SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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HYDROCHEM INDUSTRIAL SERVICES INC

CIK:**1044607**| IRS No.: **752503906** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **333-34323** | Film No.: **01697617**
SIC: **7389** Business services, nec

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HYDROCHEM INTERNATIONAL INC

CIK:**1044608**| IRS No.: **752512100** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **333-34323-01** | Film No.: **01697618**

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United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period ended June 30, 2001

Commission File Number 333-34323

HYDROCHEM INDUSTRIAL SERVICES, INC. (*)
(Exact name of registrant as specified in its charter)

Delaware	75-2503906
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
900 Georgia Avenue Deer Park, Texas	77536
(Address of principal executive offices)	(Zip Code)

(713) 393-5600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

The number of shares of Common Stock of the Registrant outstanding on August 1, 2001 was 100 shares. The Registrant's Common Stock is not registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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* HydroChem International, Inc., a wholly-owned subsidiary of HydroChem Industrial Services, Inc., is a Co-Registrant. It is incorporated under the laws of the State of Delaware. Its I.R.S. Employer Identification Number is 75-2512100.

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HYDROCHEM INDUSTRIAL SERVICES, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

<TABLE>
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<S>	<C> December 31, 2000	<C> June 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,380	$ 291
Receivables, less allowance of $723 and $954, respectively	39,781	47,136
Inventories	4,467	4,119
Prepaid expenses and other current assets	2,224	2,744
Income taxes receivable	328	79
Deferred income taxes	1,536	1,176
Total current assets	54,716	55,545
Property and equipment, at cost	100,419	103,419
Accumulated depreciation	(53,721)	(58,228)
	46,698	45,191
Intangible assets, net	96,931	94,549
Total assets	$ 198,345	$ 195,285
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 9,455	$ 9,938
Accrued liabilities	15,595	13,641
Current portion of long-term debt (Note 3)	7,858	8,194
Total current liabilities	32,908	31,773
Long-term debt (Note 3)	140,350	137,504
Deferred income taxes	8,365	8,942

Commitments and contingencies (Note 6)		
Stockholder's equity:		
Common stock, $.01 par value:		
1,000 shares authorized, 100 shares outstanding	1	1
Additional paid-in capital	16,558	16,558
Accumulated other comprehensive loss	--	(77)
Retained earnings	163	584
Total stockholder's equity	16,722	17,066
Total liabilities and stockholder's equity	$ 198,345	$ 195,285

</TABLE>

See accompanying notes.

HYDROCHEM INDUSTRIAL SERVICES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2000	2001	2000	2001
<S>	<C>	<C>	<C>	<C>
Revenue	$ 54,199	$ 57,159	$107,638	$116,549
Cost of revenue	33,173	35,937	65,437	73,268
Gross profit	21,026	21,222	42,201	43,281
Selling, general and administrative expense	12,257	13,164	25,058	26,621
Depreciation	2,882	2,719	5,815	5,420
Operating income	5,887	5,339	11,328	11,240
Other expense:				
Interest expense, net	4,019	3,893	8,033	7,823
Amortization of intangibles	1,013	996	1,996	1,991
Other, net	134	15	161	20
Income before taxes	721	435	1,138	1,406
Income tax provision	--	490	--	985
Net income (loss)	$ 721	$ (55)	$ 1,138	$ 421

</TABLE>

See accompanying notes.

HYDROCHEM INDUSTRIAL SERVICES, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY
(in thousands)

<TABLE>
<CAPTION>

<S>	Common Stock <C>	Additional Paid-in Capital <C>	Accumulated Other Comprehensive Loss <C>	Retained Earnings <C>	Total <C>
Balance at December 31, 2000	$ 1	$ 16,558	$ -	$ 163	$ 16,722
Other comprehensive loss	-	-	(77)	-	(77)
Net income	-	-	-	421	421
Total other comprehensive income					344
Balance at June 30, 2001	$ 1	$ 16,558	$ (77)	$ 584	$ 17,066

</TABLE>

See accompanying notes.

HYDROCHEM INDUSTRIAL SERVICES, INC.

AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six months ended June 30, 2000	Six months ended June 30, 2001
Operating activities:		
Net income	$ 1,138	$ 421
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	5,815	5,420
Amortization	1,996	1,991
Amortization of deferred financing costs	359	391
Deferred income tax provision	-	937
Loss (gain)on sale of property and equipment	165	(7)
Changes in operating assets and liabilities:		
Receivables, net	(4,662)	(7,355)
Inventories	(89)	348
Prepaid expenses and other current assets	(1,013)	(520)
Income taxes receivable	-	249
Accounts payable	1,176	483
Accrued liabilities	(2,489)	(2,031)
Net cash provided in operating activities	2,396	327
Investing activities:		
Expenditures for property and equipment	(2,775)	(4,239)
Proceeds from sale of property and equipment	419	333
Acquisitions, net of cash	(446)	-
Net cash used in investing activities	(2,802)	(3,906)
Financing activities:		
Repayments of long-term debt, net	81	(2,510)
Debt financing costs	(110)	-
Net cash used by financing activities	(191)	(2,510)
Net decrease in cash	(597)	(6,089)
Cash at beginning of period	4,140	6,380
Cash at end of period	$ 3,543	$ 291

See accompanying notes.

HYDROCHEM INDUSTRIAL SERVICES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2001

1. Organization, Formation and Basis of Presentation

The consolidated financial statements include the accounts of HydroChem Industrial Services, Inc. ("HydroChem") and its wholly-owned subsidiaries. (HydroChem and its subsidiaries are hereinafter sometimes referred to either separately or collectively as the "Company.") HydroChem is a wholly-owned subsidiary of HydroChem Holding, Inc. ("Holding").

The Company is engaged in the business of providing industrial cleaning services to a wide range of processing industries, including petrochemical plants, oil refineries, electric utilities, pulp and paper mills, steel mills, and aluminum plants. Services provided include high-pressure and ultra-high pressure water cleaning (hydroblasting), chemical cleaning, industrial vacuuming, tank cleaning, mechanical services, waste minimization, commissioning and other specialized services. The majority of these services involve recurring maintenance to improve or sustain the operating efficiencies and extend the useful lives of process equipment and facilities.

The accompanying unaudited consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, the accompanying unaudited interim financial statements include all adjustments, consisting of only normal recurring accruals, necessary for a fair presentation of the results of the interim periods. Operating results for the three and six month interim period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

2. Adoption of New Accounting Principle

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) 133, as amended by SFAS 138, "Accounting Derivative Instruments and Hedging Activities". SFAS 133 requires that all derivatives be recorded on the consolidated balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in earnings or other comprehensive income (loss) depending on the type of hedging instrument and the effectiveness of those hedges. All derivatives are adjusted to their fair market values at the end of each quarter. Unrealized net gains and losses for cash flow hedges are recorded in other comprehensive income (loss).

The Company uses an interest rate swap to fix the interest rate on a variable rate term loan. This derivative, which was designated as a cash flow hedge at the time of adoption of SFAS 133, qualifies for evaluation using the short cut method for assessing effectiveness and is considered highly effective as defined by SFAS 133. In accordance with the transition provisions of SFAS 133, the Company recorded a cumulative loss adjustment to other comprehensive loss of $39,000, after taxes, to recognize the fair value of this derivative at January 1, 2001. During the six months ended June 30, 2001, unrealized net losses totaling $77,000 after taxes were recorded in other comprehensive loss, including the $39,000 cumulative effect adjustment as of January 1, 2001.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the statement is expected to result in an increase in net income of $2.6 million per year. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

3. Long-term Debt

Long-term debt at December 31, 2000 and June 30, 2001 consisted of the following (in thousands):

	2000	2001
Senior Subordinated Notes	$ 110,000	$ 110,000
Term Loan	29,000	25,828
Mortgage Loan	7,208	7,120
Revolver	--	750
Seller Notes	2,000	2,000
Total long-term debt	148,208	145,698
Less current portion of long-term debt	(7,858)	(8,194)
	$ 140,350	$ 137,504

4. Income Taxes

The Company files a consolidated tax return with Holding. The Company's effective income tax rate for the interim periods presented is based on management's estimate of the Company's effective tax rate for the applicable year and differs from the federal statutory income tax rate primarily due to nondeductible permanent differences, including nondeductible goodwill amortization, state income taxes and changes in the valuation allowance for deferred tax assets.

5. Summary Financial Information

Summary financial information for HydroChem International, Inc., as consolidated with HydroChem, is as follows (in thousands):

	As of December 31, 2000	As of June 30, 2001
Current assets..........................	$ 4,682	$ 4,036
Noncurrent assets.......................	189	189
Current liabilities.....................	801	440
Noncurrent liabilities..................	-	-

	Three months ended June 30,		Six months ended June 30,	
	2000	2001	2000	2001
Revenue.................................	$ 1,558	$ 1,808	$ 3,016	$ 3,037
Gross profit............................	558	643	1,215	963
Net income (loss).......................	547	31	680	(286)

6. Commitments and Contingencies

The Company is a defendant in various lawsuits arising in the normal course of business and certain other lawsuits. Substantially all of these suits are being defended by the Company's insurance carriers. Management believes that any material contingent liability associated with this litigation will not exceed the limits of applicable insurance policies or other indemnities. While the results of litigation cannot be predicted with certainty, management believes adequate provision has been made for all of the foregoing claims and the final outcome of any pending litigation will not have a material adverse effect on the Company's consolidated financial position or results of operations.

HYDROCHEM INDUSTRIAL SERVICES, INC.
AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statement Regarding Forward-Looking Information

Management's Discussion and Analysis of Financial Condition and Results of Operations and other items in this Quarterly Report on Form 10-Q contain forward-looking statements and information that are based on management's beliefs, as well as assumptions made by, and information currently available to, management. When used in this document, the words "believe", "anticipate", "estimate", "expect", "intend", and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated. The Company undertakes no obligation to release publicly any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. For supplemental information, it is suggested that "Management's Discussion and Analysis of Financial Condition and Results of Operations" be read in conjunction with the corresponding sections included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. The Form 10-K also includes the Company's Consolidated Financial Statements and the Notes thereto for certain prior periods, as well as other relevant financial and operating information.

Results of Operations

The following table sets forth, for the periods indicated, information derived from the Company's consolidated statements of operations, expressed as a percentage of revenue. There can be no assurance that the trends in operating results will continue in the future.

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2000	2001	2000	2001
<S>	<C>	<C>	<C>	<C>
Revenue..................................	100.0%	100.0%	100.0%	100.0%
Cost of revenue..........................	61.2	62.9	60.8	62.9
Gross profit.......................	38.8	37.1	39.2	37.1
SG&A expense.............................	22.6	23.0	23.3	22.8
Depreciation.............................	5.3	4.8	5.4	4.7
Operating income...................	10.9	9.3	10.5	9.6
Other expense:				
Interest expense, net.............	7.4	6.8	7.5	6.7
Amortization of intangibles........	1.9	1.7	1.8	1.7
Other, net.........................	0.3	-	0.1	-
Income before taxes......................	1.3	0.8	1.1	1.2

Income tax provision..............	-	0.9	-	0.8
Net income (loss)........................	1.3%	(0.1)%	1.1%	0.4%
EBITDA (1)...............................	16.2%	14.1 %	15.9%	14.3%

</TABLE>

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(1) EBITDA for any relevant period presented above represents gross profit less selling, general and administrative expense. EBITDA should not be construed as a substitute for operating income, as an indicator of liquidity or as a substitute for net cash provided by operating activities, which are determined in accordance with accounting principles generally accepted in the United States. EBITDA is included because management believes it to be a useful tool for analyzing operating performance, leverage, liquidity and a company's ability to service debt.

Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000

Revenue. Revenue increased $3.0 million, or 5.5%, to $57.2 million for the three months ended June 30, 2001 from $54.2 million in the prior year period. The increase resulted from an increase in industrial vacuuming revenue of $2.1 million, or 20.0%, from $10.5 million to $12.6 million, an increase in hydroblasting revenue of $1.9 million, or 9.5%, from $20.1 million to $22.0 million, and an increase in revenue from other services of $363,000, or 11.7%, from $3.1 million to $3.5 million. These increases were partially offset by a decrease in tank cleaning revenue of $1.4 million, or 25.0%, from $5.5 million to $4.1 million. Chemical cleaning remained relatively unchanged with revenue of $14.9 million in the current and prior year periods. The increase in industrial vacuuming revenue resulted from additional vacuum trucks placed in service by the Company in 2000 and 2001. The increase in hydroblasting revenue resulted principally from increased turnaround activity. The decrease in tank cleaning revenue resulted from fewer tank cleaning projects.

Gross profit. Gross profit increased $196,000, or 0.9%, to $21.2 million in 2001 from $21.0 million in the prior year period. Cost of revenue increased $2.8 million, or 8.3%, to $35.9 million in 2001 from $33.2 million in the prior year period. Gross profit margin decreased from 38.8% to 37.1%, primarily due to increases in compensation, operating supplies and equipment rental expense.

SG&A expense. SG&A expense increased $907,000, or 7.4%, to $13.2 million in 2001 from $12.3 million in the prior year period. This increase primarily resulted from an increase in compensation and other employee-related expenses. SG&A expense as a percentage of revenue increased to 23.0% in 2001 from 22.6% in the prior year period.

EBITDA. Increased SG&A expense, which was partially offset by increased gross profit, resulted in a decline in EBITDA of $711,000, or 8.1%, to $8.1 million in 2001 from $8.8 million in the prior year period. As a percentage of revenue, EBITDA decreased to 14.1% in 2001 from 16.2% in the prior year period.

Depreciation. Depreciation expense decreased $163,000, or 5.7%, to $2.7 million in 2001from $2.9 million in the prior year period. The decrease in depreciation expense principally resulted from certain assets becoming fully depreciated. As a percentage of revenue, depreciation expense decreased to 4.8% in 2001 from 5.3% in the prior year period.

Operating income. Increased gross profit and reduced depreciation expense, partially offset by increased SG&A expense, resulted in a decrease in operating income of $548,000, or 9.3%, to $5.3 million in 2001 from $5.9 million in the prior year period. As a percentage of revenue, operating income decreased to 9.3% in 2001 from 10.9% in the prior year period.

Interest expense, net. Interest expense, net decreased $126,000, or 3.1%, to $3.9 million in 2001 from $4.0 million in the prior year period. Decreased interest expense, net resulted from a reduction of outstanding debt from the prior year period. Interest expense, net as a percentage of revenue decreased to 6.8% in 2001 from 7.4% in the prior year period.

Amortization. Amortization expense was relatively unchanged with a decrease of $17,000, or 1.7%, to $996,000 in 2001 from $1,013,000 in the prior year period. Amortization expense as a percentage of revenue decreased to 1.7% in

2001 from 1.9% in the prior year period.

Income before taxes. For the reasons described above, the Company's income before taxes decreased $286,000 to $435,000 in 2001 from $721,000 in the prior year period. As a percentage of revenue, income before taxes was 0.8% in 2001 compared to 1.3% in the prior year period.

Income tax provision. The effective income tax rate increased in 2001 primarily as a result of changes in the valuation of deferred tax assets in 2001 as compared to 2000. Additionally, the higher effective income tax rate is principally due to certain nondeductible operating expenses and nondeductible goodwill amortization.

Net income (loss). For the reasons described above, the Company's net income decreased $776,000 resulting in a loss of $55,000 in 2001, as compared to net income of $721,000 in the prior year period. Net income (loss), as a percentage of revenue, was (0.1%) in 2001 compared to 1.3% in the prior year period.

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

Revenue. Revenue increased $8.9 million, or 8.3%, to $116.5 million for the six months ended June 30, 2001 from $107.6 million in the prior year period. The increase resulted from an increase in hydroblasting revenue of $6.7 million, or 16.4% from $40.8 million to $47.5 million, and an increase in industrial vacuuming revenue of $4.7 million, or 22.1%, from $21.1 million to $25.7 million. These increases were partially offset by a decrease in tank cleaning revenue of $1.5 million or 16.9%, from $8.8 million to $7.3 million, a decrease in chemical cleaning revenue of $738,000, or 2.5%, from $29.3 million to $28.6 million and a decrease in revenue from other services of $199,000, or 2.6%, from $7.5 million to $7.3 million. The increase in hydroblasting revenue resulted principally from increased turnaround activity in the first half of 2001. The increase in industrial vacuuming revenue resulted from additional vacuum trucks placed in service by the Company in 2000 and 2001. Tank and chemical cleaning revenues decreased primarily due to fewer projects.

Gross profit. Gross profit increased $1.1 million, or 2.6%, to $43.3 million in 2001 from $42.2 million in the prior year period. Cost of revenue increased $7.8 million, or 12.0%, to $73.3 million in 2001 from $65.4 million in the prior year period. Gross profit margin decreased from 39.2% to 37.1%, primarily due to increases in compensation, operating supplies and equipment rental expense.

SG&A expense. SG&A expense increased $1.6 million, or 6.2%, to $26.6 million in 2001 from $25.1 million in the prior year period. The increase primarily resulted from an increase in compensation and other employee-related expenses. SG&A expense as a percentage of revenue decreased to 22.8% in 2001 from 23.3% in the prior year period.

EBITDA. Increased SG&A expense, which was partially offset by increased gross profit, resulted in a decline in EBITDA of $483,000, or 2.8%, to $16.7 million in 2001 from $17.1 million in the prior year period. As a percentage of revenue, EBITDA decreased to 14.3% in 2001 from 15.9% in the prior year period.

Depreciation. Depreciation expense decreased $395,000, or 6.8%, to $5.4 million in 2001 from $5.8 million in the prior year period. The decrease in depreciation expense principally resulted from certain assets becoming fully depreciated. As a percentage of revenue, depreciation expense decreased to 4.7% in 2001 from 5.4% in the prior year period.

Operating income. Increased gross profit and reduced depreciation expense, partially offset by increased SG&A expense, resulted in a decrease in operating income of $88,000, or 0.8%, to $11.2 million in 2001, from $11.3 million in the prior year period. As a percentage of revenue, operating income decreased to 9.6% in 2001 from 10.5% in the prior year period.

Interest expense, net. Interest expense, net decreased $210,000, or 2.6%, to $7.8 million in 2001 from $8.0 million in the prior year period. Decreased interest expense, net resulted from a reduction of outstanding debt from the prior year period. Interest expense, net as a percentage of revenue decreased to 6.7% in 2001 from 7.5% in the prior year period.

Amortization. Amortization expense was relatively unchanged at $2.0 million in the current and prior year period with a decrease of $5,000, or 0.3%. Amortization expense as a percentage of revenue decreased to 1.7% in 2001 from 1.8% in the prior year period.

Income before taxes. For the reasons described above, income before taxes increased $268,000, or 23.6%, to $1.4 million in 2001 from $1.1 million in the prior year period. As a percentage of revenue, income before taxes was 1.2% in 2001 compared to 1.1% in the prior year period.

Income tax provision. The effective income tax rate increased in 2001 primarily as a result of changes in the valuation of deferred tax assets in 2001 as compared to 2000. Additionally, the higher effective income tax rate is principally due to certain nondeductible operating expenses and nondeductible goodwill amortization.

Net income (loss). For the reasons described above, the Company's net income decreased $717,000, or 63.0%, to $421,000 in 2001, as compared to $1.1 million in the prior year period. Net income, as a percentage of revenue, was 0.4% in 2001 compared to 1.1% in the prior year period.

Liquidity and Capital Resources

The Company historically has financed its operations through net cash provided by operating activities, existing cash balances, available credit facilities and capital contributions from Holding. On November 19, 1999, the Company entered into a credit agreement with six financial institutions which provided for secured borrowings of up to $60.0 million, consisting of a $30.0 million term loan (the "Term Loan"), and a $30.0 million revolving loan (the "Revolver") which is subject to borrowing base limitations. Effective June 30, 2001, the credit agreement was amended to modify certain covenants applicable to periods ending in the future and to reduce the amount of the Revolver to $22.5 million. The credit facility expires on December 31, 2004 and requires the Company to meet certain customary financial ratios and covenants.

As of June 30, 2001, $25.8 million was outstanding under the Term Loan. As of June 30, 2001, there was $750,000 of funded debt outstanding under the Revolver and $1.5 million had been drawn in the form of standby letters of credit, principally issued in connection with the Company's property and casualty insurance program. The Company had available borrowings of $15.7 million, net of covenant test limitations.

For the six months ended June 30, 2001, the Company used net cash of $3.6 million for operating and investing activities which consisted of $327,000 provided by operating activities and $3.9 million used in investing activities. For the six months ended June 30, 2000, $406,000 of net cash was used in operating and investing activities which consisted of $2.4 million provided by operating activities and $2.8 million used in investing activities. Expenditures for property and equipment for the six months ended June 30, 2001 and 2000 were $4.2 million and $2.8 million, respectively. These expenditures were principally for operating equipment.

Management believes that cash and cash equivalents at June 30, 2001, net cash expected to be provided by operating activities and borrowings, if necessary, under the Revolver will be sufficient to meet the Company's cash requirements for operations and expenditures for property and equipment for the next twelve months and the foreseeable future thereafter. From time to time, the Company reviews acquisition opportunities as they arise, and may require additional financing if it decides to make additional acquisitions. There can be no assurance, however, that any such acquisition opportunities will arise, that any such acquisitions will be consummated, or that any related financing will be available when required on terms satisfactory to the Company.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following discussion regarding the Company's market risk includes "forward-looking" statements that involve risks and uncertainties. Actual results could differ materially from those projected in these forward-looking statements.

The Company is exposed to certain market risks, which include financial instruments such as short-term investments, trade receivables, and long-term debt. The adverse effects of potential changes in these market risks are discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions management may take to mitigate the Company's exposure to such changes. The Notes to Consolidated Financial Statements herein and in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 provide a description of the Company's accounting policies and other information related to these financial instruments. The Company does not engage in speculative transactions and does not use derivative instruments or engage in hedging activities, except for the Interest Rate Swap which was entered into during 1998 in connection with the Mortgage Loan.

As of June 30, 2001, the Company's outstanding long-term debt consisted of the Senior Subordinated Notes, the Term Loan, the Mortgage Loan, the Revolver, and the Seller Notes. The Senior Subordinated Notes totaled $110.0 million, are due in the year 2007, and bear interest at a fixed rate of 10 3/8%. As of June 30, 2001, their fair value was estimated to be $78.0 million. At the same date, the Term Loan, the Mortgage Loan, the Revolver, and the Seller Notes totaled $25.8 million, $7.1 million, $750,000, and $2.0 million, respectively, and approximated their fair value. The Term Loan requires scheduled quarterly principal payments, which began September 30, 2000. The Term Loan and Revolver mature on December 31, 2004. The interest rates for the Term Loan and Revolver, at the discretion of the Company, are at Base Rate or LIBOR, plus applicable margins. Margins range from 0.00% to 3.00%, depending upon which interest rate option is in effect and the Company's leverage ratio as determined quarterly. The Company periodically reviews various alternatives to protect long-term debt against interest rate fluctuations. The Mortgage Loan bears interest at LIBOR plus 1.75%, adjusted quarterly. To protect the Mortgage Loan against interest rate fluctuations, the Company utilizes the Interest Rate Swap, which fixes the interest rate at 7.82% per annum. The remaining balance of the Seller Notes is due on November 19, 2001. The Seller Notes bear interest at 8.00% per annum. The market risk, estimated as a potential increase in fair value of these debt instruments resulting from a hypothetical 1.0% decrease in interest rates, is estimated not to be material to the Company during 2001.

Part II. Other Information

Item 1. Legal Proceedings

There have been no material changes to the proceedings previously reported in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of HydroChem Industrial Services, Inc. as amended. (Exhibit 3.1 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
3.2	Certificate of Incorporation of HydroChem International, Inc. as amended. (Exhibit 3.2 to the Company's Registration

Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)

3.3	By-Laws of HydroChem Industrial Services, Inc. (Exhibit 3.3 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
3.4	By-Laws of HydroChem International, Inc. (Exhibit 3.4 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
4.1	Purchase Agreement, dated as of July 30, 1997, by and among HydroChem Industrial Services, Inc., HydroChem International, Inc. and Donaldson, Lufkin & Jenrette Securities Corporation, as Initial Purchaser, relating to the 10 3/8% Series A Senior Subordinated Notes due 2007. (Exhibit 4.1 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
4.2	Indenture, dated as of August 1, 1997, among HydroChem Industrial Services, Inc., HydroChem International, Inc., as Guarantor, and Norwest Bank, Minnesota, N.A., as Trustee. (Exhibit 4.2 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
4.3	Registration Rights Agreement dated August 4, 1997, by and among HydroChem Industrial Services, Inc., HydroChem International, Inc. and Donaldson, Lufkin & Jenrette Securities Corporation, as Initial Purchaser. (Exhibit 4.3 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
10.1	HydroChem Holding, Inc. 1994 Stock Option Plan. (Exhibit 10.1 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
10.2	Deferred Bonus Plan of HydroChem Industrial Services, Inc. effective May 1, 1999. (Exhibit 10.14 to the Company's Form 10-Q filed August 10, 1999, is hereby incorporated by reference.)
10.3	First Amendment to Deferred Bonus Plan of HydroChem Industrial Services, Inc. dated as of May 1, 2000. (Exhibit 10.3 to the Company's Form 10-Q filed August 11, 2000, is hereby incorporated by reference.)

10.4	Second Amendment to Deferred Bonus Plan of HydroChem Industrial Services, Inc. dated as of May 1, 2001. (Exhibit 10.4 to the Company's Form 10-Q filed May 11, 2001, is hereby incorporated by reference.)
10.5	Employment Agreement dated December 15, 1993 by and among HydroChem Holding, Inc., HydroChem Industrial Services, Inc. and B. Tom Carter, Jr., as amended through December 9, 1996. (Exhibit 10.5 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)
10.6	Fourth Amendment to Employment Agreement dated April 9, 1998 by and among HydroChem Holding, Inc., HydroChem Industrial Services, Inc. and B. Tom Carter, Jr. (Exhibit 10.8 to the Company's Form 10-Q, filed May 14, 1998, is hereby incorporated by reference.)
10.7	Secured Promissory Note dated February 9, 2001 from B. Tom Carter, Jr. to HydroChem Holding, Inc. (Exhibit 10.6 to the Company Form 10-K filed March 21, 2001, is hereby incorporated by reference.)
10.8	Pledge Agreement dated February 9, 2001 between B.Tom Carter,

Jr. and HydroChem Holding, Inc. (Exhibit 10.7 to the Company's Form 10-K filed March 21, 2001, is hereby incorporated by reference.)

10.9 Employment Agreement dated November 1, 1992 between HydroChem Industrial Services, Inc. and Gary D. Noto. (Exhibit 10.3 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)

10.10 Amendment dated January 27, 1999 to Employment Agreement dated November 1, 1992 between HydroChem Industrial Services, Inc. and Gary D. Noto. (Exhibit 10.8 to the Company's Form 10-K, filed March 29, 1999, is hereby incorporated by reference.)

10.11 Employment Agreement dated November 1, 1992 between HydroChem Industrial Services, Inc. and J. Pat DeBusk. (Exhibit 10.2 to the Company's Registration Statement on Form S-4, filed August 25, 1997, is hereby incorporated by reference.)

10.12 Employment Agreement dated September 26, 1997 between HydroChem Industrial Services, Inc. and Donovan W. Boyd. (Exhibit 10.10 to the Company's Form 10-K filed March 29, 1999, is hereby incorporated by reference.)

10.13 First Amendment to Employment Agreement dated as of June 28, 1999 to Employment Agreement dated as of September 26, 1997 between HydroChem Industrial Services, Inc. and Donovan W. Boyd. (Exhibit 10.10 to the Company's Form 10-Q filed August 10, 1999, is hereby incorporated by reference.)

10.14 Second Amendment to Employment Agreement dated as of January 17, 2001 to Employment Agreement dated as of September 26, 1997 between HydroChem Industrial Services and Donovan W. Boyd. (Exhibit 10.13 to the Company's Form 10-K filed March 21, 2001, is hereby incorporated by reference.)

10.15 Letter Agreement regarding severance compensation dated October 31, 1997 between HydroChem Industrial Services, Inc. and Pelham H. A. Smith. (Exhibit 10.7 to the Company's Form 10-Q, filed November 14, 1997, is hereby incorporated by reference.)

10.16 Form of Indemnification Agreement entered into with directors and officers. (Exhibit 10.8 to the Company's Amendment No. 1 to the Registration Statement on Form S-4, filed October 3, 1997, is hereby incorporated by reference.)

10.17 Loan Agreement dated July 17, 1998 between HydroChem Industrial Services, Inc. and Bank One, Texas, National Association. (Exhibit 10.15 to the Company's Form 10-Q, filed August 14, 1998, is hereby incorporated by reference.)

10.18 Amendment No.1 dated as of February 2, 1999 to Loan Agreement dated July 17, 1998 between HydroChem Industrial Services, Inc. and Bank One, Texas National Association. (Exhibit 10.21 to the Company's Form 10-K filed March 29, 1999, is hereby incorporated by reference.)

10.19 Extension Agreement dated as of February 2, 1999 between HydroChem Industrial Services, Inc. and Bank One, Texas, National Association. (Exhibit 10.22 to the Company's Form 10-K filed March 29, 1999, is hereby incorporated by reference.)

10.20 International Swap Dealers Association, Inc. Master Agreement and Schedule dated July 17, 1998 between HydroChem Industrial Services, Inc. and Bank One, Texas, National Association. (Exhibit 10.16 to the Company's Form 10-Q, filed August 14, 1998, is hereby incorporated by reference.)

10.21	Credit Agreement dated November 19, 1999 among HydroChem Holding, Inc., HydroChem Industrial Services, Inc., various lenders and Bank of America, N.A., as administrative agent. (Exhibit 2.2 to the Company's Form 8-K filed December 3, 1999, is hereby incorporated by reference.)
10.22	First Amendment dated as of December 17, 1999 to Credit Agreement dated November 19, 1999 among HydroChem Holding, Inc., HydroChem Industrial Services, Inc., various lenders and Bank of America, N.A., as administrative agent. (Exhibit 10.20 to the Company's Form 10-K filed March 24, 2000, is hereby incorporated by reference.)
10.23	Second Amendment dated as of June 30, 2000 to Credit Agreement dated November 19, 1999 among HydroChem Holding, Inc., HydroChem Industrial Services, Inc., various lenders and Bank of America, N.A., as administrative agent. (Exhibit 10.24 to the Company's Form 10-Q filed August 11, 2000, is hereby incorporated by reference.)
10.24	Third Amendment dated as of June 30, 2001 to Credit Agreement dated November 19, 1999 among HydroChem Holding, Inc., HydroChem Industrial Services, Inc., various lenders and Bank of America, N.A., as administrative agent. (Filed herewith).
10.25	Amended and Restated Asset Purchase Agreement by and among HydroChem Industrial Services, Inc., Valley Systems of Ohio, Inc. and Valley Systems, Inc. dated as of September 8, 1998. (Exhibit 10.1 to the Company's Form 8-K, filed January 20, 1999, is hereby incorporated by reference.)
10.26	Stock Purchase Agreement dated November 19, 1999 by and among HydroChem Industrial Services, Inc. and each stockholder of Landry Service Co., Inc. including Kenneth C. Landry and Charles A. Landry, Jr. (Exhibit 2.1 to the Company's Form 8-K filed December 3, 1999, is hereby incorporated by reference.)

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HYDROCHEM INDUSTRIAL SERVICES, INC.

Date: August 3, 2001

By: /s/ Pelham H. A. Smith

Pelham H. A. Smith, Executive Vice President and Chief Financial Officer

HYDROCHEM INTERNATIONAL, INC.

Date: August 3, 2001

By: /s/ Pelham H. A. Smith

Pelham H. A. Smith, Executive Vice President
and Chief Financial Officer

EXHIBIT INDEX

10.24 Third Amendment dated as of June 30, 2001 to Credit Agreement dated November 19, 1999 among HydroChem Holding, Inc., HydroChem Industrial Services, Inc., various lenders and Bank of America, N.A., as administrative agent.

THIRD AMENDMENT TO CREDIT AGREEMENT

THIRD AMENDMENT, dated as of June 30, 2001 (this "Amendment"), among HYDROCHEM HOLDING, INC., a Delaware corporation ("Holding"), HYDROCHEM INDUSTRIAL SERVICES, INC., a Delaware corporation (the "Borrower"), the financial institutions party to the Credit Agreement referred to below (the "Lenders"), and BANK OF AMERICA, N.A., as Administrative Agent. All capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided such terms in the Credit Agreement referred to below.

W I T N E S S E T H :

WHEREAS, Holding, the Borrower, the Lenders and the Administrative Agent are parties to a Credit Agreement, dated as of November 19, 1999 (as in effect on the date hereof, the "Credit Agreement"); and

WHEREAS, the parties hereto wish to amend and modify the Credit Agreement as herein provided;

NOW THEREFORE, it is agreed:

I. Amendments and Agreement to Credit Agreement.

1. Section 9.07(a) of the Credit Agreement is hereby amended by deleting such Section in its entirety and inserting in lieu thereof the following new Section 9.07(a):

"(a) Holding will not, and will not permit any of its Subsidiaries to, make any Capital Expenditures, except that during any fiscal year of Holding set forth below (taken as one accounting period) the Borrower and its Subsidiaries may make Capital Expenditures so long as the aggregate amount of all such Capital Expenditures does not exceed in any fiscal year of Holding set forth below the lesser of (x) 6% of the Borrower's and its Subsidiaries gross revenues on a consolidated basis for such fiscal year and (y) the amount set forth opposite such fiscal year below (as such amount may be adjusted pursuant to the immediately succeeding paragraph):

<TABLE>
<CAPTION>

Fiscal Year Ending On	Amount
<S>	<C>
December 31, 2001	$ 9,000,000
December 31, 2002	$ 9,500,000
December 31, 2003	$10,000,000
December 31, 2004	$10,500,000

</TABLE>

From and after the consummation of any Permitted Acquisition after July 1, 2001, each of the Capital Expenditure amounts set forth in the table above in this clause (a) shall be increased by an amount equal to 6% of the Acquired Revenues of the respective Acquired Entity or Business acquired in each such Permitted Acquisition for the most recently ended 12 month period for which financial statements are available for such Acquired Entity or Business (as certified in the respective officer's certificate delivered pursuant to clause (ix) of Section 8.16(a)), provided that the Capital Expenditure amount for the fiscal year in which such Permitted Acquisition is consummated shall only be increased by the amount set forth above in this sentence multiplied by a fraction the numerator of which is the number of days remaining in such fiscal year and the denominator of which is 365."

2. Section 9.08 of the Credit Agreement is hereby amended by deleting such Section in its entirety and by inserting in lieu thereof the following new Section 9.08:

"9.08 Consolidated Interest Coverage Ratio. Holding will not permit the Consolidated Interest Coverage Ratio for any Test Period ending on the last day of a fiscal quarter of Holding set forth below to be less than the ratio set forth opposite such fiscal quarter below:

<TABLE>
<CAPTION>

Fiscal Quarter Ending On	Ratio
<S>	<C> <C>
June 30, 2001	2.00:1.00
September 30, 2001	2.00:1.00
December 31, 2001	2.00:1.00
March 31, 2002	2.00:1.00
June 30, 2002	2.00:1.00
September 30, 2002	2.10:1.00
December 31, 2002	2.25:1.00
March 31, 2003	2.25:1.00
June 30, 2003	2.25:1.00
September 30, 2003	2.25:1.00
December 31, 2003 and the last day of each fiscal quarter of Holding thereafter	2.50:1.00."

</TABLE>

3. Section 9.10 of the Credit Agreement is hereby amended by deleting such Section in its entirety and by inserting in lieu thereof the following new Section 9.10:

"9.10 Maximum Consolidated Leverage Ratio. Holding will not permit the Consolidated Leverage Ratio as of the last day of any fiscal quarter of Holding set forth below to be greater than the ratio set forth opposite such fiscal quarter below:

<TABLE>
<CAPTION>

Fiscal Quarter Ending On	Ratio
<S>	<C> <C>
June 30, 2001	5.25:1.00
September 30, 2001	5.25:1.00
December 31, 2001	5.00:1.00

March 31, 2002	5.00:1.00
June 30, 2002	4.75:1.00
September 30, 2002	4.60:1.00
December 31, 2002	4.50:1.00
March 31, 2003	4.50:1.00
June 30, 2003	4.25:1.00
September 30, 2003	4.25:1.00
December 31, 2003	4.00:1.00
March 31, 2004	4.00:1.00
June 30, 2004	4.00:1.00
September 30, 2004	4.00:1.00
December 31, 2004 and the last day of each fiscal quarter of Holding thereafter	3.75:1.00."

</TABLE>

4. Section 9.11 of the Credit Agreement is hereby amended by deleting such Section in its entirety and by inserting in lieu thereof the following new Section 9.11:

"9.11 Minimum Consolidated Net Worth. Holding will not permit the Consolidated Net Worth on the last day of each fiscal quarter of Holding to be less than the Minimum Consolidated Net Worth on the last day of each fiscal quarter of Holding."

5. Notwithstanding anything to the contrary contained in the Credit Agreement, Holding, the Borrower and the Lenders hereby agree that the Total Revolving Loan Commitment shall be permanently reduced on the Third Amendment Effective Date (as defined below) to $22,500,000 (as such amount may be further reduced from time to time in accordance with the terms of the Credit Agreement). The reduction to the Total Revolving Loan Commitment pursuant to this Section 4 shall be applied to permanently and proportionately reduce the Revolving Loan Commitment of each Lender.

II. Miscellaneous.

1. In order to induce the Lenders to enter into this Amendment, each of Holding and the Borrower hereby represents and warrants that (i) all representations, warranties and agreements contained in Section 7 of the Credit Agreement are true and correct in all material respects on and as of the Third Amendment Effective Date and as of July 23,2001 (unless such representations and warranties relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such

earlier date) and (ii) there exists no Default or Event of Default on the Third Amendment Effective Date and as of July 23, 2001, in each case after giving effect to this Amendment.

2. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreement or any other Credit Document.

3. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered (including by way of facsimile) shall be an original, but all of which shall together constitute one and the same

instrument. A complete set of counterparts shall be lodged with the Borrower and the Administrative Agent.

4. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

5. This Amendment shall be effective as of June 30, 2001 (the "Third Amendment Effective Date") provided that on or before July 23, 2001 each of Holding,the Borrower and the Required Lenders shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including, without limitation, by usage of facsimile transmission) the same to the Administrative Agent at the Notice Office. This Amendment and the agreements contained herein shall be binding on the successors and assigns of the parties hereto.

6. To induce the Lenders to enter into this Amendment, the Borrower hereby agrees to pay to the Administrative Agent (for the account of each Lender which has approved this Amendment on or before 5:00 p.m. (New York time) on July 18, 2001) an amendment fee equal to 0.25% of the sum of each such Lender's Revolving Loan Commitment and outstanding Term Loans as of July 23, 2001 (after giving effect to the Third Amendment Effective Date), which fee shall be payable on July 23, 2001.

7. From and after the Third Amendment Effective Date, all references in the Credit Agreement and in the other Credit Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby.

* * *

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

HYDROCHEM HOLDING, INC.

By:/s/ Pelham H. A. Smith

Name: Pelham H. A. Smith
Title: Chief Financial Officer

HYDROCHEM INDUSTRIAL SERVICES, INC.

By:/s/ Pelham H. A. Smith

Name: Pelham H. A. Smith
Title: Chief Financial Officer

BANK OF AMERICA, N.A.,
Individually and as Administrative Agent

By:/s/ Yousuf Omar

Name: Yousuf Omar
Title: Managing Director

GUARANTY BANK

By:/s/ Scott Brewer

Name: Scott Brewer
Title: Vice President

NATIONAL CITY BANK OF KENTUCKY

By:/s/ Stephen Bassett

Name: Stephen Bassett
Title: Account Officer

NATEXIS BANQUES POPULAIRES

By:/s/ Donovan C. Broussard

Name: Donovan C. Broussard
Title: Vice President

By:/s/ Louis P. Laville, III

Name: Louis P. Laville, III
Title: Vice President and
Group Manager

SOUTHWEST BANK OF TEXAS, N.A.

By:/s/ Carmen Dunmire

Name: Carmen Dunmire
Title: Vice President

WELLS FARGO BANK (TEXAS), NATIONAL ASSOCIATION

By:/s/ Linda Masera

Name: Linda Masera
Title: Vice President