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13 UNITED STATES DISTRICT COURT
14 CENTRAL DISTRICT OF CALIFORNIA
15 WESTERN DIVISION

16
17 CHRIS DEMMITT, On Behalf of) Case No.
18 Himself and All Others Similarly)
19 Situated,) CLASS ACTION
20)
21 Plaintiff,) COMPLAINT FOR VIOLATION OF
22) THE FEDERAL SECURITIES LAWS
23 vs.)
24)
25 BLUE RHINO CORPORATION,)
26 BILLY D. PRIM, TIMOTHY E.)
27 SCRONCE, ANDREW J.) DEMAND FOR JURY TRIAL
28 FILIPOWSKI, and MARK)
CASTANEDA,)
Defendants.)

1 (a) The Company's business was strong and was expected to
2 continue as such in the foreseeable future, as the overfill prevention device
3 regulations ("OPD Regulations") were continuing to result in robust demand for
4 Blue Rhino products, despite knowing or deliberately disregarding the fact that at
5 least two of the Company's distributors, Ark Holdings Ltd. ("Ark") and Platinum
6 Propane Distributors ("Platinum"), were performing well below plan and that
7 defendants were already beginning to see the end of the positive impact of the OPD
8 Regulation, such that the Company lacked a reasonable basis to believe and did not,
9 in fact, believe that demand would foreseeably continue to remain at then current
10 levels, which required them to decrease their EPS estimate.

11 (b) That two failing distributors, Ark and Platinum, which accounted
12 for at least 40% of the Company's distribution revenues, had lost over \$2.8 million
13 on a combined basis for the first 10 months of fiscal 2002 ("FY:02"), compared to a
14 loss of only \$1.2 million for all of FY:01.

15 (c) That Platinum had performed so poorly that it was actually in
16 violation of its loan covenants.

17 (d) That Ark and Platinum already owed the Company at least \$7.8
18 million (including \$5 million in cash advances), representing 61% of their total
19 liabilities, which assets defendants knew Blue Rhino would be forced to write off if
20 these distributors failed completely.

21 **JURISDICTION AND VENUE**

22 4. (a) The claims asserted herein arise under and pursuant to §§10(b) and
23 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5
24 promulgated thereunder by the United States Securities and Exchange Commission
25 ("SEC") [17 C.F.R. §240.10b-5].

26 (b) Jurisdiction over the subject matter of this action is conferred
27 upon this Court by 28 U.S.C. §1331 and §27 of the Exchange Act [15 U.S.C.
28 §78aa].

1 5. Venue is proper in this District pursuant to §27 of the Exchange Act,
2 and 28 U.S.C. §1391(b). Blue Rhino conducts substantial business in this District
3 and many of the acts and practices complained of herein occurred in substantial part
4 in this District. In addition, each of the Company's wholly owned subsidiaries, Ark
5 and Platinum of Los Angeles, conduct significant business in and maintain offices in
6 this District. Moreover, in connection with Blue Rhino's acquisition of Platinum and
7 its distributors, many of the acts complained of herein occurred in this District,
8 including but not limited to the following:

9 (a) Platinum and its distributors conduct and at all times relevant to
10 the allegations raised herein conducted significant business in California and have at
11 all relevant times maintained operations in this District, including offices located at
12 2880 Norton Avenue, Lynwood, CA, and other operations in this District and
13 throughout California.

14 (b) Blue Rhino conducts significant business in California, and
15 maintains operations in this District, including offices acquired through the
16 acquisition of Ark, located at 818 West 7th Street, Los Angeles, CA, and other
17 operations in this District and throughout California.

18 (c) In connection with Blue Rhino's acquisition of Platinum and its
19 subsidiaries, defendants conducted additional significant activities within this
20 District, including but not limited to the following:

21 (i) significant asset valuation and other studies relating to the
22 valuation of Platinum occurred in this District;

23 (ii) negotiations regarding the acquisition of Platinum by Blue
24 Rhino occurred, at least in part, in this District;

25 (iii) a review of the business and operations of Platinum
26 occurred, at least in part, in this District; and

27 (iv) a review of the business of Blue Rhino by Platinum
28 occurred, at least in part, in this District.

1 (d) In connection with Blue Rhino's acquisition of Ark and its
2 subsidiaries, defendants conducted additional significant activities within this
3 District, including but not limited to the following:

4 (i) significant asset valuation and other studies relating to the
5 valuation of Ark occurred in this District;

6 (ii) negotiations regarding the acquisition of Ark by Blue
7 Rhino occurred, at least in part, in this District;

8 (iii) a review of the business and operations of Ark occurred, at
9 least in part, in this District; and

10 (iv) a review of the business of Blue Rhino by Ark occurred, at
11 least in part, in this District.

12 6. In connection with the acts alleged in this complaint, defendants,
13 directly or indirectly, used the means and instrumentalities of interstate commerce,
14 including, but not limited to, the mails, interstate telephone communications and the
15 facilities of the national securities markets.

16 PARTIES

17 7. Plaintiff Chris Demmitt, as set forth in the accompanying certification,
18 incorporated by reference herein, purchased the common stock of Blue Rhino at
19 artificially inflated prices during the Class Period and has been damaged thereby.

20 8. Defendant Blue Rhino is a Delaware corporation with its executive
21 offices located in North Carolina. Blue Rhino is a national provider of propane gas
22 and propane gas accessories, including cylinder exchanges and related propane
23 products. The Company's retail partners include Home Depot, Lowe's, Wal-Mart,
24 Sears, KMart, Kroger, Food Lion, Win Dixie, Circle K and ExxonMobil. Ark
25 Holdings, one of the Company's wholly owned subsidiaries and a major distributor
26 for Blue Rhino, and one of the distributors acquired in the manipulated transactions
27 complained of herein, maintains offices in Los Angeles, California, at 818 West 7th
28 Street. Platinum Propane of Los Angeles, another of the acquired distributors

1 purchased in the manipulated transaction complained of herein, also maintains
2 offices in this District at 2880 Norton Avenue, Lynwood, California.

3 9. Defendant Billy D. Prim (“Prim”) is, and at all times relevant to the
4 allegations raised herein was, Chairman of the Board of Directors (“Board”) and
5 Chief Executive Officer (“CEO”) of Blue Rhino.

6 10. Defendant Timothy E. Scronce (“Scronce”) is, and at all times relevant
7 to the allegations raised herein was, President and Chief Operating Officer
8 (“COO”), having assumed the role of President on or about November 20, 2002, and
9 having served prior to that time as Vice President and COO of Blue Rhino.

10 11. Defendant Andrew J. Filipowski (“Filipowski”) is, and at all times
11 relevant to the allegations raised herein was, Vice Chairman of the Board of Blue
12 Rhino.

13 12. Defendant Mark Castaneda (“Castaneda”) is, and at all times relevant
14 to the allegations raised herein was, Chief Financial Officer (“CFO”) and a member
15 of the Board of Blue Rhino.

16 13. The Defendants referenced above in 9-12 are referred to herein as the
17 “Individual Defendants.”

18 14. Because of the Individual Defendants' positions with the Company,
19 they each had access to the adverse undisclosed information about its business,
20 operations, products, operational trends, financial statements, markets and present
21 and future business prospects via access to internal corporate documents (including
22 the Company's operating plans, budgets and forecasts and reports of actual
23 operations compared thereto), conversations and connections with other corporate
24 officers and employees, attendance at management and Board of Directors meetings
25 and committees thereof, and via reports and other information provided to them in
26 connection therewith.

27 15. It is appropriate to treat the Individual Defendants as a group for
28 pleading purposes and to presume that the false, misleading and incomplete

1 information conveyed in the Company's public filings, press releases and other
2 publications as alleged herein are the collective actions of the narrowly defined
3 group of defendants identified above. Each of the above officers of Blue Rhino, by
4 virtue of their high-level positions with the Company, directly participated in the
5 management of the Company, was directly involved in the day-to-day operations of
6 the Company at the highest levels and was privy to confidential proprietary
7 information concerning the Company and its business, operations, products, growth,
8 financial statements and financial condition, as alleged herein. Said defendants were
9 involved in drafting, producing, reviewing and/or disseminating the false and
10 misleading statements and information alleged herein, were aware, or deliberately
11 disregarded, that the false and misleading statements were being issued regarding
12 the Company, and approved or ratified these statements, in violation of the federal
13 securities laws.

14 16. As officers and controlling persons of a publicly held company whose
15 common stock was, and is, registered with the SEC pursuant to the Exchange Act,
16 and was traded on the Nasdaq National Market (the "Nasdaq"), and governed by the
17 provisions of the federal securities laws, the Individual Defendants each had a duty
18 to disseminate promptly accurate and truthful information with respect to the
19 Company's financial condition and performance, growth, operations, financial
20 statements, business, products, markets, management, earnings and present and
21 future business prospects, and to correct any previously issued statements that had
22 become materially misleading or untrue, so that the market price of the Company's
23 publicly traded securities would be based upon truthful and accurate information.
24 The Individual Defendants' misrepresentations and omissions during the Class
25 Period violated these specific requirements and obligations.

26 17. The Individual Defendants participated in the drafting, preparation,
27 and/or approval of the various public, shareholder and investor reports and other
28 communications complained of herein and were aware of, or deliberately

1 disregarded, the misstatements contained therein and omissions therefrom, and were
2 aware of their materially false and misleading nature. Because of their Board
3 membership and/or executive and managerial positions with Blue Rhino, each of the
4 Individual Defendants had access to the adverse undisclosed information about Blue
5 Rhino's business prospects and financial condition and performance as
6 particularized herein and knew (or deliberately disregarded) that these adverse facts
7 rendered the positive representations made by or about Blue Rhino and its business
8 issued or adopted by the Company materially false and misleading.

9 18. The Individual Defendants, because of their positions of control and
10 authority as officers and/or directors of the Company, were able to and did control
11 the content of the various SEC filings, press releases and other public statements
12 pertaining to the Company during the Class Period. Each Individual Defendant was
13 provided with copies of the documents alleged herein to be misleading prior to or
14 shortly after their issuance and/or had the ability and/or opportunity to prevent their
15 issuance or cause them to be corrected. Accordingly, each of the Individual
16 Defendants is responsible for the accuracy of the public reports and releases detailed
17 herein and is, therefore, primarily liable for the representations contained therein.

18 19. Each of the defendants is liable as a participant in a fraudulent scheme
19 and course of business that operated as a fraud or deceit on purchasers of Blue
20 Rhino common stock by disseminating materially false and misleading statements
21 and/or concealing material adverse facts. The scheme: (i) deceived the investing
22 public regarding Blue Rhino's business, operations, management and the intrinsic
23 value of Blue Rhino common stock; (ii) enabled defendants to acquire over \$30
24 million in assets, purchased using artificially inflated Blue Rhino shares, to
25 refinance debt upon more favorable terms with its lenders; (iii) allowed defendants
26 to sell \$15.79 million worth of Company common stock in a private placement, as
27 well as register over \$23.8 million in shares of common stock for large shareholders
28 that had entered into a private equity deal the prior year; and (iv) caused plaintiff

1 and other members of the Class to purchase Blue Rhino securities at artificially
2 inflated prices.

3 PLAINTIFF’S CLASS ACTION ALLEGATIONS

4 20. Plaintiff brings this action as a class action pursuant to Federal Rule of
5 Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all those who
6 purchased or otherwise acquired the securities of Blue Rhino between August 15,
7 2002 and February 5, 2003 inclusive (the “Class”), and who were damaged thereby.
8 Excluded from the Class are defendants, the officers and directors of the Company,
9 at all relevant times, members of their immediate families and their legal
10 representatives, heirs, successors or assigns and any entity in which defendants have
11 or had a controlling interest.

12 21. The members of the Class are so numerous that joinder of all members
13 is impracticable. Throughout the Class Period, Blue Rhino common shares were
14 actively traded on the Nasdaq. As of November 30, 2002, the Company had over
15 15.6 million shares issued and outstanding. While the exact number of Class
16 members is unknown to plaintiff at this time and can only be ascertained through
17 appropriate discovery, plaintiff believes that there are hundreds or thousands of
18 members in the proposed Class. Record owners and other members of the Class may
19 be identified from records maintained by Blue Rhino or its transfer agent and may
20 be notified of the pendency of this action by mail, using the form of notice similar to
21 that customarily used in securities class actions.

22 22. Plaintiff’s claims are typical of the claims of the members of the Class,
23 as all members of the Class are similarly affected by defendants’ wrongful conduct
24 in violation of federal law that is complained of herein.

25 23. Plaintiff will fairly and adequately protect the interests of the members
26 of the Class and has retained counsel competent and experienced in class and
27 securities litigation.

28

1 at least 80 percent of new customers who try our service. We expect the
2 new safety standards will continue to impact our results over the next
3 18 to 24 months as consumers continue to replace obsolete cylinders.”

4 28. After the issuance of the Company’s August 15, 2002 release, shares of
5 Blue Rhino common stock surged almost 15% in intra-day trading, trading to a high
6 of \$12.95 per share on August 15, 2002. Defendants knew and/or deliberately
7 disregarded that the statements contained in this release were materially false and
8 misleading at the time of publication, for the following reasons, among others:

9 (a) During the first 10 months of FY:02, the two failing distributors,
10 Ark and Platinum, accountable for at least 40% of the Company’s distribution, had
11 lost over \$2.8 million on a combined basis, and were suffering losses at a combined
12 rate which exceeded 2001 by approximately 250%.

13 (b) One of the two distributors, Platinum, had been performing so
14 poorly that it was actually in violation of its loan covenants.

15 (c) Ark and Platinum then owed the Company at least \$7.8 million
16 (including \$5 million in cash advances) representing 61% of their total liabilities,
17 which amounts defendants knew Blue Rhino would be forced to write off if these
18 distributors failed completely.

19 (d) Contrary to defendants’ statements that the OPD Regulations
20 were continuing to result in robust demand for Blue Rhino products, defendants
21 were already beginning to see the end of the positive impact of the OPD
22 Regulations, such that the defendants lacked a reasonable basis to believe and did
23 not, in fact, believe that demand would foreseeably continue to remain at then
24 current levels, which required defendants to decrease their EPS estimate for 2002
25 and beyond.

26 29. On September 16, 2002, SunTrust Robinson Humphrey analyst,
27 William Chappell, re-established coverage on Blue Rhino with an
28 “OUTPERFORM” rating and a 12-month price target of \$19 per share, based upon

1 the Company's increased guidance and his interaction with and/or presentations by
2 defendants Prim, Scronce and/or Castaneda. The report stated in relevant part:

3 RINO: Gassed Up and Ready to Go

4 SUMMARY

5 We believe RINO is well positioned in the \$1 billion consumer propane
6 market to benefit from the shifting consumer trends from refill to
7 cylinder exchange. We expect this shift to accelerate over the next few
8 years due to increased government regulation of the refill market and
9 greater availability and consumer awareness of exchange.

10 * * *

11 We are resuming coverage of Blue Rhino, Inc. with a OUTPERFORM
12 (2S) rating and a 12-month price target of \$19. Blue Rhino is the
13 leading vendor in the fast growing propane cylinder exchange market.
14 Based on the company's leadership position, strong distribution
15 infrastructure, and solid customer relationships, and ability to
16 deleverage the balance sheet, we expect the company to maintain
17 healthy top and bottom line growth over the next few years. Our
18 recommendation is based on the following:

19 * * *

20 Increased regulation of the refill market: We expect the exchange
21 market to benefit from a recent regulation (in effect April 1, 2002) that
22 requires all cylinders to be fitted with an overfill prevention device
23 (OPD). This regulation immediately made 40 million cylinders
24 obsolete, forcing the consumer to purchase or exchange for a new
25 cylinder that meets the safety standards instead of refilling the existing
26 tank. We believe the company is already seeing the effects of this
27 regulation but that it will take a couple years to cycle through.

1 * * *

2 Forecast and Valuation

3 We conservatively estimate that the company can generate \$240-\$245
4 million in revenue in 2003, representing a growth rate of 18.4%....The
5 stock is currently trading at 20x our FY03 EPS estimate and 8x our
6 Enterprise Value/EBITDA estimate. Based on its top line growth
7 prospects, strong market position and solid cash flow generation, we
8 believe the stock should trade closer to 20-25x our forward four-quarter
9 EPS estimate and 7-8x our EBITDA estimate. With no true
10 comparables (peers are mostly limited partnerships), we believe a
11 comparison to the company's expected growth rate is the most valid
12 determinant of the correct multiple for the stock. Our valuation target
13 of \$19 still is a discount to the company's growth rate but represents a
14 22% upside from current levels.

15 30. The following day, September 17, 2002, Blue Rhino published another
16 release on PR Newswire, which announced "record" results for Q4:02 and FY:02,
17 the fiscal period ended July 31, 2002. In addition, defendants also used this release
18 to announce Blue Rhino's intention to acquire nine of its distributors, stating:

19 Blue Rhino Corporation ... today announced financial results for the
20 fourth quarter and fiscal year ended July 31, 2002. Net revenues for the
21 fourth quarter increased 72 percent to a record \$71.3 million from
22 \$41.6 million for the same period a year ago. Revenues from the
23 company's cylinder exchange business rose 81 percent, and revenues
24 from its complementary propane-fueled products business increased 32
25 percent. Cylinder exchange represented approximately 85 percent of
26 total revenue, compared with 80 percent a year ago, while products
27
28

1 were approximately 15 percent of total revenue, compared with 20
2 percent in the prior year.

3 * * *

4 Commenting on the results, [defendant] Prim said: “The fourth-quarter
5 performance demonstrates that we continued to execute our plan to
6 leverage our industry leadership by capitalizing on the growing trend in
7 consumer preference for cylinder exchange over refill, using our
8 extensive retail relationships to cross merchandise our complementary
9 propane-related products, and leveraging our established infrastructure
10 which we believe is the most advanced and efficient direct-store
11 delivery system servicing retailers today.”

12 * * *

13 Prim continued, “We currently anticipate double-digit growth in the
14 number of cylinders transacted for at least the next three fiscal years,
15 which will help continue to drive revenue growth.” “Cylinder
16 exchange has benefited from the new National Fire Protection
17 Association guidelines that went into effect April 1 mandating that all
18 cylinders be equipped with an Overfill Protection Device (OPD) before
19 they can be refilled,” Prim said. “We expect these guidelines to
20 continue to impact our results for the next 18 to 24 months. The OPD
21 requirement prompts consumers to try cylinder exchange, and our
22 studies suggest that at least 80 percent of those trying cylinder
23 exchange stick with it.”

24 * * *

25 “Sales of propane-fueled products serve to strengthen our core
26 cylinder-exchange business through recurring sales of propane
27 cylinders to fuel the products,” [defendant] Prim said. “Our growth
28 strategy includes continuing to expand our propane-fueled products

1 business to leverage our extensive retail relationships.” Regarding the
2 acquisition of its nine distributors, which defendants stated were
3 expected to further improve operating results this release also stated:
4 Blue Rhino also announced that it has reached agreement in principle
5 on the financial terms on which it would acquire nine distributors in
6 major metropolitan areas across the United States.... If the acquisitions
7 are completed, Blue Rhino would control distribution territories
8 responsible for approximately 45 percent of its current cylinder
9 exchange revenues.

10 “The strategic acquisition of these distributors would provide Blue
11 Rhino more control over our enterprise that we believe will enable us to
12 further improve operating results and to increase stockholder value,”
13 said Prim. “We currently intend to continue to partner with independent
14 distributors in many markets where the distributor model remains the
15 most efficient means of serving our retail customers.”

16 In addition to the foregoing, the September 17, 2002 release also provided
17 “Guidance for Fiscal 2003,” stating:

18 “Looking forward to fiscal year 2003, we continue to expect strong
19 growth in the recurring cylinder exchange business,” Prim said. “We
20 believe Blue Rhino is well positioned to continue to benefit from the
21 safety initiative that went into effect in April, since cylinder exchange
22 represents the simplest way for consumers to upgrade their cylinders.”

23 * * *

24 For the fiscal year ending July 31, 2003, Blue Rhino currently expects
25 revenues of \$240 million to \$245 million, resulting in earnings per
26 share of \$0.85 to \$0.88 and EBITDA of \$29 million to \$30 million.
27 The mix of revenues for the full year is expected to be approximately
28 60% from cylinder exchange and 40% from products.

1 31. On or about September 16-17, 2002, defendants Prim, Scronce,
2 Filipowski and/or Castaneda also participated in discussions with and/or calls to
3 securities analysts and Blue Rhino shareholders, representing that: While the full
4 terms of the distributor acquisition were not made known, at the time the
5 distribution acquisition was announced defendants told investors that the
6 acquisitions would be paid for with stock and assumed debt valued at approximately
7 \$21 million; including the issuance of 1.1 million shares of common stock plus \$2.5
8 million in cash. The estimated purchase price of \$21 million was approximately 5x-
9 6x EBITDA for the acquisitions. The primary purpose of the acquisitions was to
10 increase the Company's control over its distribution channel. Ark and Platinum were
11 profitable and independent of Blue Rhino. Because management of Blue Rhino was
12 very familiar with both Ark and Platinum, since both Ark and Platinum were both
13 holding companies founded by Blue Rhino's CEO and Vice Chairman in the early
14 1990s, their integration would foreseeably be seamless.

15 32. In advance of the Company's Q4:02 and full FY:02 earnings report and
16 on the publication of the positive analyst report from SunTrust, shares of the
17 Company traded as high as \$15.89, before settling near the high of the day, at
18 \$15.84 per share on September 16, 2002. The following day, when the Company
19 announced the acquisition of the distributors, because it would result in the dilution
20 of existing shareholders, Blue Rhino stock receded slightly to close at \$13.75 the
21 next day, before rallying back above \$15 within the next few trading sessions. The
22 statements detailed in 31-32 were materially false and misleading when made as
23 defendants knew of or deliberately disregarded the facts to be false at the time as
24 detailed herein in 28(a)-(d), supra.

25 33. The following day, September 17, 2002, SunTrust analyst, William
26 Chappell, issued a follow-up report on Blue Rhino which also commented on the
27 acquisition of the distributors, and the foreseeable impact on the Company, stating:

28 Acquisitions of Distributors

1 RINO announced that it has signed agreements to acquire 9 of its 44
2 distributors. These will be all-stock transactions but full terms were not
3 disclosed. These distributors primarily serve metropolitan markets and
4 represent 45% of RINO's transactions. The acquisitions should not
5 impact RINO's top line but should increase the Company's overall
6 gross margin going forward. Recall in RINO's model, the Company
7 receives direct payment from the retailer (i.e. Home Depot), and then
8 pays the respective distributor for refilling the tank and restocking the
9 bin. Some of the gross margin improvement will be offset by the
10 additional SG&A acquired with the distributors but overall the
11 acquisition should substantially improve operating margin. RINO
12 expects the acquisitions to add 1-2 cents to FY03 EPS. These
13 acquisitions are not included in the Company's new guidance or our
14 model at this time. On the positive side, these acquisitions give RINO
15 added control of the channel enabling it to better coordinate marketing
16 programs and enhance key retail relationships.... In short, we view this
17 as a positive step but it is too early to fully gauge how the business
18 model will be impacted.

19 34. On September 27, 2002, Blue Rhino issued a press release on
20 PRNewswire which announced a stock conversion. This press release stated in
21 pertinent part:

22 Blue Rhino Corporation...today announced it has converted its
23 outstanding shares of preferred stock into common stock.

24 "With conversion of the preferred stock, we are continuing to
25 strengthen our balance sheet and simplify the company's capital
26 structure," said Billy D. Prim, chairman and chief executive officer.

27 "We expect the conversion to have a positive effect on our earnings by
28 eliminating the dividend obligation on the preferred stock, a factor that

1 we anticipated in developing our earnings guidance of \$0.85 to \$0.88
2 per share for fiscal 2003."

3 Specifically, Blue Rhino converted the remaining 1,850,000
4 outstanding shares of its Series A convertible preferred stock into
5 1,850,000 shares of common stock. These shares have been included as
6 outstanding shares on a basic and fully diluted basis since the preferred
7 stock was initially issued, so the conversion has no effect on the
8 company's share count. Blue Rhino also issued an additional 137,079
9 shares of its common stock in payment of the accrued dividends on the
10 preferred stock, which became payable upon conversion.

11 35. During October 2002, several news items were reported about the
12 Company, including:

13 Oct. 4, 2002: Dow Jones News Service reported that the Company
14 announced expected capital expenditures of \$10 million for FY:03,
15 down from \$19.8 million the prior year. The Company also stated that
16 borrowings under its existing credit facility, together with its cash from
17 operations, would be sufficient to meet capital expenditures and
18 working capital requirements through 2003.

19 Oct. 29, 2002: The Wall Street Journal reported that the Chicago Board
20 of Trade had listed for and had begun trading options to purchase
21 shares of Blue Rhino.

22 36. On November 21, 2002, the Company published a release on PR
23 Newswire, which announced that it had completed a new \$60 million credit facility
24 at a reduced interest rate from its existing \$41.5 million facility that would have
25 expired on August 1, 2003. According to the Company, five lending institutions
26 participated in the new facility, including Bank of America, N.A., as Administrative
27 Agent, Banc of America Securities, LLC, as Sole Lead Arranger and Sole Book
28 Manager, and Wachovia National Association, as Syndication Agent. Other

1 participating banks included LaSalle Bank National Association, RBC Centura
2 Bank, and SunTrust Bank. The new credit facility purportedly consisted of a \$45
3 million revolving loan and a \$15 million term loan, both for general corporate
4 purposes. As compared to the Company's then-current facility, the new facility
5 extended expiration to November 2005 and reduced interest rates 25 basis points.
6 According to defendant Castaneda:

7 "The new bank facility illustrates the confidence lending institutions
8 have in our future business and reflects improvement in our credit
9 quality driven by our operating results...The facility, which was
10 increased due to strong demand from the lenders by \$10 million from
11 the \$50 million facility that we originally were seeking, should
12 continue to reduce our interest costs while providing more flexibility to
13 execute our growth plan."

14 37. Announcing a reduction in the Company's interest rate also had the
15 effect of causing shares of Blue Rhino to rise, and on November 21, 2002, shares of
16 Blue Rhino closed at \$16.22 per share. The statements contained in this release
17 were materially false and misleading at the time of publication as defendants knew
18 and/or deliberately disregarded the true facts, including those detailed in 28(a)-(d),
19 supra. In addition, such statements were also materially false and misleading,
20 because the Company did not have enough cash from operations to remain fully
21 funded, and defendants knew the Company would have to engage in other financing,
22 under the guise of repaying debt, to remain fully funded.

23 38. On November 25, 2002, the Company published a release on PR
24 Newswire, which announced that Blue Rhino had completed the acquisition its
25 distributors, as follows:

26 Blue Rhino ... today announced the acquisition of [ten] of its
27 distributors in major metropolitan areas across the United States. The
28

1 territories served by the distributors acquired represent approximately
2 45 percent of Blue Rhino's cylinder exchange revenues.

3 * * *

4 "These distributors have reached critical mass and we have also added
5 the management talent to allow us to effectively run the operations. Our
6 acquisition of these distributors in major markets will provide us more
7 control over our enterprise, which we believe will enable us to improve
8 operating results and increase stockholder value...," added Prim.

9 Blue Rhino currently expects the acquisitions to be accretive to future
10 earnings for the remainder of fiscal 2003 by between \$0.01 and \$0.03
11 per diluted share, weighted primarily in the fourth fiscal quarter, and
12 thereafter on an annualized basis by between \$0.02 and \$0.04 per
13 diluted share, and to be accretive to earnings before interest,
14 depreciation and amortization (EBITDA) by approximately \$2.9
15 million in fiscal 2003 and thereafter by approximately \$3.5 million
16 annually.

17 Blue Rhino also currently expects the acquisitions to have an
18 approximately \$2 million negative impact on annual revenues as a
19 result of the elimination of lease revenues to the distributors. The
20 consideration paid by Blue Rhino in the acquisitions consisted of
21 1,104,196 restricted shares of Blue Rhino's common stock, valued at
22 approximately \$17 million based on a thirty-day pricing period ending
23 on November 1, 2002, and approximately \$3,331,172 in assumed debt
24 satisfied at closing.

25 The distributors purchased include Platinum Propane, L.L.C. and five
26 distributors owned by it, with operations in Southern California,
27 including Los Angeles and San Diego, Chicago, the Carolinas, Georgia
28 and Florida. The remaining five distributors were owned by Ark

1 Holding Company, L.L.C. with operations in New Jersey, Seattle,
2 Kansas City, Denver and Salt Lake City. The operational management
3 will be retained.

4 “We expect greater leverage in operating margins as our distributors
5 continue to benefit from strong same-store sales growth, which reduces
6 operating costs per unit. “We expect little integration risk as we are
7 using the same operational management and same transactional
8 technology,” added Prim.

9 39. News of the closing of these acquisitions also caused shares of the
10 Company to rise, and Blue Rhino stock closed at \$17.50 on November 26, 2002.
11 Within three days, shares of Blue Rhino traded above \$19.00. The statements
12 contained in this release were materially false and misleading when made as
13 defendants knew or deliberately disregarded the facts detailed in 28(a)-(d), supra.

14 40. On November 25, 2002, SunTrust analyst, Chappell, issued a follow-up
15 report on the Company after it announced the acquisition of its ten distributors,
16 which stated, in part, the following:

17 RINO announced that it has completed the acquisition of 10 of its 44
18 distributors. Under the transaction, RINO acquired Ark Propane and
19 Platinum Propane, two holding companies which control five
20 distributorships each. The holding companies were originally founded
21 by RINO’s CEO and Vice Chairman in the early 1990’s. Both
22 individuals divested their financial interest in the companies several
23 years ago but their prior affiliation gives us greater comfort that the
24 acquisitions will be seamless.

25 The combined purchase price was \$20.3 million in restricted stock and
26 assumed debt. RINO expects these acquisitions to add \$3.5 million in
27 annual EBITDA implying a purchase price of 5.7x EBITDA. This
28 valuation is on the high end of our 4-6x. In fact, it appears that the first

1 time the true cost of the acquisition of Ark and Platinum was reported
2 to the SEC was in the Company's Form 10-K, filed on or after
3 December 16, 2002, wherein the Company first clandestinely disclosed
4 that the true purchase price was over \$32 million. Even at the time this
5 was reported in the Company's Form 10-K, no other public statement
6 was made to correct defendants' prior mischaracterization and
7 misrepresentation of the sale price, estimate but not unreasonable, in
8 our opinion. The acquisitions are expected to add 1-3 cents to EPS in
9 FY03 and 2-4 cents in FY04, slightly higher than originally expected.
10 We are maintaining our model until RINO reports 1Q03 results
11 tomorrow.

12 41. Having just spent months reviewing and analyzing Blue Rhino's
13 financial statements and operations in connection with the structuring and/or
14 consummation of Blue Rhino's \$60 million loan syndication, SunTrust knew of or
15 deliberately disregarded the actual cost of the acquired distributors. However,
16 having been provided with copies of the SunTrust reports prior to the time of their
17 publication or immediately thereafter, defendants refused to correct analyst
18 Chappell's misperception regarding the purchase price of the distributors that had
19 been fostered by defendants Prim, Scronce, Filipowski and/or Castaneda.

20 42. Based upon the representations of the Individual Defendants, Dow
21 Jones News Service issued a story valuing Blue Rhino's acquisition of its 10
22 distributors at approximately \$20.3 million, including \$17 million worth of Blue
23 Rhino common shares and estimated that this deal would add about \$0.01-\$0.03 per
24 share in 2003 and \$0.02-\$0.04 per share thereafter.

25 43. On November 26, 2002, the Company published a release on PR
26 Newswire which announced Blue Rhino's "record" results for Q1:03 (ended
27 September 31, 2002), stating:
28

1 Blue Rhino Corporation ... today announced that first-quarter net
2 income rose more than eleven-fold on a 50% rise in revenues from a
3 year ago, as the company continued to experience strong demand for
4 cylinder exchange.

5 For the fiscal first quarter ended October 31, 2002, Blue Rhino reported
6 net income of \$1.2 million, or \$0.07 per fully diluted share, on record
7 revenues of \$54.8 million. This compared with net income of \$107,000,
8 or \$0.01 per share, on revenues of \$36.5 million for the same period a
9 year ago....

10 “We continued to execute our growth plan during the fiscal first
11 quarter,” said [defendant] Prim... “We are well positioned to leverage
12 our industry leadership by capitalizing on the growing trend in
13 consumer preference for cylinder exchange over refill using our
14 extensive retail relationships to cross-merchandise our complementary
15 propane-related products, and leveraging our established infrastructure
16 which we believe is the most advanced and efficient direct-store
17 delivery system servicing retailers today.”

18 * * *

19 “The trend toward cylinder exchange continues to be fueled by a
20 combination of factors that we believe bode well for us,” Prim said.
21 “These include the adoption in many states of National Fire Protection
22 Association guidelines mandating the installation of an overfill
23 prevention device on all cylinders refilled after April 1, 2002, as well as
24 support by large retailers seeking to make the purchase of propane-
25 fueled barbecue grills and other products convenient to their customers
26 by promoting the availability of a full cylinder at the time of purchase.”

27 * * *

28 Guidance Raised for Fiscal 2003

1 “The acquisition of certain distributors and continued growth ahead of
2 our expectations in the recurring cylinder exchange business allowed us
3 to increase our guidance for the remainder of the fiscal year,” Prim
4 said.

5 For the fiscal second quarter ending January 31, 2003, Blue Rhino
6 currently expects revenues in the range of \$40 million to \$45 million,
7 resulting in break-even earnings and EBITDA of between \$3.4 million
8 to \$3.6 million.

9 For the fiscal year ending July 31, 2003, the company is raising
10 guidance to reflect continued strong cylinder exchange results and the
11 projected impact of the acquisition of certain distributors. Blue Rhino
12 currently expects revenues in the range of \$250 million to \$255 million,
13 resulting in earnings per share between \$0.91 to \$0.94 and EBITDA of
14 between \$32 million to \$35 million.

15 In connection with the release of these results, defendants hosted a
16 conference call during which defendant Prim stated: “[W]e believe this
17 is another verification that our strategies are sound and are working.”

18 44. The statements contained in the November 26, 2002 Blue Rhino release
19 were materially false and misleading when made as defendants knew or deliberately
20 disregarded the facts detailed herein in 28(a)-(d), supra.

21 45. The same day that the Company issued its purported “record” results
22 for fiscal Q1:02, SunTrust issued another report on Blue Rhino, which raised its
23 rating to “BUY” from “OUTPERFORM” and its price target by more than 30% to
24 \$25 from \$19, and which stated, in part, the following:

25 * We are raising our rating on RINO to BUY (1S) from
26 OUTPERFORM (2S) and raising our target from \$19 to \$25. Our
27 upgrade is based on the strong 1Q03 results, the potential of the OPD
28

1 regulation to drive sales through 2003, the upside potential to our
2 estimates, and the attractive current valuation.

3 * The company posted an outstanding quarter, with revenue (\$54
4 million) and EPS (\$0.07) well ahead of our estimates.

5 * We are raising our FY:03 EPS estimate from \$0.88 to \$0.94 and
6 initiating a FY04 estimate of \$1.30.

7 * * *

8 OPINION

9 We are raising our rating on RINO from an OUTPERFORM (2S) to a
10 BUY (1S) and raising our 12-month target from \$19 to \$25. Our
11 upgrade is based on the following:

12 * Solid 1Q03 results - As mentioned in our earlier note, RINO
13 posted an outstanding quarter, exceeding our revenue estimate by 20%
14 (\$54 million vs. \$45 million est.) and our EPS estimate by \$0.02.
15 Excluding one-time charges taken in the quarter for new product
16 introductions and reorganization of personnel, we believe the company
17 would have beaten our estimate by 7-10 cents.

18 * OPD regulation to drive growth THROUGH 2003. Clearly the
19 national regulation requiring an overfill protection device (OPD) is
20 accelerating RINO's cylinder growth.... We continue to believe this
21 regulation can help the company post strong top-line growth for several
22 quarters....

23 * Conservative Guidance. Following 1Q03 results, RINO raised
24 guidance for FY03, but we believe this guidance is still highly
25 conservative. The company expects revenue in FY03 to be \$250-\$255
26 million with the cylinder/products mix remaining at 60%/40%....The
27 OPD regulation won't even be cycled in until April, meaning the
28 company has two more quarters of easy comparisons. We are initiating

1 a 2003 revenue estimate slightly above the range at \$256 million,
2 which we still view as conservative.

3 * Attractive Valuation . Following the 1Q03 results and the
4 completed acquisition of the 10 distributors, we have a better
5 understanding of how the model should work going forward. We are
6 initiating a 2003 estimate of \$0.94 and a FY04 estimate of \$1.29....
7 With no true comparables (peers are mostly limited partnerships), we
8 believe a comparison to the company's expected growth rate is the
9 most valid determinant of the correct multiple for the stock. Based on
10 the upside potential to our estimates, the company's dominant market
11 share and the projected 20% -25% EPS growth over the next four to six
12 quarters, we believe a multiple of 19-20x our FY04 estimate, or \$25 per
13 share, is appropriate.

14 * * *

15 Forecast

16 We are raising our FY03 EPS estimate from \$0.88 to \$0.94. On a
17 quarterly basis we are lowering our 2Q03 estimate from \$0.05 to \$0.00
18 but raising our 4Q03 estimate from \$0.55 to \$0.61. The recent
19 acquisition of 10 distributors should improve overall margins and add
20 roughly \$3.5 million to EBITDA per year (\$2-\$2.5 million for the
21 remaining [sic] of FY03)....Note the acquisitions doubled the
22 company's headcount from 130 to roughly 260. We are also raising our
23 FY03 revenue estimate from \$246 million to \$256 million. For FY04
24 we are initiating estimates of \$289 million in revenue and \$1.30 EPS.

25 46. On or about November 22, 2002, the Company filed with the SEC its
26 annual Proxy Statement. The Proxy Statement reported that the Board of the
27 Company had given defendant Prim a 53% increase in his base salary for FY:03.
28

1 47. Defendants' announcement that Blue Rhino had achieved record results
2 for 1Q:03 and analysts' upward forecast revisions had a positive effect on the
3 Company's stock and shares of Blue Rhino traded to a Class Period high of \$20.75
4 on December 2, 2002.

5 48. On December 20, 2002, the Company published a release on PR
6 Newswire, which announced that Blue Rhino had completed the sale of \$15.79
7 million worth of stock in a private placement of 1 million shares valued at a price of
8 \$15.79 per share. Blue Rhino desperately needed these funds as it faced a liquidity
9 crunch and was struggling to service its debt obligations, some of which had interest
10 rates as high as 13%, substantially higher than the going rate on state treasuries.

11 49. According to the Company's release, "[t]he net proceeds from the
12 financing will be used to satisfy the Company's existing subordinated debt, which
13 currently bears a 13 percent interest rate."

14 50. Unknown to investors, the statements contained in this release were
15 materially false and misleading and were known by defendants to be false at the
16 time of publication, or were deliberately disregarded as such thereby, for the reasons
17 stated herein in 28(a)-(d), supra. In addition, such statements were also materially
18 false and misleading because the Company did not have enough cash from
19 operations to remain fully funded, so that the Company would not use this money to
20 pay down existing debt, but rather to fund existing operations and help infuse cash
21 into its money-losing acquisitions.

22 51. Immediately following the completion of Blue Rhino's \$15.79 million
23 private placement, on December 20, 2002, SunTrust issued a report on the
24 Company, continuing to rate shares of Blue Rhino as "OVERWEIGHT," and
25 stating:

26 SUMMARY

27 * Blue Rhino announced the completion of private placement of
28 1.3 million shares which is expected to raise \$17-19 million in proceeds

1 for the company. The transaction consisted of 1 million new shares
2 purchased at \$15.79 and a 90-day option for an addition 333k shares at
3 the same price. We expect the option to be exercised.

4 * These proceeds will be used to retire the company's \$15 million
5 in sub-debt which was issued in June 2001 and carried a 13% interest
6 rate. The transaction will reduce RINO's annual interest expense by
7 \$1.95 million, and we expect it to be slightly accretive to FY03 EPS.
8 Based on this assumption we are raising our FY03 estimate by 2 cents
9 to \$0.96. We are maintaining our 2003 estimate of \$1.30 at this time.

10 52. On January 7, 2003, Dow Jones reported that Blue Rhino had registered
11 for sale over 1.3 million shares of common stock on behalf of two shareholders.
12 The majority of these shares had just been issued weeks before in a private
13 placement. The two shareholders who had demanded to be allowed to sell their Blue
14 Rhino shares before the revelation of defendants' fraud were Mainfield Enterprises,
15 Inc. (798,000 shares) and Smithfield Fiduciary, LLC (532,000 shares). At the time
16 of such registration, Blue Rhino estimated the value of such shares at \$23.8 million.

17 53. On January 22, 2003, Thomas Weisel Partners LLC analyst Kevin
18 Monroe initiated coverage on the Company in order to boost the price of Blue Rhino
19 stock, issuing a report on Blue Rhino entitled "Cooking With Gas," which stated in
20 part, the following:

21 Executive Summary

22 * We are initiating research coverage of Blue Rhino (RINO) with a
23 BUY investment rating on the shares and a fiscal year-end 2003 price
24 target of \$21.

25 * We believe that positive market trends, including increased
26 regulatory requirements on propane cylinder valves, the increasing
27 popularity of propane-fueled grills and appliances and the growing use
28

1 of exchange services are creating a tailwind for growth in the propane
2 cylinder exchange industry.

3 * As the largest provider of propane cylinder exchange services
4 with the broadest reach and first-mover advantage in building retail
5 relationships, we believe that Blue Rhino is extremely well positioned
6 to capitalize on the growth opportunity inherent in propane cylinder
7 exchange.

8 * We expect more than 20% top-line growth and 70% EPS growth
9 in fiscal 2003 with 14% revenue and 20% EPS growth projected over
10 the next five years.

11 * We believe that new product offerings, integration of recent
12 distributor acquisition and continued strong quarterly performance will
13 drive the shares toward our 2003 fiscal year-end price target of \$21.

14 THE TRUTH IS REVEALED

15 54. During January and early February 2003, rumors began to swirl about
16 defendants' accounting manipulations and the price of Blue Rhino stock. On or
17 about February 5, 2003, the Company shocked investors when it filed with the SEC,
18 pursuant to Form 8-K, its combined balance sheet, which accounted for the recently
19 completed acquisitions of Platinum and Ark, and stated, in part, the following:

20 The closing date for the acquisitions of Platinum Propane, L.L.C. and
21 Ark Holding Company LLC and their respective subsidiaries by Blue
22 Rhino was November 22, 2002. The aggregate purchase price for the
23 two acquisitions was approximately \$32 million. The consideration
24 paid by Blue Rhino in the two acquisitions consisted of approximately
25 1.1 million restricted shares of common stock valued, based on the
26 closing price of Blue Rhino's common stock on the Nasdaq National
27 Market on November 22, 2002, at approximately \$19 million, \$3.1
28 million in assumed debt satisfied at closing, \$4.9 million in advances,

1 and \$5.0 million in liabilities assumed.... Under the purchase method of
 2 accounting, the purchase price is allocated to the assets acquired and
 3 liabilities assumed based on their respective fair values.

4 On a preliminary basis, approximately \$28.2 million of the purchase
 5 price was allocated to goodwill, with the balance allocated to
 6 equipment, vehicles and other assets. The allocation of the aggregate
 7 purchase price to the assets and liabilities acquired is based upon their
 8 estimated fair values. The allocation of the aggregate purchase price
 9 reflected in the pro forma financial information is preliminary. The
 10 final allocation of the purchase price is not expected to differ materially
 11 from the preliminary allocation.

12 * * *

13 BLUE RHINO CORPORATION

14 UNAUDITED PRO FORMA STATEMENT OF OPERATIONS
 15 FOR THE YEAR ENDED JULY 31, 2002
 (in thousands, except for per share amounts)

| | Blue Rhino | Combined Ark And Platinum | Pro Forma Adjustments | | Pro Forma Blue Rhino |
|--|---------------|------------------------------------|--------------------------|-------|-------------------------------|
| 16 Net Revenues | \$205,585 | \$28,993 | \$(32,954) | a | \$201,624 |
| 17 Operating costs and 18 expenses: | 159,440 | 29,115 | (32,607) | a | 155,948 |
| 19 Cost of sales | 21,886 | | | | 21,886 |
| 20 Selling, general and 21 administrative | 7,888 | 493 | (188) | b | 8,193 |
| 22 Depreciation and amortization | | | | | |
| 23 Total operating costs 24 and expenses | 189,214 | 29,608 | (32,795) | | 186,027 |
| 25 Income (loss) from operations | 16,371 | (615) | (159) | | 15,597 |
| 26 Interest and other 27 expenses (income): | 6,217 | 557 | (380) | c,d,e | 6,394 |
| 28 Interest Expenses | | | | | |
| Loss on investee | 714 | | | | 714 |

| | | | | | | |
|----|---|----------------|----------------|--------------|---|---------------|
| 1 | Other, net | <u>(422)</u> | <u>14</u> | <u>303</u> | e | <u>(105)</u> |
| 2 | | | | | | |
| 3 | Income (loss) before income taxes | 9,862 | (1,186) | (82) | | 8,594 |
| 4 | Income taxes | <u>47</u> | | | | <u>47</u> |
| 5 | | | | | | |
| 6 | Net income (loss) | 9,815 | (1,186) | (82) | | 8,547 |
| 7 | Preferred dividends | <u>1,789</u> | | | | <u>1,789</u> |
| 8 | Income(loss) available to common stockholders | <u>\$8,026</u> | <u>(1,186)</u> | <u>(82)</u> | | <u>6,758</u> |
| 9 | | | | | | |
| 10 | Earnings (loss) per common share: | | | | | |
| 11 | Basic | <u>0.63</u> | | | | <u>0.49</u> |
| 12 | Diluted | <u>0.55</u> | | | | <u>0.43</u> |
| 13 | | | | | | |
| 14 | Shares used in per share calculations: | | | | | |
| 15 | Basic | <u>12,658</u> | | <u>1,104</u> | g | <u>13,762</u> |
| 16 | Diluted | <u>14,701</u> | | <u>1,103</u> | g | <u>15,804</u> |

17 The accompanying notes are an integral part of this unaudited pro forma statement
18 of operations.

19 BLUE RHINO CORPORATION

20 (amounts in thousands)

21 The historical balance sheet for Blue Rhino as of October 31, 2002 is
22 derived from the unaudited financial statements as filed in Blue
23 Rhino's Quarterly Report on Form 10-Q for the quarter ended October
24 31, 2002. The historical combined balance sheet for Platinum and Ark
25 is derived from the unaudited internal balance sheets of the respective
26 companies as of October 31, 2002.

27 (a) Reflects the preliminary allocation of the purchase price
28 for the acquisitions. Blue Rhino has not yet determined the final
allocation of the purchase price. The final allocation of the purchase

1 price is not expected to differ materially from the preliminary
2 allocation.

3 The preliminary pro forma allocation of the purchase price is as
4 follows:

| | |
|----------------------------|--------------|
| 5 Issuance of common stock | \$18,551 |
| 6 Liabilities assumed | 12,447 |
| 7 Acquisition liabilities | <u>1,191</u> |

8 Total consideration \$32,189

9 Allocation of purchase price based on preliminary estimated
10 values:

| | |
|-----------------------------------|-----------------|
| 11 Goodwill | \$28,213 |
| 12 Current assets | 2,753 |
| 13 Property, plant, and equipment | <u>1,223</u> |
| | <u>\$32,189</u> |

14 (b) The adjustment of stock holders equity consist of:

| | |
|---|-----------------|
| 15 Issuance of Blue Rhino common stock | \$18,551 |
| 16 Elimination of the combined members' deficit of Platinum 17 and Ark | <u>7,776</u> |
| | <u>\$26,327</u> |

18 (c) Reflects adjustment of book value of property, plant, and
19 equipment (\$1,544) to estimated fair value (\$1,223).

20 (d) Reflects \$3,110 of proceeds from Blue Rhino's bank credit
21 facility used to payoff assumed debt balances.

22 (e) Reflects the elimination of intercompany balances
23 between Blue Rhino and Platinum and Ark.

24 (f) Eliminate Blue Rhino common stock and options held by
25 Platinum and Ark (\$374).

26 55. Following the publication of the Company's Form 8-K on February 5,
27 2003, shares of Blue Rhino traded below \$12.50, and as investors digested this
28 information, shares of the Company traded to a low of \$9.65 on February 7, 2003.
This material decline in the price of Blue Rhino shares, a loss of over 50% from the

1 Class Period high, reached only weeks before, has damaged plaintiff and the other
2 Class Period purchasers of Blue Rhino stock, as alleged herein.

3 56. On February 7, 2003, the day after the Company issued a release
4 stating that it knew of no reason for the recent trading activity in Blue Rhino shares,
5 analyst Chappell at SunTrust lowered his rating on Company shares to
6 “UNDERWEIGHT,” and issued a report which rejected defendants’ representations
7 and reprimanded defendants for making false statements and omitting to disclose
8 material information about the Company and the acquisition of its distributors, as
9 follows:

10 RINO: Lowering Rating To Underweight Due to 8-K Revelations

11 SUMMARY

12 * We are lowering our rating on Blue Rhino from Overweight to
13 Underweight based on the revelations from the recently filed 8-K. In
14 particular, we believe the Company may have misrepresented the
15 health of the distributors it purchased last fall and the purchase price for
16 those distributors.

17 * We have also become concerned that the benefits of the OPD
18 regulation, which helped boost RINO’s sales over the past three
19 quarters, will have a diminishing impact on RINO’s revenue base over
20 the next few quarters. As a result, the company may have a tougher
21 time meeting our expectations in the second half of calendar 2003.

22 * In our opinion these issues will plague the stock, regardless of
23 the actual results the company posts over the next few quarters. We
24 advise investors to remain on the sidelines until the smoke clears.

25 * * *

26 We are lowering our rating on Blue Rhino from Overweight to
27 Underweight based on the revelations from the recently filed 8-K. In
28 particular, we believe the company may have misrepresented the health

1 of the distributors it purchased last fall and the purchase price for those
2 distributors. In addition, we have become increasingly concerned that
3 the benefits of the OPD regulation, which helped boost RINO's sales
4 over the past three quarters, will have a diminishing impact on RINO's
5 revenue base over the next few quarters. As a result, the company may
6 have a tougher time meeting our expectations in the second half of
7 calendar 2003. In our opinion these issues will plague the stock,
8 regardless of the actual results the company posts over the next few
9 quarters. We advise investors to remain on the sidelines until the
10 smoke clears.

11 BACKGROUND

12 In November 2002, Blue Rhino acquired 10 of its 44 distributors. The
13 acquisition consisted of two holding companies that controlled five
14 distributorships each. RINO issued 1.1 million shares and \$2.5 million
15 in cash for the acquisitions. At the time of the deal, management
16 indicated that the distributors were healthy, highly profitable and
17 independent of Blue Rhino. The company expected the acquisitions to
18 add \$3.5 million to EBITDA in FY03. We had assumed the purchase
19 price was \$21 million meaning that the company paid 5-6x EBITDA
20 for the acquisitions. In addition, RINO indicated that these acquisitions
21 were made primarily to increase its control of the channel. What we
22 discovered in the form 8-K, filed on February 5, told a completely
23 different story.

24 8-K Findings

25 According to the 8-K filed on February 5, Ark and Platinum were far
26 from healthy prior to the acquisition.

1 * On a combined basis they lost \$2.8 million in the first 10 months
2 of 2002, a decline from the loss of \$1.2 million for all of 2001. We
3 note that RINO posted record revenue during this timeframe.

4
5 * Platinum was actually in violation of its debt covenants for 2001.

6 * These companies actually owed Blue Rhino \$5 million in cash
7 advances in addition to their \$2.8 million of debt. These items
8 represented 61% of their total liabilities. We were also surprised to
9 find that the total purchase price was \$32 million according to the 8-K,
10 when factoring in assumed liabilities, advances, and debt, not the \$21
11 million implied in the press release. RINO wrote off \$28.5 million of
12 the purchase price (89%) for goodwill, which explains the immediate
13 accretion to EPS. Needless to say we are uncertain how RINO came up
14 with the \$32 million purchase price for companies that were losing
15 money and highly in debt to RINO. Based on these documents we
16 believe RINO may have had to bail out the fledgling distributors that
17 represented 40% of their distribution capacity....We are disappointed
18 that RINO has waited until now to disclose this information. The stock
19 was plagued in years past due to management's close ties to its
20 distributors. We believe the management team should have been more
21 forthcoming regarding the actual terms of the deal and health of the
22 acquisitions. Based on these issues we not longer feel comfortable
23 recommending the stock despite the positive near-term operating trends
24 of the company. Nearing Anniversary of OPD Regulation. Over the
25 past two months we have become increasingly concerned about the
26 company's ability to maintain high growth rates following the
27 anniversary of the OPD regulation. Recall the Overfill Protection
28 Device (OPD) regulation was officially adopted April 1, 2002, making

1 roughly 80 million cylinders obsolete. Consumers have been forced to
2 exchange their non-compliant cylinders for compliant ones. As a result,
3 RINO has seen a substantial spike in its revenue, posting growth in
4 excess of 40% for the past three quarters. While we still expect the
5 company to meet or exceed our estimates for 2Q03 (Jan), we believe
6 the majority of the benefit from this regulation has already been
7 recognized.

8 57. On February 25, 2003, Blue Rhino published a release on PR
9 Newswire, which purported to announce results for Q2:03 (ended January 31,
10 2003), stating:

11 Blue Rhino Corporation ... today announced that net income increased
12 to \$916,000, or \$0.05 per fully diluted share, for its fiscal second
13 quarter ended January 31, 2003, from a loss of (\$732,000), or (\$0.06)
14 per fully diluted share, for the second quarter of last year. The increase
15 was driven by revenues of \$58.1 million, a record for the second
16 quarter and a 50% rise from revenues of \$38.8 million in same period a
17 year ago, as the company continued to experience stronger-than-
18 expected demand in its cylinder exchange segment. Earnings before
19 interest, taxes, depreciation and amortization (EBITDA) increased to
20 \$4.6 million from \$3.7 million for the same period in the prior year.
21 Blue Rhino's second quarter is historically its slowest due to the
22 seasonality of its propane cylinder exchange business.

23 58. Later the same day, February 25, 2003, SunTrust analyst, Chappell,
24 issued another report on the Company, which stated that Q2:03 results raised "More
25 Questions than Answers," stating:

26 SUMMARY

27 * RINO reported 2Q03 revenue (\$55 million) and EPS (\$0.05)
28 ahead of our estimates (\$46 million and \$0.00). The results were driven

1 by a 51% increase [in] cylinder exchange revenue and a surprising 49%
2 increase in product revenue.

3 * The company provided slightly higher EPS guidance of \$0.96-
4 \$0.98 for FY03 vs. prior \$0.91-\$0.94, but this includes the 5 cent
5 upside in 2Q. RINO also guided to a substantially more backend loaded
6 year than we had expected. The EPS guidance provided for 3Q03 EPS
7 is \$0.11-\$0.13, well below our EPS estimate of \$0.26 and the
8 consensus of \$0.21. It also implies EPS of at least \$0.70 for 4Q03 or
9 73% of FY03E.

10 * * *

11 * The balance sheet deteriorated in the quarter with Accounts
12 Receivable rising 25% and Accounts Payable rising 80%, sequentially.
13 We understand that some of this rise is due to the recent distributor
14 acquisitions but are concerned by the magnitude.

15 * We are also concerned by the use of funds from the recent
16 private placement. At the time the deal closed the company indicated
17 that the funds would be used to pay down subordinated debt. We had
18 expected the debt reduction to add 2-3 cents to EPS in FY03. It appears
19 that the company has decided to use the proceeds for working capital
20 and postponed the repayment of debt until 3Q and 4Q03. We are unsure
21 why the company changed its plans or whether the full amount can be
22 paid down by YE03.

23 59. The market for Blue Rhino's securities was open, well-developed and
24 efficient at all relevant times. As a result of these materially false and misleading
25 statements and failures to disclose, Blue Rhino's securities traded at artificially
26 inflated prices during the Class Period. Plaintiff and other members of the Class
27 purchased or otherwise acquired Blue Rhino securities relying upon the integrity of
28

1 the market price of Blue Rhino's securities and market information relating to Blue
2 Rhino, and have been damaged thereby.

3 60. During the Class Period, defendants materially misled the investing
4 public, thereby inflating the price of Blue Rhino's common stock, by publicly
5 issuing false and misleading statements and omitting to disclose material facts
6 necessary to make defendants' statements, as set forth herein, not false and
7 misleading. Said statements and omissions were materially false and misleading in
8 that they failed to disclose material adverse information and misrepresented the
9 truth about the Company, its business and operations, as alleged herein.

10 61. At all relevant times, the material misrepresentations and omissions
11 particularized in this Complaint directly or proximately caused or were a substantial
12 contributing cause of the damages sustained by plaintiff and other members of the
13 Class. As described herein, during the Class Period, defendants made or caused to
14 be made a series of materially false or misleading statements about Blue Rhino's
15 business, prospects and operations. These material misstatements and omissions
16 had the cause and effect of creating in the market an unrealistically positive
17 assessment of Blue Rhino and its business, prospects and operations, thus causing
18 the Company's securities to be overvalued and artificially inflated at all relevant
19 times. Defendants' materially false and misleading statements during the Class
20 Period resulted in plaintiff and other members of the Class purchasing the
21 Company's securities at artificially inflated prices, thus causing the damages
22 complained of herein.

23 ADDITIONAL SCIENTER ALLEGATIONS

24 62. As alleged herein, defendants acted with scienter in that defendants
25 knew that the public documents and statements issued or disseminated in the name
26 of the Company were materially false and misleading; knew that such statements or
27 documents would be issued or disseminated to the investing public; and knowingly
28 and substantially participated or acquiesced in the issuance or dissemination of such

1 statements or documents as primary violations of the federal securities laws. As set
2 forth elsewhere herein in detail, defendants, by virtue of their receipt of information
3 reflecting the true facts regarding Blue Rhino, their control over, and/or receipt
4 and/or modification of Blue Rhino's allegedly materially misleading misstatements
5 and/or their associations with the Company which made them privy to confidential
6 proprietary information concerning Blue Rhino, participated in the fraudulent
7 scheme alleged herein.

8 63. In addition, during the Class Period, defendants also artificially inflated
9 the price of Blue Rhino shares so that defendants could acquire tens of millions of
10 dollars in assets using Company stock, as well as achieve the following:

11 (a) Defendants were able to use stock, artificially inflated by their
12 own acts and omissions, to acquire over \$30 million in distributor assets;

13 (b) Defendants' omissions from disclosing the true financial
14 condition of the Company's distributors allowed them to refinance the Company's
15 debt and extract from its lenders more favorable terms;

16 (c) Defendants were able to sell \$15.79 million worth of Blue Rhino
17 common stock in a private placement, as well as register over \$23.8 million in
18 shares of common stock for large shareholders that had entered into a private equity
19 deal the prior year; and

20 (d) Defendants were also able to convince others that the Company
21 was strong and achieving its purported goals, such that certain members of
22 management, including defendant Prim, were able to receive enormous pay raises
23 for FY:03.

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1 APPLICABILITY OF PRESUMPTION OF RELIANCE:
2 FRAUD-ON-THE-MARKET DOCTRINE

3 64. At all relevant times, the market for Blue Rhino securities was an
4 efficient market for the following reasons, among others:

5 (a) Blue Rhino's stock met the requirements for listing, and was
6 listed and actively traded on the Nasdaq, a highly efficient and automated market;

7 (b) As a regulated issuer, Blue Rhino filed periodic public reports
8 with the SEC and the NASD;

9 (c) Blue Rhino regularly communicated with public investors via
10 established market communication mechanisms, including through regular
11 disseminations of press releases on the national circuits of major newswire services
12 and through other wide-ranging public disclosures, such as communications with the
13 financial press and other similar reporting services; and

14 (d) Blue Rhino was followed by several securities analysts employed
15 by major brokerage firms, who wrote reports which were distributed to the sales
16 force and certain customers of their respective brokerage firms. Each of these
17 reports was publicly available and entered the public marketplace.

18 65. As a result of the foregoing, the market for Blue Rhino's securities
19 promptly digested current information regarding Blue Rhino from all publicly
20 available sources and reflected such information in Blue Rhino's stock price. Under
21 these circumstances, all purchasers of Blue Rhino's securities during the Class
22 Period suffered similar injury through their purchase of Blue Rhino's securities at
23 artificially inflated prices, and a presumption of reliance applies.

24 FIRST CLAIM FOR RELIEF

25 Violation of §10(b) of the Exchange Act and Rule 10b-5

26 Promulgated Thereunder Against All Defendants

27 66. Plaintiff repeats and realleges each and every allegation contained
28 above as if fully set forth herein.

1 67. During the Class Period, defendants carried out a plan, scheme and
2 course of conduct which was intended to, and throughout the Class Period, did: (i)
3 deceive the investing public regarding Blue Rhino's business, operations,
4 management and the intrinsic value of Blue Rhino securities; (ii) enable defendants
5 to acquire over \$30 million in assets, purchased using artificially inflated Blue
6 Rhino shares, and refinance debt upon more favorable terms with its lenders; (iii)
7 allow defendants to sell \$15.79 million worth of Company common stock in a
8 private placement, as well as register over \$23.8 million in shares of common stock
9 for large shareholders that had entered into a private equity deal the prior year; and
10 (iv) cause plaintiff and other members of the Class to purchase Blue Rhino
11 securities at artificially inflated prices. In furtherance of this unlawful scheme, plan
12 and course of conduct, defendants, and each of them, took the actions set forth
13 herein.

14 68. Defendants (a) employed devices, schemes, and artifices to defraud; (b)
15 made untrue statements of material fact and/or omitted to state material facts
16 necessary to make the statements not misleading; and (c) engaged in acts, practices,
17 and a course of business which operated as a fraud and deceit upon the purchasers
18 of the Company's securities in an effort to maintain artificially high market prices
19 for Blue Rhino's securities in violation of §10(b) of the Exchange Act and Rule
20 10b-5. All defendants are sued either as primary participants in the wrongful and
21 illegal conduct charged herein or as controlling persons as alleged below.

22 69. Defendants, individually and in concert, directly and indirectly, by the
23 use, means or instrumentalities of interstate commerce and/or of the mails, engaged
24 and participated in a continuous course of conduct to conceal adverse material
25 information about the business, operations and future prospects of Blue Rhino as
26 specified herein.

27 70. These defendants employed devices, schemes and artifices to defraud,
28 while in possession of material adverse non-public information, and engaged in

1 acts, practices, and a course of conduct as alleged herein in an effort to assure
2 investors of Blue Rhino's value and performance and continued substantial growth,
3 which included the making of, or the participation in the making of, untrue
4 statements of material facts and omitting to state material facts necessary in order to
5 make the statements made about Blue Rhino and its business operations and future
6 prospects, in the light of the circumstances under which they were made, not
7 misleading, as set forth more particularly herein, and engaged in transactions,
8 practices and a course of business which operated as a fraud and deceit upon the
9 purchasers of Blue Rhino securities during the Class Period.

10 71. Each of the Individual Defendants' primary liability, and controlling
11 person liability, arises from the following facts: (i) the Individual Defendants were
12 high-level executives and/or directors at the Company during the Class Period and
13 members of the Company's management team, or had control thereof; (ii) each of
14 these defendants, by virtue of his responsibilities and activities as a senior officer
15 and/or director of the Company, was privy to and participated in the creation,
16 development and reporting of the Company's internal budgets, plans, projections
17 and/or reports; (iii) each of these defendants enjoyed significant personal contact
18 and familiarity with the other defendants and was advised of and had access to other
19 members of the Company's management team, internal reports and other data and
20 information about the Company's finances, operations, and sales at all relevant
21 times; and (iv) each of these defendants was aware of the Company's dissemination
22 of information to the investing public which they knew or deliberately disregarded
23 was materially false and misleading.

24 72. The defendants had actual knowledge of the misrepresentations and
25 omissions of material facts set forth herein, or acted with deliberate disregard for
26 the truth in that they failed to ascertain and to disclose such facts, even though such
27 facts were available to them. Such defendants' material misrepresentations and/or
28 omissions were done knowingly or with deliberate disregard, and for the purpose

1 and effect of concealing Blue Rhino's operating condition and future business
2 prospects from the investing public and supporting the artificially inflated price of
3 its securities. As demonstrated by defendants' overstatements and misstatements of
4 the Company's business, operations and earnings throughout the Class Period,
5 defendants, if they did not have actual knowledge of the misrepresentations and
6 omissions alleged, were deliberate in failing to obtain such knowledge by
7 deliberately refraining from taking those steps necessary to discover whether those
8 statements were false or misleading.

9 73. As a result of the dissemination of the materially false and misleading
10 information and failure to disclose material facts, as set forth above, the market
11 prices of Blue Rhino's securities were artificially inflated during the Class Period.
12 In ignorance of the fact that market prices of Blue Rhino's publicly traded securities
13 were artificially inflated, and relying directly or indirectly on the false and
14 misleading statements made by defendants, or upon the integrity of the market in
15 which the securities trade, and/or on the absence of material adverse information
16 that was known to or deliberately disregarded by defendants but not disclosed in
17 public statements by defendants during the Class Period, plaintiff and the other
18 members of the Class acquired Blue Rhino securities during the Class Period at
19 artificially high prices and were damaged thereby.

20 74. At the time of said misrepresentations and omissions, plaintiff and
21 other members of the Class were ignorant of their falsity, and believed them to be
22 true. Had plaintiff and the other members of the Class and the marketplace known
23 the truth regarding the problems that Blue Rhino was experiencing, which were not
24 disclosed by defendants, plaintiff and other members of the Class would not have
25 purchased or otherwise acquired their Blue Rhino securities, or, if they had acquired
26 such securities during the Class Period, they would not have done so at the
27 artificially inflated prices which they paid.

28

1 75. By virtue of the foregoing, defendants have violated §10(b) of the
2 Exchange Act, and Rule 10b-5 promulgated thereunder.

3 76. As a direct and proximate result of defendants' wrongful conduct,
4 plaintiff and the other members of the Class suffered damages in connection with
5 their respective purchases and sales of the Company's securities during the Class
6 Period.

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1 SECOND CLAIM FOR RELIEF
2 Violation of §20(a) of the Exchange Act
3 Against All Defendants

4 77. Plaintiff repeats and realleges each and every allegation contained
5 above as if fully set forth herein.

6 78. The Individual Defendants acted as controlling persons of Blue Rhino
7 within the meaning of §20(a) of the Exchange Act as alleged herein. By virtue of
8 their high-level positions, and their ownership and contractual rights, participation
9 in and/or awareness of the Company's operations and/or intimate knowledge of the
10 false financial statements filed by the Company with the SEC and disseminated to
11 the investing public, the Individual Defendants had the power to influence and
12 control and did influence and control, directly or indirectly, the decision-making of
13 the Company, including the content and dissemination of the various statements
14 which plaintiff contends are false and misleading. The Individual Defendants were
15 provided with or had unlimited access to copies of the Company's reports, press
16 releases, public filings and other statements alleged by plaintiff to be misleading
17 prior to and/or shortly after these statements were issued and had the ability to
18 prevent the issuance of the statements or cause the statements to be corrected. Blue
19 Rhino controlled the Individual Defendants and all of its employees.

20 79. Each of the Individual Defendants had direct and supervisory
21 involvement in the day-to-day operations of the Company and, therefore, is
22 presumed to have had the power to control or influence the particular transactions
23 giving rise to the securities violations as alleged herein, and exercised the same.

24 80. As set forth above, Blue Rhino and the Individual Defendants each
25 violated §10(b) and Rule 10b-5 by their acts and omissions as alleged in this
26 Complaint. By virtue of their positions as controlling persons, defendants are liable
27 pursuant to §20(a) of the Exchange Act. As a direct and proximate result of
28 defendants' wrongful conduct, plaintiff and other members of the Class suffered

1 damages in connection with their purchases of the Company's securities during the
2 Class Period.

3 PRAYER FOR RELIEF

4 WHEREFORE, plaintiff prays for relief and judgment as follows:

5 A. Determining that this action is a proper class action, designating
6 plaintiff as lead plaintiff and certifying plaintiff as a class representative under Rule
7 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as lead counsel;

8 B. Awarding compensatory damages in favor of plaintiff and the other
9 Class members against all defendants, jointly and severally, for all damages
10 sustained as a result of defendants' wrongdoing, in an amount to be proven at trial,
11 including interest thereon;

12 C. Awarding plaintiff and the Class their reasonable costs and expenses
13 incurred in this action, including counsel fees and expert fees; and

14 D. Granting such other and further relief as the Court may deem just and
15 proper.

16 Dated: June 18, 2003

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