

## 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), process chemicals, 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 50% owned operations. 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 90% of the inventories at both March 31, 2003 and 2002, 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 estimated legal fees to defend the Company through the resolution of the outstanding litigation when probable and reasonably estimable. 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.

The Company maintains a self-insured health benefits plan, which provides medical benefits to employees electing coverage under the plan. The Company maintains a reserve for incurred but not reported medical claims and claim development. The reserve is an estimate based on historical experience and other assumptions, some of which are subjective. The Company will adjust its self-insured medical benefits reserve as the Company's loss experience changes due to medical inflation, changes in the number of plan participants and an aging employee base.

**(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 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.

## Notes to Consolidated Financial Statements continued

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**(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.

**(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) (q)), 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 debt 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 gases and hardgoods products is recognized when products are delivered to customers. Rental fees on cylinders, cryogenic liquid containers, 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) Cost of Products Sold**

Cost of products sold for the Distribution segment principally consists of direct material costs and freight-in for bulk gas purchases and hardgoods (welding supplies and equipment, safety products and industrial tools and supplies). Maintenance costs associated with cylinders, cryogenic liquid containers and bulk tanks are also reflected in Cost of products sold.

Cost of products sold for the Gas Operations segment, which produces much of the gas it sells, consists of direct material costs, direct labor, manufacturing overhead, freight-in and internal transfer costs associated with the production of certain gas products, principally, dry ice, carbon dioxide, nitrous oxide and specialty gases.

**(n) Selling, Distribution and Administrative Expenses**

Selling, distribution and administrative expenses consist of labor and overhead associated with the purchasing, marketing and distribution of the Company's products, as well as costs associated with a variety of administrative functions such as legal, treasury, accounting and tax, and facility-related expenses.

**(o) Depreciation**

The Company recognizes depreciation expense on all its property, plant and equipment in the income statement line item "depreciation."

**(p) Shipping and Handling Fees and Distribution 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 products sold. The majority of the costs associated with the distribution of the Company's products, which include direct labor and overhead associated with filling, warehousing and delivery by Company vehicles, is reflected in selling, distribution and administrative expenses and were \$258 million, \$217 million and \$209 million for the fiscal years ended March 31, 2003, 2002 and 2001, respectively. The Company conducts multiple operations out of the same facilities and does not allocate facility-related expenses to each operational function. Accordingly, there is no facility-related expense in the distribution costs disclosed above. Depreciation expense associated with the Company's delivery fleet of \$4.5 million, \$4.9 million, and \$4.8 million was recognized in depreciation for the fiscal years ended March 31, 2003, 2002 and 2001, respectively.

**(q) 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 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.

## Notes to Consolidated Financial Statements continued

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**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 permitted under the Statement, 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. Upon adoption of SFAS 142, the Company performed an evaluation of goodwill, which indicated that goodwill recorded in the Distribution segment associated with its industrial tool reporting unit was impaired as of April 1, 2001. 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.

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 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, 2002 and 2001, the Company's annual assessment of each of its reporting units indicated that goodwill was not impaired.

**SFAS 144**

On April 1, 2002, the Company adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, as required. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets, including discontinued operations. The adoption of SFAS 144 did not have a material impact on the Company's consolidated financial position, results of operations or liquidity.

**SFAS 146**

On January 1, 2003, the Company adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, as required, which is effective for exit or disposal activities initiated after December 31, 2002. SFAS 146 nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, including restructuring activities. The Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred as opposed to at the time the Company commits to an exit plan as previously permitted under EITF 94-3. The adoption of SFAS 146 did not have a material impact on the Company's consolidated financial position, results of operations or liquidity.

**SFAS 148**

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. Based on the Statement's effective date of fiscal years ending after December 31, 2002, the Company adopted the provisions of SFAS 148 in fiscal 2003. SFAS 148 amends SFAS 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes to the fair value basis of accounting for stock-based employee compensation. The Statement also amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. The Company has elected to continue to account for its stock-based compensation plans using the intrinsic value method of accounting as permitted by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, but has adopted the disclosure requirements of SFAS 148 (see Note 14).

**FASB Financial Interpretation No. 45**

In November 2002, the FASB issued Financial Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002.

Based on a review of the Company's material contracts and finance agreements, the only additional disclosure required by the interpretation relates to the Company's residual value guarantee associated with certain leased vehicles (see Note 20).

## Notes to Consolidated Financial Statements continued

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*FASB Financial Interpretation No. 46*

In January 2003, the FASB issued a Financial Interpretation of Accounting Research Bulletin No. 51 ("ARB 51") entitled, *Consolidation of Variable Interest Entities* ("FIN 46"). The interpretation is effective for the first interim period beginning after June 15, 2003. It defines a variable interest entity as a legal structure, such as a corporation, partnership or joint venture, created to conduct activities or hold assets. The interpretation introduces the concept of a "Primary Beneficiary" and requires variable interest entities, which do not effectively disperse risk among parties associated with the variable interest entity, to be consolidated by the party deemed to be the Primary Beneficiary. The Primary Beneficiary approach is a departure from the voting interest approach typically used under ARB 51 when determining which of the parties associated with a variable interest entity should consolidate it.

As disclosed in Notes 15 and 20, the Company participates in a joint venture with National Welders Supply Company, Inc. ("National Welders") and a sale-leaseback arrangement of real estate and equipment with a grantor trust. The Company is reviewing the applicability of FIN 46 to its National Welders investment to determine if, as the only common stockholder and with only a 50% voting interest in the joint venture, the Company is disproportionately exposed to risk of loss. If National Welders is determined to be a Variable Interest Entity and the Company is determined to be the primary beneficiary, as defined by the FIN 46, the Company will consolidate the joint venture. The grantor trust associated with the sale-leaseback arrangement has been determined to be a variable interest entity as defined by FIN 46. In accordance with FIN 46, the Company will consolidate the grantor trust for financial reporting purposes effective July 1, 2003.

**(r) 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. 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 were based on preliminary estimates of fair value at the date of acquisition, which may be revised at a later date.

*Fiscal 2003*

During fiscal 2003, the Company purchased four businesses that distribute packaged gases and related equipment and hardgoods products with combined annual revenues of \$33 million. The largest of these businesses and their effective dates of acquisition included Welding Metals, Inc. (November 27, 2002) and Union Industrial Gas and Supply, Inc. (March 31, 2003). The aggregate purchase price of all four acquisitions was \$23.8 million, including assumed liabilities. The Company negotiated the respective purchase prices of the businesses based on the cash flow expected to be derived from their operations after integration into the Company's existing distribution network. The Company acquired the businesses to expand and strengthen its national network of branch store locations. The acquired businesses have been included in the Distribution segment from their effective dates of acquisition.

For the fiscal 2003 acquisitions, 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. Costs in excess of net assets acquired ("goodwill") related to fiscal 2003 acquisitions amounted to \$6.4 million.

*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 \$247 million, including transaction costs. 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 selling of welding hardgoods, including customer service centers, warehouses, and other related assets. The Company acquired the business based on its strategic fit with the Company's existing packaged gas distribution business and to strengthen its national network by giving it a presence in important geographies. Additionally, the acquisition strengthened the core competencies of the Company's Specialty Gas Operations, enabling it to enhance its competitiveness. These operations historically generated annual revenues of approximately \$220 million and had 1,100 employees. Air Products also 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.

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Below is a rollforward of the Air Products acquisition purchase price allocation, as revised, to each major asset and liability caption of the acquired packaged gas business. Such allocations have been based on estimates of fair value determined primarily through third-party appraisals, which resulted in revisions to the preliminary allocation at March 31, 2002. In fiscal 2003, \$25.9 million of purchase price allocation adjustments were made as cylinder fixed asset counts and valuations were finalized and other fixed asset appraisals were completed. Additionally, the revisions include \$5.6 million of transaction costs paid subsequent to March 31, 2002.

(In thousands)

Years Ended March 31,	2002	Revisions	2003
Current assets	\$ 27,049	\$ (1,006)	\$ 26,043
Property, plant and equipment, net	197,674	(25,255)	172,419
Goodwill	22,208	25,889	48,097
Intangible assets	3,786	(470)	3,316
Current liabilities	(8,635)	5,967	(2,668)
Long-term liabilities	(812)	435	(377)
Total	\$ 241,270	\$ 5,560	\$ 246,830

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. These operations added annual revenues of approximately \$10 million.

**Fiscal 2001**

During fiscal 2001, the Company purchased one business for approximately \$2 million, including goodwill of \$600 thousand.

**Pro Forma Operating Results**

The following presents unaudited pro forma operating results as if the fiscal 2003 and 2002 acquisitions had occurred on April 1, 2000. The pro forma results were prepared from financial information obtained during the due diligence process associated with the acquisitions. The pro forma operating results include financial information related to the Air Products acquisition reflecting that company's historic cost structure, which included a significant allocation of corporate overhead. Pro forma adjustments to the historic financial information of businesses acquired 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 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.

(In thousands, except per share amounts)	Unaudited Years Ended March 31,		
	2003	2002	2001
Net sales	\$1,816,045	\$1,878,832	\$1,896,079
Income before the cumulative effect of a change in accounting principle	69,459	54,033	27,632
Net earnings (loss)	69,459	(4,967)	27,632
Diluted earnings (loss) per share	\$ .96	\$ (.07)	\$ .41

**(b) Divestitures**

In December 2001, the carrying values of the net assets of Kendeco, Inc. ("Kendeco"), 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 (expense), net," included the write-off of \$3.1 million of non-tax deductible goodwill. The Company completed the sale of Kendeco in May 2002 and recognized a loss on the sale of \$1.7 million. Kendeco's operating results for fiscal 2002 and 2001 are included in the table below. Kendeco's fiscal 2003 operating results were insignificant.

In fiscal 2000, the Company divested its investment in a Polish gas distributor. As part of the sale agreement, the Company made representations and warranties about the business being sold. Subsequently, the acquirer presented the Company with an indemnity claim as a breach of the representations and warranties provided for under the sale agreement. In fiscal 2002, the Company recorded a liability and related expense of \$1.9 million associated with the indemnity claim. In May 2002, the Company favorably resolved the indemnity claim and reversed \$1.5 million of expense, net of legal fees paid, and the related liability. These items are reflected in "Other income (expense), net" in the respective fiscal years.

In October 2001, the Company sold two of its nitrous oxide production facilities to Air Liquide. The Company 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 (expense), net" in fiscal 2002. The nitrous oxide facilities were reflected in the operating results of the Gas Operations segment.

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.

## Notes to Consolidated Financial Statements continued

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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.

**Results of Divested Operations**

The following table sets forth selected financial data, by business segment, related to the divested operations in fiscal 2002 and 2001. As noted above, the fiscal 2003 operating results for Kendeco, which was divested in May 2002, were insignificant.

<i>(In thousands)</i>		
<b>Years Ended March 31,</b>	<b>2002</b>	<b>2001</b>
Net sales:		
Distribution	\$ 17,808	\$ 22,215
Gas operations	3,467	11,194
Total net sales	<u>21,275</u>	<u>33,409</u>
Operating income:		
Distribution	158	1,171
Gas operations	1,233	5,277
Total operating income	<u>\$ 1,391</u>	<u>\$ 6,448</u>

**Note 3****Special Charges, Net**

During the first quarter of fiscal 2003, the Company recorded special charges of \$2.7 million (the "2003 Special Charges") consisting of a restructuring charge related to the integration of the business acquired from Air Products during the fourth quarter of fiscal 2002 and costs related to the consolidation of certain hardgoods procurement functions. The special charges included facility exit costs associated with the closure of certain facilities and severance for approximately 130 employees. The facilities exited and the affected employees were part of the Company's existing operations prior to the acquisition of the Air Products business.

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 special charge of approximately \$1.0 million (the "2002 Special Charges") for severance costs (workforce reduction of 125 employees) and costs related to exiting one facility associated with the fiscal 2003-2004 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. The 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.

At March 31, 2003, 2002, and 2001, accrued liabilities associated with the special charges were as follows:

<i>(In thousands)</i>	<b>Severance costs</b>		<b>Facility exit costs</b>	<b>Divestitures</b>	<b>Total</b>
	<b>costs</b>	<b>costs</b>	<b>costs</b>		
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>	
2002 Special Charges	916	41	—	957	
Cash payments	(2,162)	(289)	—	(2,451)	
Change in estimates	(565)	(392)	—	(957)	
March 31, 2002 liability	<u>\$ 916</u>	<u>\$ 1,790</u>	<u>\$ —</u>	<u>\$ 2,706</u>	
2003 Special Charges	1,326	1,368	—	2,694	
Cash payments	(1,269)	(758)	—	(2,027)	
March 31, 2003 liability	<u>\$ 973</u>	<u>\$ 2,400</u>	<u>\$ —</u>	<u>\$ 3,373</u>	

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, net" line in the Consolidated Statement of Earnings.

The severance liability at March 31, 2003 will be utilized during fiscal 2004 as the remaining subsidiaries of the Company transition into the financial shared services center and consolidation of certain procurement functions are completed. The liability for facility exit costs at March 31, 2003 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.

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**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, 2003, 2002 and 2001:

*(In thousands)*

Years Ended March 31,	2003	2002	2001
Weighted average common shares outstanding:			
Basic	70,500	68,100	66,000
Stock options and warrants	1,800	1,800	600
Contingently issuable shares	—	—	600
Diluted	72,300	69,900	67,200

Pursuant to a joint venture agreement between the Company and the holders of the preferred stock of National Welders, between June 30, 2006 and June 30, 2009 the preferred shareholders have the option to exchange their 3.2 million preferred shares of National Welders either for cash at a price of \$17.78 per share or to tender them to the joint venture in exchange for approximately 2.38 million shares of Airgas common stock (see Note 15). When Airgas common stock is at a market value of approximately \$24.00 per share, the stock and cash redemption options are equivalent. As of March 31, 2003, there were no contingently issuable shares included in the diluted weighted average common shares calculation (the "diluted computation").

Additionally, there were 2 million, 2.6 million and 5.4 million outstanding stock options at March 31, 2003, 2002, and 2001, respectively, with an exercise price above market, excluded from the Company's diluted computation as their effect would be anti-dilutive. As the market value of the Company's stock increases above the respective exercise prices of the options, these options will be included in the diluted computation as common stock equivalents.

**Note 5****Inventories, Net**

Inventories, net, consist of:

*(In thousands)*

March 31,	2003	2002
Hardgoods	\$ 136,347	\$ 139,034
Gases	15,058	15,011
	\$ 151,405	\$ 154,045

Net inventories determined by the LIFO inventory method totaled \$15.7 million and \$15.2 million at March 31, 2003 and 2002, respectively. If the FIFO inventory method had been used for these inventories, they would have been \$1.4 million and \$1.3 million higher at March 31, 2003 and 2002, 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:

*(In thousands)*

March 31,	Depreciable Lives (Yrs)	2003	2002
Land and land improvements	—	\$ 35,929	\$ 36,452
Buildings and leasehold improvements	25	121,303	118,243
Cylinders	30	633,436	645,298
Machinery and equipment, including bulk tanks	7 to 30	384,425	352,368
Computers and furniture and fixtures	3 to 10	102,557	86,234
Transportation equipment	3 to 15	58,868	60,818
Construction in progress	—	9,265	9,588
		\$ 1,345,783	\$ 1,309,001

## 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 to their respective pro forma balances adjusted to exclude goodwill amortization expense, which is no longer recognized under the provisions of SFAS 142. Fiscal 2003 and 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,	2003	2002	2001
Operating income:			
Distribution segment	\$ 130,534	\$ 103,430	\$ 85,907
Gas Operations segment	25,348	21,603	22,042
Total reported operating income	155,882	125,033	107,949
Add back: Distribution goodwill amortization	—	—	12,320
Add back: Gas Operations goodwill amortization	—	—	2,117
Add back: Total goodwill amortization	—	—	14,437
Adjusted Distribution operating income	130,534	103,430	98,227
Adjusted Gas Operations operating income	25,348	21,603	24,159
Adjusted total operating income	\$ 155,882	\$ 125,033	\$ 122,386
Equity in earnings of unconsolidated affiliates:			
Reported equity in earnings of unconsolidated affiliates	\$ 3,768	\$ 3,835	\$ 2,260
Add back: equity method goodwill amortization	—	—	1,701
Adjusted equity in earnings of unconsolidated affiliates	\$ 3,768	\$ 3,835	\$ 3,961
Earnings before the cumulative effect of a change in accounting principle:			
Reported earnings before the cumulative effect of a change in accounting principle	\$ 68,105	\$ 48,585	\$ 28,223
Add back: goodwill amortization after tax	—	—	13,740
Adjusted earnings before the cumulative effect of a change in accounting principle	\$ 68,105	\$ 48,585	\$ 41,963
Net income:			
Reported net income (loss)	\$ 68,105	\$ (10,415)	\$ 28,223
Add back: goodwill amortization after tax	—	—	13,740
Cumulative effect of a change in accounting principle	—	59,000	—
Adjusted net income	\$ 68,105	\$ 48,585	\$ 41,963
Basic earnings (loss) per share:			
Reported net income (loss)	\$ .97	\$ (.15)	\$ .43
Goodwill amortization after tax	—	—	.21
Cumulative effect of a change in accounting principle	—	.86	—
Adjusted basic earnings per share	\$ .97	\$ .71	\$ .64
Diluted earnings (loss) per share:			
Reported net income (loss)	\$ .94	\$ (.15)	\$ .42
Goodwill amortization after tax	—	—	.20
Cumulative effect of a change in accounting principle	—	.84	—
Adjusted diluted earnings per share	\$ .94	\$ .69	\$ .62

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

Changes in the carrying amount of goodwill for fiscal 2003 and 2002 were as follows:

<i>(In thousands)</i>	Distribution Segment	Gas Operations Segment	Total
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)
Other adjustments	(88)	(80)	(168)
Balance at March 31, 2002	\$ 332,325	\$ 74,223	\$ 406,548
Acquisitions	31,208	1,096	32,304
Divestitures	(1,560)	—	(1,560)
Other adjustments	427	(10)	417
Balance at March 31, 2003	\$ 362,400	\$ 75,309	\$ 437,709

Other intangible assets amounted to \$19.8 million (net of accumulated amortization of \$87.8 million) and \$25.7 million (net of accumulated amortization of \$77.6 million) at March 31, 2003 and 2002, 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: 2004 - \$5.6 million; 2005 - \$5.4 million; 2006 - \$3.1 million; 2007 - \$2.5 million; 2008 - \$1.8 million and \$1.4 million thereafter.

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

Accrued expenses and other current liabilities include:

<i>(In thousands)</i>	2003	2002
March 31,		
Accrued payroll and employee benefits	\$ 33,548	\$ 32,443
Business insurance reserves	15,272	13,266
Health insurance reserves	9,828	7,628
Accrued interest expense	12,000	17,255
Litigation reserves	336	11,292
Taxes other than income taxes	12,972	10,441
Other accrued expenses and current liabilities	37,336	44,065
	\$ 121,292	\$ 136,390

The litigation reserves in fiscal 2002 primarily related to defense and settlement costs associated with the Praxair, Inc. litigation (see Note 21).

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

Long-term debt consists of:

<i>(In thousands)</i>	2003	2002
March 31,		
Revolving credit borrowings	\$ 145,143	\$ 229,309
Term loan	87,500	100,000
Medium-term notes	185,202	181,275
Senior subordinated notes	232,478	222,864
Acquisition and other notes	9,937	33,132
Total long-term debt	660,260	766,580
Less current portion of long-term debt	(2,229)	(2,456)
Long-term debt, excluding current portion	\$ 658,031	\$ 764,124

**Revolving Credit Facilities**

The Company has unsecured revolving credit facilities with a syndicate of lenders totaling \$367.5 million and \$50 million Canadian (US \$33.9 million). The revolving credit facilities will mature on July 30, 2006. At March 31, 2003, the Company had borrowings under the revolving facilities of approximately \$124 million and \$31 million Canadian (US \$21 million). The Company also had commitments under letters of credit supported by the revolving credit facilities of approximately \$31 million at March 31, 2003. Based on restrictions related to certain leverage ratios, the Company had additional borrowing capacity under the revolving facilities of approximately \$197 million at March 31, 2003. 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, 2003, the effective interest rates on borrowings under the revolving facilities were 3.52% on U.S. borrowings and 3.08% 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 credit facilities also contain covenants, which include the maintenance of certain leverage ratios, a fixed charge ratio, and potential restrictions on certain additional borrowings, the amount of dividends declared and paid, and the repurchase of common stock.

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

In May 2003, the Company obtained an amendment to its credit agreement associated with its revolving credit facilities. Subject to existing financial covenants, the amendment allows for the issuance of up to an additional \$200 million of senior public debt and for the expansion of its senior credit facilities by up to \$150 million. The amendment also provided the Company with additional flexibility to pay dividends and repurchase shares as well as invest in acquisitions.

**Term Loan**

In connection with the fiscal 2002 Air Products acquisition, the Company obtained a \$100 million term loan from a syndicate of lenders. The term loan is due in quarterly installments with a final payment due July 30, 2006. Principal payments on the term loan are classified as "Long-term Debt" in the Company's Consolidated Balance Sheets based on the Company's ability and intention to refinance them with borrowings under its long-term revolving credit facilities. 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, 2003, the Company had \$87.5 million outstanding under the term loan at an effective interest rate of 3.29%.

**Medium-Term Notes**

At March 31, 2003, 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%. The medium-term notes due in March 2004 are classified as "Long-term debt" based upon the Company's ability and intention to refinance the medium-term notes with borrowings under its long-term revolving credit facilities. Additionally, the medium-term notes are guaranteed by each of the domestic guarantors under the revolving 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, 2003, acquisition and other notes of \$10 million had interest rates ranging from 7.00% to 9.00%.

**Senior Subordinated Notes**

The Company has \$225 million of senior subordinated notes (the "Notes") outstanding 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. The notes contain covenants that restrict the amount of dividends declared and paid, the issuance of preferred stock, and the incurrence of additional indebtedness and liens. The notes are guaranteed on a subordinated basis by each of the domestic guarantors under the revolving credit facilities.

**Aggregate Long-term Debt Maturities**

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

<i>(In thousands)</i>	
<b>Years Ended March 31,</b>	<b>Aggregate Maturity</b>
2004	\$ 2,229
2005	658
2006	5,834
2007	418,640
2008	81
Thereafter	232,818
	<u>\$ 660,260</u>

**(b) Interest Rate Swap Agreements**

In managing interest rate exposure, the Company participates in nine interest rate swap agreements with a total notional principal amount of \$245 million at March 31, 2003. 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.

Four swap agreements with approximately \$90 million in notional principal amount require the Company to make fixed interest payments based on an average effective rate of 4.55% and receive variable interest payments from its counterparties based on three-month LIBOR (average rate of 1.36% at March 31, 2003). The remaining terms of these swap agreements range from between sixteen and thirty-one months. Five swap agreements with approximately \$155 million in notional principal amount require the Company to make variable interest payments based primarily on six month LIBOR (average rate of 3.05% at March 31, 2003) and receive fixed interest payments from its counterparties based on an average effective rate of 8.05% at March 31, 2003. The remaining terms of these swap agreements range from between one and nine years. The effect of the swap agreements was to decrease interest expense by approximately \$3.4 million in 2003 and increase interest expense by \$2.9 million and \$1.6 million in 2002 and 2001, respectively.

The aggregate maturities of the Company's interest rate swaps by type of swap for the five years ending March 31, 2008 and thereafter are as follows:

<i>(In thousands)</i>		<b>Notional Principal Amounts</b>	
<b>Years Ended March 31,</b>	<b>Pay-Fixed</b>	<b>Pay-Variable</b>	
2004	\$ —	\$	30,000
2005	40,000		—
2006	50,000		—
2007	—		50,000
2008	—		—
Thereafter	—		75,000
	<u>\$ 90,000</u>	<u>\$</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, 2003 and 2002.

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.

(In thousands)	2003 Carrying Value	2003 Fair Value	2002 Carrying Value	2002 Fair Value
Financial Instruments:				
Revolving credit borrowings	\$145,143	\$145,143	\$229,309	\$229,309
Senior subordinated notes	232,478	247,136	222,864	234,000
Term loan	87,500	87,500	100,000	100,000
Medium-term notes	185,202	186,024	181,275	175,000
Acquisition and other notes	9,937	10,372	33,132	33,094
Prepaid interest rate swap agreements	—	—	424	680
Interest rate swap agreements:				
Fair value hedge	(17,681)	(17,681)	(4,140)	(4,140)
Cash flow hedge	4,452	4,452	4,924	4,924

**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, 2003, the Company had a notional amount of \$90 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 2003 and 2002, the Company recorded a net change in the fair value of the fixed interest rate swap agreements of \$565 thousand and \$1.7 million as accumulated other comprehensive income (loss), respectively. The net additional interest payments made under these swap agreements during the fiscal 2003 were recognized in interest expense. Over the next 12 months, the Company expects to reclassify \$2.9 million of the deferred loss from accumulated other comprehensive income (loss) to interest expense as the related interest payments that are being hedged are recognized.

At March 31, 2003, 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, 2003 was \$17.7 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 was originally to expire in December 2003, but the agreement was extended to December 2005, and remains subject to additional renewal provisions contained in the agreement. During fiscal 2003, the Company sold, net of its retained interest, \$1,879 million of trade receivables and remitted to bank conduits, pursuant to a servicing agreement, \$1,720 million 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 \$159 million at March 31, 2003 and \$134 million at March 31, 2002.

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 \$45 million and \$41 million is included in trade receivables in the accompanying Consolidated Balance Sheets at March 31, 2003 and 2002, respectively. The Company's retained interest is generally collected within 60 days. On a monthly basis, management measures the fair value of the retained interest at management's best estimate of the undiscounted expected future cash collections on the transferred receivables. Changes in the fair value are recognized as bad debt expense. Actual cash collections may differ from these estimates and would directly affect the fair value of the retained interest. 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.

**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, 2003, the number of shares of common stock outstanding was 72.4 million, excluding 547 thousand shares of common stock held as treasury stock and 3.4 million shares of common stock held in a grantor trust as described below. 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 the grantor trust.

**(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 further discussion below). At March 31, 2003 and 2002, 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, 2003 and 2002, 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 and 1.4 million shares of common stock in fiscal 2002 and 2001, respectively. The Company's stock repurchase program was completed in fiscal 2002. In fiscal 2001, the Company reissued 2 million shares of common stock to the Company's Employee Benefits Trust (the "Trust"), as discussed below. No shares were reissued from treasury in fiscal 2003 or 2002. When treasury shares are reissued, the Company uses an average cost method with the difference between the repurchase cost and the reissuance price accounted for as a charge to capital in excess of par value.

**(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 from the Company approximately seven million shares of common stock, previously held as treasury stock, for approximately \$54 million. Approximately 909 thousand, 1.4 million and 1.2 million shares were issued from the Trust for employee benefit programs during fiscal 2003, 2002 and 2001, respectively.

**(e) Stockholder Rights Plan**

Effective April 1, 1997, the Company's Board of Directors adopted a 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% (or 20% 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% (or 20% 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% or more (or 20% 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. No additional warrants were granted during fiscal 2003.

## 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*, as amended by SFAS No. 148. Accordingly, no compensation expense has been recognized for its stock option and employee stock purchase plans. The following table illustrates the effect on net income and earnings per share for fiscal 2003, 2002 and 2001 as if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based compensation.

*(In thousands, except per share amounts)*

Years Ended March 31,	2003	2002	2001
Net earnings (loss), as reported	\$ 68,105	\$ (10,415)	\$ 28,223
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(6,820)	(6,670)	(6,081)
Pro forma net earnings (loss)	\$ 61,285	\$ (17,085)	\$ 22,142
Earnings (loss) per share:			
Basic – as reported	\$ .97	\$ (.15)	\$ .43
Basic – pro forma	\$ .87	\$ (.25)	\$ .34
Diluted – as reported	\$ .94	\$ (.15)	\$ .42
Diluted – pro forma	\$ .85	\$ (.24)	\$ .33

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. In May 2002, the Company amended the 1997 Plan to increase the total number of shares of common stock reserved for sale upon the exercise of stock options and restricted stock granted under the 1997 Plan from 8 million to 11.2 million. The amendment was approved by the Company's stockholders in July 2002.

Options granted under the 1997 Plan vest 25% annually and have a maximum term of ten years. Under the 1997 Plan, at March 31, 2003, 2002 and 2001, 4.7 million, 2.6 million and 3.7 million options, respectively, were available for issuance. In fiscal 2003, 2002 and 2001, 1.2 million, 1.5 million and 1.7 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 2003, 2002 and 2001 option grants, respectively: expected volatility of 40.3%, 48.8% and 51.1%, risk-free interest rate of 4.3%, 4.7% and 6.5%, and expected life of 7.5, 7.2 and 5.6 years. The weighted average fair value per share of the options granted during fiscal 2003, 2002 and 2001 was \$8.42, \$5.31 and \$3.13, respectively.

The following table summarizes the activity of the employee stock option plans during the three years ended March 31, 2003:

	Number of Shares	Exercise Price Per Share
<b>March 31, 2001</b>		
Outstanding, beginning of year	7,269,661	\$1.83 - 23.25
Granted	1,734,215	5.71
Exercised	(397,494)	1.83 - 8.50
Expired	(300,421)	5.21 - 22.00
<b>March 31, 2002</b>		
Outstanding, beginning of year	8,305,961	1.83 - 23.25
Granted	1,525,120	9.29
Exercised	(1,049,173)	1.83 - 19.00
Expired	(556,798)	5.50 - 22.00
<b>March 31, 2003</b>		
Outstanding, beginning of year	8,225,110	3.30 - 23.25
Granted	1,168,250	16.52
Exercised	(1,098,851)	3.30 - 17.31
Expired	(109,353)	5.50 - 22.00
Outstanding, end of year	8,185,156	\$4.63 - \$23.25

Options for 5.1 million, 4.7 million and 4.9 million shares were exercisable at March 31, 2003, 2002 and 2001, 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, 2003, 109,500 options were available for issuance. During fiscal 2003, 2002 and 2001, 64,000, 80,000 and 100,000, 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 2003, 2002 and 2001 option grants, respectively: expected volatility of 41.5%, 51.1% and 51.1%, risk-free interest rate of 3.6%, 4.6% and 6.1%, and expected life of 5.9, 5.7 and 5.6 years. The weighted average fair value per share of the stock options granted during fiscal 2003, 2002 and 2001 was \$6.70, \$6.61 and \$2.85, 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, 2003:

	Number of Shares	Exercise Price Per Share
<b>March 31, 2001</b>		
Outstanding, beginning of year	360,500	\$2.09 - \$19.25
Granted	100,000	5.25
Exercised	(32,000)	2.09 - 2.14
<b>March 31, 2002</b>		
Outstanding, beginning of year	428,500	2.09 - 19.25
Granted	80,000	12.40
Exercised	(32,000)	2.09 - 13.82
<b>March 31, 2003</b>		
Outstanding, beginning of year	476,500	4.16 - 19.25
Granted	64,000	14.85
Exercised	(48,000)	4.16 - 8.56
Outstanding, end of year	492,500	\$5.25 - \$19.25

Options for 492,500, 476,500 and 428,500 shares were exercisable at March 31, 2003, 2002 and 2001, respectively.

The following table summarizes information about options outstanding and exercisable for the employee and Board of Directors stock option plans at March 31, 2003:

Options Outstanding		
Weighted Average Remaining Life-Years	Number Outstanding	Exercise Price Per Share
6.94	1,289,704	\$ 4.63 - \$ 5.50
4.25	965,119	5.56 - 8.50
8.00	1,281,682	8.54 - 8.99
5.30	1,161,809	9.29 - 12.40
3.71	1,383,085	12.57 - 15.63
7.58	1,750,951	15.94 - 16.52
3.53	845,306	16.76 - 23.25
5.86	8,677,656	\$ 4.63 - \$23.25

  

Options Exercisable	
Number of Options Exercisable	Weighted Average Exercise Price Per Share
683,738	\$ 5.44
825,845	7.38
311,407	8.96
938,572	11.57
1,332,710	14.62
675,126	15.94
777,119	20.43
5,544,517	\$ 12.56

**(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 2003 and 2002, the Company issued 809 thousand shares and 1.1 million shares, provided from the Employee Benefits Trust, to fund purchases made by employees under the 2001 and 1998 Plans. The average purchase price per share in fiscal 2003 and 2002 was \$11.06 and \$6.58, respectively. During fiscal 2001, the Company issued 1.2 million shares from the Employee Benefits Trust under the 1998 Plan at an average purchase price of \$4.86 per share.

Compensation expense under SFAS 123 is measured based on the fair value of the employees' option to purchase shares of common stock at the grant date and is recognized over the future periods in which the related employee service is rendered. The fair value of the employees' option to purchase shares of common stock is estimated using the Black-Scholes model. The assumptions used to estimate the fair value of the employees' option to purchase shares of common stock at grant dates in fiscal 2002 and 2001, respectively, were: average expected volatility of 61% and 63%, average risk-free interest rate of 2.6% and 5.4%, and expected option terms ranging from 3 to 27 months. Had the Company adopted SFAS 123, compensation expense related to the Employee Stock Purchase Plans would have been \$3.6 million, \$4.1 million and \$1.7 million in fiscal 2003, 2002 and 2001, respectively. Fiscal 2003 expense is related to the fiscal 2002 grant and represents the value of the options as they would vest over the employee service period.

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

**Note 15****Investments in Unconsolidated Affiliates**

The Company accounts for investments in unconsolidated affiliates by the equity method of accounting, as described in Note 1(b). The Company's investments in unconsolidated affiliates totaled approximately \$66 million at March 31, 2003, and \$65 million at March 31, 2002. The Company's investments principally consist of two corporate joint ventures. The most significant investment, totaling approximately \$59 million at March 31, 2003 and \$57 million at March 31, 2002, is with National Welders. National Welders, which is reported in the Distribution segment, is a producer and distributor of industrial gases based in Charlotte, North Carolina. National Welders owns and operates 46 branch stores, two acetylene plants, a specialty gas lab, and three air separation plants that produce over 95% of the joint venture's oxygen, nitrogen and argon requirements. The joint venture also distributes medical and specialty gases, process chemicals and welding equipment and supplies.

Ownership interest in the National Welders joint venture consists of voting common stock and voting redeemable preferred stock with a 5% annual dividend. The Company owns 100% of the joint venture's common stock, which represents a 50% voting interest. A family is the holder of approximately 3.2 million shares of redeemable preferred stock and controls the balance of the voting interest. Between June 30, 2006 and June 30, 2009, the preferred shareholders have the option to redeem their preferred shares for cash at a price of \$17.78 per share or to tender them to the joint venture in exchange for approximately 2.38 million shares of Airgas common stock. If Airgas common stock has a market value of approximately \$24.00 per share, the common stock and cash redemption options are equivalent. If the preferred shareholders elect to exchange their shares for Airgas common stock, the Company is obligated to provide the necessary shares to the joint venture by capital contribution or other means the Company reasonably deems appropriate. The Company may purchase shares on the open market or may issue new or treasury shares to meet its exchange obligation. Following such redemption or exchange, the Company would be the sole owner of National Welders and the earnings available to the Company (i.e., the common shareholder) would be expected to increase by the amount of the annual preferred dividend, or \$2.9 million per year. Following a cash redemption, the additional income related to the preferred dividend savings would be partially offset by higher interest expense on the additional debt incurred to finance the redemption. The preferred shareholders may also elect to retain their interest in the preferred stock beyond June 30, 2009.

As disclosed in Note 1(q), the Company is reviewing whether its investment in National Welders meets the definition of a Variable Interest Entity under the newly released FASB Financial Interpretation No. 46 ("FIN 46"). The Company is reviewing the applicability of FIN 46 to its National Welders investment to

determine if, as the only common stockholder and with only a 50% voting interest in the joint venture, the Company is disproportionately exposed to risk of loss. If National Welders is determined to be a Variable Interest Entity and the Company is determined to be the primary beneficiary, as defined by the FIN 46, the Company will consolidate the joint venture. The Company believes the consolidation of the joint venture would not have a material impact on the net earnings of the Company.

A summary of unaudited financial information for National Welders for the years ended March 31, 2003 and 2002 follows:

*(In thousands)*

March 31,	2003	2002
Current assets	\$ 32,586	\$ 34,024
Non-current assets	121,986	125,917
Total assets	\$ 154,572	\$ 159,941
Current liabilities	\$ 22,729	\$ 24,239
Non-current liabilities	93,612	99,798
Redeemable preferred stock	56,899	56,899
Preferred shareholder note	(21,000)	(21,000)
Common stockholder's equity	2,332	5
Total liabilities and stockholder's equity	\$ 154,572	\$ 159,941

*(In thousands)*

Years Ended March 31,	2003	2002	2001
Net sales	\$ 142,048	\$ 132,060	\$ 138,376
Earnings before taxes	11,147	10,843	9,169
Net earnings before preferred stock dividend	6,746	6,397	5,593
Preferred stock dividends	(2,845)	(2,845)	(2,850)
Net earnings available to common stockholder	3,901	3,552	2,743
Airgas equity earnings adjustments	(1,217)	(691)	(1,565)
Equity in earnings of National Welders	\$ 2,684	\$ 2,861	\$ 1,178

The Company's investment in National Welders exceeds its underlying equity in the net assets of National Welders by approximately \$57 million. The excess of the Company's investment over its underlying equity in the net assets is principally attributable to a stepped-up basis in the assets, deferred taxes and goodwill. Prior to the adoption of SFAS 142 on April 1, 2001, the Company applied the amortization of goodwill against its equity in the earnings of National Welders. The Company's fiscal 2003 and 2002 equity in earnings from National Welders reflects the Company's adoption of SFAS 142 under which the goodwill associated with the Company's investment is no longer amortized. See Note 7 for a reconciliation of prior period results as reported to results adjusted to exclude this amortization expense.

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

The Company's other investments in unconsolidated affiliates totaled approximately \$7 million and \$8 million at March 31, 2003 and 2002, respectively, and primarily consist of a 50% joint venture interest in AC Industries, which is a carbon dioxide production plant reported in the Gas Operations segment.

The Company's share of earnings from AC Industries was \$1.1 million, \$1.0 million and \$900 thousand for the years ended March 31, 2003, 2002, and 2001, respectively.

## Note 16

### Interest Expense, Net

Interest expense, net, consists of:

(In thousands)

Years Ended March 31,	2003	2002	2001
Interest expense	\$ 47,272	\$ 48,035	\$ 61,434
Interest and finance charge income	(897)	(1,022)	(1,227)
	\$ 46,375	\$ 47,013	\$ 60,207

## 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,	2003	2002	2001
United States	\$ 106,258	\$ 74,947	\$ 46,021
Foreign	3,046	3,444	2,920
	\$ 109,304	\$ 78,391	\$ 48,941

Income tax expense (benefit) consists of:

(In thousands)

Years Ended March 31,	2003	2002	2001
Current:			
Federal	\$ 30,552	\$ (6,693)	\$ 12,286
Foreign	1,509	1,534	1,135
State	483	387	2,145
	32,544	(4,772)	15,566
Deferred:			
Federal	6,312	32,348	6,173
Foreign	(640)	329	594
State	2,983	1,901	(1,615)
	8,655	34,578	5,152
	\$ 41,199	\$ 29,806	\$ 20,718

Pursuant to an accelerated depreciation provision of a fiscal 2002 change in the tax law, the Company anticipated receiving a tax refund of approximately \$19 million during fiscal 2003 related to the assets acquired in the Air Products acquisition. After further review, it was concluded that the Company would not be eligible for the refund in fiscal 2003, but instead would receive the cash benefit over the next four years. As a result, an adjustment was

made in the first quarter of fiscal 2003 that resulted in approximately a \$19 million reclassification between current and deferred income taxes. The adjustment did not impact net earnings or operating cash flows in the current period or in fiscal 2002.

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

Years Ended March 31,	2003	2002	2001
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	2.1%	1.5%	1.1%
Amortization of non-deductible goodwill	—	—	4.9%
Divestitures	0.4%	1.8%	—
Equity accounting for unconsolidated affiliates	(0.6%)	(1.2%)	(1.1%)
Other, net	0.8%	0.9%	2.4%
	37.7%	38.0%	42.3%

The decrease in the effective tax rate from fiscal 2001 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)

March 31,	2003	2002
Deferred Tax Assets:		
Inventories	\$ 5,637	\$ 5,955
Accounts receivable	(589)	(124)
Deferred rental income	1,872	959
Insurance reserves	7,320	7,573
Special charges (Note 3)	1,817	1,581
Litigation settlement and other reserves	1,913	6,406
Net operating loss carry forwards	31,228	13,644
Other	1,390	721
Valuation allowance	(9,646)	(5,976)
	40,942	30,739
Deferred Tax Liabilities:		
Plant and equipment	(204,645)	(194,703)
Intangible assets	(14,141)	(5,907)
Other	(13,608)	(15,092)
	(232,394)	(215,702)
Net deferred tax liability	\$ (191,452)	\$ (184,963)

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

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)*

March 31,	2003	2002
Current deferred tax asset, net	\$ 17,688	\$ 13,210
Non-current deferred tax liability, net	(209,140)	(198,173)
Net deferred tax liability	\$ (191,452)	\$ (184,963)

The Company has recorded tax benefits amounting to \$5.8 million, \$4.3 million, and \$800 thousand in fiscal 2003, 2002 and 2001, 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, 2003. Valuation allowances, which increased by \$3.7 million in fiscal year 2003, primarily relate to certain state tax net operating loss carry forwards.

The Internal Revenue Service is currently conducting an examination of the Company's federal income tax return for the fiscal year ended March 31, 2000. Management believes that the results of this examination will not have a material effect on the Company's earnings, financial position or liquidity.

### 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 2003, 2002, and 2001 were \$5 million, \$4.7 million and \$5.8 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. During fiscal 2003 labor contract negotiations, the Company negotiated the withdrawal from one plan effective in fiscal 2006. The potential withdrawal liability under this plan was approximately \$300 thousand at March 31, 2003. The Company has not taken action to terminate or withdraw from any other 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 position, results of operations or liquidity. Amounts expensed under the pension plans for fiscal 2003, 2002 and 2001 were \$679 thousand, \$642 thousand and \$543 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 allows eligible employees to defer a portion of their compensation until their retirement. The Company has elected to fund the plan with Company owned life insurance policies taken out on the plan participants. The costs associated with the Plan during fiscal 2003 were \$64 thousand. At March 31, 2003, the Company had a liability of \$1.6 million related to compensation deferred under the Plan. At March 31, 2003, the Company also had life insurance policies with a cash surrender value of \$1.6 million available to fund the plan liability.

### Note 19 Related Parties

During the years ended March 31, 2003, 2002 and 2001, National Welders (see Note 15), an unconsolidated equity affiliate, paid \$4.7 million, \$3.8 million and \$3.8 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, \$1.1 million and \$787 thousand in fiscal 2003, 2002 and 2001, respectively. In connection with the Praxair litigation (see Note 21), the Company reimbursed National Welders for legal fees of \$482 thousand and \$260 thousand in fiscal 2002 and 2001, respectively.

The Company paid \$ 9.0 million, \$7.7 million and \$7.9 million to AC Industries (see Note 15), an unconsolidated equity affiliate, for the purchase of liquid carbon dioxide during the years ended March 31, 2003, 2002 and 2001, respectively. In addition, the Company had a net payable balance to AC Industries totaling \$1.4 million, \$1.2 million and \$1.2 million at March 31, 2003, 2002 and 2001, respectively.

The Company purchases and sells goods and services in the ordinary course of business with certain corporations in which some of its directors are officers.

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

**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, 2003, 2002, and 2001, amounted to \$54.7 million, \$45.4 million, and \$43.7 million, respectively. Certain operating facilities are leased at market rates from employees of the Company who were previous owners of businesses acquired. Outstanding capital lease obligations and the related capital assets are not material to the consolidated balance sheets at March 31, 2003 and 2002.

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, 2003, the non-cancelable lease obligation of the real estate and equipment leases totaled approximately \$42 million. The lease terms expire in October 2004, but may be renewed subject to provisions of the lease agreements. 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. The trust established in connection with the sale-leaseback arrangement has been determined to be a variable interest entity as defined by FIN 46 (see Note 1(q)). In accordance with FIN 46, the Company will consolidate the trust for financial reporting purposes effective July 1, 2003. The Company also leases approximately \$37 million in fleet vehicles under long-term operating leases with varying terms. Associated with these operating leases, the Company guarantees a residual value of \$9.3 million.

At March 31, 2003, future minimum lease payments under non-cancelable operating leases, including the residual value associated with the sale-leaseback transaction, are as follows:

*(In thousands)***Years Ended March 31,**

2004	\$ 37,941
2005	71,371
2006	23,081
2007	19,021
2008	13,625
Thereafter	18,442
	<u>\$ 183,481</u>

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

In the fourth quarter of fiscal 2002, the Company settled a lawsuit brought in 1996 by Praxair, Inc. alleging tortious interference with a right of first refusal in connection with the Company's joint venture investment in National Welders (see Note 15). As a result of the settlement, Praxair agreed to early termination of the right of first refusal, and 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 insurance recoveries of \$4.9 million (see Note 3). The insurance settlement, net of associated legal expenses, was reflected in "Special charges, net" 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 annual aggregate limit of \$1.7 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.

## Notes to Consolidated Financial Statements continued

Airgas, Inc. and Subsidiaries

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 \$200 million, such suits could have a material adverse effect on the Company's financial position, results of operations or liquidity.

**(c) Supply Agreements**

The Company purchases industrial, medical and specialty gases pursuant to requirements contracts from national and regional producers of industrial gases. In February 2002, the Company entered into a 15-year take-or-pay supply agreement under which Air Products and Chemical ("Air Products") will supply at least 35% of the Company's bulk liquid nitrogen, oxygen and argon requirements. Additionally, the Company will purchase helium from Air Products under the terms of the supply agreement. Based on fiscal 2003 results, the Air Products supply agreement represents approximately \$40 million in annual liquid bulk gas purchases. Effective December 1, 2002, the Company entered into a 3-year take-or-pay supply agreement with BOC Gases to purchase liquid nitrogen, oxygen and argon. Under the BOC Gases agreement, BOC Gases will reserve specified production volumes at certain plants and the Company will purchase at least 75% of those volumes. At the conclusion of the initial 3-year term of the BOC agreement, the Company may elect to extend it for an additional 3-year term. Purchases under the BOC Gases supply agreement are anticipated to be approximately \$10 million annually. Both the Air Products and BOC Gases supply agreements contain market pricing subject to certain economic indices and market analysis. In addition, the Company is a party to other long-term supply agreements primarily for the purchase of liquid carbon dioxide, representing approximately \$15 million, or 24% of the Company's annual carbon dioxide requirements. The Company believes the minimum product purchases under the agreements are well within the Company's normal product purchases.

**Note 22****Supplemental Cash Flow Information**

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

*(In thousands)*

Years Ended March 31,	2003	2002	2001
Interest	\$ 55,853	\$ 42,165	\$ 65,167
Income taxes (net of refunds)	5,344	21,004	8,109

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

*(In thousands)*

Years Ended March 31,	2003	2002	2001
Acquisition liabilities assumed	\$ 2,606	\$ 9,917	\$ 536

**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 over 90% of consolidated sales. The segment's principal products are packaged and small bulk gases, rent on gas cylinders and welding equipment, process chemicals 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, tube trailers 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 that are sold to on-site customers and to the Distribution segment. The elimination entries represent inter-company sales from the Company's Gas Operations segment to its Distribution segment. The Company previously reflected these elimination entries within the Gas Operations segment.

The Company's operations are predominantly 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, inter-company sales are recorded on the same basis as sales to third parties, and inter-company transactions are eliminated in consolidation. As a result of adopting SFAS 142 effective April 1, 2001, the financial results for the fiscal years ended March 31, 2003 and 2002 do not reflect goodwill amortization expense (see Note 1(q)). 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.

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.

<i>(In thousands)</i>	Distribution	Gas Operations	Eliminations	Combined
<b>Fiscal 2003</b>				
Gas and rent	\$ 863,975	\$ 178,622	\$ (37,067)	\$1,005,530
Hardgoods	778,101	5,227	(1,894)	781,434
Total net sales	1,642,076	183,849	(38,961)	1,786,964
Cost of products sold, excluding depreciation expense	806,320	82,957	(38,961)	850,316
Selling, distribution, and administrative expenses	634,580	63,648	—	698,228
Depreciation expense	62,071	11,411	—	73,482
Amortization expense	5,877	485	—	6,362
Special charges	2,694	—	—	2,694
Operating income	130,534	25,348	—	155,882
Equity in earnings of unconsolidated affiliates	2,682	1,086	—	3,768
Assets	1,494,363	205,880	—	1,700,243
Investment in unconsolidated affiliates	60,323	5,634	—	65,957
Capital expenditures	51,751	16,218	—	67,969

<i>(In thousands)</i>	Distribution	Gas Operations	Eliminations	Combined
<b>Fiscal 2002</b>				
Gas and rent	\$ 707,435	\$ 170,687	\$ (31,163)	\$ 846,959
Hardgoods	786,832	2,907	(651)	789,088
Total net sales	1,494,267	173,594	(31,814)	1,636,047
Cost of products sold, excluding depreciation expense	770,094	80,473	(31,814)	818,753
Selling, distribution, and administrative expenses	559,468	59,848	—	619,316
Depreciation expense	53,701	11,084	—	64,785
Amortization expense	7,574	586	—	8,160
Operating income	103,430	21,603	—	125,033
Equity in earnings of unconsolidated affiliates	2,878	957	—	3,835
Assets	1,520,492	196,565	—	1,717,057
Investment in unconsolidated affiliates	58,579	6,047	—	64,626
Capital expenditures	52,414	5,883	—	58,297

<i>(In thousands)</i>	Distribution	Gas Operations	Eliminations	Combined
<b>Fiscal 2001</b>				
Gas and rent	\$ 647,525	\$ 171,218	\$ (32,835)	\$ 785,908
Hardgoods	839,897	3,681	(585)	842,993
Total net sales	1,487,422	174,899	(33,420)	1,628,901
Cost of products sold, excluding depreciation expense	797,423	83,197	(33,420)	847,200
Selling, distribution, and administrative expenses	525,261	58,094	—	583,355
Depreciation expense	51,497	11,441	—	62,938
Amortization expense	21,055	2,761	—	23,816
Special charges	6,279	(2,636)	—	3,643
Operating income	85,907	22,042	—	107,949
Equity in earnings of unconsolidated affiliates	1,386	874	—	2,260
Assets	1,406,928	174,362	—	1,581,290
Investment in unconsolidated affiliates	56,671	6,591	—	63,262
Capital expenditures	56,228	9,682	—	65,910

## 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 2003 and 2002:

(In thousands, except per share amounts)

	First	Second	Third	Fourth
<b>2003</b>				
Net sales	\$ 457,668	\$ 451,053	\$ 435,339	\$ 442,904
Operating income (b)	36,210	42,424	38,090	39,158
Net earnings (b)	14,044	19,200	16,696	18,165
Basic earnings per share (a),(b)	\$ .20	\$ .27	\$ .24	\$ .26
Diluted earnings per share (a),(b)	\$ .20	\$ .27	\$ .23	\$ .25
<b>2002</b>				
Net sales	\$ 415,675	\$ 411,982	\$ 392,433	\$ 415,957
Operating income (c)	32,784	34,839	31,194	26,216
Net earnings (loss) (c)	(45,549)	14,553	11,845	8,736
Basic earnings (loss) per share (a),(c)	\$ (.68)	\$ .21	\$ .17	\$ .13
Diluted earnings (loss) per share (a),(c)	\$ (.67)	\$ .21	\$ .17	\$ .12

- (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, operating income and net earnings for fiscal 2003 include first quarter special charges of \$2.7 million (\$1.7 million after-tax) consisting of a restructuring charge related to the integration of the business acquired from Air Products in the fourth quarter of fiscal 2002, and costs related to the consolidation of certain of the Company's hardgoods procurement functions.
- (c) As discussed in the Notes to the Company's consolidated financial statements, net earnings (loss) for fiscal 2002 include 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. Operating income and net earnings (loss) include in the fourth quarter, a litigation charge of \$8.5 million (\$5.7 million after-tax), or \$.08 per diluted share, related to the Praxair litigation settlement.

## Note 25 Subsequent Event

On May 13, 2003, the Company announced that its Board of Directors declared a quarterly cash dividend of \$.04 per share to be paid on June 30, 2003 to stockholders of record as of June 13, 2003.

## Note 26 Condensed Consolidating Financial Information of Subsidiary Guarantors

At March 31, 2003, the Company has \$225 million of senior subordinated notes and \$175 million of medium term notes (collectively, the "Notes"). The obligations of the Company under the Notes are guaranteed by the Company's domestic subsidiaries that guarantee the Company's revolving 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, 2003 and March 31, 2002 and for the years ended March 31, 2003, 2002 and 2001.

## Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

<i>(In thousands)</i>					
March 31, 2003	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
<b>Assets</b>					
Current Assets:					
Trade receivables, net	\$ —	\$ 4,543	\$ 66,803	\$ —	\$ 71,346
Intercompany receivable/(payable)	—	(8,032)	8,032	—	—
Inventories, net	—	148,088	3,317	—	151,405
Deferred income tax asset, net	7,242	10,446	—	—	17,688
Prepaid expenses and other current assets	12,899	16,240	1,004	—	30,143
Total current assets	20,141	171,285	79,156	—	270,582
Plant and equipment, net	19,302	828,323	21,867	—	869,492
Goodwill	—	426,474	11,235	—	437,709
Other intangible assets, net	545	19,070	217	—	19,832
Investments in unconsolidated affiliates	60,239	5,718	—	—	65,957
Investments in subsidiaries	1,347,897	—	—	(1,347,897)	—
Intercompany receivable/(payable)	(186,852)	182,610	4,242	—	—
Other non-current assets	30,549	5,099	1,023	—	36,671
Total assets	\$ 1,291,821	\$ 1,638,579	\$ 117,740	\$(1,347,897)	\$ 1,700,243
<b>Liabilities and Stockholders' Equity</b>					
Current Liabilities:					
Accounts payable, trade	\$ 2,406	\$ 80,487	\$ 2,482	\$ —	\$ 85,375
Accrued expenses and other current liabilities	54,737	64,320	2,235	—	121,292
Current portion of long-term debt	—	2,141	88	—	2,229
Total current liabilities	57,143	146,948	4,805	—	208,896
Long-term debt, excluding current portion	629,934	6,978	21,119	—	658,031
Deferred income tax liability, net	1,385	202,556	5,199	—	209,140
Other non-current liabilities	6,426	20,482	335	—	27,243
Commitments and contingencies	—	—	—	—	—
Stockholders' Equity:					
Preferred stock, no par value	—	—	—	—	—
Common stock, par value \$.01 per share	764	—	—	—	764
Capital in excess of par value	216,275	838,340	8,224	(846,564)	216,275
Retained earnings	413,286	423,491	78,280	(501,771)	413,286
Accumulated other comprehensive loss	(3,302)	(216)	(222)	438	(3,302)
Treasury stock	(4,289)	—	—	—	(4,289)
Employee benefits trust	(25,801)	—	—	—	(25,801)
Total stockholders' equity	596,933	1,261,615	86,282	(1,347,897)	596,933
Total liabilities and stockholders' equity	\$ 1,291,821	\$ 1,638,579	\$ 117,740	\$(1,347,897)	\$ 1,700,243

## Condensed Consolidating Balance Sheet

Airgas, Inc. and Subsidiaries

*(In thousands)*

March 31, 2002	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
<b>Assets</b>					
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
<b>Liabilities and Stockholders' Equity</b>					
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 Statement of Earnings

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2003	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
<b>Net sales</b>	\$ —	\$ 1,767,274	\$ 19,690	\$ —	\$ 1,786,964
<b>Costs and Expenses</b>					
Costs of products sold (excluding depreciation)	—	845,571	4,745	—	850,316
Selling, distribution and administrative expenses	47,808	631,560	18,860	—	698,228
Depreciation	3,867	67,486	2,129	—	73,482
Amortization	64	6,298	—	—	6,362
Special charges	145	2,549	—	—	2,694
<b>Operating Income (Loss)</b>	(51,884)	213,810	(6,044)	—	155,882
Interest (expense) income, net (Discount) gain on securitization of trade receivables	(53,499)	8,211	(1,087)	—	(46,375)
Other income (expense), net	—	(67,446)	64,120	—	(3,326)
Equity in earnings of unconsolidated affiliates	50,106	(51,834)	1,083	—	(645)
Earnings (loss) before taxes	2,668	1,100	—	—	3,768
Income tax benefit (expense)	(52,609)	103,841	58,072	—	109,304
Equity in earnings of subsidiaries	18,413	(39,783)	(19,829)	—	(41,199)
	102,301	—	—	(102,301)	—
<b>Net Earnings</b>	\$ 68,105	\$ 64,058	\$ 38,243	\$ (102,301)	\$ 68,105

## Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2002	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
<b>Net sales</b>	\$ —	\$ 1,616,178	\$ 19,869	\$ —	\$ 1,636,047
<b>Costs and Expenses</b>					
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
<b>Operating Income (Loss)</b>	(61,211)	194,176	(7,932)	—	125,033
Interest (expense) income, net (Discount) gain on securitization of trade receivables	(53,788)	6,656	119	—	(47,013)
Other income (expense), net	—	(59,840)	54,994	—	(4,846)
Equity in earnings of unconsolidated affiliates	54,099	(54,621)	1,904	—	1,382
Earnings (loss) before taxes and a cumulative effect of a change in accounting principle	2,861	974	—	—	3,835
Income tax benefit (expense)	(58,039)	87,345	49,085	—	78,391
Equity in earnings of subsidiaries	20,313	(32,363)	(17,756)	—	(29,806)
Cumulative effect of a change in accounting principle	27,311	—	—	(27,311)	—
	—	(59,000)	—	—	(59,000)
<b>Net Earnings (Loss)</b>	\$ (10,415)	\$ (4,018)	\$ 31,329	\$ (27,311)	\$ (10,415)

## Condensed Consolidating Statement of Earnings

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2001	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
<b>Net sales</b>	\$ —	\$ 1,606,965	\$ 21,936	\$ —	\$ 1,628,901
<b>Costs and Expenses</b>					
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
<b>Operating Income (Loss)</b>	(40,010)	144,949	3,010	—	107,949
Interest (expense) income, net (Discount) gain on securitization of trade receivables	(63,555)	2,070	1,278	—	(60,207)
Other income (expense), net	—	(10,143)	8,840	—	(1,303)
Equity in earnings of unconsolidated affiliates	59,576	(59,366)	32	—	242
Earnings (loss) before income taxes	1,178	2,006	(924)	—	2,260
Income tax benefit (expense)	(42,811)	79,516	12,236	—	48,941
Equity in earnings of subsidiaries	14,983	(30,700)	(5,001)	—	(20,718)
<b>Net Earnings</b>	56,051	—	—	(56,051)	—
	\$ 28,223	\$ 48,816	\$ 7,235	\$ (56,051)	\$ 28,223

## Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

Year Ended March 31, 2003	Parent	Guarantors	Non-Guarantors	Elimination Entries	Consolidated
Net cash provided by (used in) operating activities	\$ (21,608)	\$ 181,070	\$ 34,937	\$ —	\$ 194,399
<b>Cash Flows From Investing Activities</b>					
Capital expenditures	(7,211)	(56,415)	(4,343)	—	(67,969)
Proceeds from sale of plant and equipment	69	4,191	—	—	4,260
Proceeds from divestiture	—	3,167	—	—	3,167
Business acquisitions, net of cash acquired	—	(21,179)	—	—	(21,179)
Business acquisition holdbacks and other settlements	—	(6,037)	—	—	(6,037)
Dividends and fees from unconsolidated affiliates	943	1,564	—	—	2,507
Other, net	5,666	(8,051)	666	—	(1,719)
Net cash used in investing activities	(533)	(82,760)	(3,677)	—	(86,970)
<b>Cash Flows From Financing Activities</b>					
Proceeds from borrowings	248,123	—	838	—	248,961
Repayment of debt	(350,732)	(15,160)	(1,464)	—	(367,356)
Exercise of stock options	9,847	—	—	—	9,847
Cash overdraft	1,119	—	—	—	1,119
Inter-company	113,784	(83,150)	(30,634)	—	—
Net cash provided by (used in) financing activities	22,141	(98,310)	(31,260)	—	(107,429)
<b>Change In Cash</b>	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —

## Condensed Consolidating Statement of Cash Flows

Airgas, Inc. and Subsidiaries

(In thousands)

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
<b>Cash Flows From Investing Activities</b>					
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 and holdbacks, net of cash acquired	—	(257,556)	—	—	(257,556)
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)
<b>Cash Flows From Financing Activities</b>					
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
<b>Change In Cash</b>	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —

(In thousands)

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
<b>Cash Flows From Investing Activities</b>					
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 and holdbacks, net of cash acquired	—	(5,758)	—	—	(5,758)
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)
<b>Cash Flows From Financing Activities</b>					
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)
<b>Change In Cash</b>	\$ —	\$ —	\$ —	\$ —	\$ —
Cash – Beginning of year	—	—	—	—	—
Cash – End of year	\$ —	\$ —	\$ —	\$ —	\$ —