

Notes to Consolidated Financial Statements

Airgas, Inc. and Subsidiaries

Note 1**Summary of Significant Accounting Policies****(a) Description of the Business**

Airgas, Inc. and subsidiaries (the "Company") is the largest U.S. distributor of industrial, medical and specialty gases (delivered in "packaged" or cylinder form), and welding, safety and related products. The Company also produces dry ice, liquid carbon dioxide, nitrous oxide and specialty gases for distribution throughout the United States. The Company was founded in 1982 and became publicly traded on the New York Stock Exchange in 1986.

(b) Basis of Presentation

The consolidated financial statements include the accounts of Airgas, Inc. and subsidiaries. Unconsolidated affiliates are accounted for on the equity method and generally consist of 20-50% owned operations where control does not exist or is considered temporary. Intercompany accounts and transactions are eliminated in consolidation.

The Company has made estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these statements in conformity with accounting principles generally accepted in the United States of America. Estimates are used for, but not limited to, determining the net carrying value of trade receivables, inventories, plant and equipment, goodwill, other intangible assets and loss contingencies. Actual results could differ from those estimates.

(c) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method for approximately 91% and 88% of the inventories at March 31, 2002 and 2001, respectively. Cost for the remainder of inventories is determined using the last-in, first-out (LIFO) method.

(d) Plant and Equipment

Plant and equipment are initially stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets. The carrying values of long-lived assets, including plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the recorded value cannot be recovered from undiscounted future cash flows. When the book value of an asset exceeds associated expected future cash flows, it is considered to be impaired and is written down to fair value, which is determined based on either future cash flows or appraised values.

(e) Other Intangible Assets and Deferred Financing Costs

Costs and payments pursuant to non-competition arrangements entered into in connection with business acquisitions are amortized over the terms of the arrangements, which are principally over five years. The Company assesses the recoverability of non-competition arrangements by determining whether the amortization of the asset balance can be recovered through projected undiscounted future cash flows of the related business over its remaining life.

Costs related to the issuance of long-term debt are deferred and amortized over the term of the related debt.

(f) Commitments and Contingencies

The Company's policy is to accrue future legal fees associated with outstanding litigation. Liabilities for loss contingencies arising from claims, assessments, litigation and other sources are recorded when it is probable that a liability has been incurred and the amount of the claim, assessment or damages can be reasonably estimated.

The Company maintains business insurance programs with significant self-insured retention, which covers workers' compensation, business automobile and general products liability claims. The Company accrues estimated losses using actuarial models and assumptions based on historical loss experience. The actuarial calculations used to estimate business insurance reserves are based on numerous assumptions, some of which are subjective. The Company will adjust its business insurance reserves, if necessary, in the event future loss experience differs from historical loss patterns.

(g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

(h) Foreign Currency Translation

The functional currency of the Company's foreign operations is the applicable local currency. The translation of foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using average exchange rates during each reporting period. The gains or losses, net of applicable deferred income taxes, resulting from such translations are included in stockholders' equity as a component of "Accumulated other comprehensive loss." Gains and losses arising from foreign currency transactions are reflected in the consolidated statements of earnings as incurred.

(i) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. Concentrations of credit risk are limited due to the Company's large number of customers and their dispersion across many industries throughout North America. Credit terms granted to customers are generally net 30 days.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

(j) Financial Instruments

In managing interest rate risk exposure, the Company enters into interest rate swap agreements. An interest rate swap is a contractual exchange of interest payments between two parties. A standard interest rate swap involves the payment of a fixed rate times a notional amount by one party in exchange for a floating rate times the same notional amount from another party. As interest rates change, the difference to be paid or received is accrued and recognized as interest expense over the life of the agreement. These instruments are not entered into for trading purposes and the Company has the ability and intent to hold these instruments to maturity. Counterparties to the Company's interest rate swap agreements are major financial institutions. With the adoption of the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended by SFAS No. 137 and 138, in fiscal 2002 (see Note 1 (n)), the Company recognizes interest rate swap agreements on the balance sheet at fair value. The interest rate swap agreements are marked to market with changes in fair value recognized in either other comprehensive income (loss) or in the carrying value of the hedged portions of the medium-term and senior subordinated notes.

The carrying amounts for trade receivables and accounts payable approximate fair value based on the short-term maturity of these financial instruments.

(k) Employee Benefits Trust

The Company established a grantor trust (the "Trust") to fund future obligations of the Company's employee benefit and compensation plans. Shares are purchased by the Trust from the Company at fair market value and are reflected as a reduction of stockholders' equity in the Company's Consolidated Balance Sheets under the caption "Employee benefits trust." Shares are transferred from the Trust to fund compensation and employee benefit obligations based on the original cost of the shares to the Trust. The satisfaction of compensation and employee benefit plan obligations is based on the fair value of shares transferred. Differences between the original cost of the shares to the Trust and the fair market value of shares transferred is charged or credited to capital in excess of par value.

(l) Revenue Recognition

Revenue from sales of gas and hardgoods products is recognized when products are delivered to customers. Rental fees on cylinders, bulk gas storage tanks and other equipment are recognized when earned. Under long-term lease agreements in which rental fees are collected in advance, revenues are deferred and recognized over the terms of the lease agreements.

(m) Shipping and Handling Fees and Costs

The Company recognizes delivery and freight charges to customers as elements of net sales. Costs of third-party freight are recognized as cost of sales while costs of deliveries by company vehicles and personnel are recognized as elements of selling, distribution and administrative expenses and depreciation expense.

(n) Accounting and Disclosure Changes*SFAS 133*

On April 1, 2001, the Company adopted SFAS No. 133, which requires all derivatives to be recorded on the balance sheet at fair value. In accordance with the transition provisions of SFAS 133, on April 1, 2001, 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.

SFAS 141

Effective July 1, 2001, the Company adopted SFAS No. 141, Business Combinations. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The adoption of SFAS 141 did not have an impact on the historical results of operations, financial position or liquidity of the Company.

SFAS 142

In July 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. As allowed under the Standard, the Company adopted SFAS 142 retroactively to April 1, 2001. 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 reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, no adjustments were made to the amortization period or residual values of other intangible assets. Additionally, certain reclassifications were made to previously issued financial statements to conform to the presentation required by SFAS 142 (see Note 7).

SFAS 142 provides a six-month transitional period from the effective date of adoption for the Company to perform an assessment of whether there is an indication that goodwill is impaired. To the extent that an indication of impairment exists, the Company must perform a second test to measure the amount of the impairment. The Company determined the implied fair value of each of its reporting units using a discounted cash flow analysis and compared such values to the respective reporting units' carrying

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

amounts. This evaluation indicated that goodwill recorded in the Distribution segment associated with its industrial tool reporting unit was impaired as of April 1, 2001. Conditions that contributed to the goodwill impairment included the deterioration of the industrial and machine tool markets since the acquisition of the businesses in this reporting unit and difficulty in achieving expected cross-selling synergies. The resulting business performance made it difficult to justify further investment to achieve the growth originally forecast for the business. Accordingly, the Company recognized a \$59 million non-cash charge, recorded as of April 1, 2001, as the cumulative effect of a change in accounting principle for the write-down of goodwill 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.

SFAS 142 also requires goodwill to be tested annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has elected to perform its annual tests for indications of goodwill impairment as of October 31 of each year. As of October 31, 2001, the Company's annual assessment of each of its reporting units indicated that goodwill was not impaired.

Statement of Position 98-5

The Company adopted Statement of Position 98-5, Reporting on the Costs of Start-up Activities, as required, in fiscal 2000 resulting in a charge to net earnings of \$590 thousand as a cumulative effect of a change in accounting principle. The charge primarily resulted from the write-off of start-up costs capitalized in connection with the Company's two air separation units.

(o) Reclassifications

Certain reclassifications have been made to prior period financial statements to conform to the current presentation.

Note 2**Acquisitions & Divestitures****(a) Acquisitions**

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

Fiscal 2002

On February 28, 2002, the Company purchased the majority of Air Products and Chemicals, Inc.'s ("Air Products") U.S. packaged gas business, excluding its electronic gases and magnetic resonance imaging-related helium operations, for cash of approximately \$241 million including transaction costs paid through March 31, 2002. The transaction was financed entirely with senior bank debt. The acquisition included 88 facilities 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 retail selling of welding hard-goods, including customer service centers, warehouses, and other related assets. Airgas expects that the transaction will be a strategic fit with the Company's core business and that the acquisition will strengthen its national network by giving it a presence in important geographies. Additionally, the Company expects the acquisition of Air Products' non-electronic specialty gas operations will strengthen the core competencies of Airgas' Specialty Gas Operations, enabling it to enhance its competitiveness. Separately, Air Products sold its packaged gas operations in the Carolinas and southern Virginia to National Welders Supply Company, Inc. ("National Welders"), with which the Company has a joint venture. The operations acquired by National Welders generated approximately \$17 million in revenue and employ about 100 people.

The estimates of fair values of net assets acquired, identified intangibles and goodwill related to the transaction with Air Products are based on a preliminary estimate. The Company has not yet finalized the determination of the specific fair values of the assets acquired. Additional work related to the performance of asset appraisals needs to be completed to finalize the allocation of the purchase price to net assets, identified intangibles and goodwill acquired. The entire purchase price ultimately assigned to goodwill will be deductible for income taxes. The Company does not expect the final allocation of the purchase price to differ materially from the amounts included in the accompanying consolidated financial statements.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Below is the preliminary purchase price allocation to each major asset and liability caption of the acquired packaged gas business:

(In thousands)

Current assets	\$ 27,049
Property, plant and equipment, net	197,674
Goodwill	22,208
Intangible assets	3,786
Current liabilities	(8,635)
Long-term liabilities	(812)
Total	<u>\$ 241,270</u>

Additionally, in September 2001, the Company acquired six retail distributor locations from Air Liquide America Corporation ("Air Liquide"). The purchase price of \$11 million was paid to Air Liquide on October 1, 2001 and resulted in goodwill of approximately \$7 million. The amount of goodwill associated with the Air Liquide transaction is consistent with similarly sized gas distribution acquisitions and is entirely deductible for income taxes.

Fiscal 2001

During fiscal 2001, the Company purchased one business for approximately \$2 million.

Fiscal 2000

During fiscal 2000, the Company purchased six businesses. The largest of these acquisitions and their effective dates included Brown Welding Supply, LLC. (July 1, 1999), Oxygen Sales & Service, Inc. (August 1, 1999) and Puritan-Bennett Corporation (January 21, 2000). The aggregate purchase price for these acquisitions amounted to approximately \$105 million. The purchase price for the remaining 3 businesses amounted to approximately \$4 million.

In connection with the above acquisitions, the total purchase price, cash paid and liabilities assumed were as follows:

(In thousands)

Years Ended March 31,	2002	2001	2000
Cash paid	\$ 252,538	\$ 1,006	\$ 99,204
Issuance of common stock	—	—	—
Notes issued to sellers	—	—	1,399
Notes payable and capital leases assumed	1,466	—	561
Other liabilities assumed and accrued acquisition costs	8,451	536	7,762
Total purchase price	<u>\$ 262,455</u>	<u>\$ 1,542</u>	<u>\$ 108,926</u>

The purchase price for business acquisitions was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Such allocations have been based on preliminary estimates of fair value at the date of acquisition, which may be revised at a later date. Costs in excess of net assets acquired (goodwill) for fiscal 2002, 2001 and 2000 amounted to \$29.6 million, \$600 thousand and \$33 million, respectively.

The following presents unaudited estimated pro forma operating results as if the fiscal 2002 and 2001 acquisitions had been consummated on April 1, 2000. The pro forma results were prepared from financial information provided by Air Products and reflect that company's historic cost structure, which included a significant allocation of corporate overhead. Pro forma adjustments to the Air Products results were limited to those related to the Company's stepped-up basis in acquired assets and adjustments to reflect the Company's borrowing and tax rates. The pro forma adjustments reflect the decline in the Company's average borrowing rates under the senior bank debt used to finance the acquisition. Those rates were 4.8% in fiscal 2002 and 8.2% in fiscal 2001. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made as of April 1, 2000 or of results that may occur in the future.

<i>(In thousands, except per share amounts)</i>	Unaudited Years Ended March 31,	
	2002	2001
Net sales	\$1,845,817	\$1,863,064
Income before the cumulative effect of a change in accounting principle	52,633	26,232
Net earnings (loss)	(6,367)	26,232
Diluted earnings (loss) per share	(.09)	.39

(b) Divestitures

In December 2001, the carrying values of the net assets of Kendeco, Inc., an industrial tool business in the Distribution operating segment, were reduced by \$3.6 million to their net realizable value based on the estimated selling price less cost to sell of \$3.5 million. The loss, reflected in Other income, net, included the write-off of \$3.1 million of non-tax deductible goodwill. The Company completed the sale of Kendeco in May 2002. Kendeco's operations were reflected in the operating results of the Distribution segment.

In October 2001, the Company sold two of its nitrous oxide production facilities to Air Liquide. The Company has retained its remaining four nitrous oxide production facilities to meet its requirements as a major producer and distributor of nitrous oxide. After-tax proceeds from the sale of approximately \$10 million were used to reduce borrowings under the Company's revolving credit facilities. The Company recognized a gain on the transaction of \$7.4 million in Other income, net in the fiscal 2002 third quarter. The nitrous oxide facilities were reflected in the operating results of the Gas Operations segment.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

In January 2001, the Company divested its Jackson Dome carbon dioxide reserve and associated pipeline for cash proceeds of approximately \$42 million resulting in an insignificant gain. The Jackson Dome carbon dioxide reserve and associated pipeline was reflected in the operating results of the Gas Operations segment.

In May 2000, the Company completed the sale of its equity investment in Boruka Gases Ltd., a regional industrial gas distributor in India. Proceeds from the sale, including a note receivable, were \$1.1 million. The investment was sold for a loss of approximately \$1.7 million, which had been provided for under the Company's 1998 special charges. In August 2000, the Company completed the sale of Superior Air Products Ltd., also located in India. Proceeds from the sale were \$6.4 million and resulted in an insignificant gain. The equity investments in India were reflected in the operating results of the Distribution segment.

During fiscal 2000, the Company completed the sale of its operations in Poland and Thailand and sold a non-core medical equipment distribution business. Proceeds from the sales amounted to \$55.6 million and resulted in a gain of \$17.5 million, which was recognized in Other income, net. The operations in Poland and Thailand were reflected in the operating results of the Distribution segment.

The following table sets forth selected financial data, by business segment, related to the divested operations in fiscal years 2002, 2001 and 2000:

<i>(In thousands)</i>			
Years Ended March 31,	2002	2001	2000
Net sales:			
Distribution	\$ 17,808	\$ 22,215	\$ 39,960
Gas operations	3,467	11,194	9,251
Total net sales	<u>21,275</u>	<u>33,409</u>	<u>49,211</u>
Operating income:			
Distribution	158	1,171	1,671
Gas operations	1,233	5,277	2,387
Total operating income	<u>\$ 1,391</u>	<u>\$ 6,448</u>	<u>\$ 4,058</u>

Note 3 Special Charges (Recoveries)

During the fourth quarter of fiscal 2002, the Company announced the outsourcing of certain administrative functions to a financial shared services center to be managed and operated by an outside firm. The Company recorded a fourth quarter special charge of approximately \$1.0 million ("2002 Special Charge") for severance costs (workforce reduction of 125 employees) and costs related to exiting one facility associated with the fiscal 2003 transition to the shared services center.

During the fourth quarter of fiscal 2001, the Company recorded net special charges of \$3.6 million. The net special charges (the "2001 Special Charges") included a charge of \$8.5 million related to a cost reduction plan focused on improving results at certain business units partially offset by special charge recoveries of \$4.9 million principally consisting of a favorable insurance settlement related to a fiscal 1997 special charge associated with the fraudulent breach of contract by a third-party supplier of refrigerant gases. The cost reduction plan included severance costs from a reduction in workforce; facility exit costs, primarily non-cancelable lease obligations, for the closure of 30 branch locations; and impairment write-downs associated with the planned divestiture of certain non-core businesses. The major components of the fiscal 2001 Special Charges were as follows:

<i>(In thousands)</i>	2001
Severance costs	\$ 3,880
Facility exit costs	2,464
Impairment write-down	<u>2,188</u>
2001 Special Charges	8,532
Special charge recoveries	<u>(4,889)</u>
Special Charges, net	<u>\$ 3,643</u>

At March 31, 2002 and 2001, accrued liabilities associated with the 2001 special charge were as follows:

<i>(In thousands)</i>	Severance costs	Facility exit costs	Divestitures	Total
2001 Special Charges	\$ 3,880	\$ 2,464	\$ 2,188	\$ 8,532
Cash payments	(913)	(34)	—	(947)
Incurred losses	(240)	—	(2,188)	(2,428)
March 31, 2001 liability	<u>\$ 2,727</u>	<u>\$ 2,430</u>	<u>\$ —</u>	<u>\$ 5,157</u>
Cash payments	(2,162)	(289)	—	(2,451)
Change in estimates	(565)	(392)	—	(957)
March 31, 2002 liability	<u>\$ —</u>	<u>\$ 1,749</u>	<u>\$ —</u>	<u>\$ 1,749</u>

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

During fiscal 2002, the Company reduced its estimate related to severance and facility exit costs associated with the 2001 cost reduction plan by approximately \$1.0 million. The change in estimate was recorded as a recovery in fiscal 2002 through the Special charges (recoveries) line in the Consolidated Statement of Earnings. The liability for facility exit costs at March 31, 2002 relates to non-cancelable lease obligations that will be reduced over future periods as lease payments are made over the remaining terms of the leases.

Special charge recoveries in fiscal 2000 primarily consist of recoveries of \$2.8 million from an insurance settlement related to a fiscal 1997 special charge associated with the fraudulent breach of contract by a third-party supplier of refrigerant gases.

Note 4**Earnings (Loss) Per Share**

Basic earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average number of shares of the Company's common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock and common stock held by the Employee Benefits Trust. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average common shares outstanding adjusted for the dilutive effect of common stock equivalents related to stock options, warrants and contingently issuable shares.

The table below reconciles basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three years ended March 31, 2002, 2001 and 2000:

<i>(In thousands)</i>			
Years Ended March 31,	2002	2001	2000
Weighted average common shares outstanding:			
Basic	68,100	66,000	69,200
Stock options and warrants	1,800	600	1,000
Contingently issuable shares	—	600	400
Diluted	69,900	67,200	70,600

Contingently issuable shares represent the required issuance of Company common stock in connection with a prior year acquisition.

Note 5**Inventories, Net**

Inventories, net, consist of:

<i>(In thousands)</i>		
Years Ended March 31,	2002	2001
Hardgoods	\$ 139,034	\$ 143,121
Gases	15,011	11,903
	\$ 154,045	\$ 155,024

Net inventories determined by the LIFO inventory method totaled \$15.2 million and \$19.1 million at March 31, 2002 and 2001, respectively. If the FIFO inventory method had been used for these inventories, they would have been \$1.3 million and \$1.5 million higher at March 31, 2002 and 2001, respectively. Substantially all of the inventories are finished goods.

Note 6**Plant and Equipment**

The major classes of plant and equipment, at cost, are as follows:

<i>(In thousands)</i>			
March 31,	Depreciable Lives (Yrs)	2002	2001
Land and land improvements	—	\$ 36,452	\$ 24,739
Buildings and leasehold improvements	25	118,243	103,002
Cylinders	30	645,298	486,909
Machinery and equipment, including bulk tanks	7 to 30	352,368	318,757
Computers and furniture and fixtures	3 to 10	86,234	76,679
Transportation equipment	3 to 15	60,818	54,950
Construction in progress	—	9,588	8,216
		\$1,309,001	\$1,073,252

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 7**Goodwill and Other Intangible Assets**

As described in Note 1, the Company adopted SFAS 142 as of April 1, 2001. The following table reconciles the reported operating income, equity in earnings of unconsolidated affiliates, earnings before the cumulative effect of a change in accounting principle and net income for fiscal 2001 and 2000 to their respec-

tive pro forma balances adjusted to exclude goodwill amortization expense, which is no longer recognized under the provisions of SFAS 142. Fiscal 2002 results, adjusted for a cumulative effect of a change in accounting principle, are presented for comparative purposes.

(In thousands, except per share amounts)

Years Ended March 31,

	2002	2001	2000
Operating income:			
Distribution segment	\$ 103,430	\$ 85,907	\$ 95,248
Gas Operations segment	21,603	22,042	11,483
Total reported operating income	125,033	107,949	106,731
Add back: Distribution goodwill amortization	—	12,320	11,943
Add back: Gas Operations goodwill amortization	—	2,117	2,052
Add back: Total goodwill amortization	—	14,437	13,995
Adjusted Distribution operating income	103,430	98,227	107,191
Adjusted Gas Operations operating income	21,603	24,159	13,535
Adjusted Total operating income	\$ 125,033	\$ 122,386	\$ 120,726
Equity in earnings of unconsolidated affiliates:			
Reported equity in earnings of unconsolidated affiliates	\$ 3,835	\$ 2,260	\$ 3,391
Add back: equity method goodwill amortization	—	1,701	1,701
Adjusted equity in earnings of unconsolidated affiliates	\$ 3,835	\$ 3,961	\$ 5,092
Earnings before the cumulative effect of a change in accounting principle:			
Reported earnings before the cumulative effect of a change in accounting principle	\$ 48,585	\$ 28,223	\$ 38,873
Add back: goodwill amortization after tax	—	13,740	13,486
Adjusted earnings before the cumulative effect of a change in accounting principle	\$ 48,585	\$ 41,963	\$ 52,359
Net income:			
Reported net income (loss)	\$ (10,415)	\$ 28,223	\$ 38,283
Add back: goodwill amortization after tax	—	13,740	13,486
Cumulative effect of a change in accounting principle	59,000	—	590
Adjusted net income	\$ 48,585	\$ 41,963	\$ 52,359
Basic earnings (loss) per share:			
Reported net income (loss)	\$ (.15)	\$.43	\$.55
Goodwill amortization after tax	—	.21	.19
Cumulative effect of a change in accounting principle	.86	—	.01
Adjusted basic earnings per share	\$.71	\$.64	\$.75
Diluted earnings (loss) per share:			
Reported net income (loss)	\$ (.15)	\$.42	\$.54
Goodwill amortization after tax	—	.20	.19
Cumulative effect of a change in accounting principle	.84	—	.01
Adjusted diluted earnings per share	\$.69	\$.62	\$.74

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Changes in the carrying amount of goodwill for fiscal 2002 were as follows:

<i>(In thousands)</i>	<i>Distribution Segment</i>	<i>Gas Operations Segment</i>	<i>Total</i>
Balance at March 31, 2001	\$ 364,943	\$ 75,114	\$ 440,057
Acquisitions	29,616	—	29,616
Divestitures	(3,146)	(811)	(3,957)
Cumulative effect of a change in accounting principle	(59,000)	—	(59,000)
Foreign currency translation and other adjustments	(88)	(80)	(168)
Balance at March 31, 2002	<u>\$ 332,325</u>	<u>\$ 74,223</u>	<u>\$ 406,548</u>

Other intangible assets amounted to \$25.7 million (net of accumulated amortization of \$77.6 million) and \$29.7 million (net of accumulated amortization of \$71.5 million) at March 31, 2002 and 2001, respectively. These intangible assets primarily consist of non-compete agreements entered into in connection with business combinations and are amortized over the term of the agreements, principally five years. There are no expected residual values related to these intangible assets. Estimated future amortization expense by fiscal year is as follows (\$ in millions): 2003 - \$6.6; 2004 - \$6.2; 2005 - \$4.3; 2006 - \$3.7; and \$4.9 thereafter.

Note 8**Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities include:

<i>(In thousands)</i>		
<i>Years Ended March 31,</i>	<i>2002</i>	<i>2001</i>
Cash overdraft	\$ 7,419	\$ 24,445
Accrued payroll and employee benefits	32,443	24,989
Business insurance reserves	13,266	10,043
Health insurance reserves	7,628	5,553
Accrued interest expense	17,255	6,539
Litigation reserves	11,292	8,007
Other accrued expenses and current liabilities	47,087	51,297
	<u>\$ 136,390</u>	<u>\$ 130,873</u>

The cash overdraft is attributable to the float of the Company's outstanding checks. The litigation reserves in both fiscal years primarily relate to defense and settlement costs associated with the Praxair litigation (see Note 21).

Note 9**Indebtedness****(a) Long-term Debt**

Long-term debt consists of:

<i>(In thousands)</i>		
<i>Years Ended March 31,</i>	<i>2002</i>	<i>2001</i>
Revolving credit borrowings	\$ 229,309	\$ 414,983
Term loan	100,000	—
Medium-term notes	181,275	225,000
Senior subordinated notes	222,864	—
Acquisition and other notes	33,132	53,626
Total long-term debt	766,580	693,609
Less current portion of long-term debt	(2,456)	(72,945)
Long-term debt, excluding current portion	<u>\$ 764,124</u>	<u>\$ 620,664</u>

Revolving Credit Facilities

On July 30, 2001, the Company refinanced its existing 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), including letters of credit. The revolving credit facilities will mature on July 30, 2006. At March 31, 2002, the Company had borrowings under the revolving facilities of approximately \$208 million and \$35 million Canadian (U.S. \$21 million). The Company also had commitments under letters of credit supported by the revolving credit facilities of approximately \$38 million at March 31, 2002. Based on restrictions related to certain leverage ratios, the Company had additional borrowing capacity under the revolving 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 facilities were 3.98% on U.S. borrowings and 2.15% on Canadian borrowings. Certain of the Company's domestic subsidiaries guarantee borrowings under the revolving facilities and foreign subsidiaries also guarantee Canadian borrowings. During the fourth quarter of fiscal 2002, the Company's credit rating as determined by third-party credit rating agencies was lowered in response to additional indebtedness related to the Air Products acquisition (see Note 2). 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. The revolving facilities also contain covenants, which include the maintenance of certain leverage ratios, a fixed charge ratio, and potential restrictions on certain additional borrowings, the payment of dividends and the repurchase of common stock.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Term Loan

In connection with the Air Products acquisition in February 2002, the Company amended its revolving credit facilities to permit the acquisition and obtained a \$100 million term loan from a syndicate of lenders. 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 revolving credit facilities enabled Company to finance the Air Products acquisition entirely with senior bank debt.

Medium-Term Notes

At March 31, 2002, the Company had the following medium-term notes outstanding: \$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%.

Senior Subordinated Notes

On July 30, 2001, concurrent with the refinancing of its 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 on 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 that are registered with the Securities and Exchange Commission in accordance with the Securities Act. No gain or loss was recognized as a result of the exchange. The notes contain covenants that 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 credit facilities.

Acquisition and Other Notes

Acquisition and other notes principally represent notes issued to sellers of businesses acquired and are repayable in periodic installments. At March 31, 2002, acquisition and other notes of \$33 million had interest rates ranging from 7.00% to 9.00%. In the first quarter of fiscal 2003, the Company refinanced \$20 million of acquisition notes with borrowings under its revolving credit facilities.

Aggregate Long-term Debt Maturities

The aggregate maturities of long-term debt are as follows:

(In thousands)

Years Ended March 31,	Aggregate Maturity
2003	\$ 2,456
2004	96,031
2005	23,143
2006	35,818
2007	385,847
Thereafter	223,285
	<u>\$ 766,580</u>

(b) Swap Agreements

In managing interest rate exposure, the Company participates in 12 interest rate swap agreements with a total notional principal amount of \$323 million at March 31, 2002. Counterparties to the interest rate swap agreements are major financial institutions. The Company monitors its positions and the credit ratings of its counterparties, and does not anticipate nonperformance by the counterparties.

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 terms 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 interest payments from its counterparties based on an average effective rate of 8.05% at March 31, 2002. The remaining terms of these swap agreements range from between one and nine years. Under the terms of one of the swap agreements, the Company has elected to receive the discounted value of the counterparty's interest payments up front. At March 31, 2002, \$424 thousand of such payments was included in other current liabilities. The effect of the swap agreements was to increase interest expense by approximately \$2.9 million, \$1.6 million and \$3.2 million in 2002, 2001 and 2000, respectively.

The aggregate maturities of the Company's interest rate swaps by type of swap for the five years ending March 31, 2007 and thereafter are as follows:

Years Ended March 31,	Notional Principal Amounts	
	Pay-Fixed	Pay-Variable
2003	\$ 127,500	\$ —
2004	—	30,000
2005	40,000	—
2006	—	—
2007	—	50,000
Thereafter	—	75,000
	<u>\$ 167,500</u>	<u>\$ 155,000</u>

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 10**Fair Value of Financial Instruments**

Summarized below are the carrying and fair values of the Company's financial instruments at March 31, 2002 and 2001.

The fair value of the Company's financial instruments is based on estimates using standard pricing models that take into account the present value of future cash flows as of the balance sheet date. The computation of fair values of these instruments is generally performed by the Company. The carrying amounts reported in the balance sheet for trade receivables and payables, accrued liabilities, accrued income taxes, and short-term borrowings approximate fair value due to the short-term nature of these instruments.

Accordingly, these items have been excluded from the table below.

<i>(In thousands)</i>	2002 Carrying Value	2002 Fair Value	2001 Carrying Value	2001 Fair Value
Financial Instruments:				
Revolving credit borrowings	\$229,309	\$229,309	\$414,983	\$414,983
Senior subordinated notes	222,864	234,000	—	—
Term loan	100,000	100,000	—	—
Medium-term notes	181,275	175,000	225,000	218,661
Acquisition and other notes	33,132	33,094	53,626	53,013
Prepaid interest rate swap agreements	424	680	1,441	1,970
Interest rate swap agreements:				
Fair value hedge	(4,140)	(4,140)	—	(5,951)
Cash flow hedge	4,924	4,924	—	6,664

Note 11**Derivative Instruments and Hedging Activities**

The Company's involvement with derivative instruments is limited to highly effective fixed and floating interest rate swap agreements used to manage well-defined interest rate risk exposures. Interest rate swap agreements are not entered into for trading purposes. As described in Note 1, the Company adopted SFAS 133 as of April 1, 2001.

At March 31, 2002, the Company had a notional amount of \$168 million in fixed interest rate swap agreements that effectively convert a corresponding amount of variable interest rate borrowings under the revolving credit facilities and operating leases to fixed interest rate instruments. In fiscal 2002, the Company recorded a net change in the fair value of the fixed interest rate swap agreements of \$1.7 million as accumulated other comprehensive income (loss). The net additional interest payments made under these swap agreements during the quarter were recognized in interest expense. Over the next 12 months, the Company expects to reclassify approximately \$2.7 million of the deferred loss from accumulated other comprehensive income (loss) to interest expense as swap agreements mature.

At March 31, 2002, the Company also had a notional amount of \$155 million in variable interest rate swap agreements that effectively converts a corresponding amount of fixed rate medium-term and senior subordinated notes to variable rate debt. The fair value of these variable interest rate swap agreements and the increased carrying value of the hedged portions of the medium-term and senior subordinated notes at March 31, 2002 was \$4.1 million. The changes in the fair value of the swap agreements are offset by changes in the fair value of the hedged portions of the medium-term and senior subordinated notes.

Note 12**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. Proceeds received by the Company pursuant to the securitization agreement were used to reduce borrowings on its revolving credit facilities.

The transaction has been accounted for as a sale under the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Under the securitization 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. A subordinated retained interest of approximately \$41 million and \$26 million is included in Trade receivables in the accompanying Consolidated Balance Sheets at March 31, 2002 and 2001, respectively. In accordance with a servicing agreement, the Company will continue to service, administer and collect 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.

Note 13**Stockholders' Equity****(a) Common Stock**

The Company is authorized to issue up to 200 million shares of common stock with a par value of \$.01 per share. At March 31, 2002, the number of shares of common stock outstanding was 70.3 million, excluding 547 thousand shares of common stock held as treasury stock and 4.3 million shares of common stock held in a grantor trust as described under Note 13(d).

(b) Preferred Stock and Redeemable Preferred Stock

The Company is authorized to issue up to 20 million shares of preferred stock. Of the 20 million shares authorized, 200 thousand shares have been designated as Series A Junior Participating Preferred Stock and 200 thousand shares have been designated as Series B Junior Participating Preferred Stock (see Note 13(e) for further discussion). At March 31, 2002 and 2001, no shares of the preferred stock were issued or outstanding. The preferred stock may be issued from time to time by the Company's Board of Directors in one or more series. The Board of Directors is authorized to fix the dividend rights and terms, conversion rights, voting rights, rights and terms of redemption, liquidation preferences, and any other rights, preferences, privileges and restrictions of any series of preferred stock, and the number of shares constituting each such series and designation thereof.

Additionally, the Company is authorized to issue 30 thousand shares of redeemable preferred stock. At March 31, 2002 and 2001, no shares were issued or outstanding.

(c) Treasury Stock

In March 1999, the Company's Board of Directors authorized the repurchase of up to seven million shares of the Company's outstanding common stock. The authorization provided for the repurchase of shares in the open market or in privately negotiated transactions depending on market conditions and other factors. In accordance with the March 1999 share repurchase authorization, the Company acquired 31 thousand, 1.4 million and 5.3 million shares of common stock in fiscal 2002, 2001 and 2000, respectively. In fiscal 2001 and 2000, the Company reissued 2 million and 4.2 million shares of common stock to the Company's Employee Benefits Trust (the "Trust"), as discussed in Note 13(d). No shares were reissued from treasury in fiscal 2002. When treasury shares are reissued, the Company uses an average cost method with the excess of the repurchase cost over the reissuance price accounted for as a charge to capital in excess of par value. The Company's stock repurchase program has been completed.

(d) Shares in Employee Benefits Trust

In March 1999, the Company established the grantor 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. 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 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. 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 to be funded by the Trust. Since inception of the Trust in fiscal 1999, the Trust purchased approximately seven million shares of common stock, previously held as treasury stock, from the Company, for approximately \$54 million. Approximately 1.4 million, 1.2 million and 230 thousand shares were issued from the Trust for employee benefit programs during fiscal 2002, 2001 and 2000, respectively.

(e) Stockholder Rights Plan

Effective April 1, 1997, the Company's Board of Directors adopted a new stockholder rights plan (the "1997 Rights Plan"). Pursuant to the 1997 Rights Plan, the Board of Directors declared a dividend distribution of one right for each share of common stock. Each right entitles the holder to purchase from the Company one one-thousandth of a share Series B Junior Participating Preferred Stock at an initial exercise price of \$100 per share.

Rights become exercisable only following the acquisition by a person or group of 15 percent (or 20 percent in the case of the Chairman and certain of his affiliates) or more of the Company's common stock or after the announcement of a tender offer or exchange offer to acquire 15 percent (or 20 percent in the case of the Chairman and certain of his affiliates) or more of the outstanding common stock. If such a person or group acquires 15 percent or more (or 20 percent or more, as the case may be) of the common stock, each right (other than such person's or group's rights, which will become void) will entitle the holder to purchase, at the exercise price, common stock having a market value equal to twice the exercise price. In certain circumstances, the rights may be redeemed by the Company. If not redeemed, they will expire on April 1, 2007.

(f) Warrants

During fiscal 2002, the Company granted warrants to purchase 324,000 shares of the Company's common stock to an outside consulting firm for services rendered. The warrants have a term of three years from the date of grant and have exercise prices in excess of market value on the date of grant ranging from \$11.98 to \$18.78 per share. The aggregate value of the warrants on the dates of grant, as determined by the Black-Scholes model, was \$1.1 million, which the Company expensed during fiscal 2002.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 14**Stock-Based Compensation**

The Company has elected to continue to account for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation expense has been recognized for its stock option and employee stock purchase plans. However, pro forma information regarding net earnings and earnings per share is required. Had compensation expense for the Company's stock-based compensation plans been determined based on the fair value at the grant date, the Company's pro forma net earnings and earnings per share for fiscal 2002, 2001 and 2000 would be as follows:

(In thousands, except per share amounts)

Years Ended March 31,	2002	2001	2000
Net earnings (loss)			
As reported	\$ (10,415)	\$ 28,223	\$ 38,283
Pro forma	\$ (20,682)	\$ 22,142	\$ 32,602
Diluted earnings (loss) per share			
As reported	\$ (.15)	\$.42	\$.54
Pro forma	\$ (.30)	\$.33	\$.46

The pro forma impact only takes into account options granted since April 1, 1995 and is likely to have a greater impact in future years as additional options are granted and amortized ratably over the vesting period.

The Company's stock-based compensation plans are described below.

(a) Employee Stock Option Plans

The Company has a stock plan under which officers and key employees may be granted options. In May 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan"). The 1997 Plan replaced the previous 1984 Stock Option Plan. Options granted under the 1997 Plan vest 25% annually and have a maximum term of ten years. Under the 1997 Plan, at March 31, 2002, 2001 and 2000, 2.6 million, 3.7 million and 5.4 million options, respectively, were available for issuance. In fiscal 2002, 2001 and 2000, 1.5 million, 1.7 million and 1.1 million options, respectively, were granted with an exercise price equal to market price at the date of grant. Options under the 1997 Plan are generally granted in May of each year.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for fiscal 2002, 2001 and 2000 option grants, respectively: expected volatility of 48.8%, 51.1% and 44.2%, risk-free interest rate of 4.7%, 6.5% and 5.6%, and expected life of 7.2, 5.6 and 4.9 years. The weighted average fair value per share of the options granted during fiscal 2002, 2001 and 2000 was \$5.31, \$3.13 and \$5.19, respectively.

The following table summarizes the activity of the employee stock option plans during the three years ended March 31, 2002:

	Number of Shares	Exercise Price Per Share	
March 31, 2000			
Outstanding, beginning of year	7,209,520	\$1.83	- \$23.25
Granted	1,126,845	6.06	- 12.50
Exercised	(576,772)	1.83	- 11.32
Expired	(489,932)	6.31	- 22.00
March 31, 2001			
Outstanding, beginning of year	7,269,661	1.83	- 23.25
Granted	1,734,215	4.63	- 8.25
Exercised	(397,494)	1.83	- 8.50
Expired	(300,421)	5.21	- 22.00
March 31, 2002			
Outstanding, beginning of year	8,305,961	1.83	- 23.25
Granted	1,525,120	8.54	- 19.45
Exercised	(1,049,173)	1.83	- 19.00
Expired	(556,798)	5.50	- 22.00
Outstanding, end of year	8,225,110	\$3.30	- \$23.25

Options for 4.7 million, 4.9 million and 4.6 million shares were exercisable at March 31, 2002, 2001 and 2000, respectively.

(b) Board of Directors Stock Option Plans

The Company also maintains stock option plans covering directors who are not employees. In May 1997, the Company adopted the 1997 Directors' Stock Option Plan (the "1997 Directors' Plan"). The 1997 Directors' Plan replaced the previous 1989 Stock Option Plan for Directors. The 1997 Directors' Plan reserved 500 thousand shares for issuance. Options under the 1997 Directors' Plan are exercisable in full on the date of grant.

Under the 1997 Directors' Plan, at March 31, 2002, 173,500 options were available for issuance. During fiscal 2002, 2001 and 2000, 80,000, 100,000 and 62,500 options, respectively, were granted with an exercise price equal to the market price at the date of grant and have a maximum term of ten years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for fiscal 2002, 2001 and 2000 option grants, respectively: expected volatility of 51.1%, 51.1% and 44.8%, risk-free interest rate of 4.6%, 6.1% and 5.8%, and expected life of 5.7, 5.6 and 5.4 years. The weighted average fair value per share of the stock options granted during fiscal 2002, 2001 and 2000 was \$6.61, \$2.85 and \$6.01, respectively.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

The following table summarizes the activity of the Board of Directors stock option plans during the three years ended March 31, 2002:

	Number of Shares	Exercise Price Per Share
March 31, 2000		
Outstanding, beginning of year	314,000	\$2.09 - \$19.25
Granted	62,500	12.25
Exercised	(16,000)	2.20
March 31, 2001		
Outstanding, beginning of year	360,500	2.09 - 19.25
Granted	100,000	5.25
Exercised	(32,000)	2.09 - 2.14
March 31, 2002		
Outstanding, beginning of year	428,500	2.09 - 19.25
Granted	80,000	12.40
Exercised	(32,000)	2.09 - 13.82
Outstanding, end of year	476,500	\$4.16 - \$19.25

Options for 476,500, 428,500 and 360,500 shares were exercisable at March 31, 2002, 2001 and 2000, respectively.

The following table summarizes information about options outstanding and exercisable for the employee and Board of Directors stock option plans at March 31, 2002:

Options Outstanding		
Weighted Average Remaining Life-Years	Number Outstanding	Exercise Price Per Share
1.89	594,134	\$ 3.30 - \$ 5.25
8.13	1,258,380	5.44 - 5.50
4.60	1,329,057	5.56 - 8.50
8.89	1,437,170	8.54 - 8.99
5.99	1,145,269	9.29 - 11.50
4.47	1,491,642	11.98 - 15.63
5.15	1,006,350	15.94 - 21.25
4.16	439,608	22.00 - 23.25
5.79	8,701,610	\$ 3.30 - \$ 23.25

Options Exercisable	
Number of Options Exercisable	Weighted Average Exercise Price Per Share
592,072	\$ 3.89
252,762	5.50
989,949	7.26
41,250	8.56
666,305	11.43
1,427,642	14.41
814,771	16.63
439,608	\$ 22.05
5,224,359	11.99

(c) Employee Stock Purchase Plans

In August 2001, the Company established the Airgas, Inc. 2001 Employee Stock Purchase Plan (the "2001 Plan") to encourage and assist employees in acquiring an equity interest in the Company. The 2001 Plan replaced the previous 1998 Employee Stock Purchase Plan (the "1998 Plan"). During fiscal 2002, the remaining shares of common stock authorized under the 1998 Plan were issued. The 2001 Plan is authorized to issue up to 1.5 million shares of common stock. Eligible employees may elect to have up to 15% of their annual gross earnings withheld to purchase common stock at 85% of the market value. Market value under the 2001 Plan is defined as either the closing share price on the New York Stock Exchange as of the employees' enrollment date or the closing price on the last business day of a fiscal quarter, whichever is lower. An employee may lock-in a purchase price for up to 27 months. The 2001 Plan is designed to comply with the requirements of Sections 421 and 423 of the Internal Revenue Code. The terms of the Company's previous 1998 Plan were substantially identical to the terms of the 2001 Plan. During fiscal 2002, the Company issued 1.1 million shares, provided from the Employee Benefits Trust, to fund purchases made by employees under the 2001 and 1998 Plans at an average purchase price of \$6.58 per share. During fiscal 2001, the Company issued 1.2 million shares from the Employee Benefits Trust for the 1998 Plan at an average purchase price of \$4.86 per share. During fiscal 2000, the Company issued 806 thousand shares from the Employee Benefits Trust and treasury stock for the 1998 Plan at an average purchase price of \$7.09 per share.

Compensation expense under SFAS 123 is estimated for the fair value of the employees' option to purchase shares of common stock, which was estimated using the Black-Scholes model with the following assumptions for fiscal 2002, 2001 and 2000, respectively: expected volatility of 57%, 63% and 51%, risk-free interest rate of 3.4%, 5.4% and 6.0%, and expected term of 27 months for each period. The weighted average fair value per share of the purchase options granted in fiscal 2002, 2001 and 2000 was \$8.82, \$3.47 and \$3.94, respectively.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 15**Investments in Unconsolidated Affiliates**

The Company's investments in unconsolidated affiliates totaled approximately \$65 million at March 31, 2002, and \$63 million at March 31, 2001. The Company's investments include a 47% joint venture interest in the voting capital stock of National Welders. National Welders is a distributor of industrial, medical and specialty gases and related equipment based in Charlotte, North Carolina. On February 28, 2002, National Welders purchased Air Products' packaged gas operations in the Carolinas and southern Virginia. These operations have annual revenues of approximately \$17 million. The investment in National Welders totaled approximately \$57 million at March 31, 2002 and \$55 million at March 31, 2001. The Company's other investments in unconsolidated affiliates totaled approximately \$8 million at March 31, 2002 and 2001 and primarily consist of a 50% joint venture interest in AC Industries.

The Company accounts for investments in unconsolidated affiliates by the equity method of accounting, as described in Note 1. The Company's share of earnings from all unconsolidated affiliates was \$3.8 million, \$2.3 million, \$3.4 million for the years ended March 31, 2002, 2001, and 2000, respectively.

A summary of unaudited financial information for investments in unconsolidated affiliates for the years ended March 31, 2002 and 2001 were as follows:

(In thousands)

Years Ended March 31,	2002	2001
Current assets	\$ 39,704	\$ 44,731
Non-current assets	144,439	121,852
Total assets	\$ 184,143	\$ 166,583
Current liabilities	\$ 24,942	\$ 29,441
Non-current liabilities	105,474	91,798
Stockholders' equity	53,727	45,344
Total liabilities and stockholders' equity	\$ 184,143	\$ 166,583

(In thousands)

Years Ended March 31,	2002	2001	2000
Net sales	\$ 166,702	\$ 182,630	\$ 193,335
Cost of sales	105,476	118,244	126,249
Gross profit	61,226	64,386	67,086
Earnings before taxes	13,409	13,086	13,571
Net earnings	8,725	9,162	9,428
Preferred stock dividends and equity earnings adjustments	(4,890)	(6,902)	(6,037)
Equity in earnings of unconsolidated affiliates	\$ 3,835	\$ 2,260	\$ 3,391

The Company's fiscal 2002 equity in earnings of unconsolidated affiliates reflects the Company's adoption of SFAS 142 under which the carrying value of the Company's investment in excess of its unconsolidated affiliates' underlying equity is no longer amortized. See Note 7 for a reconciliation of prior period results as reported to results adjusted to exclude this amortization expense.

Note 16**Interest Expense, Net**

Interest expense, net, consists of:

(In thousands)

Years Ended March 31,	2002	2001	2000
Interest expense	\$ 48,035	\$ 61,434	\$ 58,712
Interest and finance charge income	(1,022)	(1,227)	(1,152)
	\$ 47,013	\$ 60,207	\$ 57,560

Note 17**Income Taxes**

Earnings before income taxes and the cumulative effect of a change in accounting principle were derived from the following sources:

(In thousands)

Years Ended March 31,	2002	2001	2000
United States	\$ 74,947	\$ 46,021	\$ 69,028
Foreign	3,444	2,920	1,396
	\$ 78,391	\$ 48,941	\$ 70,424

Income tax expense (benefit) consists of:

(In thousands)

Years Ended March 31,	2002	2001	2000
Current:			
Federal	\$ (6,693)	\$ 12,286	\$ 16,554
Foreign	1,534	1,135	408
State	387	2,145	1,466
	(4,772)	15,566	18,428
Deferred:			
Federal	32,348	6,173	10,325
Foreign	329	594	847
State	1,901	(1,615)	1,951
	34,578	5,152	13,123
	\$ 29,806	\$ 20,718	\$ 31,551

As of March 31, 2002, the Company has reflected a tax refund receivable of \$27.7 million in Prepaid expenses and other current assets. The tax refund was principally the result of the 2002 Job Creation and Work Assistance Act ("the Act"), which provided for a 30% bonus depreciation deduction for assets placed in service after September 10, 2001. As a result of the Act and the Company's significant acquisitions subsequent to September 10, 2001, the Company recognized a current period tax benefit and deferred tax expense related to the bonus depreciation deduction. The bonus depreciation deduction was a principle contributor to a current net operating loss position, which the company elected to carry back to prior tax years.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Significant differences between taxes computed at the federal statutory rate and the provision for income taxes were:

Years Ended March 31,	2002	2001	2000
Taxes at U.S. federal statutory rate	35.0%	35.0%	35.0%
Increase in income taxes resulting from:			
State income taxes, net of federal benefit	1.5%	1.1%	2.1%
Amortization of non-deductible goodwill	—	4.9%	4.7%
Divestitures	1.8%	—	2.6%
Equity accounting for unconsolidated affiliates	(1.2%)	(1.1%)	(1.1%)
Other, net	0.9%	2.4%	1.5%
	<u>38.0%</u>	<u>42.3%</u>	<u>44.8%</u>

The decrease in the effective tax rate in fiscal 2002 is primarily related to the Company no longer amortizing goodwill as described in Notes 1 and 7.

The tax effects of cumulative temporary differences that gave rise to the significant portions of the deferred tax assets and liabilities were as follows:

(In thousands)

Years Ended March 31,	2002	2001
Deferred Tax Assets:		
Inventories	\$ 5,955	\$ 5,852
Accounts receivable	(124)	406
Deferred rental income	959	528
Insurance reserves	7,573	4,391
Special charges (Note 3)	1,581	5,396
Litigation settlement and other reserves	6,406	1,649
Intangible assets	(5,907)	(71)
Other	14,365	11,523
Valuation allowance	(5,976)	(4,263)
	<u>24,832</u>	<u>25,411</u>
Deferred Tax Liabilities:		
Plant and equipment	(194,703)	(160,000)
Other	(15,092)	(16,444)
	<u>(209,795)</u>	<u>(176,444)</u>
Net deferred tax liability	<u>\$ (184,963)</u>	<u>\$ (151,033)</u>

Current tax assets and current tax liabilities have been netted for presentation purposes. Non-current tax assets and non-current tax liabilities have also been netted. Deferred tax assets and liabilities are reflected in the Company's consolidated balance sheets as follows:

(In thousands)

Years Ended March 31,	2002	2001
Current deferred tax asset, net	\$ 13,210	\$ 10,143
Non-current deferred tax liability, net	(198,173)	(161,176)
Net deferred tax liability	<u>\$ (184,963)</u>	<u>\$ (151,033)</u>

The Company has recorded tax benefits amounting to \$4.3 million, \$800 thousand and \$1.6 million in fiscal 2002, 2001 and 2000, respectively, resulting from the exercise of stock options. This benefit has been recorded in capital in excess of par value.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances, at March 31, 2002. Valuation allowances, which increased by \$1.7 million in fiscal year 2002, primarily relate to certain state tax net operating loss carry forwards.

Note 18 Benefit Plans

The Company has a defined contribution 401(k) plan (the "401(k) plan") covering substantially all full-time employees. Under the terms of the 401(k) plan, the Company makes matching contributions up to two percent of participants' wages plus additional discretionary profit sharing contributions based upon the profitability of the Company. Amounts expensed under the 401(k) plan for fiscal 2002, 2001, and 2000 were \$4.7 million, \$5.8 million and \$5.9 million, respectively.

Certain subsidiaries of the Company participate in multi-employer pension and post-retirement plans which provide defined benefits to union employees. Contributions are made to the plans in accordance with negotiated labor contracts. The Company has not taken any action to terminate or withdraw from these plans. Management believes that the Company's liability, if any, for multi-employer plan withdrawal liability will not have a material effect on the Company's financial condition, results of operations or liquidity. Amounts expensed under the pension plans for fiscal 2002, 2001 and 2000 were \$642 thousand, \$543 thousand and \$526 thousand, respectively.

Effective January 2002, the Company offered eligible employees the opportunity to participate in a non-qualified deferred compensation plan (the "Plan"). The Plan, which is not required to be funded, allows eligible employees to defer a portion of their compensation until their retirement. The costs associated with the Plan during fiscal 2002 were not material. At March 31, 2002, the Company had a liability of \$100 thousand related to compensation deferred and related interest under the Plan.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 19**Related Parties**

During the years ended March 31, 2002, 2001 and 2000, National Welders, an unconsolidated equity affiliate, paid \$3.8 million, \$3.8 million and \$3.5 million, respectively, to the Company for gas products, hardgoods and services. In addition, National Welders sold gas products and hardgoods to the Company in the amounts of \$1.1 million, \$787 thousand and \$330 thousand in fiscal 2002, 2001 and 2000, respectively. In connection with the Praxair litigation (see Note 21), the Company reimbursed National Welders for legal fees of \$482 thousand, \$260 thousand and \$484 thousand in fiscal 2002, 2001 and 2000, respectively.

The Company paid \$7.7 million, \$7.9 million and \$9.1 million to AC Industries, an unconsolidated equity affiliate, for the purchase of liquid carbon dioxide during the years ended March 31, 2002, 2001 and 2000, respectively. In addition, the Company had a net payable balance to AC Industries totaling \$1.2 million, \$1.2 million and \$695 thousand at March 31, 2002, 2001 and 2000, respectively.

Note 20**Leases**

The Company leases certain distribution facilities and equipment under long-term operating leases with varying terms. Most leases contain renewal options and in some instances, purchase options. Rentals under these long-term leases for the years ended March 31, 2002, 2001, and 2000, amounted to \$45.4 million, \$43.7 million, and \$38.5 million, respectively. Certain operating facilities are leased at market rates from employees of the Company who were previous owners of businesses acquired. The Company also has several capital leases assumed as part of prior acquisitions. Outstanding capital lease obligations and the related capital assets are not material to the consolidated balance sheets at March 31, 2002 and 2001.

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 lease terms expire in October 2004. The Company has guaranteed a residual value of the real estate and the equipment at the end of the lease terms 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.

At March 31, 2002, future minimum lease payments under non-cancelable operating leases, including the residual value associated with the sale-leaseback transaction, are as follows:

<i>(In thousands)</i>	
2003	\$ 37,900
2004	31,040
2005	65,710
2006	19,517
2007	13,889
Thereafter	15,418
	<u>\$ 183,474</u>

Note 21**Commitments and Contingencies****(a) Legal**

In July 1996, Praxair, Inc. ("Praxair") filed suit against the Company in the Circuit Court of Mobile County, Alabama, alleging tortious interference with business or contractual relations with respect to Praxair's right of first refusal agreement with the majority shareholders of National Welders in connection with the Company's formation of a joint venture with National Welders. In June 1998, Praxair filed a motion to dismiss its own action in Alabama and commenced another action in the Superior Court of Mecklenburg County, North Carolina, alleging substantially the same tortious interference by the Company. The North Carolina action also alleged breach of contract against National Welders and certain shareholders of National Welders and unfair trade practices and conspiracy against all the defendants. In April 2002, the Company and Praxair entered into an agreement to settle the litigation in order to avoid the time and expense of a lengthy trial. Each party denied any wrongdoing or liability and Praxair agreed to an early termination of its right of first refusal. As a result of the settlement, in the fourth quarter of fiscal 2002, the Company recorded a charge to earnings, net of previously established reserves related to the litigation, of \$8.5 million. In fiscal 2001, the Company recorded a charge of \$6.9 million for costs associated with defending the Praxair lawsuit.

In fiscal 1997, the Company announced it was the victim of a fraudulent breach of contract by a third-party supplier of refrigerant gases and recorded a special charge related to product losses and costs associated with the Company's efforts to investigate the fraud and pursue recoveries. In March 2001, the Company reached a final settlement with its insurance carriers resulting in

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

insurance recoveries of \$4 million. The insurance settlement, net of associated legal expenses, was reflected in special charge recoveries in the Consolidated Statement of Earnings.

In fiscal 2000, the Company recorded a \$7.5 million charge representing an estimate of the overall costs associated with the defense and settlement of certain class action lawsuits pertaining to hazardous material charges paid to the Company by customers. In the fourth quarter of fiscal 2001, a settlement agreement and approving court orders covering all such class actions against the Company became final, and the Company reversed \$1.1 million of the previously accrued defense and settlement costs.

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

(b) Insurance Coverage

The Company has established insurance programs to cover workers' compensation, business automobile, general and products liability. These programs have self-insured retention of \$500 thousand per occurrence and an aggregate limit of \$1.5 million for claims in excess of \$500 thousand. The Company believes its insurance reserves are adequate. The Company accrues estimated losses using actuarial models and assumptions based on historical loss experience.

The nature of the Company's business may subject it to product and general liability lawsuits. To the extent that the Company is subject to claims that exceed its liability insurance coverage of \$100 million, such suits could have a material adverse effect on the Company's financial position, results of operations or liquidity.

(c) Supply Agreements

In connection with the Air Products acquisition, the Company entered into a 15-year supply agreement under which Air Products will supply at least 35% of the Company's bulk liquid nitrogen, oxygen and argon requirements. Additionally, the Company has commitments to purchase helium under the terms of the supply agreement. Based on fiscal 2002 results, the Air Products supply agreement represents approximately \$40 million in annual liquid bulk gas purchases. In addition, the Company is a party to other long-term supply agreements primarily for the purchase of liquid carbon dioxide, representing approximately \$14 million, or 24% of the Company's annual carbon dioxide requirements.

Note 22**Supplemental Cash Flow Information**

Cash paid for interest expense and income taxes was as follows:

(In thousands)

Years Ended March 31,	2002	2001	2000
Interest	\$ 42,165	\$ 65,167	\$ 57,934
Income taxes (net of refunds)	21,004	8,109	16,269

Significant non-cash investing and financing transactions were as follows:

(In thousands)

Years Ended March 31,	2002	2001	2000
Acquisition related transactions:			
Debt assumed	\$ 1,466	\$ —	\$ 561
Liabilities assumed	8,451	536	7,762
Debt issued	—	—	1,399

Note 23**Summary by Business Segment**

The Company aggregates its operations, based on products and services, into two reportable segments, Distribution and Gas Operations. The Distribution segment accounts for approximately 90% of consolidated sales. The segment's principal products and services are packaged and small bulk gases, gas cylinder and welding equipment rental and hardgoods. Gas sales include industrial, medical and specialty gases such as: nitrogen, oxygen, argon, helium, acetylene, carbon dioxide, nitrous oxide, hydrogen, welding gases, ultra high purity grades and special application blends. Rent is derived from gas cylinders, cryogenic liquid containers, bulk storage tanks and through the rental of welding equipment. Hardgoods consist of welding supplies and equipment, safety products, and industrial tools and supplies.

The Gas Operations segment produces and distributes certain gas products, principally dry ice, carbon dioxide, nitrous oxide and specialty gases. The Company also operates two air separation plants that produce oxygen, nitrogen and argon which are sold to on-site customers and to the Distribution segment.

The Company's operations are principally in the United States. The Company's customer base is diverse and sales are not dependent on a single or small group of customers.

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note 1). Additionally, Corporate operating expenses are allocated to each segment pro rata based on sales dollars; Corporate assets have been allocated to the Distribution segment; intercompany sales are recorded on the same basis as sales to third parties; and intercompany transactions are eliminated in consolidation. As a result of adopting SFAS 142 effective April 1, 2001, the financial results for the year ended March 31, 2002 do not reflect goodwill amortization expense (see Note 1). See Note 7 for a reconciliation of prior period financial results as reported to financial results adjusted to exclude goodwill amortization expense. See Note 2 for the impact of acquisitions and divestitures on the operating results of each segment. Certain reclassifications have been made to the prior periods segment disclosures to conform to the current presentation.

Management utilizes more than one measurement and multiple views of data to measure segment performance and to allocate resources to the segments. However, the dominant measurements are consistent with the Company's consolidated financial statements and, accordingly, are reported on the same basis herein. Management evaluates the performance of its segments primarily based on sales, operating income, EBITDA (operating income plus equity in earnings of unconsolidated affiliates, depreciation and amortization) and overall economic returns.

<i>(In thousands)</i>	Distribution	Gas Operations	Combined
Fiscal 2002			
Gas and rent	\$ 707,435	\$ 139,524	\$ 846,959
Hardgoods	786,832	2,256	789,088
Total net sales	1,494,267	141,780	1,636,047
Intersegment sales	—	32,227	32,227
Gross profit	724,173	93,121	817,294
Gross profit margin	48.5%	65.7%	50.0%
Depreciation and amortization expense	61,275	11,670	72,945
Operating income	103,430	21,603	125,033
Equity earnings of unconsolidated affiliates	2,878	957	3,835
Assets	1,520,492	196,565	1,717,057
Investment in equity method investees	58,579	6,047	64,626
Capital expenditures	52,414	5,883	58,297

<i>(In thousands)</i>	Distribution	Gas Operations	Combined
Fiscal 2001			
Gas and rent	\$ 647,525	\$ 138,383	\$ 785,908
Hardgoods	839,897	3,096	842,993
Total net sales	1,487,422	141,479	1,628,901
Intersegment sales	—	31,805	31,805
Gross profit	689,999	91,702	781,701
Gross profit margin	46.4%	64.8%	48.0%
Depreciation and amortization expense	72,552	14,202	86,754
Operating income, excluding special (charges) recoveries	92,186	19,406	111,592
Special (charges) recoveries, net	(6,279)	2,636	(3,643)
Operating income	85,907	22,042	107,949
Equity earnings of unconsolidated affiliates	1,386	874	2,260
Assets	1,406,928	174,362	1,581,290
Investment in equity method investees	56,671	6,591	63,262
Capital expenditures	56,228	9,682	65,910

<i>(In thousands)</i>	Distribution	Gas Operations	Combined
Fiscal 2000			
Gas and rent	\$ 592,449	\$ 128,703	\$ 721,152
Hardgoods	817,500	3,682	821,182
Total net sales	1,409,949	132,385	1,542,334
Intersegment sales	—	18,253	18,253
Gross profit	649,827	75,910	725,737
Gross profit margin	46.1%	57.3%	47.1%
Depreciation and amortization expense	76,483	12,825	89,308
Operating income, excluding special (charges) recoveries	94,671	9,231	103,902
Special (charges) recoveries, net	577	2,252	2,829
Operating income	95,248	11,483	106,731
Equity earnings of unconsolidated affiliates	1,658	1,733	3,391
Assets	1,512,666	226,665	1,739,331
Investment in equity method investees	57,339	15,620	72,959
Capital expenditures	56,361	8,850	65,211

Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Note 24**Supplementary Information (Unaudited)**

This table summarizes the unaudited results of operations for each quarter of fiscal 2002 and 2001:

<i>(In thousands, except per share amounts)</i>	First	Second	Third	Fourth
Fiscal 2002				
Net sales	\$ 415,675	\$ 411,982	\$ 392,433	\$ 415,957
Operating income	32,784	34,839	31,194	26,216
Net earnings	(45,549)	14,553	11,845	8,736
Basic earnings per share (a),(b)	\$ (.68)	\$.21	\$.17	\$.13
Diluted earnings per share (a),(b)	\$ (.67)	\$.21	\$.17	\$.12
Fiscal 2001				
Net sales	\$ 408,998	\$ 410,097	\$ 394,970	\$ 414,836
Operating income	31,043	33,046	26,242	17,618
Net earnings	9,816	10,403	6,676	1,328
Basic earnings per share (a),(c)	\$.15	\$.16	\$.10	\$.02
Diluted earnings per share (a),(c)	\$.15	\$.16	\$.10	\$.02

(a) Earnings per share calculations for each of the quarters are based on the weighted average number of shares outstanding in each period. Therefore, the sum of the quarters does not necessarily equal the full year earnings per share.

(b) As discussed in the Notes to the Company's consolidated financial statements, net earnings for fiscal 2002 include: (1) in the first quarter, a non-cash charge of \$59 million, or \$.86 per diluted share, as the cumulative effect of a change in accounting principle for the write-down of goodwill to its fair value; and (2) in the fourth quarter, a litigation charge of \$5.7 million after-tax, or \$.08 per diluted share, related to the Praxair litigation settlement. In accordance with the Company's adoption of SFAS 142 on April 1, 2002, fiscal 2002 financial information excludes goodwill amortization (see Note 7).

(c) As discussed in the Notes to the Company's consolidated financial statements, net earnings for fiscal 2001 include the following charges in the fourth quarter: (1) net special charges of \$2.3 million after tax, or \$.03 per diluted share; (2) litigation charges, net of recoveries, of \$3.4 million, or \$.06 per diluted share; and (3) asset impairments associated with two equity affiliates of \$700 thousand after tax, or \$.01 per diluted share.

Note 25**Condensed Consolidating Financial Information of Subsidiary Guarantors**

As described in Note 9, on July 30, 2001, the Company refinanced its revolving credit facilities and issued \$225 million of senior subordinated notes (the "Notes"). The obligations of the Company under the Notes are guaranteed by the Company's domestic subsidiaries that guarantee the Company's new credit facilities (the "Guarantors"). The Company's joint venture operations, foreign holdings and bankruptcy remote special purpose entity (the "Non-guarantors") are not guarantors of the Notes. The guarantees are made on a joint and several basis. The claims of creditors of Non-guarantor subsidiaries have priority over the rights of the Company to receive dividends or distributions from such subsidiaries. Presented below is condensed consolidating financial information for the Company, the Guarantors and the Non-guarantors as of March 31, 2002 and March 31, 2001 and for the years ended March 31, 2002, 2001 and 2000. On August 31, 2001, two Non-guarantor entities were merged into the parent. These entities were holding companies through which the Company managed its operations in Poland and Thailand. The operations in Poland and Thailand were divested in fiscal 2000. The net assets of the two Non-guarantor entities in the amount of \$42.7 million were transferred to the parent.

Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
March 31, 2002	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Assets					
Current Assets					
Trade receivables, net	\$ —	\$ 25,088	\$ 63,546	\$ —	\$ 88,634
Intercompany receivable/(payable)	—	(6,174)	6,174	—	—
Inventories, net	—	151,334	2,711	—	154,045
Deferred income tax asset, net	7,850	5,360	—	—	13,210
Prepaid expenses and other current assets	31,137	16,321	196	—	47,654
Total current assets	38,987	191,929	72,627	—	303,543
Plant and equipment, net	15,924	856,978	20,113	—	893,015
Goodwill	—	396,242	10,306	—	406,548
Other intangible assets, net	997	24,721	—	—	25,718
Investments in unconsolidated affiliates	58,578	6,048	—	—	64,626
Investments in subsidiaries	1,314,314	—	—	(1,314,314)	—
Intercompany receivable/(payable)	(141,785)	168,176	(26,391)	—	—
Other non-current assets	19,765	2,921	921	—	23,607
Total assets	\$ 1,306,780	\$ 1,647,015	\$ 77,576	\$(1,314,314)	\$ 1,717,057
Liabilities and Stockholders' Equity					
Current Liabilities					
Accounts payable, trade	\$ 5,047	\$ 74,968	\$ 2,470	\$ —	\$ 82,485
Accrued expenses and other current liabilities	60,385	75,582	423	—	136,390
Current portion of long-term debt	—	2,375	81	—	2,456
Total current liabilities	65,432	152,925	2,974	—	221,331
Long-term debt, excluding current portion	732,544	9,828	21,752	—	764,124
Deferred income tax liability, net	951	192,004	5,218	—	198,173
Other non-current liabilities	4,767	25,268	308	—	30,343
Commitments and contingencies	—	—	—	—	—
Stockholders' Equity					
Preferred stock, no par value	—	—	—	—	—
Common stock, par value \$.01 per share	752	—	—	—	752
Capital in excess of par value	198,500	907,765	8,224	(915,989)	198,500
Retained earnings	345,181	359,442	40,037	(399,479)	345,181
Accumulated other comprehensive loss	(4,401)	(217)	(937)	1,154	(4,401)
Treasury stock	(4,289)	—	—	—	(4,289)
Employee benefits trust	(32,657)	—	—	—	(32,657)
Total stockholders' equity	503,086	1,266,990	47,324	(1,314,314)	503,086
Total liabilities and stockholders' equity	\$ 1,306,780	\$ 1,647,015	\$ 77,576	\$(1,314,314)	\$ 1,717,057

Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
March 31, 2001	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Assets					
Current Assets					
Trade receivables, net	\$ —	\$ 101,326	\$ 41,803	\$ —	\$ 143,129
Intercompany receivable/(payable)	170	(4,428)	4,258	—	—
Inventories, net	—	151,402	3,622	—	155,024
Deferred income tax asset, net	6,297	3,846	—	—	10,143
Prepaid expenses and other current assets	10,165	14,463	921	—	25,549
Total current assets	16,632	266,609	50,604	—	333,845
Plant and equipment, net	6,851	677,480	20,315	—	704,646
Goodwill	—	429,942	10,115	—	440,057
Other intangible assets, net	1,122	28,179	367	—	29,668
Investments in unconsolidated affiliates	56,656	6,591	15	—	63,262
Investments in subsidiaries	1,197,856	—	—	(1,197,856)	—
Intercompany receivable/(payable)	(107,248)	99,650	7,598	—	—
Other non-current assets	5,294	3,814	704	—	9,812
Total assets	\$ 1,177,163	\$ 1,512,265	\$ 89,718	\$ (1,197,856)	\$ 1,581,290
Liabilities and Stockholders' Equity					
Current Liabilities					
Accounts payable, trade	\$ 3,339	\$ 71,045	\$ 1,953	\$ —	\$ 76,337
Accrued expenses and other current liabilities	40,920	88,990	963	—	130,873
Current portion of long-term debt	50,000	22,863	82	—	72,945
Total current liabilities	94,259	182,898	2,998	—	280,155
Long-term debt, excluding current portion	585,465	10,354	24,845	—	620,664
Deferred income tax liability, net	194	158,230	2,752	—	161,176
Other non-current liabilities	396	21,999	51	—	22,446
Commitments and contingencies	—	—	—	—	—
Stockholders' Equity					
Preferred stock, no par value	—	—	—	—	—
Common stock, par value \$.01 per share	744	—	—	—	744
Capital in excess of par value	188,629	775,625	33,211	(808,836)	188,629
Retained earnings	355,596	363,461	26,712	(390,173)	355,596
Accumulated other comprehensive loss	(1,153)	(302)	(851)	1,153	(1,153)
Treasury stock	(3,982)	—	—	—	(3,982)
Employee benefits trust	(42,985)	—	—	—	(42,985)
Total stockholders' equity	496,849	1,138,784	59,072	(1,197,856)	496,849
Total liabilities and stockholders' equity	\$ 1,177,163	\$ 1,512,265	\$ 89,718	\$ (1,197,856)	\$ 1,581,290

Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
Year Ended March 31, 2002	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net sales	\$ —	\$ 1,616,178	\$ 19,869	\$ —	\$ 1,636,047
Costs and Expenses					
Costs of products sold (excluding depreciation)	—	813,485	5,268	—	818,753
Selling, distribution and administrative expenses	57,631	541,201	20,484	—	619,316
Depreciation	3,419	59,317	2,049	—	64,785
Amortization	161	7,999	—	—	8,160
Operating Income (Loss)	(61,211)	194,176	(7,932)	—	125,033
Interest (expense) income, net	(53,788)	6,656	119	—	(47,013)
(Discount) gain on securitization of trade receivables	—	(59,840)	54,994	—	(4,846)
Other income (expense), net	54,099	(54,621)	1,904	—	1,382
Equity in earnings of unconsolidated affiliates	2,861	974	—	—	3,835
Earnings (loss) before taxes and a cumulative effect of a change in accounting principle	(58,039)	87,345	49,085	—	78,391
Income tax benefit (expense)	20,313	(32,363)	(17,756)	—	(29,806)
Equity in earnings of subsidiaries	27,311	—	—	(27,311)	—
Cumulative effect of a change in accounting principle	—	(59,000)	—	—	(59,000)
Net Earnings (Loss)	\$ (10,415)	\$ (4,018)	\$ 31,329	\$ (27,311)	\$ (10,415)

Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
Year Ended March 31, 2001	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net sales	\$ —	\$ 1,606,965	\$ 21,936	\$ —	\$ 1,628,901
Costs and Expenses					
Costs of products sold (excluding depreciation)	—	841,403	5,797	—	847,200
Selling, distribution and administrative expenses	37,124	535,573	10,658	—	583,355
Depreciation	2,637	58,222	2,079	—	62,938
Amortization	249	23,175	392	—	23,816
Special Charge (Recoveries)	—	3,643	—	—	3,643
Operating Income (Loss)	(40,010)	144,949	3,010	—	107,949
Interest (expense) income, net	(63,555)	2,070	1,278	—	(60,207)
(Discount) gain on securitization of trade receivables	—	(10,143)	8,840	—	(1,303)
Other income (expense), net	59,576	(59,366)	32	—	242
Equity in earnings of unconsolidated affiliates	1,178	2,006	(924)	—	2,260
Earnings (loss) before income taxes	(42,811)	79,516	12,236	—	48,941
Income tax benefit (expense)	14,983	(30,700)	(5,001)	—	(20,718)
Equity in earnings of subsidiaries	56,051	—	—	(56,051)	—
Net Earnings	\$ 28,223	\$ 48,816	\$ 7,235	\$ (56,051)	\$ 28,223

Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
Year Ended March 31, 2000	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net sales	\$ —	\$ 1,508,118	\$ 34,216	\$ —	\$ 1,542,334
Costs and Expenses					
Costs of products sold (excluding depreciation)	—	805,264	11,333	—	816,597
Selling, distribution and administrative expenses	27,240	489,488	15,799	—	532,527
Depreciation	2,786	57,656	3,193	—	63,635
Amortization	362	24,598	713	—	25,673
Special Charge (Recoveries)	—	(2,829)	—	—	(2,829)
Operating Income (Loss)	(30,388)	133,941	3,178	—	106,731
Interest (expense) income, net	(59,356)	2,153	(357)	—	(57,560)
Other income (expense), net	57,440	(58,115)	18,537	—	17,862
Equity in earnings of unconsolidated affiliates	1,447	2,076	(132)	—	3,391
Earnings (loss) before taxes and a cumulative effect of a change in accounting principle	(30,857)	80,055	21,226	—	70,424
Income tax benefit (expense)	10,800	(34,950)	(7,401)	—	(31,551)
Equity in earnings of subsidiaries	58,340	—	—	(58,340)	—
Cumulative effect of a change in accounting principle	—	(590)	—	—	(590)
Net Earnings	\$ 38,283	\$ 44,515	\$ 13,825	\$ (58,340)	\$ 38,283

Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
Year Ended March 31, 2002	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in) operating activities	\$ (44,830)	\$ 282,515	\$ 11,696	\$ —	\$ 249,381
Cash Flows From Investing Activities					
Capital expenditures	(9,901)	(46,554)	(1,842)	—	(58,297)
Proceeds from sale of plant and equipment	—	3,216	—	—	3,216
Proceeds from divestiture	—	10,200	—	—	10,200
Business acquisitions, net of cash acquired	—	(252,538)	—	—	(252,538)
Business acquisitions, holdbacks and other settlements	—	(5,018)	—	—	(5,018)
Dividends and fees from unconsolidated affiliates	954	1,629	—	—	2,583
Other, net	16,329	(11,098)	(78)	—	5,153
Net cash provided by (used in) investing activities	7,382	(300,163)	(1,920)	—	(294,701)
Cash Flows From Financing Activities					
Proceeds from borrowings	677,605	—	2,539	—	680,144
Repayment of debt	(580,527)	(26,619)	(5,633)	—	(612,779)
Financing costs	(12,461)	—	—	—	(12,461)
Exercise of stock options	7,442	—	—	—	7,442
Cash overdraft	—	(17,026)	—	—	(17,026)
Inter-company	(54,611)	61,293	(6,682)	—	—
Net cash provided by (used in) financing activities	37,448	17,648	(9,776)	—	45,320
Change In Cash	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —

Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
Year Ended March 31, 2001	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in) operating activities	\$ (24,647)	\$ 255,815	\$ (32,163)	\$ —	\$ 199,005
Cash Flows From Investing Activities					
Capital expenditures	(484)	(62,221)	(3,205)	—	(65,910)
Proceeds from sale of plant and equipment	—	2,854	—	—	2,854
Proceeds from divestiture	—	42,123	7,506	—	49,629
Business acquisitions, net of cash acquired	—	(1,006)	—	—	(1,006)
Business acquisitions, holdbacks and other settlements	—	(4,752)	—	—	(4,752)
Dividends and fees from unconsolidated affiliates	947	2,721	—	—	3,668
Other, net	6,333	(4,734)	3,066	—	4,665
Net cash provided by (used in) investing activities	6,796	(25,015)	7,367	—	(10,852)
Cash Flows From Financing Activities					
Proceeds from borrowings	157,238	—	—	—	157,238
Repayment of debt	(321,238)	(15,044)	(4,840)	—	(341,122)
Purchase of treasury stock	(11,214)	—	—	—	(11,214)
Exercise of stock options	1,460	—	—	—	1,460
Cash overdraft	—	5,485	—	—	5,485
Inter-company	191,605	(221,241)	29,636	—	—
Net cash provided by (used in) financing activities	17,851	(230,800)	24,796	—	(188,153)
Change In Cash	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —

Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2000	Parent	Guarantors	Non- Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in)					
operating activities	\$ (13,236)	\$ 107,318	\$ 6,010	\$ —	\$ 100,092
Cash Flows From Investing Activities					
Capital expenditures	(1,801)	(58,572)	(4,838)	—	(65,211)
Proceeds from sale of plant and equipment	—	36,982	472	—	37,454
Proceeds from divestitures	12,150	9,408	34,038	—	55,596
Business acquisitions, net of cash acquired	—	(99,204)	—	—	(99,204)
Business acquisitions, holdbacks and other settlements	—	(2,289)	—	—	(2,289)
Investment in unconsolidated affiliates	—	(30)	—	—	(30)
Dividends and fees from unconsolidated affiliates	984	2,989	—	—	3,973
Other, net	7,291	(639)	(2,402)	—	4,250
Net cash provided by (used in)					
investing activities	18,624	(111,355)	27,270	—	(65,461)
Cash Flows From Financing Activities					
Proceeds from borrowings	166,241	—	2,328	—	168,569
Repayment of debt	(139,289)	(20,349)	—	—	(159,638)
Purchase of treasury stock	(47,125)	—	—	—	(47,125)
Exercise of stock options	1,562	—	—	—	1,562
Cash overdraft	—	2,001	—	—	2,001
Inter-company	13,223	22,385	(35,608)	—	—
Net cash provided by (used in)					
financing activities	(5,388)	4,037	(33,280)	—	(34,631)
Change In Cash	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —