge was reflected in the "Restructuring and other specia line item of the Company's Consolidated Statement of Earnings and was not allocated to the Company

segments (see Note 14).
Subsequent to the intangible asset write-down, the Company performed an assessment of the carrying goodwill associated with the reporting unit. The assessment did not indicate that the reporting unit's g potentially impaired. Although the fair value of the reporting unit was not substantially in excess of its amount, the amount of goodwill associated with this reporting unit is not material to the Company's c financial statements.

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES
Accrued expenses and other current liabilities include:

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

| (In thousands) | September 30, 2013 | Mar 201 |
|---|---|---|
| Accrued payroll and employee benefits | $85,923 | $89 |
| Business insurance reserves [(a)] | 53,307 | 53,6 |
| Taxes other than income taxes | 27,164 | 23,1 |
| Cash overdraft | 62,717 | 83,1 |
| Deferred rental revenue | 32,457 | 31,9 |
| Accrued interest | 23,553 | 23,3 |
| Other accrued expenses and current liabilities | 52,353 | 70,5 |
| | $337,474 | $37 |

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(a) With respect to the business insurance reserves above, the Company had corresponding insurance r of $13.9 million and $14.0 million at September 30, 2013 and March 31, 2013, respectively, which included within the “Prepaid expenses and other current assets” line item on the Company’s Conso Balance Sheets. The insurance receivables represent the balance of probable claim losses in excess Company’s deductible for which the Company is fully insured.

(7) INDEBTEDNESS

Total debt consists of:

| (In thousands) | September 30, 2013 | Ma 20 |
|---|---|---|
| Short-term | | |
| Money market loans | $— | $– |
| Commercial paper | — | — |
| Short-term debt | $— | $– |
| | | |
| Long-term | | |
| Trade receivables securitization | $177,000 | $2 |
| Revolving credit borrowings - U.S. | — | — |
| Revolving credit borrowings - Multi-currency | 42,140 | 36, |
| Revolving credit borrowings - France | 7,778 | 7,3 |
| Senior notes, net | 2,048,564 | 2,0 |
| Senior subordinated notes | 215,446 | 21 |
| Other long-term debt | 1,566 | 2,4 |
| Total long-term debt | 2,492,494 | 2,6 |
| Less current portion of long-term debt | (915,890 ) | (30 |
| Long-term debt, excluding current portion | $1,576,604 | $2 |
| | | |
| Total debt | $2,492,494 | $2 |

Money Market Loans

The Company has an agreement with a financial institution to provide access to short-term advances n
exceed $35 million that expires on January 1, 2014, but may be extended subject to renewal provisions
in the agreement. The advances may be for one to six months with rates at a fixed spread over the corr
London Interbank Offering Rate ("LIBOR"). At September 30, 2013, there were no advances outstand
the agreement.

The Company also has an agreement with another financial institution that provides access to addition
short-term advances not to exceed $35 million that expires on July 31, 2014. The agreement may be fu
extended subject to renewal provisions contained in the agreement. The advances are generally overni
up to seven days. The amount, term and

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interest rate of an advance are established through mutual agreement with the financial institution whe
Company requests such an advance. At September 30, 2013, there were no advances outstanding unde
agreement.

Commercial Paper

The Company participates in a $750 million commercial paper program supported by its $750 million
credit facility (see below). This program allows the Company to obtain favorable short-term borrowin
with maturities that may vary, but will generally not exceed 90 days from the date of issue. The Comp
used proceeds from the commercial paper program to pay down amounts outstanding under its revolvi
facility and for general corporate purposes. There were no borrowings outstanding under the commerc
program at September 30, 2013 or March 31, 2013.

Trade Receivables Securitization

The Company participates in a securitization agreement with three commercial bank conduits to which
qualifying trade receivables on a revolving basis (the "Securitization Agreement"). The Company's sa
trade receivables is accounted for as a secured borrowing under which qualified trade receivables colla
amounts borrowed from the commercial bank conduits. Trade receivables that collateralize the Securit
Agreement are held in a bankruptcy-remote special purpose entity, which is consolidated for financial
purposes and represents the Company's only variable interest entity. Qualified trade receivables in the
the outstanding borrowing under the Securitization Agreement are not available to the general credito
Company. The maximum amount available under the Securitization Agreement is $295 million and it
interest at approximately LIBOR plus 75 basis points.

At September 30, 2013, the amount of outstanding borrowing under the Securitization Agreement was
million, and the additional borrowing capacity under the Securitization Agreement was $118 million.
borrowed under the Securitization Agreement could fluctuate monthly based on the Company's fundi
requirements and the level of qualified trade receivables available to collateralize the Securitization A
The Securitization Agreement expires in December 2015 and contains customary events of terminatio
including standard cross-default provisions with respect to outstanding debt.

Senior Credit Facility

The Company participates in a $750 million Amended and Restated Credit Facility (the "Credit Facili
Credit Facility consists of a $650 million U.S. dollar revolving credit line, with a $65 million letter of
sublimit and a $50 million swingline sublimit, and a $100 million (U.S. dollar equivalent) multi-curre
revolving credit line. The expiration date of the Credit Facility is July 19, 2016. Under circumstances
in the Credit Facility, the revolving credit line may be increased by an additional $325 million, provid
multi-currency revolving credit line may not be increased by more than an additional $50 million.

As of September 30, 2013, the Company had $42 million of borrowings under the Credit Facility, all
were under the multi-currency revolver. There were no borrowings under the U.S. dollar revolver at
September 30, 2013. The Company also had outstanding U.S. letters of credit of $51 million issued u
Credit Facility. U.S. dollar revolver borrowings bear interest at LIBOR plus 125 basis points. The mul
revolver bears interest based on a rate of 125 basis points over the Euro currency rate applicable to ea
currency borrowing. As of September 30, 2013, the weighted average effective interest rate on the
multi-currency revolver was 1.65%. In addition to the borrowing spread of 125 basis points for U.S. d
multi-currency revolver borrowings, the Company pays a commitment (or unused) fee on the undraw

the Credit Facility equal to 20 basis points per annum.
At September 30, 2013, the financial covenant of the Credit Facility did not restrict the Company's ab
borrow on the unused portion of the Credit Facility. The Credit Facility contains customary events of d
including, without limitation, failure to make payments, a cross-default to certain other debt, breaches
covenants, breaches of representations and warranties, certain monetary judgments and bankruptcy and
events. At September 30, 2013, the Company was in compliance with all covenants under all of its deb
agreements. In the event of default, repayment of borrowings under the Credit Facility may be accelera
September 30, 2013, $657 million remained available under the Company's Credit Facility, after givin
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. $10.8 mi
fund its operations in France. These revolving credit borrowings are outside of the Company's Credit F
September 30, 2013, these revolving credit borrowings were €5.8 million (U.S. $7.8 million) and are c
long-term debt on the Company's Consolidated Balance Sheet. The variable interest rates on the Frenc
credit borrowings are based on the Euro currency rate plus 125 basis points. As of September 30, 2013
effective interest rate on the French revolving credit borrowings was 1.38%. The line of credit expires
July 19, 2016.

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

Senior Notes

At September 30, 2013, the Company had $300 million outstanding of 2.85% senior notes (the "2013
matured and were retired on October 1, 2013. The 2013 Notes were issued at a discount with a yield o
The 2013 Notes are included within the "Current portion of long-term debt" line item on the Company
Consolidated Balance Sheets based on the maturity date.

At September 30, 2013, the Company had $400 million outstanding of 4.50% senior notes maturing o
September 15, 2014 (the "2014 Notes"). The 2014 Notes were issued at a discount with a yield of 4.52
on the 2014 Notes is payable semi-annually on March 15 and September 15 of each year. At Septemb
2013, the 2014 Notes were reclassified to the "Current portion of long-term debt" line item on the Co
Consolidated Balance Sheet based on the maturity date.

At September 30, 2013, the Company had $250 million outstanding of 3.25% senior notes maturing o
October 1, 2015 (the "2015 Notes"). The 2015 Notes were issued at a discount with a yield of 3.283%
the 2015 Notes is payable semi-annually on April 1 and October 1 of each year.

At September 30, 2013, the Company had $250 million outstanding of 2.95% senior notes maturing o
2016 (the "2016 Notes"). The 2016 Notes were issued at a discount with a yield of 2.980%. Interest o
Notes is payable semi-annually on June 15 and December 15 of each year.

At September 30, 2013, the Company had $325 million outstanding of 1.65% senior notes maturing o
February 15, 2018 (the "2018 Notes"). The 2018 Notes were issued at a discount with a yield of 1.685
on the 2018 Notes is payable semi-annually on February 15 and August 15 of each year.

At September 30, 2013, the Company had $275 million outstanding of 2.375% senior notes maturing
February 15, 2020 (the "2020 Notes"). The 2020 Notes were issued at a discount with a yield of 2.392
on the 2020 Notes is payable semi-annually on February 15 and August 15 of each year.

At September 30, 2013, the Company had $250 million outstanding of 2.90% senior notes maturing o
November 15, 2022 (the "2022 Notes"). The 2022 Notes were issued at a discount with a yield of 2.91
on the 2022 Notes is payable semi-annually on May 15 and November 15 of each year.

The 2013, 2014, 2015, 2016, 2018, 2020 and 2022 Notes (collectively, the "Senior Notes") contain co
restrict the incurrence of liens and limit sale and leaseback transactions. The Company has the option
the Senior Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued
interest and applicable make-whole payments.

Senior Subordinated Notes

At September 30, 2013, the Company had $215 million outstanding of 7.125% senior subordinated no
originally due to mature on October 1, 2018 (the "2018 Senior Subordinated Notes"). The 2018 Senio
Subordinated Notes had a redemption provision which permitted the Company, at its option, to call th
Senior Subordinated Notes at scheduled dates and prices beginning on October 1, 2013. On August 27
Company announced its election to redeem the remaining $215 million outstanding on the 2018 Senio
Subordinated Notes, and on October 2, 2013 (the "redemption date"), the 2018 Senior Subordinated N
redeemed in full at a price of 103.563%. The election to exercise the redemption provision of the 2018
Subordinated Notes accelerated the maturity date of the notes to the redemption date. As such, the 201
Subordinated Notes were reclassified to the "Current portion of long-term debt" line item on the Comp
Consolidated Balance Sheet at September 30, 2013. A loss on the early extinguishment of the 2018 Se
Subordinated Notes of $9.1 million (approximately $6 million after tax, or approximately $0.08 per di

share) will be recognized related to the redemption premium and the write-off of unamortized debt iss
costs in the fiscal quarter ending December 31, 2013.

Other Long-term Debt

The Company's other long-term debt primarily consists of capitalized lease obligations and notes issu
of businesses acquired, which are repayable in periodic installments. At September 30, 2013, other lon
debt totaled $1.6 million with an average interest rate of approximately 6.3% and an average maturity
approximately 1.8 years.

Aggregate Long-term Debt Maturities

The aggregate maturities of long-term debt at September 30, 2013 are as follows:

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| (In thousands) | Debt Ma |
|---|---|
| September 30, 2014 | $915,89 |
| March 31, 2015 | 434 |
| March 31, 2016 | 427,372 |
| March 31, 2017 | 300,139 |
| March 31, 2018 | 325,095 |
| Thereafter | 525,000 |
| | $2,493,9 |

(a) Outstanding borrowings under the Securitization Agreement at September 30, 2013 are refle maturing at the agreement's expiration in December 2015. The $215 million outstanding of Senior Subordinated Notes is reflected as maturing on the redemption date of October 2, 20

The Senior Notes are reflected in the debt maturity schedule at their maturity values rather than their c values, which are net of aggregate discounts of $1.4 million at September 30, 2013.

(8) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company manages its exposure to changes in market interest rates. The Company's involvement derivative instruments has been limited to highly effective interest rate swap agreements used to mana well-defined interest rate risk exposures and treasury rate lock agreements used to fix the interest rate forecasted debt issuances. When the Company has derivative instruments outstanding, it monitors its p well as the credit ratings of its counterparties, including the potential for non-performance by the coun The Company does not enter into interest rate swap or treasury rate lock agreements for trading purpo Company recognizes outstanding derivative instruments as either assets or liabilities at fair value on th Consolidated Balance Sheets. During the six months ended September 30, 2013, the Company was pa total of five interest rate swap agreements with an aggregate notional amount of $300 million.

Cash Flow Hedges

In anticipation of the issuance of the 2015 Notes, the Company entered into a treasury rate lock agree July 2010 with a notional amount of $100 million that matured in September 2010. The treasury rate l agreement was designated as a cash flow hedge of the semi-annual interest payments associated with t forecasted issuance of the 2015 Notes. When the treasury rate lock agreement matured, the Company loss of $2.6 million ($1.6 million after tax) which was reported as a component within accumulated ot comprehensive income ("AOCI") and is being reclassified into earnings over the term of the 2015 Not six months ended September 30, 2013 and 2012, $259 thousand of the loss on the treasury rate lock w reclassified to interest expense during each period. At September 30, 2013, the estimated loss recorde on the treasury rate lock agreement that is expected to be reclassified into earnings within the next twe months is $517 thousand ($326 thousand after tax). See Note 10 for additional details regarding the im treasury rate lock agreement on the Company's other comprehensive income and reclassifications fro into earnings.

Fair Value Hedges

The Company also has variable interest rate swap agreements, which are designated as fair value hedg derivative instruments designated as fair value hedges, the gain or loss on the derivative as well as the

gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings.
At September 30, 2013, the Company had five variable interest rate swaps outstanding with a notional
$300 million. These variable interest rate swaps effectively converted the Company's $300 million of
2013 Notes to variable rate debt. On October 1, 2013, the variable interest rate swaps matured, coincid
the maturity date of the Company's 2013 Notes.
During the six months ended September 30, 2013, the fair value of the variable interest rate swaps dec
$2.5 million. The carrying value of the 2013 Notes caused by the hedged risk also decreased by $2.5 m
during the six months ended September 30, 2013. The Company records the gain or loss on the hedged
the 2013 Notes) and the gain or loss on the variable interest rate swaps in interest expense. The net gai
recorded in earnings as a result of hedge ineffectiveness related to the designated fair value hedges wa
immaterial for the three and six months ended September 30, 2013 and 2012.



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Tabular Disclosure

The following tables reflect the fair values of derivative instruments on the Company's Consolidated I
Sheets as well as the effect of derivative instruments in fair value hedging relationships on the Compa
earnings. See Note 10 for the tabular presentation of derivative instruments in cash flow hedging relati
related to the treasury rate lock agreement.

Fair Value of Derivatives Designated as Hedging Instruments

| (In thousands) | September 30, 2013 Balance Sheet Location | Fair Value | March 31, 2013 Balance Sheet Location | Fair V |
|---|---|---|---|---|
| Interest rate swaps: | | | | |
| Variable interest rate swaps | Prepaid expenses and other current assets | $— | Prepaid expenses and other current assets | $2,49 |

Effect of Derivative Instruments in Fair Value Hedging Relationships on Earnings

| (In thousands) | Location of Gain (Loss) Recognized in Pre-tax Income | Amount of Gain (Loss) Recognized in Pre-Tax I Six Months Ended Septe | |
|---|---|---|---|
| Derivatives in Fair Value Hedging Relationships | | 2013 | 2012 |
| Change in fair value of variable interest rate swaps | Interest expense, net | $(2,491) | $(1,8 |
| Change in carrying value of 2013 Notes | Interest expense, net | 2,496 | 1,802 |
| Net effect | Interest expense, net | $5 | $(2 |

(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
transaction between market participants at the measurement date. Assets and liabilities recorded at fai
classified based upon the level of judgment associated with the inputs used to measure their fair value.
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 indirec observable 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 (in assumptions about risk) that market participants would use in pricing the asset or liability at the measu date.

The carrying value of cash, trade receivables, other current receivables, trade payables and other curre
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 September 30, 2013 and March 31,
categorized in the tables below based on the lowest level of significant input to the valuation. During t
presented, there were no transfers between fair value hierarchical levels.

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| (In thousands) | Balance at September 30, 2013 | Quoted prices in active markets Level 1 | Significant other observable inputs Level 2 | Significa unobserv Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Deferred compensation plan assets | $15,444 | $15,444 | $— | $ — |
| Derivative assets - variable interest rate swap agreements | — | — | — | — |
| Total assets measured at fair value on a recurring basis | $15,444 | $15,444 | $— | $ — |
| Liabilities: | | | | |
| Deferred compensation plan liabilities | $15,444 | $15,444 | $— | $ — |
| Contingent consideration liabilities | 1,984 | — | — | 1,984 |
| Total liabilities measured at fair value on a recurring basis | $17,428 | $15,444 | $— | $ 1,984 |

| (In thousands) | Balance at March 31, 2013 | Quoted prices in active markets Level 1 | Significant other observable inputs Level 2 | Significa unobserv Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Deferred compensation plan assets | $13,631 | $13,631 | $— | $ — |
| Derivative assets - variable interest rate swap agreements | 2,490 | — | 2,490 | — |
| Total assets measured at fair value on a recurring basis | $16,121 | $13,631 | $2,490 | $ — |
| Liabilities: | | | | |
| Deferred compensation plan liabilities | $13,631 | $13,631 | $— | $ — |
| Contingent consideration liabilities | 3,632 | — | — | 3,632 |
| Total liabilities measured at fair value on a recurring basis | $17,263 | $13,631 | $— | $ 3,632 |

The following is a general description of the valuation methodologies used for financial assets and liab measured at fair value:
Deferred compensation plan assets and corresponding liabilities — The Company’s deferred compens assets consist of open-ended mutual funds (Level 1) and are included within other non-current assets c Consolidated Balance Sheets. The Company’s deferred compensation plan liabilities are equal to the p and are included within other non-current liabilities on the Consolidated Balance Sheets. Gains or loss deferred compensation plan assets are recognized as other income, net, while gains or losses on the de

compensation plan liabilities are recognized as compensation expense in the Consolidated Statements
Earnings.

Derivative assets — interest rate swap agreements — The Company's variable interest rate swap agree
with highly-rated counterparties, were designated as fair value hedges and effectively converted the C
fixed rate 2013 Notes to variable rate debt. The swap agreements were valued using an income approa
relies on observable market inputs such as interest rate yield curves and treasury spreads (Level 2). Ex
future cash flows under the approach are converted to a present value amount based upon market expe
the changes in these interest rate yield curves. The fair values of the interest rate swap agreements wer
in prepaid expenses and other current assets on the Company's Consolidated Balance Sheets. On Octo
2013, the variable interest rate swaps matured, coinciding with the maturity date of the Company's 20
See Note 8 for additional derivatives disclosures.

Contingent consideration liabilities — As part of the consideration for certain acquisitions, the Compa
arrangements in place whereby future consideration in the form of cash may be transferred to the selle
contingent upon the achievement of certain earnings targets. The fair values of the contingent conside
arrangements were estimated using the income approach with inputs that are not observable in the ma
assumptions for each arrangement, as applicable, include a

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AIRGAS, INC. AND SUBSIDIARIES
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discount rate commensurate with the level of risk of achievement, time horizon and other risk factors, probability adjusted earnings growth, all of which the Company believes are appropriate and represent market participant assumptions. Of the total liability for contingent consideration arrangements at Sep 2013, $1.3 million is included within other non-current liabilities while the remainder is included with expenses and other current liabilities on the Consolidated Balance Sheet. The impact on the Company' as a result of the contingent consideration arrangements for the three and six months ended September and 2012 was immaterial.

Changes in the fair value of recurring fair value measurements using significant unobservable inputs ( for the six months ended September 30, 2013 were as follows (in thousands):

| | |
|---|---|
| Balance at March 31, 2013 | $3,632 |
| Contingent consideration liabilities recorded | — |
| Settlements made during the period | (1,750 |
| Adjustments to fair value measurement | 102 |
| Balance at September 30, 2013 | $1,984 |

Fair Value of Debt

The carrying value of debt, which is reported on the Company's Consolidated Balance Sheets, general the cash proceeds received upon its issuance, net of subsequent repayments, plus the impact of the Co fair value hedges as applicable. The fair value of the Company's variable interest rate revolving credit disclosed in the table below was estimated based on observable forward yield curves and credit spread management believes a market participant would assume for these facilities under market conditions a balance sheet date (Level 2). The fair values of the fixed rate notes disclosed below were determined b quoted prices from the broker/dealer market, observable market inputs for similarly termed treasury no adjusted for the Company's credit spread and inputs management believes a market participant would determining imputed interest for obligations without a stated interest rate (Level 2). The fair values of securitized receivables and the commercial paper approximate their carrying values.

| (In thousands) | Carrying Value at September 30, 2013 | Fair Value at September 30, 2013 | Carrying Value at March 31, 2013 | Fair Val March 3 |
|---|---|---|---|---|
| Commercial paper | $— | $— | $— | $— |
| Trade receivables securitization | 177,000 | 177,000 | 295,000 | 295,000 |
| Revolving credit borrowings | 49,918 | 49,918 | 44,077 | 44,077 |
| 2013 Notes | 300,000 | 300,017 | 302,466 | 303,413 |
| 2014 Notes | 399,904 | 414,449 | 399,856 | 421,582 |
| 2015 Notes | 249,849 | 259,761 | 249,811 | 263,702 |
| 2016 Notes | 249,813 | 259,891 | 249,778 | 262,954 |
| 2018 Notes | 324,525 | 318,317 | 324,471 | 325,401 |
| 2020 Notes | 274,727 | 261,864 | 274,706 | 274,432 |
| 2022 Notes | 249,746 | 232,116 | 249,732 | 248,404 |

| | | | | |
|---|---|---|---|---|
| 2018 Senior Subordinated Notes | 215,446 | 223,208 | 215,446 | 229,381 |
| Other long-term debt | 1,566 | 1,682 | 2,475 | 2,603 |
| Total debt | $2,492,494 | $2,498,223 | $2,607,818 | $2,670,9 |

(10) STOCKHOLDERS' EQUITY

Changes in stockholders' equity were as follows:

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| (In thousands of shares) | Shares of Common Stock $0.01 Par Value | Shar Treas Stock |
|---|---|---|
| Balance at March 31, 2013 | 87,135 | (14,0 |
| Common stock issuance [(a)] | 115 | |
| Reissuance of treasury stock for stock option exercises | | 470 |
| Balance at September 30, 2013 | 87,250 | (13,6 |

| (In thousands) | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | To St Ec |
|---|---|---|---|---|---|---|
| Balance at March 31, 2013 | $ 871 | $ 729,850 | $ 1,861,395 | $ 4,438 | $ (1,059,571) | $ |
| Net earnings | | | 179,668 | | | 17 |
| Other comprehensive income (loss), net of tax | | | | (374 ) | | (3 |
| Common stock issuances and reissuances from treasury stock - employee benefit plans [(b)] | 2 | 8,796 | (12,381 ) | | 35,326 | 31 |
| Excess tax benefit from stock option exercises | | 6,568 | | | | 6, |
| Dividends paid on common stock ($0.96 per share) | | | (70,505 ) | | | (7 |
| Stock-based compensation [(c)] | | 19,965 | | | | 19 |
| Balance at September 30, 2013 | $ 873 | $ 765,179 | $ 1,958,177 | $ 4,064 | $ (1,024,245) | $ |

(a) Issuance of common stock for purchases through the Employee Stock Purchase Plan.

(b) Issuance of common stock for purchases through the Employee Stock Purchase Plan and reis treasury stock for stock option exercises.

(c) The Company recognized compensation expense with a corresponding amount recorded to capital i of par value.

The table below presents the gross and net changes in the balances within each component of AOCI fo months ended September 30, 2013.

| (In thousands) | Foreign Currency Translation Adjustments | Treasury Rate Lock Agreement | Total Accu Other Com Income (L |
|---|---|---|---|
| Balance at March 31, 2013 | $ 5,253 | $ (815 ) | $ 4,438 |
| Other comprehensive income (loss) before reclassifications | (537 ) | | (537 |
| Amounts reclassified from AOCI | | 259 | 259 |
| Tax effect of other comprehensive income items | | (96 ) | (96 |

| | | |
|---|---|---|
| Net after-tax other comprehensive income (loss) | (537 ) | 163 | (374 |
| Balance at September 30, 2013 | $4,716 | $(652 ) | $ 4,064 |

The table below represents the reclassifications out of AOCI and their effect on the respective line iter
Consolidated Statements of Earnings impacted by the reclassifications for the six months ended Septe
2013 and 2012.

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AIRGAS, INC. AND SUBSIDIARIES
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(In thousands)

| Accumulated Other Comprehensive Income Components | Amounts Reclassified from Accumulated Other Comprehensive Income | | Affected Line Items in th Consolidated Statements Earnings |
|---|---|---|---|
| Six Months Ended September 30, 2013: | | | |
| Losses on cash flow hedges: | | | |
| Treasury rate lock commitment | $259 | | Interest expense, net |
| | (96 | ) | Income taxes |
| | $163 | | Net earnings |
| Six Months Ended September 30, 2012: | | | |
| Losses on cash flow hedges: | | | |
| Treasury rate lock commitment | $259 | | Interest expense, net |
| | (96 | ) | Income taxes |
| | $163 | | Net earnings |

(11) STOCK-BASED COMPENSATION

The Company recognizes stock-based compensation expense for its Equity Incentive Plan and Employ Purchase Plan. The following table summarizes stock-based compensation expense recognized by the for the three and six months ended September 30, 2013 and 2012.

| | Three Months Ended September 30, | | | | Six Months Ended September 30, | | |
|---|---|---|---|---|---|---|---|
| (In thousands) | 2013 | | 2012 | | 2013 | | 201 |
| Stock-based compensation expense related to: | | | | | | | |
| Equity Incentive Plan | $5,179 | | $4,731 | | $17,860 | | 16,1 |
| Employee Stock Purchase Plan - options to purchase stock | 1,058 | | 712 | | 2,105 | | 2,03 |
| | 6,237 | | 5,443 | | 19,965 | | 18,1 |
| Tax benefit | (2,134 | ) | (1,861 | ) | (7,428 | ) | (6,3 |
| Stock-based compensation expense, net of tax | $4,103 | | $3,582 | | $12,537 | | $11 |

Fair Value

The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock opti weighted-average grant date fair value of stock options granted during the six months ended Septembe and 2012 was $32.40 and $29.40, respectively.

Summary of Stock Option Activity

The following table summarizes the stock option activity during the six months ended September 30, 2

| (In thousands, except per share amounts) | Number of Stock Options | | Weighte Exercis |
|---|---|---|---|
| Outstanding at March 31, 2013 | 5,052 | | $ 60.26 |
| Granted | 953 | | $ 102.93 |
| Exercised | (473 | ) | $ 49.30 |
| Forfeited | (72 | ) | $ 85.24 |
| Outstanding at September 30, 2013 | 5,460 | | $ 68.33 |
| Vested or expected to vest at September 30, 2013 | 5,436 | | $ 68.20 |
| Exercisable at September 30, 2013 | 3,252 | | $ 54.95 |

A total of 4.1 million shares of common stock were available for grant under the Second Amended and
2006 Equity Incentive Plan as of September 30, 2013.

As of September 30, 2013, $53.5 million of unrecognized non-cash compensation expense related to n
stock options is expected to be recognized over a weighted-average vesting period of 1.9 years.

Employee Stock Purchase Plan

The Company’s Employee Stock Purchase Plan (the “ESPP”) encourages and assists employees in acc
equity interest in the Company. As of September 30, 2013, the ESPP had 1.4 million shares of Compa
common stock available for issuance.

Compensation expense is measured based on the fair value of the employees’ option to purchase share
common stock at the grant date and is recognized over the future periods in which the related employe
is rendered. The fair value per share of employee options to purchase shares under the ESPP was $19.
$16.73 for the six months ended September 30, 2013 and 2012, respectively. The fair value of the emp
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 six months ended September 30, 2

| (In thousands, except per share amounts) | Number of Purchase Options | | Weighted Exercise |
|---|---|---|---|
| Outstanding at March 31, 2013 | 62 | | $68.74 |
| Granted | 218 | | $82.88 |
| Exercised | (115 | ) | $76.35 |
| Outstanding at September 30, 2013 | 165 | | $82.11 |

(12) EARNINGS PER SHARE

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

Outstanding stock options that are anti-dilutive are excluded from the Company’s diluted earnings per
computation. There were approximately 1.6 million and 1.9 million shares covered by outstanding sto
that were not dilutive for the three months ended September 30, 2013 and 2012, respectively. There w

approximately 1.3 million and 1.4 million shares covered by outstanding stock options that were not d
the six months ended September 30, 2013 and 2012, respectively.
The table below presents the computation of basic and diluted weighted average common shares outst
the three and six months September 30, 2013 and 2012:

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Weighted average common shares outstanding: | | | | |
| Basic shares outstanding | 73,507 | 77,078 | 73,372 | 76,97 |
| Incremental shares from assumed exercises of stock options and options under the ESPP | 1,308 | 1,814 | 1,304 | 1,88 |
| Diluted shares outstanding | 74,815 | 78,892 | 74,676 | 78,8 |

(13) COMMITMENTS AND CONTINGENCIES

Litigation

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

(14) SUMMARY BY BUSINESS SEGMENT

Business segment information for the Company's Distribution and All Other Operations business segr presented below for the three and six months ended September 30, 2013 and 2012. Although corporate expenses are generally allocated to each business segment based on sales dollars, the Company reports (excluding depreciation) related to the implementation of its SAP system under selling, distribution an administrative expenses in the "Eliminations and Other" column below. Additionally, the Company's and other special charges are not allocated to the Company's business segments. These costs are also r the "Eliminations and Other" column below. Intercompany sales are recorded on the same basis as sal parties and intercompany transactions are eliminated in consolidation. Management utilizes more than measurement and multiple views of data to measure segment performance and to allocate resources to segments. However, the predominant measurements are consistent with the Company's consolidated f statements and accordingly, are reported on the same basis below.

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| | Three Months Ended September 30, 2013 | | | | Three Months Ended September 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Distribution | All Other Ops. | Eliminations and Other | Total | Distribution | All Other Ops. | Eliminations and Other | T |
| Gas and rent | $681,389 | $149,313 | $(7,916) | $822,786 | $632,598 | $154,094 | $(9,129) | $ |
| Hardgoods | 458,187 | 997 | — | 459,184 | 450,293 | 1,756 | (2) | 4 |
| Total net sales [(a)] | 1,139,576 | 150,310 | (7,916) | 1,281,970 | 1,082,891 | 155,850 | (9,131) | 1 |
| Cost of products sold (excluding depreciation) [(a)] | 491,660 | 79,268 | (7,916) | 563,012 | 483,160 | 82,492 | (9,131) | 5 |
| Selling, distribution and administrative expenses | 427,351 | 45,412 | 1,692 | 474,455 | 400,966 | 44,509 | 8,618 | 4 |
| Restructuring and other special charges | — | — | — | — | — | — | 2,443 | 2 |
| Depreciation | 62,865 | 5,622 | — | 68,487 | 59,291 | 5,358 | — | 6 |
| Amortization | 6,193 | 1,054 | — | 7,247 | 5,420 | 1,298 | — | 6 |
| Operating income | $151,507 | $18,954 | $(1,692) | $168,769 | $134,054 | $22,193 | $(11,061) | $ |

| | Six Months Ended September 30, 2013 | | | | Six Months Ended September 30, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Distribution | All Other Ops. | Eliminations and Other | Total | Distribution | All Other Ops. | Eliminations and Other | T |
| Gas and rent | $1,353,875 | $295,180 | $(16,377) | $1,632,678 | $1,271,208 | $306,219 | $(18,308) | $ |
| Hardgoods | 926,785 | 2,400 | (2) | 929,183 | 924,284 | 3,466 | (3) | 9 |
| Total net sales [(a)] | 2,280,660 | 297,580 | (16,379) | 2,561,861 | 2,195,492 | 309,685 | (18,311) | 2 |
| Cost of products sold (excluding depreciation) [(a)] | 996,787 | 158,147 | (16,379) | 1,138,555 | 988,396 | 159,797 | (18,311) | 1 |
| Selling, distribution and administrative expenses | 854,582 | 88,952 | 4,396 | 947,930 | 805,162 | 85,883 | 18,556 | 9 |
| Restructuring and other special charges | — | — | — | — | — | — | 8,155 | 8 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Depreciation | 124,529 | 10,988 | — | 135,517 | 118,387 | 10,629 | — | 1 |
| Amortization | 12,255 | 2,221 | — | 14,476 | 10,787 | 2,549 | — | 1 |
| Operating income | $292,507 | $37,272 | $(4,396 ) | $325,383 | $272,760 | $50,827 | $(26,711 ) | $ |

(a) Amounts in the “Eliminations and Other” column represent the elimination of intercompany sales a gross profit on sales from the Company’s All Other Operations business segment to its Distribution segment.

(15) SUPPLEMENTAL CASH FLOW INFORMATION

Cash Paid for Interest and Income Taxes

Cash paid for interest and income taxes was as follows:

| | Six Months Ended September 30, | |
|---|---|---|
| (In thousands) | 2013 | 2012 |
| Interest | $42,107 | $28,16 |
| Income taxes (net of refunds) | 74,910 | 72,173 |

(16) RESTRUCTURING AND OTHER SPECIAL CHARGES

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The Company incurred no restructuring and other special charges for the three and six months ended September 30, 2013. The following table presents the components of restructuring and other special ch the three and six months ended September 30, 2012:

| (In thousands) | Three Months Ended September 30, 2012 | Six Months Ended September 30, 2012 |
|---|---|---|
| Restructuring costs | $ 310 | $ 798 |
| Other related costs | 2,133 | 5,628 |
| Asset impairment charges | — | 1,729 |
| Total restructuring and other special charges | $ 2,443 | $ 8,155 |

Restructuring Costs

In May 2011, the Company announced the alignment of its then twelve regional distribution companie new divisions, and the consolidation of its regional company accounting and certain administrative fun into four newly created Business Support Centers ("BSCs"). Additionally, the Company initiated a rel in its legal entity structure on January 1, 2012 whereby each Airgas regional distribution company wou once converted to SAP, into a single limited liability company ("LLC") of which Airgas, Inc. is the so Prior to conversion to SAP, each of the Company's twelve regional distribution companies operated it accounting and administrative functions. Enabled by the Company's conversion to a single informatio across all of its regional distribution businesses as part of the SAP implementation, the restructuring al Airgas to more effectively utilize its resources across its regional distribution businesses and form an c structure to leverage the full benefits of its new SAP platform.

As of March 31, 2013, the divisional alignment was complete and all material costs related to the restr had been accrued. Cash payments and other adjustments to the March 31, 2013 accrued liability balan associated with the restructuring plan were $3.2 million for the six months ended September 30, 2013.

During the three and six months ended September 30, 2012, the Company recorded $0.3 million and $ million, respectively, in restructuring costs. The restructuring costs were not allocated to the Company segments (see Note 14).

Other Related Costs

For the three and six months ended September 30, 2012, the Company incurred $2.1 million and $5.6 respectively, of other costs related to the divisional alignment and LLC formation. These costs primari to transition staffing for the BSCs, legal costs and other expenses associated with the Company's orga and legal entity changes.

Asset Impairment Charges

The Company recorded special charges of $1.7 million related to asset impairments during the six mon September 30, 2012 – see Note 5 for further information.

(17) SUBSEQUENT EVENTS

As described in Note 7, on October 1, 2013, the Company's 2013 Notes matured and were retired. Ad on October 2, 2013, the 2018 Senior Subordinated Notes were redeemed in full at a price of 103.563% the early extinguishment of the 2018 Senior Subordinated Notes of $9.1 million (approximately $6 mi tax, or approximately $0.08 per diluted share) will be recognized related to the redemption premium a

write-off of unamortized debt issuance costs in the fiscal quarter ending December 31, 2013.
On October 7, 2013, the Company announced an agreement to acquire the assets and operations of Th
Encompass Gas Group, Inc., ("Encompass"), headquartered in Rockford, Illinois. With eleven locatio
Wisconsin, and Iowa, Encompass is one of the largest privately-owned suppliers of industrial, medica
specialty gases and related hardgoods in the United States, generating approximately $55 million in an
in 2012. Encompass' product offerings complement the Company's portfolio of products and services
expanding the Company's geographic coverage. The transaction closed on October 31, 2013, and the
in the process of completing a preliminary purchase price allocation for the acquisition.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

Airgas, Inc. and its subsidiaries ("Airgas" or the "Company") had net sales for the quarter ended Septe ("current quarter") of $1.28 billion compared to $1.23 billion for the quarter ended September 30, 201 quarter"), an increase of 4%. Organic sales increased 2% compared to the prior year quarter, with gas 4% and hardgoods down 2%. Current and prior year acquisitions contributed sales growth of 2% in th quarter. The Company's organic sales growth reflected the impact of sluggish business conditions and economic uncertainty, which challenged sales volumes to a greater degree than expected.

The consolidated gross profit margin (excluding depreciation) in the current quarter was 56.1%, an inc 140 basis points from the prior year quarter, driven by a sales mix shift away from lower-margin hard towards higher-margin gas and rent and margin expansion on price increases, partially offset by suppl and internal production cost increases and significant margin pressure in the Company's refrigerants b

The Company's operating income margin increased to 13.2%, a 140 basis-point increase from the pri quarter. The Company's operating income margin increase was primarily driven by the combination o reduction in SAP implementation costs compared to the prior year quarter and the achievement of SA benefits during the current quarter. The impact of one additional selling day compared to the prior yea the sales mix shift toward gas and rent, steps taken to alleviate the impact of rising costs in the current and the absence of restructuring and other special charges in the current quarter also contributed to the of operating income margin. These benefits were partially offset by a significant decline in operating i margin in the Company's refrigerants business and overall margin pressure from low organic sales gr prior year quarter's operating income margin was burdened by 20 basis points of restructuring and oth charges.

Net earnings per diluted share increased to $1.27 in the current quarter versus $1.03 in the prior year q current quarter's earnings per diluted share included SAP-related benefits, net of implementation cost depreciation expense, of $0.11 per diluted share compared to $0.09 per diluted share of SAP-related e the prior year quarter. Additionally, following the U.S. Environmental Protection Agency's ("EPA") r announcement (see comments below), the Company's Refrigerant-22 ("R-22") prices continued to be despite moderation in the rates of year-over-year volume decline during the current quarter relative to first quarter ended June 30, 2013, resulting in a year-over-year decline in net earnings of $0.04 per dil for the current quarter. Net earnings per diluted share in the current quarter also included a $0.02 per d share benefit related to a change in a state income tax law, while the prior year quarter included restru other special charges of $0.02 per diluted share. Special items in each quarter consisted of the followi

| | Three Months Ended September 30, | |
|---|---|---|
| Effect on Diluted EPS | 2013 | 2012 |
| State income tax benefit | $0.02 | $— |
| Restructuring and other special charges | — | (0.02 |
| Special items | $0.02 | $(0.02 |

Financing

At September 30, 2013, the Company had $300 million outstanding of 2.85% senior notes (the "2013 matured and were retired on October 1, 2013.

Additionally, on August 27, 2013, the Company announced its election to redeem the remaining $215 outstanding of 7.125% senior subordinated notes originally due to mature on October 1, 2018 (the "20 Subordinated Notes"). On October 2, 2013, the 2018 Senior Subordinated Notes were redeemed in ful of 103.563%. A loss on the early extinguishment of the 2018 Senior Subordinated Notes of $9.1 milli (approximately $6 million after tax, or approximately $0.08 per diluted share) will be recognized relat redemption premium and the write-off of unamortized debt issuance costs in the Company's fiscal thi

ending December 31, 2013.

Supply Constraints and Production Challenges

On March 27, 2013, the EPA issued a ruling allowing for an increase in the production and import of v
in calendar year 2013, rather than reaffirming the further reductions that much of the industry, includi
Company, had been expecting based on a previously issued No Action Assurances letter from the EPA
historically been one of the most commonly-used refrigerant gases in air conditioning systems in the U
will continue to be operational for many years to

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come. As production and import of virgin R-22 is phased out by the EPA in accordance with the Mont
Protocol on Substances that Deplete the Ozone Layer (the "Montreal Protocol"), the gap between dem
supply is expected to be filled increasingly by reclaimed and recycled R-22. The Company believes th
leading reclaimer, recycler and distributor of R-22, its refrigerants business is well-positioned to benef
expected increase in demand for reclaimed and recycled R-22. The Company believes that compliance
Montreal Protocol will require a significant step down in R-22 production and import beginning in cal
2015, and as such believes the impact on its earnings from the EPA's ruling in March 2013 to be temp
nature.

During the current quarter, the EPA's ruling pressured both sales volumes and pricing of R-22. The
year-over-year negative impact on the Company's earnings was $0.04 per diluted share. The Company
this ruling to negatively impact its sales volumes and pricing through at least fiscal 2014, as a
greater-than-expected amount of virgin R-22 will be available in the marketplace. For the full fiscal ye
the Company estimates a year-over-year negative impact of $0.15 per diluted share.

The global industrial gas industry continues to work through supply constraints related to helium. Disr
crude helium production overseas has been the primary cause of the worldwide helium shortage, aggra
outages and temporary shutdowns at the Federal Helium Reserve and shutdowns at a major private hel
source. The Company procures helium from its primary suppliers under long-term supply agreements.
result of the helium shortage, however, over the past 27 months the Company's suppliers have institute
volume allocations, which have limited the Company's ability to supply helium to its own customers.
supply constraints have also forced the Company to shed non-contract helium customers at times and t
its limited helium supply to contract and critical need customers. To help mitigate the financial impact
the Company has and will continue to explore alternative sources of helium and has instituted product
allocations and price increases related to its helium customers at appropriate times.

During the current quarter the Company's helium suppliers continued to fall short of their volume com
under the long-term supply agreements. With the recent start-up of a new helium production facility in
Middle East, the global marketplace is expected to see some increase in product availability; however,
supply is not expected to meet full industry demand. As such, the Company continues to expect some
supply chain disruption during fiscal 2014 and anticipates that the time frame for regaining lost custom
recovering lost sales may be longer.

Enterprise Information System

At September 30, 2013, over 90% of the Company's Distribution business segment and all of its regio
distribution businesses were successfully operating on SAP. At this stage in the Company's phased
implementation, each of its four Business Support Centers ("BSCs"), into which the regional company
and administrative functions were consolidated upon converting to SAP, are firmly in place. As of Ma
the Company had successfully converted its Safety telesales and hardgoods infrastructure businesses, a
all of its regional distribution businesses, to the SAP platform. As with the implementation of any new
information system, the Company has experienced distractions and disruptions as its associates learn t
system and processes. These have not had a material impact to date on the Company's financial results
controls, and the Company will continue to monitor these items carefully going forward.

The Company began to realize meaningful SAP-related economic benefits from more effective manag
pricing and discounting practices, as well as from the expansion of its telesales platform, in the second
fiscal 2013. These benefits continued to ramp-up in the first half of fiscal 2014. The current quarter inc
$0.11 per diluted share of SAP-related benefits, net of implementation costs and depreciation expense.
year quarter included $0.09 per diluted share of SAP implementation costs and depreciation expense.

The Company previously quantified the economic benefits expected to be achieved through its implem
of SAP in three key areas: accelerated sales growth through expansion of the telesales platform, more
management of pricing and discount practices, and administrative and operating efficiencies. By Dece
2013, the Company expects these areas alone to yield a minimum of $75 million in annual run-rate op
income benefits. Further economic benefits are expected to be identified.

Third Quarter Outlook

The Company expects earnings per diluted share for the third fiscal quarter ending December 31, 2013
the range of $1.07 to $1.12, including a loss on the extinguishment of debt charge of $0.08 per diluted
increase of 2% to 7% over earnings per diluted share of $1.05 in the third fiscal quarter ended Decemb
2012. The Company expects its organic sales growth rate for the quarter ending December 31, 2013 to
low single digits.

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RESULTS OF OPERATIONS: THREE MONTHS ENDED SEPTEMBER 30, 2013 COMPARED T
MONTHS ENDED SEPTEMBER 30, 2012

STATEMENT OF EARNINGS COMMENTARY

The Company reclassified $4.2 million out of selling, distribution and administrative expenses into co products sold (excluding depreciation) for the prior year quarter to correct an error in the prior year classification. Consolidated operating income and net earnings for the prior year quarter were not imp the correction, and the amount is not material to either of the impacted line items in the Company's C Statement of Earnings for the prior year quarter. The following commentary for the prior year quarter updated to reflect the reclassification.

Although corporate operating expenses are generally allocated to each business segment based on sale the Company reports expenses (excluding depreciation) related to the implementation of its SAP syste selling, distribution and administrative expenses in the "Other" line item in the tables below. Addition Company's restructuring and other special charges are not allocated to the Company's business segme costs are also reflected in the "Other" line item in the tables below.

Net Sales

Net sales increased 4% to $1.28 billion for the current quarter compared to the prior year quarter, driv organic sales growth of 2% and sales growth from current and prior year acquisitions of 2% in the cur quarter. Both total and organic sales growth in the current quarter included approximately 1% from th one additional selling day compared to the prior year quarter. Gas and rent organic sales increased 4% hardgoods declined 2%. Organic sales were driven by pricing increases of 3%, offset by volume decli Strategic products account for approximately 40% of net sales and include safety products, bulk, medi specialty gases, as well as carbon dioxide ("$CO_2$") and dry ice. The Company has identified these produ strategic because it believes they have good long-term growth profiles relative to the Company's core gas and welding products due to favorable end customer markets, application development, increasing environmental regulation, strong cross-selling opportunities or a combination thereof. During the curr sales of strategic products grew 5% on an organic basis over the prior year quarter, with the specialty category showing the most improvement on increased prices and volumes.

The Company's strategic accounts program, which represents approximately 25% of net sales, is desi deliver superior product and service offerings to larger, multi-location customers, and presents the Co with strong cross-selling opportunities. Sales to strategic accounts grew 5% in the current quarter, prin driven by new account signings, expansion of locations served and product lines sold to existing accou positive pricing across the majority of segments.

In the table below, the intercompany eliminations represent sales from the All Other Operations busin segment to the Distribution business segment.

| Net Sales (In thousands) | Three Months Ended September 30, 2013 | 2012 | Increase/(Decreas |
|---|---|---|---|
| Distribution | $1,139,576 | $1,082,891 | $ 56,685 |
| All Other Operations | 150,310 | 155,850 | (5,540 ) |
| Intercompany eliminations | (7,916 ) | (9,131 ) | 1,215 |
| | $1,281,970 | $1,229,610 | $ 52,360 |

The Distribution business segment's principal products include industrial, medical and specialty gases process chemicals; cylinder and equipment rental; and hardgoods. Industrial, medical and specialty ga distributed in cylinders and bulk containers. Rental fees are generally charged on cylinders, dewars (c liquid cylinders), bulk and micro-bulk tanks, tube trailers and certain welding equipment. Hardgoods consist of welding consumables and equipment, safety products, construction supplies, and maintenan

and operating supplies.

Distribution business segment sales increased 5% over the prior year quarter, with an increase in orga
2%. Incremental sales from current and prior year acquisitions contributed sales growth of 3% in the c
quarter. Higher pricing contributed 4% to organic sales growth in the Distribution business segment, n
offsetting the negative 2% impact from volume declines. Gas and rent organic sales in the Distributio
segment increased 5%, with pricing up 6% and volumes down 1%. Hardgoods organic sales within th
Distribution business segment declined 1%, with pricing up 2% and

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volumes down 3%. The reduction in volumes was broad-based, reflecting an overall slower pace of ac
the industrial economy.
Sales of strategic gas products sold through the Distribution business segment increased 7% in the cur
quarter from the prior year quarter on an organic basis. Among strategic gas products, bulk gas sales w
as the impact of higher pricing and new business was partially offset by broad-based moderation in inc
activity. Sales of medical gases were up 5% as a result of higher pricing and volumes across most med
segments and new customer signings, partially offset by weakness in the homecare segment. Sales of s
gases were up 9%, with increases in both prices and volumes.
Sales of both Safety products and the Company's Radnor® private-label brand product line helped mo
organic sales decline in hardgoods for the Distribution business segment. Both had organic sales grow
4% in the current quarter compared to the prior year quarter. This compared favorably to the 1% decli
hardgoods organic sales for the Distribution business segment for the same period.
The All Other Operations business segment consists of six business units. The primary products manu
and/or distributed are $CO_2$, dry ice, nitrous oxide, ammonia and refrigerant gases.
The All Other Operations business segment sales decreased 4% in total and on an organic basis compa
prior year quarter. Both the total and organic sales decreases were driven by the negative impact of the
EPA ruling on R-22 production and import allowances on the Company's refrigerants business, as wel
declines in the Company's $CO_2$ and ammonia businesses during the current quarter. The softening in th
businesses more than offset the sales increases in the Company's dry ice business during the current q
Gross Profits (Excluding Depreciation)
Gross profits (excluding depreciation) do not reflect deductions related to depreciation expense and di
costs. The Company reflects distribution costs as an element of the line item "Selling, distribution and
administrative expenses" and recognizes depreciation on all of its property, plant and equipment in the
"Depreciation" in its Consolidated Statements of Earnings. Other companies may report certain or all
as elements of their cost of products sold and, as such, the Company's gross profits (excluding depreci
discussed below may not be comparable to those of other companies.
Consolidated gross profits (excluding depreciation) increased 7% compared to the prior year quarter, p
due to the sales mix shift toward higher margin gas and rent, as well as margin expansion on price incr
partially offset by supplier price and internal production cost increases and significant margin pressure
Company's refrigerants business. The consolidated gross profit margin (excluding depreciation) in the
quarter increased 140 basis points to 56.1% compared to 54.7% in the prior year quarter. The increase
consolidated gross profit margin (excluding depreciation) reflects the items described above. Gas and
represented 64.2% of the Company's sales mix in the current quarter, up from 63.2% in the prior year

| Gross Profits (ex. Depr.)<br>(In thousands) | Three Months Ended<br>September 30,<br>2013 | 2012 | Increase/(Decreas |
|---|---|---|---|
| Distribution | $647,916 | $599,731 | $ 48,185 |
| All Other Operations | 71,042 | 73,358 | (2,316 ) |
| | $718,958 | $673,089 | $ 45,869 |

The Distribution business segment's gross profits (excluding depreciation) increased 8% compared to
year quarter. The Distribution business segment's gross profit margin (excluding depreciation) was 56
55.4% in the prior year quarter, an increase of 150 basis points. The increase in the Distribution busine
segment's gross profit margin (excluding depreciation) reflects the sales mix shift towards gas and ren
margin expansion on price increases, partially offset by supplier price and internal production cost inc
a percentage of the Distribution business segment's sales, gas and rent increased 140 basis points to 59
current quarter, up from 58.4% in the prior year quarter.

The All Other Operations business segment's gross profits (excluding depreciation) decreased 3% con
the prior year quarter. The All Other Operations business segment's gross profit margin (excluding de
increased 20 basis points to 47.3% in the current quarter from 47.1% in the prior year quarter. The inc
the All Other Operations business segment's gross profit margin (excluding depreciation) was primari
the impact of higher margins in the Company's ammonia business due to lower feedstock costs, offset
continued margin compression in the Company's refrigerants business, largely resulting from the EPA
unexpected ruling in late March 2013.

Operating Expenses

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Selling, Distribution and Administrative ("SD&A") Expenses

SD&A expenses consist of labor and overhead associated with the purchasing, marketing and distribut
Company's products, as well as costs associated with a variety of administrative functions such as lega
accounting, tax and facility-related expenses. Consolidated SD&A expenses increased $20 million, or
current quarter as compared to the prior year quarter. Contributing to the increase in SD&A expenses
approximately $5 million of incremental operating costs associated with acquired businesses. Combin
rising health insurance costs, the incremental operating costs associated with acquired businesses repr
more than 2% of the total increase in SD&A. Also contributing to the increase in SD&A expenses wer
training, and other setup costs associated with the expansion of the Airgas Total Access telesales progr
associated with the analysis and execution of the Company's strategic pricing initiative and expenses r
other strategic growth initiatives. These expenses substantially offset the favorable impact of the reduc
SAP implementation costs compared to the prior year quarter. As a percentage of net sales, SD&A exp
remained relatively consistent at 37.0% in the current quarter and 36.9% in the prior year quarter.

| SD&A Expenses (In thousands) | Three Months Ended September 30, 2013 | 2012 | Increase/(Decreas | |
|---|---|---|---|---|
| Distribution | $427,351 | $400,966 | $ 26,385 | |
| All Other Operations | 45,412 | 44,509 | 903 | |
| Other | 1,692 | 8,618 | (6,926 | ) |
| | $474,455 | $454,093 | $ 20,362 | |

SD&A expenses in the Distribution and All Other Operations business segments increased 7% and 2%
respectively, compared to the prior year quarter. For the Distribution business segment, more than half
increase in SD&A costs was driven by incremental operating costs associated with acquired businesse
million, rising health insurance costs and expenses associated with the expansion of the Airgas Total A
telesales program, the Company's strategic pricing initiative and other strategic growth initiatives. As
percentage of Distribution business segment net sales, SD&A expenses in the Distribution business se
increased 50 basis points to 37.5% compared to 37.0% in the prior year quarter, primarily driven by th
mix shift toward gas and rent, which carry higher operating costs than hardgoods, and moderating sale
relative to the increase in expenses. As a percentage of All Other Operations business segment net sale
expenses in the All Other Operations business segment increased 160 basis points to 30.2% compared
in the prior year quarter, primarily driven by significant sales declines in the Company's refrigerants, C
ammonia businesses.

SD&A Expenses – Other

Enterprise Information System

While the Company has successfully converted its Safety telesales and hardgoods infrastructure busin
well as all of its regional distribution businesses, to the SAP platform, the Company continues to incur
post-conversion support and training expenses related to the implementation of the new system. SAP-r
costs were $1.7 million for the current quarter as compared to $8.6 million in the prior year quarter, an
recorded as SD&A expenses and not allocated to the Company's business segments.

Restructuring and Other Special Charges

The following table presents the components of restructuring and other special charges for the prior ye

| (In thousands) | Three Months Ended September 30, 2012 |
|---|---|
| Restructuring costs | $310 |
| Other related costs | 2,133 |

| Total restructuring and other special charges | $ 2,443 |
| --- | --- |

Restructuring and Other Related Costs

In May 2011, the Company announced the alignment of its then twelve regional distribution companie
new divisions, and the consolidation of its regional company accounting and certain administrative fu
into four newly created BSCs. Additionally, the Company initiated a related change in its legal entity s
on January 1, 2012 whereby each Airgas

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regional distribution company would merge, once converted to SAP, into a single limited liability com
("LLC") of which Airgas, Inc. is the sole member. Prior to conversion to SAP, each of the Company's
regional distribution companies operated its own accounting and administrative functions. Enabled by
Company's conversion to a single information platform across all of its regional distribution businesse
the SAP implementation, the restructuring allows Airgas to more effectively utilize its resources acros
regional distribution businesses and form an operating structure to leverage the full benefits of its new
platform.

As of March 31, 2013, the divisional alignment was complete and all material costs related to the restr
had been accrued.

During the prior year quarter, the Company recorded $0.3 million in restructuring costs. The Company
incurred $2.1 million of other costs in the prior year quarter related to the divisional alignment and LL
formation. These costs primarily related to transition staffing for the BSCs, legal costs and other exper
associated with the Company's organizational and legal entity changes.

Depreciation and Amortization

Depreciation expense increased $3.8 million, or 6%, to $68 million in the current quarter as compared
million in the prior year quarter. The increase primarily reflects the additional depreciation expense on
investments in revenue generating assets to support customer demand (such as cylinders, rental welder
tanks). Amortization expense of $7 million in the current quarter increased only slightly from the prior
quarter, driven by acquisitions.

Operating Income

Consolidated operating income of $169 million increased 16% in the current quarter driven by the con
of a reduction in SAP implementation costs compared to the prior year quarter and the achievement of
SAP-related benefits during the current quarter, the impact of one additional selling day compared to t
year quarter, the sales mix shift toward gas and rent and steps taken to alleviate the impact of rising co
current quarter, as well as the absence of restructuring and other special charges in the current quarter.
benefits were partially offset by a significant decline in operating margins in the Company's refrigerar
and overall margin pressure from low organic sales growth. The consolidated operating income margi
140 basis points to 13.2% from 11.8% in the prior year quarter.

| Operating Income (In thousands) | Three Months Ended September 30, 2013 | 2012 | Increase/(Decrease) |
|---|---|---|---|
| Distribution | $151,507 | $134,054 | $ 17,453 |
| All Other Operations | 18,954 | 22,193 | (3,239) |
| Other | (1,692) | (11,061) | 9,369 |
| | $168,769 | $145,186 | $ 23,583 |

Operating income in the Distribution business segment increased 13% in the current quarter compared
prior year quarter. The Distribution business segment's operating income margin increased 90 basis po
13.3% compared to 12.4% in the prior year quarter. The increase in the Distribution business segment
income margin reflects the achievement of SAP-related benefits in the current quarter, the impact of o
additional selling day compared to the prior year quarter, the sales mix shift toward gas and rent and st
to alleviate the impact of rising costs in the current quarter, partially offset by margin pressure from lo
sales growth in the current quarter.

Operating income in the All Other Operations business segment decreased 15% compared to the prior
quarter. The All Other Operations business segment's operating income margin of 12.6% decreased by
points compared to the operating income margin of 14.2% in the prior year quarter. The decrease in th
Other Operations business segment's operating income margin was primarily driven by margin pressu
Company's refrigerants business, partially offset by margin improvement in the Company's ammonia

Interest Expense, Net

Interest expense, net, was $21 million in the current quarter, representing an increase of $5 million cor
the prior year quarter. The increase in interest expense, net was primarily driven by higher average bor
related to the Company's $600 million share repurchase program, which was authorized and complete
2013.

Income Tax Expense

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The effective income tax rate was 36.5% of pre-tax earnings in the current quarter compared to 37.9%
prior year quarter. During the current quarter, the Company recognized a $1.5 million ($0.02 per dilut
tax benefit related to a change in a state income tax law, allowing the Company to utilize additional ne
loss carryforwards and resulting in a 100 basis-point decrease to the effective income tax rate. The Co
expects the effective income tax rate for fiscal 2014 to be approximately 37.5% of pre-tax earnings.

Net Earnings

Net earnings per diluted share increased 23% to $1.27 in the current quarter compared to $1.03 in the
quarter. Net earnings were $95 million compared to $81 million in the prior year quarter. The current
diluted earnings per share included SAP-related benefits, net of implementation costs and depreciation
of $0.11 per diluted share, representing a favorable $0.20 year-over-year change from the $0.09 per di
of SAP-related expenses in the prior year quarter. Also included in the current quarter's diluted earnin
is a negative $0.04 year-over-year impact stemming from the EPA's recent ruling on R-22 production
allowances. Net earnings per diluted share in the current quarter also included a $0.02 per diluted shar
related to a change in a state income tax law, while the prior year quarter included restructuring and ot
charges of $0.02 per diluted share.

RESULTS OF OPERATIONS: SIX MONTHS ENDED SEPTEMBER 30, 2013 COMPARED TO SI
MONTHS ENDED SEPTEMBER 30, 2012

STATEMENT OF EARNINGS COMMENTARY

The Company reclassified $8.8 million out of selling, distribution and administrative expenses into co
products sold (excluding depreciation) for the six months ended September 30, 2012 ("prior year perio
correct an error in the prior year classification. Consolidated operating income and net earnings for the
period were not impacted by the correction, and the amount is not material to either of the impacted li
the Company's Consolidated Statement of Earnings for the prior year period. The following comment
prior year period has been updated to reflect the reclassification.

Net Sales

Net sales increased 3% to $2.6 billion for the six months ended September 30, 2013 ("current period")
the prior year period, driven by organic sales growth of 1% and incremental sales of 2% contributed b
acquisitions. Gas and rent organic sales increased 3% and hardgoods organic sales decreased 3%. Org
were driven by pricing increases of 3%, offset by volume declines of 2%. For the current period, sales
strategic products increased 4% on an organic basis as compared to the prior year period.
Strategic accounts also contributed to the increase in net sales for the current period. Strategic account
growth of 5% was primarily driven by new account signings and increased activity in the majority of t
Company's customer segments, most notably in the energy, chemicals, manufacturing and metal fabri
segments.

| Net Sales (In thousands) | Six Months Ended September 30, 2013 | 2012 | Increase/(Decrea |
|---|---|---|---|
| Distribution | $2,280,660 | $2,195,492 | $ 85,168 |
| All Other Operations | 297,580 | 309,685 | (12,105 |
| Intercompany eliminations | (16,379 ) | (18,311 ) | 1,932 |
| | $2,561,861 | $2,486,866 | $ 74,995 |

Distribution business segment sales increased 4% compared to the prior year period with an increase i
sales of 2% and incremental sales of 2% contributed by current and prior year acquisitions. Organic sa
for the Distribution business segment was driven by pricing increases of 4%, offset by volume decline
The Distribution business segment's gas and rent organic sales increased 5%, driven by pricing increa
Hardgoods organic sales decreased 2%, with volumes down 4% and pricing up 2%.

Sales of strategic gas products sold through the Distribution business segment increased 5% in the cur
from the prior year period on an organic basis. Among strategic gas products, bulk gas sales were up 4
impact of higher pricing and new business was partially offset by broad-based moderation in industria
Sales of medical gases were up 4% as a result of higher pricing and volumes across most medical segr
new customer signings, partially offset by weakness in the homecare segment. Sales of specialty gases
7%, with increases in both prices and volumes.

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Sales of both Safety products and the Company's Radnor® private-label brand product line helped mo
organic sales decline in hardgoods for the Distribution business segment. Safety product sales increase
the current period, and the Company's Radnor® private-label line was up 2% for the current period. B
compared favorably to the 2% decline in hardgoods organic sales in the Distribution business segment
weaker than expected.

The All Other Operations business segment sales decreased 4% in total and 5% on an organic basis co
the prior year period, with incremental sales of 1% contributed by prior year acquisitions. The organic
decrease in the All Other Operations business segment during the current period, which decreased on b
volume and price basis, was primarily driven by the negative impact of the recent EPA ruling on R-22
production and import allowances on the Company's refrigerants business.

Gross Profits (Excluding Depreciation)

Consolidated gross profits (excluding depreciation) increased 5% compared to the prior year period, p
due to the sales mix shift toward gas and rent, as well as margin expansion on price increases, partially
supplier price and internal production cost increases and significant margin pressure in the Company's
refrigerants business. The consolidated gross profit margin (excluding depreciation) in the current peri
increased 100 basis points to 55.6% compared to 54.6% in the prior year period. The increase in conso
gross profit margin (excluding depreciation) primarily reflects the items described above.

| Gross Profits (ex. Depr.)<br>(In thousands) | Six Months Ended<br>September 30,<br>2013 | <br><br>2012 | Increase/(Decreas | |
|---|---|---|---|---|
| Distribution | $1,283,873 | $1,207,096 | $ 76,777 | |
| All Other Operations | 139,433 | 149,888 | (10,455 | ) |
| | $1,423,306 | $1,356,984 | $ 66,322 | |

The Distribution business segment's gross profits (excluding depreciation) increased 6% compared to
year period. The Distribution business segment's gross profit margin (excluding depreciation) was 56.
55.0% in the prior year period, an increase of 130 basis points. The increase in the Distribution busine
segment's gross profit margin (excluding depreciation) reflects the sales mix shift toward gas and rent
margin expansion on price increases, partially offset by supplier price and internal production cost inc
a percentage of the Distribution business segment's sales, gas and rent increased to 59.4% from 57.9%
prior year period.

The All Other Operations business segment's gross profits (excluding depreciation) decreased 7% com
the prior year period. The All Other Operations business segment's gross profit margin (excluding dep
decreased 150 basis points to 46.9% in the current period from 48.4% in the prior year period. The dec
the All Other Operations business segment's gross profit margin (excluding depreciation) was primari
margin compression in the Company's refrigerants business, largely resulting from the EPA's unexpec
in late March 2013 to allow for an increase in the production and import of R-22.

Operating Expenses

SD&A Expenses

Consolidated SD&A expenses increased $38 million, or 4%, in the current period as compared to the p
period. Contributing to the increase in SD&A expenses were approximately $11 million of incrementa
costs associated with acquired businesses. Also contributing to the increase in SD&A expenses were s
training, and other setup costs associated with the expansion of the Airgas Total Access telesales progr
associated with the analysis and execution of the Company's strategic pricing initiative and expenses r
other strategic growth initiatives. These expenses substantially offset the favorable impact of the reduc
SAP implementation costs compared to the prior year period. As a percentage of net sales, SD&A exp
increased to 37.0% in the current period from 36.6% in the prior year period.

| SD&A Expenses | Six Months Ended<br>September 30, | Increase/(Decrea |
|---|---|---|

| (In thousands) | 2013 | 2012 | |
|---|---|---|---|
| Distribution | $854,582 | $805,162 | $ 49,420 |
| All Other Operations | 88,952 | 85,883 | 3,069 |
| Other | 4,396 | 18,556 | (14,160 |
| | $947,930 | $909,601 | $ 38,329 |

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SD&A expenses in the Distribution and All Other Operations business segments increased 6% and 4%
respectively, in the current period. For the Distribution business segment, more than half of the increas
SD&A costs was driven by incremental operating costs associated with acquired businesses of $10 mi
rising health insurance costs and expenses associated with the expansion of the Airgas Total Access te
program, the Company's strategic pricing initiative and other strategic growth initiatives. For the All O
Operations business segment, $1 million of the increase in SD&A costs was related to incremental ope
costs associated with acquired businesses. As a percentage of Distribution business segment net sales,
expenses in the Distribution business segment increased 80 basis points to 37.5% compared to 36.7% i
year period, driven by the sales mix shift toward gas and rent, which carry higher operating costs than
hardgoods, and moderating sales growth relative to expenses. As a percentage of All Other Operations
segment net sales, SD&A expenses in the All Other Operations business segment increased 220 basis p
29.9% compared to 27.7% in the prior year period, primarily due to sales declines in the Company's re
$CO_2$ and nitrous oxide businesses.

SD&A Expenses – Other

Enterprise Information System

SAP implementation costs for the current period were $4.4 million compared to $18.6 million in the pr
period, as the Company continues to incur some post-conversion support and training expenses related
implementation of the new system.

Restructuring and Other Special Charges

The following table presents the components of restructuring and other special charges for the prior ye

| | Six Months Ended September 30, |
|---|---|
| (In thousands) | 2012 |
| Restructuring costs | $798 |
| Other related costs | 5,628 |
| Asset impairment charges | 1,729 |
| Total restructuring and other special charges | $8,155 |

Restructuring and Other Related Costs

As of March 31, 2013, the divisional alignment was complete and all material costs related to the restr
had been accrued. Cash payments and other adjustments to the March 31, 2013 accrued liability balan
associated with the restructuring plan were $3.2 million for the current period.

During the prior year period, the Company recorded $0.8 million in restructuring costs. The Company
incurred $5.6 million of other costs in the prior year period related to the divisional realignment and L
formation. These costs primarily related to transition staffing for the BSCs, legal costs and other exper
associated with the Company's organizational and legal entity changes.

Asset Impairments

In June 2012, the Company re-evaluated the economic viability of a small hospital piping construction
and as a result of an impairment analysis performed on the assets at the associated reporting unit, the C
recorded a charge of $1.7 million related to certain of the intangible assets associated with this busines
prior year period.

Depreciation and Amortization

Depreciation expense increased $7 million, or 5%, to $136 million in the current period as compared t
million in the prior year period. The increase primarily reflects the additional depreciation expense on
investments in revenue generating assets to support customer demand (such as cylinders, rental welder
tanks) and $1 million of additional depreciation expense on capital assets included in acquisitions. Am
expense of $14 million in the current period was $1 million higher than that of the prior year period, d
acquisitions.

Operating Income

Consolidated operating income of $325 million increased 10% in the current period driven by the com
a reduction in SAP implementation costs compared to the prior year period, the achievement of SAP-r
benefits during the current period, the sales mix shift toward gas and rent and steps taken to alleviate t
of rising costs in the current

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period, as well as the absence of restructuring and other special charges in the current period. These be
were partially offset by a significant decline in operating margins in the Company's refrigerants busin
overall margin pressure from low organic sales growth. The consolidated operating income margin im
basis points to 12.7% in the current period from 11.9% in the prior year period.

| Operating Income (In thousands) | Six Months Ended September 30, 2013 | 2012 | Increase/(Decrease |
|---|---|---|---|
| Distribution | $292,507 | $272,760 | $ 19,747 |
| All Other Operations | 37,272 | 50,827 | (13,555 ) |
| Other | (4,396 ) | (26,711 ) | 22,315 |
| | $325,383 | $296,876 | $ 28,507 |

Operating income in the Distribution business segment increased 7% in the current period. The Distrib
business segment's operating income margin increased 40 basis points to 12.8% compared to 12.4% i
year period. The increase in the Distribution business segment's operating income margin reflects the
achievement of SAP-related benefits in the current period, the sales mix shift toward gas and rent and
to alleviate the impact of rising costs in the current period, partially offset by margin pressure from lo
sales growth in the current period.

Operating income in the All Other Operations business segment decreased 27% compared to the prior
period. The All Other Operations business segment's operating income margin of 12.5% decreased by
points compared to the operating income margin of 16.4% in the prior year period, primarily driven by
compression in the refrigerants businesses.

Interest Expense, Net

Interest expense, net, was $41 million in the current period, representing an increase of $10 million, o
compared to the prior year period. The increase in interest expense, net was primarily driven by highe
borrowings related to the Company's $600 million share repurchase program, which was authorized a
completed in fiscal 2013.

Other Income, Net

The decrease of $7.9 million in "Other income, net" was primarily driven by the Company's divestitu
assets and operations of five branch locations in western Canada during the prior year period. The Co
realized a gain of $6.8 million ($5.5 million after tax) on the sale in the prior year period.

Income Tax Expense

The effective income tax rate was 37.1% of pre-tax earnings in the current period compared to 37.5%
year period. During the current period, the Company recognized a $1.5 million ($0.02 per diluted shar
benefit related to a change in a state income tax law, allowing the Company to utilize additional net o
loss carryforwards and resulting in a 50 basis-point decrease to the effective income tax rate.

Net Earnings

Net earnings per diluted share rose 11% to $2.41 in the current period compared to $2.18 in the prior y
period. Net earnings were $180 million compared to $172 million in the prior year period. The current
diluted earnings per share included SAP-related benefits, net of implementation costs and depreciatio
of $0.17, representing a favorable $0.36 year-over-year change from the $0.19 of SAP-related expens
prior year period. Also included in the current period's diluted earnings per share is a negative $0.11
year-over-year impact stemming from the EPA's recent ruling on R-22 production and import allowa
earnings per diluted share in the current period also included a $0.02 per diluted share benefit related t
in a state income tax law. There was no net impact from special items on the prior year period's net ea
diluted share.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities was $381 million in the current period compared to $264 mi
prior year period.

The following table provides a summary of the major items affecting the Company's cash flows from
activities for the periods presented:

| | Six Months Ended September 30, | | | |
|---|---|---|---|---|
| (In thousands) | 2013 | | 2012 | |
| Net earnings | $ 179,668 | | $ 171,818 | |
| Non-cash and non-operating activities [1] | 172,313 | | 156,912 | |
| Changes in working capital | 29,787 | | (63,256 | |
| Other operating activities | (574 | ) | (1,525 | |
| Net cash provided by operating activities | $ 381,194 | | $ 263,949 | |

(1) Includes depreciation, amortization, impairment charges, deferred income taxes, gain on sales of pl
equipment and businesses, and stock-based compensation expense.

The decrease in the use of cash for working capital in the current period was primarily driven by a low
required investment in working capital, reflecting a low organic sales growth environment. Net earnin
non-cash and non-operating activities provided cash of $352 million in the current period and $329 mi
prior year period.

As of September 30, 2013, $12 million of the Company's $111 million cash balance was held by forei
subsidiaries. The Company does not believe it will be necessary to repatriate cash held outside of the U
anticipates its domestic liquidity needs will be met through other funding sources such as cash flows g
from operating activities and external financing arrangements. Accordingly, the Company intends to
permanently reinvest the cash in its foreign operations to support working capital needs, investing and
activities, and future business development. Were the Company's intention to change, the amounts hel
foreign operations could be repatriated to the U.S., although any repatriations under current U.S. tax la
be subject to income taxes, net of applicable foreign tax credits.

The following table provides a summary of the major items affecting the Company's cash flows from
activities for the periods presented:

| | Six Months Ended September 30, | | | |
|---|---|---|---|---|
| (In thousands) | 2013 | | 2012 | |
| Capital expenditures | $ (168,483 | ) | $ (162,199 | ) |
| Proceeds from sales of plant, equipment and businesses | 7,292 | | 20,201 | |
| Business acquisitions and holdback settlements | (15,745 | ) | (18,652 | ) |
| Other investing activities | (1,869 | ) | (842 | ) |
| Net cash used in investing activities | $ (178,805 | ) | $ (161,492 | ) |

Capital expenditures as a percentage of sales were 6.6% and 6.5% for the current and prior year perioc
respectively. During the prior year period, the Company sold five branch locations in western Canada,
addition to other plant and equipment, and received proceeds of $20.2 million related to the sale of the
businesses and other plant and equipment. During the current period, the Company purchased five bus
with historical annual sales of approximately $12 million, and in the prior year period the Company pu
eight businesses with historical annual sales of approximately $19 million.

Free cash flow* in the current period was $238 million compared to $121 million in the prior year per
increase in free cash flow from the prior year period was primarily driven by adjusted cash from opera
which was $397 million in the current period compared to $277 million in the prior year period.

The following table provides a summary of the major items affecting the Company’s cash flows from
activities for the periods presented:

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| | Six Months Ended September 30, | |
|---|---|---|
| (In thousands) | 2013 | 2012 |
| Net cash repayments | $(115,197) | $(68,822) |
| Purchase of treasury stock | (8,127) | — |
| Dividends paid to stockholders | (70,505) | (61,634) |
| Other financing activities | 16,319 | 31,203 |
| Net cash used in financing activities | $(177,510) | $(99,253) |

During the current period, net financing activities used cash of $178 million. Net cash repayments on d
obligations in the current period were $115 million, primarily related to the pay down of $118 million
trade receivables securitization agreement. In October 2012, the Company announced a $600 million s
repurchase program. During the six months ended March 31, 2013, the Company completed the progra
repurchasing 6.29 million shares on the open market at an average price of $95.37. The final repurchas
the program, however, settled subsequent to the fiscal 2013 year end, resulting in a cash outflow of $8
related to the repurchase program in the current period. Other financing activities, primarily comprised
proceeds and excess tax benefits related to the exercise of stock options and stock issued for the emplo
purchase plan, generated cash of $16 million during the current period.

In the prior year period, net financing activities used cash of $99 million. Net cash repayments on debt
obligations in the prior year period were $69 million, primarily related to a reduction in the funds outs
under the Company's commercial paper program. Other financing activities, primarily comprised of p
excess tax benefits related to the exercise of stock options and stock issued for the employee stock pur
plan, generated cash of $31 million during the prior year period.

* See Non-GAAP reconciliations below.

Dividends

During the current period, the Company paid its stockholders dividends of $71 million or $0.48 per sh
first and second quarters of fiscal 2014. During the prior year period, the Company paid dividends of $
or $0.40 per share in the first and second quarters of fiscal 2013. Future dividend declarations and asso
amounts paid will depend upon the Company's earnings, financial condition, loan covenants, capital r
and other factors deemed relevant by management and the Company's Board of Directors.

Financial Instruments

Money Market Loans

The Company has an agreement with a financial institution to provide access to short-term advances n
exceed $35 million that expires on January 1, 2014, but may be extended subject to renewal provision
in the agreement. The advances may be for one to six months with rates at a fixed spread over the corr
London Interbank Offering Rate ("LIBOR"). At September 30, 2013, there were no advances outstand
the agreement.

The Company also has an agreement with another financial institution that provides access to addition
short-term advances not to exceed $35 million that expires on July 31, 2014. The agreement may be fu
extended subject to renewal provisions contained in the agreement. The advances are generally overni
up to seven days. The amount, term and interest rate of an advance are established through mutual agr
with the financial institution when the Company requests such an advance. At September 30, 2013, th
no advances outstanding under the agreement.

Commercial Paper

The Company participates in a $750 million commercial paper program supported by its $750 million
credit facility (see below). This program allows the Company to obtain favorable short-term borrowin
with maturities that may vary, but will generally not exceed 90 days from the date of issue. The Comp
used proceeds from the commercial paper program to pay down amounts outstanding under its revolvi
facility and for general corporate purposes. There were no borrowings outstanding under the commerc

program at September 30, 2013 or March 31, 2013.

Trade Receivables Securitization

The Company participates in a securitization agreement with three commercial bank conduits to which
qualifying trade receivables on a revolving basis (the “Securitization Agreement”). The Company’s sa
trade receivables is accounted for as a secured borrowing under which qualified trade receivables colla
amounts borrowed from the

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commercial bank conduits. Trade receivables that collateralize the Securitization Agreement are held i
bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes and r
the Company's only variable interest entity. Qualified trade receivables in the amount of the outstandi
borrowing under the Securitization Agreement are not available to the general creditors of the Compar
maximum amount available under the Securitization Agreement is $295 million and it bears interest at
approximately LIBOR plus 75 basis points.

At September 30, 2013, the amount of outstanding borrowing under the Securitization Agreement was
million, and the additional borrowing capacity under the Securitization Agreement was $118 million.
borrowed under the Securitization Agreement could fluctuate monthly based on the Company's fundin
requirements and the level of qualified trade receivables available to collateralize the Securitization A
The Securitization Agreement expires in December 2015 and contains customary events of terminatio
including standard cross-default provisions with respect to outstanding debt.

Senior Credit Facility

The Company participates in a $750 million Amended and Restated Credit Facility (the "Credit Facilit
Credit Facility consists of a $650 million U.S. dollar revolving credit line, with a $65 million letter of
sublimit and a $50 million swingline sublimit, and a $100 million (U.S. dollar equivalent) multi-curre
revolving credit line. The expiration date of the Credit Facility is July 19, 2016. Under circumstances
in the Credit Facility, the revolving credit line may be increased by an additional $325 million, provid
multi-currency revolving credit line may not be increased by more than an additional $50 million.

As of September 30, 2013, the Company had $42 million of borrowings under the Credit Facility, all
were under the multi-currency revolver. There were no borrowings under the U.S. dollar revolver at
September 30, 2013. The Company also had outstanding U.S. letters of credit of $51 million issued u
Credit Facility. U.S. dollar revolver borrowings bear interest at LIBOR plus 125 basis points. The mul
revolver bears interest based on a rate of 125 basis points over the Euro currency rate applicable to eac
currency borrowing. As of September 30, 2013, the weighted average effective interest rate on the
multi-currency revolver was 1.65%. In addition to the borrowing spread of 125 basis points for U.S. d
multi-currency revolver borrowings, the Company pays a commitment (or unused) fee on the undraw
the Credit Facility equal to 20 basis points per annum.

At September 30, 2013, the financial covenant of the Credit Facility did not restrict the Company's ab
borrow on the unused portion of the Credit Facility. The Credit Facility contains customary events of
including, without limitation, failure to make payments, a cross-default to certain other debt, breaches
covenants, breaches of representations and warranties, certain monetary judgments and bankruptcy an
events. In the event of default, repayment of borrowings under the Credit Facility may be accelerated.

The Company also maintains a committed revolving line of credit of up to €8.0 million (U.S. $10.8 m
fund its operations in France. These revolving credit borrowings are outside of the Company's Credit
September 30, 2013, these revolving credit borrowings were €5.8 million (U.S. $7.8 million) and are
long-term debt on the Company's Consolidated Balance Sheet. The variable interest rates on the Frenc
credit borrowings are based on the Euro currency rate plus 125 basis points. As of September 30, 201
effective interest rate on the French revolving credit borrowings was 1.38%. The line of credit expires
July 19, 2016.

Total Borrowing Capacity

As of September 30, 2013, approximately $657 million remained available under the Company's Cre
after giving effect to the outstanding U.S. letters of credit and the borrowings under the multi-currency
Additionally, the Company had borrowing capacity of $118 million under the Securitization Agreeme
September 30, 2013, for a total borrowing capacity under these facilities of $775 million. As discusse
the Company's $300 million 2.85% senior notes matured on October 1, 2013 and, in accordance with
Company's previously exercised redemption provision, the maturity date on the remaining $215 milli
Company's 7.125% senior subordinated notes was accelerated to the redemption date of October 2, 20
the first week of October 2013, the Company made its final payments on the 2013 Notes and 2018 Se

Subordinated Notes and financed these requirements with the proceeds of commercial paper issuances
cash and utilization under its Securitization Agreement. Principal, interest, and premium on the redem
the 2018 Senior Subordinated Notes and principal and interest on the 2013 Notes paid in the first week
October 2013 was $535 million.
The Company believes that it has sufficient liquidity from cash from operations and under its Securitiz
Agreement and revolving credit facilities to meet its working capital, capital expenditure and other fin
commitments. The financial covenant under the Company's Credit Facility requires the Company to m
leverage ratio not higher than 3.5. The leverage ratio is a contractually defined amount principally refl
and, historically, the amounts outstanding under the Securitization Agreement, divided by a contractua
defined Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") financial measu
trailing twelve-month period with pro forma adjustments for acquisitions. The financial

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covenant calculations of the Credit Facility include the pro forma results of acquired businesses. There
borrowing capacity is not reduced dollar-for-dollar with acquisition financing. The leverage ratio meas
Company's ability to meet current and future obligations. At September 30, 2013, the Company's leve
was 2.7.

The Company continually evaluates alternative financing arrangements and believes that it can obtain
on reasonable terms. The terms of any future financing arrangements depend on market conditions and
Company's financial position at that time. At September 30, 2013, the Company was in compliance w
covenants under all of its debt agreements.

Senior Notes

At September 30, 2013, the Company had $300 million outstanding of 2.85% senior notes that mature
retired on October 1, 2013. The 2013 Notes were issued at a discount with a yield of 2.871%. The 201
are included within the "Current portion of long-term debt" line item on the Company's Consolidated
Sheets based on the maturity date.

At September 30, 2013, the Company had $400 million outstanding of 4.50% senior notes maturing or
September 15, 2014 (the "2014 Notes"). The 2014 Notes were issued at a discount with a yield of 4.52
on the 2014 Notes is payable semi-annually on March 15 and September 15 of each year. At Septembe
2013, the 2014 Notes were reclassified to the "Current portion of long-term debt" line item on the Con
Consolidated Balance Sheet based on the maturity date.

At September 30, 2013, the Company had $250 million outstanding of 3.25% senior notes maturing or
October 1, 2015 (the "2015 Notes"). The 2015 Notes were issued at a discount with a yield of 3.283%
the 2015 Notes is payable semi-annually on April 1 and October 1 of each year.

At September 30, 2013, the Company had $250 million outstanding of 2.95% senior notes maturing or
2016 (the "2016 Notes"). The 2016 Notes were issued at a discount with a yield of 2.980%. Interest or
Notes is payable semi-annually on June 15 and December 15 of each year.

At September 30, 2013, the Company had $325 million outstanding of 1.65% senior notes maturing or
February 15, 2018 (the "2018 Notes"). The 2018 Notes were issued at a discount with a yield of 1.685
on the 2018 Notes is payable semi-annually on February 15 and August 15 of each year.

At September 30, 2013, the Company had $275 million outstanding of 2.375% senior notes maturing o
February 15, 2020 (the "2020 Notes"). The 2020 Notes were issued at a discount with a yield of 2.392
on the 2020 Notes is payable semi-annually on February 15 and August 15 of each year.

At September 30, 2013, the Company had $250 million outstanding of 2.90% senior notes maturing or
November 15, 2022 (the "2022 Notes"). The 2022 Notes were issued at a discount with a yield of 2.91
on the 2022 Notes is payable semi-annually on May 15 and November 15 of each year.

The 2013, 2014, 2015, 2016, 2018, 2020 and 2022 Notes (collectively, the "Senior Notes") contain co
restrict the incurrence of liens and limit sale and leaseback transactions. The Company has the option t
the Senior Notes prior to their maturity, in whole or in part, at 100% of the principal plus any accrued
interest and applicable make-whole payments.

Senior Subordinated Notes

At September 30, 2013, the Company had $215 million outstanding of 7.125% senior subordinated no
originally due to mature on October 1, 2018. The 2018 Senior Subordinated Notes had a redemption p
which permitted the Company, at its option, to call the 2018 Senior Subordinated Notes at scheduled d
prices beginning on October 1, 2013. On August 27, 2013, the Company announced its election to red
remaining $215 million outstanding on the 2018 Senior Subordinated Notes, and on October 2, 2013 (
"redemption date"), the 2018 Senior Subordinated Notes were redeemed in full at a price of 103.563%
election to exercise the redemption provision of the 2018 Senior Subordinated Notes accelerated the m
date of the notes to the redemption date. As such, the 2018 Senior Subordinated Notes were reclassifie
"Current portion of long-term debt" line item on the Company's Consolidated Balance Sheet at Septen
2013. A loss on the early extinguishment of the 2018 Senior Subordinated Notes of $9.1 million (appr
$6 million after tax, or approximately $0.08 per diluted share) will be recognized related to the redemp

premium and the write-off of unamortized debt issuance costs in the fiscal quarter ending December 3
Other Long-term Debt
The Company's other long-term debt primarily consists of capitalized lease obligations and notes issu
of businesses acquired, which are repayable in periodic installments. At September 30, 2013, other lon
debt totaled $1.6 million with an average interest rate of approximately 6.3% and an average maturity
approximately 1.8 years.

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Interest Rate Derivatives

In anticipation of the issuance of the 2015 Notes, the Company entered into a treasury rate lock agreem
July 2010 with a notional amount of $100 million that matured in September 2010. The treasury rate lo
agreement was designated as a cash flow hedge of the semi-annual interest payments associated with t
forecasted issuance of the 2015 Notes. When the treasury rate lock agreement matured, the Company r
loss of $2.6 million ($1.6 million after tax) which was reported as a component within accumulated ot
comprehensive income ("AOCI") and is being reclassified into earnings over the term of the 2015 Not
each of the current and prior year periods, $259 thousand of the loss on the treasury rate lock was recla
interest expense. At September 30, 2013, 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 $517 thous
thousand after tax).

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

At September 30, 2013, the Company had five variable interest rate swaps outstanding with a notional
$300 million. These variable interest rate swaps effectively converted the Company's $300 million of
2013 Notes to variable rate debt. On October 1, 2013, the variable interest rate swaps matured, coincid
the maturity date of the Company's 2013 Notes.

During the current period, the fair value of the variable interest rate swaps decreased by $2.5 million. T
carrying value of the 2013 Notes caused by the hedged risk also decreased by $2.5 million during the c
period. The Company records the gain or loss on the hedged item (i.e., the 2013 Notes) and the gain or
the variable interest rate swaps in interest expense. The net gain or loss recorded in earnings as a result
ineffectiveness related to the designated fair value hedges was immaterial for the three and six months
September 30, 2013 and 2012.

The Company measures the fair value of its interest rate swaps using observable market rates to calcul
forward yield curves used to determine expected cash flows for each interest rate swap agreement. The
discounted present values of the expected cash flows are calculated using the same forward yield curve
discount rate assumed in the fair value calculations is adjusted for non-performance risk, dependent on
classification of the interest rate swap as an asset or liability. If an interest rate swap is a liability, the C
assesses the credit and non-performance risk of Airgas by determining an appropriate credit spread for
with similar credit characteristics as the Company. If, however, an interest rate swap is in an asset posi
credit analysis of counterparties is performed assessing the credit and non-performance risk based upo
pricing history of counterparty specific credit default swaps or credit spreads for entities with similar c
ratings to the counterparties. The Company compares its fair value calculations to the contract settleme
calculated by the counterparties for each swap agreement for reasonableness.

Interest Expense

A majority of the Company's variable rate debt is based on a spread over LIBOR. Based on the Comp
to variable interest rate ratio as of September 30, 2013, for every 25 basis-point increase in LIBOR, th
Company estimates that its annual interest expense would increase by approximately $1.3 million.

Non-GAAP Reconciliations

Adjusted Cash from Operations, Adjusted Capital Expenditures, and Free Cash Flow

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| (In thousands) | Six Months Ended September 30, 2013 | 2012 |
|---|---|---|
| Net cash provided by operating activities | $381,194 | $263, |
| Adjustments to net cash provided by operating activities: | | |
| Stock issued for the Employee Stock Purchase Plan | 8,797 | 8,512 |
| Excess tax benefit realized from the exercise of stock options | 6,568 | 4,927 |
| Adjusted cash from operations | 396,559 | 277,3 |
| Capital expenditures | (168,483 ) | (162,1 |
| Adjustments to capital expenditures: | | |
| Proceeds from sales of plant and equipment | 7,292 | 4,481 |
| Operating lease buyouts | 2,516 | 1,745 |
| Adjusted capital expenditures | (158,675 ) | (155,9 |
| Free cash flow | $237,884 | $121, |
| | | |
| Net cash used in investing activities | $(178,805 ) | $(161 |
| Net cash used in financing activities | $(177,510 ) | $(99,2 |

The Company believes its adjusted cash from operations, adjusted capital expenditures, and free cash financial measures provide investors meaningful insight into its ability to generate cash from operatio is available for servicing debt obligations and for the execution of its business strategies, including ac the prepayment of debt, the payment of dividends, or to support other investing and financing activitie Company's free cash flow financial measure has limitations and does not represent the residual cash f available for discretionary expenditures. Certain non-discretionary expenditures such as payments on debt obligations are excluded from the Company's computation of its free cash flow financial measur Non-GAAP financial measures should be read in conjunction with GAAP financial measures, as non- financial measures are merely a supplement to, and not a replacement for, GAAP financial measures. also be noted that the Company's adjusted cash from operations, adjusted capital expenditures, and fre financial measures may be different from the adjusted cash from operations, adjusted capital expendit free cash flow financial measures provided by other companies.

OTHER

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally acce
accounting principles requires management to make judgments, assumptions and estimates that affect
amounts reported in the financial statements and accompanying notes. The following describes update
Company's critical accounting estimates, which are more fully described in Item 7, "Management's D
Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form
the fiscal year ended March 31, 2013.

Goodwill

The Company is required to test goodwill associated with each of its reporting units for impairment at
annually and whenever events or circumstances indicate that it is more likely than not that goodwill m
impaired. Examples of such events and circumstances include changes in macroeconomic conditions,
and market conditions, cost factors, overall financial performance and reporting unit-specific items. In
whether an interim goodwill impairment test should be performed for a specific reporting unit, the Co
considers the totality of all relevant events or circumstances that affect the fair value or carrying amou
reporting unit, rather than considering each event or circumstance in isolation. The Company performs
goodwill impairment test as of October 31 of each year.

Based on the Company's most recently completed annual goodwill impairment test as of October 31,
fair value of one of the Company's reporting units in its All Other Operations business segment was n
substantially in excess of its carrying amount. The Company continues to monitor this business and do
believe that an interim goodwill impairment test was required as of September 30, 2013. A deteriorati
financial performance of the reporting unit or other reporting unit-specific changes could indicate that
value of the reporting unit is less than its carrying amount; however, the amount of goodwill associate
reporting unit is not material to the Company's consolidated financial statements.

As discussed in the "Overview" section of "Management's Discussion and Analysis of Financial Cond
Results of Operations" included in this Form 10-Q, sales and margins at the Company's refrigerants b
been pressured given the recent EPA ruling allowing for an increase in the production and import of v
in calendar year 2013. Despite the evolving regulatory environment and resulting impact on this report
results, the Company does not believe that an interim goodwill impairment test was required as of Sep
2013 for its refrigerants business. During the Company's most recently completed annual goodwill im
test as of October 31, 2012, there was no indication that the fair value of the reporting unit did not exc
carrying amount based on the Company's qualitative goodwill impairment evaluation as permitted und
relevant accounting standards. Furthermore, the fair value of the refrigerants reporting unit exceeded i
amount by more than 10% based on the most recent quantitative goodwill impairment test performed a
October 31, 2011. The amount of goodwill associated with this reporting unit is $88 million. The Com
believes that the impact from the EPA's ruling will be temporary in nature. However, changes in the r
unit's estimated future cash flows as a result of future regulatory changes could adversely affect the fa
carrying amount of this reporting unit.

Contractual Obligations

Information related to the Company's contractual obligations at March 31, 2013 can be found in Item
"Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Co
Annual Report on Form 10-K for the fiscal year ended March 31, 2013. Other than the announced ele
redeem the remaining $215 million outstanding at September 30, 2013 of the 2018 Senior Subordinate
and subsequent redemption on October 2, 2013, there have been no significant changes to the Compa
contractual obligations during the six months ended September 30, 2013.

Forward-looking Statements

This report contains statements that are forward looking within the meaning of the Private Securities L
Reform Act of 1995. These statements include, but are not limited to, statements regarding: the expect
by December 31, 2013, the Company will have achieved a minimum of $75 million in annual run-rate

income benefits and other economic benefits related to its SAP enterprise information system; the Cor
expectations for earnings per diluted share and organic sales growth, and related expectations and assu
for the third quarter of fiscal 2014; expectations for continued helium supply chain disruption in fiscal
with some increase in product availability, and the anticipated time frame for regaining lost customers
the Company's plan to continue to explore alternative sources of helium; the expectation of a decline i
and volumes of R-22 in the remainder of fiscal 2014 and the related impact on earnings in fiscal 2014;
expectation for a significant step-down in R-22 production in calendar year 2015 and an increase in de
the Company's reclaimed and recycled R-22; expectations of continued SAP-related post-implementat
the Company's expectation as to the long-term growth profiles of its strategic products; the Company'
expectation for its overall effective income tax rate for fiscal 2014; the Company's belief that it will no
repatriate cash held outside of the U.S and its intent to permanently reinvest the cash held outside of th
its foreign operations; the Company's belief that it has sufficient liquidity from cash from

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operations and under its Securitization Agreement and revolving credit facilities to meet its working ca
capital expenditure and other financial commitments; the Company's belief that it can obtain financing
reasonable terms; the Company's future dividend declarations; the Company's estimate that for every
basis-point increase in LIBOR, annual interest expense will increase by approximately $1.3 million ba
fixed to variable interest rate ratio at September 30, 2013; the estimate of future interest payments on t
Company's long-term debt obligations; and the Company's exposure to foreign currency exchange rat
fluctuations.

These forward-looking statements involve risks and uncertainties. Factors that could cause actual resul
materially from those predicted in any forward-looking statement include, but are not limited to: the C
inability to meet its earnings estimates resulting from lower sales, decreased selling prices, higher proc
and/or higher operating expenses than those forecasted by the Company; increased disruption in our he
supply chain and the anticipated time frame for regaining lost customers and sales; the impact on the C
refrigerants business from the recent EPA ruling on production and import allowances; adverse change
customer buying patterns resulting from adverse economic conditions; weakening operating and financ
performance of the Company's customers, which can negatively impact the Company's sales and the C
ability to collect its accounts receivable; changes in the environmental regulations that affect the Comp
of specialty gases; higher or lower overall tax rates in fiscal 2014 than those estimated by the Compan
from changes in tax laws and the impact of changes in tax laws on the Company's consolidated results
in reserves and other estimates; the tax impact in the event that the Company repatriates cash from its f
operations; increases in debt in future periods and the impact on the Company's ability to pay and/or g
dividend as a result of loan covenant and other restrictions; a decline in demand from markets served b
Company; adverse customer response to the Company's strategic product sales initiatives; a lack of cr
opportunities for the Company's strategic products; a lack of specialty gas sales growth due to a down
certain markets; the negative effect of an economic downturn on strategic product sales and margins; t
inability of strategic products to diversify against cyclicality; supply shortages of certain gases, includi
current shortage of helium, and the resulting inability of the Company to meet customer gas requireme
customers' acceptance of current prices and of future price increases; adverse changes in customer buy
patterns; a rise in product costs and/or operating expenses at a rate faster than the Company's ability to
prices; higher or lower capital expenditures than that estimated by the Company; limitations on the Co
borrowing capacity dictated by the Credit Facility; fluctuations in interest rates; the Company's ability
continue to access credit markets on satisfactory terms; the impact of tightened credit markets on the C
customers; the extent and duration of current economic trends in the U.S. economy; higher than expec
expenses associated with the expansion of the Company's telesales business; higher than expected
implementation costs of the SAP system; post-implementation problems related to the SAP system tha
the Company's business and negatively impact customer relationships as well as the timely collection
receivable; the Company's ability to achieve anticipated benefits enabled by the conversion to the SAP
potential disruption to the Company's business from integration problems associated with acquisitions
Company's ability to successfully identify, consummate and integrate acquisitions to achieve anticipat
acquisition synergies; the inability to manage interest rate exposure; higher interest expense than that e
by the Company due to changes in debt levels or increases in LIBOR; the effects of competition on pr
pricing and sales growth; changes in product prices from gas producers and name-brand manufacturer
suppliers of hardgoods; changes in customer demand resulting in the inability to meet minimum produ
purchases under long-term supply agreements and the inability to negotiate alternative supply arranger
extent and duration of current economic trends in the U.S.; and the effects of, and changes in, the econ
monetary and fiscal policies, laws and regulations, inflation and monetary fluctuations, both on a natio
international basis. The Company does not undertake to update any forward-looking statement made h
that may be made from time to time by or on behalf of the Company.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.
Interest Rate Risk
The Company manages its exposure to changes in market interest rates. The interest rate exposure aris
primarily from the interest payment terms of the Company's borrowing agreements. Interest rate deriv
used to adjust the interest rate risk exposures that are inherent in its portfolio of funding sources. The C
has not established, and will not establish, any interest rate risk positions for purposes other than mana
risk associated with its portfolio of funding sources or anticipated funding sources. The counterparties
rate derivatives are major financial institutions. The Company has established counterparty credit guid
only enters into transactions with financial institutions with long-term credit ratings of at least a single
by one of the major credit rating agencies. In addition, the Company monitors its position and the cred
of its counterparties, thereby minimizing the risk of non-performance by the counterparties.
The table below summarizes the Company's market risks associated with debt obligations and interest
at September 30, 2013. For debt obligations, the table presents cash flows related to payments of princ
interest by fiscal year of maturity. For interest rate swaps, the table presents the notional amounts unde
agreements by year of maturity. The notional amounts are used to calculate contractual payments to be
exchanged and are not actually paid or received. Fair values were computed using market quotes, if av
were based on discounted cash flows using market interest rates as of the end of the period.

| (In millions) | 3/31/2014 | 3/31/2015 | 3/31/2016 | 3/31/2017 | 3/31/2018 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Fixed Rate Debt: | | | | | | | |
| Other long-term debt | $0.2 | $0.7 | $0.4 | $0.2 | $0.1 | $— | $1.6 |
| Interest expense | 0.05 | 0.06 | 0.03 | 0.01 | 0.01 | — | 0.2 |
| Average interest rate | 6.42 % | 5.98 % | 5.99 % | 6.54 % | 7.42 % | — | |
| Senior notes due 10/1/2013 | $300.0 | $— | $— | $— | $— | $— | $300.0 |
| Interest expense | — | — | — | — | — | — | — |
| Interest rate | 2.85 % | — | — | — | — | — | |
| Senior notes due 9/15/2014 | $— | $400.0 | $— | $— | $— | $— | $400.0 |
| Interest expense | 9.0 | 8.3 | — | — | — | — | 17.3 |
| Interest rate | 4.50 % | 4.50 % | — | — | — | — | |
| Senior notes due 10/1/2015 | $— | $— | $250.0 | $— | $— | $— | $250.0 |
| Interest expense | 4.1 | 8.1 | 4.1 | — | — | — | 16.3 |
| Interest rate | 3.25 % | 3.25 % | 3.25 % | — | — | — | |
| Senior notes due 6/15/2016 | $— | $— | $— | $250.0 | $— | $— | $250.0 |
| Interest expense | 3.7 | 7.4 | 7.4 | 1.5 | — | — | 20.0 |
| Interest rate | 2.95 % | 2.95 % | 2.95 % | 2.95 % | — | — | |
| Senior notes due 2/15/2018 | $— | $— | $— | $— | $325.0 | $— | $325.0 |
| Interest expense | 2.7 | 5.4 | 5.4 | 5.4 | 4.6 | — | 23.5 |
| Interest rate | 1.65 % | 1.65 % | 1.65 % | 1.65 % | 1.65 % | — | |
| Senior notes due 2/15/2020 | $— | $— | $— | $— | $— | $275.0 | $275.0 |
| Interest expense | 3.3 | 6.5 | 6.5 | 6.5 | 6.5 | 12.3 | 41.6 |
| Interest rate | 2.38 % | 2.38 % | 2.38 % | 2.38 % | 2.38 % | 2.38 % | |
| Senior subordinated notes originally due 10/1/2018 (c) | $215.4 | $— | $— | $— | $— | $— | $215.4 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Interest expense | — | — | — | — | — | — | — |
| Interest rate | 7.13 % | — | — | — | — | — | |
| Senior notes due 11/15/2022 | $— | $— | $— | $— | $— | $250.0 | $250.0 |
| Interest expense | 3.6 | 7.3 | 7.3 | 7.3 | 7.3 | 33.4 | 66.2 |
| Interest rate | 2.90 % | 2.90 % | 2.90 % | 2.90 % | 2.90 % | 2.90 % | |

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| (In millions) | 3/31/2014 | 3/31/2015 | 3/31/2016 | 3/31/2017 | 3/31/2018 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Variable Rate Debt: | | | | | | | |
| Revolving credit borrowings - Multi-currency | $— | $— | $— | $42.1 | $— | $— | $42.1 |
| Interest expense | 0.4 | 0.7 | 0.7 | 0.2 | — | — | 2.0 |
| Interest rate [(a)] | 1.65 % | 1.65 % | 1.65 % | 1.65 % | — | — | |
| Revolving credit borrowings - France | $— | $— | $— | $7.8 | $— | $— | $7.8 |
| Interest expense | 0.1 | 0.1 | 0.1 | 0.03 | — | — | 0.3 |
| Interest rate [(b)] | 1.38 % | 1.38 % | 1.38 % | 1.38 % | — | — | |
| Trade receivables securitization | $— | $— | $177.0 | $— | $— | $— | $177.0 |
| Interest expense | 0.8 | 1.6 | 1.1 | — | — | — | 3.5 |
| Interest rate | 0.92 % | 0.92 % | 0.92 % | — | — | — | |
| Interest Rate Swaps: | | | | | | | |
| 5 swaps receive fixed/pay variable [(d)] | | | | | | | |
| Notional amounts | $300.0 | $— | $— | $— | $— | $— | $300.0 |
| Swap (receipts) | — | — | — | — | — | — | — |

(a) The interest rate on the multi-currency revolving credit facility is the weighted average of the varia rates on the multi-currency revolving credit line. The variable interest rates on the multi-currency r credit line are based on a spread over the Euro currency rate applicable to each foreign currency bo under the multi-currency credit line.

(b) The variable interest rates on the French revolving credit borrowings are based on a spread over the currency rate.

(c) On August 27, 2013, the Company announced its election to redeem the remaining $215 million ou on the 2018 Senior Subordinated Notes, and on October 2, 2013, the 2018 Senior Subordinated No redeemed in full at a price of 103.563%.

(d) On October 1, 2013, the Company's variable interest rate swaps matured, coinciding with the matu the Company's 2013 Notes.

Limitations of the Tabular Presentation

As the table incorporates only those interest rate risk exposures that exist as of September 30, 2013, it consider those exposures or positions that could arise after that date. In addition, actual cash flows of f instruments in future periods may differ materially from prospective cash flows presented in the table future fluctuations in variable interest rates, debt levels and the Company's credit rating.

Foreign Currency Rate Risk

Canadian subsidiaries and the European operations of the Company are funded in part with local curre The Company does not otherwise hedge its exposure to translation gains and losses relating to foreign net asset exposures. The Company considers its exposure to foreign currency exchange rate fluctuatio immaterial to its financial position and results of operations.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Compa Executive Chairman, Chief Executive Officer and Chief Financial Officer, of the effectiveness of the C disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities E Act of 1934) as of September 30, 2013. Based on that evaluation, the Company's Executive Chairman Executive Officer and Chief Financial Officer have concluded that, as of such date, the Company's dis

controls and procedures were effective such that the information required to be disclosed in the Comp
Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and rep
the time periods specified in the SEC rules and forms, and (ii) is accumulated and

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communicated to the Company’s management, including the Company’s Executive Chairman, Chief I
Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Changes in Internal Control

There were no changes in the Company’s internal control over financial reporting that occurred during
ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, t
Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is involved in various legal and regulatory proceedings that have arisen in the ordinary
business and have not been fully adjudicated. These actions, when ultimately concluded and determine
not, in the opinion of management, have a material adverse effect upon the Company’s consolidated fi
condition, results of operations or liquidity.

ITEM 1A. RISK FACTORS.

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, “Ri
of the Company’s Annual Report on Form 10-K for the year ended March 31, 2013, as updated in Part
1A, “Risk Factors,” of the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30,

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ITEM 6. EXHIBITS.

The following exhibits are being filed or furnished as part of this Quarterly Report on Form 10-Q:

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Peter McCausland as Executive Chairman of Airgas, Inc. pursuant to Se of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Michael L. Molinini as President and Chief Executive Officer of Airgas, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.3 | Certification of Robert M. McLaughlin as Senior Vice President and Chief Financial Off Airgas, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Peter McCausland as Executive Chairman of Airgas, Inc. pursuant to 18 Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
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| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused th
be signed on its behalf by the undersigned hereunto duly authorized.

Dated: November 7, 2013

AIRGAS, INC.

(Registrant)

BY: /s/ THOMAS M. SMYTH
Thomas M. Smyth
Vice President & Controller
(Principal Accounting Officer)

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Exhibit Index

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