

Management's Discussion and Analysis of Financial Condition and Results of Operations

Airgas, Inc. and Subsidiaries

Results of Operations: 2002 Compared to 2001

Overview

The Company's net sales for the fiscal year ended March 31, 2002 were \$1.64 billion compared to \$1.63 billion in the prior year. Fiscal 2002 was marked by continued slowing of the U.S. economy, particularly in relation to industrial and manufacturing markets. Despite the weak economic environment, the Company was successful in maintaining sales through its focus on strategic sales initiatives, including account penetration through the sale of safety products and sales to strategic account customers. The Company also continued to implement selective price increases and a discount and contract management program during fiscal 2002 that helped offset rising costs related to purchased gases, personnel costs, insurance and process improvement initiatives. Excluding the effect of the items outlined below, net earnings were \$.78 per diluted share in fiscal 2002 compared to \$.72 per diluted share in fiscal 2001, adjusted for comparative purposes to exclude the amortization of goodwill. Results as reported in fiscal 2002 were a net loss of \$10.4 million, or a loss of \$.15 per diluted share, compared to net earnings of \$28.2 million, or \$.42 per diluted share, in fiscal 2001.

As discussed in the "Income Statement Commentary" below, fiscal 2002 results were affected by the following:

- a non-cash after-tax charge of \$59 million representing the cumulative effect of a change in accounting principle,
- a litigation settlement charge of \$8.5 million (\$5.7 million after-tax), and
- a net non-recurring gain of \$1.9 million (\$120 thousand after-tax) resulting from divestitures and a write-down of a business held for sale to its net realizable value.

Fiscal 2001 results were affected by the following:

- net special charges of \$3.6 million (\$2.3 million after-tax),
- litigation charges, net, of \$5.3 million (\$3.4 million after-tax), and
- asset impairments associated with two equity affiliates of \$700 thousand after-tax.

Fiscal 2002 was a significant year for the Company. In February 2002, the Company completed the largest acquisition in its 20-year history with the acquisition of the majority of Air Products and Chemicals, Inc.'s ("Air Products") U.S. packaged gas business for cash of \$241 million, including transaction costs, (the "Air Products acquisition"). The acquisition included 88 locations in 30 states associated with the filling and distribution of cylinders, liquid dewars, tube trailers, and other containers of industrial gases and non-electronic specialty gases, and the selling of welding hardgoods. The acquired business generates annual sales of approximately \$223 million and employs nearly 1,100 people. The Company expects that the Air Products acquisition will be accretive to earnings and return on capital in fiscal 2003. In September 2001, the Company also acquired six distributor locations from

Air Liquide America Corporation ("Air Liquide") for \$11 million. In a separate transaction in October 2001, the Company sold two of its nitrous oxide facilities to Air Liquide for cash proceeds of \$10 million.

The Company entered into an agreement with Praxair, Inc. ("Praxair") settling the litigation brought by Praxair against the Company in July 1996. The litigation alleged tortious interference with Praxair's right of first refusal agreement with National Welders Supply Company, Inc. The parties entered into the settlement agreement in order to avoid the time and expense of a lengthy trial, which was scheduled to begin in July 2002. As part of the settlement, Praxair agreed to an early termination of its right to first refusal. The settlement resulted in the Company recognizing a charge of \$8.5 million in the fourth quarter of fiscal 2002.

In July 2001, the Company refinanced its revolving credit facilities to extend the term to 2006. Concurrent with the financing, the Company issued \$225 million of 9.125% senior subordinated notes. In conjunction with the Air Products acquisition, the Company also obtained a \$100 million term loan from a syndicate of lenders. These transactions enabled the Company to finance the Air Products acquisition entirely with senior bank debt. In fiscal 2002, exclusive of acquisition and divestiture activity and the Company's trade receivables securitization, the Company reduced total debt by \$118 million. The ability to reduce debt is indicative of the strong cash flow characteristics of the Company's business.

On April 1, 2001, the Company adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires goodwill and intangible assets with indefinite useful lives to no longer be amortized, but instead be tested for impairment at least annually. With the adoption of SFAS 142, the Company used new criteria to assess whether goodwill associated with its business units was impaired. The valuation indicated that goodwill associated with the Company's tool business was impaired, which resulted in the recognition of a \$59 million non-cash charge as the cumulative effect of a change in accounting principle. The impaired goodwill was not deductible for taxes, and accordingly, no tax benefit was recorded in relation to the charge.

As prescribed by SFAS 142, fiscal 2002 results exclude the amortization of goodwill. For comparability to prior periods, certain discussions in the Management's Discussion and Analysis present fiscal 2001 results adjusted to exclude the amortization of goodwill. The actual results as reported in fiscal 2001 are presented in the Consolidated Financial Statements. Additionally, Note 7 to the Consolidated Financial Statements provides a reconciliation between the fiscal 2001 reported results and the adjusted results discussed in the Management's Discussion and Analysis.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

Income Statement Commentary

Net Sales

Net sales increased 0.4% in fiscal 2002 compared to 2001, reflecting same-store sales growth of 0.2%. The Company calculates same-store sales based on a comparison of current period sales to prior period sales, adjusted for acquisitions and divestitures.

<i>(In thousands)</i>	2002	2001	<i>Increase</i>	
Distribution	\$ 1,494,267	\$ 1,487,422	\$ 6,845	0.5%
Gas Operations	141,780	141,479	301	0.2%
	\$ 1,636,047	\$ 1,628,901	\$ 7,146	0.4%

The Distribution segment's principal products and services include industrial, medical and specialty gases, equipment rental and hardgoods. Industrial gases consist of packaged and small bulk gases. Equipment rental fees are generally charged on cylinders, cryogenic liquid containers, bulk tanks and welding equipment. Hardgoods consist of welding supplies and equipment, safety products, and industrial tools and supplies. Sales of the Distribution segment increased \$6.8 million driven by acquisitions partially offset by a decline in same-store sales. Fiscal 2002 acquisitions contributed sales of \$22.6 million. Distribution same-store sales decreased \$15.8 million (-0.6%) resulting from a decline in hardgoods same-store sales of \$59.9 million (-6.7%), partially offset by gas and rent sales growth of \$44.1 million (7.1%). The decline in hardgoods same-store sales resulted from lower sales volumes of industrial tools and welding products reflecting the weak industrial and manufacturing environment, particularly with regard to metal fabrication and machinery industries. The decrease in hardgoods sales was correlated with the decline in non-tech industrial production during fiscal 2002. Partially offsetting the decline in tools and welding hardgoods, sales of safety products grew 4% to \$258 million compared to the prior year, reflecting continued success of account penetration initiatives and growth through the Company's telesales channel. Gas and rent same-store sales growth was driven by price increases during the year in response to rising costs and by growth derived from strategic sales initiatives. Growth in strategic gas sales was driven by higher volumes of medical, specialty and bulk gases. Rental revenue was also favorably impacted by a 12% increase in welder equipment rentals from the Company's expansion of its rental welder fleet. Sales to strategic account customers (sales to large customers with multiple locations) grew 10% to \$165 million in fiscal 2002, reflecting the Company's success in leveraging its broad distribution network to service large customers. The Company has followed a strategy of focusing on strategic sales initiatives to drive sales growth and market penetration in the industries that it serves.

The Gas Operations segment's sales primarily include dry ice and carbon dioxide that are used for cooling and the production of food, beverages and chemical products. In addition, the segment includes businesses that produce and distribute specialty gases and nitrous oxide. Gas Operations' sales were flat as same-store sales growth was offset by divestiture activity. Same-store sales increased \$7.4 million (5.9%) driven by price increases to help offset rising costs and higher volumes of liquid carbon dioxide and dry ice. Divestiture activity consisted of the sale of two nitrous oxide plants in fiscal 2002 and the divestiture of the Jackson Dome carbon dioxide reserves and associated pipeline (the "Jackson Dome pipeline") in January 2001.

Gross Profits

Gross profits, excluding depreciation expense, increased 4.6% in fiscal 2002 compared to 2001. The gross profit margin increased 200 basis points to 50% in fiscal 2002 as compared to 48% in the prior year.

<i>(In thousands)</i>	2002	2001	<i>Increase</i>	
Distribution	\$ 724,173	\$ 689,999	\$ 34,174	5.0%
Gas Operations	93,121	91,702	1,419	1.5%
	\$ 817,294	\$ 781,701	\$ 35,593	4.6%

Distribution gross profits increased \$34.2 million from both same-store gross profit growth and acquisition activity. The Distribution segment's gross profit margin of 48.5% in fiscal 2002 increased 210 basis points from 46.4% in the prior year. The improved margin was primarily due to a shift in sales mix towards higher margin gas and rent sales as well as price increases and a discount management program. The shift in sales mix was driven principally by strategic sales initiatives and declining hardgoods sales. Gas and rent comprised 47.3% of Distribution sales compared to 43.5% in the prior year.

Gas Operations' gross profits increased \$1.4 million primarily from same-store gross profit growth of \$5.5 million partially offset by divestiture activity. Same-store gross profit growth reflected higher volumes and pricing for liquid carbon dioxide and dry ice. Gas Operations' gross profit margin of 65.7% increased 90 basis points from 64.8% in the prior year, reflecting volume gains leveraging fixed manufacturing costs and price increases.

Operating Expenses

Selling, distribution and administrative expenses ("SD&A") consist of personnel and related costs, distribution and warehouse costs, occupancy expenses and other selling, general and administrative expenses. SD&A expenses increased \$36 million (6.2%) compared to the prior fiscal year primarily from net acquisition and divestiture activity and higher costs associated with personnel, health and workers' compensation insurance, costs associated with the Company's Project One initiative and litigation. The Project One initiative began in the second half of fiscal 2001 and is focused on improving certain operational and administrative processes. On a same-store basis, SD&A expenses increased by

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

approximately \$27 million (5%) in fiscal 2002 compared to fiscal 2001. Higher litigation costs resulted from a litigation settlement, discussed below. As a percentage of net sales, SD&A expenses increased 210 basis points to 37.9% from 35.8% in fiscal 2001.

Litigation costs were \$11 million in fiscal 2002 compared to \$7.5 million in fiscal 2001. Fiscal 2002 included a charge of \$8.5 million, net of previously established reserves, to settle litigation brought by Praxair, a competitor, against the Company in July 1996. Fiscal 2001 included a charge of \$6.9 million for costs to defend against the lawsuit brought by Praxair.

Amortization expense was \$8.2 million in fiscal 2002 compared to \$23.8 million in fiscal 2001. On April 1, 2001, the Company adopted SFAS 142, Goodwill and Other Intangible Assets. Under the new pronouncement, goodwill is no longer amortized, but instead is tested for impairment at least annually. Fiscal 2002 amortization expense relates to non-competition agreements, which are amortized over the terms of the respective agreements. Depreciation expense of \$64.8 million in fiscal 2002 increased 3% compared to fiscal 2001.

Operating Income

Operating income increased 2.2% in fiscal 2002 as compared to 2001, adjusted to exclude the amortization of goodwill. Fiscal 2001 operating income reflects special charges, net, of \$3.6 million consisting of a charge associated with a cost reduction plan partially offset by a special charge recovery from an insurance settlement.

Excluding special charges in fiscal 2001, operating income decreased approximately 1% in fiscal 2002.

(In thousands)	2002	2001 ^(a)	Increase/ (Decrease)		As Reported 2001
Distribution	\$ 103,430	\$ 104,506	\$ (1,076)	(1.0%)	\$ 92,186
Gas Operations	21,603	21,523	80	0.4%	19,406
Special Charges	—	(3,643)	3,643	—	(3,643)
	<u>\$ 125,033</u>	<u>\$ 122,386</u>	<u>\$ 2,647</u>	<u>2.2%</u>	<u>\$ 107,949</u>

(a) Fiscal 2001 operating income has been adjusted for comparative purposes to exclude the amortization of goodwill in connection with the fiscal 2002 adoption of SFAS 142.

The Distribution segment's operating income margin of 6.9% in fiscal 2002 decreased slightly from 7.0% in fiscal 2001, as adjusted. The relatively stable operating income margin year over year reflected the Company's success in raising prices to offset higher operating expenses.

The Gas Operations segment's operating income margin was flat at 15.2% in both fiscal 2002 and fiscal 2001, as adjusted. Higher gross profits from volume and price increases in fiscal 2002 offset the divestiture of the Jackson Dome pipeline and the two nitrous oxide plants, both of which had higher than average operating margins reflected in the prior year's results.

Interest Expense and Discount on Securitization of Trade Receivables

Interest expense, net, and the discount on securitization of trade receivables totaled \$51.9 million representing a decrease of \$9.7 million (-15.7%) compared to the prior fiscal year. The decrease resulted primarily from lower average debt levels. The decrease in average debt levels was attributable to cash flow provided from operations and proceeds from the divestiture of the Jackson Dome pipeline in the fourth quarter of fiscal 2001. Although the Air Products acquisition increased debt levels at the end of fiscal 2002, average debt levels during fiscal 2002 were approximately \$130 million lower than fiscal 2001. Weighted-average financing costs were slightly lower in the current year compared to the prior year as higher rates of fixed cost debt associated with the Company's July 2001 debt refinancing were offset by lower prevailing market rates related to variable rate debt.

The Company participates in a securitization agreement with two commercial banks to sell up to \$175 million of qualifying trade receivables. The amount of outstanding receivables under the agreement was \$134 million and \$73 million at March 31, 2002 and March 31, 2001, respectively. Net proceeds from the sale of trade receivables were used to reduce borrowings under the Company's revolving credit facilities. The discount on the securitization of trade receivables represents the difference between the carrying value of the receivables and the proceeds from their sale. The amount of the discount varies on a monthly basis depending on the amount of receivables sold and market rates.

As discussed in "Liquidity and Capital Resources," the Company manages its exposure to interest rate risk of certain borrowings through participation in interest rate swap agreements. Including the effect of the interest rate swap agreements, the Company's ratio of fixed to variable interest rates at March 31, 2002 was 48% fixed to 52% variable. A majority of the Company's variable rate debt is based on a spread over the London Interbank Offered Rate ("LIBOR"). Based on the Company's outstanding variable rate debt and credit rating at March 31, 2002, for every increase in LIBOR of 25 basis points, it is estimated that the Company's annual interest expense would increase approximately \$1 million.

Other Income, net

Other income, net, totaled \$1.4 million in fiscal 2002 compared to \$242 thousand in fiscal 2001. Fiscal 2002 includes a net non-recurring gain of \$1.9 million consisting of a \$7.4 million gain on the divestiture of two nitrous oxide plants partially offset by a \$3.6 million charge to write down a business unit held for sale to its net realizable value and a \$1.9 million loss resulting from an indemnity claim related to a prior period divestiture.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates of \$3.8 million was relatively flat compared to \$4.0 million in fiscal 2001, adjusted for comparative purposes to exclude goodwill amortization. Fiscal 2001 includes after-tax charges of \$700 thousand related to asset impairments associated with two equity affiliates. Including goodwill amortization, equity in earnings of unconsolidated affiliates as reported in fiscal 2001 was \$2.3 million.

Income Tax Expense

The effective income tax rate was 38.0% of pre-tax earnings in fiscal 2002 compared to 35.5% in fiscal 2001, adjusted for comparative purposes for the impact of SFAS 142. The increase in the effective income tax rate in fiscal 2002 was primarily due to the \$3.6 million write-down of a business unit to its net realizable value, which was not deductible for income taxes. The effective income tax rate as reported in fiscal 2001 was 42.3%.

Cumulative Effect of a Change in Accounting Principle

In connection with the adoption of SFAS 142, the Company performed an evaluation of goodwill as of April 1, 2001. The results of the evaluation indicated that goodwill related to one reporting unit, the Company's tool business, was impaired. The Company measured the amount of impairment based on a comparison of the fair value of the reporting unit to its carrying value. Accordingly, the Company recognized a \$59 million non-cash, after-tax charge, recorded as of April 1, 2001, as a cumulative effect of a change in accounting principle for the write-down of goodwill of the tool business reporting unit to its fair value. The impaired goodwill was not deductible for taxes, and as a result, no tax benefit was recorded in relation to the charge.

On April 1, 2001, the Company adopted SFAS 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended by SFAS No. 137 and 138. SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. In accordance with the transition provisions of SFAS 133, the Company recorded the cumulative effect of this accounting change as a liability and a deferred loss of \$6.7 million in the accumulated other comprehensive income (loss) component of stockholders' equity to recognize, at fair value, interest rate swap agreements that are designated as cash flow hedging instruments. Additionally, the Company recorded an asset and adjusted the carrying value of the hedged portion of its fixed rate debt by \$6 million to recognize, at fair value, interest rate swap agreements that are designated as fair value hedging instruments.

Net Earnings (Loss)

The Company recognized a net loss in fiscal 2002 of \$10.4 million, or a loss of \$.15 per diluted share, compared to net earnings of \$28.2 million, or \$.42 per diluted share, in fiscal 2001.

Air Products Acquisition Integration

The Air Products acquisition contemplated certain integration activities to optimize the combined operations. Those activities consist of facility exit costs and employee severance related to closing duplicate or overlapping facilities and integration costs related to computer conversions, training and the cost of moving inventory and equipment. Although final cost estimates for those activities are being prepared, the costs to exit existing Airgas facilities and sever employees are expected to be between \$2.5 and \$3.5 million and will be recognized in a special charge in the first quarter of fiscal 2003. Integration costs are expected to be between \$3.5 and \$4.5 million and will be recognized in operating expenses as incurred throughout fiscal 2003.

Results of Operations: 2001 Compared to 2000

Overview

The Company's net sales for the fiscal year ended March 31, 2001 were \$1.63 billion compared to \$1.54 billion in the prior year. Despite a slowing U.S. economy, the Company experienced positive same-store sales growth of 3.1%, continuing the same-store sales growth that began in the fiscal 2000 fourth quarter. The Company's successful strategy of leveraging its distribution network to sign new strategic accounts, pursue cross-selling opportunities and promote strategic products had a favorable impact on net sales. In addition, net sales were positively affected by the prior year acquisition of Mallinckrodt Inc.'s Puritan-Bennett medical gas subsidiary ("Puritan Medical Products"). The Company also implemented price increases during fiscal 2001 that helped to offset rising costs related to purchased gases, salaries and wages, insurance, and distribution. Excluding the effect of the items outlined below, net earnings were \$.52 per diluted share in both fiscal 2001 and 2000. Net earnings, as reported, for fiscal 2001 were \$28.2 million, or \$.42 per diluted share, compared to \$38.3 million, or \$.54 per diluted share, in fiscal 2000.

As discussed in the "Income Statement Commentary" below, fiscal 2001 net earnings were affected by the following:

- net special charges of \$3.6 million (\$2.3 million after-tax),
- litigation charges, net, of \$5.3 million (\$3.4 million after-tax), and
- asset impairments associated with two equity affiliates of \$700 thousand after-tax.

Fiscal 2000 net earnings were affected by the following:

- special charge recoveries of \$2.8 million (\$1.7 million after-tax),
- divestiture gains of \$17.5 million (\$8.6 million after-tax),
- a litigation charge of \$7.5 million (\$4.8 million after-tax),
- an inventory write-down of \$3.8 million (\$2.2 million after-tax), and
- an after-tax charge of \$590 thousand representing a change in accounting principle.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

Additionally in fiscal 2001, the Company reduced total debt by \$183.9 million. The ability to reduce debt is indicative of the strong cash flow characteristics of the Company's business. Debt reduction resulted from cash flow from operations, divestitures and a securitization of trade receivables. Operations provided approximately \$61 million, divestitures provided approximately \$50 million, principally the divestiture of the Jackson Dome carbon dioxide reserves and associated pipeline ("Jackson Dome pipeline"), and the trade receivables securitization program provided approximately \$73 million.

Income Statement Commentary

Net Sales

Net sales increased 5.6% in fiscal 2001 compared to 2000, driven by same-store sales growth of 3.1% and prior year acquisitions included for a full year in 2001.

<i>(In thousands)</i>	2001	2000	<i>Increase</i>	
Distribution	\$1,487,422	\$1,409,949	\$77,473	5.5%
Gas Operations	141,479	132,385	9,094	6.9%
	\$1,628,901	\$1,542,334	\$86,567	5.6%

Distribution sales increased \$77.5 million as a result of net acquisition and divestiture activity and same-store sales growth. Fiscal 2001 sales increased \$43.8 million from seven distributor acquisitions since April 1, 1999, partially offset by a divestiture during fiscal 2000. The most significant of the acquisitions was that of Puritan Medical Products in the fourth quarter of fiscal 2000. Distribution same-store sales growth of \$33.7 million (2.7%) resulted from gas and rent sales growth of \$28.8 million (5.1%) and hardgoods sales growth of \$4.9 million (1.0%). Gas and rent same-store sales growth was primarily attributable to higher volumes of strategic products and continued success of certain sales initiatives, such as strategic accounts. Growth in strategic product sales resulted from expansion of the rental welder fleet and improvements in certain gas product sales, including medical and specialty gases. Price increases implemented during fiscal 2001 also contributed to gas and rent sales growth. Hardgoods same-store sales growth was driven principally by an increase in safety sales resulting from the successful cross-selling of safety products through the Company's distribution network. Although hardgoods same-store sales growth was positive in fiscal 2001, hardgoods sales slowed in the fiscal third quarter with further contraction in the fourth quarter resulting from the slowing U.S. industrial economy.

Gas Operations' sales increased \$9.1 million in fiscal 2001 compared to the prior year primarily from same-store sales growth (7.2%). Gas Operations' same-store sales growth resulted from higher volumes of liquid carbon dioxide, dry ice and nitrous oxide. Sales growth also was driven by price increases that were implemented during the fourth quarter of fiscal 2001 to help offset the impact of higher energy and distribution costs. The reduction in sales from the divestiture of the Jackson Dome pipeline in fiscal 2001 and the divestiture of operations in Poland and Thailand in fiscal 2000 were offset by nitrous oxide production businesses that were acquired with Puritan Medical Products.

Gross Profits

Gross profits, excluding depreciation expense, increased 7.7% in fiscal 2001 compared to 2000.

<i>(In thousands)</i>	2001	2000	<i>Increase</i>	
Distribution	\$ 689,999	\$ 649,827	\$ 40,172	6.2%
Gas Operations	91,702	75,910	15,792	20.8%
	\$ 781,701	\$ 725,737	\$ 55,964	7.7%

Distribution gross profits increased \$40.2 million resulting from net acquisition and divestiture activity and same-store gross profits growth. Acquisition and divestiture activity accounted for a net increase in gross profits of \$29.0 million, primarily from the acquisition of Puritan Medical Products in the fourth quarter of fiscal 2000. Same-store gross profits increased \$11.2 million (2.4%) compared to the prior year. Same-store gross profit growth consisted of a \$14.4 million (3.7%) increase in gas and rent, partially offset by a decrease in hardgoods gross profits of \$3.2 million. Same-store gross profits of gas and rent increased, reflecting higher sales volumes and price increases implemented during fiscal 2001. An expanded rental welder fleet also contributed to the increase in gross profits. The Distribution segment's gross profit margin of 46.4% in fiscal 2001 increased 30 basis points from 46.1% in the prior year primarily as a result of a shift in sales mix to higher margin gases. The shift in sales mix was driven principally by higher margin medical gases contributed by Puritan Medical Products. The decline in hardgoods same-store gross profits resulted from general weakness in certain manufacturing and industrial hardgoods markets served by the Company. The decline in hardgoods gross profits was partially mitigated by lower costs from centralized purchasing initiatives and continued growth of higher margin private label products. Private label products reached an annual run rate of \$45 million in fiscal 2001 representing a 40% increase over the prior year.

The Gas Operations segment's gross profits increased \$15.8 million primarily from same-store gross profit growth and net acquisition activity. Same-store gross profit growth of \$10.5 million (13.4%) resulted primarily from higher sales volumes and price increases of dry ice, liquid carbon dioxide and nitrous oxide. Gross profits increased \$1.5 million from net acquisition activity, primarily consisting of the prior year acquisition of Puritan Medical Products's nitrous oxide production businesses. In addition, the prior year was adversely affected by an inventory write-down of \$3.8 million related to certain specialty gas inventories. Gas Operations' gross profit margin was 64.8% compared to 57.3% in the prior year. The gross profit margin in the prior year reflects the impact of the specialty gas inventory write-down.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

Operating Expenses

Selling, distribution and administrative expenses ("SD&A") increased \$50.8 million (9.5%) compared to the prior fiscal year primarily from net acquisition and divestiture activity and higher costs associated with personnel, distribution and insurance. On a same-store basis, SD&A expenses are estimated to have increased approximately \$32 million in fiscal 2001 compared to fiscal 2000. Personnel costs were affected by rising salaries and wages driven by a competitive labor market. Higher distribution costs resulted primarily from increases in the price of fuel and energy. Insurance costs were driven by rising medical costs related to workers' compensation and health insurance. The Company implemented a cost reduction plan in the fourth quarter of fiscal 2001. The cost reduction plan focused on a reduction in workforce, the closure of 30 branch locations and the planned disposition of certain non-core businesses. As a percentage of net sales, SD&A expenses increased to 35.8% from 34.5% in fiscal 2000.

Fiscal 2001 SD&A expenses included legal expenses of \$7.5 million. Fiscal 2001 legal expenses reflect litigation charges of \$5.3 million, net. The net litigation charges consist primarily of a fourth quarter charge of \$6.9 million related to a lawsuit brought by a competitor, Praxair, Inc. The charge reflected an estimate of the costs associated with the defense of the lawsuit. The charge was partially offset by the final settlement and reversal of \$1.1 million of liabilities established in fiscal 2000 associated with the defense and settlement of class-action lawsuits related to hazardous materials charges. Legal expenses for fiscal 2000 of \$9.6 million included a \$7.5 million litigation charge representing the Company's original estimate of the costs to defend against and settle the class-action lawsuits.

Depreciation expense of approximately \$63 million remained relatively flat compared to fiscal 2000. Amortization expense of \$23.8 million decreased \$1.9 million (-7.2%) compared to fiscal 2000 primarily from the expiration of non-compete agreements related to prior acquisitions.

Special Charges (Recoveries)

Special charges in fiscal 2001 included a charge of \$8.5 million related to a cost reduction plan implemented by the Company to improve operating results at certain business units as well as to mitigate rising operating expenses. The fourth quarter 2001 cost reduction charge included severance costs for a reduction in workforce, exit costs for the closure of 30 branch locations and losses associated with the anticipated divestiture of certain non-core businesses. The non-core businesses to be divested generated annual sales of approximately \$10 million in fiscal 2001 and were included in the Company's Distribution segment. The charge was partially offset by \$4.9 million of special charge recoveries primarily consisting of a favorable insurance settlement associated with the fiscal 1997 special charge. Special charge recoveries in fiscal 2000 consist of \$2.8 million primarily from a favorable insurance settlement related to the fiscal 1997 special charge.

Operating Income

Operating income increased 1.1% in fiscal 2001 compared to 2000. Excluding special (charges) recoveries, operating income increased 7.4%.

<i>(In thousands)</i>	2001	2000	<i>Increase/ (Decrease)</i>	
Distribution	\$ 92,186	\$ 94,671	\$ (2,485)	(2.6%)
Gas Operations	19,406	9,231	10,175	110%
Special (Charges) Recoveries	(3,643)	2,829	(6,472)	—
	\$ 107,949	\$ 106,731	\$ 1,218	1.1%

The Distribution segment's operating income margin of 6.2% in fiscal 2001 decreased from 6.7% in fiscal 2000 primarily due to higher operating expenses, partially offset by gross profits from same-store sales growth and acquisitions.

The Gas Operations segment's operating income margin of 13.7% in fiscal 2001 increased from 7.0% in fiscal 2000. Fiscal 2001 results benefited from higher gross profits from same-store sales growth and price increases. The prior year was adversely affected by a \$3.8 million inventory write-down of certain specialty gas inventories. Gas Operations' operating income margin was 9.8% in fiscal 2000, excluding the impact of the inventory write-down.

Interest Expense and Discount on Securitization of Trade Receivables

Interest expense, net, and the discount on securitization of trade receivables totaled \$61.5 million and represents an increase of \$4 million (6.9%) compared to fiscal 2000. The increase resulted from higher average debt levels, partially offset by lower weighted-average interest rates. The increase in the average debt level in fiscal 2001 was primarily due to the fourth quarter of fiscal 2000 acquisition of Puritan Medical Products as well as common stock repurchases during fiscal 2001.

In December 2000, the Company entered into a trade receivables securitization agreement with two commercial banks. Net proceeds received by the Company through March 31, 2001 were \$73.2 million and were used to reduce borrowings under the Company's revolving credit facilities. The discount on the securitization of trade receivables of \$1.3 million in fiscal 2001 represents the difference between the carrying value of the receivables and the proceeds from their sale. The amount of the discount varies on a monthly basis depending on the amount of receivables sold and market rates.

Other Income, net

Other income, net, totaled \$242 thousand in fiscal 2001 compared to \$17.9 million in fiscal 2000. Fiscal 2000 includes a \$14.9 million gain from the divestitures of operations in Poland and Thailand.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates of \$2.3 million decreased \$1.1 million compared to fiscal 2000. The decrease in fiscal 2001 was primarily due to after-tax charges of \$700 thousand related to asset impairments associated with two equity affiliates.

Income Tax Expense

The effective income tax rate was 42.3% of pre-tax earnings in fiscal 2001 compared to 44.8% in 2000. Excluding the tax effect related to certain gains and special charges in both periods, the effective income tax rate was 41.1% of pre-tax earnings in fiscal 2001 compared to 41.5% in 2000.

Cumulative Effect of a Change in Accounting Principle

Fiscal 2000 includes a charge to net earnings of \$590 thousand related to the adoption of Statement of Position 98-5, "Reporting on the Costs of Start-up Activities." The charge primarily resulted from the write-off of start-up costs capitalized in prior fiscal years in connection with the Company's two air separation units.

Net Earnings

Net earnings in fiscal 2001 were \$28.2 million, or \$.42 per diluted share, compared to \$38.3 million, or \$.54 per diluted share, in fiscal 2000.

Liquidity and Capital Resources

Fiscal 2002 Cash Flows

Net cash provided by operating activities totaled \$249.4 million in fiscal 2002 compared to \$199.0 million in fiscal 2001. Net earnings, adjusted for non-cash items including the cumulative effect of a change in accounting principle, were \$159.2 million compared to \$125.1 million in fiscal 2001. The sale of trade receivables under the trade receivables securitization program provided cash of \$60.8 million in fiscal 2002 compared to \$73.2 million in the prior year. Working capital and other assets and liabilities, net, provided cash of \$29.4 million compared to \$696 thousand in fiscal 2001, representing a net improvement in cash flow of \$28.7 million. Working capital improvement was primarily driven by lower levels of inventory and trade receivables as well as higher outstanding accounts payable. Lower inventory levels resulted from a decline in hardgoods sales, more effective utilization of the Company's centralized distribution centers and initiatives designed to consolidate product lines and vendors. Higher outstanding accounts payable reflected an increase in days payable outstanding to 44 days from 39 days at March 31, 2001. Cash flow provided by operating activities was primarily used to reduce borrowings under the Company's revolving credit facilities and fund capital expenditures.

Cash used in investing activities totaled \$294.7 million and primarily consisted of acquisitions and capital expenditures.

Acquisitions in fiscal 2002 used cash of \$252.5 million and consisted of the fourth quarter acquisition of a majority of Air Products' U.S. packaged gas business and the third quarter acquisition of six gas distributor locations from Air Liquide. Capital

expenditures in fiscal 2002 of \$58.3 million were 12% lower than the prior year resulting from lower cylinder purchases reflecting effective asset management initiatives. The Company anticipates fiscal 2003 capital spending will fall within a range of \$75 to \$80 million. Proceeds of \$10.2 million also were received from the divestiture of two nitrous oxide plants during fiscal 2002.

Financing activities provided cash of \$45.3 million primarily from borrowings in relation to the Air Products acquisition. Financing activities also included the payment of \$12.5 million in financing costs related to the refinancing of the Company's revolving credit facilities, issuance of senior subordinated notes and a term loan obtained in relation to the Air Products acquisition. The reduction in the cash overdraft used cash of \$17 million. The cash overdraft represents the balance of outstanding checks. Exclusive of acquisition and divestiture activity and the Company's trade receivables securitization, the Company reduced total debt by \$118 million in fiscal 2002. The ability to reduce debt is indicative of the strong cash flow characteristics of the Company's business.

Cash on hand at the end of each fiscal year is zero. On a daily basis, depository accounts are swept of all available funds. The funds are deposited into a concentration account through which all cash on hand is used to repay debt under the Company's revolving credit facilities.

The Company will continue to look for appropriate acquisitions of distributors to complement its broad distribution network. Capital expenditures, current debt maturities and any future acquisitions are expected to be funded through the use of cash flow from operations, revolving credit facilities, and other financing alternatives. The Company believes that its sources of financing are adequate for its anticipated needs and that it could arrange additional sources of financing for unanticipated requirements. The cost and terms of any future financing arrangement depend on the market conditions and the Company's financial position at that time.

The Company does not currently pay dividends.

Financial Instruments

Revolving Credit Facilities

On July 30, 2001, the Company refinanced its revolving credit facilities due December 5, 2002. The refinanced credit facilities consist of unsecured revolving credit facilities with a syndicate of lenders totaling \$367.5 million and \$50 million Canadian (U.S. \$32 million) under a credit agreement with a maturity date of July 30, 2006. At March 31, 2002, the Company had borrowings under the credit agreement of approximately \$208 million and \$35 million Canadian (U.S. \$21 million). The Company also had commitments under letters of credit supported by the credit agreement of approximately \$38 million at March 31, 2002. The credit agreement contains covenants that include the maintenance of certain leverage ratios, a fixed charge ratio, and potential restrictions on certain additional borrowing, the payment of dividends and the

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

repurchase of common stock. Based on restrictions related to certain leverage ratios, the Company had additional borrowing capacity under the new credit facilities of approximately \$105 million at March 31, 2002. The variable interest rates of the U.S. and Canadian revolving credit facilities are based on the London Interbank Offered Rate ("LIBOR") and Canadian Bankers' acceptance rates, respectively. At March 31, 2002, the effective interest rates on borrowings under the revolving credit facilities were 3.98% on U.S. borrowings and 2.15% on Canadian borrowings.

Borrowings under the revolving credit facilities are guaranteed by certain of the Company's domestic subsidiaries and Canadian borrowings are guaranteed by foreign subsidiaries. During the fourth quarter of fiscal 2002, the Company's credit rating as determined by third-party credit agencies was lowered in response to additional indebtedness related to the Air Products acquisition. The lower credit rating required the Company to pledge 100% of the stock of its domestic guarantor subsidiaries and 65% of the stock of its foreign guarantor subsidiaries for the benefit of the syndicate of lenders. If the Company's credit rating is further reduced, the Company will be required to grant a security interest in substantially all of the tangible and intangible assets of the Company for the benefit of the syndicate of lenders.

Term Loan

In February 2002, the Company completed the acquisition of the majority of Air Products' U.S. packaged gas business for cash of \$241 million. In anticipation of the transaction, the Company amended its revolving credit facilities to permit the acquisition and obtained a \$100 million term loan. The term loan is due in quarterly installments beginning June 30, 2002 with a final payment due July 30, 2006. The term loan is unsecured and bears a variable interest rate based on LIBOR plus a spread related to the Company's credit rating. At March 31, 2002, the effective interest rate of the term loan was 4.15%. The additional term loan along with the Company's existing revolving credit facilities enabled the Company to finance the Air Products acquisition entirely with senior bank debt.

Senior Subordinated Notes

On July 30, 2001, concurrent with the refinancing of the revolving credit facilities, the Company issued \$225 million of senior subordinated notes (the "Notes") with a maturity date of October 1, 2011. The Notes bear interest at a fixed annual rate of 9.125%, payable semi-annually on April 1 and October 1 of each year with the first interest payment due April 1, 2002. The Notes were sold in accordance with the provisions of Rule 144A of the Securities Act of 1933 (the "Securities Act"). In October 2001, the Company exchanged the Notes for substantially similar notes registered with the Securities and Exchange Commission in accordance with the Securities Act. The notes contain covenants that could restrict the payment of dividends, the issuance of preferred stock, and the incurrence of additional indebtedness and liens. The notes are guaranteed on a subordinated basis by each of the domestic guarantors under the revolving credit facilities.

Medium-Term Notes

The Company had the following medium-term notes outstanding at March 31, 2002: \$75 million of unsecured notes due March 2004 bearing interest at a fixed rate of 7.14% and \$100 million of unsecured notes due September 2006 bearing interest at a fixed rate of 7.75%. At March 31, 2002, the Company's long-term debt also included acquisition notes and other long-term debt instruments of approximately \$33 million with interest rates ranging from 7.00% to 9.00%. In the first quarter of fiscal 2003, the Company refinanced \$20 million of the acquisition notes with borrowings under its revolving credit facilities.

Interest Rate Swap Agreements

The Company manages its exposure to changes in market interest rates. At March 31, 2002, the Company was party to a total of 12 interest rate swap agreements. The swap agreements are with major financial institutions and aggregate \$323 million in notional principal amount at March 31, 2002. Seven swap agreements with approximately \$168 million in notional principal amount require the Company to make fixed interest payments based on an average effective rate of 6.64% and receive variable interest payments from its counterparties based on three-month LIBOR (average rate of 1.93% at March 31, 2002). The remaining term of these swap agreements range from between three months and three years. Five swap agreements with approximately \$155 million in notional principal amount require the Company to make variable interest payments based on six-month LIBOR (average rate of 3.78% at March 31, 2002) and receive fixed payments from its counterparties based on an average effective rate of 8.05% at March 31, 2002. The remaining term of these swap agreements range from between one and nine years. The Company monitors its positions and the credit ratings of its counterparties, and does not anticipate non-performance by the counterparties. After considering the effect of interest rate swap agreements, the Company's ratio of fixed to variable interest rates was 48% fixed to 52% variable at March 31, 2002.

A majority of the Company's variable rate debt is based on a spread over LIBOR. Based on the Company's outstanding variable rate debt and credit rating at March 31, 2002, for every increase in LIBOR of 25 basis points, it is estimated that the Company's annual interest expense would increase approximately \$1 million.

Trade Receivables Securitization

The Company participates in a securitization agreement with two commercial banks to sell up to \$175 million of qualifying trade receivables. The agreement expires in December 2003, but the initial term is subject to renewal provisions contained in the agreement. During fiscal 2002, the Company sold, net of its retained interest, \$1.71 billion of trade receivables and remitted to bank conduits, pursuant to a servicing agreement, \$1.58 billion in collections on those receivables. The net proceeds were used to reduce borrowings under the Company's revolving credit facilities. The amount of outstanding receivables under the agreement was \$134 million at March 31, 2002 and \$73 million at March 31, 2001.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

The transaction has been accounted for as a sale under the provisions of Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Under the agreement, eligible trade receivables are sold to bank conduits through a bankruptcy-remote special purpose entity, which is consolidated for financial reporting purposes. The difference between the proceeds from the sale and the carrying value of the receivables is recognized as "Discount on securitization of trade receivables" in the accompanying Consolidated Statements of Earnings and varies on a monthly basis depending on the amount of receivables sold and market rates. The Company retains a subordinated interest in the receivables sold, which is recorded at the receivables' previous carrying value. In accordance with a servicing agreement, the Company services, administers and collects the trade receivables on behalf of the bank conduits. The servicing fees charged to the bank conduits approximate the costs of collections. The Company also maintains an allowance for doubtful accounts on trade receivables that it retains.

Operating Lease with Trust

The Company leases real estate and certain equipment from a trust established by a commercial bank. The operating leases are structured as a sale-leaseback transaction in which the trust holds title to the properties and equipment included in the leases. The rental payments are based on LIBOR plus an applicable margin and the cost of the property acquired by the trust. At March 31, 2002, the non-cancelable lease obligation of the real estate and equipment lease totaled approximately \$43 million. The leases have a five-year term, which expires in October 2004. The Company has guaranteed a residual value of the real estate and the equipment at the end of the lease term of approximately \$30 million. A gain of approximately \$12 million on the equipment portion of the transaction has been deferred until the expiration of the Company's guarantee of the residual value.

Employee Benefits Trust

The Company maintains a grantor trust (the "Trust") to fund certain future obligations of the Company's employee benefit and compensation plans. The Company, pursuant to a Common Stock Purchase Agreement, sold shares of common stock to the Trust. During fiscal 1999 through 2001, the Trust purchased a total of approximately 7 million shares of common stock, previously held as treasury stock, from the Company, for approximately \$54 million (based on the average market closing price for the five days preceding each transaction). The Company holds promissory notes from the Trust in the amount of each purchase. Shares held by the Trust serve as collateral for the promissory notes and are available to fund certain employee benefit plan obligations as the promissory notes are repaid. The shares held by the Trust are not considered outstanding for earnings per share purposes until they are released from serving as collateral for the promissory notes. Approximately 1.4 million and 1.2 million shares were issued from the Trust for employee benefit programs during fiscal 2002

and 2001, respectively. As of March 31, 2002, the Trust held approximately 4.3 million shares of Company common stock. An independent third-party financial institution serves as the Trustee. The Trustee votes or tenders shares held by the Trust in accordance with instructions received from the participants in the employee benefit and compensation plans funded by the Trust.

Inflation

While the U.S. inflation rate has been relatively modest for several years, rising costs continue to affect the Company's business. The Company strives to minimize the effects of inflation through cost containment and price increases under highly competitive conditions.

Other

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 1 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, determining the net carrying value of trade receivables, inventories, goodwill, other intangible assets and business insurance reserves. Actual results could differ from these estimates. The following critical accounting policies are impacted significantly by judgments, assumptions and estimates used in the preparation of the Consolidated Financial Statements.

Trade Receivables

The Company must make estimates of the collectability of its trade receivables. Management has established an allowance for doubtful accounts to adjust the carrying value of trade receivables to fair value based on an estimate of the amount of trade receivables that are uncollectible. The allowance for doubtful accounts is determined based on historical experience, economic trends, and known bankruptcies and problem accounts. Management believes that the allowances for doubtful accounts as of March 31, 2002 and 2001 are adequate.

Inventories

The Company's inventories are stated at the lower of cost or market. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon its physical condition as well as assumptions about future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

Goodwill and Other Intangible Assets

The Company adopted SFAS 142, Goodwill and Other Intangible Assets, as of April 1, 2001. SFAS 142 requires goodwill and intangible assets with indefinite useful lives will not be amortized, but instead be tested for impairment at least annually. The Company has elected to perform its annual tests for indications of goodwill impairment as of October 31 of each year. The annual impairment test used by the Company consists of a discounted cash flow analysis. The discounted cash flow analysis requires estimates, assumptions and judgments that could be materially different if different estimates, assumptions and judgments were used.

Business Insurance Reserves

The Company has insurance programs to cover workers' compensation, business automobile, general and products liability. The insurance programs have self-insured retention of \$500 thousand per occurrence and an aggregate limit of \$1.5 million of claims in excess of \$500 thousand. The Company accrues estimated losses using actuarial models and assumptions based on the Company's historical loss experience. Although management believes that the insurance reserves are adequate, the reserve estimates are based on historical experience, which may not be indicative of current and future losses. In addition, the actuarial calculations used to estimate insurance reserves are based on numerous assumptions, some of which are subjective. The Company will adjust its insurance reserves, if necessary, in the event that future loss experience differs from historical loss patterns.

New Accounting Pronouncements

In July 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS 143 requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. A retirement obligation is defined as one in which a legal obligation exists in the future resulting from existing laws, statutes or contracts. The Company is required to adopt SFAS 143 on April 1, 2003. The Company has evaluated SFAS 143 and does not believe its adoption will have a material impact on its results of operations, financial position or liquidity.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company was required to adopt SFAS 144 on April 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company's consolidated financial condition, results of operations or liquidity.

Management's Discussion and Analysis continued

Airgas, Inc. and Subsidiaries

Forward-looking Statements

This report contains statements that are forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, statements regarding: the Company's strategy of leveraging its distribution network and focusing on strategic sales initiatives to drive sales growth and market penetration in the industries that it serves; the Company's ability to achieve market-leading growth and a low-cost position; the Company's sales and operating margin goals; the effect of price increases on sales growth and the ability to offset rising costs; the correlation of hardgoods sales with non-tech industrial production; the timing, scope and success of the Project One initiative designed to improve certain operational and administrative processes; the Company's estimate that for every increase in LIBOR of 25 basis points, interest expense will increase approximately \$1 million; the ability of the Company to successfully integrate the business acquired from Air Products; the estimate of a fiscal 2003 first quarter special charge of \$2.5 to \$3.5 million for costs to exit existing Airgas facilities and sever employees; the estimate of integration costs in fiscal 2003 of \$3.5 to \$4.5 million related to the business acquired from Air Products; the Company's expectation that the business acquired from Air Products will be accretive to fiscal 2003 earnings, cash flow and return on capital; the anticipated growth opportunities and operating benefits provided by the Air Products business; the seamless integration of the Air Products acquisition; expected sales through the Company's business-to-business website and other electronic sales channels; the Company's strong cash flow characteristics and its ability to reduce debt; the Company's estimate of fiscal 2003 capital spending of \$75 to \$80 million; the identification of acquisition candidates and the consummation of strategic acquisitions; the funding of capital expenditures, current debt maturities and future acquisitions through the use of cash flow from operations, revolving credit facilities and other financing alternatives; the ability of the Company to arrange additional sources of financing for unanticipated requirements; the effect on the Company of higher interest rates; and performance of counterparties under interest rate swap agreements. These forward-looking statements involve risks and uncertainties. Factors that could cause actual results to differ materially from those predicted in any forward-looking statement include, but are not limited to: adverse customer response to the Company's sales initiatives and resulting inability to drive sales growth and market penetration; underlying market conditions; a lack of or lower correlation of hardgoods sales with non-tech industrial production in future periods; the market acceptance of price increases and the inability of price increases and sales growth to offset any increases in costs; the Company's inability to control operating expenses and the potential impact of higher operating expenses in future periods; adverse changes in customer buying patterns; the impact of higher than anticipated consulting expenses on future results; the inability of the Company's Project One initiatives to improve operational and administrative processes; an economic downturn (including

adverse changes in the specific markets for the Company's products); higher than estimated interest expense resulting from increases in LIBOR and changes in the Company's credit rating; a higher than estimated special charge in the first quarter of fiscal 2003; higher than estimated costs to integrate the business acquired from Air Products; the inability to realize synergies related to the business acquired from Air Products; potential disruption to the Company's business from integration problems associated with the business acquired from Air Products; higher or lower capital spending in fiscal 2003 than that estimated by the Company; inability to generate sufficient cash flow from operations or other sources to fund future acquisitions, capital expenditures, current debt maturities and to reduce debt; the inability to identify and successfully integrate acquisition candidates; changes in the Company's debt levels and/or credit rating which prevent the Company from arranging additional financing; the inability to manage interest rate exposure; the effects of competition from independent distributors and vertically integrated gas producers on products, pricing and sales growth; changes in product prices from gas producers and name-brand manufacturers and suppliers of hardgoods; uncertainties regarding accidents or litigation which may arise in the ordinary course of business; and the effects of, and changes in, the economy, monetary and fiscal policies, laws and regulations, inflation and monetary fluctuations and fluctuations in interest rates, both on a national and international basis. The Company does not undertake to update any forward-looking statement made herein or that may be made from time to time by or on behalf of the Company.